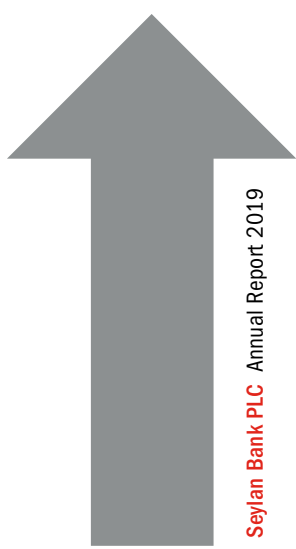


Headwinds in Tailwinds



Seylan Bank PLC Annual Report 2019

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About this Report

Forward looking narrative

The Integrated Annual Report 2019 provides a concise description of the activities and related data of the Bank during the year. It presents a transparent view of the financial soundness and sustainability of its operations. The “Headwinds in Tailwinds” theme of this Report reflects the resilience of the Bank in being able to rise above the challenges of the year and focus their energies on the opportunities offered.

The Bank’s underlying business model with its focus on sustainable development goals underpins the contents of this Report. The continuing financial viability of the Bank is a fundamental tenet of the model and promotes the creation of value for all its stakeholders.

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, including Banking Act direction No. 01 of 2016 and Circular No. 04 of 2018,
- the Companies Act No. 07 of 2007,
- Listing Rules of the Colombo Stock Exchange,
- the Inland Revenue Act, and all the directions issued by Inland Revenue Department,
- the Institute of Chartered Accountants of Sri Lanka.

Sustainability reporting framework

This is the Bank’s seventh 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 and these are described in the relevant sustainability sections. The Bank’s Report

is based on the Global Reporting Initiative (GRI) G4 and is prepared in accordance with “core” criteria.

Limitations and boundary

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

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

Content of the report

The Annual Report of Seylan Bank PLC covers the 12 months period from 1 January to 31 December 2019. This Report presents performance of the Bank in a manner in which our stakeholders are able to get a comprehensive view of the Bank’s policies, operations and processes. Transparency in reporting helps the Bank identify and address its weaknesses, while building on its strengths. We believe these to be the fundamental requirements to having a sustainable operation.

As provided in the paragraphs 2.10 and 2.17 - 2.19 of the International <IR> Framework organisations preparing an integrated report are not required to adopt the <IR> Framework categorisation of capitals. Accordingly, we have categorised the capitals differently to best describe our value creation process on pages 12 and 13.

Comparative information

This Annual Report contains information relating to Key Performance Indicators and are presented with comparative data relating to the most recent report for the year ended 31 December 2018. 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.

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 36 and 37 in this Annual Report.

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

Further, Messrs KPMG has given their opinion on the financials given on pages 152 to 154 of this Annual Report.

Feedback may be directed to:

Ms Champika Dodanwela
Chief Financial Officer
Seylan Bank PLC
Tel: +94 11 245 6358
Fax: +94 11 245 2612
Email: champikad@seylan.lk

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Informed Investors

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Satisfied Customers

Pages: 42 to 49



Motivated Employees

Pages: 50 to 60



Trusted Partners

Pages: 61 to 63



Responsible Corporate Citizenship

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Environmental Stewardship

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About Seylan

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 its tagline is “The Bank with a Heart”.

Our business operations are structured around rendering the best services to our customers whilst enabling sound management practices that retain the transparency of our operations.

Business lines



Branch banking operations



Retail banking



Corporate and Foreign Currency Banking



International/Trade Finance

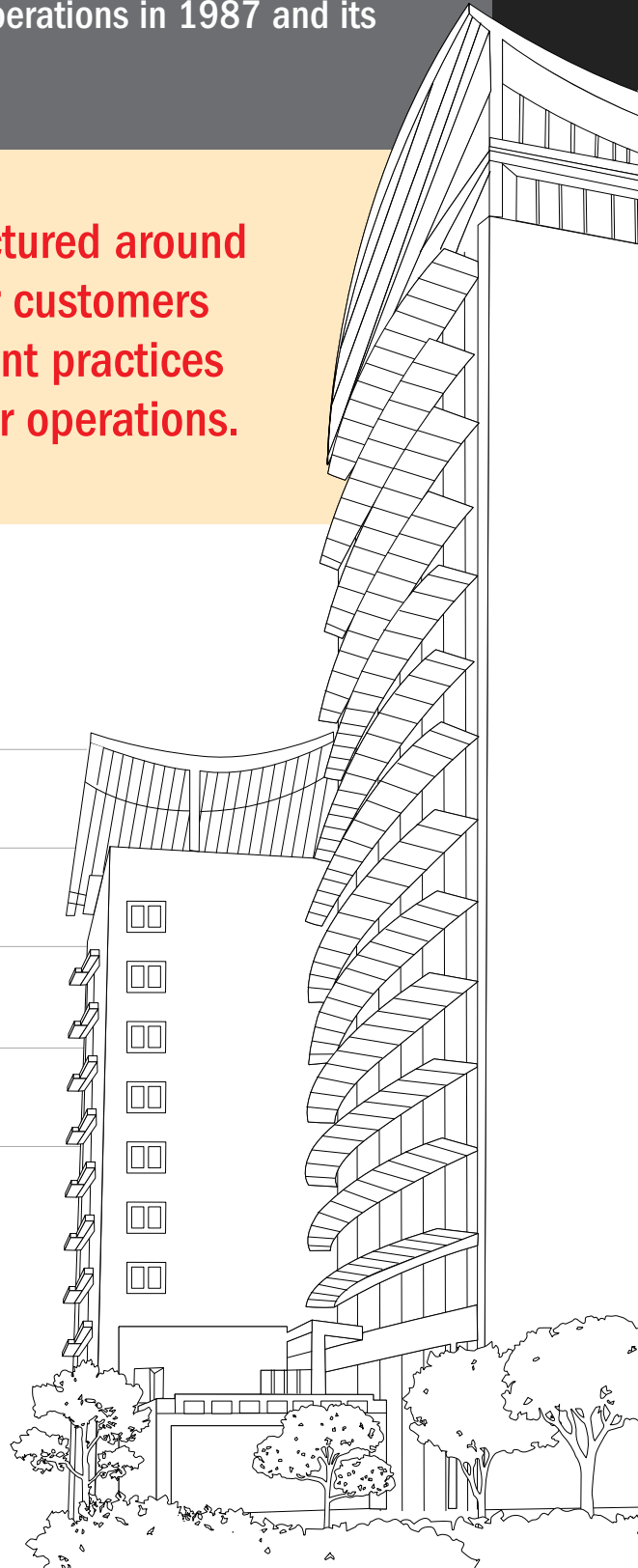


Treasury

Support functions

Marketing, Information Technology, Branch Credit, Human Resource Development, Credit Administration, Risk Management, Finance etc.

There were no significant changes in the size, structure, ownership or supply chain of the Bank during 2019.



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 services.

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.

Presence and scale of operations:

Wider reach to the customers in a number of locations

173

Banking centres

215

Automated Teller Machines (ATMs)

40

Cash Deposit Machines (CDMs)

26

Cheque Deposit Kiosks (CDKs)

Staff strength:

Most valuable asset in the Bank and key to success

3,360

Employees

57:43

Male to female ratio

168

Sales Force

Economic impact:

Supporting economic growth

LKR 4.2 Bn.

Taxes to Government

More than LKR 100 Bn.

SME loan portfolio

90%

Locally registered suppliers

Rewards and recognition

Many awards from local and foreign organisations

No. 01

Customer service excellence by LMD

Silver Bronze Honours

ARC Awards

17th

Among the top 30 companies in Sri Lanka by "Business Today"

Asset growth **11%**Deposits growth **12%**Credit rating **A-(Ika) Stable outlook**

Group Company

Seylan Developments 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 2019.

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.



Seylan Developments PLC reported profit after tax of LKR 193 Mn. during 2019. (For more details of the subsidiary, please refer Note 27.1)

The Company's Board of Directors is as follows:

- Mr Kapila Ariyaratne
Chairman/Non-Executive Director
- Mr S Paliwardana
Deputy Chairman/
Non-Executive Director
- Mr P Saravanapavan
Independent Non-Executive Director
(Resigned w.e.f. 2 February 2020)
- Mr Sunil De Silva
Independent Non-Executive Director
(Appointed w.e.f. 3 February 2020)
- Mr R J Jayasekara
Non-Executive Director
- Mr LT Kiringoda
Independent
Non-Executive Director
- Mr P Hennayake
Non-Executive Director

Financial Highlights

	Bank			Group		
	2019 LKR '000	2018 LKR '000	Change %	2019 LKR '000	2018 LKR '000	Change %
For the year						
Gross income	61,369,654	54,872,530	11.84	61,356,249	54,844,593	11.87
Profit before income tax	5,098,640	4,666,252	9.27	5,267,110	4,687,124	12.37
Income tax expense	1,418,378	1,477,046	(3.97)	1,468,858	1,536,268	(4.39)
Profit attributable to equity holders of the Bank	3,680,262	3,189,206	15.40	3,732,691	3,137,243	18.98
Other comprehensive income for the year, net of tax	2,233,532	(616,711)	462.17	2,322,388	(520,242)	546.41
Total comprehensive income attributable to equity holders of the Bank	5,913,794	2,572,495	129.89	6,028,876	2,588,552	132.91
Revenue to Government	4,185,521	3,590,336	16.58	4,236,001	3,649,558	16.07
Gross dividend**	1,007,248	915,248	10.05	1,007,248	915,248	10.05
At the year end						
Total equity attributable to equity holders of the Bank	44,627,274	34,609,799	28.94	46,379,466	36,246,906	27.95
Retained earnings	22,823,239	19,798,647	15.28	23,494,184	20,419,229	15.06
Customer deposits	400,731,358	357,560,187	12.07	400,731,358	357,560,187	12.07
Customer loans and advances	379,259,064	326,882,538	16.02	379,259,064	326,882,538	16.02
Total assets	516,294,187	466,933,018	10.57	516,531,269	469,661,496	9.98
Information per ordinary share						
Basic/diluted earnings per share (LKR)*	8.99	7.97	12.80	9.12	7.84	16.33
Dividends (LKR)**	2.00	2.50	(20.00)	2.00	2.50	(20.00)
Net assets value per share (LKR)	88.61	94.54	(6.27)	92.09	99.01	(6.99)
Market value (LKR) - As at end of the year						
Voting shares	52.50	78.00	(32.69)	-	-	-
Non-voting shares	33.80	44.50	(24.04)	-	-	-
Statutory ratios (%)						
Capital adequacy and Basel III						
Common equity Tier 1 - capital ratio (Minimum requirement - 2019 - 7.00%, 2018 - 6.375%)	11.27	10.20	10.49	11.49	10.37	10.80
Total Tier 1 capital ratio (Minimum requirement - 2019 - 8.50%, 2018 - 7.875%)	11.27	10.20	10.49	11.49	10.37	10.80
Total capital ratio (Minimum requirement - 2019 - 12.50%, 2018 - 11.875%)	14.84	13.30	11.58	15.02	13.40	12.09
Liquidity coverage ratio - Rupee (%) (Minimum requirement - 2019 - 100%, 2018 - 90%)	169.60	128.76	31.72	-	-	-
Liquidity coverage ratio - all currency (%) (Minimum requirement - 2019 - 100%, 2018 - 90%)	116.01	92.15	25.89	-	-	-
Liquidity						
Liquidity - domestic banking unit operations (%) (Minimum requirement - 20%)	21.40	21.44	(0.19)	-	-	-
Liquidity - foreign currency banking unit operations (%) (Minimum requirement - 20%)	21.81	22.08	(1.22)	-	-	-
Other ratios						
Price earnings ratio - voting (times)	5.84	9.79	(40.35)	-	-	-
- Non-voting (times)	3.76	5.58	(32.62)	-	-	-
Dividend cover (times)**	3.65	3.48	4.89	-	-	-

* Earnings per share has been restated as per Sri Lanka Accounting Standards - LKAS 33.

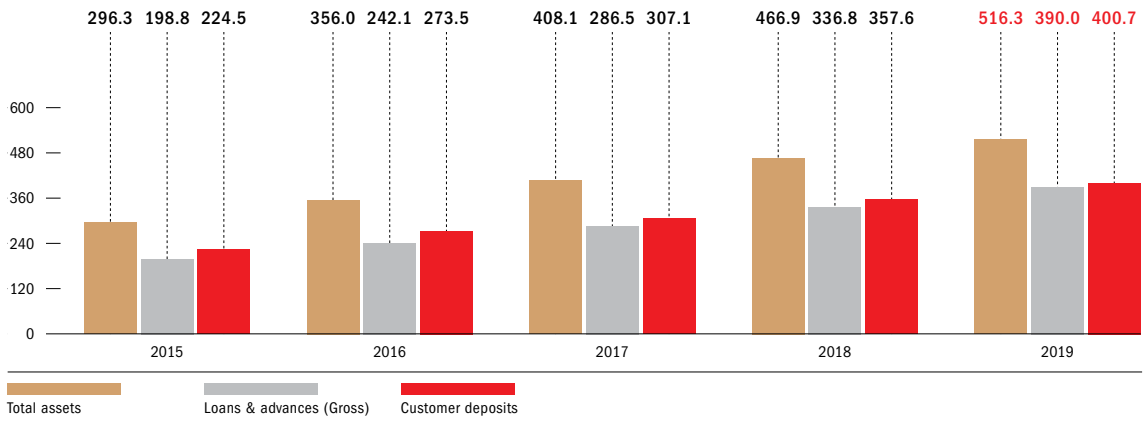
** Dividends are accounted for as per the Sri Lanka Accounting Standards - LKAS 10.



Despite the challenging economic and market conditions the Bank recorded growth in its assets, advances, deposits, profits...

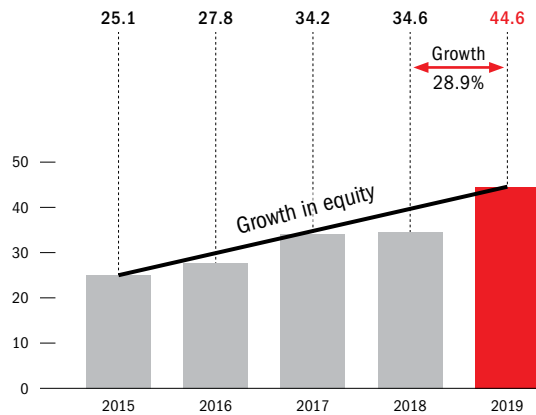
Total assets, loans and advances, and deposits

LKR Bn.



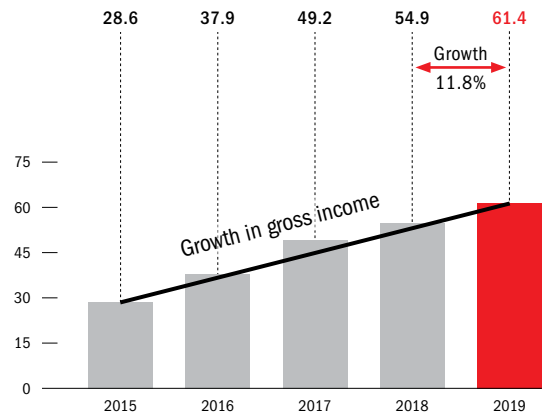
Total equity

LKR Bn.



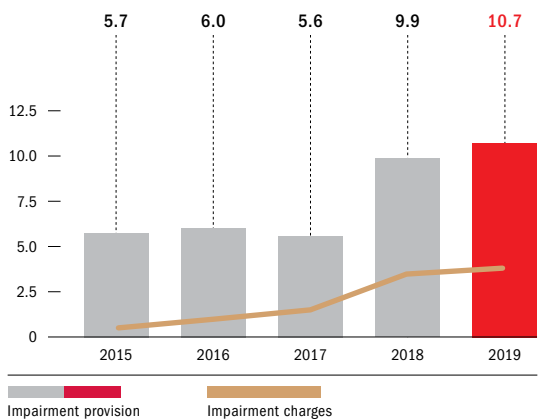
Gross income

LKR Bn.



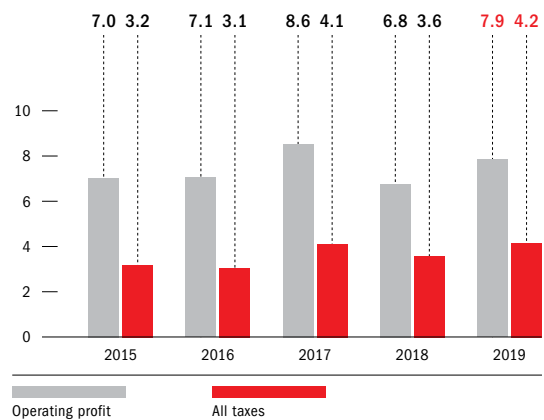
Impairment provision and impairment charges

LKR Bn.



Operating profit (before all taxes) and all taxes

LKR Bn.



Letter from the Chairman

Overall, the Bank reported a moderate year on year growth in most of its key financial indicators, despite the challenging economic environment that limited the opportunities.



Dear Stakeholders,

During the year under review, Seylan Bank turned in a performance which could be termed commendable given the trying market conditions. Whilst being prudent in managing risks the Bank continued to pursue opportunities to support financial requirements of the customers. This resulted in the Bank recording positive growth and in the process crossing LKR 500 Bn. in total assets.

However, the uncertain political environment which prevailed during the last quarter of 2018 and the subsequent Easter Sunday attacks, made 2019 an extremely challenging year. A lack of enthused business activity in the first few months of the year meant that the

incidence of commercial transactions was lacklustre. This in turn flowed onto the entire industry where the business opportunities were limited.

Our performance

Overall, the Bank reported a moderate year on year growth in most of its key financial indicators, despite the challenging economic environment that limited the opportunities. The successful and oversubscribed Debenture and the Rights Issue, generated LKR 9.3 Bn. of additional capital to further strengthen the capital adequacy of the Bank. This was an endorsement of the confidence placed in our Bank by the investors and shareholders.

The Bank achieved a profit after tax of LKR 3.7 Bn. in 2019, a growth of 15% compared to the previous year. We have functioned in a way that kept our costs under check while improving our revenue generation.

Our Loans and Advances showed a healthy increase of 16% and due to close monitoring of the loan book our NPL Ratio has come down during the year despite the not so conducive economic climate. Deposits too grew by 12% reflecting our continuous efforts to improve customer service and care.

We also made strides in advancing the use of IT and related platforms which led to increased customer convenience and greater usage of our products and services.

Regulation and supervision

As always, we have complied with all laws and regulations, that have been embedded in our Bank's processes. Our Board subcommittees monitor the Bank's performance in this regard and constantly update our policies and procedures. Our rapport with the Central Bank remains sound, regular and consistent.

Seylan digital drive

We also made strides in advancing the use of IT and related platforms which led to increased customer convenience and greater usage of our products and services. Our journey towards integrating new technologies to serve customers better continued apace. The growth in digital transactions justifies the progress we have made in developing our technological channels. This particularly is an exciting step for Seylan as it evolves its services and processes in keeping pace with the changes in the industry.

Our community and the environment

We are committed to growing the Environmental and Social Management System which sets out the framework in managing the environmental and social impact. Our Environmental and Social Management Policy specifies our pledge to undertake responsible financing.

Our "Seylan *Pahasara*" library project achieved a milestone with the opening of the 200th library. Through this project we have engaged with a large number of students around the country and it remains a primary task as we work towards reaching our goal of 250 libraries.

Compliance

The Bank's stable financial fundamentals have helped it meet all regulatory obligations without stress on our operations. Compliance with Basel III requirements and the impairment provisioning obligations in SLFRS 9 will continue to be reviewed.

Our way forward

We will continue to pursue innovative solutions in meeting the business challenges as they arise.

The Bank's strategic plan continues to form the basis of our future direction. Our Bank has displayed strength in its fundamentals and resilience in its operations. This stands us in good stead to meet our goals in the years ahead.

We are making significant progress in implementing our Strategic Plan with its focus on the SME sector coming in for special attention. We see these businesses as vital for the economic growth of the country and needing extra support at this time in keeping with our usual approach.

We will continue to support those business sectors that need our assistance while taking sound management decisions that do not imperil the on-going sustainability of the institution.

Appreciation

On behalf of the Board of Directors, I thank Director/Chief Executive Officer, Mr Kapila Ariyaratne, the Management and staff of the Bank who have undertaken a multitude of tasks that have led the Bank towards its goals in 2019. I commend them all and wish them well. I also take this opportunity

to thank all Board members for their commitment and contribution to the Bank.

I am thankful to all our customers, shareholders and all other stakeholders for their continuous support. Your confidence in the Bank's operations is a source of strength to us as we forge ahead with renewed vigour in 2020.

I also thank the regulators for their guidance and support at all times.

My best wishes to every one of you.



W M R S Dias
Chairman

21 February 2020

Letter from the Director/ Chief Executive Officer

We were very encouraged by the outstanding support from our shareholders which enabled us to attract a capital infusion of LKR 4.3 Bn. via a rights issue that was oversubscribed on day one.



The economic and banking environment

During 2019 the Bank operated in a challenging economic and political environment. The fall-out from the political upheavals in the latter quarter of 2018 flowed through to the beginning of 2019 affecting business activity and consequently portfolio quality. The Easter Sunday attacks in the second quarter of 2019 and the events and uncertainty that followed in its aftermath was a huge set back to all activity in the country. The recovery has been slow and the presidential elections towards the end of the year in its run up created yet another diversion from the much needed focus on reviving the economy.

Low GDP growth, reduced investments and low to non-existent new projects combined with slow settlement of dues owed by the Government to contractors and service providers led to weak levels of commercial activity throughout the country resulting in severe stress on businesses and the portfolio quality of the Banks.

These factors are now behind us and we look forward to a more stable environment which will see economic activity regain momentum and more confidence in the market place.

Despite these drawbacks, I am grateful for efforts of the Seylan Team in achieving the results we did both in terms of our own financials but also in assisting our

wide network of customers to overcome extremely difficult economic conditions.

The journey

In 2017, the Bank embarked on a journey to lend greater agility as well as sustainability to its operations and propel it to the modern era, making it more relevant in the current and future market place. The Seylan 2020 Strategic Plan plotted the path the Bank was to take over the ensuing three years.

At the beginning of this period, we predominantly focussed on improving a sales culture to supplement our service culture, accelerate growth in CASA and retail lending, becoming closer and more

The upgrade of the Digital Channels Infrastructure was a key initiative to provide better value and convenience to our customers.

relevant to our SME customers through our relationship Officers and SME credit hubs while growing our digital channels to enhance convenience and constant availability of our services. At the same time we pursued aggressive growth of our corporate book while improving processes and IT infrastructure to ensure constant value addition through process and efficiency improvements.

The unanticipated economic conditions that prevailed in 2018 and the year under review meant that we had to constantly review our plans and initiatives and put in place new plans to manage emerging adverse conditions. Portfolio quality and ensuring the sustainability of our clientele, majority of whose businesses were facing severe difficulties on many fronts, took up most of our time. However, I am pleased to report that through this all we were able to significantly and positively alter our operating rhythm in key areas such as sales and credit processing in every segment of our business thus ensuring that we minimised the impact of adverse economic conditions while putting in place a solid foundation to build on as conditions improve.

The achievements

The Bank recorded a profit after tax of LKR 3.7 Bn. which was an increase of LKR 0.5 Bn. or 15% over the previous year. Our Total Assets grew by almost LKR 50 Bn. to LKR 516 Bn.

The Deposits increased by 12% and Advances rose by 16%. The CASA Ratio stood at 28% which we were able to maintain despite difficult conditions and increased competition. The increased focus on attracting new clients and upselling to the existing base through our enthusiastic and energetic relationship

officers and sales teams were key factors in this success.

Another noteworthy achievement was the reduction that we were able to achieve in our NPA ratio under trying conditions which saw an overall increase in the industry NPA. We hope to work diligently on this front to continue this trend and are confident that our efforts will bear even greater rewards with improvement in economic conditions and with the initiatives launched by the Government.

The Bank has also introduced Regional Risk Officers to maintain high credit quality. Improvements made to the current risk rating model provide added comfort to the Bank in operating within its risk appetite.

We were very encouraged by the outstanding support from our shareholders which enabled us to attract a capital infusion of LKR 4.3 Bn. via a rights issue that was oversubscribed on day one. Capital was further boosted by a similarly successful debenture issue of LKR 5 Bn. We are thankful to our shareholders and investors for this show of faith which motivated the team to even greater effort.

The upgrade of the digital channels infrastructure was a key initiative to provide better value and convenience to our customers through a more user-friendly digital banking environment for our customers. The Bank has invested effort and money on this aspect and management expects significant improvements in customer adoption. While the Digital Banking Unit was established to align ourselves with the digital banking era, we expanded the ATM and CDM network, extended Internet Banking to both corporate and retail and focused on digital payroll solutions, as key initiatives.

I am extremely proud to record that Seylan Bank was seen as the leading bank in customer service in the banking sector, through an independent survey conducted by LMD. This recognition is a just reward to our frontline staff who are constantly guided by the Bank's motto and offer their services with a smile that comes from the heart.

Initiatives and improvements

The Bank has always wanted to be the growth partner of choice for our SME customers. Our SME Banking Unit, works closely with SME clients to assist with improvements in their businesses. We have already conducted island-wide programmes relating to "better management of finance", "how to market products" and "managerial skills development" as value added services. We have also established 13 regional credit hubs to improve the interaction with and speed of delivery to our SME clientele. The Bank is fully committed to engage with this important segment of our economy and nurture their growth.

During the year, we launched "Seylan myplan", the "Seylan Senior Citizens Personal Loan Scheme", and the "Seylan Housing Loan Specialist" designed to focus on retail business while enhancing our existing products with additional features.

We also designed a High Net Worth proposition to focus on serving the high networth segment of our customers, both existing and new, through a team of highly skilled relationship managers with an array of distinctive products and services designed to provide total convenience and improve returns on their portfolio of deposits and investments. This proposition has since been launched as "Seylan Red"

The Bank's main CSR programme "Seylan *Pahasara*" has contributed 200 libraries to the Sri Lankan education sector.

and has achieved impressive milestones in this short period.

Our footprint

Our geographical presence is evidenced by the location of our branches, the availability of ATMs and CDMs and the mobility of the relationship officers. Increased digitalisation of our operations provides access to those who may not be able to, or are unwilling to attend the branch network and prefer to transact electronically.

Corporate social responsibility and commitment to sustainability

The Bank's main CSR programme "Seylan *Pahasara*" has contributed 200 libraries to the Sri Lankan education sector. The programme will continue to develop libraries, especially for under privileged schools in the country.

The Bank also developed and implemented an environmental and social management policy to ensure sustainability through reduction of the environmental and social impact from commercial activity. We have conducted a number of training programmes across the Bank to embed the policy guidelines. The activities are structured to create economic prosperity while protecting the environment.

We continue our initiatives to reduce paper usage, manage waste water and save power.

The future

The foundations of the Bank have been strengthened by our performance this year in a difficult economic environment. This gives us a strong launching pad to increase our support to our customers in all spheres and especially to the SME sector which we believe holds the key to the prosperity of the Sri Lankan economy.

We have and will continue to invest in developing and upskilling our staff, our biggest asset, so that they enjoy a fulfilling career with a great work-life balance.

Appreciation

What we have achieved this year is the result of the collective efforts of every member of the organisation.

My sincere thanks go to the Chairman and the Board of Directors, Corporate and Executive Management and all the members of our staff for their wholehearted commitment to work towards the success of the organisation in a manner that also wins the hearts of our customers.

The shareholders and customers have contributed immensely to our achievements and without their participation and support in the activities of the Bank, we would not have been able to forge ahead despite difficult conditions. This engagement with every one of our stakeholders is a source of inspiration that keeps us on the firm path to provide the most value adding products and services and sustainable returns to all our stakeholders.



Kapila Ariyaratne
Director/Chief Executive Officer

21 February 2020

Events of the Year



We consider investors participation is vital in our business



We continue to expand our banking network



We recognise our employees are the most valuable asset and we appreciate their contribution to the Bank



Recognition and rewards we received during the year



We keep our customers at convenience by expanding the ATM network throughout the country



We continue to enhance our employees knowledge through training programmes

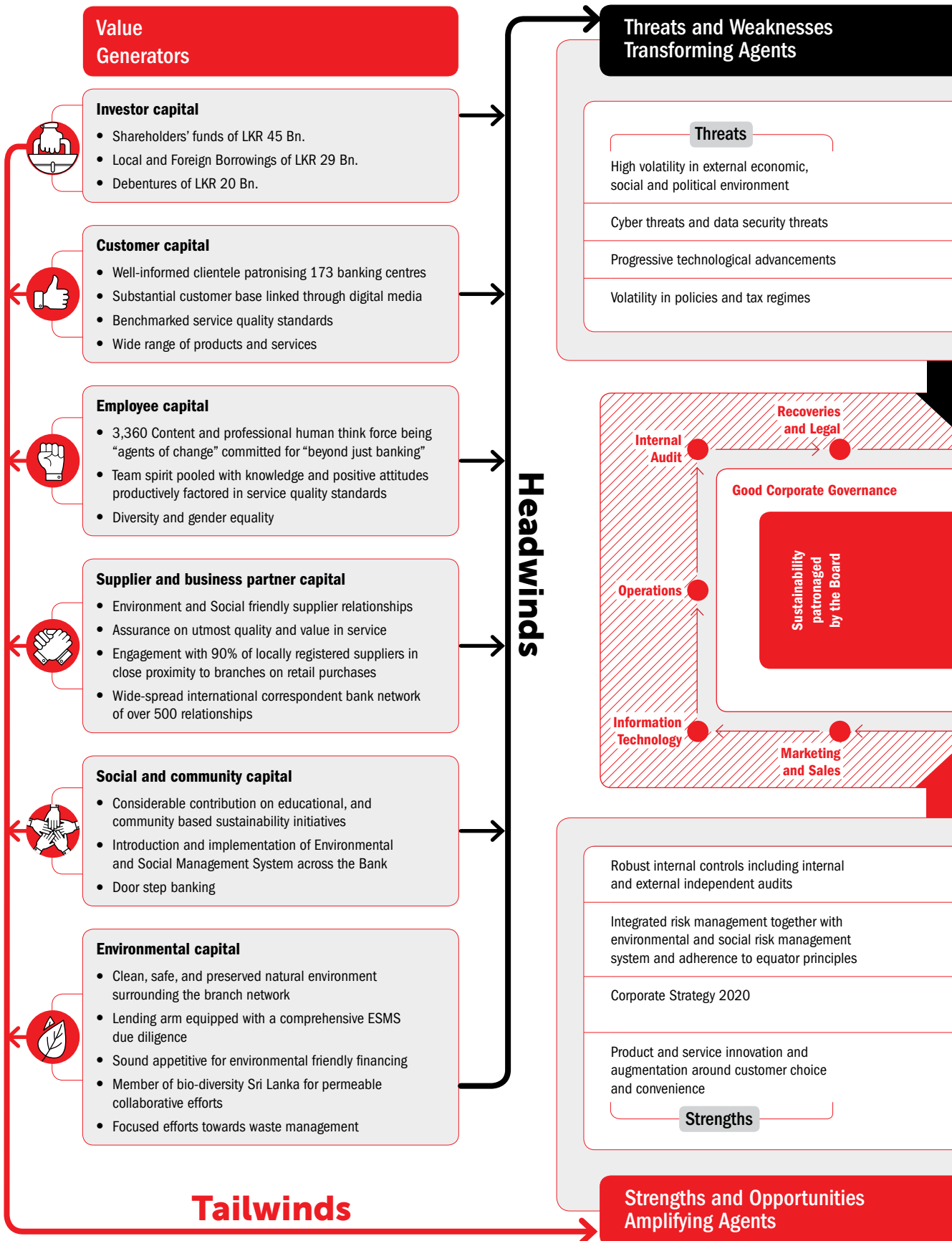


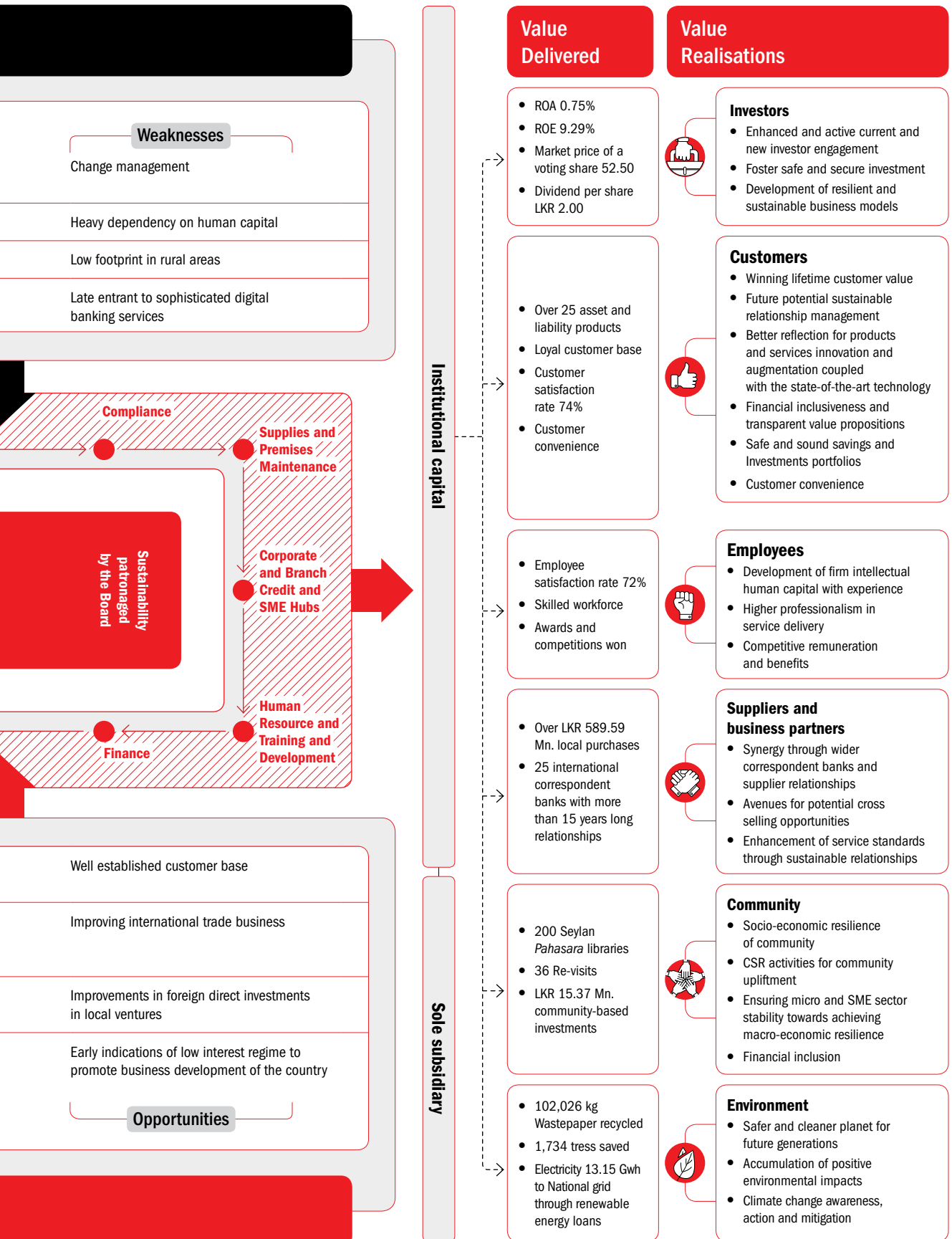
We have social responsibility towards environment and community



We carry out campaigns to promote awareness of our products and services

Value Creation Model





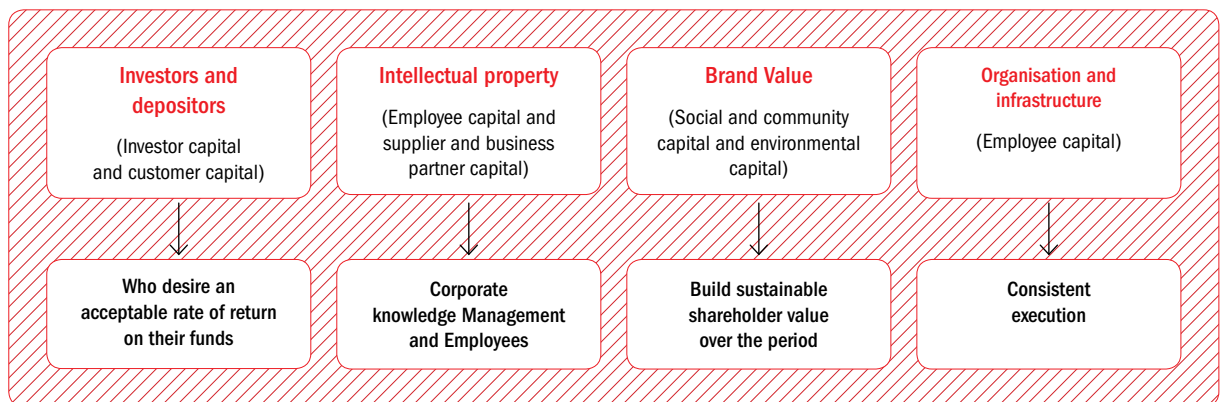
How We Create Value



“We create products and services that customers value more than their alternatives and what their alternatives will be in the future.”

- Charles Koch (adapted)

We leverage all forms of capital from



We use systems, processes and technologies to

- Generate products that satisfy customers' needs
- Enhance customer experience
- Increase the convenience of stakeholders in dealing with the Bank

We apply our corporate culture and values to

- Maintain healthy, loyal relationships with our customers
- Nurture them through challenging environment
- Be empathetic to the needs of our customers

We develop and promote our commercial operations, while making sure that the Bank is fully compliant with

- Legal provisions and regulatory directions
- By making available a safe and healthy workplace

Concurrently, we embed business ethics and integrity into our daily operations,

- Employing sound internal control systems
- Minimising errors, omissions and frauds
- Monitoring business practices and their implementation by the employees to prevent and eliminate possibilities of unethical behaviour

- Instituting a code of conduct that contains provisions relating to anti-corrupt behaviour
- Disseminating these provisions amongst all staff

All of the above lead to the desired outcomes as follows:

- Generating superior returns to shareholders and depositors
- Enabling access to capital (through loans) for enterprising individuals and organisations to generate wealth
- Promoting the distribution of wealth amongst a wide cross-section of society through the use of that capital
- Being a conduit that contributes to the growth of the Gross Domestic Product (GDP) of the country through the output achieved by the businesses financed and supported by the Bank

Why We Create Value



We create value to help people improve their lives and in the process, we too benefit from it, leading to mutual benefits.

Value creation is the primary aim of any business entity. It is an important way to grow client loyalty, share of wallet and drive business profitability.

There are two sides to the coin of why we create value. The first is to drive customer satisfaction through offerings of valuable and useful products and services.

The second is to extract value for the stakeholders in the form of financial return and other business benefits.

The Bank in creating value recognises that it needs to understand the needs of our customers and design services and products that lead to their satisfaction. The customer feels most valued when their needs are being met, not when the Bank is merely effecting a transaction.

In striving to be the best in the industry for customers, we continue to adapt to changes in customer behaviour, technology-driven competition and regulations. This helps to keep us relevant and current, while opening the doors to opportunities that may arise in the future.

Over the year 2019, we have made substantial progress in executing the strategic plan adopted in 2017.

During 2019, we focused on securing a strong foundation, building a lean and focused business and investing and innovating to capture growth opportunities across our industry footprint.

A diverse and inclusive workforce that is highly skilled and committed to the highest standards of conduct and integrity is pivotal to any organisation. Our human resources are well capable of catering to

all the banking needs of all our customers. We continue to add value for our clients by using our distinctive strengths. Our business strategy is structured to allow us to serve better for our valuable clients and provide solutions that meet their evolving needs.

Our strategic focus in 2020 and beyond

The overall performance of the Bank during past two years was volatile but yet managed to deliver high-level business growth managed to the business faced headwinds brought by various economic, social and political precariousness.

In light of these variables, to further enhance our overall performance and develop our business strategy in the following year, we collectively decided to rethink our concentration and organise our endeavours for the following two years by giving extraordinary consideration to CASA deposits and high-quality SME assets. We believe these two pillars will carry the most significant commitments to quickening development, uplifting our core operations, and securing stable business. Moreover, Branches, Relationship Officers, SME Hubs, Personal and Housing Loans, Corporate Banking, Cards, Merchant Acquiring, Leasing, and Digital Operations have been recognised as high impact drivers of these two pillars.

With the contribution of all relevant business units, we followed an organised procedure to create detailed actionable plans to operationalise the activities connected to these two pillars and convey sustainable outcomes. The operational plans factored in market changes, past

implementation learnings, employee feedback, management input, customer feedback and competitor moves.

There is a great deal of work in front of us; we are advancing in the right direction as our strategic focus will provide Seylan Bank with a strong establishment to satisfy our driven targets and become faster, particularly agile because of changing customer demands and economic situations. While we have distinct obligations as discrete business units, the success was aligning all the silo driven business units to the Bank's strategic plan. The year ahead will bring its own difficulties. Be that as it may, we will not lose sight of our vision to be Sri Lanka's leading financial service provider. These will certainly continue to be the priorities of the organisation.

Companies that solely focus on competition will ultimately die. Those that focus on value creation will thrive

– Edward de Bono

What Creates Value



The mitigation of risk, building and nurturing our business relationships and satisfying customers' needs through a range of suitable products, provide sustainable value to our customers, investors, and other stakeholders.

Our strategy is based on ensuring sustainability of our operations. In our engagement with our many stakeholders we aim to provide assurance on the Bank's capacity to continue to service their needs. Transparency and integrity in the conduct of its business form essential ingredients in providing that required measure of comfort.

"The Bank with a Heart" is conscious of and empathetic in its dealings with its customers who may be experiencing various financial needs. We use our financial strengths and capabilities to support such businesses. This has enhanced and strengthened the relationships with our customers to continue to engage actively with the Bank.

Governance, risk management, and sustainability stewardship

Our governance framework which fortifies its sustainability, is set out in detail in the "Corporate Governance" section of this Annual Report.

We continue to mitigate our 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 policies and strategies which are in line with the

core business strategies of the Bank. The management committee, comprising senior management, is responsible for all economic, social, and environmental aspects of the Bank's operations. It is also responsible to monitor the processes implementation of sustainability strategies 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 transactions policy

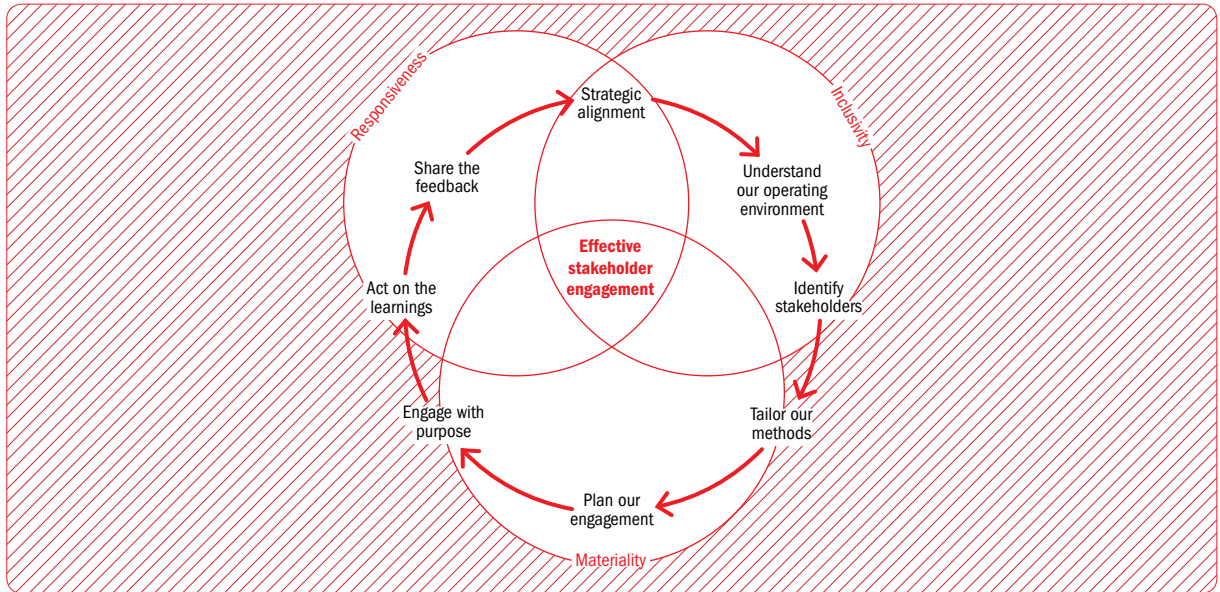
Regulatory directions and voluntary code of practice adopted by the Bank for responsible banking

- Know your customer policy
- Anti-money laundering policy
- Customer charter
- Ethical advertisements
- Display of interest rates, exchange rates and service charges
- Ensure adequate and correct disclosures/press statements
- Code of best practice on corporate governance 2017 issued by The Institute of Chartered Accountants of Sri Lanka
- Accounting standards – SLFRS/LKAS
- Approval of CBSL for the authority to accept deposits

Stakeholder engagement

Our comprehensive stakeholder engagement strategy helps us to identify emerging trends, opportunities and issues in our markets.


Ongoing engagement with all the stakeholders is integral to our sustainability approach. It enables us to move forward our sustainability priorities, ensuring that our strategy is aligned with the opportunities and issues that are most relevant in the environment in which we operate.







We engage with stakeholders on a daily basis. Employees undertake this function, 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 viable operations and in building lasting 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 Refer page 38 for more details	Sustainable growth and return	Managed the business effectively and efficiently to deliver sustainable wealth	Annual report and Annual General Meetings	Annually
	Sound liquidity and capital management	Enforced integrated risk management with adequate and robust internal controls and carried out internal audit and compliance trails	Interim Financial Statements	Quarterly
	Good governance and risk management framework	Maintained transparency, consistency, clarity, and openness to facilitate scrutiny in investor engagements	Investor forums, presentations CSE notices, other announcements Press articles	As and when required
	Business overview, business strategy and, challenges	Ensured regulatory compliance in banking	CSE announcements Press releases Financial Statements Bank website etc.	As and when required Quarterly Quarterly/Annually Regularly
	Asset quality of the Bank	Monitored the NPL ratio and restricted its growth through strict management practices	Financial Statements	Quarterly/Annually
	Macroeconomic environment and potential impact to the Bank	Kept abreast with current affairs and strategised appropriate responses	Extraordinary General Meetings Other notices	As and when required
	Strength of our leadership team	Oversight of Senior Management by Board of Directors	Press conference and releases	As and when required

Stakeholder	Key topics and concerns raised	How the Bank responded to such concerns	Method of engagement	Frequency of engagement
 <p>Customers</p> <p>Refer page 42 for more details</p>	Affordable services and convenience	Relationship officers and sales force staff to cater to customer needs	Branch network and call centre	Regularly
	Service quality	A dedicated call centre and service quality unit to attend to all customer queries and grievances and resolve them satisfactorily	ATMs/CDMs/Kiosks for services. Personal contacts to resolve grievances e-banking	Regularly
	Product innovation customised accordingly to satisfy the needs	Annual customer survey to obtain feedback on customer satisfaction with the quality of products and services	Customer satisfaction surveys Launch of new products	Annually As and when required
	Fair and transparent	Clear product descriptions and truth in advertising	Media advertisements Announcements and press releases	As and when required
	Financial inclusion	Open and transparent financial reporting	Customer workshops Announcements Marketing campaigns	As and when required
	Customer security and privacy	Provisions in code of conduct disseminated throughout the Bank and integrated into processes	Code of conduct and privacy provisions Customer charter	Regularly
	Grievance handling mechanism	Process to receive grievances and establishment of a Service Quality Department to facilitate resolution of complaints	Personal assistant to Director/CEO and the service quality department	As and when required
 <p>Employees</p> <p>Refer page 50 for more details</p>	Performance and reward management	Collective agreement every three years signed to ensure fair compensation and numerous fringe benefits to the employees	Performance and appraisal review discussions	Biannual/annually
	Job security and job satisfaction	Necessary training and development to ensure staff is equipped with the knowledge required	Training schedules and staff meetings	Regularly
	Training and development	Effective performance appraisal system	Inbound and outbound training programmes	At regular intervals
	Diversity and inclusion	No discrimination in recruitment	Treatment of all employees impartially	Regularly
	Value driven corporate culture	Ensure equal opportunities, human rights and conducive labour relations practices	Trade union discussions, special staff events Communication of values through leading by example	As and when required
	Career advancement opportunities	Biannual and annual performance reviews and practice of promoting from within	Employee satisfaction surveys Bank newsletter Intranet	Annually Quarterly As and when required
 <p>Suppliers and business partners</p> <p>Refer page 61 for more details</p>	Fair pricing	Willingness to pay market rates and building long-lasting relationships in line with CBSL regulations	Onsite visits and meetings Advertisements Press releases	Regularly
	Future business opportunities and growth potential	Collaborative and ethical partnerships encouraged for mutual benefits	Tender invitations	As and when required
	Quality of the goods and services provided	Bank commitment to procure goods and services of highest quality and deliver products and services that meet customer expectations	Registration of suitable suppliers and delivery of quality products and services	As and when required

Stakeholder	Key topics and concerns raised	How the Bank responded to such concerns	Method of engagement	Frequency of engagement
	Efficient and fair procurement process	The procurement policy of the Bank ensures transparency and fairness in the procurement process	Procurement policy	Regularly
	Transparency and non-discrimination in selection process of suppliers	Regular engagement with suppliers to identify and resolve issues and implement methods of improvement	Procurement policy	Regularly
	Upstream environmental and social risks assessments	Supplier selection process and Bank product development and approval process	Procurement policy and Bank product development and approval process	As and when required
 <p>Community</p> <p>Refer page 64 for more details</p>	Approach to Sustainable Development Goals	Fostering common dialogues in macro sphere, allocating adequate resources and direction by the Board of Directors and the Board Sustainability subcommittee	Membership in Sri Lanka Banks' Association Sustainable Banking Initiative (SLBA SBI) and its e-learning platform for required capacity building Bank's engagement in CBSL's Roadmap for Sustainable Finance in Sri Lanka	Regularly
	Promoting sustainability dialogues amongst key players	Engage with financial participants to whom banking and finance is provided and mitigate adverse environmental and social impact while promoting green financing	Environmental and Social Management System across the Bank Promoting SLBA SBI principles	Regularly
	Managing diversity in a changing banking and finance needs environment	Enquiring into market segments, participants and identifying evolving needs and wants, to cater to the demand with state-of-the-art products and services	Market study and research-based product development and innovation	Regularly
	Capacity building and elevating financial literacy	Community engagement and education to foster financial literacy	One-on-one discussions, capacity building programmes for focus groups Various community engagements	Regularly
	Financial inclusiveness	Focus on underprivileged communities to encourage participation in various flexible financial products and services accessible to them	Tailor-made financial products and services including micro, SME, and retail financing	Regularly
	Education and health centric sustainability initiatives and socio-economic resilience	Engaging with schools through various initiatives to foster educational excellence especially with the 250 library projects. Addressing health concerns through various initiatives that are linked with socio-economic impact	"Seylan <i>Pahasara</i> " library project built 200 libraries across the island and those are being revisited on a rotational basis Awareness sessions on health and safety and donation of medical equipment and medicine to children and other wards of the " <i>Apeksha</i> " hospital	As and when needs are identified
	Transition to the digital age of banking	Evolving and reshaping customer needs are screened and banking and finance tools upgraded to digital platforms in addition to conventional and physical delivery channels	Internet Banking, e-wallet, and various other virtual service delivery interfaces	Regularly

Stakeholder	Key topics and concerns raised	How the Bank responded to such concerns	Method of engagement	Frequency of engagement
 <p>Environment</p> <p>Refer page 70 for more details</p>	Environmentally resilient business model	Create awareness and build capacity to implement ethical environmental and best social practices across stakeholder domains	Implementation of Bank's Environmental and Social Management System which is now in place	As and when required
	Enhancement of positive impact	Financing for renewable energy projects	Awareness, education, CSR initiatives	Exploring opportunities
	Reduce greenhouse gas emission	Persuade conservation and influence environmental best practices transitioning from conventional to green practices	Persuade green dialogue in credit proposals Environmental and social management system	Regularly
	Collaborations and collective environmental and social performance	Efficient use of natural resources	Action taken to reduce, reuse and recycle paper, reduce electricity, and water consumption, and minimise emissions	Regularly
			Membership events with Biodiversity Sri Lanka and Global Sustainable Finance Network	As and when required
			Significant number of credit appraisals routed through Loan Origination System	Regularly
			Conventional tools replaced with power effective saving measures	Wherever possible
		Management and control of transportation of goods and staff commuting	Regularly	

Materiality

We consider an aspect to be material if it affects the short-term, medium-term or long-term values of the Bank. We have thus identified and categorised the aspects to Economic, Environmental and Social and how these impact the current operations significantly and are considered to be important to the stakeholders in addition to having an influence on the overall Bank. These material aspects are reviewed on an ongoing basis to ensure relevance and completeness.

- 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

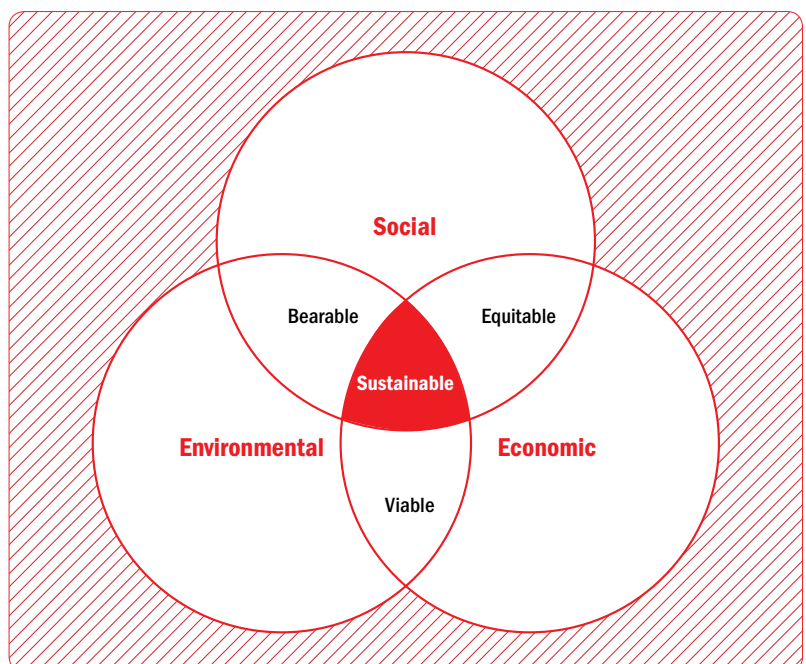
Materiality assessment

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.

Management approach

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 our operations



A table of the various topics dealt with by the Bank, together with a Materiality Matrix that identifies the significance of the issues to the Bank is shown below:

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	✓					
	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 and 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

Materiality matrix

Increasing importance to stakeholders	High		<ul style="list-style-type: none"> • Indirect economic impact (GRI 203-1, 203-2) • Local communities (GRI 413-1) 	<ul style="list-style-type: none"> • Economic performance (GRI 201-1, 201-3, 201-4) • Market presence (GRI 202-1, 202-2) • Anti-corruption (GRI 205-1, 205-2) • Employment (GRI 401-1, 401-2, 401-3) • Labour/management relations (GRI 402-1) • Training and education (GRI 404-1, 404-2) • Diversity and equal opportunity (GRI 405-1, 405-2) • Non-discrimination (GRI 406-1) • Freedom of association and collective bargaining (GRI 407-1) • Child labour (GRI 408-1) • Marketing and labeling (GRI 417-3) • Customer privacy (GRI 418-1) • Socio-economic compliance (GRI 419-1)
	Moderate	<ul style="list-style-type: none"> • Effluents and waste (GRI 306-2) 	<ul style="list-style-type: none"> • Procurement practices (GRI 204-1) • Anti-competitive behaviour (GRI 206-1) • Energy (GRI 302-1, 302-4) • Water (GRI 303-1) • Environmental compliance (GRI 307-1) • Occupational health and safety (GRI 403-1) • Forced or compulsory labour (GRI 409-1) • Security practices (GRI 410-1) • Customer health and safety (GRI 416-1, 416-2) 	
	Low	<ul style="list-style-type: none"> • Materials (GRI 301) • Bio-diversity (GRI 304) • Emissions (GRI 305) • Supplier environmental assessment (GRI 308) • Rights of indigenous people (GRI 411) • Human rights assessment (GRI 412) • Supplier social assessment (GRI 414) • Public policy (GRI 415) 		
		Low	Moderate	High
		Increasing importance to business success		

The Context

The global economy

Global growth remained subdued and is forecast at 2.9% in 2019, the lowest level since 2008/09. The contraction in the automobile industry due to disruptions from new emission standards in the Euro area and removal of tax breaks in China, had a significant negative impact on trade volumes in the first half of 2019. Investment remained sluggish in the United States, but employment and consumption continue to be robust. Growth was downgraded in the Euro area due to weak exports and Brexit-related uncertainty continued to weaken growth in the United Kingdom. Indian economy decelerated due to sector-specific weaknesses and the ongoing uncertainty about the health of non-bank financial companies.

During the second half of 2019, key emerging market economies uncertainty continued to weigh mainly on manufacturing and trade activities which led rapidly to deteriorate the global growth. Weather disasters such as hurricanes in the Caribbean, droughts and bushfires in Australia, floods and droughts in Southern Africa had negative surprises to economic activity in the emerging market economies. Currency movements in both US dollar and Japanese yen weaken about 2% while Chinese renminbi gained about 1.5% due to strengthening of risk sentiment and reduction in trade tension between September 2019 to January 2020. Moreover, British pound appreciated at 4% since September due to diminished fears of no deal Brexit.

South Asia faced an economic slow down in 2019. Given that South Asia is a net oil importer, a significant rise in oil prices could raise inflationary pressures and constrain economic activity in several economies. Further, growth forecasts for South Asia are revised downward considerably as uncertainty in global markets and a worsening global outlook.

Future outlook for the global economy

Global growth is projected to rise to 3.3% in 2020 and increase to 3.4% in 2021. This is on account of the expected improvements in several emerging markets which are under macroeconomic strain. Growth for United States, Euro area, China and Japan, which together account for almost half of global GDP is expected to moderate into 2020 and beyond.

Advanced economies are expected to stabilise at 1.6% in 2020-21. Growth in United States is projected to moderate to 2.0% in 2020 reflecting the neutral fiscal stance whilst Euro area is expected to pick-up growth to 1.3% in 2020.

Reflecting the declining growth of the working-age population and gradual convergence in per capita incomes, growth in China is projected to gradually slowdown in the ensuing years. The structural slowdown in China is softening the growth of emerging and developing Asia; the main engine of the world economy.

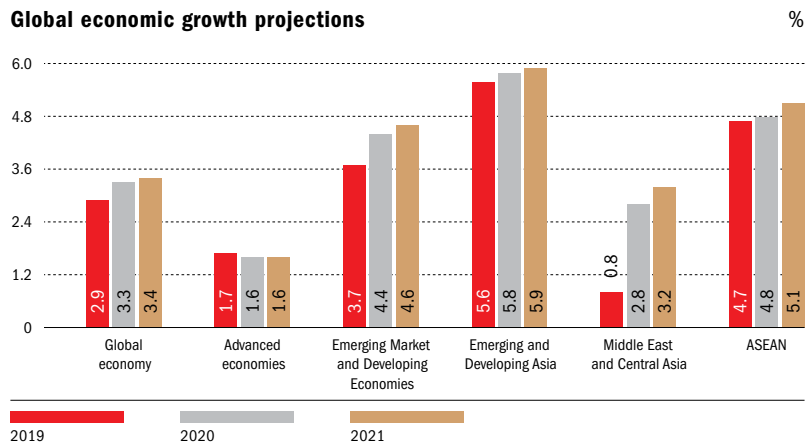
Uncertainty in geopolitical tensions, notably between the United States and Iran, will lead to fluctuations in currency and stock markets and an immediate rise in the price of oil.

Further, recent announcement of phase one trade deal which is between the world's two largest economies US and China will certainly enable to break the deadlock and inject positive energy into the stability and development of the world economy.

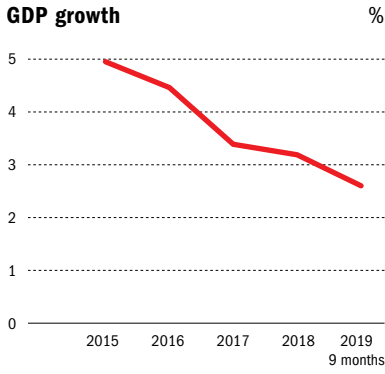
The Sri Lankan economy

Sri Lanka recorded a below potential economic growth in 2019, weighed down by adverse consequences of the Easter Sunday terrorist attacks, political uncertainties and global economic challenges. Economic growth slowed down to 2.6% in first nine months of 2019. Inflation was maintained at a mid-single digit level; an essential component of macroeconomic stability. Central Bank maintained an accommodative monetary policy stance and introduced several regulatory measures to enhance the efficiency of transmission of monetary policy measures to influence market lending rates. As a result, most market interest rates declined, notably during the second half of 2019 increasing the credit flow. Trade deficit contracted as imports declined rapidly, in response to measures undertaken in mid-2018 to curb non-essential imports. Consequently, the current account deficit contracted notably. Sri Lanka continued to experience low levels of Foreign Direct Investment (FDI) in 2019. International Sovereign Bonds (ISBs) amounting to USD 4.4 Bn. were successfully issued during the year. Following the significant depreciation in 2018, the rupee displayed greater stability in foreign exchange markets in 2019.

Global economic growth projections



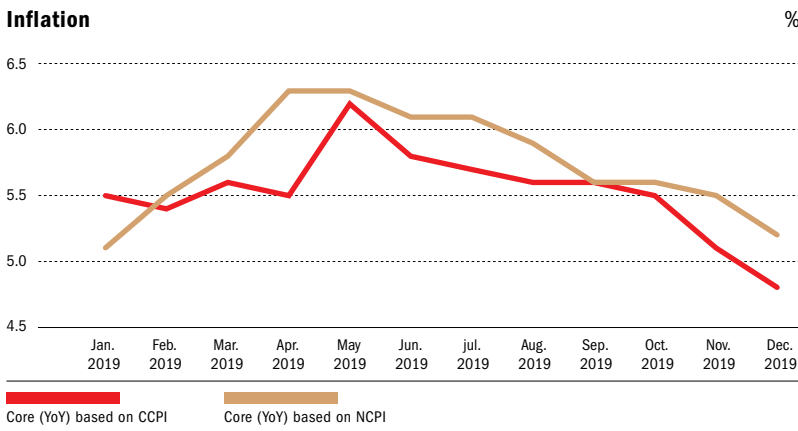
Source: World Economic Outlook – January 2020.



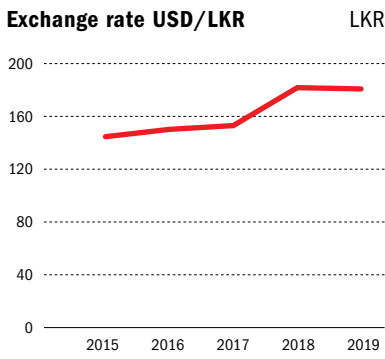
Source: Central Bank of Sri Lanka

Future outlook for Sri Lankan economy

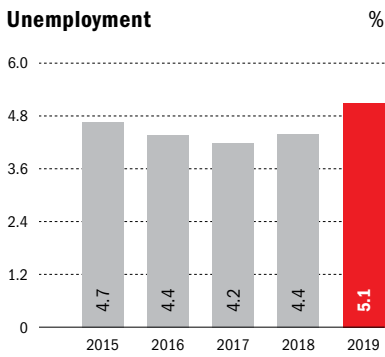
Sri Lanka economy is projected to record an economic growth of 3.5% in real terms in 2020 contributed by all major economic activities. Inflation is expected to be maintained in the range of 4-6% through a transparent, coherent and accountable monetary policy framework. Central Bank expects a boost in the growth of credit and money supply with the envisaged further reduction in lending rates and the anticipated improvement in investor sentiments. Growth of credit



Source: Department of census and statistics



to the private sector is expected to pick up to around 12-13% by end 2020 which would support the revival of economic activity. Measures will be implemented to improve Central Bank governance, enhance its independence, transparency, accountability and enhance fiscal-monetary coordination to achieve price stability. Simultaneously, financial sector oversight and macroprudential policies will be strengthened to ensure financial system stability.



Active open market operations (OMOs) will continue to serve as the major policy instrument to manage domestic money market liquidity. Central Bank will continue to ensure adequate liquidity levels are maintained in the domestic money market. Inflation environment is expected to be low which would ensure reasonably low nominal interest rates over the medium-term to boost domestic economic activity. The Central Bank would introduce a mid-day benchmark reference rate in line with International Organisation of Securities Commission's (IOSCO) principles for the benefit of stakeholders,

including the general public and foreign investors and ensure a high standard of conduct in dealing with the global forex market. A global FX code will be implemented in the period ahead.

Greater flexibility will be allowed in determining the exchange rate based on market forces and the exchange rate will be allowed to act as the shock absorber in the envisaged monetary policy framework. The continuation of the Extended Fund Facility (EFF) programme with the IMF is likely to be instrumental in supporting external sector stability in the medium-term.

In line with the philosophy of the new Government, Bank will continue to improve its contribution for the economy to progress as an upper middle income economy through equitable and inclusive growth of real economic activity of the Nation.

An environment of monetary and fiscal stimulus measures will be implemented to enhance credit flows to small and medium scale enterprises (SMEs) in the near future. These measures are expected to accelerate credit growth to the private sector in 2020 and beyond, enabling a speedy revival of economic activity. Further, a relief package for reviving SMEs is being designed, particularly targeting non-performing advances, which includes, suspension of legal actions, rescheduling of loans and interest concession. For borrowers in the performing category, a new facility is being considered with extended repayment periods including a grace period for capital repayments under reasonable interest rates. These measures are expected to strengthen the performance of the financial sector in the period ahead.

In order to revive the tourism industry in the aftermath of Easter Sunday attacks, the Central Bank took necessary action to facilitate granting of concessions by licensed banks to individuals and entities in the tourism industry. A Circular was issued on "Concessions Granted to Tourism Industry" requiring Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) to grant concessions to individuals and entities in the tourism industry, who wish to avail such concessions. As part of efforts to kick start the economy and relief to the private sector Sri Lankan Government announced the moratorium on SME loans below LKR 300 Mn. subject to the regulation.

The banking industry

The banking sector expanded modestly during 2019, exhibiting resilience by maintaining capital and liquidity levels well above the regulatory requirements. Assets growth, driven by an increase in investments, moderated to LKR 12.2 Tn. as at end October 2019. The asset base was funded mainly through deposits and borrowings. Credit growth declined due to subdued demand for credit on account of adverse business environment which prevailed. Deposit base swelled to LKR 9.0 Tn. as at end October 2019 and consisted primarily of rupee deposits. There was a notable shift from demand deposits to term deposits and short-term savings. Borrowings amounted to LKR 1.6 Tn. as at end October 2019 and asset quality deteriorated significantly as evidenced by the increase in the NPL ratio. The banking sector operated with an adequate liquidity buffer with Statutory Liquid Assets Ratios (SLAR) of both Domestic Banking Unit (DBU) and the Off-shore Banking Unit (OBU), well above the minimum statutory requirement of 20%.

Profits after tax of the banking sector declined due to a combination of factors including subdued business activities, decreased lending and increased taxes. The Central Bank continued to improve resilience of the banking system by strengthening the regulatory framework based on international regulations and best practices during 2019. These included, commencing live operations of the Common Point-of-Sale Switch (CPS), successfully completing the Basel III capital phase-in arrangement, implementing the clean note policy, facilitating consistent adoption of “Sri Lanka Financial Reporting Standard on Financial Instruments” (SLFRS 9) and strengthening the eligibility criteria for the selection of auditors to maintain integrity and quality of financial statements of licensed banks. New regulations were introduced on appointment of expatriate officers for licensed banks in Sri Lanka, non-interest based incentive schemes for mobilising of interest-bearing savings and time deposits and prudent market conduct and treasury operations of licensed banks in line with international best practice.

In order to revive private sector credit growth, Central Bank imposed caps on deposit interest rates of financial institutions in April 2019. With the deposit interest rates and cost of funds declining, the Central Bank removed the caps on

deposit interest rates of licensed banks and imposed caps on lending rates, in September 2019. As a result, most market interest rates declined notably during the second half of 2019. And the Central Bank is expected to review the caps on lending rates, once the stipulated reduction in lending rates and credit flows normalise during the year.

A range of tax relief measures introduced by the Government included removal of the capital gains tax on stock market activity, nation building tax on goods and services, withholding tax on interests, debt repayment levy on banks and financial institutions, and pay as you earn tax deduction on income. These measures were introduced to stimulate the economy while actively contributing to improving business confidence. Any revenue shortfall due to the changes in taxes is expected to be largely offset by action taken to eliminate unproductive current expenditures and to prioritise capital expenditures. These measures are expected to widen the tax base, improve tax administration and compliance.

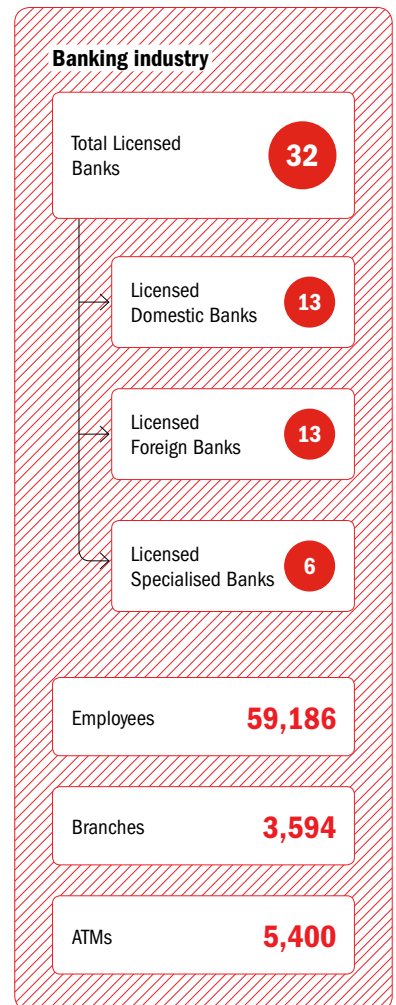
Future outlook for the banking industry

The resilience of the banking sector is expected to be maintained with the regulatory efforts taken by the Central Bank. Capital levels of banks are expected to strengthen enabling the banking sector to absorb shocks arising from financial and economic stresses. The adoption of the Basel III Leverage Ratio and SLFRS 9 is expected to augment the capital level of Banks to meet the regulatory requirements. Liquidity positions of banks are expected to be maintained at healthy levels with the adoption of the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) under the Basel III liquidity standards. Credit growth of the banking sector is expected to improve gradually, with the prevailing monetary policy direction and the Banking act directions aimed at enhancing credit flows to the economy. Based on Basel Core Principles on Effective Banking Supervision and other international and regional best practices, the regulatory and supervisory framework of licensed banks will be further strengthened and the new Banking Act would strengthen the legal and regulatory framework of licensed banks further. The new supervisory rating model (Bank Sustainability Rating Indicator – BSRI) would facilitate the risk based

supervision framework of licensed banks and early intervention, prompting corrective actions.

Banks’ information systems and related technological platforms will be strengthened with the proposed upgrade and a regulatory and supervisory framework in line with international standards and best practices will be introduced with respect to information technology and security of banks. Steps will be taken to promote healthy competition among banks, and support efficient transmission of monetary policy measures. With the implementation of a FinTech Regulatory Sandbox, digital payment mechanisms will improve and lead to a reduction in cash management costs.

Central Bank revised BASEL rules adopting a more complex method for domestic systemically important banks (D-SIB) with the objective of holding higher capital buffers and to providing incentives to reduce their systemic importance on the domestic economy.



Financial Value Creation



We adopt effective and efficient financial strategies that enrich our financial capital which enables us to conduct banking activities and strengthen our ability to create and sustain value for all the stakeholders.

Key Highlights

LKR 516 Bn.

Total assets

LKR 401 Bn.

Total deposits

LKR 88.61

Net assets value per share

LKR 3.7 Bn.

Profit after tax

21.40%

Liquidity ratio
(Domestic Banking Unit)

14.84%

Total capital adequacy ratio

LKR 379 Bn.

Total loans

4.20%

Net interest margin

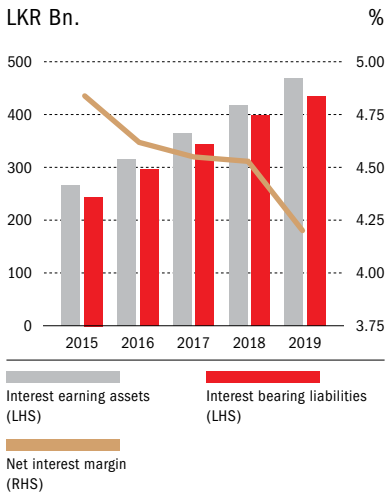
Income statement analysis

Net Interest Income (NII)

Net Interest Income (NII), the main source of income representing more than 75% of the total operating income of the Bank, recorded an increase of LKR 0.886 Bn. (4.99%) during the period under review. Accordingly, the Bank managed to record a NII of LKR 18.633 Bn. in 2019, compared to LKR 17.747 Bn. in 2018. NII growth, despite the narrowing net interest margins, was supported by growth in loans and advances and volatile interest rates.

Net Interest Margin (NIM) reduced from 4.53% in 2018 to 4.20% in 2019.

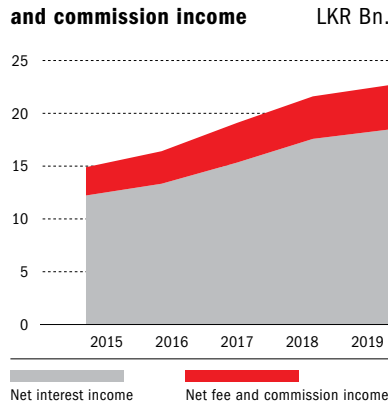
Net interest margin



Fee and commission income

Net fee and commission income was LKR 4.233 Bn., reflecting an increase of 4.41% compared to the previous year. Income on guarantees, cards, trade and remittances were the main contributors for the increase. We strengthened our banking activities in trade finance special guarantees and other financial services causing the fee and commission income to increase compared to last year. The Bank promotes the cross selling of its products across the spectrum by the branches, to increase the fee-based income.

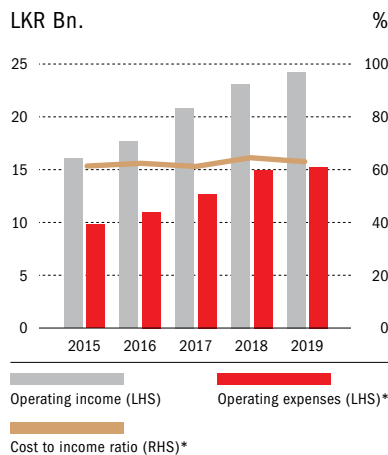
Composition of total of net interest income and net fee and commission income



Total operating income

The operating Income of LKR 24.354 Bn. was 5.01% higher than the previous year and reflects a growth in NII (LKR 0.886 Bn), Net Fee and Commission Income (LKR 0.178 Bn.) and other income (LKR 0.098 Bn). Other Income comprises a net loss from trading amounting to LKR 1.459 Bn. over the previous year (reflects a net loss from Derivative Financial Instruments of LKR 1.864 Bn. due to fluctuations in rates and volume), net gains/(losses) from de-recognition of financial assets with a growth of LKR 0.268 Bn. and Other Operating Income with a growth of LKR 1.289 Bn. which is mainly from foreign exchange income derived from both revaluation gain/(loss) on the Bank's net open position and realised exchange gain/(loss) on foreign currency transactions.

Operating income, operating expenses and cost to income ratio



* Including additional gratuity expense, VAT, NBT and DRL

Impairment charges

The impairment charge for the year 2019 was LKR 3.883 Bn. which is a 11.73%

increase over the last year. The impairment charge of loans and advances for the year amounted to LKR 3.848 Bn. compared to, LKR 3.516 Bn. in 2018. Stage 3 assets has increased by LKR 3 Bn. over the previous year and the same impacted on the impairment charges for stage 3 (increased by LKR 0.9 Bn. approximately) in 2019. Expected credit loss allowance as at 31 December 2019 stood at LKR 10.73 Bn. which is an increase of LKR 0.84 Bn. from LKR 9.89 Bn. recorded in 2018.

Operating expenses

Total operating expenses recorded LKR 12.606 Bn. during the year under review, whilst total operating expenses including VAT, NBT and DRL rose to LKR 15.37 Bn.

Personnel costs increased by 12.28% as head count, remuneration and staff development activities increased during the year. SLFRS 16 became effective from 1 January 2019, and accordingly depreciation of LKR 473 Mn. charged to the income statement.

The Bank's cost to income ratio, including additional gratuity expense, VAT, NBT and DRL stood at 63.12%, which reflects an improvement from 2018 (64.90%). The cost to income ratio excluding additional gratuity expense stood at 62.79% as at end 2019 which shows an increase from the previous year (60.00%), mainly due to increase in DRL charged in 2019 compared to 2018 by LKR 0.738 Bn. (DRL was effective from 1 October 2018 and accounted only for three months in 2018). The cost to income ratio excluding taxes on financial services stood at 58.88% in 2019 and almost same as the ratio in 2018 of 59.08% and noted that an increase of DRL by LKR 0.738 Bn. has impacted on the cost to income ratio by 4%. However, the cost to income ratio excluding additional gratuity expense, VAT, NBT & DRL was reported as 51.43%.

77%

NII as a percentage of total operating income

LKR 24 Bn.

Recorded as total operating income for the year.

Taxation

Sri Lanka Government announced several tax amendments during latter part of 2019. Value added tax standard rate was reduced from 15% to 8% for other than financial services with effect from 1 December 2019.

The Debt Repayment Levy has been removed with effect from 2020 and this will have a favourable impact on the profitability of the Bank in the future.

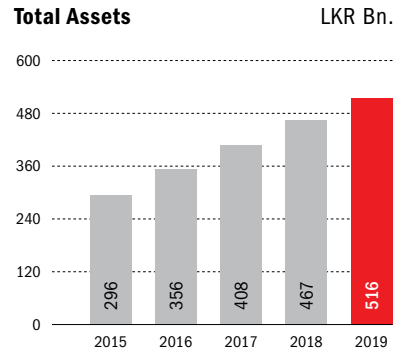
Bank's tax expense (income tax, VAT, NBT and DRL on financial services) for 2019 was LKR 4.185 Bn. which is higher than the tax expense recorded in 2018 (LKR 3.590 Bn.) by LKR 0.595 Bn. with a 17% increase. This is mainly from DRL, which reflected an increase of LKR 0.738 Bn. over the previous year (DRL was effective from 1 October 2018 and accounted only for three months in 2018).

Statement of Financial Position Analysis

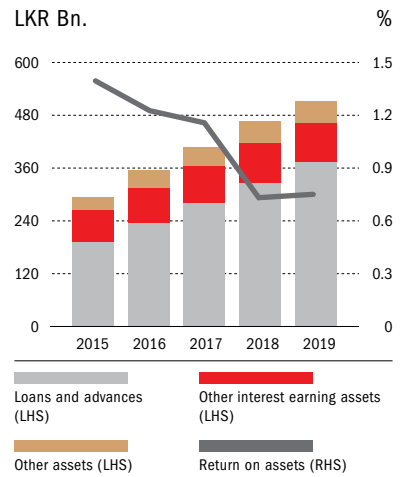
Asset growth

2019 was a year of accomplishment as the Bank's asset base crossed the LKR 500 Bn. The total assets of the Bank was recorded at LKR 516 Bn. and represents a growth of 10.57% over last year. Despite a number of macroeconomic factors such as the Easter attack, political instability, increasing interest rates, tightening liquidity and subdued global growth outlook that affected industry credit growth, Bank's loan portfolio gathered momentum in 2019 with substantial growth of 16.02%. Corporate Banking was the main contributor to the loan growth.

Further, with the SLFRS 16 effective from 1 January 2019, the Bank's financial position has grown by LKR 4 Bn. approximately in both the assets and liabilities. I.e. Rights of use assets was newly recorded in the assets side (LKR 4.457 Bn.) and lease liabilities were newly recorded in the liabilities side (LKR 4.351 Bn.).



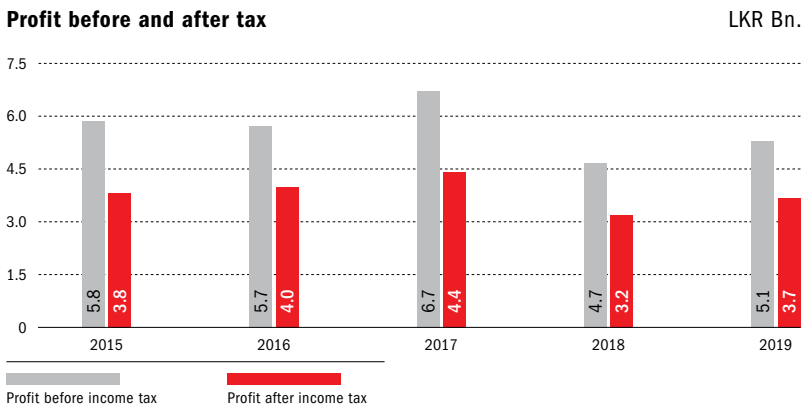
Composition of total assets



Taxation			
	2019 LKR Bn.	2018 LKR Bn.	YoY increase/ (Decrease) LKR Bn.
Income tax expense	1.418	1.477	(0.059)
Value added tax on financial services (VAT)	1.621	1.675	(0.054)
Nation building tax on financial services (NBT)	0.193	0.223	(0.030)
Debt repayment levy (DRL)	0.953	0.215	0.738
Total	4.185	3.590	0.595

Profitability

Despite the sluggish economy that prevailed during 2019, Seylan recorded a net profit before income tax of LKR 5.099 Bn. and net profit after tax of 3.680 Bn. which is 15.40% higher than last year. Branch banking, treasury operations and corporate banking are the main contributors to profitability.



Loan growth and asset quality

Loans and advances grew by LKR 52.377 Bn. which is a 16.02% growth over 2018 to LKR 379 Bn. as at end 2019. Targeted marketing to lucrative segments within the economy, helped us grow our loan portfolio in areas such as term loans, refinance, housing and revolving import loans.

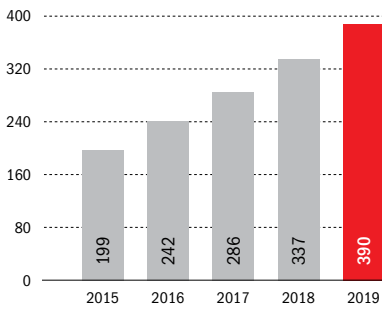
Preserving asset quality in the current economic climate was a key challenge for most lending institutions in the industry. However, Seylan Bank tightened the process of loan approvals and disbursements and continuous monitoring of the portfolio led to controlling the Loans and advances under stage 3 customer base. Consequently, the gross NPL ratio declined to 6.49% in 2019 from 6.55% in 2018. The net NPL ratio also declined to 5.76% in 2019 from 5.98% in 2018. Bank's provision cover was 42.03% in the year under review.

16%

YoY loan and advances growth

Gross advances

LKR Bn.



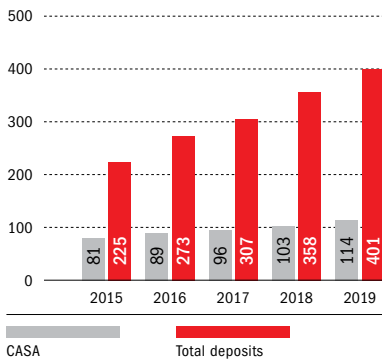
Deposit growth

The total deposit base of the Bank grew by LKR 43.171 Bn. to LKR 400.731 Bn., a 12.07% increase compared to the previous year. Despite the aggressive rates, Bank was able to achieve deposit growth through our widespread branch network across the country. This reflected confidence placed by our valuable customers. We also launched the “Seylan myplan” savings account which contributed to the increase in the deposits base.

Despite a shift into higher yielding deposits witnessed across the industry, the Bank grew its CASA base to LKR 113.76 Bn. which was a notable 10.33% rise from last year. The Bank’s CASA ratio stood at 28.39% at the end of 2019.

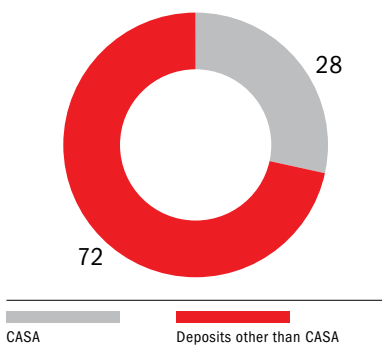
Deposits

LKR Bn.



Deposits mix

%



Capital and funding

Managing capital, funding and liquidity are crucial to the ongoing viability of any banking organisation in meeting foreseeable demands and to optimise the returns to stakeholders. Despite market liquidity remained tight the loan growth was showing an upward trend. To supplement business growth and to enhance the lending book, the Bank raised a total of LKR 9.389 Bn. in a debenture issue (LKR 5 Bn.) and a rights issue (LKR 4.389 Bn.) in April 2019 and November 2019 (allotted on 10 December 2019) respectively, in the process of strengthening Basel III capital and the balance sheet. Both these issues were oversubscribed, signifying strong confidence in the Bank.

Capital adequacy ratios

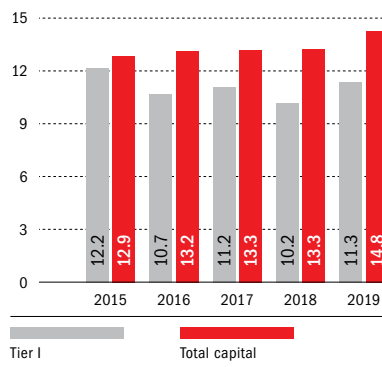
The Bank maintains a sound capital adequacy ratio despite the growth of the lending book which resulted in increasing our risk weighted assets.

Capital adequacy ratio

	2019		2018	
	Actual ratio	Statutory ratio	Actual ratio	Statutory ratio
Common equity Tier 1 capital ratio (%)	11.27	7.00	10.20	6.375
Total Tier 1 capital ratio (%)	11.27	8.50	10.20	7.875
Total capital ratio (%)	14.84	12.50	13.30	11.875

Capital adequacy ratio

%



The capital adequacy ratio increased from 13.30% to 14.84% during the year, mainly due to rights issue of LKR 4.3 Bn., Debenture issue of LKR 5 Bn., favourable impact from fair value through other comprehensive income reserve (LKR 1.2 Bn.), despite the increase in the risk weighted amount for credit risk (LKR 52 Bn.) mainly due to growth in the advances portfolio.

The Bank has to comply with the Banking Act Direction No. 01 of 2016 dated

29 December 2016 on Capital Requirements under BASEL III which was effective from 1 July 2017 and the amendments thereto under directions No. 11 of 2019 dated 20 December 2019 in maintaining the minimum required capital ratios by the Bank. Further the CBSL has recently issued Directions on Domestic Systemically Important Banks (D-SIBs) as mentioned below and going forward need to comply with them as applicable.

- Direction No. 12 of 2019 dated 20 December 2019 on Domestic Systemically Important Banks.
- Direction No. 10 of 2019 dated 20 December 2019 on framework for dealing with domestic systemically important banks.

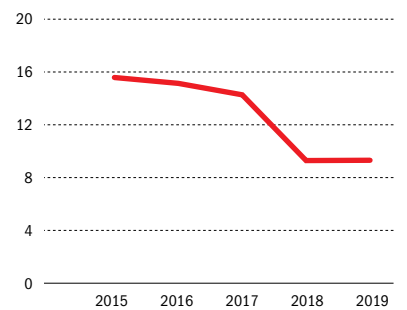
For more details, refer Risk Management section in the Annual Report.

Return on equity (ROE)

The return on equity (ROE) at the Bank level was 9.29% marginally, up from 9.27% in 2018. Excluding the rights issue, the ratio in 2019 was 9.83% which is higher than the current ratio with rights of 9.29%.

Return on equity

%

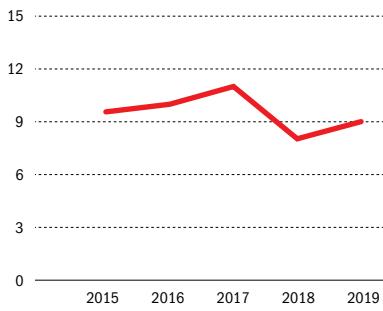


Earnings per share (EPS)

Earnings per share of LKR 8.99 in 2019 was higher than the LKR 7.97 recorded in the previous year. Earnings per share excluding additional gratuity expenses was LKR 9.13 comparative to last year figure of LKR 10.01.

Earnings per share

LKR



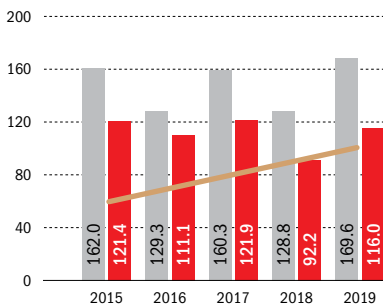
EPS diluted with the rights issue, where consequent to the increase in number of shares by 125,905,946 to 503,623,786 (weighted average number of ordinary shares as at 31 December was 409,441,483). The EPS for 2019 was 9.74 if rights issue is excluded (2018 - EPS 8.44).

Liquidity

The Bank maintained its liquidity position well above the required minimum ratios, as shown below:

Liquidity coverage ratio

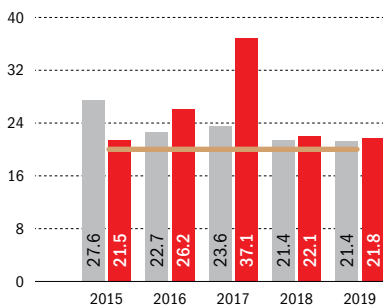
%



Liquidity coverage ratio - Rupee
Liquidity coverage ratio - All currency
Statutory ratio

Liquidity ratio

%



Liquidity - Domestic banking unit
Liquidity - Foreign currency banking unit
Statutory ratio

Liquidity and liquidity coverage ratio

	2019		2018	
	Actual ratio	Statutory ratio	Actual ratio	Statutory ratio
Statutory liquid assets ratio				
Domestic Banking Unit (%)	21.40	20.00	21.44	20.00
Statutory liquid assets ratio				
Foreign Currency Banking Unit (%)	21.81	20.00	22.08	20.00
Liquidity Coverage Ratio (%) - Rupee	169.60	100.00	128.76	90.00
Liquidity Coverage Ratio (%) - All Currency	116.01	100.00	92.15	90.00

Liquidity ratios are monitored by the Assets and Liabilities Committee (ALCO) to ensure efficient management of the Bank's liquid assets.

Key Performance Indicators (KPIs)

	2019 LKR Mn.	2018 LKR Mn.	Growth %
Deposits	400,731	357,560	12.07
Net loans and advances	379,259	326,883	16.02
Net interest income	18,633	17,747	4.99
Net fee, commission and other income	5,722	5,445	5.09
Profit after tax	3,680	3,189	15.40

Future outlook

Shareholder value

Prudent allocation of capital and competitive pricing are some of key factors which we will continue to monitor to create sustainable value for our shareholders.

We will continue to deliver healthy returns and long-term sustainable value to our investors by growing the Return on Assets (ROA) and the Return on Equity (ROE). The Bank's focus is on maximising shareholder value and strengthening the shareholders' investment in the Bank.

The Bank's actual and estimated growth targets are as follows:

	Estimate	Actual	
	2020	2019	2018
Total deposits (LKR Bn.)	>440	401	358
Total gross advances (LKR Bn.)	>430	390	337
Total assets (LKR Bn.)	>575	516	467
ROE (%)	>10	9.29	9.27
ROA (%)	>1.0	0.75	0.73
EPS (LKR)	>10	8.99	7.97

Our future strategies/initiatives

These strategies and key initiatives have been explained in detail in the section "Why we create value" on page 15.

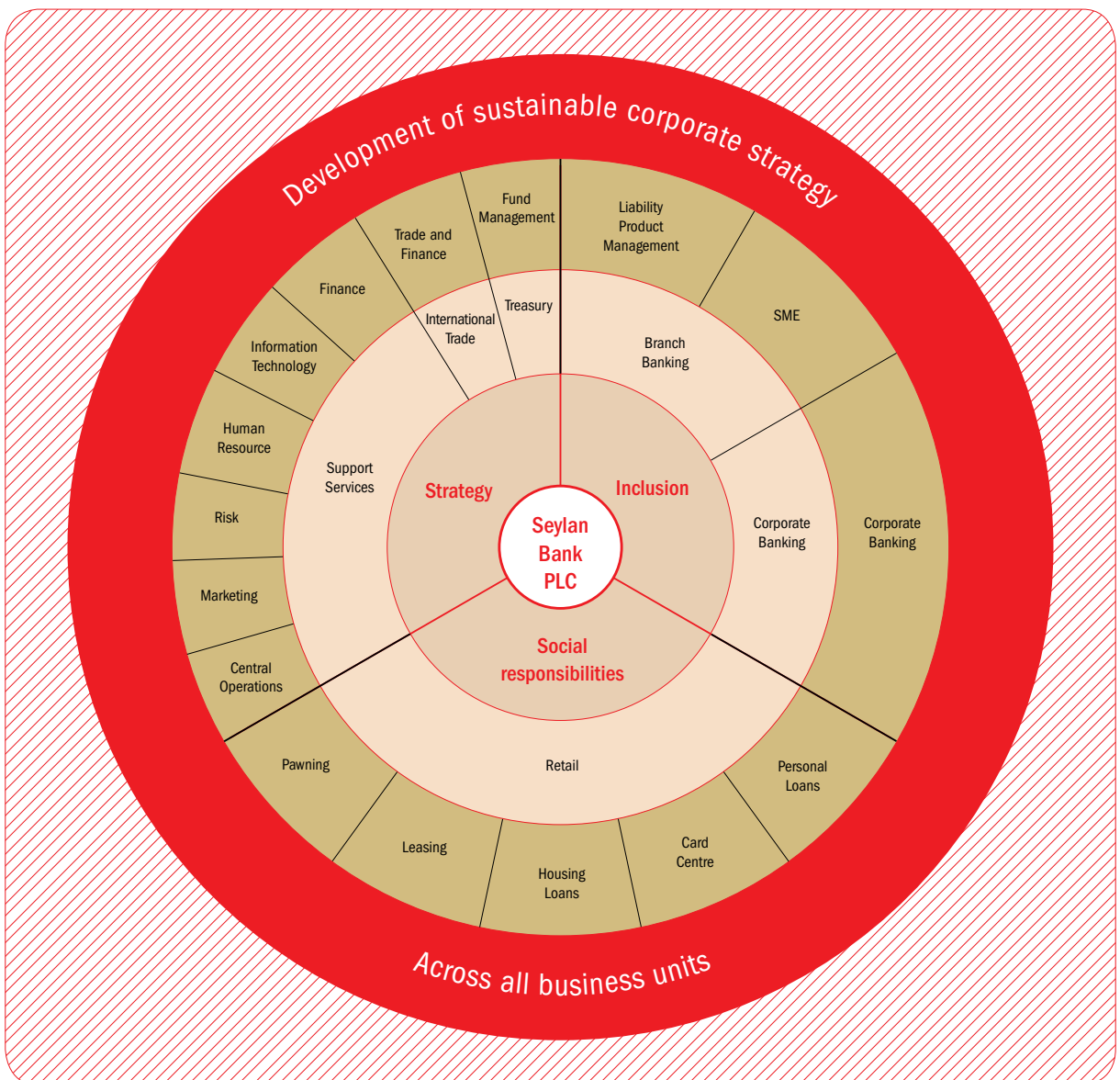
Business unit performance analysis



The strength of the business is its key business drivers, rest supporting them for a smooth ride. Branch banking, corporate and offshore banking, retail banking, treasury, and international and trade services are the front runners of the race. Rest is the tailwinds.


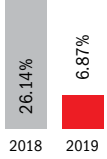
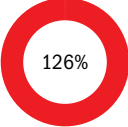


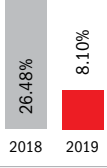





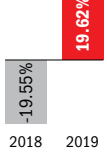
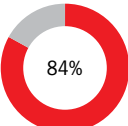

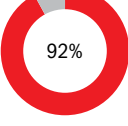
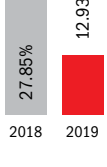
Bank's key business units were able to deliver the anticipated results despite economic downturn in 2019. Planning and preparation for the year 2020, improvements for the infrastructure and uplifting of existing processes were key priorities except for the main KPIs. All the business units including the extensive branch network is aligned to the Bank's strategic plan, short term and long term objectives of the Bank. The Bank is envisioning being the growth partner for Sri Lankan entrepreneurs while improving our market share in retail, SME and corporate sectors.

Following dashboard shows how the corporate strategy of the Bank drove the business units towards their goals in 2019.






	Strategic initiatives	Key performance and achievements			
<p>Branch banking</p> <p>Bank's branch network is the main leader with 173 Branches, which are strategically located around the country.</p> <p>Placement of Multi-Service Counters (MSCs), Digital Kiosks, ATMs, CDMs and CDKs has enabled the branches to enhance the quality of the customer service.</p> <p>Bank's advances growth was predominantly driven by the SME sector in the country. Therefore, the Bank has established seamless credit process to support Sri Lankan SME clients.</p> <p>The SME Hubs implementation was one of the key initiatives that we have completed in 2019.</p> <p>Liability product management team, which helps the branches to grow their deposit book, also plays a significant role in branch business. Daily monitoring and empowering the branch business has helped to energize the branch network.</p>	<ul style="list-style-type: none"> • Branches to be part of customer's journey • Expand the branch footprint • Streamline the operational and credit processes • Enhanced customer convenience and service quality • Enable branches to make more data centric business decisions 	KPI	Achievement against the budget - 2019	Growth over last year	
		Deposits	91%	12.34% 2018	9.47% 2019
		Advances	95%	14.69% 2018	12.07% 2019
		Net interest income	82%	-0.80% 2018	-0.22% 2019
		Fee based income	87%	-0.12% 2018	8.28% 2019
		Profit before tax	54%	-11.66% 2018	-37.57% 2019
<p>Corporate banking</p> <p>Seylan Corporate Banking team facilitates healthy client base who has been well recognised in the Sri Lanka business context.</p> <p>Establishment of a dedicated project financing department is facilitating diversified industries such as power projects, water, other infrastructure development projects and hospitality sector etc.</p> <p>The team is capable of handling medium to long term industrial project financing activities. At present Bank is managing a healthy project financing portfolio and is expecting to grow along with our corporate customers.</p>	<ul style="list-style-type: none"> • Rigorous portfolio management by looking at the customer profitability • Develop specialisation in high-value industries to increase probability of success • Improvement in digital platform to enable sales effectiveness, process and growth • Comprehensive product suite for end-to-end client needs 	KPI	Achievement against the budget - 2019	Growth over last year	
		Deposits	136%	85.62% 2018	19.38% 2019
		Advances	111%	27.82% 2018	29.70% 2019
		Net interest income	135%	35.61% 2018	44.62% 2019

 The full red circle indicates full achievement or over achievement of budgeted targets.

	Strategic initiatives	Key performance and achievements		
		KPI	Achievement against the budget - 2019	Growth over last year
		Fee based income	 <p>108%</p>	 <p>2018: 26.14% 2019: 6.87%</p>
		Profit before tax	 <p>126%</p>	 <p>2018: 34.18% 2019: 22.33%</p>
<p>Retail banking</p> <p>Banking Unit is the team retail that consolidates all the retail businesses under one umbrella.</p> <p>Retail Comprises of Credit Card Business, Housing and Personal Loan business, Leasing and Pawning.</p> <p>The retail business units focus on segmenting customers to deliver more customer centric offerings.</p>	<p>Card centre</p> <ul style="list-style-type: none"> Strengthen relationships of existing POS/M-POS merchants Launch premier card to service affluent/senior professionals Enhance transaction volume through the rollout of new campaigns Leverage debit cards to grow transaction volumes and CASA balances <p>Leasing</p> <ul style="list-style-type: none"> Tie-ups with vehicle dealers to drive sales Recruited outbound sales team and regional leasing officers Develop custom product propositions for leasing 	KPI	Achievement against the budget - 2019	Growth over last year
		Advances	 <p>99%</p>	 <p>2018: 26.48% 2019: 8.10%</p>
		Net interest income	 <p>103%</p>	 <p>2018: 26.90% 2019: 18.26%</p>
		Fee based income	 <p>99%</p>	 <p>2018: 30.91% 2019: 1.86%</p>
		Profit before tax	 <p>165%</p>	 <p>2018: -19.55% 2019: 19.62%</p>
		KPI	Achievement against the budget - 2019	Growth over last year
		Advances	 <p>84%</p>	 <p>2018: 16.53% 2019: 10.73%</p>
		Interest income	 <p>92%</p>	 <p>2018: 27.85% 2019: 12.93%</p>

 The full red circle indicates full achievement or over achievement of budgeted targets.

Strategic initiatives	Key performance and achievements		
Personal loans	KPI	Achievement against the budget - 2019	Growth over last year
<ul style="list-style-type: none"> • Drive sales growth by expanding diverse sales channels • Enable branches to be more sales oriented in providing other services to clients 	Advances	 <p>105%</p>	 <p>2018 2019</p>
	Interest income	 <p>105%</p>	 <p>2018 2019</p>
Housing loans	KPI	Achievement against the budget - 2019	Growth over last year
<ul style="list-style-type: none"> • Appoint dedicated loan specialists to cater to different product segments • Strategic marketing initiatives to be followed on both Housing and Personal loan products. • Cross selling to existing customers, partnered with new event partners and improve the product branding to be trailed 	Advances	 <p>94%</p>	 <p>2018 2019</p>
	Interest income	 <p>97%</p>	 <p>2018 2019</p>
Pawning	KPI	Achievement against the budget - 2019	Growth over last year
<ul style="list-style-type: none"> • Competitive market acquiring strategies to be adopted • Region wise pawning and marketing campaigns 	Advances	 <p>87%</p>	 <p>2018 2019</p>
	Interest income	 <p>95%</p>	 <p>2018 2019</p>

 The full red circle indicates full achievement or over achievement of budgeted targets.

	Strategic initiatives	Key performance and achievements														
<p>Treasury</p> <p>Treasury has managed the gaps effectively while maintaining the optimum liquidity for the Bank, statutory reserve etc.</p>	<ul style="list-style-type: none"> Enhance Bank's profitability by investing on right products Be flexible in deciding interest rates and provide most appealing interest rates for the customers Exchange positions were efficiently managed in the highly volatile market conditions 	<table border="1"> <thead> <tr> <th>KPI</th> <th>Achievement against the budget - 2019</th> <th colspan="2">Growth over last year</th> </tr> </thead> <tbody> <tr> <td>Net interest income</td> <td>99%</td> <td>2018: 227%</td> <td>2019: -14.2%</td> </tr> <tr> <td>Profit before tax</td> <td>118%</td> <td>2018: 65.58%</td> <td>2019: -1.73%</td> </tr> </tbody> </table>	KPI	Achievement against the budget - 2019	Growth over last year		Net interest income	99%	2018: 227%	2019: -14.2%	Profit before tax	118%	2018: 65.58%	2019: -1.73%		
		KPI	Achievement against the budget - 2019	Growth over last year												
Net interest income	99%	2018: 227%	2019: -14.2%													
Profit before tax	118%	2018: 65.58%	2019: -1.73%													
<p>International and trade finance</p> <p>Bank is always keen on the international trade business. The implementation of priority customer service desk, quick turnaround time and efficient front desk has helped our customers to continue their businesses without any delays. The business unit predominantly focuses on import, export and foreign remittances services.</p>	<ul style="list-style-type: none"> Expand foreign remittance footprint across the world Bank to be the partner of success for importers and exporters Introduced "Easy Trade" concept, appointed trade specialists, offered flexible trade tariff and competitive exchange rates to increase business volumes 	<table border="1"> <thead> <tr> <th>KPI</th> <th>Achievement against the budget - 2019</th> <th colspan="2">Growth over last year</th> </tr> </thead> <tbody> <tr> <td>Trade related fee and commission income</td> <td>100%</td> <td>2018: 2.75%</td> <td>2019: 3.58%</td> </tr> </tbody> </table>	KPI	Achievement against the budget - 2019	Growth over last year		Trade related fee and commission income	100%	2018: 2.75%	2019: 3.58%						
		KPI	Achievement against the budget - 2019	Growth over last year												
Trade related fee and commission income	100%	2018: 2.75%	2019: 3.58%													
<p>Support functions</p> <p>Business operations could not be successful without the help of all these support functions.</p>	<p>Marketing</p> <ul style="list-style-type: none"> Drive the core sales team of the Bank while inculcating the sales culture across the Bank Drive data centric marketing campaigns to deliver strategic initiatives of the Bank 360° corporate brand enhancements to be done by the marketing team as part of their strategy 	<p>13</p> <p>Advertising campaigns conducted</p>	<p>516</p> <p>Mistry shopping conducted</p>	<p>21</p> <p>Sales force training conducted</p>												
	<p>Information technology</p> <ul style="list-style-type: none"> IT acts as the support agent for all technical matters that business units face in day to day operations Upgrade of IT infrastructures to enable Bank to improve its operational effectiveness, efficiency, IT security and governance 	<p>14</p> <p>Key IT projects</p>	<p>86</p> <p>Process improvement projects in 2019</p>	<p>17</p> <p>Digital initiatives in 2019</p>												

 The full red circle indicates full achievement or over achievement of budgeted targets.

Sustainability Assurance Report



KPMG
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INDEPENDENT ASSURANCE REPORT TO SEYLAN BANK PLC

We have been engaged by the Directors of Seylan Bank PLC (“the Company”) to provide reasonable assurance and limited assurance in respect of the Sustainability Indicators as identified below for the year ended 31 December 2019. The Sustainability Indicators are included in the Seylan Bank PLC’s Integrated Annual Report for the year ended 31 December 2019 (the “Report”).

The Reasonable Assurance Sustainability Indicators covered by our reasonable assurance engagement are:

Assured Sustainability Indicators	Integrated annual report page
Financial Highlights	04

The Limited Assurance Sustainability Indicators covered by our limited assurance engagement are:

Limited assurance sustainability indicators	Integrated annual report page
Sustainability performance indicators	74-75
Information provided on following stakeholder groups	
Investors	38-41
Customers	42-49
Employees	50-60
Suppliers and Business Partners	61-63
Community	64-69
Environment	70-73

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 2019 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 2019, 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 judgement, including the assessment of the risks of material misstatement of the Reasonable Assurance Sustainability Indicators whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Reasonable Assurance Sustainability Indicators in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Company's internal control over the preparation and presentation of the Report.

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Indicators, the suitability of the criteria, being the 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 the relevant information has been appropriately included in the Report;
- reading the Limited Assurance Sustainability Indicators presented in the Report to determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of the Company;

- reading the remainder of the Report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Limited Assurance Sustainability Indicators.

Purpose of our report

In accordance with the terms of our engagement, this assurance report has been prepared for the Company for the purpose of assisting the Directors in determining whether the Company's Reasonable and Limited Assurance Sustainability Indicators are prepared and presented in accordance with the 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

21 February 2020

Informed Investors



The participation of our investors in our business is a vital element in our ongoing commitment to delivering sustainable economic value.

Key Highlights

LKR 8.99

Earnings per share

LKR 2.00

Dividend per share

9.29%

Return on equity

LKR 88.61

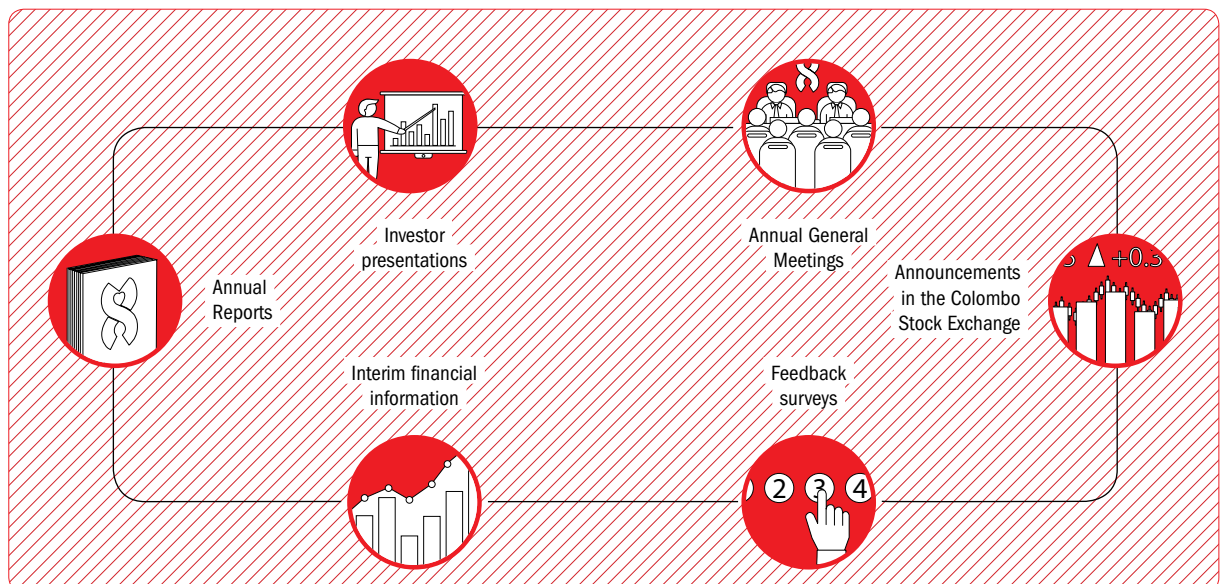
Net assets per share

We aim to deliver healthy returns and long-term sustainable value to our investors. We make every effort to provide a detailed and transparent analysis of our current and future strategies and performance, to enable

investors make informed decisions. Our business model and strategy are built to capture the opportunities inherent in our unique footprint through deep relationships with investors.

We continue to actively engage with the investors in a consistent, comprehensive and accurate manner by way of various investor relations tools as shown below:

Investor relations tools

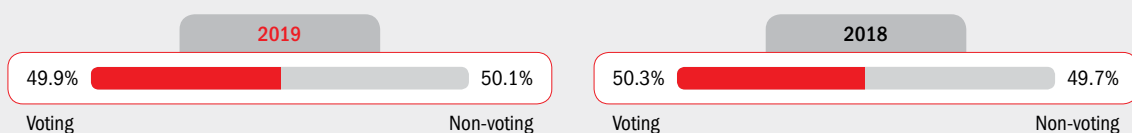


Economic Policy

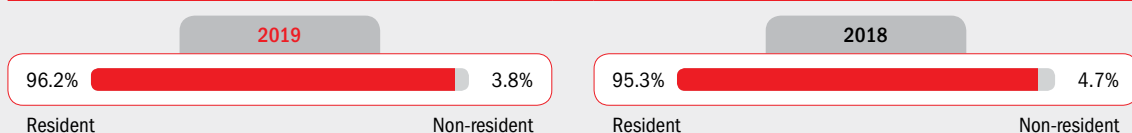
Seylan Bank is committed to delivering economic value to all its stakeholders. As such, our core activities are structured and managed to create economic prosperity through value addition.

Distribution of shareholding

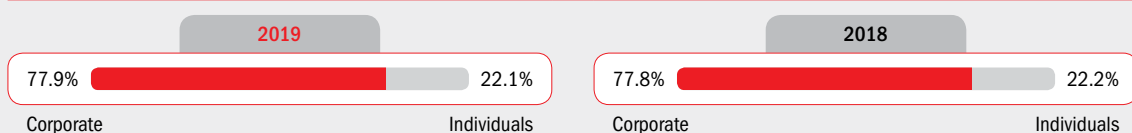
Voting and non-voting shares



Resident and non-resident shares



Corporate and individuals shares



Detailed information relating to their shareholdings is given in the Investor Information section of this Report.

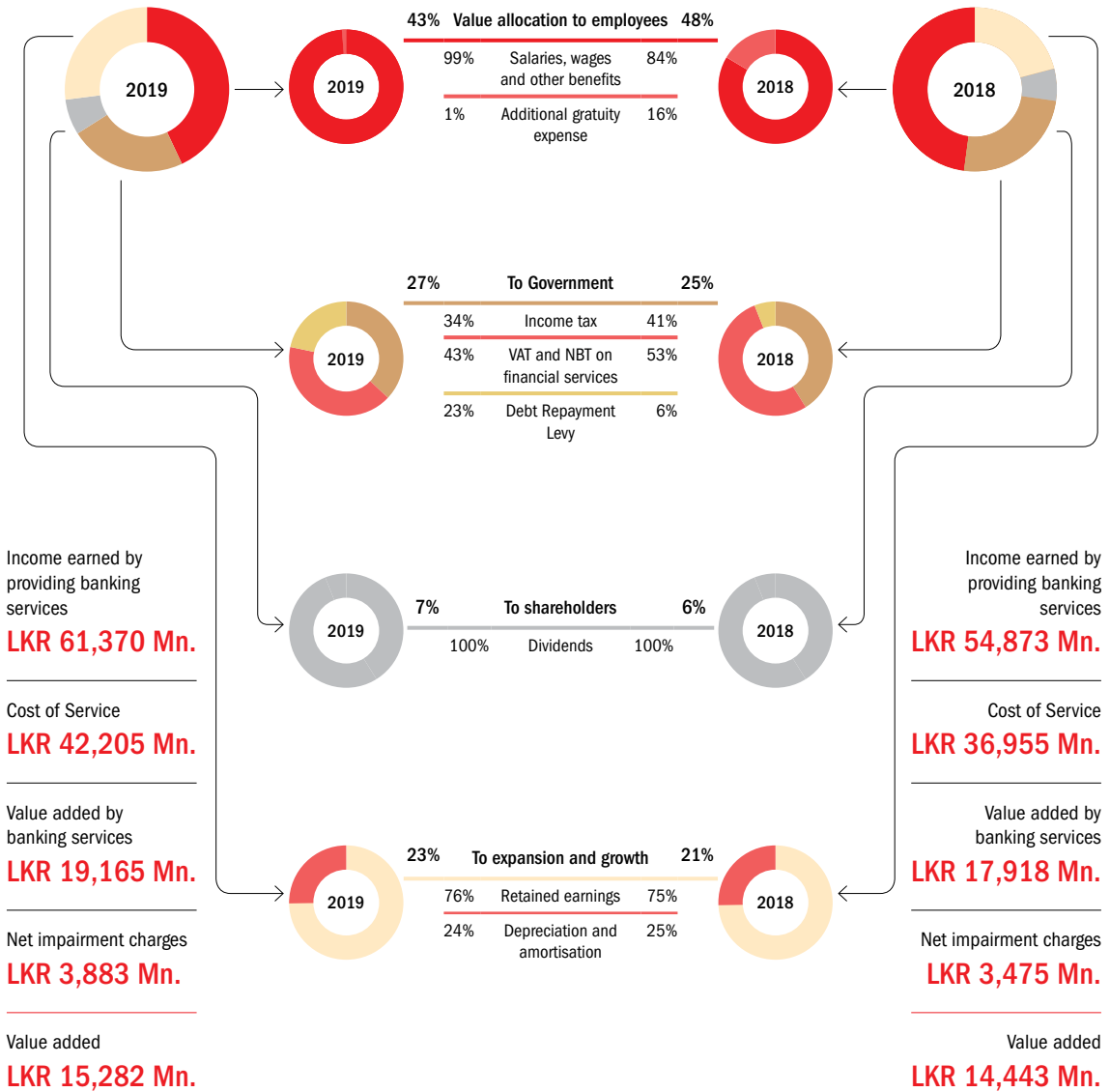
Value creation for shareholders

Evidence of the Bank's commitment to ensuring sustainable returns to shareholders, is in the results achieved by the Bank.

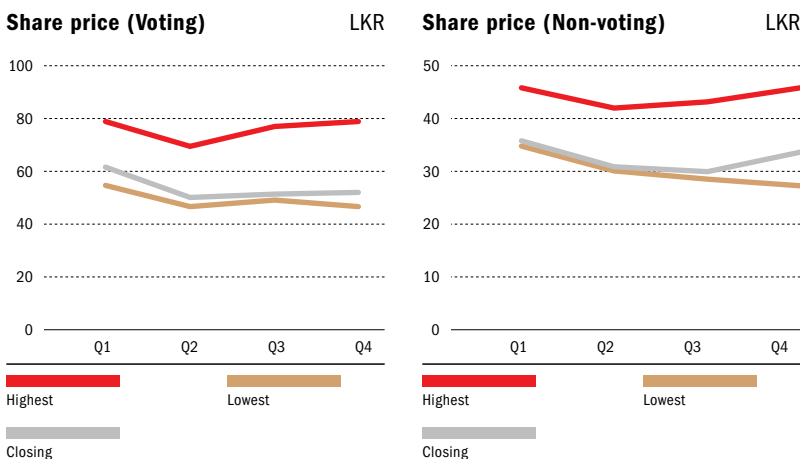
	2019	2018	2017	2016	2015
Turnover (LKR Mn.)	61,370	54,873	49,161	37,873	28,586
Profit before income tax (LKR Mn.)	5,099	4,666	6,656	5,734	5,777
Profit after income tax (LKR Mn.)	3,680	3,189	4,430	4,010	3,831
Total assets (LKR Mn.)	516,294	466,933	408,126	356,013	296,331
Net assets per share (LKR)	88.61	94.54	96.50	80.51	72.63
Earnings per share (LKR)	8.99	7.97	11.07	10.02	9.57
Dividend per share as at 31 December (LKR)	2.00	2.50	3.50	3.25	2.75

Economic value addition

The diagram below depicts how the Bank distributed to the key stakeholders, the economic value it generated.



Share price fluctuation



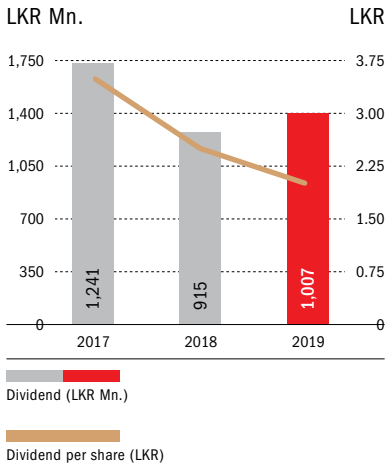
Composition of share ownership

The analysis of the distribution of ownership as at 31 December 2019 is given in the Investor Information section on pages 250 to 253 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 Annual and Interim Reports issued by the Bank, are the primary media used to keep its shareholders and the general public informed of its financial position.

We are committed to publishing our 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 2019 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.



Seylan continues to showcase an exceptional service quality setting them apart within the highly competitive banking industry.



ARC Awards 2019

Financial Data: Banks: Local – Silver

Traditional Annual Report: Banks: Local – Bronze

Written text: Banks: Local – Bronze

Infographics: Banks: Local – Honors

Business Today Magazine

30 Best Performing Corporates
17th position

CMA Awards

CMA Excellence in integrated reporting awards 2019 – Certificate of merit

LMD Magazine

Customer Service Excellence
1st Place

SLIM Digis 2018

Best digital campaign in the Banking, Finance and Insurance category
Gold (2 awards)



Future outlook

- Enhancing Return on Assets (ROA) and Return on Equity (ROE), which are considered essential for the sustainable success of the Bank's operations.
- Strengthening Risk Management and complying with Basel III and other regulatory requirements.
- Enriching the banking functions within a proper economic integrated framework, based on the country's economic outlook.
- Continuing to respond to increased capital pressure emanating from Basel III related requirements.
- Creating wealth and value to our Investors with consistent and sustainable growth levels while maintaining the enhanced quality of our products and services.

Satisfied Customers



We are shaping our organisation around the journeys of our clients, to better align our processes with a view to fulfilling the needs of our clients.

Key Highlights

LKR 401 Bn. Deposits	LKR 31 Bn. Interest payment to depositors	173 Banking centres
215 ATMs	40 CDMs	26 CDKs

Customer responsibilities – Creating the best customer experience

As a customer focused business, we are committed to meeting our customers' evolving needs and preferences. We aim to promote a culture where our employees place the customer first in meeting their financial needs and helping them succeed, at the same time, improving our service proposition and providing outstanding performance. Customer satisfaction is a key facet in the Bank's Strategic Plan 2020. The role of our Relationship Officers in this regard provides a clear strategic advantage.

We recognise that technology is transforming the way the banking industry interacts with customers. Consequently, our core processes are being re-engineered to fit the reshaped competitive landscape.

In an environment where the pace of digital adoption is accelerating, we have

implemented the following initiatives in order to give a better customer experience:

- Eliminating the manual scanning of cheques in the clearing process by the expanded use of Cheque Deposit Kiosks at 26 branches.
- Unification and simplification of account opening mandates to improve customer convenience.
- Customer centric stance in aligning processes such as introduction of extended cheque clearing services till 6pm.
- Simplification and introduction of the addendums to the offer letters. This had a positive impact for our clients who benefited immensely as the terms and conditions of the offer were shared at the shortest possible time and the credit facilities were released at their earliest convenience.
- Live chat extended to 24x7x365. It is a service that allows customers and potential customers who visit our website to chat with our agents placed at the call centre to get information about products and services.

- Introduced data-centric approach to deposit mobilisation which would help to maximise channel effectiveness and reduce the acquisition cost of the Bank. Deposit War Room set up to support the branch network is one of the pieces of this initiative.

Value creation and product innovation

In a challenging economic environment, the banking sector faces a number of challenges with competition fierce and the ever quickening pace of technological change demanding continuous innovation.

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

Seylan myplan

Seylan myplan is a new product introduced in 2019 which allows the customer to plan his/her future by deciding on an amount, a period of deposit, and also the preferred currency LKR or USD. These deposits receive a guaranteed interest rate on the investment and attract a wide range of benefits.

Seylan myplan has three categories of deposits – Rupee Savings Plan, Minor Savings Plan, and Dollar Savings Plan.



Our geographical presence



North Western Province

Kurunegala	11	12	1	1
Puttalam	7	7	1	0

Central Province

Kandy	9	10	2	1
Matale	2	2	1	1
Nuwara Eliya	4	4	2	1

Western Province

Colombo	43	58	18	15
Gampaha	21	31	7	4
Kalutara	11	15	1	1

Sabaragamuwa Province

Kegalle	6	7	0	0
Ratnapura	6	7	1	1

Northern Province

Jaffna	6	6	1	0
Killinochchi	1	1	0	0
Mannar	1	1	0	0
Mullaitivu	1	1	0	0
Vavuniya	1	1	1	1

North Central Province

Anuradhapura	7	7	1	0
Polonnaruwa	4	4	0	0

Eastern Province

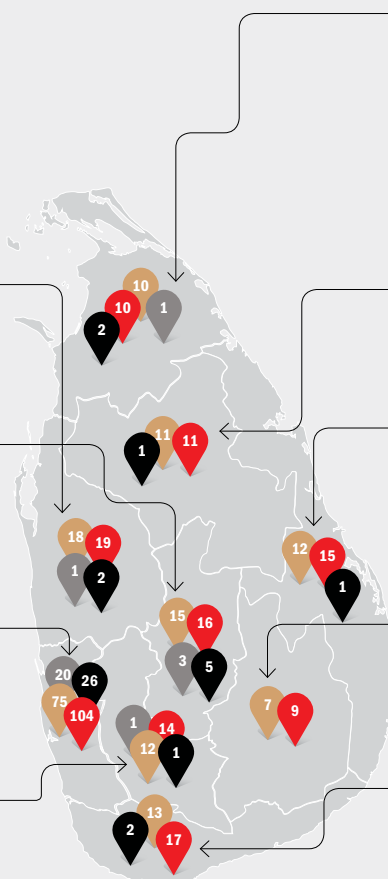
Ampara	6	7	0	0
Batticaloa	4	5	1	0
Trincomalee	2	3	0	0

Uva Province

Badulla	4	6	0	0
Moneragala	3	3	0	0

Southern Province

Galle	5	8	1	0
Hambantota	4	4	0	0
Matara	4	5	1	0



Product responsibility

We continue to provide appropriate and fair products with clear, simple, and relevant terms.

Better communication of products and service details improve customer service quality and customer satisfaction. We want our customers to properly understand how our products and services meet their needs and 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.

We offer a wide range of customised products and financial services solutions designed to appeal to different market segments of the community. We always attempt to protect the interests of our customers by complying with regulatory requirements through systems of internal controls and procedures.

Product policy

To meet and exceed customer expectations in a non-exploitative manner that embodies optimum levels of clarity and transparency.

Product portfolio

	Description	Value delivered	Markets served	
Lending products				
	Seylan Home Loans	Home Loans up to LKR 100 Mn. to purchase a bare land, purchase, construct or renovate a house or to purchase a condominium 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 drawing a monthly fixed income over LKR 50,000 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	Fixed interest rates with a flexible repayment structure and approval within a day	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	Fixed Interest with a longer repayment tenure	Individual clients
	Seylan Credit Cards	Visa, master credit cards	Interest benefits, rewards, and 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	Proprietors of Business concerns and individuals
	Seylan Personal Solar Loans	Installation of a solar solution on a house owned by the applicant	Fixed interest rates	Salaried employees drawing a monthly fixed income over LKR 50,000 together with consistent income
	Loan Scheme for Pensioners	Specialised banking service for pensioners up to a maximum loan amount of LKR 2.5 Mn.	Fixed interest rates	Government pensioners
	Other Facilities	Treasury investments, margin trading facilities, and offshore banking	Commission and interest benefits	Corporate, SME, retail, and individual clients

	Description	Value delivered	Markets served	
Deposit products				
	Seylan Sure	Offers definite benefits for personal savings and current account holders	Interest and reward benefits	Individuals aged above 18 years
	Seylan Tikiri	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
	Seylan 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 (in addition to interest customers are eligible for utility payment vouchers)	Retail clients
	Seylan 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
	Seylan myplan	Savings account with monthly fixed saving commitment	Interest and reward benefits	SMEs, Business clients and individuals
Other Offerings				
	Seylan eBanking	Able to carry out a variety of banking functions at their convenience by the click of a button	Low charges and 24 x 7 x 365 accessibility	Corporate, SME, retail, and individual clients, 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, and credit cardholders
	Safety Lockers	Allows customers to keep their valuable assets safely	Safety of assets	Corporate, SME, retail, and individual clients
	Palmtop Banking	On board customers remotely and collection of cash	Convenience	Existing customers

Product innovation and service excellence

In the highly volatile and competitive environment, high quality customer care and service are invaluable in cultivating and retaining customers. We seek to achieve improved customer service by building our digital capability and continuing to create innovative products.

1. Provide customers with customised solutions through SME Hubs

The SME sector which is a vital sector of the Sri Lankan economy contributes most to the country's GDP. We are focusing on the SME sector since it plays a key role in our lending portfolio and also assists in promoting the economic well-being of the country. Also, we cater to the specific needs of our different client segments while deepening our relationships with customers and supporting SMEs beyond merely lending.

We have adopted a number of initiatives during the year to accelerate the growth of this sector and enhance the market penetration of the SME segment:

- Partnering with APEX bodies in conducting SME seminars and being present at their events
- Focusing on Refinance and Interest Subsidy schemes and redeploying Agricultural Banking Officers
- Developing Business Banking (BB) segmentation
- Rolling-out SME Hubs and building synergy between branches and SME Hubs
- Successfully roll-out the Out Grower Farmer Scheme for sugarcane farmers of Ethimale Plantation (Pvt) Ltd.
- Refinance and Interest Subsidy portfolio exceeding LKR 7 Bn.
- Advisory services on book keeping, business/capacity planning, finding markets, etc
- Provide solutions for SMEs who do not have proper records

2. Customer relationship force (RO's)

We have employed well-trained relationship officers to cater to the needs of customers. We ensure adequate number of customer visits, uniformity of service quality, and maintenance of long lasting meaningful relationships with customers to pursue customer loyalty.

Customer health and safety

We care about the health, safety, and well-being of our customers and provide them with safe physical environments that meet health and safety standards required by the Government. Appropriate policies, procedures, and safeguards are in place and all risks are assessed, managed, and escalated according to the Bank's Risk Management Framework.

We have deployed well-trained security guards from a reputed companies at Head Office and throughout the branch network. Further, all the branches are equipped with alarmed security systems and CCTV cameras to ensure the safety of both customers and employees. In 2019, after the Easter Sunday attack, we further strengthened the security measures.

Our Security Department also conducts various training programmes for the security guards. Fire drills are conducted periodically to ensure staff are aware of the relevant procedures to safeguard themselves and also to assist customers in the event of an emergency.

Product/service labelling and marketing communications

Our products and services are developed based on the product policy certifying the fulfilment of needs and wants of customers. The Product Development Committee of Bank governs, designs, and innovates products and financial services to ensure customer satisfaction. An appropriate approval process is in place for each and every product that is launched. Our product data publications contain all relevant information for customers to understand the features and benefits of our products and financial services, such as interest rates, early settlement fees, charges, fines, terms and conditions etc.

The Bank's communications are issued in three languages (Sinhala, Tamil, and English) through digital and print media.

Customer privacy

We use advanced technologies and procedures to protect existing and potential customers' money and personal information, which contribute to building customer loyalty and trust. We also educate our employees on the significance of confidentiality of customer data. We have improved network security by strengthening our systems and processes.

Our Internal Audit Department conducts periodic reviews at branches and departments to provide independent and objective assurance of the Bank's operations.

Zero incidents

of non-compliance with rules and regulations or code of ethics in product/service labelling

of breaching of customer privacy or loss of data

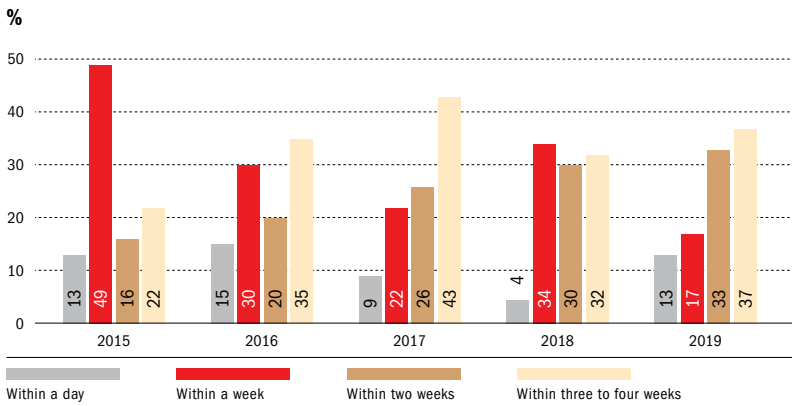
of non-compliance concerning marketing communication

of non-compliance concerning the health and safety of the Bank's products and services

of non-compliance with social, economic, and other applicable laws

Customer complaints management

Customer complaints



We have a formal customer complaints handling policy where complaints are promptly addressed and root cause of any problem resolved to the complete satisfaction of the customer. Customers are encouraged to make their complaints directly to the personal assistant to the Director/CEO where they will be resolved using a resolution mechanism of the Bank in a fair manner without delay. The Service Quality Department is committed to resolving all queries effectively and efficiently, that are directed to them by branches.

Main reasons for complaints

Complaints are mainly related to:

- Service standards
- ATMs
- Operational issues
- Credit cards
- Loans/loans recovery

Compliance

We accord the highest importance to these compliance responsibilities. Compliance reviews and audits are conducted by the respective departments regularly.

Customer satisfaction and mystery shopper survey

Customer satisfaction surveys are conducted by Seylan Bank to gauge the service quality of the Bank and to recognise any areas for further improvement. Since the main goal of the Bank is to satisfy customers' specific needs and wants, we are dedicated to work towards the achievement of this goal. As a result Bank is ranked number one for customer service excellence under the Bank category by LMD.

74%

Overall mystery shopper satisfaction level

We conducted Mystery Shopper/Mystery Caller, SME studies, and focus groups on pre and post-launches during the year to assess and measure customer satisfaction on products and services.

Sale of banned or disputed products

Our products and services 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.

Financial services for disadvantaged people

We have taken several steps for disadvantaged groups to access their products and financial services. Some of these are,

- Publishing advertising material in three languages
- Providing wheel-chair access for selected branches
- Conducting "Tikiri Kids Banking" events throughout the country during the year
- Signing an MOU with Bishop's house to provide certain financial assistance to kids that got impacted due to the Easter Sunday attack

Future outlook

- Implement state-of-the-art digital channels for corporate and retail customers.
- Expand the branch network, Cheque Deposit Kiosks, ATMs, and Cash Deposit Machines.
- Partner with an external service provider to initiate outsourcing activities at Centralised Processing Unit (CPU).
- Introduce Robotic Process Automation (RPA) for booking collateral data for cash-backed loans and advances. With this system improvement, part of the disbursement process also will be automated avoiding possible human errors.
- Formalise the automation of data flow from Loan Originated System (LOS) directly to the Offer Letter Generation System and Security Document Generation System to expedite the preparation of internal security documents.
- Conduct area specific business campaigns, and seminars for SME customers in order to promote the SME segment of the Bank. Undertake a digital drive focusing SMEs through a simplified IPG and e-commerce and launch of the SME card.
- Set up a state-of-the-art high networth banking service centre in Colombo and extend the same to selected regions.
- Introduce comprehensive product offerings covering Business banking, affluent and mass affluent, senior citizens and salaried segments.

Digitalisation



Our long-term vision is to be the technological power house that offers cutting-edge digital banking services.

As digitalisation grows at a very fast pace, technology is redefining the way we live, the way we work, and the lifestyle we lead. As technology evolves, banks need to actively work towards integrating new systems and processes to serve customers better. Today, innovation and technology have become game changers in revolutionising the landscape of the financial services industry where banks are compelled to evolve to sustain their growth in the modern world.

Key Highlights

<p>53% Growth in CDM transactions</p>	<p>15% Increase in ATM transactions</p>	<p>24x7x365 Online chat service</p>
<p>24% Reduction of Over the Counter Deposits (less than LKR 200,000)</p>	<p>32,280 Total hours on eLearning</p>	<p>99.39% Uptime of the ATM network</p>

Digital banking



Internet banking

- 24/7 service access
- Speed and efficiency
- Low fees
- Online bill payment



Mobile banking

- Safe and secure banking at your finger tips
- Service at your convenience
- Know your past-learn the future
- Pay your bills anytime, anywhere, on time...



Kiosk

- Offer more services at a lower cost
- Efficient and higher customer satisfaction
- Multiple task in one electronic interface
- Can use like an advertising method



ATM

- 24/7 money withdrawing
- Can be used shopping Purposes
- Check the account balance any time
- Faster than counters



CDM

- 24/7 money depositing
- Improved efficiency
- Saves cost
- Saves time



SMS banking

- Receive banking information on your mobile phone
- No need to visit the Bank for completing a banking transaction
- Saves time
- Access to the account at any time



E-statement

- High security
- Eco-friendly method
- Virtual filling cabinet
- Less paper work
- Easy to manage account details



Palmtop banking

- Saves time
- Increased efficiency of banking services
- Low risk of carrying cash to customer
- Easy to manage daily collections

We are a fast evolving bank and have developed strategies to grow our digital channels sphere to enable us to provide unparalleled customer experience and convenience. This has resulted in providing the latest digital banking facilities to our valued customers through the use of new digital platforms.

We have continuously focused on improving our front and back-end services to offer enhanced digital banking services that are functional and also provide a variety of options.

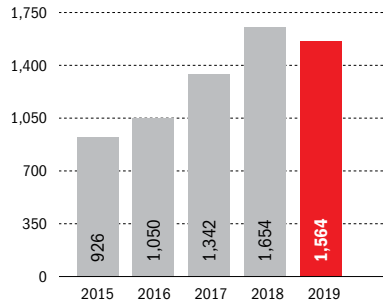
We have extended our online chat service to 24x7x365 thereby offering the opportunity to customers and potential customers who visit our website to chat with our call centre agents to get more information about our many products and services.

We have made a significant investment to design and implement state-of-the-art security systems to ensure that our digital platforms are exceptionally safe and reliable. We were the first Bank in Sri Lanka to implement Software Defined Wide Area Network (SD-WAN) across the entire branch network and Hyper Converged Servers at enterprise scale (VMWARE/VSAN), among many other pioneering installations.

Mobile banking is the future and significant focus has been directed towards providing banking on your palm. We have integrated the provisions of our services with digital banking to offer efficient banking facilities to our customers. While we continue to have SMS banking for our customers who do not use smartphones, we strongly believe that the future of banking is tied to the use of smartphones. We are therefore optimising our mobile platforms towards this. However, for customers who are more comfortable in working on larger screens, such as those available on computers, we offer a state-of-the-art Internet Banking facility, where ease of use, security, and offerings are continually being enhanced. Therefore, we have leveraged our digital banking products and services to transform the digital banking ecosystem to a whole new paradigm.

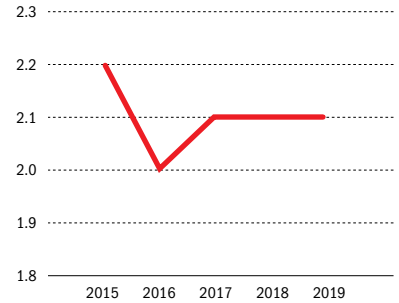
Growth in number of visitors to the corporate web

Nos. '000



Average time spent on corporate web

Mins.



Our live chat service extended to 24x7x365

Introduced the Digital Banking Steering Committee to drive technological change in the Bank

360 degree Digital Drive programme to all the departments

Re-introduced Palmtop Banking

Streamlined the Digital Banking Unit which offers staff rich and enhanced digital banking services

Deployed QR based payments

SMS alert upgraded to ensure better uptake by customers

Set up Deposit War Room which consists of state-of-the-art video conferencing facility

Developments in 2019

215

ATMs

40

CDMs

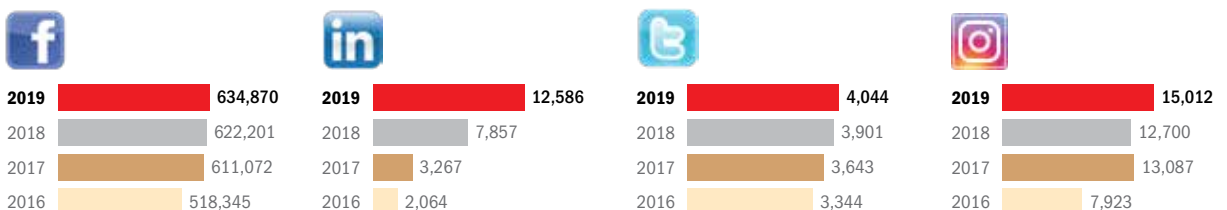
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Kiosks

Future outlook

- Launch online digital on boarding to mobile/internet banking channels
- Maximise the OPEX model for ATM network
- Continue to improve infrastructure and customer touch points to offer a frictionless, convenient, and secure banking experience

Our presence on social media



Motivated Employees



Employees are a Company's greatest asset; they are your competitive advantage. You want to attract and retain the best; provide them with encouragement, stimulus, and make them feel that they are an integral part of the Company's mission.

- Anne M. Mulcahy

Key Highlights

3,360 Nos. Total staff strength	398 Nos. Promotions (M-243 and F-155)	LKR 1.93 Mn. Average personal benefits per employee (p.a)
168 Nos. Sales force	43% Female representation	91,962 hrs Total training hours
324 Nos. New recruits	24.43% Staff between the age of 21-30 years	

Social Policy

We are committed to encouraging our employees to enhance their skills, map out their careers, and grow both personally and professionally. The key to our success and competitive advantage lies in our pursuit of excellence through continuous improvement of our team members.

Our values embody the treatment of our employees with respect, the provision of a work environment that promotes good health and safety, and encouraging content and motivated individuals. We believe that great client experience is driven by great colleague experience. We want our staff to pursue their ambitions, deliver with purpose, and have a rewarding career enabled by great leaders.

The key strategies adopted during the year were:

- Strengthened the performance based rewards mechanisms driving individual performance and recognising contributions made by strategic business units.
- Designed engagement on Competency Development of staff through online competency profiling ensuring identification of key competency gaps and bridging such gaps.
- Implemented structured development initiatives, enhancing the potential to ensuring competent and talented staff are given priority for job positions in Branch Banking.
- Provided continuous patronage and facilitated business transformation through centralisation, creation of new business units, restructuring business, and support functions.

Staff strength 2019

Employees analysed by type of employment

		2019	2018	2017	2016	2015
Full Time	Other staff excluding sales force	3,192	3,200	3,091	3,165	3,085
	Sales force	168	144	108		
Part Time		-	-	-	-	-
Total		3,360	3,344	3,199	3,165	3,085
Permanent		2,948	2,989	2,931	2,790	2,843
Contract	Sales force	168	144	108		
	Other contracts	25	35	28	65	22
Trainees		219	176	132	310	220
Total		3,360	3,344	3,199	3,165	3,085




Employment contract by region

Province	Number of staff			
	Permanent	Contract	Trainee	Total
Central	157	0	8	165
Eastern	90	0	10	100
Northern	78	0	6	84
North Central	66	0	14	80
North Western	121	0	9	130
Sabaragamuwa	107	0	11	118
Southern	125	0	11	136
Uva	44	0	5	49
Western*	2,160	193	145	2,498
Total	2,948	193	219	3,360

* Including head office staff

Employee analysis by grade, age, and gender

Age	Corporate Management		Middle Management		Operational Management		Others	
20 or below	-	-	-	-	-	-	30	21
21-30	-	-	1	-	19	8	342	451
31-40	1	-	21	9	324	147	275	233
41-50	12	2	90	43	394	366	243	86
Above 50	6	2	54	16	33	63	58	10

Male  Female  Nil 

Employees analysed by type of employment and gender

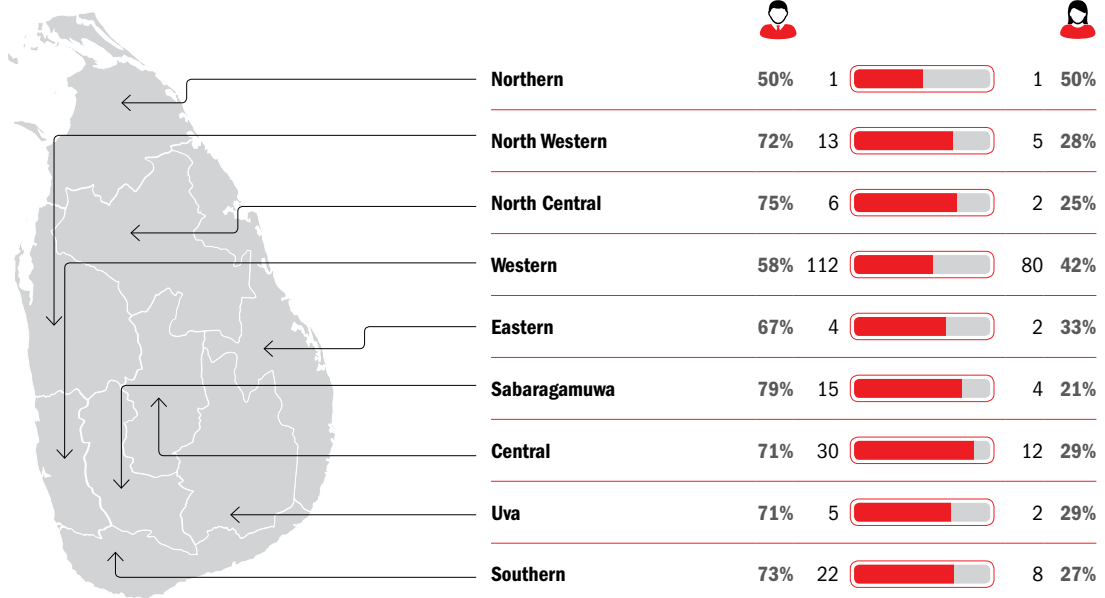
Male: **1,903** Total employees: **3,360** Female: **1,457**

	Non-Corporate Management and other	Corporate Management	Total	Non-Corporate Management and other	Corporate Management	Total	
	1,884	19		1,453	4		
Permanent	1,665	18	1,683	1,261	4	1,265	Permanent
Contract	143	1	144	49	0	49	Contract
Trainees	76	0	76	143	0	143	Trainees

Recruitments age wise

Age	Total	2019		Total	2018	
		Male	Female		Male	Female
20 or below	121	74	47	99	48	51
21-30	176	114	62	240	125	115
31-40	18	13	5	31	20	11
41-50	6	4	2	9	9	-
Above 50	3	3	-	2	2	-
Total	324	208	116	381	204	177

Recruitment province wise 2019



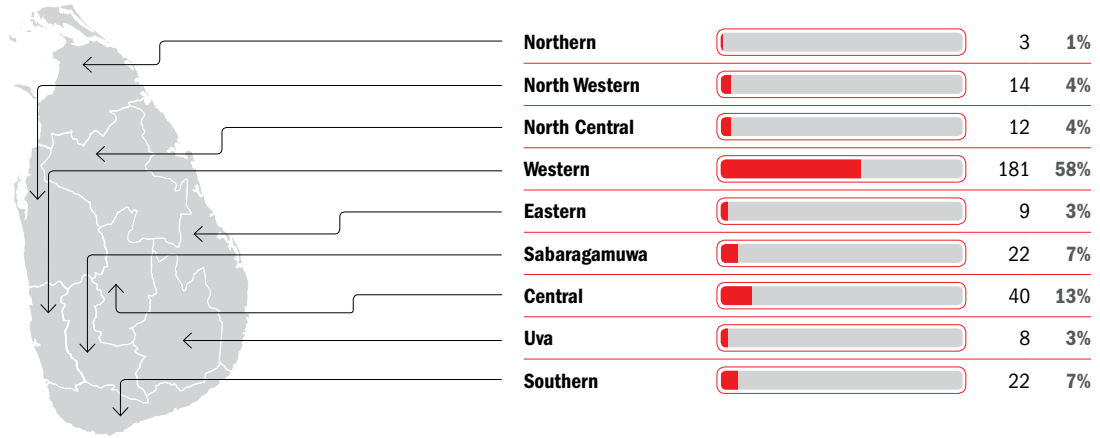
Employee turnover

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, migration to other countries, retirement and to take advantage of better offers from other employers.

Employee turnover by age and gender

Age	Total	2019		Total	2018	
		Male	Female		Male	Female
20 or below	48	32	16	26	19	7
21-30	172	101	71	113	60	53
31-40	41	34	7	43	24	19
41-50	26	15	11	30	22	8
Above 50	24	18	6	17	11	6
Total	311	200	111	229	136	93

Employee turnover by province



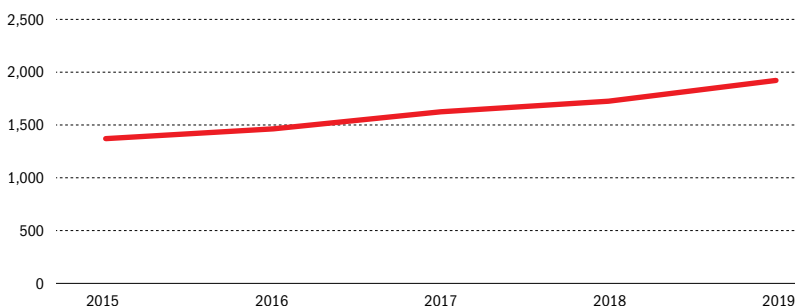
Employee benefits

All permanent employees enjoy a variety of benefits in addition to their salaries which are governed by a collective agreement which is reviewed every three years.

Guaranteed cash and other allowances	Variable pay	Reimbursement expenses	Other prerequisites	Subsidised loan benefits	Retirement benefits
<ul style="list-style-type: none"> • Half month's salary as holiday incentive • Two months fixed bonus (certain grades are subject to one month's fixed bonus) • Fuel reimbursement • Travelling • Special incentives for cashiers and employees located in difficult stations • Holiday/weekend banking incentives 	<ul style="list-style-type: none"> • Performance bonus • Sales incentives 	<ul style="list-style-type: none"> • Professional/club subscription • Telephone bills • Financial support for postgraduate studies 	<ul style="list-style-type: none"> • Holiday bungalows facilities • Comprehensive medical scheme • Insurance scheme • Spousal support in the event of death • Critical illness cover • Honorariums for completion of banking exams 	<ul style="list-style-type: none"> • Staff loans at concessionary rates for housing, vehicle, computer and education etc. 	<ul style="list-style-type: none"> • EPF • ETF • Gratuity <p>(Refer note 5.16.1)</p>

Average benefits per employees

LKR '000



Employees engage with employers and brands when they're treated as humans worthy of respect.

- Meghan M. Biro

Staff benefits

	2019 LKR '000	2018 LKR '000	2017 LKR '000
Staff salaries			
Basic salary	3,727,210	3,352,891	2,956,081
EPF 12%	445,817	401,426	354,475
ETF 3%	111,463	100,357	88,618
Total	4,284,490	3,854,674	3,399,174
Other benefits			
Holiday pay	141,418	132,822	113,897
Medical	106,089	108,022	78,509
Bonus	571,985	573,758	536,251
Insurance	125,280	124,334	123,283
Welfare	70,937	66,372	66,055
Other allowance/benefits	888,765	674,810	632,175
Amortisation of prepaid staff cost	303,632	247,541	246,519
Total other benefits	2,208,106	1,927,659	1,796,689
Total benefits	6,492,596	5,782,333	5,195,863
Training cost	44,000	40,536	39,051
Total benefits including training cost	6,536,596	5,822,869	5,234,914
Number of staff	3,360	3,344	3,199
Average benefits per employee	1,932	1,729	1,624

Recognition and motivation

Research has found that an organisation that promotes a culture that is engaging, open, and transparent is a key motivator to retention of employees. We continue to embed this into our employees and work practices; the low staff turnover rate is testament to its positive impact. A happy workplace results in higher productivity and generates higher revenue in return. In order to engender team spirit and enhance social networking and interaction at work, we encourage picnics for employees and families to participate outside the working environment. We annually organise award ceremonies to recognise the contribution of employees. Employee appraisals give feedback on employee performance and encourage training and development, and many other strategies. Recognising high performers and rewarding them is an effective tool used to nurture increased employee productivity and performance.

We evaluate the performance of all branches and reward those that achieve their Key Performance Indicators (KPIs) annually.

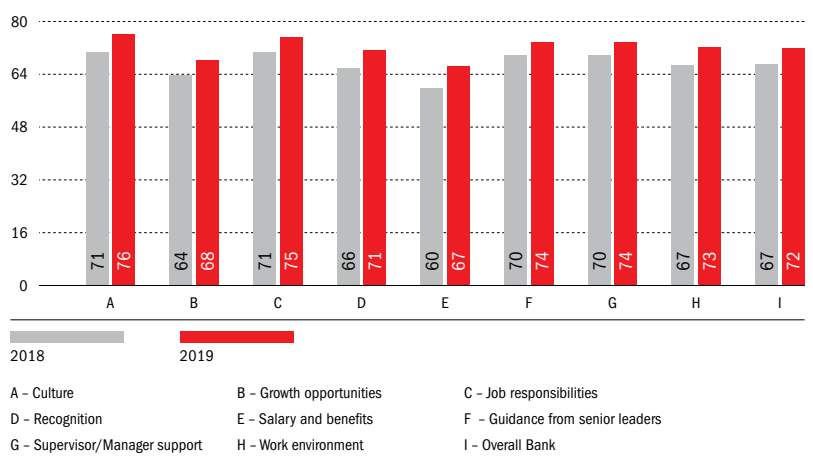
The criteria for the rewards, set by a subcommittee consisting of senior management, are announced to the staff in advance to ensure the evaluation process is transparent.

Staff satisfaction

In any organisation employees can be thought of as internal customers and it is necessary to satisfy them if external customers are to be retained and satisfied.

The workplace should be like a second home for the employees. Hence it is vital for the Bank to optimise the level of employee satisfaction which in turn will motivate them to continuously improve their output.

As part of the Human Resources Policy, the Bank carries out a Staff Satisfaction Survey on an annual basis to assess the morale of the staff and effectiveness of their work environment. The results of the survey conducted in 2019 are as follows:

Staff satisfaction survey**72%**

Staff satisfaction rate

Employees who obtained parental leave and returned to work

	2019	2018	2017	2016
Number of staff	67	57	45	54
Returned to work (%)	100	100	100	100

Further, we continue to conduct various religious activities during the year to maintain staff motivation levels, encourage networking and bonding, and to promote team spirit.

In addition, the Seylan Welfare Committee plays a major role in arranging discounts and concessions from external organisations for the use of Bank's employees.

Sports

We promote staff to be physically and mentally healthy which in turn motivates the staff to improve productivity. We conduct many sports events throughout the year.

Sporting activities are held at the Bank and staff participated in various sports events in year 2019 are as follows:

Conducted a Cricket carnival for Relationship officers and our staff participated in following external sports events.

- 43rd Annual Mercantile Hockey Tournament
- 36th Mercantile Athletic Meet
- 63rd Mercantile Table Tennis Championship
- 64th Mercantile Open Table Tennis Championship
- Mercantile Netball League Tournaments
- 45th National Festivals Games

Following staff members who have represented Sri Lanka in International games were sponsored by the Bank.

- 08th International Carom Federation Cup 2019
- South Asian Games 2019 (Basketball)
- New Zealand Open Table Tennis Championship 2019
- FIBA 3X3 Basketball Asia Quest 2019
- BWF World Senior Badminton Championship 2019
- Asian Youth Netball Championship 2019
- Netball World Cup 2019
- FIBA 3X3 Asia Cup 2019

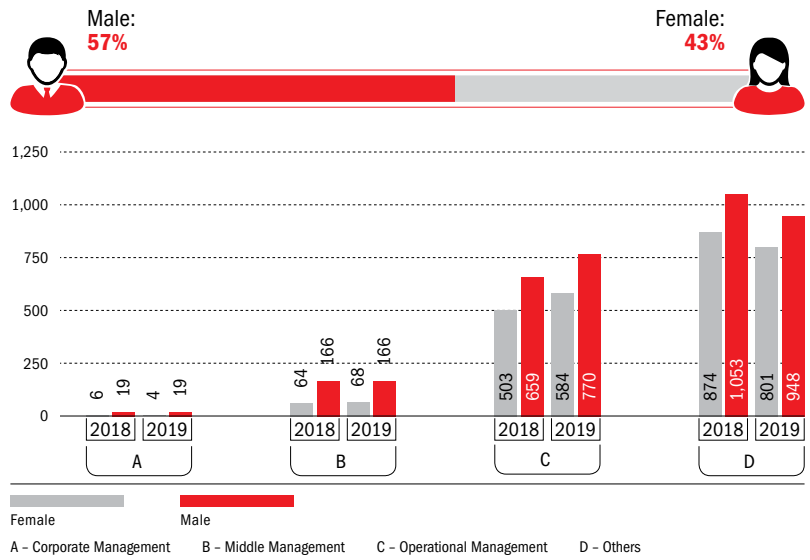
Gender equality

We believe in equal opportunities for all. Gender equality is a critical factor as we keep striving towards achieving a composition of males and females that better represents the make up of the population of the country.

We are passionate about achieving a better gender balance at Seylan

Employee composition by gender

Nos.

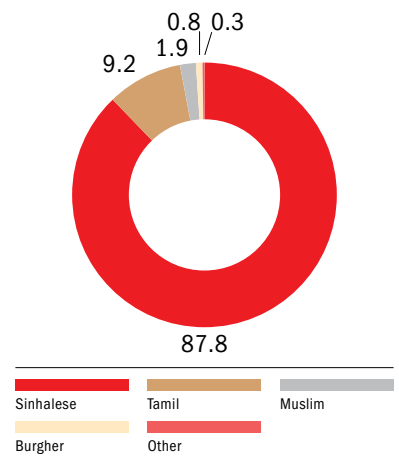


17%

of staff are female in the corporate management cadre

Workforce based on the ethnic group

%



Diversity and inclusion

Harnessing the inherent diversity of thoughts, views, and experiences across the employees of the Bank is critical to our business success and fundamental to our growth in the industry. We are committed to promoting equality in the workplace and creating an inclusive and flexible culture where everyone can realise their full potential and make a positive contribution to our Bank. This in turn helps us to provide better support to our broad client base across the country.

Workforce based on the ethnic group

	2019			2018		
	Male	Female	Total	Male	Female	Total
Sinhalese	1,682	1,268	2,950	1,675	1,259	2,934
Tamil	156	154	310	159	152	311
Muslim	45	20	65	47	21	68
Burgher	14	13	27	12	14	26
Other	6	2	8	4	1	5
Total	1,903	1,457	3,360	1,897	1,447	3,344

We view diversity, inclusion and respect for all staff as critical to our future success and in keeping to the values espoused by us.

Workforce by province and gender

Our workforce is predominantly from the Western Province – 74%. Our recruitment practices are being directed towards reducing our reliance on engagement of resources from this province and spreading its source of employees to other provinces too.

Workforce by province and gender

	2019						2018					
	Number of branches	Number of staff	Male	%	Female	%	Number of branches	Number of staff	Male	%	Female	%
Central	15	165	84	51	81	49	15	168	85	51	83	49
Eastern	12	100	58	58	42	42	12	103	61	59	42	41
Northern	10	84	49	58	35	42	10	86	51	59	35	41
North Central	11	80	58	73	22	28	11	80	59	74	21	26
North Western	18	130	78	60	52	40	18	129	81	63	48	37
Sabaragamuwa	12	118	70	59	48	41	11	113	66	58	47	42
Southern	13	136	86	63	50	37	13	137	86	63	51	37
Uva	7	49	37	76	12	24	7	51	38	75	13	25
Western	75	2,498	1,383	55	1,115	45	73	2,477	1,370	55	1,107	45
Total	173	3,360	1,903	57	1,457	43	170	3,344	1,897	57	1,447	43

Remuneration based on gender

	2019							2018						
	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	8.61	1.67	19	4	0.45	0.42	1.07:1	7.81	2.28	19	6	0.41	0.38	1.08:1
Middle Management	36.95	14.97	166	68	0.22	0.22	1:1	33.97	12.86	166	64	0.20	0.20	1:1
Operational Management	82.49	63.40	770	584	0.11	0.11	1:1	64.78	50.81	659	503	0.10	0.10	1:1
Others	54.19	43.01	948	801	0.06	0.05	1.2:1	58.11	45.76	1053	874	0.06	0.05	1.2:1

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	4	2	0	0	9	23
Middle Management	61	4	2	7	7	153	234
Operational Management	57	11	96	366	111	713	1,354
Others	721	159	266	282	96	225	1,749
Total	847	178	366	655	214	1,100	3,360

Training and education

Training presents a prime opportunity to expand the knowledge base of all employees. Hence, we continue to make our staff aware of the values, principles, vision, and direction, in achieving our goals by providing in-house, on the job training, and external training to the staff.

One of the ways we nurture our talents is by continuous professional training and development. It is an essential ingredient to the progress of the individual, the achievement of their's and ours objectives and the ultimate success of the Bank. We implement a comprehensive development plan which includes technical and soft skills training, leadership development, on the job training, experiential learning, and counselling.

Annual/bi-annual appraisals are carried out each year by their respective managers, in order to review the employees' current performance and also discuss their career development.

Our Skills Development Centre carries out the training of our staff according to a training calendar that 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.

Further, policies, procedures, circulars, and internal memos are initiated by the respective departments, and issued centrally through the Operations Department to keep all staff informed of product developments.

All procedure manuals and operational policies are updated on a regular basis and circulated via email to inform all staff. All of this information is also available on the Bank's intranet for staff to access at any time.

Training through e-learning

We recognise and acknowledge the capabilities and competencies of people and bridge knowledge gaps through e-learning which enable staff to get the required information through electronic media rather than classroom training. Following extensive e-learning were provided during the year.

e-learning Modules - 2019	Number of participants	Total hours
Know your customer and anti-money laundering	726	2,904
Service quality	790	3,160
Information security risk	722	2,888
Impactful communication	670	2,680
Customer service	672	2,688
Foreign exchange guidelines	878	3,512
Seylan personal loans	779	3,116
Leadership	416	1,664
Personal grooming	1032	4,128
International trade	838	3,352
Understanding Financial Statements for credit evaluation	411	1,644
Financial ratios analysis and interpretation	136	544
Total	8,070	32,280

Number and duration of training programmes

	2019			2018		
	Number of programmes	Training hours	Number of participants	Number of programmes	Training hours	Number of participants
Internal	178	55,852	3,511	196	58,337	4,967
External	116	3,054	317	109	3,870	251
Foreign	19	776	24	20	768	29
e-learning	12	32,280	8,070	7	25,808	6,452
Total	325	91,962	11,922	332	88,783	11,699

Training hours by type of training

	2019			2018		
	Number of programmes	Training hours	Number of participants	Number of programmes	Training hours	Number of participants
General banking practices	175	31,816	1,426	183	26,147	1,958
Professional development	23	4,206	432	25	4,882	488
Communication and negotiation skills	16	2,890	310	17	2,918	207
Marketing and marketing communications	21	2,732	315	23	7,326	671
HR management, staff/personnel development	38	12,064	707	40	14,478	820
Compliance and specialised areas	40	5,974	662	37	7,224	1,103
e-learning	12	32,280	8,070	7	25,808	6,452
Total	325	91,962	11,922	332	88,783	11,699

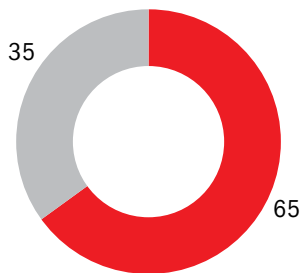
Average training hours by employee category

	2019 Average training hours			2018 Average training hours			2017 Average training hours		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Corporate Management	18	2	20	14	6	20	10	6	16
Middle Management	22	10	32	20	12	32	17	12	29
Operational Management	38	24	62	36	26	62	32	28	60
Others	126	88	214	118	86	204	104	85	189

Training and development cost LKR 44 Mn.

Total training and development investment

%



Direct cost Indirect cost

Occupational Health and Safety (OHS)

The Management at Seylan Bank is responsible for organising occupational safety activities using an integrated management system and in compliance with statutory regulations. 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. We strive to provide a safe and healthy work environment for all employees. In order to strengthen employee relations and maintain a zero-industrial dispute environment, we provide continuous training on best practices in industrial relations to our employees.

We also ensure that the Business Continuity Plan is in place and reviews it annually to make sure that it creates a

hazard-free environment for our employees. Basic safety instructions are prominently displayed at Head Office and at all our branches. As a service sector organisation, our employees are not exposed to the risk of occupational diseases.

Occupational Health and Safety (OHS)

	2019	2018	2017
Staff Covered by the health Plan (%)	100	100	100
Occupational injuries	NIL	NIL	NIL
Number of occupational diseases	NIL	NIL	NIL
Number of lost days rate	NIL	NIL	NIL
Average medical claims per employee (LKR '000)	31.6	32.3	24.5

Academic qualifications/professional qualifications holders, age wise and gender wise

Age	2019					2018				
	Academic qualifications		Professional qualifications		Total	Academic qualifications		Professional qualifications		Total
	Female	Male	Female	Male		Female	Male	Female	Male	
20 or below	0	0	1	0	1	0	0	2	1	3
21 - 30	15	10	127	75	227	10	5	124	72	211
31 - 40	50	82	216	282	630	51	75	225	295	646
41 - 50	92	118	263	294	767	81	110	254	285	730
Above 50	18	23	26	41	108	14	12	22	33	81
Total	175	233	633	692	1,733	156	202	627	686	1,671

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 Organisation (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.

Key performance indicators – Labour relations and human rights

Labour relations and human rights	2019	2018
CBEU and SBEU Membership	3,030	3,104
Membership (%)	90	93
Number of hours of staff trained on HR policies and procedures relevant to operations	427	352

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. Further, it strives to conduct its operations in a manner consistent with the United Nations Universal Declaration of Human Rights and the International Labour Organisation’s Fundamental Conventions.

Non-discrimination, freedom of association, and collective bargaining

We offer equal employment opportunity to all, does not tolerate discrimination or harassment and is proud to be a leader in supporting diversity and inclusion. We abide by labour laws and regulations including those that address child labour, forced labour, equal pay, and non-discrimination in our workforce.

Zero incidents

of discrimination, child labour and forced labour

We recognise the Ceylon Bank Employees Union (CBEU) and Seylan Bank Employees Union (SBEU) in which 90% of our staff across all grades are members, as a consultative and supportive group that creates a forum for collective bargaining, grievance handling, career counselling, and creating a healthy atmosphere for its employees.

Child labour, forced or compulsory labour, indigenous people’s rights, and assessments

	2019	2018	2017
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

Grievance handling mechanism

Our grievance handling process provides a mechanism for individual employees to raise a grievance arising from their work relationships. This process ensures that such grievances are dealt with promptly, fairly, and in a timely manner. In the case of a grievance, the staff member can raise the matter with the immediate supervisor. If the issue remains unresolved it may be referred to the Bank’s Grievance Handling Committee.

A committee chaired by the DGM HR, addresses all performance-related grievances. In addition, staff may raise their grievances with their respective supervisors or send them directly to the Employee Relations Manager.

We also have a system “Log Your Concern” where employees can log any HR-related query or comment. We have undertaken to respond to the logged concerns within 48 hours.

Whistle-blowers protection

Our Whistle-Blowing Policy is intended to make it easier for staff members to report in good faith, any serious irregularity, unauthorised activity which may have an adverse impact on the reputation of the Bank, without having to fear that their actions may have adverse consequences for themselves. This Policy applies to all staff members and stakeholders of the Bank, irrespective of their position, location, or seniority. The Whistle-Blowing Policy guarantees the maintenance of strict confidentiality of the whistle-blower’s identity.

Security training

The Controller, Intelligence and Security, of the Bank ensures that all the mandatory basic training is provided by the respective security service provider to the security personnel deployed at all Bank’s premises’ throughout the country.

We also conduct training for security personnel on customer care, to ensure they fulfil their role satisfactorily at the Head Office and at all branches. 50% of the security personnel have received formal training in the organisation's human rights policies or specific procedures and their application to the security of the Bank.

Pending litigations

Pending litigations against the Bank is reported in Note 48 of the Financial Statements.

Minimum notice period

Human resource department ensures that there are one to one discussions carried out with employees and representatives of Trade Unions in terms of transfers, promotions or any disciplinary actions. Three months' notice in respect of senior level employees and one month's notice in respect of all other employees is to be given when resigning from the Bank which help in order to minimise any adverse impacts arising out of operational changes.

Initiatives to improve staff well-being

We have implemented several programmes to promote a sustainable work-life balance for our employees:

- A Business Continuity Plan to address the safety of all staff in case of an emergency
- Safe drinking water with the dispenser and a standard lighting system at Head Office and at all the branches
- Introduced flexi working hours which enable staff to adhere to a time frame which suits their personal as wells as official responsibilities
- 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 appointed and instructed on each of their roles when dealing with emergencies
- Refurbishment carried out in Head Office where many floors were furnished with latest furniture and employee friendly atmosphere to promoted the staff well-being in order to work effectively
- Relocation and refurbishment of some branches to serve better customer service to value customers
- Provide staff loans at concessionary rates, subsidised lunch, medical facilities, holiday bungalow facilities etc.

Future outlook

We will focus on the following in the year ahead:

- Decentralised training and e-learning with online competency certifications
- Forward-thinking intervention of reviewing the Branch Banking management structure and making the required changes to accommodate strategies in the areas of branch supervision and business execution
- Robust leadership development campaign to have the second line of management pool in the Bank for the succession
- Workforce rationalisation for enhanced productivity in Branch Banking, processing centres, and introducing lean novel systems and processes
- Embark on workplace culture assessment/audit and transformation programme to strengthen the workplace business culture and employee engagement

We employ a number of effective communication channels to ensure all the staff are aware of the Bank's policies, procedures, and circulars

Emails

Intranet

Circulars

Staff Notice Board

Managers Forum

Trade Unions

Whistle-blowers

Seylan newsletter

Employee Surveys

Trusted Partners



We have a long history of building and nurturing strong relationships with various suppliers and business partners.

Key Highlights

Fair and transparency
in procurement

90%
locally registered
suppliers

Over 500
correspondent
banks

We are committed to the principles of transparency, integrity, accountability, responsibility, fairness, and compliance with all the laws that govern business activities in dealings with business partners.

We continue to maintain quality of operational excellence and efficiency in the global payment community consisting of trade and remittances. As a result Seylan Bank was accorded a “special recognition award” by its USD correspondent Wells Fargo Bank, N.A. for the year 2018/2019. As per Wells Fargo Seylan Bank PLC is the only Bank to receive this award among the local banks in Sri Lanka, and the award was received for the third consecutive year.

Memberships in industry associations

We have acquired general membership and established alliances with various industry associations and organisations that enable us to be well informed of local and international best practices. Some of those institutes are listed below:

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)	The Financial Ombudsman Sri Lanka (Guarantee) Limited	Association of Banking Sector Risk Professionals
Chartered Institute of Management Accountants (CIMA)	Sri Lanka Forex Association	Association of Compliance Officers of Banks, Sri Lanka
Association of Chartered Certified Accountants (ACCA)	Securities and Exchange Commission of Sri Lanka	Association of Professional Banks Sri Lanka (APB)
Certified Management Accountants (CMA)	Lanka SWIFT User Group (LSUG)	Biodiversity Sri Lanka
Sri Lanka Institute of Taxation	The Sri Lanka Banks' Association (Guarantee) Limited	Lanka Clear (Pvt) Ltd.
The Employers' Federation of Ceylon (EFC)	The Ceylon Chamber of Commerce	Colombo Stock Exchange
Credit Information Bureau (CRIB)	The Clearing Association of Bankers	
The Institute of Bankers of Sri Lanka (IBSL)	The National Chamber of Commerce Sri Lanka	

In addition, we are maintaining relationships with over 500 correspondent banks globally which also includes some of the largest international financial institutions:

Close connectivity

Representatives of the following banks visited Seylan Bank in 2019 and resulted in strengthening of the relationships that exist between the two organisations:

1. Bank Dhofar, Sultanate of Oman	7. Gulf International Bank, Bahrain	13. Bank Muscat, Sultanate of Oman
2. Banca UBAE, Italy	8. Mashreq Bank, Dubai	14. Caixa Bank, Spain
3. Al Khalij Commercial Bank, Qatar	9. BNP Paribas, France	15. Zurcher Kantonal Bank, Switzerland
4. Commerz Bank, Frankfurt	10. Almasraf Bank (Arab Bank for Investment and Foreign Trade), UAE	16. Helaba Landesbank Hessen-Thüringen Girozentrale, Frankfurt
5. Wells Fargo, New York	11. Deutsche Bank, Frankfurt	17. Aktif Bank, Turkey
6. UBAF, France	12. First Abu Dhabi Bank, UAE	

Relationship more than 15 years

Canada	USA				
Toronto Royal Bank of Canada January 1993	New York Deutsche Bank Trust Company - NY January 1993	New York Mashreq Bank January 2000	New York Standard Chartered Bank March 1996	New York Standard Chartered Bank - DBU March 1996	Philadelphia Wells Fargo Bank May 2001
England	Norway	Denmark	Germany		Italy
London Bank of Ceylon January 1993	Oslo DNB Nor Bank January 1993	Copenhagen Danske Bank May 1994	Frankfurt Deutsche Bank AG January 2000	Frankfurt Commerz Bank April 2002	Milano Unicredito Italiano March 2002
UAE	Saudi Arabia	India		South Korea	Hongkong
Dubai Mashreq Bank, Dubai January 2000	Riyadh Saudi British Bank April 1996	Chennai Bank of Ceylon January 1996	Mumbai Standard Chartered Bank January 1996	Seoul Korea Exchange Bank September 2001	Hongkong Standard Chartered Bank March 1998
Singapore			Australia	New Zealand	Pakistan
Singapore Standard Chartered Bank August 2000	Singapore United Overseas Bank December 1995	Singapore Overseas Chinese Banking Corporation March 1996	Melbourne National Australia Bank January 1993	Wellington Bank of New Zealand May 1993	Karachi Standard Chartered Bank June 2004
Japan					
Tokyo Wells Fargo Bank April 2004					

Relationship between 10-15 years

UAE	
Dubai Emirates NBD September 2008	Abu Dhabi First Abu Dhabi Bank February 2009

Relationship between 5-10 years

USA	UAE	China	South Korea	Bangladesh	Oman
New York Habib American Bank October 2011	Dubai United Bank Limited August 2011	Shanghai Standard Chartered Bank August 2013	Seoul KB Kookmin Bank - South Korea October 2013	Dhaka Standard Chartered Bank October 2011	Muscat Bank Dhofar October 2014

Relationship less than 5 years

England	Sweden	Switzerland	China
London Standard Chartered Bank August 2017	Stockholm Danske Bank December 2015	Zurich Zurcher Kantonal Bank September 2015	Shenzhen Agricultural Bank of China Limited (ABC) March 2016



New relationships

In the course of business during the year the Bank established new relationships with the following banks:

- 1 Credit Europe, Netherlands
- 2 Standard Chartered Bank, Taiwan
- 3 BNP Paribas, France
- 4 Aktif Bank, Turkey



Credit lines

New Inter-bank limits were established with the following banks:

- 1 Credit Europe, Netherlands
- 2 BNP Paribas, France
- 3 Aktif Bank, Turkey

Sharing mutual benefits

We participated in events that proved to be of mutual benefit to Seylan Bank and other organisations:

1. Embrace Change – The New Constant – conducted by Mashreq Bank, Dubai which covered the latest developments in the banking sector including Artificial Intelligence/Digitalisation, Compliance/Regulatory Environment, Cyber Security, SWIFT Initiatives, and Treasury Opportunities/Solutions.
2. Workshop on SWIFT, Global Payment Settlements, Clearing and Digitalisation Capabilities – 2019, conducted by Standard Chartered Bank, Colombo at Cinnamon Lakeside Hotel, Colombo.
3. Correspondent Banking Workshop for South Asia Banks – organised by Standard Chartered Bank held in Chennai, India.
4. Correspondent Banking Compliance Forum for Banks – organised by Standard Chartered Bank, Colombo held at Hotel Kingsbury.
5. Regional Correspondent Banking Event in Vietnam – November 2019, for Correspondent Banks – South Asia Region organised by Standard Chartered Bank.

The supply chain management and procurement policy

We follow a fair and transparent process when purchasing goods and services whilst ensuring the selection of service providers of goods and services is done in a non-discriminatory and economically sound manner. All the suppliers' information is treated as private and confidential in accordance with Bank's sustainability strategy and corporate procurement strategy.

We have so far not identified any incidents of forced or compulsory labour practices or child labour issues amongst its suppliers.

We work with local and global suppliers to ensure they can provide the right goods and services for our business, efficiently.

We always promote cost reduction strategies within the Bank. As a result, we always favour recycling and reuse of supplies whenever possible. System based inventory management system has been implemented in order to manage consumable usage among branches and departments. With the implementation of inventory management and mail management modules, we managed to eliminate records which will impact on carbon footprint.

We require suppliers to adhere to the following guidelines when dealing with the Bank.

- Ensure practices are in place to eliminate money laundering and malpractices that can have a negative impact on the Bank's reputation.
- Conduct their businesses in a way that enhances the lives of the people and the communities they operate in.
- Adhere to Standard labour practices such as fair remuneration and safety, and operate in a hygienic environment.
- Respect human rights and give proper hands on training to their staff to enable them to perform their jobs safely In a hazard free environment.
- Ensure all relevant policies relating to laws and lawful payments, including forced, involuntary, child labour, and discrimination practices are in place.

Locally based vicinity when selecting suppliers

We prefer to source its requirements from local suppliers as part of its commitment to helping local communities and businesses flourish. 90% of the suppliers are from local communities. We use local suppliers in the provision of services such as janitorial, security, mail room, catering, stationary etc.

Cost of services obtained locally

	2019 LKR Mn.	2018 LKR Mn.	2017 LKR Mn.
Tea and coffee	37.25	39.22	35.07
Subsidised lunch for staff	61.18	60.70	59.16
Supply of foliage/maintenance of fish tanks	2.92	3.35	4.12
Janitorial and courier services	98.06	92.82	84.35
Repair and maintenance	22.95	19.21	25.77
Drinking water	12.41	11.28	10.85
Newspaper	3.47	3.46	3.31
Security	351.35	337.35	300.06
Total	589.59	567.39	522.69

Future outlook

- We will continue to strengthen the networking and strategic alliances and build long lasting strategic relationships with their existing business partners and suppliers
- We will continue to promote ethical practices among its suppliers and encourage them to reduce any negative impact on the environment they operate in

Responsible Corporate Citizenship



Our corporate protocols and sustainability are intertwined and factored into business models to reach wider community and foster their socio-economic livelihood whilst paying due attention to safeguard the environment.

Key Highlights

<p>200 Nos. "Seylan Pahasara" libraries</p>	<p>112 Nos. Engagement activities with kids</p>	<p>3,478 Nos. Customers in Microfinance sector</p>
<p>22,148 Nos. SME customers</p>	<p>LKR 15.37 Mn. Contribution on community projects</p>	<p>LKR 8.81 Mn. Investment on education-related pursuits</p>

Integrating sustainable community development into business strategy

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."

Product development and innovation of our Bank creates enough space to support financial inclusiveness availing needy and deserving community groups to reach formal channels and derive multitude of benefits in a sustainable manner.



13

SME Hubs

Fostering entrepreneurship and financial inclusiveness

Our closeness in catering to all walks of life



Senior citizens

In addition to preferential returns paid on deposits of senior citizens we avail them the required comforts meeting their needs and wants as a real care beyond service. "Seylan Harasara" and "Mega Rewards Scheme" further adds value herein.



Youth, women, and entrepreneurs

Our products and services are attuned to the pulse of youth, women, and entrepreneurs and their empowerment stays at the heart of our business strategy.



Minors

We identify minors as future stakeholders of present stakeholders and committed to nurture their financial aspirations whilst preserving the planet earth safe and clean for them. Various engagement activities with them today may follow the momentum.

Bank upholds instrumentalism in expanding SME hubs to effectively cater to financial needs of SME segment whose proximity to the Bank is enhanced as means of promoting financial literacy and minimising geographical distance, while close supervision, continuous advocacy, monitoring, and evaluation nurture momentum.

Loans under refinance scheme

Scheme	Donor(s)	Eligible sector(s)	Loans granted in 2019		Loans granted in 2018	
			Number of loans	Amount LKR Mn.	Number of loans	Amount LKR Mn.
Small and Medium Line of Credit (SMELoC)	Asian Development Bank	SME	83	1,213.73	37	524.87
"Saubagya" prosperity loan scheme	GOSL	SME	9	50.43	14	116.70
Small and Micro Industry Leader and Entrepreneur promotion project (SMILE III)	Japan Bank for International Cooperation (JBIC)	SME	22	213.21	34	146.84
"Kapruka Ayojana"	GOSL/CBSL	Coconut cultivation	7	3.80	8	8.27
"Athwela"	GOSL/CBSL	Economic activities affected by natural disasters	-	-	20	9.95
"Swashakthi"	GOSL/CBSL	Micro Small and Medium Entrepreneurs (MSME)	-	-	-	-
Commercial scale dairy development loan scheme	GOSL/CBSL	Commercial scale dairy farmers and processors of dairy products	-	-	-	-
Rooftop Solar Power Generation Project	Asian Development Bank	Solar power generation	118	158.76	1	2.50
Environment friendly loan scheme (e-friends)	Japan Bank for International Cooperation (JBIC)	Businesses to minimise waste/pollution	4	42.51	-	-
GOSL - Government of Sri Lanka		CBSL - Central Bank of Sri Lanka				

Loans under interest subsidy scheme

Scheme	Donor (s)	Eligible sector(s)	Loans granted in 2019		Loans granted in 2018	
			Number of loans	Amount LKR Mn.	Number of loans	Amount LKR Mn.
Green Loan Scheme	GOSL	Small scale tourist guest houses/homestay projects	4	11.85	1	2.50
"Jaya Isura"	GOSL	SME	90	1,925.33	42	698.53
"Ran Aswenna"	GOSL	Cultivation/Agriculture processing	15	725.01	2	202.39
"Rivi Bala Savi"	GOSL	Residential solar power generation	5	1.63	4	1.40
"Govi Navoda"	GOSL	Agriculture/Cultivation	2	0.85	-	-
New comprehensive rural credit scheme	GOSL/CBSL	Agriculture	602	91.85	733	118.86
Working capital loan for tourism	GOSL	Tourism	10	1,041.15	-	-
GOSL - Government of Sri Lanka		CBSL - Central Bank of Sri Lanka				

A key priority for the Bank has always been giving back to the communities within which we operate. Just as we derive intangible value in the form of goodwill and brand strength from the community, through the Bank's Board Sustainability Committee policies we also find meaningful ways in which to deliver value.

Our support and contribution to the national sustainable development goals include:



Better education and health



**Financial inclusivity
Women and youth empowerment**



Enhancement of financial literacy

Better education and health

"Bank's engagement with kids"

Bank spurs learning experience of kids through various educational activities. Daily fairs give them some experience to do simple transactions and inculcate the habit of savings. Their interaction with Bank's staff during kids banking days and other connected activities may familiarise them for the banking environment and support to be a simple way forward to develop financial literacy.

3

Kids talent shows and drama

7

Kids safari and educational trips

27

Magic shows/kids educational movie shows/cultural day

34

Kids banking days/"Tikiri" fairs/Tikiri programmes



Bank has been always catering to the changing trends and needs of the generations and augments the product with an impressive, novel, and innovative gift scheme.

3

City double decker tours and fun events

12

Kids carnivals/play area

22

Art competitions

4

Kite festivals

Financial inclusivity

Mini bankers from student saving centres

We have 98 student saving centres spread across schools island-wide having initiated adequate links with students as a future potential community segment in the economy.

Women and youth empowerment

“SME capacity building targeting women and youth”

We meet the needs and wants of women and youth by way of availing required financing and empowering them to

be active financial participants in the economy who contribute to growth perspectives. Our 13 SME hubs are attuned to identify the needs and wants and fulfill those through various refinance and subsidised loan schemes while providing required assistance.

Enhancement of financial literacy

“Empowering potential exporters”

The Bank joins hands with the Industrial Development Board (IDB) to educate entrepreneurs in the vicinity to create potential exporters by way of providing know how to increase their production

capacity together with flare for marketing which helps them to meet international demand and prosper accordingly. Our SME hubs too are accustomed to take forward the dialogue and support the branch network to be liaisons therein.

Touching grassroots through Village Adoption Concept

Nurturing livelihood of villagers by way of availing their children with educational support, Bank donated books and stationery and coupons to buy pairs of shoes to 52 students of Devamulla Primary School. Parents appreciated the Bank for making the donation for the ninth consecutive year.

“Reviving libraries in schools as stores of future wealth”

The Bank completes 200 libraries across every province of our country

Liaise with education offices in locality when identifying the needy schools

Students together with parents, principals and teachers benefit mutually and join hands sustainably

Deploy our wide branch network and passionate staff to reach needy schools in geographical sphere

Revive run down libraries to be future potential educational tool

Replenish libraries with books to foster the syllabus and also other subjects promoting total quality education

Support parents and school authority to join hands with us and develop their children as leaders equipped with knowledge, skills, and more importantly positive attitudes

Tree planting initiative is coupled herein to induce care for environment from school age

Reaching **200** needy locations across the island

e-learning content via computers and other equipment

more than **40,000** books

Engagement with many present and future students

36 Revisits rotationally to replenish with books and infrastructure

How we plan ahead

We want to make sure the education centric journey has been sustainable once this initiative is completed after reaching 250 libraries on board by 2020

- Meet school principals and area education officials to evaluate functionality and benefits derived therein by students through our branch network
- Carrying out revisits on national basis on the condition of the library and required replenishment of books

Support for exams

The Bank intervenes to conduct seminars for scholarship, O/L and A/L examinations in rural areas with a view to helping students to face exams with better confidence.

Nurturing victims to rebuild

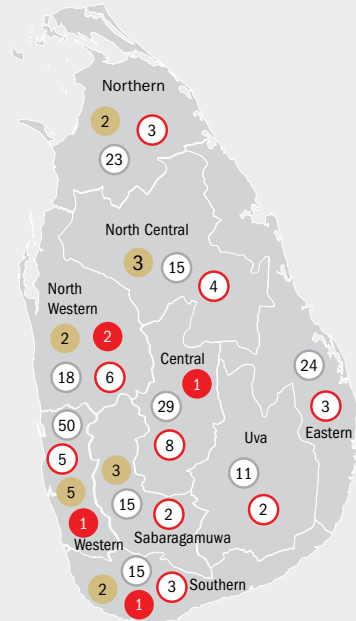
The Bank signed a Memorandum of Understanding to support deserving children of victims of Easter Sunday Attack, mostly who are residents near churches in Colombo and Katuwapiya. Through this engagement their education will be looked after for 15 consecutive years availing required financial assistance. With the intervention of the guardian we will be of

their assistance at the time of educational needs and help rebuilding their lives and to achieve life’s goals as independent and responsible individuals.

The Bank believes that this shelter of sharing and caring would assist them as essence in developing exceptional personalities vitalised with positive attitudes that may lead to an exemplary and peaceful life ahead.

Island-wide distribution of new libraries and revisits completed during the year and total distribution since inception

	Year		Overall	
	● New	● Revisits	○ New	○ Revisits
Central	0	1	29	8
Eastern	0	0	24	3
North Central	3	0	15	4
North Western	2	2	18	6
Northern	2	0	23	3
Sabaragamuwa	3	0	15	2
Southern	2	1	15	3
Uva	0	0	11	2
Western	5	1	50	5
Total	17	5	200	36



- New libraries during 2019
- Revisits during 2019
- Total library projects since inception
- Total revisits since inception

Individual social responsibility goes hand in hand with corporate social responsibility

The Bank always encourages a culture that spurs volunteerism and self-visualisation how an individual become instrumental in shaping a perfect role that aligns well with corporate social responsibility since passionate engagement become an essence there.

Delivering high accord of professional and responsible service with total compliance to regulatory and other requirements are deemed to be of utmost important and we ensure every staff member is equipped with necessary training as a resolute internal control and good corporate governance.

The Bank donated medical equipment and medicine to "Apeksha" Hospital for the fourth consecutive year where children and needy adults were benefited as a need of the hour. Our team was accompanied with a veteran oriental music group to have entertained patients, care takers and hospital staff.

The Bank makes sponsorships on various community needs that are considered as bridges of relationship as tabulated on page 69.

Training for being compliant

Internal/External - Local/Foreign	2019		2018	
	Number of programmes	Number of participants	Number of programmes	Number of participants
General banking practices	175	1,426	183	1,958
Anti-money laundering/KYC	*	726	*	1,223
System security	*	722	*	1,182
Accounting/auditing/compliance and specialised areas	40	662	37	1,103

* Online training platform developed herein

KYC - Know your customer/customer due diligence

Our responsible role as a corporate citizen

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 which enforces good corporate governance internally. Code of conduct is signed by every employee and shoulders the responsibility herein.
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, development of sustainable financing roadmap of Central Bank of Sri Lanka, implementation of Accounting Standards particularly SLFRS 9 and SLFRS 16.
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.

The Bank honours the call of community through various sponsorships that are in line with *pro bono* and commercial interest. Please refer table below:

Sponsorships as a bridge of relationships

Centre of attention	Amount of sponsorship LKR Mn.	Impact/Value delivered	Type of engagement
Educational pursuits of schooling children	2.11	Foster development through attributes of total quality education	P, C
Entrepreneurship development and capacity building	1.60	Support transitioning towards a entrepreneurship based economy with better financial literacy levels and least information asymmetry	P, C
Environmental pursuits	0.52	Spur positive attitude towards natural environment we share in common	P, C
Events of banking and other professionals	2.67	Close relationships and collaborations for updated knowledge, skills, and professional credo	P, C
Musical cultural, community health and recreational activities including special need persons	3.85	Encourage impactful break from stress and social unrest for better psychological blends of balanced life	P
Religious observances and related encounters	0.72	Promote peaceful life, revival, and religious co-existence	P
Social and other events of past pupils of schools	0.12	Avail better networking opportunities to students and school authority who are bound to the school morally	P, C
Sports and physical fitness	0.99	Enabling physique of the community as an essence that upkeep socio-economic resilience	P
Total	12.58		

P – Pro bono C – Commercial

Future outlook

- We are in the process of developing a three-year sustainability strategy that focuses on transforming lives and communities by identifying material stakeholders and addressing their diverse interests in a sustainable manner
- Having incorporated the feedback of our stakeholders we ensure that our goals are aligned with the Bank's business strategy. Keeping strategic intent well in line with Environmental, Social, and Governance frameworks we strive to contribute towards the relevant National Sustainable Development Goals
- The Bank will also transition to the digital age while keeping tab on the pulse of every stakeholder group in order to meet their diverse stakeholder needs and wants

Environmental Stewardship



Preserving the planet and environment surrounding our business have been a continuous dialogue in our financial decision making which would not compromise the ability of our future generations

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 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.

Key Highlights

1,734 Nos.
trees saved

4,630 kgs
e-waste destructed/recycled

3,242,386 litres
Water saved

20,405 kg
Carbon footprint reduced

We monitor engagement with our stakeholders and have put in place processes to assess direct and indirect environmental and social impact based on significance and probability of occurrence.

As illustrated below, environmental and social headwinds and tailwinds, the Bank's ideological, environmental, social and governance (ESG) framework play a pivotal role in the management of the Bank's ecological footprint. Accordingly, action plans are documented following the agreement of the Board Sustainability Committee in order to provide society with an understanding of our business engagements and our intentions in preserving the environment.

Our skilled and passionate human capital is the key to unlocking environmental and social resilience while ensuring the economic stability of the Bank.

We work towards reaching benchmarks set for energy efficiency while also reducing emissions and waste. We also pay attention to the conservation of water which is a scarce natural resource. These targets are achieved by transforming our processes and service delivery into state-of-the-art digital interfaces which are also welcomed by our diverse stakeholders.

Our intermediary business of banking does not make a detrimental direct impact on

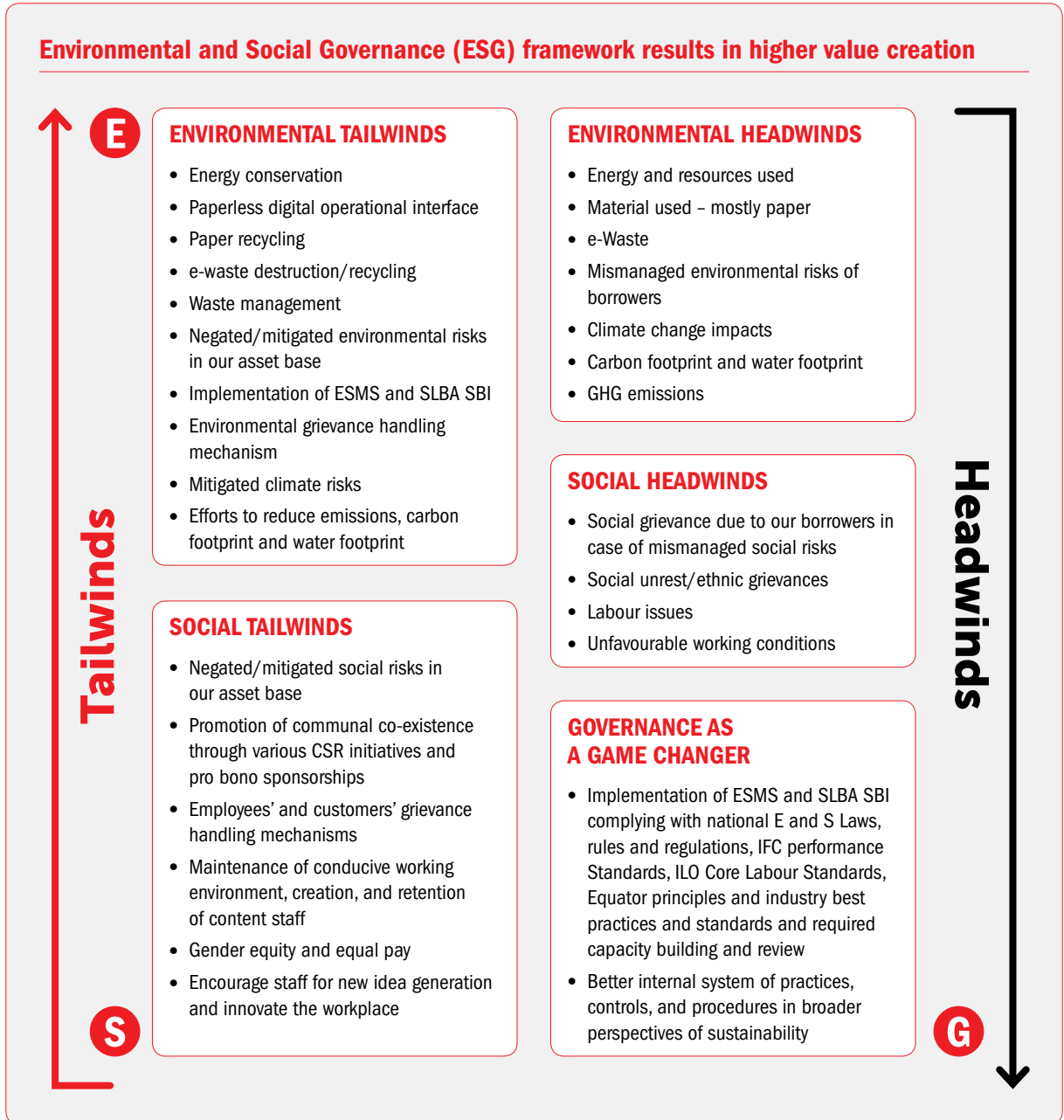
the environment. However, we take action to mitigate the indirect environmental and social impact caused by various customers whom we finance and who may have mismanaged environmental and social risks associated with their businesses. Environmental and social due diligence on the nature of the businesses that the Bank deals with, is carried out through the Bank's exhaustive Environmental and Social Risk Management System (ESMS). The System is in compliance with national environmental and social laws and regulations, International Finance Corporation (IFC) performance standards, International Labour Organization (ILO) core labour standards, equator principles and other industry specific regulations.

The Bank offers and encourages finance to those companies who are assessed to be environmentally friendly in their business practices to encourage them to continue and enhance the positive impact they make on the environment and society at large.

Seylan Bank PLC became a signatory to the Sri Lanka Banks' Association

Sustainable Banking initiative as a move towards creating a level playing field across the banking industry in terms of carrying out environmental and social risk assessments and due diligence. This initiative is acknowledged by the Central Bank of Sri Lanka as a prelude to align with sustainable financing roadmap where common E & S dialogue encouraged

across entire financial service sector which would help economies to transit from black to green and remain environmentally and socially resilient.



ESG is an inextricable element about how we do our business. Though E, S and G indicators are seen as individual elements those are intertwined to foster one over the other in broader concerns of sustainability. We maintain good internal governance as a stringent surveillance mechanism to negate or mitigate E & S risks and persuade dialogue between

parties well before contingencies take place but assessing warning signals well ahead of times.

Our current environmental initiatives would pave way to commensurate the outcome with National Sustainable Development Goals as depicted as follows:

6

CLEAN WATER AND SANITATION

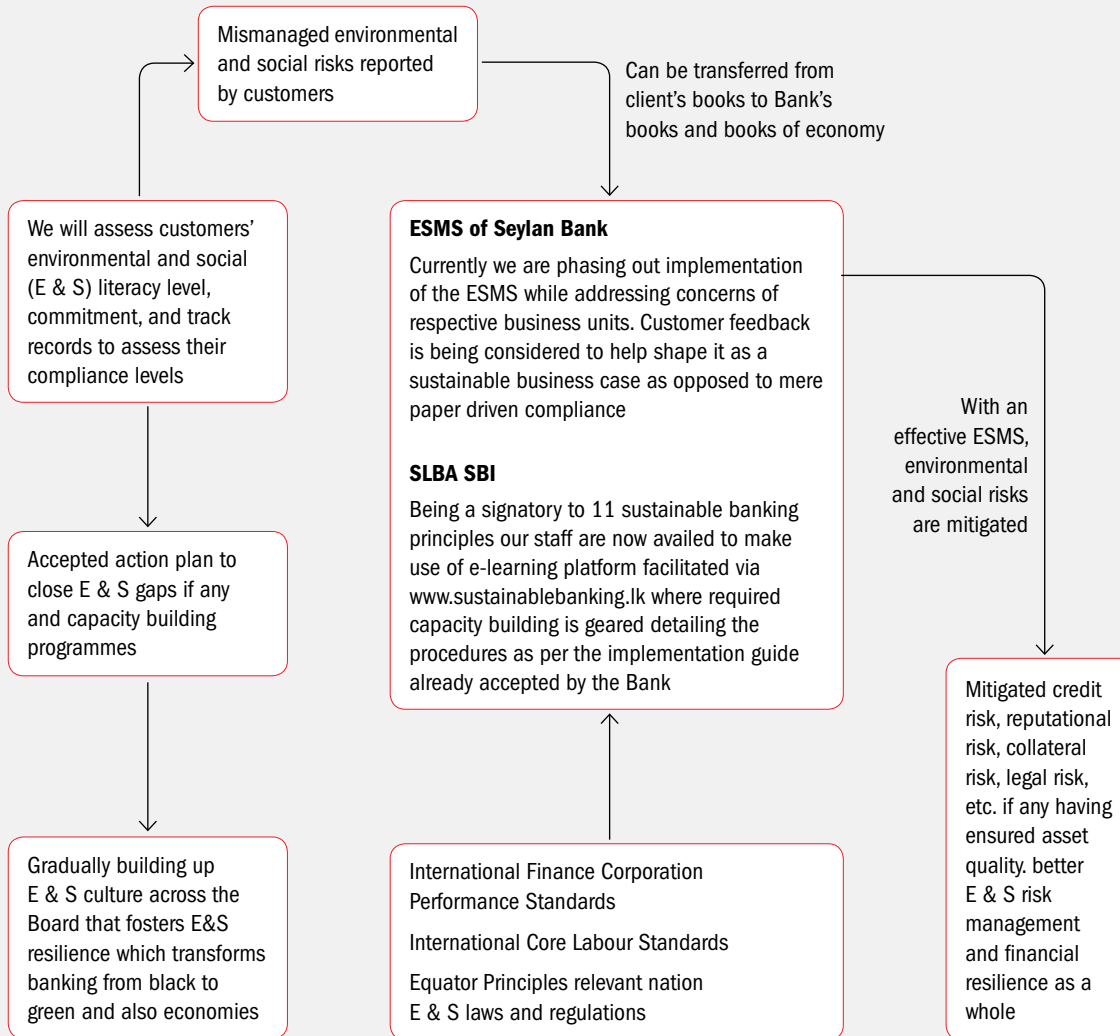
Water conservation

7

AFFORDABLE AND CLEAN ENERGY

Creating a positive impact

ESMS of our Bank harnessed with the Sri Lanka Banks' Association Sustainable Banking Initiative (SLBA SBI)



Paper conservation

We continuously assess our work processes and limit the usage of paper which is used excessively due to inevitable nature of our business. The steps taken are;

- CDMs increased up to 40 reducing use of deposit slips
- Use of iPad for paperless connectivity for Board meetings and passing resolutions
- e-learning platform used by staff
- Internal communication through the intranet, email, and e-flyers
- Biometric attendance system on every department floor of Head Office
- Introduced a new product called "Bank on a laptop" where considerable paper applications are switched into e-papers.

- Loan Originating System to replace paper-based credit evaluation forms
- Staff reimbursement claims on some utility bills were automated
- Reuse the paper until it reaches the point of recycle
- Recycling as a mean of restoration
- Reform processes into digital interface ensuring user literacy and capacity
- Print material documents with reduced font size

Energy conservation

Our main energy source has been national grid electricity - total consumption during year 2019 has been 8.41 Mn. of kWh with a reduction of 0.11 Mn. of kwh after having opened three branches during the

year. The Bank has not sold out energy to national grid.

Steps taken to reduce energy consumption:

- Assess air conditioner efficiency based on number of heating units, staff, and British thermal unit requirement
- Interior and exterior illumination provided by LED
- Pay due attention to the layout and building insulation when constructing new branches and shifting to new locations
- Create awareness and capacity building on energy conservation
- Monitoring system to keep desk computers in sleep mode when staff leave office (Supervision to assist conservation)

- Utilising teleconferencing facility to curtail various staff travel including travel on customer engagements
- GPRS system installed to Bank’s vehicle fleet which allows to monitor idle time and helps maintain travel records more accurately with better control
- Hybrid and electric vehicles are used/hired based on the nature and distance of travel

Waste management

Steps taken:

- Sensitise staff on controlled use of plastic material
- Segregation of waste as per the requirement of the Government in a more passionate way
- Reduction of print cartridges parallel to digitalisation

e-waste management

Steps taken:

- Donation of 250 usable computers during the year to rural schools after deleting sensitive data, thereby reducing the speed at which e-waste is accumulated and to promote IT literacy of students simultaneously.
- 4,630 kgs of e-waste destucted/ recycled through a registered body in compliance with rules and regulations of related environmental authority and basel convention.

Biodiversity conservation

Our products and services do not harm ecosystems and our operational sites owned, leased or managed are located away from protected areas of biodiversity. We enforce our commitment through ESMS to screen our lending propositions with a view to protecting the interests of the International Union for Conservation and Nature (IUCN). Our operations do not harm red list species or species on the national conservation list.

Water conservation

While the staff is encouraged to be more conscious in preserving water, the Bank’s water usage has been consistent although number of staff got increased together with business expansions the year recorded with three new branch openings.

Year and water usage in units (U) per employee (e) [U/e]

	2019	U/e	2018	U/e	2017	U/e
Surface or ground water*, municipal or private water	77,370	23	77,226	23	77,685	24

* Use of surface of ground water is minimal

Supplier chain management

We assess the behaviour of suppliers in relation to environmental friendliness. When goods are procured, the Bank insists that suppliers comply with local environmental laws, rules, and regulations. Tenders are called for and contracts made based on the volume and awareness of environmental impact.

Environmental grievance mechanism

The environmental grievance mechanism is guided by our ESMS and we have not confronted any issues during the year.

Creating a positive impact

Our core books create a positive impact on the environment by way of funding renewable energy projects.

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





Type of the power project	Hydro	Solar
Number of loans as at 31 December 2019	2	4*
Total amount granted as at 31 December 2019	547	427
Total production capacity (MW)	3	5*
Total green power generation (GWh) positive impact to the environment in 2019	8.2	5

* One project under construction (capacity - 2MW)

Other refinance and subsidy renewable energy loans are listed on pages 65 and 66 respectively.

Future outlook

- Discussions are underway to introduce an on-line vehicle booking system backed by a card system
- Discussions are carried out to develop a long-term sustainability strategy for the Bank where environmental consideration are versed into effective action plans
- Staff commuting on attending training programmes and regional meetings will be further curtailed by way of facilitating same with teleconferencing facility instilled

Stakeholder group	Indicator of performance	Achievement					Indicator	
		2019	2018	2017	2016	2015		
 Community	Contribution on community projects (LKR Mn.)	15.37	8.81	11.19	17.50	7.80	GRI 413-1	
	Contribution on education-related pursuits (LKR Mn.)	8.81	14.70	15.14	16.70	11.06	GRI 413-1	
	Number of loans granted under "Seylan Scholar"	17	24	37	63	61	GRI 413-1	
	Number of SME loans	22,148	26,161	15,990	14,605	13,367	GRI 413-1	
	Value of SME loans (LKR Mn.)	100,708	93,882	84,647	80,917	54,021	GRI 413-1	
	Number of micro finance loans	3,478	1,704	-	-	-	-	
	Value of micro finance loans (LKR Mn.)	837	220	-	-	-	-	
 Suppliers	Purchases from locally based supplies (LKR Mn.)	589.59	567.39	522.69	502.52	385.57	GRI 204-1	
 Environment	Electricity consumed, (Units kwh) 000	8,413	8,518	8,767	9,165	9,362	GRI 302-1	
	Electricity consumption - units per employee (kWh)	2,503	2,547	2,741	2,896	3,034	GRI 302-1	
	Water consumption - Units	77,370	77,226	77,685	79,335	81,828	GRI 303-1	
	Water consumption - Units per employee	23	23	24	25	27	GRI 303-1	
	Generator diesel consumption (litres)	74,626	63,447	63,210	71,674	62,251	GRI 302-1	
	Vehicle petrol consumption (litres)	11,426	16,860	18,359	17,386	21,382	GRI 302-1	
	Vehicle diesel consumption (litres)	52,940	56,442	45,962	42,990	35,400	GRI 302-1	
	Lubricant consumption (litres)	767	480	680	685	481	GRI 302-1	
	Total business travels (km)	668,725	586,183	511,523	396,625	545,002	GRI 305-1	
	Number of A4 paper purchased - Packets	23,984	24,215	23,725	23,498	21,000	NA	
	Weight of A4 paper (kg)	287,808	290,580	284,700	281,976	252,000	NA	
	A4 packets usage per business unit	126	130	130	141	132	NA	
	Waste paper recycled (kg)	102,026	63,892	141,624	102,237	107,055	GRI 306-2	
	Savings from recycled papers							
	Trees (No.)	1,734	1,086	2,408	1,738	1,820	GRI 306-2	
	Water (litres)	3,242,386	2,030,488	4,500,811	3,249,092	3,402,208	GRI 306-2	
	Electricity (kWh)	408,104	250,568	566,496	408,948	428,220	GRI 306-2	
	Oil (litres)	179,056	112,130	248,550	179,426	187,882	GRI 306-2	
	Land fill (cubic meters)	306	192	425	306	321	GRI 306-2	
	Carbon footprint (kg)	20,405	12,778	28,325	20,447	21,411	GRI 306-2	
 Government and Government Institutions	Income tax (LKR Mn.)	1,418	1,477	2,226	1,723	1,946	GRI 201-1	
	Value added tax and nation building tax on financial services (LKR Mn.)	2,767*	2,113*	1,895	1,349	1,256	GRI 201-1	
	Total Tax (VAT/NBT and income tax % of PBT)	53*	53*	48	43	46	GRI 201-1	

* Includes debt repayment levy.

Board of Directors

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 who last served 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) Limited, 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 N.A. 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 was 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 the year 2007 as the Group Managing Director/CEO and heads the business and operating functions of LOLC Group. He is a member of the main Board of the LOLC Group.

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 (ICAEW), 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 (Chairperson), Board Integrated Risk Management Committee, Board Human Resources and Remuneration Committee (Chairperson), Board Governance and Compliance Committee, Related Party Transactions Review Committee, and Board Nomination Committee (Chairperson).	She 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 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, Board Strategic Plan Committee, and Board Information Technology Committee.	Having joined the Bank in March 2011 as the General Manager/Chief Executive Officer, he was appointed to the Board as an Executive Director on 16 February 2015. He has over 30 years experience having worked for several local and international banks acquiring an in depth knowledge of all aspects of banking both in a local as well as in an international context. He is a 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 (Chairman), Board Nomination Committee, Related Party Transactions Review Committee (Chairman), and Board Integrated Risk Management Committee.	Over 22 years of executive and managerial experience at the Central Bank of Sri Lanka with extensive training and exposure in capital markets, portfolio management, and new financial instruments locally and overseas. Held the positions of Additional Controller of Exchange at the time of his retirement from the Central Bank of Sri Lanka and also 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 of Sri Lanka on Reforms to Exchange Control and represented the Central Bank of Sri Lanka 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.	Counsel and Legal Consultant with over 22 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. 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. At present, he is a legal advisor to many organisations and companies. In 2012, he was picked as an Asia 21 young leader by the Asia Society.

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 (Chairman), Related Party Transactions Review Committee, Board Strategic Plan Committee (Chairman), Board Marketing and Product Development Committee, Board Nomination Committee, and Board Information Technology Committee.	He is an economist with expertise in trade, investment and competitiveness with experience across many sectors. He is currently consultant to international agencies (Deloitte, UNDP and ITC) in Sri Lanka, Myanmar and Maldives. He is widely published in national and international academic publications, focusing on innovation, private sector development, and international economics. Formerly he was Advisor to the Ministry of Development Strategies and International Trade, was the Chief Economist and Head of the Economic Intelligence Unit of the Ceylon Chamber of Commerce, Research Economist and Unit Head at Institute of Policy Studies of Sri Lanka, Research Officer to the Presidential Commission on Taxation and Assistant Director of Economic Affairs at the Government Peace Secretariat. He has been a Consultant to the World Bank, ADB, GIZ and UNESCAP. He is an Asia Development Fellow of the Korea Development Institute and member of the World Economic Forum's "Global Future Council on Innovation Ecosystems". Mr Wijesinha serves on the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka.

8. Mrs Sandya K Salgado – Independent Director

Qualifications	Appointed to the Board	Membership on Board Subcommittees	Skills and experience
MBA (International) Edith Cowan University, Perth, Australia BA (English, French, Linguistics) University of Kelaniya, Sri Lanka, MCIM-UK.	1 December 2016 as an Independent Director.	Board Human Resources and Remuneration Committee, Board Sustainability Committee (Chairperson), Board Marketing and Product Development Committee (Chairperson), and Board Strategic Plan Committee.	<p>A specialist in Strategic Communications and Sustainable Business Management with over three decades of experience, including in the financial and banking sectors. She was also trained at Johns Hopkins University in Baltimore USA, in Strategic Communications and was the CEO of Ogilvy Action for nearly twenty years.</p> <p>Mrs Salgado was awarded the title “Marketer of the Year” in 2001 and “Zonta Woman of Achievement” in 2006 and most recently was awarded Woman of Inspiration by Women in Management and IFC. She was the Senior Communications Specialist at the World Bank, managing the image and reputation of the World Bank and the 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 serves as an honorary member of the Board of Management of the 1990 <i>Suwaseriya</i> Ambulance Service.</p>

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

Qualifications	Appointed to the Board	Membership on Board Subcommittees	Skills and experience
AIB (Sri Lanka).	1 October 2018 as a Non-Executive Director.	Board Credit Committee, Board Sustainability Committee, and Board Marketing and Product Development Committee and Board Human Resources and Remuneration Committee.	<p>The Director/CEO of Commercial Leasing and Finance PLC, is a Member of the Senior Management Team of LOLC PLC.</p> <p>Mr Thilakarathne is a Director of Prasac Micro Finance Cambodia and Commercial Insurance Brokers (Pvt) Ltd., and Credit Information Bureau of Sri Lanka (CRIB). He was formerly Chairman of the Finance Houses Association of Sri Lanka.</p> <p>Mr Thilakarathne is an Associate member of the Institute of Bankers of Sri Lanka (AIB) and has also followed a Strategic Leadership Training Programme in Microfinance at the Harvard Business School, USA. He counts over 25 years of experience in management, credit, channel management, marketing, factoring, portfolio management, and Islamic Finance.</p>

10. Mr D R Abeyesuriya – 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 (Chairman), Board Human Resources and Remuneration Committee, Board Strategic Plan Committee, and Board Information Technology Committee.	<p>A Group Director of Candor Group, Director of HNB Assurance PLC, Bio Foods (Pvt) Limited, and Straight Sale (Pvt) Ltd. Was responsible for private equity investments for Eagle Proprietary Investments Limited, a 200 million Dollar PE Fund.</p> <p>Formerly, he was the CEO, Candor Group of Companies owned by National Industries Group (NIG), one of the largest listed companies in Kuwait, the Head of Strategic Business Development of 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 Abeyesuriya 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.	On 18 April 2018 as an Alternate Director to Mr W D K Jayawardena.	Not applicable	<p>Having joined the LOLC Group in 1993, he is a Development Finance Specialist. Mr Tissera is the founder CEO of LOLC Micro Credit Ltd. (LOMC), Sri Lanka's largest micro finance provider. LOMC was amalgamated with LOLC Finance PLC on 29 March 2018 where he continues to serve on the Board.</p> <p>Mr Tissera also serves on the boards of LOLC Cambodia PLC, LOLC Myanmar Microfinance Ltd., Pak Oman Microfinance Bank, Pakistan, and BRAC Lanka Finance PLC. Mr Tissera has obtained his Post Graduate in Marketing from the Chartered Institute of Marketing, UK. He has also undergone strategic leadership training at the Harvard Business School.</p> <p>During his tenure as CEO of LOMC, it became the only microfinance provider in Sri Lanka to receive certification for the Client Protection Principles from the SMART Campaign USA which also became a case study at INSEAD Business School.</p>

Senior Management Team

Director/CEO and Deputy General Managers

1. Mr Kapila Ariyaratne

Director/Chief Executive Officer

Educational and professional qualifications:

BSc (Honours - First Class) University of Colombo.

Total experience:

32 years

2. Mr Ramesh Jayasekara

Senior Deputy General Manager

Educational and professional qualifications:

Associate of The Institute of Chartered Accountants of Sri Lanka, Bachelor of Commerce (First Class) - University of Colombo, Associate of Chartered Institute of Marketing United Kingdom, Associate of Institute of Certified Management Accountants.

Total experience:

22 years

3. Mr Chitral De Silva

Deputy General Manager - Branches Zone I

Educational and professional qualifications:

Executive Diploma in Business Administration - University of Colombo.

Total experience:

37 years



4. Mr Delvin Pereira

Deputy General Manager – Branches Zone II

Educational and professional qualifications:

Master's in Business Administration – University of Western Sydney, Certified Management Accountant – Australia.

Total experience:

34 years

6. Ms Champika Dodanwela

Chief Financial Officer

Educational and professional qualifications:

Master's in Business Administration University of Colombo, Fellow member of ACCA UK, Associate member of Certified Management Accountants, Fellow member of Institute of Bankers Sri Lanka, Bsc Applied Accounting Oxford Brooke UK, Bsc Management. University of Sri Jayawardenepura.

Total experience:

30 years in banking (finance)

8. Mr Malik Wickramanayake

Deputy General Manager – Operations

Educational and professional qualifications:

BA in Business and Administration Studies – Lewis & Clark College, Portland, Oregon, USA.

Total experience:

25 years

5. Mr Jayantha Amarasinghe

Deputy General Manager – Human Resources

Educational and professional qualifications:

Master's in Business Administration – Buckinghamshire New University, Bachelor of Law (LLB), Attorney-at-Law, Chartered Fellow Member of CIPM – Sri Lanka, Postgraduate Diploma in Management – Sri Lanka Institute of Marketing, Postgraduate Diploma in International Relations – Bandaranaika Centre for International Studies – Sri Lanka.

Total experience:

27 years

7. Mr Harsha Wanigatunga

Chief Information Officer

Educational and professional qualifications:

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

Total experience:

25 years

9. Mr Shanaka Perera

Deputy General Manager – Treasury

Educational and professional qualifications:

Master's in Business Administration – PIM – University of Sri Jayawardanepura, 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.

Total experience:

29 years



Senior Management Team

Assistant General Managers

1. Mr Wasantha Karunaratne Assistant General Manager – Services

Educational and professional qualifications:
Diploma in Purchasing and Materials Management.

Total experience: 29 years

2. Mr Kapila Rathnayaka Assistant General Manager – Premises Maintenance

Educational and professional qualifications:
BSc – Engineering Honours (Peradeniya), MBA – PIM University of Sri Jayawardenepura, Chartered Engineer, Corporate Member of Institution of Engineers (IESL).

Total experience: 18 years

3. Mr Aruna Fernando Acting Chief Risk Officer

Educational and professional qualifications:
Master's of Business Administration – PIM, University of Sri Jayawardenepura, AIB (Sri Lanka), Postgraduate Certificate Course in Modern Commercial Banking – PIM, University of Sri Jayawardenepura, Special Course Credited by GARP on Bank Risk Management, Euromoney Learning Solutions.

Total experience: 32 years

4. Mr Varuna Koggalage Head of Audit

Educational and professional qualifications:
Fellow member of the Chartered Accountants – Sri Lanka (ICASL).

Total experience: 24 years

5. Mr Nuwan Jayawardane Assistant General Manager – IT Infrastructure

Educational and professional qualifications:
BSC in Computer Engineering – New Jersey Institute of Technology, MBA in finance – University of Colombo, ITIL V3 Foundation, Project Management Professional, COBIT® Foundation.

Total experience: 25 years

6. Mrs Sharon Fonseka Assistant General Manager – Corporate Credit Branches

Educational and professional qualifications:
Associate member of the Institute of Bankers of Sri Lanka.

Total experience: 31 years



7. Ms Nisha Najumdeen Company Secretary

Educational and professional qualifications:

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

Total experience: 30 years

8. Mr Eranga Lankatilaka Assistant General Manager – Recoveries

Educational and professional qualifications:

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

Total experience: 29 years

9. Mr Chandana Gurusinghe Assistant General Manager – Special Projects

Educational and professional qualifications:

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

Total experience: 35 years

10. Mr Ranil Dissanayake Assistant General Manager – Branch Credit

Educational and professional qualifications:

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

Total experience: 29 years

11. Ms Dilani Sooriyaarachchi Head of Compliance

Educational and professional qualifications:

Attorney-at-Law of the Supreme Courts of Sri Lanka, Fellow member of the International Compliance Association of UK [FICA], Fellow member of the Institute of Bankers of Sri Lanka [FIB], Post Graduate 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.

Total experience: 22 years

12. Mr Sunil Jayawardana Head of Credit Hubs

Educational and professional qualifications:

BSc Business Administration (Special) of University of Sri Jayewardenepura, Master's in Business Studies – University of Colombo.

Total experience: 32 years

13. Mr Sampath Fernando Assistant General Manager – Information Technology

Educational and professional qualifications:

Master's of Business Administration – University of Manipal, Banking Intermediate.

Total experience: 30 years

14. Mr Eugene Seneviratne Assistant General Manager – Retail Banking

Educational and professional qualifications:

Master's of Business Administration- Sikkim Manipal University, Certificate IV in Business Frontline Management – TAFE, Certificate in Credit – College of Banking & Finance, Intermediate Banking Diploma – IBSL.

Total experience: 28 years

15. Mr Sanjaya Perera Assistant General Manager – Finance

Educational and professional qualifications:

Associate Member of The Institute of Chartered Accountants of Sri Lanka, Bachelor of Science in Accountancy and Financial Management – University of Sri Jayewardenepura, Associate Member of Institute of Certified Management Accountants, Master's in Business Administration University of Sri Jayewardenepura.

Total experience: 17 years



Corporate Governance

A note from the Chairman

Dear Shareholders,

Good governance depends on effective leadership and a healthy corporate culture, supported by robust systems and processes and a good understanding of risk and risk appetite. We wish to inform you that in Seylan, such good governance practices have empowered and enabled our operations. There is clarity on the scope of authorities, transparency and compliance.

We also believe that good governance enables timely flow of information to the Board to support it in fulfilling its roles and responsibilities. The fact that our Bank has complied with the Directions of the corporate governance principles set out in the Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended) and principles of the codes on corporate governance supports these claims. These are disclosed mainly in this Corporate Governance Report as well as in the Reports of the key Board Committees in this Annual Report. The rest of the reports in this Annual Report, including the Financials, Sustainability and Risk Management also demonstrate our commitment to governance, how the Board has carried out its oversight of strategy and how the Management has applied good governance practices. They also reflect how our policies and processes have been applied and developed in a way that remains consistent with our values and strategy, focusing on engagement, operational improvement and rewards and incentive structures.

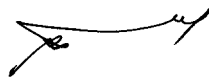
The Board has ensured effective channels of engagement with its workforce, shareholders and stakeholders. Further, the Board continued to enhance, as well as provide necessary challenges to the development and implementation of the strategies, by interacting with the Management, in particular through its Board Strategic Plan Subcommittee at its periodic meetings.

The Non-Executive Directors continued to bring independent views and opinions on key issues affecting the Bank. This enabled the Board to provide a solid foundation of robust corporate governance to underpin the efforts of the key management team.

I wish to confirm that the Board Governance and Compliance Committee and the Board of Directors reviewed this Corporate Governance Report and were satisfied with the disclosures made on the level of compliance in respect of the year ended 31 December 2019, under the aforementioned Banking Act Directions and also on the related governance codes and principles overall.

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 and the Directions issued by the Central Bank of Sri Lanka and also the Codes of Conduct and Ethics of the Bank.

Yours sincerely,



W M R S Dias
Chairman/Non-Executive Director

21 February 2020
Colombo

Corporate Governance Report

Values stimulated by Seylan Bank's Vision and Mission



The Board's approach to corporate governance guided by the following core principles as defined in the Bank's Corporate Governance Framework can be construed as one of the key approaches to meet the objectives and values of the Bank's Vision and Mission.



The Bank's Corporate Governance Framework guided by the above principles ensures effective engagement with its stakeholders and helps it evolve with changing times. The Bank's governance related policies, charters, and codes of conduct and ethics were formulated taking into consideration the rules, directions, guidelines, and principles, etc. of the following regulations in addition to its' own Articles of Association, to ensure that we make timely disclosures and share accurate information regarding our financials and performance as well as the leadership and governance of the Bank.

- 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
- Provisions of the Companies Act No. 07 of 2007
- the Rules of the Colombo Stock Exchange (as amended)

- Guidelines of the Securities and Exchange Commission of Sri Lanka in pursuance of its regulations (as amended)
- other applicable regulations, directions and recommended best practices on corporate governance.

Articles of Association of the Bank

The Bank is governed by the provisions contained in the Articles of Association which has adopted the relevant provisions of the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 (as amended) and its directions as applicable and relevant.

Codes of 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 key management personnel.

These codes of conduct and ethics cover principles and guidelines to be abided by:

- to protect the business interests of the Bank;
- to maintain the Bank's reputation;
- to 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 the Directors during the year. The Code of Conduct and the Code of Ethics for the Bank's employees are available on the Bank's intranet for perusal and due adherence by all staff.

Corporate governance disclosures

This Corporate Governance Report, discloses 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 eight sub sections. Section 3 (9) of the Directions (Transitional and Other General Provisions) is not applicable to the Bank.

- Section 3 (1) - The Responsibilities of the Board
- Section 3 (2) - The Composition of the Board

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

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 perused by accessing the website of the Central Bank of Sri Lanka www.cbsl.gov.lk.

Directions/Compliance Status – complied (✓); not complied (x); partially complied (p) and 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 be briefed, to reinforce the importance of achieving the objectives and further to review the progress against the set targets of the Bank’s strategic objectives vis-à-vis the Budget for the year.

The corporate values of the Bank are set out in the Code of Conduct and Code of Ethics for employees as well as other related policies of the Bank which have been communicated and made available on the Bank’s intranet for the information of the employees and also inculcated at training sessions conducted by the Bank. The Board members too annually peruse and attest their familiarity and pledge to abide by the Bank’s Code of Business Conduct and Ethics for Directors which has set out the Bank’s corporate values.

3 (1) (i) (b) and (c) (✓)

Approval of the overall business strategy and risk policies and prudent risk management with measurable goals – The Bank’s ongoing four-year Strategic Plan for the period 2017-2020 was approved by the Board in the beginning of the year 2017. The Board Strategic Plan Committee periodically reviewed the developments and the progress of the Strategic Plan and provided necessary guidance to the Executive Management.

The Board has vested the responsibility for formulating and implementing prudent risk management policies in the Board Integrated Risk Management Committee. This Committee has ensured that the Bank’s Risk Management Unit headed by the Chief Risk Officer or the Acting 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 in place which constitute the overall risk management framework of the Bank were constantly tested and reviewed by the Risk Management Unit and the status reported and reviewed by the Committee.

3 (1) (i) (d) (✓)

Communication Policy with all stakeholders – The following policies are in place:

- Stakeholder Engagement Policy – an internal document specifying the lines of authority for communication with different stakeholders/institutions in the ordinary course of its business.
- Customer Charter (customers include depositors and borrowers) – This document which is published in all three languages on the Bank’s website, www.seylan.lk outlines the Bank’s policy on dealing with customers, handling customer complaints, contact information for making complaints to the Bank and also to the Financial Ombudsman.
- Shareholder Communication Policy – Accessible on the Bank’s website, www.seylan.lk.
- Communication Policy – an internal document which provides guiding principles for both internal and external communication, mainly the dissemination of corporate information to the media.

3 (1) (i) (e) (✓)

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 the Board’s information and/or action as appropriate.

3 (1) (i) (f) (✓)

Identification of Key Management

Personnel (KMPs) – Directors and selected members of the senior management are deemed as KMPs of the Bank who may be in a position to influence and exercise control over business activities, operations, audit and risk management. Appointments of KMPs are recommended by the Board Nomination Committee and approved by the Board.

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.

3 (1) (i) (g) (✓)

Defining of 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 from the regulations and directions, mainly, the Banking Act Directions. This is documented in the Board approved Corporate Governance Framework.

3 (1) (i) (h) (✓)

Oversight of the affairs of the Bank by Key Management Personnel (KMPs) – The Management Accounts and Reports presented to the Board by the Chief Financial Officer on a monthly basis provides an overall account of the performance of the Bank (overall) and of the business units and support units, vis-à-vis its set strategic objectives. These were reviewed, deliberated and discussed in depth by the Board. Further, 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.

Conversely, decisions of the Board and Board Subcommittees were communicated to the KMPs and executive management (vide relevant minute extracts) which enabled the KMPs and the management to understand the Board's expectations vis-à-vis appropriate follow up actions.

3 (1) (i) (i) (✓)

Effectiveness of the Board's own governance practices – The Board has in place a formal process for reviewing its own performance and that of its Committees annually. Each Director is required to complete a detailed questionnaire which aims to obtain Directors' feedback on the effectiveness of the Board's governance practices including, but not limited to, the following areas:

- structure of the Board and its Committees;
- board culture and relationships with stakeholders;
- meeting processes; effectiveness of Board proceedings;
- implementation of strategy; internal control processes and risk management;
- evaluation of performance against goals and targets of the CEO and the KMPs;
- succession planning;
- knowledge and skills update.

The reports were collated and summarised by the Company Secretary and submitted for the review and comments or recommendations of the Board Governance and Compliance Committee, and thereafter submitted to the Board for an overall assessment of the Board effectiveness and decisions where appropriate. The self-evaluation reports of the Board Subcommittees too were submitted to the Board for its review and comments.

The results of the above annual evaluation processes which were deliberated by the Board at its meetings held in the first quarter of 2019, reflected that the Board and the Board Subcommittees have continued to be effective and the Directors have made valuable contributions towards the Board's responsibilities. The evaluations also yielded valid recommendations which emphasised the importance of the Board and Board Subcommittees to decide and set

"specific" time bound objectives for each year within the scope of each of its overall responsibilities as a step towards further enhancing their effectiveness in the best interest of the Bank.

3 (1) (i) (j) (✓)

Succession Plan for Key Management Personnel (KMPs) – This responsibility is vested with the Board Nomination Committee (a Subcommittee of the Board). During the year, the Committee constantly reviewed and ensured the effectiveness of the Succession Plan for Key Management Personnel in place, even during times of KMP turnover and changes, consequent to resignations, retirements and structural changes in order that the activities continued without any disruption to business. The Committee also ensured that the right training and development plans were in place for identified successors.

3 (1) (i) (k) (✓)

Regular meetings with Key Management Personnel (KMPs) – The CEO and KMPs heading different areas of authority were regularly met at meetings of the Board Subcommittees as well as at Board meetings which provided an opportunity for the Board to discuss the progress and the extent to which policies, corporate strategies and objectives of the Bank were implemented and achieved.

3 (1) (i) (l) (✓)

Understanding of the Regulatory Environment – The Board members by their own professional virtues keep abreast of the changes in the regulatory environment. They were also updated of the changes in the regulatory environment relating to or affecting the licensed commercial banks in general and/or the activities of the Bank, by the CEO and relevant key management personnel at the Board Subcommittee level and at Board level. The Board discusses and/or endorses the steps taken to comply with such changes as appropriate. The Board has ensured that the Bank maintains an effective dialogue and relationship with the Regulators.

3 (1) (i) (m) (✓)

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. The Committee has ensured that the Audit Engagement Partner was changed every five years.

3 (1) (ii) (✓)

Appointment of Chairman and Chief Executive Officer – Non-Executive Director, Mr W M R S Dias was appointed as the Chairman of the Bank in May 2016 whilst Mr K P Ariyaratne was appointed by the Board in March 2011 as its Chief Executive Officer (CEO). The functions and responsibilities of the Chairman are as defined in Section 3 (5) of the Banking Act Directions and were 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.

3 (1) (iii) (✓)

Frequency of Board Meetings and participation of Directors – Twelve regular meetings were held monthly. Additionally, three special meetings were held at different times during the year to consider important issues with the active participation of Directors.

Quorum – The quorum at Board Meetings is minimum five members or above 50% of the number on the Board whichever is higher with the presence of 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.

Directors actively participated, shared their views and made valuable contributions at Board proceedings. Resolutions by circulation were restricted to matters of a routine nature and/or for urgent business requirements. A summarised report of all such resolutions passed, were ratified at the immediate regular monthly Board meetings that followed such dates of resolutions. The Directors' attendance at Board meetings are disclosed under 3 (1) (vi) below.

3 (1) (iv) (✓)

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 proposed and collectively agreed on matters to be included in the Agenda of future Board meetings and/or Board Subcommittee meetings. Papers and information was provided by management to comply with any such requests of the Board prior to Board meetings.

3 (1) (v) (✓)

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.

3 (1) (vi) (✓)

Attendance – At every Board meeting, the Company Secretary apprised the Board members' record of attendance at Board meetings held in the period of twelve months immediately preceding the regular Board meetings. During the year, each Director has attended more than two-thirds of the meetings he/she was eligible to attend and further, no Director was absent from three consecutive meetings. Please refer table below:

Director	Status*	Meetings eligible to attend	Meetings attended	As a percentage (%)
Mr W M R S Dias	Non-IND NED/Chairman	13	13	100.00
Mr W D K Jayawardena	Non-IND NED/Deputy Chairman	13	10**	76.92
Ms M C Pietersz	IND NED/Senior Director	13	13	100.00
Mr K P Ariyaratne	EXD/Chief Executive Officer	13	13	100.00
Mr P L S K Perera	IND NED	13	12	92.31
Mr S V Corea	Non-IND NED	13	10	76.92
Mr A S Wijesinha	IND NED	13	10	76.92
Ms S K Salgado	IND NED	13	12	92.31
Mr D M D K Thilakaratne	Non-IND NED	13	12	92.31
Mr D R Abeysuriya	IND NED	13	12	92.31
Overall average attendance at Board Meetings				90.00

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

** – Included five meetings attended by the Alternate Director, Mr R D Tissera

Note: 2 Special meetings convened on short notice and held, were not counted for attendance.

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 conformation with Section 43 of the Banking Act No. 30 of 1988 (as amended). The Board approved Job Description of the Company Secretary adequately covers the responsibilities of a Company/Board Secretary set out in the relevant regulations and codes.

The Company Secretary reports to the Board and to the Board Subcommittees and guides the members on matters relevant to the proper functioning of the Board and the Board Subcommittees. The Company Secretary also oversees the administration and day-to-day operations of the Company Secretariat including the registrars functions, shareholder communications and communications with regulatory authorities, mainly the Colombo Stock Exchange, the Registrar of Companies and the Central Bank of Sri Lanka.

3 (1) (viii) (✓)

Access to the advice and services of the Company Secretary – Advice and services sought by the Board members from time to time in respect of Board responsibilities, procedures and applicable rules and regulations that are required to be followed, were duly offered by the Company Secretary.

3 (1) (ix) and (x) (✓)

Minutes of Board Meetings – Minutes of Board meetings were 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 were 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 following Board meeting. The Minute Books were maintained by the Company Secretary and were available for inspection by any Director on reasonable notice.

3 (1) (xi) (✓)

Independent professional advice – Directors are able 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 or by a Board subcommittee, which has been determined to be material, the Company Secretary and/or the Chairman or the Director/s concerned draw the attention of the Board to such interest (Directors' interest in contract or related party interest), prior to such proposal or matter being discussed and decided upon at the meeting. Directors leave the meeting room to abstain from participating in such deliberations and from voting on any such resolution. Such Directors were not counted for the quorum for approving such agenda item at the Board meeting.

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.

3 (1) (xiv) (✓)

The Bank's ability/inability to meet its obligations on payments - The Board has adopted a Contingency Funding Plan (CFP) which was reviewed and adopted during the year. The CFP addresses the procedures to be followed by the Bank in keeping the Director of Bank Supervision of the Central Bank of Sri Lanka 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 - During the year, the Board ensured that the Bank complied with the Capital Adequacy requirements as required by the Monetary Board. The Capital Augmentation Plan prepared based on BASEL III, taking into consideration the projected growth patterns, SLFRS 9 impact on the profitability, capital issues (debt and rights issues), dividend payout, etc., was tabled to the Board and approved during the year. The Bank's total capital ratio was in compliance with the prudential limit as at 31 December 2019 confirming that it was adequately capitalised.

3 (1) (xvi) (✓)

Annual Corporate Governance Report - This Corporate Governance Report published in the Annual Report serves to meet the requirement of this provision in compliance with Direction 3 of the Banking Act Directions on Corporate Governance.

3 (1) (xvii) (✓)

Scheme of self-assessment - Each member of the Board submitted his/her own self-assessment report to the Board, reporting on the extent of their respective contributions to the Board and to the Board Subcommittees they were attached to. The reports were shared at the Board meeting and filed for record by the Company Secretary.

3 (2) The Board's Composition

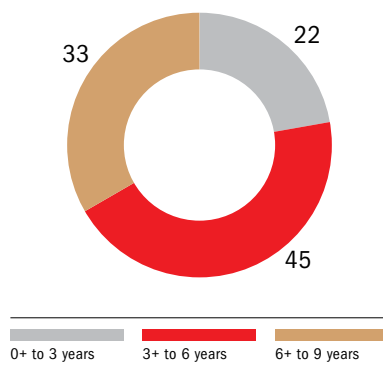
3 (2) (i) (✓)

Board Composition - The Bank is in compliance with this section of the Banking Act Directions, i.e., that the composition of the Board be not less than 7 and not more than 13. The Board comprised 10 members as at 31 December 2019, as described in the table below:

Director	Status*	Date of appointment	Period served as at 31 December 2019
Mr W M R S Dias	Non-IND NED/Chairman	29 May 2015	4 years, 7 months
Mr W D K Jayawardena	Non-IND NED/Deputy Chairman	1 August 2013	6 years, 5 months
Ms M C Pietersz	IND NED/Senior Director	23 September 2013	6 years, 3 months
Mr K P Ariyaratne	EXD/Chief Executive Officer	16 February 2015	4 years, 10 months
Mr P L S K Perera	IND NED	23 September 2013	6 years, 3 months
Mr S V Corea	Non-IND NED	14 May 2015	4 years, 7 months
Mr A S Wijesinha	IND NED	1 December 2016	3 years, 1 month
Ms S K Salgado	IND NED	1 December 2016	3 years, 1 month
Mr D M D K Thilakaratne	Non-IND NED	1 October 2018	1 year, 3 months
Mr D R Abeyesuriya	IND NED	17 October 2018	1 year, 2 months

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

Period of service of Non-Executive Directors as at 31 December 2019



%

minimum requirement of independent Non-Executive Directors to be three or one-third of the total number of Directors on the Board, whichever is higher (in the case of the Bank's Board should be three or $10 \times \frac{1}{3rd} = 3.33$, i.e. 4).

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 at the beginning of the year 2019, in accordance with the criteria defined in the Banking Act Direction No. 3 (2) (iv) and also in terms of Section 7.10.4 of the Rules of the Colombo Stock Exchange.

Status of Directors

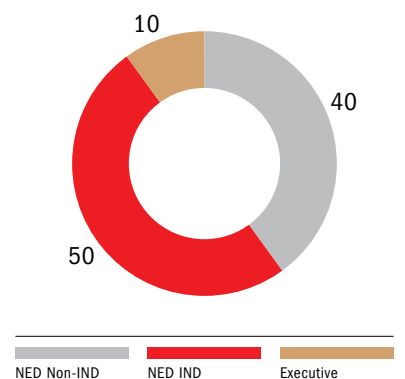
%

3 (2) (iii) (✓)

Appointment of Executive Directors - The number of Executive Directors was less than one-third of the number of Directors on the Board of the Bank. Director/Chief Executive Officer, Mr K P Ariyaratne was the only Executive Director on the Board during the year.

3 (2) (iv) (✓)

Independent Directors - There were five Independent Non-Executive Directors throughout the year 2019, thus complying with this direction, which states the



NED Non-IND NED IND Executive

3 (2) (v) (✓)

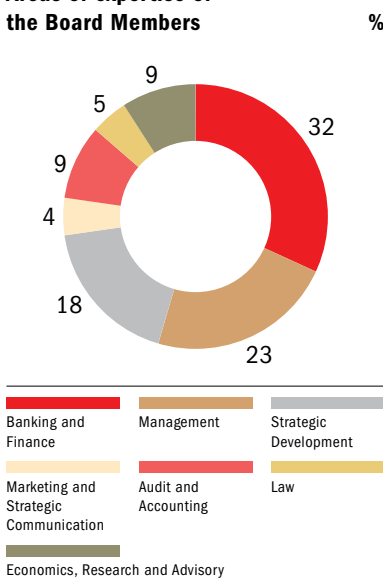
Alternate Directors – Mr R D Tissera functioned as the Alternate Director to Non-Independent Non-Executive Director, Mr W D K Jayawardena. He attended the five meetings of the Board during the year on behalf of Mr W D K Jayawardena. Mr R D Tissera’s status of Alternate Directorship was deemed Non-Independent Non-Executive.

3 (2) (vi) (✓)

Profile of the Non-Executive Directors – The Board believes in the approach to diversity on the Board, since a truly diverse board will include and make good use of differences in the skills, industry experience, background, and other qualities of members of the Board. These differences were taken into account in determining the optimum composition of the Board and such requirements are set out in its Policy for Appointment of Directors.

The Non-Executive Directors on the Board included personnel with extensive experience, skills and proven track records, in the field of banking, finance, management, accounting, auditing, law, economics, research, marketing, 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 are provided in 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 the presence of a majority of the Non-Executive Directors.

3 (2) (viii) (✓)

Identification of status of Directors in corporate communications – The status of directorships has been expressly identified in all corporate communications including the Annual Reports. Designations of Directors who were designated with identified positions such as, Chairman, Deputy Chairman, Senior Director, and Chief Executive Officer have also been duly stated in such communications.

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 Thilakaratne and Mr D R Abeyesuriya who were appointed to the Board in October 2018 were included in the Agenda for the AGM held on 28 March 2019 and they were duly elected by the shareholders. No Directors were appointed during 2019 to fill casual vacancies.

3 (2) (xi) (✓)

Resignation/Removal/Cessation of Directorship – Upon the Board accepting and/or recording the resignation or retirement of a Director, the regulatory authorities (namely the Central Bank of Sri Lanka and the Registrar of Companies) are informed, as are the shareholders through announcements made to the Colombo Stock Exchange by the Company Secretary. Such information includes statements that may be relevant to be brought to the information of the regulatory authority and/or to the shareholders. The retirement of Independent Director, Mr S P S Ranatunga as at 11 January 2019 was communicated accordingly.

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’ Appointment, in the letters of appointment of employees and related policies of the Bank.

3 (3) Criteria to assess the fitness and propriety of Directors

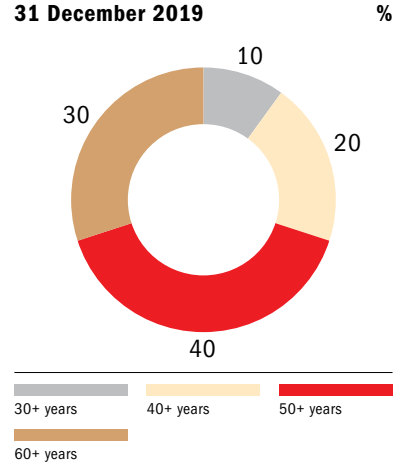
All appointments to the Board were made after obtaining approval of the Director, Bank Supervision, Central Bank of Sri Lanka in terms of Section 42 of the Banking Act No. 30 of 1988 (as amended). Declarations and affidavits of the continuing Directors were also forwarded to the Director, Bank Supervision 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.

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 as at 31 December 2019



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 the subsidiary of the Bank. Please refer Annexure to the Report of the Board of Directors for details on other directorships held by the Board members.

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

3 (4) (i)-(iii) (✓)

Board delegation arrangements in place –
The Board is empowered by the Articles of Association to delegate any of its powers to the Board Subcommittees consisting of such member or members as the Board thinks fit and to the Chief Executive Officer as appropriate.

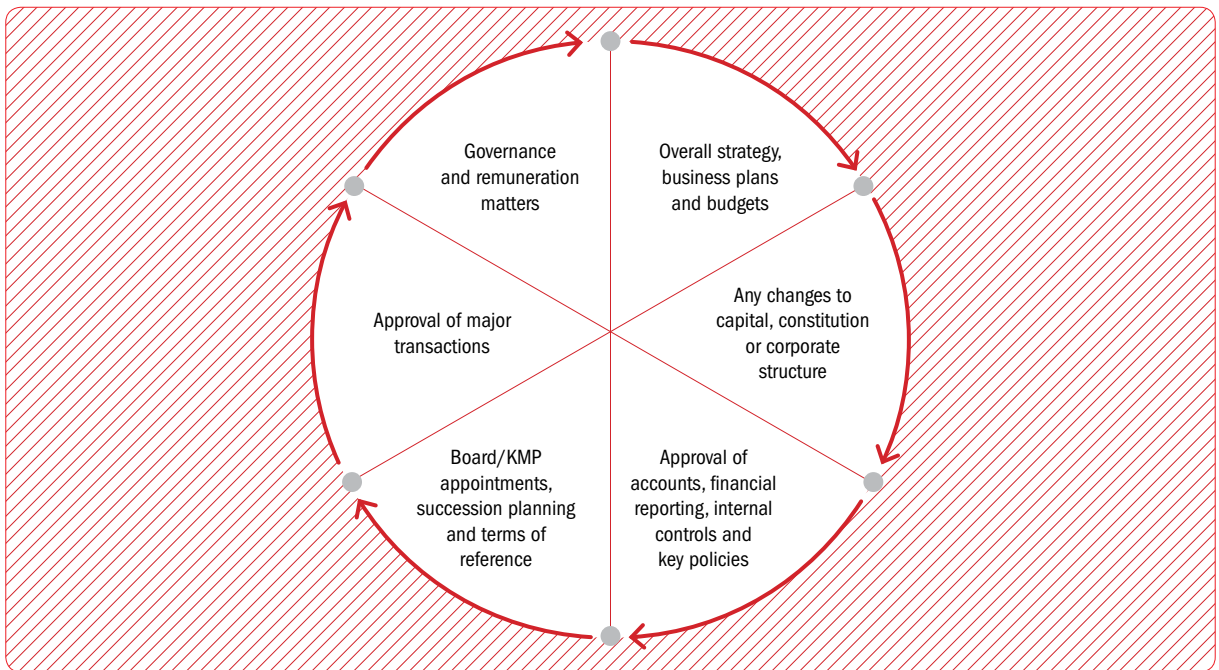
The Board has delegated matters pertaining to the affairs of the Bank to

the Board Subcommittees within the respective scopes of the Board approved Terms of Reference, and to the CEO and other Key Management Personnel (KMPs) who work within the Board approved delegated authority limits and the scope of their approved job descriptions.

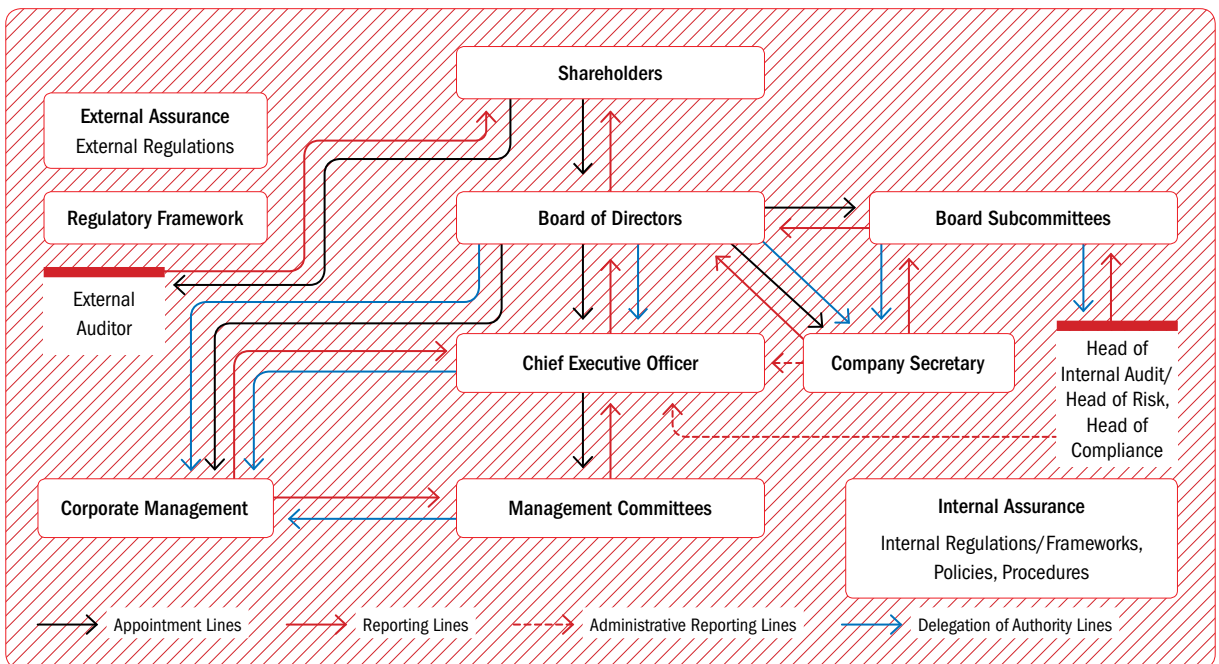
New delegation processes or revisions to the existing delegation processes, as proposed and recommended by the CEO and the relevant KMPs, taking into account business needs and structural changes,

together with the recommendations of the Subcommittees 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 responsibilities and thereby reserves certain powers for itself.

Some of the matters reserved for the Board include the following:



The following governance structure diagram depicts the appointment/delegation of authority/reporting lines of the delegation process within the Bank.



* Head of Internal Audit reports directly to the Board Audit Committee. Head of Risk and Head of Compliance report directly to the Board Integrated Risk Management Committee and they are members of the Corporate Management.

3 (5) Chairman and the Chief Executive Officer

3 (5) (i) (✓)

Chairman and Chief Executive Officer –

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 –

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., material shareholder of the Bank. Therefore, Independent Non-Executive Director, Ms M C Pietersz was appointed as the Senior Director by the Board 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

2019 other than in respect of the following:

- Directors, Mr W D K Jayawardena and Mr D M D K Thilakarathne were nominated to the Board by the Bank's material shareholders, Brown & Company PLC and LOLC Investments Ltd.
- Directors, Mr W M R S Dias and Mr S V Corea were nominated to the Board by the Bank's material shareholder, Sri Lanka Insurance Corporation Ltd.

3 (5) (iv)-(x) (✓)

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

- Provides leadership to the Board and ensures that the Board effectively discharges its responsibilities and that all key issues are discussed by the Board in a timely manner.
- Ensures that the agenda for the Board Meetings, preparation of which is delegated to the Company Secretary, takes into account any matters proposed by the other directors for inclusion in the agenda and that Board papers covering adequate information is circulated to the Directors at least seven days prior to the Meeting.
- Ensures that Directors, especially new Directors on the Board are duly briefed on issues arising at Board meetings.
- Encourages all Directors to make an active contribution and ensures that the deliberations and decisions of the Board are in the best interest of the Bank. Non-Executive Directors chair Board Subcommittees 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.

- Chairman, Mr W M R S Dias holds a Directorship in a Non-Executive capacity and did not engage in direct supervision of the Key Management Personnel or any other executive duties.
- Ensures that effective communication with shareholders is maintained and that the views of shareholders are communicated to the Board. The general meetings of the Bank are forums utilised by the Board as well as the Shareholders of the Bank to have an effective dialogue with one another. The Bank publishes its corporate announcements, Financials Statements, related documents of the issued public listed debentures and the daily trading prices of its shares on its corporate website, www.seylan.lk. The Bank has also published its Shareholder Communication Policy on its corporate website for the information of the Shareholders.

3 (5) (xi) (✓)

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. 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.

3 (6) Board Appointed Committees

3 (6) (i) (✓)

Subcommittees appointed by the Board –

The Board has established in total eleven Board Subcommittees; four of which were as required in these directions; one as required by the Rules of the Colombo Stock Exchange and further six Subcommittees for purposes referred in their scope and objectives.

Committees established as per the Banking Act Directions

- Board Audit Committee
- Board Integrated Risk Management Committee
- Board Nomination Committee
- Board Human Resources and Remuneration Committee

Committees established as per the Rules of the Colombo Stock Exchange and as per the Code of Best Practice on Corporate Governance 2017, issued by the CA Sri Lanka

- Board Audit Committee
- Board Nomination Committee
- Board Human Resources and Remuneration Committee
- Related Party Transactions Review Committee

Additional Committees established by the Board

- Board Credit Committee
- Board Strategic Plan Committee
- Board Governance and Compliance Committee
- Board Marketing and Product Development Committee
- Board Sustainability Committee
- Board Information Technology Committee

These Board appointed Subcommittees functioned within Board approved Terms of Reference and reported to the Board. All Committees were chaired by Independent Non-executive Directors. The Company Secretary was the Secretary to all these

Committees during the year and carried out the related responsibilities. Reports and papers that required the Board's attention and/or decisions were followed up and circulated to the Board along with copies of confirmed minutes of the Committee meetings.

Please refer tables below for the scope and objectives, membership of Directors and attendance of Directors at the meetings during the year, of all the 11 Committees. Reports of the 5 mandatory Committees required as per the Banking Act Directions and the Rules of the Colombo Stock Exchange (listed above) have also been individually published in this Annual Report.

Scope and Objectives of the Committee	Present Composition	Membership of Directors	Highlights of Activities during the year												
Board Audit Committee															
Overview of responsibilities for the financial reporting process, the system of internal control, the audit process, and the company's process for monitoring compliance with laws and regulations and the Code of Conduct.	<table border="0"> <tr> <td>Independent Non-Executive Directors</td> <td>3</td> </tr> <tr> <td>Non-Independent Non-Executive Directors</td> <td>1</td> </tr> <tr> <td>Executive Directors</td> <td>Nil</td> </tr> <tr> <td>Chairperson</td> <td>Independent Non-Executive Director</td> </tr> <tr> <td>Quorum</td> <td>2 members</td> </tr> </table> <p>The Head of Internal Audit reports directly to the Committee.</p>	Independent Non-Executive Directors	3	Non-Independent Non-Executive Directors	1	Executive Directors	Nil	Chairperson	Independent Non-Executive Director	Quorum	2 members	<p>Ms M C Pietersz (IND NED/Senior Director) – Chairperson;</p> <p>Mr W D K Jayawardena (Non-IND NED/Deputy Chairman);</p> <p>Mr P L S K Perera (IND NED);</p> <p>Mr D R Abeyesuriya (IND NED).</p>	<ul style="list-style-type: none"> Adoption of a new Procedure and Guidelines on Estimating Impairment Allowance under SLFRS 9. Review and adoption of the Policy on Non-audit Services by External Auditors (as amended). A new Audit Engagement Partner was assigned by the External Auditors with effect from the Financial year 2019, after the completion of tenure of five years of the previous Audit Engagement Partner. <p>Please also refer Report of the Committee on page 104.</p>		
Independent Non-Executive Directors	3														
Non-Independent Non-Executive Directors	1														
Executive Directors	Nil														
Chairperson	Independent Non-Executive Director														
Quorum	2 members														
Board Integrated Risk Management Committee															
Assess all risks facing the Bank and its reputation namely, credit, market, liquidity, operational and strategic risks on a regular basis through appropriate risk indicators and management information and also assess the risks faced by its subsidiary.	<table border="0"> <tr> <td>Independent Non-Executive Directors</td> <td>3</td> </tr> <tr> <td>Non-Independent Non-Executive Directors</td> <td>1</td> </tr> <tr> <td>Executive Directors</td> <td>1</td> </tr> <tr> <td>Management</td> <td>Chief Executive Officer and Chief Risk Officer</td> </tr> <tr> <td>Chairman</td> <td>Independent Non-Executive Director</td> </tr> <tr> <td>Quorum</td> <td>2 members</td> </tr> </table> <p>The Head of Risk (Actg. Chief Risk Officer) and the Head of Compliance reports directly to the Committee.</p>	Independent Non-Executive Directors	3	Non-Independent Non-Executive Directors	1	Executive Directors	1	Management	Chief Executive Officer and Chief Risk Officer	Chairman	Independent Non-Executive Director	Quorum	2 members	<p>Mr D R Abeyesuriya (IND NED) Chairman;</p> <p>Mr W M R S Dias (Non-IND NED/Chairman);</p> <p>Ms M C Pietersz (IND NED/Senior Director);</p> <p>Mr P L S K Perera (IND NED);</p> <p>Mr K P Ariyaratne (Director/CEO);</p> <p>Mr Aruna Fernando (Actg. Chief Risk Officer).</p>	<ul style="list-style-type: none"> Recommendation of the acquisition of a new Anti-Money Laundering System for the Bank. Recommendation of the adoption of the reviewed risk related and compliance-related policies and the comprehensive review of the Integrated Risk Management Framework. Review of the progress on implementation of the new goAML reporting system required by the Financial Investigation Unit of the Central Bank. <p>Please also refer Report of the Committee on page 107.</p>
Independent Non-Executive Directors	3														
Non-Independent Non-Executive Directors	1														
Executive Directors	1														
Management	Chief Executive Officer and Chief Risk Officer														
Chairman	Independent Non-Executive Director														
Quorum	2 members														

Scope and Objectives of the Committee	Present Composition	Membership of Directors	Highlights of Activities during the year										
<p>Board Human Resources and Remuneration Committee</p> <p>To assist and make recommendations to the Board of Directors in exercising its oversight role and responsibilities on matters related to human resource strategies, policies and determination of compensation, benefits and remuneration for the Directors, the Chief Executive Officer (CEO) and Key Management Personnel (KMPs) of the Bank.</p>	<table border="1"> <tr> <td>Independent Non-Executive Directors</td> <td>3</td> </tr> <tr> <td>Non-Independent Non-Executive Directors</td> <td>1</td> </tr> <tr> <td>Executive Directors</td> <td>Nil</td> </tr> <tr> <td>Chairman</td> <td>Independent Non-Executive Director</td> </tr> <tr> <td>Quorum</td> <td>2 members</td> </tr> </table> <p>Director/CEO and Head of Human Resources were present on invitation except when matters relating to them were being discussed.</p>	Independent Non-Executive Directors	3	Non-Independent Non-Executive Directors	1	Executive Directors	Nil	Chairman	Independent Non-Executive Director	Quorum	2 members	<p>Ms M C Pietersz (IND NED/Senior Director) – Chairperson;</p> <p>Ms S K Salgado (IND NED);</p> <p>Mr S V Corea (Non-IND NED);</p> <p>Mr D R Abeyesuriya (IND NED);</p> <p><i>(Mr D M D K Thilakaratne Non-IND NED, was appointed with effect from 1 January 2020).</i></p>	<ul style="list-style-type: none"> • Recommendation for the adoption of the Human Resources related Policies. • Recommendation of a reviewed Performance Bonus Scheme for the corporate/executive management replacing the existing scheme. • Introduction of Performance Bonus Schemes for the Strategic Business Units, Credit Hubs and Area Offices. • Reviewed and guided on the Training and Development programmes in place for the corporate/executive management. <p>Please also refer Report of the Committee on page 105.</p>
Independent Non-Executive Directors	3												
Non-Independent Non-Executive Directors	1												
Executive Directors	Nil												
Chairman	Independent Non-Executive Director												
Quorum	2 members												
<p>Board Nomination Committee</p> <p>To assist the Board in fulfilling the role and responsibilities involving appointment of Directors and Key Management Personnel of the Bank.</p>	<table border="1"> <tr> <td>Independent Non-Executive Directors</td> <td>3</td> </tr> <tr> <td>Non-independent Non-Executive Directors</td> <td>2</td> </tr> <tr> <td>Executive Directors</td> <td>Nil</td> </tr> <tr> <td>Chairman</td> <td>Independent Non-Executive Director</td> </tr> <tr> <td>Quorum</td> <td>2 members</td> </tr> </table> <p>Director/CEO and Head of Human Resources were present on invitation except when matters relating to them were being discussed.</p>	Independent Non-Executive Directors	3	Non-independent Non-Executive Directors	2	Executive Directors	Nil	Chairman	Independent Non-Executive Director	Quorum	2 members	<p>Ms M C Pietersz (IND NED/Senior Director) – Chairperson;</p> <p>Mr W M R S Dias (Non-IND NED/Chairman);</p> <p>Mr W D K Jayawardena (Non-IND NED/Deputy Chairman);</p> <p>Mr P L S K Perera (IND NED);</p> <p>Mr A S Wijesinha (IND NED).</p>	<ul style="list-style-type: none"> • Training and development programmes based on the succession planning for Key Management Personnel (KMPs). • Succession and Organisational Restructure and Changes to the KMP functional responsibilities. • Recommendations for the election and re-election of Directors. • Recommendations for appointments and promotions to KMP positions. <p>Please also refer Report of the Committee on page 106.</p>
Independent Non-Executive Directors	3												
Non-independent Non-Executive Directors	2												
Executive Directors	Nil												
Chairman	Independent Non-Executive Director												
Quorum	2 members												
<p>Related Party Transactions Review Committee</p> <p>To review Related Party Transactions (RPTs) as required by the Listing Rules of Colombo Stock Exchange (CSE) (and any amendment from time to time) and the Code of Best Practice on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka (SEC).</p>	<table border="1"> <tr> <td>Independent Non-Executive Directors</td> <td>3</td> </tr> <tr> <td>Non-independent Non-Executive Directors</td> <td>1</td> </tr> <tr> <td>Executive Directors</td> <td>Nil</td> </tr> <tr> <td>Chairman</td> <td>Independent Non-Executive Director</td> </tr> <tr> <td>Quorum</td> <td>2 members</td> </tr> </table> <p>Director/CEO and Head of Compliance were present on invitation.</p>	Independent Non-Executive Directors	3	Non-independent Non-Executive Directors	1	Executive Directors	Nil	Chairman	Independent Non-Executive Director	Quorum	2 members	<p>Mr P L S K Perera (IND NED); – Chairperson;</p> <p>Ms M C Pietersz (IND NED/Senior Director);</p> <p>Mr S V Corea (Non-IND NED);</p> <p>Mr A S Wijesinha (IND NED).</p>	<ul style="list-style-type: none"> • Revision of the Related Party Transactions and Avoidance of Conflicts of Interest Policy and Process. • Review of recurrent and non-recurrent related party transactions. • Terms of Reference of the Committee was reviewed and adopted. <p>Please also refer Report of the Committee on page 108.</p>
Independent Non-Executive Directors	3												
Non-independent Non-Executive Directors	1												
Executive Directors	Nil												
Chairman	Independent Non-Executive Director												
Quorum	2 members												

Scope and Objectives of the Committee	Present Composition	Membership of Directors	Highlights of Activities during the year										
<p>Board Credit Committee</p> <p>To improve the business and soundness of the Bank and to promote and reinforce a robust and pervasive credit risk acceptance and management culture by:</p> <ul style="list-style-type: none"> Reviewing and where appropriate approving credit facilities or recommending them to the Board for approval; Guiding management to improve credit policies, procedures and lending guidelines and their implementation; Advising on processes for recoveries, empowerment and accountability for credit decision making. 	<table border="0"> <tr> <td>Independent Non-Executive Directors</td> <td>1</td> </tr> <tr> <td>Non-Independent Non-Executive Directors</td> <td>2</td> </tr> <tr> <td>Executive Directors</td> <td>1</td> </tr> <tr> <td>Chairman</td> <td>Independent Non-Executive Director</td> </tr> <tr> <td>Quorum</td> <td>2 members</td> </tr> </table> <p>Head of Treasury and Head of Risk were opted to the Committee. Heads of the business units attended the meetings on invitation.</p>	Independent Non-Executive Directors	1	Non-Independent Non-Executive Directors	2	Executive Directors	1	Chairman	Independent Non-Executive Director	Quorum	2 members	<p>Mr A S Wijesinha (IND NED) – Chairman;</p> <p>Mr S V Corea (Non-IND NED);</p> <p>Mr D M D K Thilakarathne (Non-IND NED);</p> <p>Mr K P Ariyaratne (Director/CEO).</p>	<p>Recommended to the Board the revisions to:</p> <ul style="list-style-type: none"> Delegated Authority Limits for Lending Officers. Policy on Delegated Lending Authority. Single Borrower Limits overall Single Borrower Limits – Related parties. Lending Guidelines. <p>Reviewed:</p> <ul style="list-style-type: none"> Overall credit portfolio of the branches. Credit risk profile of the Bank. Independent credit risk reviews. Exposure to different sectors. NPA recoveries.
Independent Non-Executive Directors	1												
Non-Independent Non-Executive Directors	2												
Executive Directors	1												
Chairman	Independent Non-Executive Director												
Quorum	2 members												
<p>Board Marketing and Product Development Committee</p> <p>To review the overall marketing plans of the Bank to ensure that the plans aim at optimising value creation for the Bank and support the Strategic goals. To assess all deposit, lending and investment products of the Bank on a regular basis and satisfy itself that the Bank is actively pursuing new product opportunities and developing viable products with the aim of achieving business growth.</p>	<table border="0"> <tr> <td>Independent Non-Executive Directors</td> <td>2</td> </tr> <tr> <td>Non-Independent Non-Executive Directors</td> <td>2</td> </tr> <tr> <td>Executive Directors</td> <td>1</td> </tr> <tr> <td>Chairman</td> <td>Independent Non-Executive Director</td> </tr> <tr> <td>Quorum</td> <td>2 members</td> </tr> </table> <p>Head of Marketing and Chief Financial Officer attended the meetings on invitation.</p>	Independent Non-Executive Directors	2	Non-Independent Non-Executive Directors	2	Executive Directors	1	Chairman	Independent Non-Executive Director	Quorum	2 members	<p>Ms S K Salgado (IND NED) – Chairperson;</p> <p>Mr W M R S Dias (Non-IND NED/Chairman);</p> <p>Mr A S Wijesinha (IND NED);</p> <p>Mr K P Ariyaratne (Director/CEO);</p> <p>Mr D M D K Thilakarathne (Non-IND NED).</p>	<p>Reviewed:</p> <ul style="list-style-type: none"> Return on Investments and Product Profitability. Marketing initiatives and strategies. New brand propositions. Marketing Plan 2020.
Independent Non-Executive Directors	2												
Non-Independent Non-Executive Directors	2												
Executive Directors	1												
Chairman	Independent Non-Executive Director												
Quorum	2 members												
<p>Board Sustainability Committee</p> <p>To make decisions on behalf of the Board within the framework of the authority and responsibility and work closely with the representatives of the Executive Sustainability Committee.</p> <p>The GRI (Global Reporting Initiative) Sustainability Reporting Guidelines shall be the guideline for sustainability reporting.</p>	<table border="0"> <tr> <td>Independent Non-Executive Directors</td> <td>1</td> </tr> <tr> <td>Non-Independent Non-Executive Directors</td> <td>2</td> </tr> <tr> <td>Executive Directors</td> <td>1</td> </tr> <tr> <td>Chairman</td> <td>Independent Non-Executive Director</td> </tr> <tr> <td>Quorum</td> <td>2 members</td> </tr> </table> <p>Head of Marketing; Chief Financial Officer and the Sustainability Manager attended the meetings on invitation.</p>	Independent Non-Executive Directors	1	Non-Independent Non-Executive Directors	2	Executive Directors	1	Chairman	Independent Non-Executive Director	Quorum	2 members	<p>Ms S K Salgado (IND NED) – Chairperson;</p> <p>Mr K P Ariyaratne (Director/CEO);</p> <p>Mr S V Corea (Non-IND NED);</p> <p>Mr D M D K Thilakarathne (Non-IND NED).</p>	<p>Reviewed:</p> <ul style="list-style-type: none"> Progress of the “Seylan <i>Pahasara</i>” project for 250 school libraries. Implementation of the Environment and Social Risk Management Policy and System. Initiated the development of an improved Sustainability Strategy for the Bank integrated to the business model of the Bank.
Independent Non-Executive Directors	1												
Non-Independent Non-Executive Directors	2												
Executive Directors	1												
Chairman	Independent Non-Executive Director												
Quorum	2 members												

Scope and Objectives of the Committee	Present Composition	Membership of Directors	Highlights of Activities during the year										
<p>Board Governance and Compliance Committee</p> <p>To assist the Board in adopting appropriate governance standards for the Bank in fulfilling the Board's responsibility for oversight of the corporate governance processes and practices and compliance practices of the Bank consistent with relevant rules, regulations and directions and principles in force and that may come into force from time to time.</p>	<table border="1"> <tr> <td>Independent Non-Executive Directors</td> <td>2</td> </tr> <tr> <td>Non-independent Non-Executive Directors</td> <td>2</td> </tr> <tr> <td>Executive Directors</td> <td>Nil</td> </tr> <tr> <td>Chairman</td> <td>Independent Non-Executive Director</td> </tr> <tr> <td>Quorum</td> <td>2 members</td> </tr> </table> <p>Director/CEO and Head of Compliance were present on invitation.</p>	Independent Non-Executive Directors	2	Non-independent Non-Executive Directors	2	Executive Directors	Nil	Chairman	Independent Non-Executive Director	Quorum	2 members	<p>Mr P L S K Perera (IND NED); – Chairman;</p> <p>Mr W M R S Dias (Non-IND NED);</p> <p>Ms M C Pietersz (IND NED)/ Senior Director;</p> <p>Mr S V Corea (Non-IND NED).</p>	<p>Recommended to the Board:</p> <ul style="list-style-type: none"> the Fit and Proper Persons Policy for the Bank. the Policy Governing Insider Dealing. the Policy on Seeking Independent Professional Advice by Directors. the revised Corporate Governance Framework of the Bank. Terms of Reference of the Committee.
Independent Non-Executive Directors	2												
Non-independent Non-Executive Directors	2												
Executive Directors	Nil												
Chairman	Independent Non-Executive Director												
Quorum	2 members												
<p>Board Strategic Plan Committee</p> <p>Overseeing, monitoring and providing the necessary guidance to drive the Bank's four-year Strategic Plan 2017-2020 to ensure that the Bank achieves the objectives of the Strategic Plan within the set timelines.</p>	<table border="1"> <tr> <td>Independent Non-Executive Directors</td> <td>3</td> </tr> <tr> <td>Non-Independent Non-Executive Directors</td> <td>Nil</td> </tr> <tr> <td>Executive Directors</td> <td>1</td> </tr> <tr> <td>Chairman</td> <td>Independent Non-Executive Director</td> </tr> <tr> <td>Quorum</td> <td>2 members</td> </tr> </table> <p>Senior Management and heads of strategic business units attended the meetings on invitation.</p>	Independent Non-Executive Directors	3	Non-Independent Non-Executive Directors	Nil	Executive Directors	1	Chairman	Independent Non-Executive Director	Quorum	2 members	<p>Mr A S Wijesinha (IND NED) – Chairman;</p> <p>Mr K P Ariyaratne (Director/CEO);</p> <p>Ms S K Salgado – (IND NED);</p> <p>Mr D R Abeyesuriya (IND NED).</p>	<p>Reviewed and provided relevant advice and guidance on:</p> <ul style="list-style-type: none"> Operational plan implementation of the strategic initiatives. Activity Key Performance Indicators by the Business Units. Initiative timelines for the strategic plan implementation. Roll over of the operationalisation and continuation of the Strategic Plan 2020 to the process owners. Reviewed the strategic plan with new/revamped strategic imperatives to meet current day challenges consequent to the rapid and adverse changes in the external environment. Progress made on the implementation of the new/rolled over initiatives.
Independent Non-Executive Directors	3												
Non-Independent Non-Executive Directors	Nil												
Executive Directors	1												
Chairman	Independent Non-Executive Director												
Quorum	2 members												
<p>Board Information Technology Committee</p> <p>To assist the Board in fulfilling its corporate governance and oversight responsibilities for the Bank's investments and strategy in relation to digital, information technology, and information systems.</p>	<table border="1"> <tr> <td>Independent Non-Executive Directors</td> <td>2</td> </tr> <tr> <td>Non-Independent Non-Executive Directors</td> <td>Nil</td> </tr> <tr> <td>Executive Directors</td> <td>1</td> </tr> <tr> <td>Chairman</td> <td>Independent Non-executive Director</td> </tr> <tr> <td>Quorum</td> <td>2 members</td> </tr> </table>	Independent Non-Executive Directors	2	Non-Independent Non-Executive Directors	Nil	Executive Directors	1	Chairman	Independent Non-executive Director	Quorum	2 members	<p>Mr D R Abeyesuriya (IND NED) – Chairman;</p> <p>Mr K P Ariyaratne (Director/CEO);</p> <p>Mr A S Wijesinha (IND NED).</p>	<ul style="list-style-type: none"> Committee established in 2019 with a Terms of Reference approved by the Board. Overall review of the IT project investments IT Strategic Plan Roadmap progress with focus on key digital initiatives Key IT projects updates.
Independent Non-Executive Directors	2												
Non-Independent Non-Executive Directors	Nil												
Executive Directors	1												
Chairman	Independent Non-executive Director												
Quorum	2 members												

Membership of the Directors in the Board Subcommittees as at 31 December 2019 and number of Subcommittee meetings attended by the Directors during the year

	Audit	Integrated Risk Management	Human Resources and Remuneration ¹	Nomination ²	Credit	Marketing and Product Development	Sustainability	Governance and Compliance	Related Party Transactions Review	Strategic Plan	Information Technology
Mr W M R S Dias, (Non-IND NED/ Chairman)		(M) 4 of 4		(M) 4 of 4		(M) 3 of 3		(M) 4 of 4			
Mr W D K Jayawardena, (Non-IND NED/ Deputy Chairman)	(M) 4 of 14			(M) 3 of 4							
Ms M C Pietersz, (IND NED/ Senior Director)	(C) 14 of 14	(M) 4 of 4	(C) 7 of 7	(C) 4 of 4				(M) 4 of 4	(M) 4 of 5		
Mr K P Ariyaratne, (EXD/Chief Executive Officer)		(M) 4 of 4			(M) 21 of 24	(M) 2 of 3	(M) 3 of 3			(M) 3 of 3	(M) 2 of 2
Mr P L S K Perera, (IND NED)	(M) 13 of 14	(M) 4 of 4		(M) 3 of 4				(C) 4 of 4	(C) 5 of 5		
Mr S V Corea, (Non-IND NED)			(M) 7 of 7		(M) 20 of 24		(M) 3 of 3	(M) 4 of 4	(M) 4 of 5		
Mr A S Wijesinha (IND NED)				(M) 2 of 4	(C) 22 of 24	(M) 3 of 3			(M) 5 of 5	(C) 3 of 3	(M) 2 of 2
Ms S K Salgado (IND NED)			(M) 7 of 7			(C) 3 of 3	(C) 3 of 3			(M) 3 of 3	
Mr D M D K Thilakarathne (Non-IND NED)					(M) 23 of 23	(M) 2 of 2	(M) 3 of 3				
Mr D R Abeyuriya (IND NED)	(M) 14 of 14	(C) 4 of 4	(M) 7 of 7							(M) 3 of 3	(C) 2 of 2

C – Chairperson of Committee; M – Member of the Committee; NED: Non-Executive Director; IND: Independent Director; EXD: Executive Director

1 – Board Human Resources and Remuneration Committee – One additional special meeting which was held on short notice was not counted for attendance

2 – Board Nomination Committee – Two additional meetings which were held on short notice were not counted for attendance

3 (6) (ii) Board Audit Committee (BAC)
3 (6) (ii) (a)-(ii) (b) (✓)

Members and Chairperson of the Board Audit Committee – 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 27 years senior level experience in finance, banking, accounting and audit.

The BAC comprised four Non-Executive Directors during the year 2019, three of whom were independent, namely, Ms M C Pietersz, Mr P L S K Perera and Mr D R Abeyuriya. The fourth member, Mr W D K Jayawardena was a Non-Independent Non-Executive Director.

3 (6) (ii) (c)-(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:

- Reappointment of M/s KPMG, Chartered Accountants as the Bank's External Auditors for audit services in compliance with the relevant regulations

and guidelines. Messrs KPMG were reappointed as the Auditors for the financial year 2019 by the shareholders at the Annual General Meeting held on 28 March 2019.

- Implementation of guidelines issued by the Central Bank of Sri Lanka.
- 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 the International Financial Reporting Standards (IFRS) in all material respects.
- The Audit and non-audit fees of the Auditors.

A new Audit Partner was engaged by the External Auditors for the Bank's audit with effect from the financial year 2019, upon the previous Audit Partner completing the tenure of five years in line with the five year rotation requirement. The incumbent Audit Partner was not engaged in the Bank's audit prior to the current engagement.

Representations were submitted by the External Auditors stating their independence, the objectivity and

effectiveness of the audit processes in accordance with applicable standards and best practices in respect of the audit for the financial year 2019.

3 (6) (ii) (e) (✓)

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. The Policy relating to the engagement of non-audit services was reviewed and revised during the year.

3 (6) (ii) (f) (✓)

Scope of External Audit – The BAC discussed with the External Auditors, the nature and the scope of audit in respect of the financial year, 2019 at a meeting held with the Auditors in the last quarter of 2019. 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 was also carried out by the same External Auditor and therefore, there was no requirement for coordination with more than one audit firm.

3 (6) (ii) (g) (✓)

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 drafts of the quarterly Financial Statements were reviewed by the Internal Audit and any comments or recommendations made by them were taken into consideration and incorporated as appropriate, before they were submitted to the BAC by the Chief Financial Officer. The BAC also reviewed the Audited Interim Financial Statements for the half year ended 30 June 2019 prior to submitting to the Board for review and approval.

3 (6) (ii) (h) (✓)

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. The External Auditors were also invited to meetings of the BAC to present and highlight key audit findings of the 2018 year-end audit, of the 2019 half-year audit, and also to present the Audit Plan of the 2019 year-end audit.

The BAC ensures that there would be no limitation of scope or incidents that could have a negative impact on the effectiveness of the external audit.

3 (6) (ii) (i) (✓)

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 2018 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 2019 and

issued appropriate recommendations and guidance to ensure that issues were duly addressed by the management.

3 (6) (ii) (j) I and (ii) (j) VI (✓)

Internal Audit Scope and Functions – The Bank has in place an Internal Audit Charter which was reviewed and approved during the year 2019. 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.

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 2019. 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 and resolve the audit findings. The Internal Audit Plan/Programme in respect of the year 2019 was approved by the BAC at a meeting held in January 2019, whilst that of the year 2020 was reviewed and approved at a meeting held in December 2019.

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 2019 of the Head of Internal Audit was agreed by the BAC. The Committee also carried out an evaluation of the performance of the Head of Internal Audit and also noted the performance appraisals of the unit heads of the Internal Audit.

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. There were neither appointments nor cessation of employment of any of the senior staff members of Internal Audit during the year.

3 (6) (ii) (k) (✓)

Findings of the Internal Audit – Internal Audit findings highlighting major/high risk issues were reported to the BAC and taken up at the BAC Meetings that followed which reviewed the status including management responses and provided appropriate advice and 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 report on action taken on relevant audit issues and follow up actions needed on audit findings. These were discussed and/or agreed upon. 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; authority to obtain external professional advice; and to invite any persons 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 IFRS nine 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 104 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 is given under Section 3 (6) (i) of this Report.

3 (6) (ii) (q) (✓)

Whistle-Blowing Policy – The Bank has a Whistle-Blowing Policy in place. The BAC has ensured that all employees are duly informed and duly advised of the effective use of the whistle-blowing process. Independent investigations were carried out by the Internal Audit Department on whistle-blower complaints and were reported to the BAC including appropriate follow-up action.

3 (6) (iii) Board Human Resources and Remuneration Committee (BHRRC)

3 (6) (iii) (a) (✓)

Determination of the Remuneration Policy – This is a key responsibility of the Board Human Resources and Remuneration Committee (BHRRC). The BHRRC on behalf of the Board aims to establish a transparent procedure for determining the remuneration, salaries, allowances and other financial or non-financial benefits, perquisites, special incentives, etc., to Directors, the Chief Executive Officer (CEO), the Key Management Personnel (KMPs) as well as other employees of the Bank. A Board approved Remuneration Policy is in place and it is reviewed regularly.

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.

3 (6) (iii) (b) (✓)

Goals and Targets – The Key Performance Indicators (KPIs/goals and targets) of Director/CEO for the year 2019 were tabled and approved by the Board upon being recommended by the Committee. The KPIs for the KMPs were thereafter submitted to the meeting of the Committee 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 (the CEO) and the KMPs against the approved KPIs for the year 2018 and determined the revision of

remuneration and profit/performance based bonus in respect of the year 2018.

3 (6) (iii) (d) (✓)

Proceedings at Meetings of the BHRRC – Eight meetings were held during the year. The CEO attended 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 (BNC)

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 is within the scope and responsibilities of the Committee as specified in its Terms of Reference. The BNC has adopted a Board approved Policy Governing Appointment of Directors for this purpose.

3 (6) (iv) (b) (✓)

Re-election of current Directors – The BNC considered and recommended the re-election of Directors who were due to retire in accordance with the Companies Act and the Bank's Articles of Association taking into account their contribution to the Board. Upon obtaining the Board's concurrence to the BNC's recommendation, they were included in the Agenda of the Annual General Meeting (AGM) proposing and seeking shareholders' approval for the re-election. Non-Executive Directors, Mr W M R S Dias, and Mr S V Corea were re-elected at the AGM held on 28 March 2019 by the shareholders in terms of Article 82 of the Articles of Association.

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

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

2019 – Mr W M R S Dias and Mr S V Corea

Re-election of Directors in 2020

The BNC and the Board have recommended the proposals for the re-election of Non-Executive Directors, Mr A S Wijesinha, Ms S K Salgado and

Mr W D K Jayawardena, who were identified to retire by rotation in terms of Article 82 at the AGM scheduled to be held on 30 March 2020. The proposals for their re-election have been included in the Notice of the AGM to seek shareholders' approval.

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 for appointments or promotions to the positions of key management personnel such as CEO and KMPs. These are documented in the respective job descriptions of the CEO and of 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 were obtained prior to the appointment of Directors and at the time of appointing or promoting to the Key Management Personnel (KMP) position. Prior to the date of the AGM of the Bank, the affidavits and declarations which were submitted by the continuing Directors, were 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 five Non-Executive Directors during the course of the year 2019, majority of the members were independent. The BNC was chaired by Independent Director, Ms M C Pietersz. The CEO attended the meetings of the BNC on invitation.

3 (6) (v) Board Integrated Risk Management Committee (BIRMC)

3 (6) (v) (a) (✓)

Composition of the Committee – During the year, the Board Integrated Risk Management Committee comprised three Independent Non-Executive Directors, one Non-Independent Non-Executive Director, the CEO and the Head of Risk (Acting Chief Risk Officer). The Committee was chaired by Independent

Director, Mr D R Abeysuriya. The Head of Risk (Acting Chief Risk Officer) is the KMP in charge of supervising broad risk categories, i.e., market, liquidity, operations, credit and strategic risks, and reports directly to the Committee. The Head of Compliance and Chief Financial Officer were co-opted to the Committee and they attended the regular meetings of the Committee. Other KMPs and management attended the Meetings when invited by the Committee.

3 (6) (v) (b) (✓)

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 reviewed by the BIRMC and approved by the Board provide a framework for management and assessment of the overall risks to the Bank.

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.

3 (6) (v) (c) (✓)

Effectiveness of Management Level Committees – The reports submitted by the Acting 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.

3 (6) (v) (d) (✓)

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.

3 (6) (v) (e) (✓)

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.

3 (6) (v) (f) (✓)

Action against those who fail to identify specific risks – Officers responsible at branches and/or departments failing to identify specific risks and the consequent impact to the Bank were identified during the internal audit reviews. If such actions required audit investigations, they were carried out accordingly 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.

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.

3 (6) (v) (g) (✓)

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.

3 (6) (v) (h) (✓)

Compliance Function – The Bank has in place an Independent Compliance function headed by "Head of Compliance", who is a KMP. The Head of Compliance reports directly to the BIRMC. She submitted quarterly updates of the status of compliance to the BIRMC and also to the Board on a monthly basis. The Committee closely scrutinised the status of compliance with mandatory banking and other statutory requirements and also the systems and procedures that are in place to ensure compliance with such requirements by providing appropriate guidance and advice.

3 (7) Related Party Transactions

3 (7) (i) (✓)

Avoidance of Conflicts of Interest – The Bank's Board approved Policy and Process on Related Party Transactions

(RPTs) and Avoidance of Conflicts of Interest (hereinafter referred to as the Policy or Policy on RPTs) was reviewed and adopted during the year. The Directors were aware of their responsibility towards complying with the requirements of this Policy and they ensured that conflicts of interest did not arise when transactions which were considered at Board and Board Subcommittee meetings in which they had an interest, particularly with related parties of the Bank as defined in Direction No. 3 (7) (i), which includes any of the following:

- The Bank's subsidiary companies;
- The 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.

3 (7) (ii) (✓)

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.

3 (7) (iii) (✓)

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 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.

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 subcommittee of the BIRMC, namely the Executive Credit Risk Management Committee. The Head of Risk Management reports the level of exposure to the related parties in its quarterly updates to the BIRMC.

The Board approved Policy on RPTs emphasises 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 Compliance Unit on a quarterly basis. The Compliance Unit has adopted a mechanism to monitor and ensure that the policy is duly complied with.

3 (7) (iv) (✓)

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 of the Central Bank of Sri Lanka (The Monetary Board).

3 (7) (v) (✓)

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

No circumstances arose during the year to comply with this requirement.

3 (7) (vi) (✓)

Accommodation to employees or related parties connected to the employees

No accommodation has been granted on “more favourable” terms such as waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other in respect of accommodations to employees based on the scheme/s applicable to the employees of the Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.

3 (7) (vii) (✓)

Prior approval of Monetary Board for Remittance of Accommodation

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.

3 (8) Disclosures

3 (8) (i) (✓)

Annual Audited Financial Statements and Quarterly Financial Statements – The Annual Audited Financial Statements and Quarterly Financial Statements were prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and the Accounting Standards. Annual Audited Financial Statements were published in the Annual Report while the Quarterly Financial Statements were published in the newspapers in all three languages.

The above Reports were released to the Colombo Stock Exchange (CSE) and uploaded on its website www.cse.lk for the information of the shareholders and the general public prior to publishing in the newspapers. The reports were also made available on the Bank’s corporate website www.seylan.lk. Please refer The “Financial Calendar” page in this Annual Report for the relevant dates.

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	76 to 79
Fitness and Propriety	Report of the Board of Directors	116
Details on Directors’ interest in other entities	Annexure to the Report of the Board of Directors	120 to 122
Transactions with the Bank/ Related Party Transactions	Note 51 to the Financial Statements	237
Fees/Remuneration paid to Directors	Disclosure under Direction 3 (8) (ii) (f) of this report	102

3 (8) (ii) (a) (✓)

Statement of Directors’ Responsibility for Financial Reporting and Statements of the Chief Executive Officer’s and Chief Financial Officer’s Responsibility for Financial Reporting – These two reports have been published in this Annual Report. They confirm that the Financial Statements for the year ended 31 December 2019 conforms to the rules and regulatory requirements. (Reference: pages 150 and 151).

3 (8) (ii) (b) (✓)

Directors’ Statement on Internal Control – The Statement on Internal Control published in this Annual Report 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. (Reference: pages 109 and 110).

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” and the same is published in this Annual Report. (Reference: pages 111).

3 (8) (ii) (e) (✓)**Total net accommodations to related parties**

Accommodation granted to related parties is given in Note 51 to the Financial Statements.

The net accommodation as at 31 December 2019, 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 Personal and their close relations (Transactions including credit card accommodations)	317.52	0.56
Subsidiary, Seylan Developments PLC	175.00	0.31
Material shareholders of the Bank and concerns in which a director of the Bank or material shareholder has a substantial interest	12,399.86*	21.87
Other entities including common directorship entities	4,370.95**	7.71

*Includes accommodations non-funded, undrawn facilities - LKR 4,199.12 Mn.

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

**Includes accommodations non-funded, undrawn facilities - LKR 2,322.33Mn.

3 (8) (ii) (f) (✓)**Remuneration to KMPs and transactions with KMPs and aggregate values of the transactions of the Bank with its KMPs**

The aggregate remuneration paid to KMPs and transactions of the Bank with KMPs during the year 2019 were as follows:

Remuneration/Transaction	Amount LKR Mn.
Remuneration to KMPs (as per CBSL definition)*	292.11
Directors' Fees for Non-Executive Directors	29.73
Loans and Advances (including Credit Card accommodations to KMPs and Non-Executive Directors)	317.52
Deposits of KMPs and Non-Executive Directors	331.50
Investments by KMPs and Non-Executive Directors - Other Investments (Liability)	129.04

* Includes cash/non-cash 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 4,750 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.

3 (8) (ii) (h) (✓)**Compliance with prudential requirements, regulations, laws and internal controls**

Statement of Directors' Responsibility for Financial Reporting and Directors'

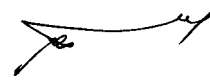
Statement on Internal Controls published in this Annual Report provide the extent of the Bank's compliance in this regard. There were no material non-compliance of prudential requirements, regulations, laws and internal controls which affected the Bank during the year.

3 (8) (ii) (i) (✓)**Supervisory Concerns**

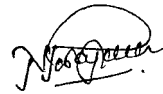
There were no significant supervisory concerns on lapses in the Bank's risk management system or non-compliance with these Directions that have been pointed out by the Director, Bank Supervision, Central Bank of Sri Lanka and directed to be disclosed to the public.

Confirmation

In terms of Direction 3 (8) (ii) (g) of the Banking Act Direction No. 11 of 2007, on behalf of the Board of Directors, we confirm that the findings of the "Factual Findings Report" dated 21 February 2020 issued by the Auditors, Messrs KPMG, Chartered Accountants to the Board of Directors pursuant to the agreed-upon procedure carried out by them in accordance with "Sri Lanka Related Services Practice Statement 4750" are consistent with the matters disclosed in the above Annual Corporate Governance Report on the mandatory compliance with the Banking Act Direction No. 11 of 2007 (as amended).



W M R S Dias
Chairman



Mrs N N Najumudeen
Company Secretary

21 February 2020
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.

Section 7.10 (c) of the CSE Rules 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 disclosures on its compliance with the Banking Act Directions on Corporate Governance, and other disclosures published in this Annual Report adequately addresses the level of compliance with the principles of the Code of Best Practice on Corporate Governance 2017 published by the ICASL. Relevant references to the disclosures required as per Schedule I of the Code are listed below:

Subject	Code of Best Practice Principle Reference	Reference to Section of the Annual Report/Remarks	Page
Chairman and CEO	A.2.1 and A.5.7	Corporate Governance (CG) Report – CBSL Direction No. 3 (5)	92
Board Balance	A.5.5	CG Report – CBSL Direction No.3 (2)	89
Nomination Committee	A.7.1	CG Report – CBSL Direction No. 3 (6) (iv) Report of the Board Nomination Committee	99
New Directors Appointed and their details including directorships and status of independence	A.7.3	Profile of Directors Annexure to the Report of the Board of Directors CG Report – CBSL Direction No. 3 (2) (iv)	76 120 89
Appraisal of Board Performance	A.9.4	CG Report – CBSL Direction No.3 (1) (i) (i)	87
Board Related Disclosures (Profile, status, directorships, attendance, subcommittee membership, etc.)	A.10.1	Profile of Directors Annexure to the Report of the Board of Directors CG Report – CBSL Direction Nos. 3 (1) (vi) and 3 (6) (i)	76 120 88 and 92
Disclosure of Remuneration	B.3 and B.3.1	CG Report – CBSL Direction No. 3 (8) (ii) (f)	102
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 2019 warranting disclosure in the Annual Report. Related party transactions are disclosed in Note 51 to the Financial Statements.	237
Audit Committee	D.3.3	CG Report – CBSL Direction No. 3 (6) (ii)	97
Code of Business Conduct and Ethics	D.5.1 and D.5.4	CG Report	85
Communication with Shareholders	C.2.2 to C.2.7	CG Report – CBSL Direction Nos. 3 (1) (i) (d); 3 (5) (iv) – (x) f.	86 and 92
Remuneration Committee Report	B.1.3	Report of the Board Human Resources and Remuneration Committee	105
Directors' Report	D.1.4	Report of the Board of Directors on the State of Affairs of the Company	112
Financial Statements – Statement of Responsibility	D.1.5	Statement of Directors' Responsibility for Financial Reporting	150
Related Party Transactions	D.1.8	CG Report – CBSL Direction No. 3 (7)	100
Management Report	D.1.6	Value Creation Story	23
Corporate Governance Report Compliance with Provisions of the above Code of Best Practice	D.6.1	Please refer statement in the opening paragraph of this section.	
Audit Committee Report	D.3.2	Report of the Board Audit Committee	104
Related Party Transactions Review Committee Report	D.4.3	Report of the Related Party Transactions Review Committee	108
Statement of Internal Control	D.1.5 and D.2.4	Directors' Statement on Internal Control	109 and 110
Report on Internet of Things and Cyber security	G.5	Risk Management (reviewing information risk, integrity and availability)	123
Environment, Society and Governance (ESG) Reporting	H.1.1 to H.1.4	Value Creation Story	23

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 2019. This Report was approved by the Board of Directors.

Objective and Terms of Reference

The objective of the BAC is to assist the Board to fulfil its oversight responsibilities including but not limited to providing insights for the financial reporting process, 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 was reviewed by the Committee 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 P L S K Perera, Independent Director
- Mr D R Abeyesuriya, Independent Director

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 members are given on page 76 of this Annual Report. The Company Secretary functioned as the Secretary to the Committee during the year.

Meetings

The Committee held 14 meetings during the year, which included two meetings with the External Auditors without the presence of the Director/Chief Executive Officer (“the CEO”) and the management.

The Head of Internal Audit who independently reports to the BAC and the Chief Financial Officer attended the regular meetings of the Committee. The CEO and other members of the senior management/staff of the Bank were invited to the meetings as and when the Committee required their presence to respond to queries related to internal audit findings.

Attendance of the Members at the Audit Committee Meetings

The attendance of the members at the meetings is presented in the table appearing on page 97 of this Annual Report.

Responsibilities of the Committee

Effective Internal Control over Financial Reporting

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, (estimates and judgement made by the management, adoption of new accounting standards), internal controls and the risk management process.

External audit

The meetings of the Committee with the External Auditors, Messrs KPMG focused on discussing the findings and recommendations arising from the conduct of the annual and half-year audits; the scope of external audit plan for the year 2019 and compliance with the Standards on Financial Reporting.

Two meetings were held by the Committee with the External Auditors without the presence of the executive management, during the year and it was ensured that there was no limitation of scope or incidents that could have a negative impact on the effectiveness of the external audit.

The Committee 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. The Bank’s Policy on Non-Audit Services by the Independent External Auditors was reviewed by the Committee and approved by the Board during the year.


The Committee determined the independence of the External Auditors, Messrs KPMG, as per the provisions of the Companies Act and the ICASL’s Code of Professional Conduct and recommended their reappointment as the Auditors of the Bank for the financial year ended 2020, subject to the concurrence of its recommendation by the Board and approval of the Shareholders at the forthcoming Annual General Meeting. The Audit Partner who was engaged from the financial year 2014 completed his tenure of five years as at the financial year ended 31 December 2018 and a new Audit Engagement Partner was assigned by M/s KPMG from the financial year 2019.

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 2019.

Compliance with the Banking Act Direction on Corporate Governance

Further overview of the responsibilities executed by the Committee and the extent of compliance with the Banking Act Direction No. 11 of 2007 on Corporate Governance are described in Section 3 (6) (ii) of the Corporate Governance Report published in this Annual Report.



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

21 February, 2020

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 2019. 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. The Committee provides necessary guidance and advice on matters of strategic importance related to human resources and remuneration of other employees of the Bank as well.

The terms of reference of the Committee covering the structure, scope and responsibilities of the Committee was reviewed and approved by the Board during the year.

Composition of the Committee

As at 31 December 2019, the Committee comprised:

- Ms M C Pietersz, Independent Director/ Senior Director – Chairperson of the Committee
- Mrs S K Salgado, Independent Director
- Mr D R Abey Suriya, Independent Director
- Mr S V Corea, Non-Executive Director

Non-Executive Director, Mr D M D K Thilakaratne was appointed to the Committee with effect from 1 January 2020 as approved by the Board on 23 December 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 eight meetings during the year which included six regular meetings and two special meetings. 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 table providing Directors’ attendance at Subcommittee meetings on page 97 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. The Policy was reviewed and adopted with revisions during the year.

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 Directors upon their resignation or retirement in addition to normal fees and/or remuneration shall be subject to the recommendation of the Committee and approval of the shareholders. No such circumstances arose during the year that required shareholder approval and/or disclosure in this Annual Report.

Aggregate remuneration to Directors, CEO and the KMPs


Aggregate remuneration paid to the Directors, CEO, and the KMPs are disclosed under Sections 3 (8) (ii) (f) in the table reporting compliance with the Banking Act Directions on Corporate Governance on page 102 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 page 99. One of the key recommendations of the Committee, which was approved by the Board during the year, was the review of the existing performance based bonus structure for the management and putting in place a new performance bonus model and scheme, with the objective of rewarding high performers for their contribution towards higher business growth targets.

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
(Independent Director/Senior Director)
Chairperson – Board Human Resources and Remuneration Committee

21 February 2020

Report of the Board Nomination Committee

The Board Nomination Committee ("Committee") presents its Report for the year ended 31 December 2019. 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

As at 31 December 2019, the Committee comprised:

- Ms M C Pietersz, Independent Director/ Senior Director – Chairperson of the Committee
- Mr W M R S Dias, Non-Executive Director/Chairman
- Mr W D K Jayawardena, Non-Executive Director/Deputy Chairman
- Mr P L S K 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 of the Committee were tabled at Board Meetings for perusal and comments or appropriate decisions. Attendance of the members at the meetings of the Board Nomination Committee is presented in the table providing Directors' attendance at subcommittee meetings on page 97. The Director/Chief Executive Officer (CEO) 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 99 of this Annual Report. Some of the key responsibilities executed by the Committee during the year, in line with its Terms of Reference are listed below. Related policies and procedures for the implementation of such responsibilities are in place and reviewed periodically.

1. Advised and made recommendations on the appointment of KMPs, pursuant to assessing whether such appointees are fit and proper persons to hold office;
2. Re-election of Directors in terms of the Articles of Association of the Company, taking into account the performance and contribution made by the Directors concerned towards the overall discharge of the Board's responsibilities;
3. Reviewed and made recommendations on structural changes and reporting lines in line with the Bank's strategic requirements;
4. Ensured succession arrangements are in place for the post of CEO and KMPs and put in place of a training and development plan for the KMPs identified for succession.

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

21 February 2020

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 2019. The Report was approved by the Board of Directors.

Scope and objective of the Committee

To assess on a regular basis through appropriate risk indicators and management information, all risk categories including credit, market, liquidity, operational and strategic risks facing the Bank and its reputation, and also to assess the risks faced by its associates and subsidiary companies.

The mandate of the BIRMC as 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 such risks.

The Integrated Risk Management Framework of the Bank was reviewed comprehensively and approved during the year.

Composition of the BIRMC

As at 31 December 2019, the Committee comprised the following members:

- Mr D R Abeyesuriya, 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 P L S K Perera, Independent Director
- Mr K P Ariyaratne, Director/CEO
- Mr L A S Fernando, Acting Chief Risk Officer

The members of the Committee possess experience in risk management, banking and finance and business management. Profiles of the Directors holding membership in the Committee are provided in pages 76 of the Annual Report.

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. Copies of the confirmed minutes of meetings were made available to the Board of Directors for information whilst recommendations of the Committee were submitted to the Board for review and appropriate decision.

The Acting Chief Risk Officer was present at all meetings of the Committee. Directors who were members of the Committee were also present at all four meetings during the year. The Head of Compliance and the Chief Financial Officer attended the regular meetings of the Committee. Other management members attended the meetings from time to time when invited by the Committee.

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 outlined under Sections 3 (6) (v) (a) to 3 (6) (v) (h) of the Corporate Governance Report published in the Annual Report on page 99.

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 is not limited to); review and recommendation of policies related to risk management, review and in-depth deliberation on the effectiveness of the Bank's credit rating model, business continuity planning, disaster recovery testing, information security risk controls, etc. 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 Mr Aruna Fernando, Acting Chief Risk Officer. The Unit is responsible for creating, managing

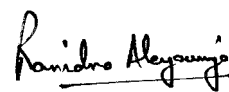
and implementing a bank-wide risk culture. The BIRMC reviewed the adequacy of the activities of the Risk Management Unit and focused on improving communication and implementation of risk management responsibilities at all levels within the Bank. A comprehensive report on Risk Management disclosing the Bank's level of risk management and assessment, including the levels of risk under different risk categories, is presented on pages 123 of the Annual Report.

Compliance function

Ms Dilani Sooriyaarachchi functions as the Head of Compliance. She reports directly to the BIRMC. The Head of Compliance is responsible for ensuring due compliance of the Bank with laws, regulations, internal controls and policies and industry best practices. Periodic updates to the BIRMC were provided by the Head of Compliance on the following regulatory developments and their impact on the Bank; outcome of compliance assessments and corrective/precautionary measures taken where required; findings of internal and external auditors/regulatory audits, etc. Advice and recommendations were provided by the BIRMC on the compliance risks identified, proposed policies and new developments to the compliance function.

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 Abeyesuriya
(Independent Director)
Chairman – Board Integrated Risk Management Committee

21 February 2020

Report of the Related Party Transactions Review Committee

The Related Party Transactions Review Committee (“the Committee” or “RPTRC”) which is a subcommittee of the Board of Seylan Bank PLC (“the Bank”) presents its report for the year ended 31 December 2019. This Report was approved by the Board of Directors.

Scope and terms of reference

The Terms of Reference of the Committee has set out the scope and objective of the Committee in accordance with the Listing Rules of Colombo Stock Exchange (CSE). 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 2019:

- Mr P L S K Perera – Independent Director – Chairman of the Committee
- Ms M C Pietersz – Independent Director/Senior Director
- Mr S V Corea – Non-executive Director
- Mr A S Wijesinha – Independent Director

The Company Secretary functioned as the Secretary to the Committee.

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

Meetings of the RPTRC

The Committee held five meetings during the year. Copies of the confirmed minutes of meetings and recommendations of the Committee were submitted to the Board of Directors for perusal and appropriate action. Details of attendance of the members at the meetings are presented in the subcommittee meetings table on page 97 of this Annual Report.

Related party transactions

The Committee ensured compliance with Section 9 of the Listing Rules of the CSE. 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 decided upon by the Committee prior to submitting to the Board.

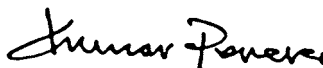
The aggregate value of non-recurrent related party transactions did not exceed 10% of the equity or 5% of the total assets of the Bank during the year requiring disclosure in terms of Section 9.3.2 (a) of the Listing Rules of the CSE.

The aggregate value of the recurrent related party transactions did not exceed 10% of the gross revenue/income of the Bank during the year requiring disclosure in terms of Section 9.3.2 (b) of the Listing Rules of the CSE.

The Bank has in place a Related Party Transaction and Avoidance of Conflict of Interest Policy and Process Document which was reviewed during the year. 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
(Independent Director)
Chairman – Related Party Transactions Review Committee

21 February 2020

Directors' Statement on Internal Control

Responsibility

This report on internal control mechanism of the Bank is presented by the Board of Directors in compliance with Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007.

The Board of Directors ("Board") is responsible for the Bank's system of internal controls and for reviewing its design and operating effectiveness.

However, such a system will mitigate but may not completely eliminate the risk of failure in achieving the business objectives of the Bank. Hence, the system of internal controls can only provide a reasonable but not absolute assurance against material misstatement of financial information and records.

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

The Management assists the Board in implementing its policies and procedures on risk and control by identifying and assessing the relevant risks faced by the Bank and in designing, implementing, operating, and monitoring of appropriate internal controls to mitigate and control such risks. The Board is of the view that the system of internal controls over financial reporting is sound and adequate to provide a reasonable assurance on 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 in place for reviewing the design and effectiveness of the internal control systems over financial reporting

Key processes that are presently in place for reviewing the design, operating effectiveness and the integrity of the system of internal controls relevant 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 strategies, objectives and the annual budget and in approving the policies and business directions 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 regulatory authorities, Internal Audit Department, External Auditors and the Management. They also review the internal audit function with emphasis on the coverage, scope and the quality of internal audits. Minutes of the Audit Committee meetings are tabled at Board meetings of the Bank on a periodic basis. Activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on pages 104.
- Apart from the Audit Committee, several Board committees have been established with a mandate 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, Nomination Committee, Credit Committee, Sustainability Committee, Strategic Plan Committee, Marketing and Product Development Committee, Related Party Transactions Review Committee, and Information Technology Committee.
- Management/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), Executive Credit Risk Management Committee, Executive Market and Operational Risk Management Committee, Executive Crisis Management Committee, Corporate Management Committee, Performance Review Committee, Information Technology Steering Committee and the Business Process Re-engineering 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 on-going basis. Audits are carried out on all business units, functions and branches. Frequency and the scope of audits are determined by the level of risk assessed. The key objective of such audits are to provide an independent and objective assessment on operational and management activities of the business units, functions and branches. The annual internal audit plan is reviewed and approved by the Audit Committee and all 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 reviewed and updated from time to time.
- All controls, including the IT general controls and the branch level application controls, were documented by respective departments, on relevant formats prescribed 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 captured all procedures and controls that are connected with significant accounts and disclosures in the Financial Statements of the Bank. These are reviewed by the Internal Audit Department for adequacy of design and operating effectiveness on an on-going basis.
- Prior to 1 January 2019, the assets held under operating leases were not recognised in the Bank's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. From 1 January 2019, first time, the Bank adopted SLFRS 16 which requires recognition of a right-of-use asset and a lease liability at the lease commencement date. The Bank has carried out the required reviews of all lease agreements and has assessed the impact on Financial Statements. On initial application the Bank opted for a modified retrospective approach and has made all required adjustments to the opening balance as at 1 January 2019. Accordingly, comparatives have not been restated.
- The Bank adopted SLFRS 9 from 1 January 2018 and made an assessment of the objective of the business model classification of financial assets as it best reflects the way the business is managed and information is provided to management. With the introduction of "expected credit loss" under SLFRS 9, the Bank developed models to calculate Expected Credit Losses (ECLs). A number of key assumptions were made by the Bank in applying the requirements of the SLFRS 9 to the models including selection and input of forward looking information. These models are inherently complex and judgement is applied in determining the correct construction of the same. These models developed over the last year were reviewed by the management and amendments were made to the initial assumptions where necessary to reflect the recent and updated data and such amendments made were independently reviewed by External Auditors.
The Bank continues to focus on strengthening the review and testing process of the models developed. The Bank has documented procedures

and policies relating changes made to underlying assumptions during 2019 and obtained approval of the Board Audit Committee and the Board. The Bank's Internal Audit Department commenced reviews and testing these processes in 2019 and will continue to do so with more focus and robust approach in 2020.

The computation of impairment losses from loans and receivables has not been automated yet. Considering the complexity and level of estimation involved in this process, the Board is in the process of evaluating the options available for automation.

Recommendations made by the External Auditors with regard to the internal control system in the financial year ended 31 December 2018 were taken into consideration and appropriate measures were taken to incorporate the recommendations in to the internal controls. Recommendations by the External Auditors with regard to the internal control system made during the financial year ended 31 December 2019 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 a reasonable assurance on 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 excludes 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 2019 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 111 of this Annual Report.

By order of the Board of Directors of
Seylan Bank PLC



W M R S Dias
Chairman



K P Ariyaratne
Director/Chief Executive Officer



Ms Coralie Pietersz
Chairperson - Board Audit Committee

21 February 2020

Auditors' Report on Internal Control



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
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Fax : +94 - 11 244 5872
Internet : +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 2019 set out in pages 109 to 110 in this annual report.

Management's Responsibility for the Statement on Internal Control

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:

- Inquired the directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the directors in the annual report.
- Reviewed the documentation prepared by the directors to support their Statement made.
- Related the Statement made by the directors to our knowledge of the Bank obtained during the audit of the Financial Statements.
- Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
- Attended meetings of the audit committee at which the annual report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.
- Considered whether the Directors' Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising therefrom.
- 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 the internal control system over the financial reporting of the Bank.

Chartered Accountants
Colombo

21 February 2020

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 2019.

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 21 February 2020.

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 2019 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.	113 (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.	155 to 244 (Financial Statements)
168 (1) (c)	Auditor’s report on Financial Statements of the Company and the Group.	152 to 154 (Independent Auditors’ Report)
168 (1) (d)	Changes in Accounting Policies made during the accounting period.	165 to 166 (Notes to the Financial Statements)
168 (1) (e)	Particulars of the entries in the interest register made during the accounting period.	117 (item No. 23 of this Report)
168 (1) (f)	Remuneration and other benefits of the Directors during the accounting period.	195 and 237 (Note 13 and 51.1.1 to the Financial Statements)
168 (1) (g)	Total amount of donations made by the Company during the accounting period.	114 and 195 (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.	116 (item No. 20 of this Report)
168 (1) (i)	Amounts payable to the Auditors as audit fees and fees for other services rendered during the accounting period as a separate disclosure.	195 (Note 13 to the Financial Statements)
168 (1) (j)	Auditors’ relationship or any interest with the Company and its subsidiaries.	119 (item No. 41 of this Report)
168 (1) (k)	Annual Report of the Board signed on behalf of the Board of Directors.	119 (please refer signatures at the end of this Report)

1. Seylan Bank PLC

Seylan Bank PLC is a public limited liability company incorporated in Sri Lanka on 28th 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 was 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, 2018, and 2019 are

listed on the Main Board of the CSE. Fitch Ratings Lanka Ltd. has affirmed the Bank’s National Long-Term Rating at A-(lka) with a stable outlook and has affirmed the Bank’s senior unsecured debentures at A-(lka) whilst assigning a BBB+(lka) for its subordinated debt.

2. Vision and mission and corporate conduct

2.1 Vision and mission

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

Mission:

- We provide our Customers with financial services that meet their needs in terms of value, pricing, delivery, and service.
- We will do so through a team of Seylan Bankers who are recognised and rewarded for being results-oriented.
- 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 while maintaining a high level of ethical standards 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, off-shore 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 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 2019. The Bank received a net dividend of LKR 89,725,616.32 from the subsidiary

during the year under review. Please refer Section 29 of this Report for information on the Board of Directors of SDP.

5. Branch network

As at 31 December 2019, the Bank's branch network comprised of 173 banking centres and 98 student savings centres island-wide. Locations of the banking centres as at the date of this Report as well as locations of off-site ATMs are given in this Annual Report.

6. Review of performance in 2019 and future development plans

Letter from the Chairman, Letter from the Director/Chief Executive Officer and Financial Value Creation, published in this Annual Report provide an overall assessment and review of the operations and financial performance of the Bank during the year 2019 and those reports also refer to the Bank's future development plans.

7. Financial Statements and financial reporting

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

The Audited Financial Statements of the Bank and the Group for the financial year ended 31 December 2019 was certified by the Chief Financial Officer and signed

by two Directors in terms of Section 151, 152 and 168 (l) (b) of the Companies Act No. 07 of 2007 as published in this Annual Report. It is 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) and its Directions, and the Listing Rules of the Colombo Stock Exchange. The Statement of Directors' Responsibility for Financial Reporting which appears in 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 31st December 2019 and their Report on the Financial Statements is published in this Annual Report.

10. Financial results

The income and profit of the Bank and those of the Group for the year ended 31 December 2019 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:

Income	2019		2018	
	Bank LKR Bn.	Group LKR Bn.	Bank LKR Bn.	Group LKR Bn.
Gross income	61.370	61.356	54.873	54.845
Operating income	24.354	24.644	23.192	23.206
Profit before income tax	5.098	5.267	4.666	4.687
Less: income tax	1.418	1.469	1.477	1.536
Profit after income tax	3.680	3.798	3.189	3.151
Profit before additional gratuity expense and after tax	3.738	3.856	4.006	3.968

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 33 to the Financial Statements.

Capital Expenditure approved and contracted for, after the year ended 31 December 2019 is also given in Note 49 to the Financial Statements.

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Property, plant and equipment, leasehold rights, and intangible assets	1,507,629	1,203,633	1,559,895	1,220,469
Net book value of freehold properties	1,537,355	1,575,638	4,213,417	4,169,364

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 97,000/- (Donations made in 2018 amounted to LKR 1,125,000/-).

14. Recommendation of Ordinary Dividend and Solvency Certification

The Directors have recommended a First and Final Ordinary Dividend of LKR 2.00 per share (both ordinary voting and ordinary non-voting) for the year ended 31 December 2019. The dividend of LKR 2.00 per share will consist of LKR 1.00 per share in the form of cash dividend and LKR 1.00 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 30 March 2020 and upon such approval, the dividend will be issued to the shareholders registered as at 30 March 2020 (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.7 of 2007 immediately after the proposed dividend. A Certificate of Solvency has also been obtained by the Bank from the External Auditors in compliance with Section 56 (2) of the Companies Act, confirming the Board's declaration of solvency.

The Bank paid a first and final ordinary dividend of LKR 2.50 per share for the financial year ended 31 December 2018 on 28 March 2019. The dividend of LKR 2.50 per share consisted 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.

15. Reserves

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

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Total reserves (including Statutory Reserve Fund)	27,582,550	22,584,004	29,334,742	24,221,111

16. Stated capital

The Stated Capital of the Bank as at 31 December 2019 was LKR 17,044,722,726.90 (Stated Capital as at 31 December 2018 was LKR 12,025,795,114.70).

16.1 Shareholdings

The number of shares issued by the Bank (and consequently the Stated Capital), during the year increased due to the Scrip Dividends issued and the Rights Issued.

As at 31 December	2019	2018	2019	2018
	Number of shares		Number of shareholders	
Ordinary voting shares	251,477,872	184,104,010	10,041	9,030
Ordinary non-voting shares	252,145,914	181,995,082	7,784	6,728

16.2 Rights issue of ordinary voting shares and ordinary non-voting shares

The Bank's rights issue of ordinary voting shares and ordinary non-voting shares in the last quarter of the year was fully subscribed. 62,869,468 new ordinary voting shares at LKR 45.25 per share {proportion of one (01) new ordinary voting share for every existing three (03) ordinary voting shares} and 63,036,478 new ordinary non-voting shares at LKR 24.50 per share [in the proportion of one (01) new ordinary non-voting share for every existing three (03) ordinary non-voting shares] were allotted to the subscribers to the issue, on 10 December 2019. These shares were listed on the Colombo Stock Exchange on 20 December 2019.

Utilisation of funds raised through the Rights Issue

Objective No.	Objective as per Circular to shareholders	Proposed date of utilisation as per the Circular	Amount allocated as per the Issue Circular LKR	Amount allocated from proceeds LKR (A)	% of total proceeds	Amount utilised in LKR (B)	% utilised against allocation (B/A)	Details, if not fully utilised
1.	To increase the Tier 1 capital of the Company and thereby to strengthen the capital adequacy of the Company	With effect from the Date of Allotment*	4.389 Bn.	4.389 Bn.	100	4.389 Bn.	100	N/A
2.	To strengthen the balance sheet to support the business growth, expansion, and performance of the Company	Within 6 months from the date of the allotment						

*Incorporated for the capital adequacy as at 31 December 2019.

16.3 Capital management

The Bank has an ongoing process to evaluate the adequacy of capital in line with strategic aspirations and to comply with the Basel III guidelines. A detailed review on capital management of the Bank during the year under review is discussed in the Risk Management Report published in this Annual Report.

17. Investor information

Information including earnings, 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 252 and 253.

17.1 Minimum public holding requirement as at 31 December 2019

The Bank was compliant under Option 3 of the Section 7.13.1 of the Rules of the Colombo Stock Exchange.

Float adjusted market capitalisation	LKR 7.240 Bn.
Public holding percentage	54.84%
Number of public shareholders	10,021

17.2 Analysis of the shareholding distribution and major shareholders

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

18. Debentures

18.1 Debentures in Issue

	LKR
Value of Debentures as at 1 January 2019	15,906,590,000
Allotment of new debentures – Debenture Issue 2019	5,000,000,000
Redemption of Debentures 2014 (5 year category) on 23 December 2019	1,866,550,000
Total value of Debentures as at 31 December 2019	19,040,040,000

Further information on the debenture issues are provided in the Investor Information section in this Annual Report.

18.2 Debenture Issue 2019

The Bank's issue of 50,000,000 fully paid, BASEL III compliant, Tier 2, listed, rated, unsecured, subordinated, redeemable debentures with a non-viability conversion, of the par value of Rupees Hundred each (LKR 100.00) aggregating to a value of Rupees Five Billion (LKR 5,000,000,000.00) by way of a public issue was fully subscribed and such debentures were allotted to the successful investors on 18 April 2019. Please refer table below for details of the debentures issued:

	Type A 5 year debentures - interest payable annually @ 15% p.a.	Type B 5 year debentures - Interest payable semi-annually @ 14.50% p.a.
Number of Debentures issued	37,734,000	12,266,000

The funds raised were used for the objectives mentioned in the Prospectus of the Issue as detailed in Section 18.3.

18.3 Utilisation of funds of the Debenture Issue 2019

Objective No.	Objective as per Prospectus	Proposed date of utilisation as per Prospectus	Amount allocated from proceeds in LKR (A)	% of total proceeds	Amount utilised in LKR (B)	% Utilised against allocation (B/A)	Details, if not fully utilised
1.	To strengthen the Tier 2 Capital base of the Bank as per BASEL III requirements	With effect from the closure of the Issue					
2.	To meet the current credit demand (loans and advances) of the Bank	Over the period of twelve months from the date of allotment or 31 December 2019 whichever is earlier	5.0 Bn.	100	5.0 Bn.	100	N/A

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 from 1 January to 31 December 2019

Name of Director	Status of Directorship
Mr W M R S Dias	Non-independent Non-Executive Director/Chairman
Mr W D K Jayawardena	Non-independent Non-Executive Director/Deputy Chairman
Ms M C Pietersz	Independent Non-Executive Director/Senior Director
Mr K P Ariyaratne	Director/Chief Executive Officer
Mr P L S K Perera	Independent Non-Executive Director
Mr S V Corea	Non-independent Non-Executive Director
Mr A S Wijesinha	Independent Non-Executive Director
Ms S K Salgado	Independent Non-Executive Director
Mr D M D K Thilakaratne	Non-independent Non-executive Director
Mr D R Abeyesuriya	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 Subcommittees are given on pages 76 to 79 of this Annual Report.

20.2 Change of directorate

Independent Non-Executive Director, Mr S P S Ranatunga retired from the services of the Bank with effect from 12 January 2019 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).

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 Rule 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) issued by the Directors

declaring their “fit and proper” status, prior to the Annual General Meeting held in 2019 were submitted to the Director, Bank Supervision, Central Bank of Sri Lanka. The Central Bank approved the continuation of office of those Directors.

20.5 Evaluation and self-assessment by the Board of Directors

The Board members carried out an evaluation of the Board’s performance and effectiveness and also that of its Committees in line with good governance practices. Each member of the Board also carried out a self-assessment of his/her effectiveness as an individual as well as the effectiveness of the Board as a team during the year.

20.6 List of Directorships of the Directors in other entities

Lists of Directorships as at 31 December 2019 held by the Directors in other entities and their substantial/material shareholdings if any, are provided in the Annexure that follows this Directors' 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 of Directors

In terms of Article 82 of the Articles of Association, Independent Directors, Mr A S Wijesinha, Ms S K Salgado, and Non-Executive Director/Deputy Chairman, Mr W D K Jayawardena 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.

22. Meetings of the Board of Directors

Twelve Regular monthly meetings and three special meetings were held during the year. The special meetings were held to consider and decide on important and urgent issues. A schedule of Directors' attendance at Board meetings and a schedule of Directors' attendance at Board Subcommittee meetings are presented in the Corporate Governance Report published in this Annual Report.

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, 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 for recommendation or approval due to conflict of interest, and those Directors 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 2019:

Name of Director	31 December 2019	31 December 2018	Shares/Debentures
Mr W M R S Dias	Nil	Nil	
	50,000	50,000	Debentures 2018
Mr W D K Jayawardena	Nil	Nil	
Ms M C Pietersz	50,000	N/A	Debenture issue 2019
Mr K P Ariyaratne	63,186	38,206	Ordinary voting shares
	207,437	145,395	Ordinary non-voting shares
	32,700	32,700	Debentures 2016
	200,000	200,000	Debentures 2018
	300,000	N/A	Debenture issue 2019
Mr P L S K Perera	Nil	Nil	
Mr S V Corea	97	95	Ordinary voting shares
Mr A S Wijesinha	Nil	Nil	
Mrs S K Salgado	Nil	Nil	
Mr D M D K Thilakarathne	Nil	Nil	
Mr D R Abeyesuriya	Nil	Nil	
Mr R D Tissera	Nil	Nil	

Percentage shareholding of Directors:

31 December	2019	2018
Ordinary Voting shares (%)	0.025	0.02
Ordinary Non-voting shares (%)	0.08	0.08

No change occurred in the Directors' interest in shares and debentures after 31 December 2019 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 2019 are given as a Note to the Financial Statements in this Annual Report.

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 2019/2020.

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 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 2019. A table summarising the scope, composition and responsibilities of these Subcommittees is provided in the Corporate Governance Report published in 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
- Board Information Technology 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 recurrent or non-recurrent related party transaction which required shareholder approval and/or disclosure required in terms of Rule 9.3.1 and 9.3.2 of the CSE Rules.

The aggregate value of non-recurrent related party transactions did not exceed 10% of the equity or 5% of the total assets of the Bank during the year requiring disclosure in terms of Section 9.3.2 (a) of the Listing Rules of the CSE.

The aggregate value of the recurrent related party transactions did not exceed 10% of the gross revenue/income of the Bank during the year requiring disclosure in terms of Section 9.3.2 (b) of the Listing Rules of the CSE.

The Report of the Related Party Transactions Review Committee in respect of the year 2019 is published in this Annual Report.

29. Directorate of the subsidiary, Seylan Developments PLC

The Board of the Bank's Subsidiary, Seylan Developments PLC as at 31 December 2019 comprised six Directors, all of whom were Non-Executive, namely, Messrs, K P Ariyaratne (Chairman), S Palihawadana (Deputy Chairman), R J Jayasekara, P D Hennayake, P Saravanapavan and LT Kiringoda. Mr P Saravanapavan, Mr LT Kiringoda are Independent Non-Executive Directors. The other four Directors were deemed not independent.

30. Human resources

In 2019, the Board Human Resources and Remuneration Committee placed great emphasis on initiatives which were primarily connected to the human capital effectiveness in pursuing the objectives

of the Bank. In the context of this desired approach the Bank strengthened the performance based rewards mechanism driving individual and strategic business units. In ensuring that employees acquire the expected competency level and functional knowledge, competency profiling and development was carried out in a structured manner through identification of key competency gaps and bridging the competency levels in line with the current and future requirements of the Bank.

Furthermore, in building individual capacities, structured development initiatives were rolled out to enhance the potential and ensure that competent talent pipeline for key job positions were in place for branch banking. The Board provided directions in facilitating the business transformation through centralisation and restructuring in order to bring in visible improvements in turnaround time, customer experience and internal efficiencies.

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 regulatory directions, rules and best practice guidelines have been disclosed in the Corporate Governance Report published in this Annual Report.

The external certification by the External Auditors on the Bank's compliance with the Banking Act Direction No. 11 of 2007 on Corporate Governance performed in line with agreed upon procedures set out in Sri Lanka Related Services Practice Statement (SLRSPS 4750) was issued to the Bank.

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 Acting Chief Risk Officer reported and updated 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 and a detailed report on Risk Management of the Bank are published in this Annual Report.

32.2 System of internal control

The Board recognises that a robust internal control mechanism is an indispensable component of the governance framework adopted by the Bank. Internal controls is a process, carried out at various levels in the Bank aiming to provide a reasonable certainty of achievement of the objectives; safeguarding of assets; 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, documented and periodically reviewed business processes with inbuilt control mechanisms, instructions and guidelines, and duly approved delegated authority levels. An 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, profitability, and stakeholder confidence.

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 have been consistently 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. Share trust companies and the Seylan Bank Employees' Gratuity Trust Fund

Six share trust companies ("companies") were established by the Bank in 1995 and in 1999/2000 which have acquired shares of the Bank ("subject shares") 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 subject shares were fully funded by the Bank.

Pursuant to a majority of the category of persons (i.e., certain current employees and former employees satisfying certain criteria) having reached agreement with the Bank for the receipt of an "enhanced gratuity" based on one month basic salary for each year of service, and such persons having relinquished all rights, entitlements, and claims which they may have made or may have in respect of the subject shares or on the proceeds arising from the realisation of such subject shares, by giving their consent for the disposal of the subject shares and crediting the proceeds to the Seylan Bank Employees Gratuity Trust Fund enabling the Bank to utilise same to part fund the payment of the enhanced gratuity approved by the Board; a total of 12,684,300 ordinary voting shares from and out of the subject shares were transferred from the companies to the Seylan Bank PLC A/C No. 4 Employees Gratuity Trust Fund established for that purpose, through the Trading Floor of the Colombo Stock Exchange, in the last quarter of 2019.

36. Environmental protection

The Bank has not engaged in any activity that is harmful or hazardous to the environment and has always taken measures to ensure environmental protection and its sustainability.

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 50 to the Financial Statements.

39. Going concern

The Directors are satisfied that having considered the financial position, operating conditions, regulatory and other factors and other such 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. A new Audit Engagement Partner was assigned by Messrs KPMG for the Bank's external audit with effect from the financial year, 2019 pursuant to the completion of the five year tenure of the previous Audit Engagement Partner. 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 given in the said Note 13.

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:

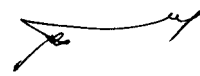
- No partner from the Firm is on the Board of Seylan Bank or on the Board of its subsidiary.
- The audit and non-audit fees paid/payable to the Auditors are negotiated and are not above industry norms and they do not receive fees from other assignments except as stated in Note 13 to the Financial Statements.

- 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 with, in 2019.

42. Notice of Annual General Meeting

Notice of Meeting relating to the Thirty Third (33rd) Annual General Meeting of the Bank scheduled to be held on 30 March 2020 at 10.00am at the Grand Ballroom, Galadari Hotel, No. 64, Lotus Road, Colombo 1 is circulated to the shareholders with this Annual Report.

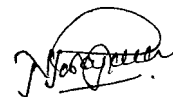
We, the undersigned acknowledge the contents of this Report and its Annexure and have placed our signatures for and on behalf of the Board of Directors of Seylan Bank PLC, at Colombo, this 21 February 2020.



W M R S Dias
Chairman



K P Ariyaratne
Director/Chief Executive Officer



Mrs N N Najumudeen
Company Secretary

21 February 2020

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 2019

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 51 to the Financial Statements for information on related party transactions.

The entities in which the Directors of the Bank held directorships and substantial shareholdings as at 31 December 2019 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 Chairman	-
3. Tokyo Cement Co. (Lanka) PLC	Independent Non-Executive Director	-
Unlisted entities		
4. Ceylon Tea Marketing (Pvt) Ltd.	Independent Non-Executive Director	-
5. Jay-Cey-Tea (Pvt) Ltd.	Non-Executive Director	-
6. South Asia Textiles Ltd.	Independent Non-Executive Director	-
7. Superfine Teas (Pvt) Ltd.	Non-Executive Director	-
8. Tokyo Super Cement Company Lanka (Pvt) Ltd.	Non-Executive Director	-
9. Tokyo Cement Power Lanka (Pvt) Ltd.	Non-Executive Director	-
10. Tokyo Eastern Cement Company (Pvt) Ltd.	Non-Executive Director	-
11. Tokyo Supermix (Pvt) Ltd.	Non-Executive Director	-
Mr W D K Jayawardena (Non-Executive Director/Deputy Chairman)		
Listed entities		
1. Brown & Co. PLC	Non-Executive Director	-
2. Browns Investments PLC	Non-Executive Director	-
3. Eden Hotel Lanka PLC	Non-Executive Chairman	-
4. LOLC Development Finance PLC	Non-Executive Director	-
5. LOLC Holdings PLC	Managing Director/CEO	-
6. Palm Garden Hotels PLC	Non-Executive Chairman	-
Unlisted entities		
7. Ceylon Graphene Technologies (Pvt) Ltd.	Non-Executive Director	-
8. LOLC Advanced Technologies (Pvt) Ltd.	Non-Executive Director	-
9. LOLC Africa Holdings (Pvt) Ltd.	Non-Executive Director	-
10. LOLC Asia Private Limited	Non-Executive Director	-
11. LOLC General Insurance Ltd.	Non-Executive Chairman	-
12. LOLC International (Pvt) Ltd.	Non-Executive Director	-
13. LOLC (Pvt) Ltd.	Non-Executive Director	-
14. LOLC Securities Ltd.	Non-Executive Chairman	-
15. Riverina Resort (Pvt) Ltd.	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) Ltd.	Executive Director	-
5. Finlays Colombo Ltd.	Finance Director	-
6. Finlay Plantation Management (Pvt) Ltd.	Executive Director	-
7. Finlay Properties (Pvt) Ltd.	Executive Director	-
8. Finlay Teas (Pvt) Ltd.	Executive Director	-
9. Finlay Tea Estates Lanka (Pvt) Ltd.	Executive Director	-
10. Finlay Tea Solutions Colombo (Pvt) Ltd.	Executive Director	-
11. James Finlay Plantation Holdings (Lanka) Ltd.	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) Ltd.	Non-Executive Chairman	
3. Lanka Financial Services Bureau Ltd.	Non-Executive Director	
4. Sesot (Pvt) Ltd.	Non-Executive Chairman	
5. Seyshop (Pvt) Ltd.	Non-Executive Chairman	
6. Seybest (Pvt) Ltd.	Non-Executive Chairman	
7. Seyfest (Pvt) Ltd.	Non-Executive Chairman	
8. Sotse (Pvt) Ltd.	Non-Executive Chairman	
Mr Anushka S Wijesinha (Independent Director)		
Unlisted entities		
1. BizEx Consulting (Pvt) Ltd.	Executive Director	-
2. FairFirst Insurance Ltd.	Independent Non-Executive Director	-
3. HNB Finance Ltd.	Independent Non-Executive Director	-
Mrs Sandya K Salgado (Independent Director)		
Unlisted entities		
1. Carnival Movies Lanka Ltd.	Executive Director	-
2. Film Island (Pvt) Ltd.	Non-Executive Director	18.33%
3. Jigsaw International (Pvt) Ltd.	Executive Director	33.31%
4. WAD International (Pvt) Ltd.	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) Ltd.	Non-Executive Director	-
4. PRASAC Micro Finance Ltd. (Cambodia)	Non-Executive Director	-
5. Credit Information Bureau of Sri Lanka	Non-Executive Director	-
6. LOLC Myanmar Micro Finance Company Ltd. (Myanmar)	Non-Executive Director	-

Entity	Directorships (Executive/Non-Executive status)	Substantial Shareholding % (if any)
Mr D R Abeysuriya (Independent Director)		
Listed entities		
1. HNB Assurance PLC	Non-Executive Director	-
Unlisted entities		
2. Bio-Foods (Pvt) Ltd.	Non-Executive Director	-
3. Candor Asset Management (Pvt) Ltd.	Executive Director	-
4. Candor Capital (Pvt) Ltd.	Executive Director	-
5. Candor Equities Ltd.	Executive Director	-
6. Candor Shared Services (Pvt) Ltd.	Executive Director	-
7. Straight Sale (Pvt) Ltd.	Non-Executive Director	-
Mr R D Tissera (Alternate Director to Non-Executive Director, Mr W D K Jayawardena)		
Listed entities		
1. LOLC Finance PLC	Executive Deputy Chairman	-
2. LOLC Development Finance PLC	Non-Executive Director	-
Unlisted entities		
3. LOLC Mauritius Holdings Ltd. (Mauritius)	Non-Executive Director	-
4. Sundaya Lanka (Pvt) Ltd.	Non-Executive Director	-

Independent Director, Mr P L S K Perera and Non-executive Director, Mr S V Corea did not hold any directorships or substantial shareholdings in other entities as at 31 December 2019.

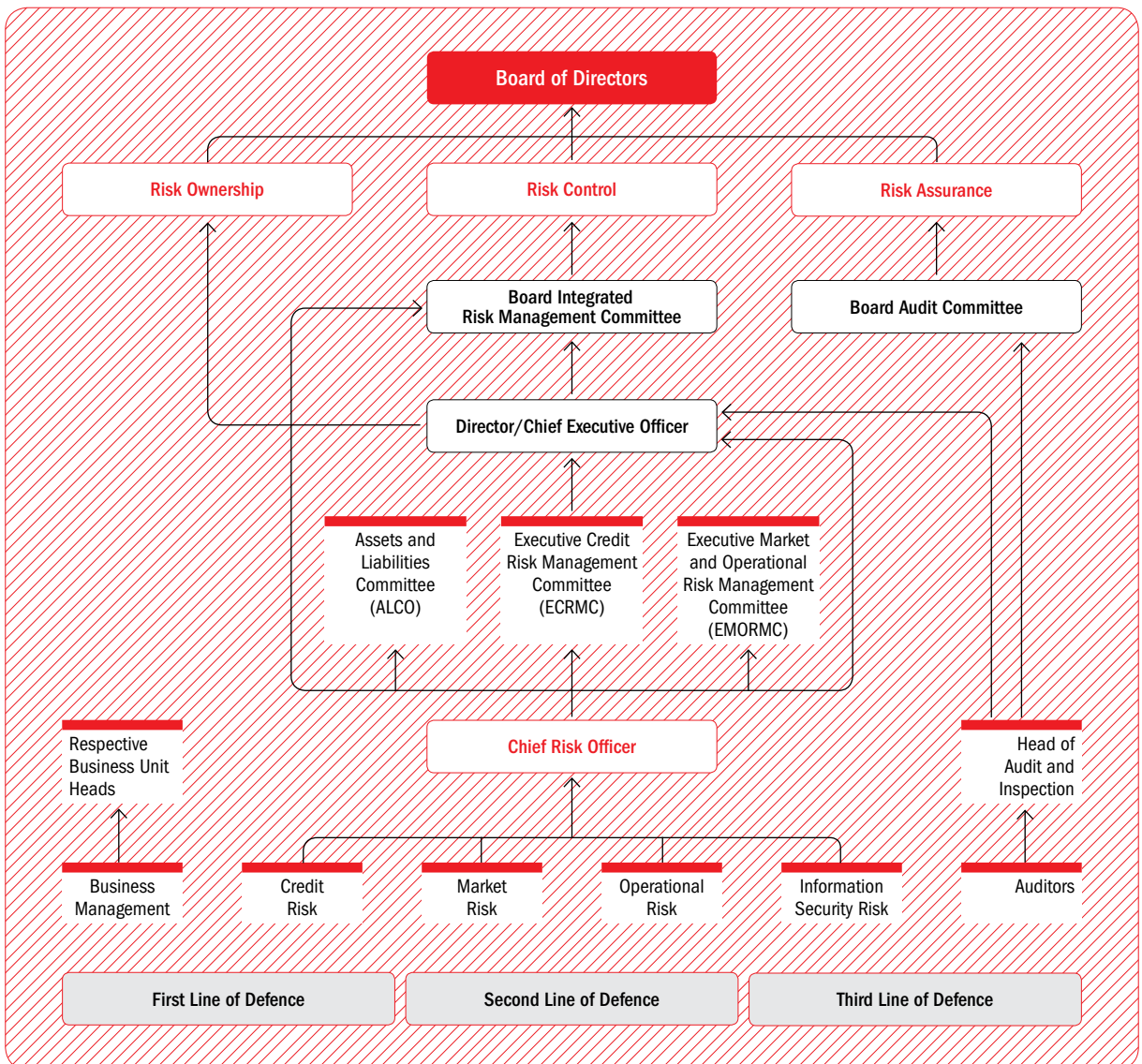
Risk Management

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 in 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 in an integrated basis and monitor developments in real time to provide the right level of information to the attention and action of the Board Integrated Risk Management Committee (BIRMC).

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 geared to adhere to the new guidelines on Operational Risk Capital Computation and are planning to implement Standardised Measurement Approach (SMA) in the coming years. We also have developed a dashboard to monitor and report on the 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, liquidity, and operational risk.

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

Credit risk (NPL ratio, overdrafts without limits, large exposures to core capital, specific provision cover to Gross NPL, watch list to performing advances, and related-party lending to core capital).

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 income, non-rectified high risk audit findings over total high risk audit findings, cheque returns as a percentage of total cheques in clearing and number of skimming cards).

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 2019 %	December 2019 %	December 2018 %	Low	Medium	High
Credit risk						
1. Gross NPA ratio (as per CBSL)	4.70	6.49	6.55			●
2. Gross NPA ratio (Net of IIS as per CBSL)	4.20	5.76	5.98			●
3. Overdue + NPA/Total advances	15.00	13.78	16.45		●	
4. Specific provision/Gross NPL	45.00	33.30	18.53		●	
5. Watch list/Total performing advances	12.00	8.15	10.83		●	
6. Performing overdrafts without limits (LKR Mn.)	500.00	162.00	324.00	●		
7. Large exposure/Core capital (Times)	8.00	5.83	5.55		●	
8. Exposure on related parties/Core capital	Max of 55.00	38.19	23.26		●	
9. Open credit exposure	Less than 17.50	33.17	36.24			●
Market risk						
10. Maturity gap less than one year to total liabilities	Less than 25%	6.72	3.36	●		
11. Government Securities to total assets (Interest bearing)	Less than 30%	17.54	20.38	●		
12. Equity investment value (Quoted-CSE) to total assets (Interest bearing)	Less than 1%	0.05	0.07	●		
13. Net open position (USD) (Mn.)	Long +10 Mn. Short -16 Mn.	0.55	0.72	●		

Risk type	Tolerance limit 2019 %	December 2019 %	December 2018 %	Low	Medium	High
Liquidity risk						
14. Statutory liquidity ratio Domestic Banking Unit	>21.00	21.40	21.44	●		
15. Statutory liquidity ratio Foreign Currency Banking Unit	>21.00	21.81	22.08	●		
16. Advances to Deposits Ratio – Bank	<97.50	97.32	94.19	●		
17. Advances to Deposits + Debentures	<95.00	92.72	90.07	●		
18. Advances to Stable Funds	<100.00	96.84	94.38	●		
19. Swaps (USD)	Not to exceed USD 175 Mn.	74.50	106.00	●		
20. External borrowing (LKR)	Not to exceed LKR 50 Bn.	25.77	23.81	●		
Operational risk						
21. Pawning operational losses as a percentage of Pawning Income	0.2% of pawning income	0.72	0.21			●
22. Cheque returns as a percentage of total cheques in clearing	Industry cheque return percentage for the month (-)0.5%	3.88	3.86		●	
23. Non-rectified high risk findings (> 90 days) over total high risk audit findings (%)	Zero	0.54	1.09		●	
24. Value of cards skimmed as a percentage of Card Interest Income	0.1% of credit card income for the month	1.12	0.07		●	

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. The Risk Management Unit and the 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 requires 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 a 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 Lending Guidelines on the other hand outlines the Bank's strategic risk/reward objectives in the light of evolving market conditions by clearly setting out the preferred industries and lending types to be targeted for lending growth during each calendar year.

These standards, policies, and guidelines 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.

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 (net of IIS)

Collateral type (secured)	2019 LKR '000	2018 LKR '000
Cash/shares	1,116,559	1,512,409
Immovable property	14,233,116	13,168,093
Movable assets	1,376,311	1,235,564
Other securities	3,684,754	2,674,520
Pawned articles	96,945	117,520
Clean	2,005,146	1,458,181
Grand total	22,512,832	20,166,287

Monitoring, reporting, and disclosure of credit risk

Respective Business Unit Heads 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.

Loan review mechanism

In line with the Banking Act Direction No. 07 of 2011 under the Integrated Risk Management Framework, the Bank has adopted a Loan Review Mechanism (LRM) which stands as an effective tool for constantly evaluating the quality of the loan book and bringing about qualitative improvements in credit administration.

Under the purview of the Chief Risk Officer, Credit Risk Review Unit conduct Independent Risk Reviews of high value loans (LKR 500.0 Mn. and above)/small and mid tier facilities/product portfolio reviews. Independent Risk Reviews are conducted within three months of sanction/renewal of facilities covering at least 30%-40% of the loan portfolio within a calendar year.

The main focus of the Independent Risk Reviews is on: the approval process, accuracy and timelines of credit ratings assigned by loan officers, adherence to internal policies and procedures, applicable laws/regulations, compliance with covenants and conditions, post sanction follow-up, sufficiency of documentation, and portfolio quality.

The findings of the reviews and the recommendations for improving the portfolio quality are presented to the Executive Credit Risk Management Committee (ECRMC) and to the attention of the Board Integrated Risk Management Committee (BIRMC).

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 Stages 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 and their close relations. 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 2019

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. Refer Note 24 in Financial Statements.

Age analysis of non-performing loans by product distribution (Excluding interest receivables) – 31 December 2019 based on CBSL Directions

Loan category	3-6 months NPA special mention LKR '000	6-12 months NPA substandard LKR '000	12-18 months NPA doubtful LKR '000	18 months and above NPA loss LKR '000	NPA grand total LKR '000
Credit cards	110,637	102,161	89,389	252,209	554,395
Housing	424,676	330,335	208,178	588,873	1,552,063
Leasing	646,622	291,291	112,284	325,417	1,375,615
Overdrafts	563,558	778,863	851,985	2,221,546	4,415,951
Pawning	34,815	-	-	35,155	69,970
Staff term loans	15,610	9,619	117	24,101	49,447
Term loans	1,708,638	1,930,163	2,526,035	7,970,545	14,135,381
Trade finance	108,741	28,982	45,772	176,515	360,010
Grand total	3,613,297	3,471,414	3,833,760	11,594,361	22,512,832

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 205)
- Details of the collateral types (on page 181)
- 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 industry-wise (Note 24.1.3)
- An analysis of concentrations of credit risk of loans and advances by geographic locations (page 256)
- Movement in expected credit loss/impairment allowance on loans and advances (Note 24.3)

Credit risk under standardised approach –

Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Description	Amount as at 31 December 2019						
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post-CCF and CRM			RWA and RWA density (%)	
	On-balance sheet amount LKR '000	Off-balance sheet amount LKR '000	On-balance sheet amount LKR '000	Off-balance sheet amount LKR '000	Total LKR '000	RWA LKR '000	RWA density (ii) %
Claims on central government and CBSL	98,801,156	-	98,801,156	-	98,801,156	1,922,775	1.95
Claims on foreign sovereigns and their central banks	-	-	-	-	-	-	0.00
Claims on public sector entities	-	-	-	-	-	-	0.00
Claims on official entities and multilateral development banks	-	-	-	-	-	-	0.00
Claims on Bank's exposures	8,035,659	6,546,931	8,035,659	1,210,233	9,245,892	6,586,071	71.23
Claims on financial institutions	27,417,818	7,280,216	26,840,079	1,345,785	28,185,864	17,966,944	63.74
Claims on corporates	175,695,338	124,218,852	171,472,391	22,962,482	194,434,873	189,646,319	97.54
Retail claims	141,828,794	44,631,209	113,816,171	8,250,304	122,066,475	81,611,952	66.86
Claims secured by residential property	18,952,343	-	18,939,090	-	18,939,090	11,293,411	59.63
Claims secured by commercial real estate	2,488	-	2,488	-	2,488	2,488	100.00
Non-performing assets (NPAs) (i)	16,827,767	-	16,719,983	-	16,719,983	19,676,700	117.68
Higher-risk categories	-	-	-	-	-	-	-
Cash items and other assets	32,700,112	-	32,700,112	-	32,700,112	23,975,322	73.32
Total	520,261,475	182,677,208	487,327,129	33,768,804	521,095,933	352,681,981	67.68

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

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

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

Risk-weight	Amount as at 31 December 2019 (Post-CCF and CRM) (LKR '000)								Total credit exposures amount
	0%	20%	50%	60%	75%	100%	150%	>150%	
Asset classes									
Claims on central government and CBSL	89,187,279	9,613,877	-	-	-	-	-	-	98,801,156
Claims on foreign sovereigns and their central banks	-	-	-	-	-	-	-	-	-
Claims on public sector entities	-	-	-	-	-	-	-	-	-
Claims on official entities and multilateral development banks	-	-	-	-	-	-	-	-	-
Claims on banks exposures	-	816,300	4,013,562	-	-	4,416,030	-	-	9,245,892
Claims on financial institutions	-	-	20,437,839	-	-	7,748,025	-	-	28,185,864
Claims on corporates	-	-	9,718,031	-	-	184,575,920	140,923	-	194,434,873
Retail claims	-	-	-	33,712,980	62,387,077	13,756,245	-	-	109,856,302
Claims secured by gold	8,022,118	4,188,055	-	-	-	-	-	-	12,210,173
Claims secured by residential property	-	-	15,291,358	-	-	3,647,732	-	-	18,939,090
Claims secured by commercial real estate	-	-	-	-	-	2,488	-	-	2,488
Non-performing assets (NPAs) (i)	-	-	681,179	-	-	9,444,191	6,594,613	-	16,719,983
Higher-risk categories	-	-	-	-	-	-	-	-	-
Cash items and other assets	8,423,935	376,069	-	-	-	23,900,108	-	-	32,700,112
Total	105,633,332	14,994,301	50,141,969	33,712,980	62,387,077	247,490,739	6,735,536	-	521,095,933

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

Market Risk Management**Market risk****Managing market risk**

The Bank defines market risk as the risks taken in relation to price fluctuations in the financial markets. Several types of risk may arise and the Bank manages and monitors these risks carefully.

Market risk is generally defined as the risk of the market value of portfolios, instruments or investments increase or decrease as a result of volatility and unpredicted movement in market factors such as exchange rates, interest rates, and prices.

Seylan Bank's market risks are mainly;

- Interest rate risk: risk of loss caused by changes in interest rates
- Exchange rate risk: risk of loss from positions in foreign currency when exchange rates change
- Equity market risk: risk of loss from falling equity values

Policy and responsibility

The Bank's market risk management relates to the Bank's assets, liabilities, and off-balance sheet items. The Board of Directors defines the overall policies/limits for the Bank's market risk exposures, including the overall risk limits. The limits on market risks are set with consideration of the risk they imply, and how they match the Bank's strategic plans. On behalf of

the Board, the Risk Committee (EMORMC) and ALCO are responsible for allocating managing the market risk in the Bank's major business areas especially Treasury. As such lines have mainly been granted to Treasury. Treasury is responsible for monitoring and handling the Bank's market risks and positions. Business Units are closely monitored for their market risk operations but is managed and monitored under the Treasury exposures. The Finance Department and Risk Management Unit reports market risks to ALCO, and EMORMC monthly and to BIRMC on a quarterly basis.

Control and management

The stringent market risk policies support the Bank's investment policy of mainly holding Sri Lanka Government Treasury Bills and Bonds, and to a lesser extent investing in other instruments and currencies.

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 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 the close of a month, quarter or the end of a financial year, or on an ad hoc basis.

Management of market risk

Level	Board of Directors	ALCO	Executive Market and Operations Risk Management Committee	Market Risk Management Unit through CRO	Treasury
Strategic	Defines and oversight of the overall market risk				
Tactical		Delegating risk authorities to relevant divisions	Managing the Bank's market risk		Implementing
Operational				Controlling, monitoring, and reporting	Trading

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.

The table below shows the likely effects on the Bank's income and capital from likely market changes.

Likely effects from changes in markets	Impact on Income Statement and OCI		
	Change %	Value Mn.	Percentage impact on capital
Equity risk (-)	10%	18.78	0.00
Exchange rate risk (+/-) other currencies	10%	6.43	0.00
Portfolio interest rate risk on Government Securities	Upward shift of		
FVTPL	100 bps	163.20	-0.01
FVTOCI	100 bps	1,081.96	-0.34

- All equity prices fall by 10%
- All currencies change by 10%
- Upwards parallel shift of the yield curve of 100 bp on the Government Security Portfolios

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 under the Standardised Measurement Method

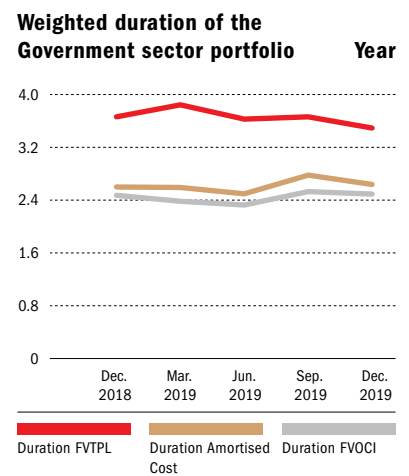
Computation of capital charge for market risk as at 31 December 2019

Item	RWA amount (LKR '000) as at 31 December 2019
(a) Capital charge interest rate risk	232,330
General interest rate risk	232,330
(i) net long short position	232,330
(ii) horizontal disallowance	
(iii) vertical disallowance	
(iv) Options	
Specific interest rate risk	
(b) Capital charge for equity	42,762
(i) General equity risk	23,479
(ii) Specific equity risk	19,283
(c) Capital charge for foreign exchange and gold	16,083
Total risk weighted assets on market risk [(a)+(b)+(c)]/CAR	2,329,400

Portfolio interest rate risk

The Bank's policy is to invest mostly in Government Securities such as Treasury Bills and Treasury Bonds to meet the liquidity requirements and for trading purposes. As a consequence, the Bank holds a large portfolio of treasury bonds, and most of the Bank's interest rate risk stems from this portfolio.

The following graph represents the weighted average duration of the Government Security portfolios during 2019:



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 interest rate risk is defined as the effects of a one percentage point parallel shift of the yield curve.

The analysis represents a change in annual net interest income with the rate change by +/-100 and 200 bps and the balance sheet assumed to be stable and is based on the assumption that the rate sensitive assets and liabilities are bucketed on their reprising maturities or failing which on their contractual maturities or assumed maturities.

Total Earnings at Risk (EaR) to a shift in interest rates is shown in the table below:

Change in the net interest income per annum	EaR as on Date 31 December 2019	EaR as a percentage of last year's NII
100 bps	+/- 392.36	+/- 2.21%
200 bps	+/- 784.73	+/- 4.42%

Earnings at risk – Parallel

Description	Amount LKR Mn.					Sensitive total
	Rl: 0 to 3 month	Rl: 3 to 12 months	Rl: 1 to 3 years	Rl: 3 to 5 years	More than 5 years	
Total interest earning assets	136,138.10	83,405.60	99,361.70	85,446.80	64,138.70	468,490.90
Total interest bearing liabilities	86,321.80	95,186.90	96,593.80	64,237.30	92,985.80	435,325.60
RSA-RSL GAP	49,816.30	-11,781.3	2,767.90	21,209.50	-28,847.10	33,165.30
Earnings at risk computation						
Mid point of bucket	45.0	227.5	720.0	1,440.0	2,700.0	-
Remaining days till horizon	320.0	137.5	-	-	-	-
Horizon for EAR impact	365	365	365	365	365	-
NII previous year	17,747	17,747	17,747	17,747	17,747	-

Bucket-wise earnings at risk

Rate shock	Rl: 0-3 month	Rl: 3 to 12 months	Rl: 1 to 3 years	Rl: 3 to 5 years	More than 5 years
1	436.75	-44.38	0.00	0.00	0.00
2	873.49	-88.76	0.00	0.00	0.00

Exchange rate risk

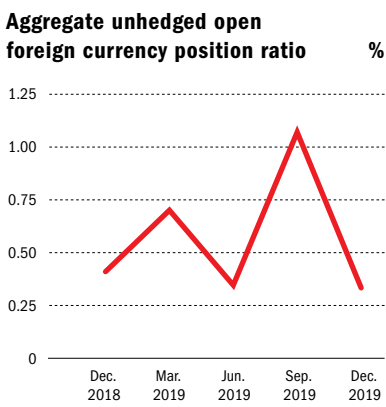
The Bank considers that assets and liabilities in other currencies imply an exchange rate risk as they may vary in value over time relative to the Sri Lankan Rupee. Seylan Bank’s core business as a commercial bank makes it necessary to have access to foreign currencies and to hold positions in the most common currencies. Given the uncertainty of currency fluctuations, the Bank’s policy is to maintain a low currency risk by holding foreign currency exposures applying individual currency limits and the overall exposure is managed within the Net Open Position (NOP) limit defined by the regulator. Individual and cumulative intraday limits, daylight limits, and overnight limits are defined for the treasury dealers to operate within these boundaries to mitigate the risk emanating through these exposures.

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.

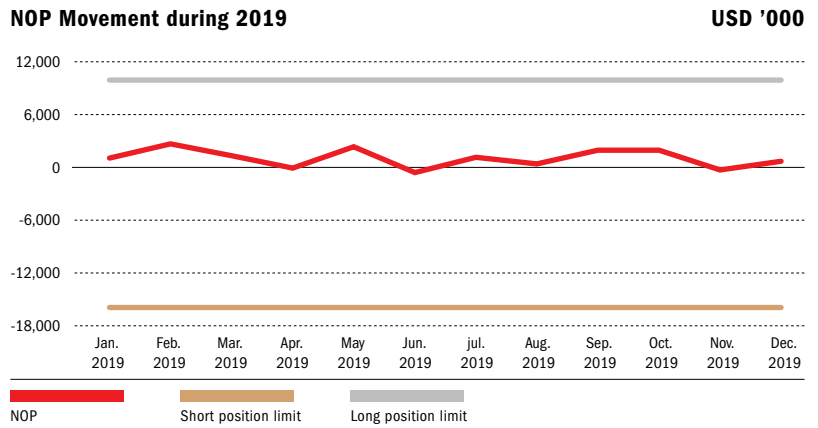
The Bank’s exchange rate risk mainly stems from:

- Customer loans/deposits in foreign currency
- Treasury’s positions in foreign currency

The following graph presents the NOP as a percentage of the Tier 1 Capital during the year 2019:



Net Open Position Movement during the year is depicted in the following graph:



Equity market risk

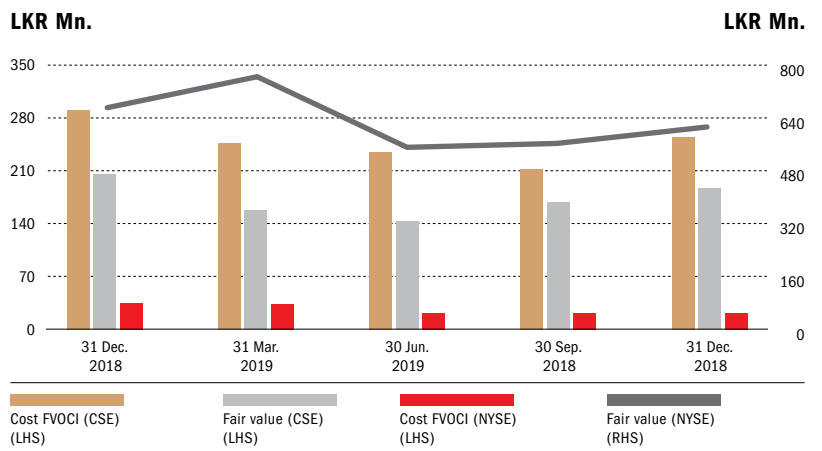
Seylan Bank’s risk policy restricts equity positions to listed shares and shares related to strategic investments. The Bank occasionally holds unlisted shares made for reasons such as investing in shares of unlisted banking related companies. These are mainly investments in companies providing financial infrastructure and financial services to the Bank. For some of these investments holding is revalued yearly according to the net worth of the companies.

The management of the price risk of equity investments is the responsibility of the Treasury Department with oversight of the

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

The graph represents the investments in equity and the behaviour of market values of the equity investment FVOCI portfolio:

Equity Investments - FVOCI



Liquidity risk

Liquidity risk is defined as the risk of loss resulting from;

- Increased funding costs
- A lack of funding of new activities
- A lack of funding to meet the Bank's commitments

The Board of Directors have defined the Bank's liquidity limits for the daily statutory liquidity requirements and the daily operational levels. With a Liquidity Coverage Ratio (LCR) of 116.01% as at 31 December 2019, Seylan Bank's liquidity position remains robust.

Control and management

Liquidity risk is a fundamental part of the Bank's business strategy. Treasury has the operational responsibility for managing of liquidity, while the Finance Department is responsible for reporting liquidity. The monitoring of liquidity lies with RMU. The Bank's liquidity is managed by Treasury

on a daily basis in accordance with the limits set by the Board of Directors and reported to ALCO by Finance Department on a daily basis. Reporting to the Board Risk Management Committee is done by RMU on a quarterly basis. For better management and hindsight, liquidity reports with stress tests are submitted to ALCO by RMU on a monthly basis. The Bank has implemented contingency plans to ensure that it is ready to respond to any unfavourable liquidity conditions.

Operational liquidity risk

The objective of the Bank's operational liquidity risk management is to ensure that the Bank has sufficient liquidity at all times to handle customer transactions and changes in liquidity. The Bank complies with Liquidity Coverage Ratio (LCR) requirements and therefore closely monitors the bond portfolio with regards to holding sufficient LCR compliant assets.

Funding sources

The Bank monitors its funding mix to make sure that there is a satisfactory diversification between deposits, equity, debt capital, and loans from the financial markets

Structural liquidity risk

Deposits are generally considered a secure source of funding. Deposits are generally short term but their historical stability enables the Bank to grant customer loans with much longer terms. It is crucial for the Bank to handle the risk associated to such maturity mismatches, and considers it essential to have a reputation as a safe Bank for deposits.

In order to minimise liquidity risk, the Bank's policy is to have strong liquidity from different funding sources. It is therefore the Bank's policy to further diversify the deposit base in terms of maturity.

Liquidity management

	Board of Directors	Assets & Liabilities Committee	Finance Department through CFO	Market Risk Unit through CRO	Treasury
Objective	Defines the objectives oversight of liquidity policies				
Tactical	Defines the objectives for liquidity management and strategy				Planning
Operational			Controlling and reporting	Monitoring and reporting	Managing

The following table represents the matrix used to measure and manage liquidity and funding risk as per internal and regulatory requirements/guidelines:

Liquidity risk measures as per Regulatory Guidelines

No.	Ratio	Limits %	December 2019 %	December 2018 %
1.	Net loans to total assets	> 60.00	73.46	70.01
2.	Loans to customer deposits (calculated as ADR)	< 97.50	97.32	94.19
3.	Liquid assets to short-term liabilities	> 70.00	263.88	271.43
4.	Purchased funds to total assets	< 25.00	16.79	14.57
5.	Commitments to total loans	< 25.00	16.87	17.73

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 following table shows the assets and liabilities by a maturity structure.

The maturity gap based on behavioural analysis is depicted in the following tables:

	Amount (LKR '000)					Total as at 31 December 2019
	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	
Assets						
Interest earning assets						
Loans and advances	123,202,837	77,066,082	72,693,545	48,780,928	57,515,672	379,259,064
Placements with banks and finance companies	1,173,278	-	-	-	-	1,173,278
Government of Sri Lanka Treasury Bills/Bonds and Development Bonds	6,601,739	6,256,352	26,668,098	36,665,918	5,958,070	82,150,177
Investments in debentures	-	78,258	-	-	665,000	743,258
Securities purchased under resale agreements	5,160,259	4,900	-	-	-	5,165,159
	136,138,113	83,405,592	99,361,643	85,446,846	64,138,742	468,490,936
Non-interest earning assets						
Cash in hand	8,422,292	-	-	-	-	8,422,292
Balances with Central Bank of Sri Lanka	2,529,654	3,384,251	3,045,433	1,926,779	3,572,853	14,458,970
Balances with banks	3,336,437	-	-	-	-	3,336,437
Investments in equities	-	1,689,691	-	-	1,153,602	2,843,293
Group balances receivable	-	40,000	-	-	-	40,000
Property, plant and equipment/ Leasehold rights/Intangible assets	-	-	-	-	9,449,206	9,449,206
Derivative financial instruments	118,366	16,142	248	-	-	134,756
Other assets	9,116,434	40	2	85	1,736	9,118,297
	23,523,183	5,130,124	3,045,683	1,926,864	14,177,397	47,803,251
Total assets	159,661,296	88,535,716	102,407,326	87,373,710	78,316,139	516,294,187
Liabilities and equity						
Interest bearing liabilities						
Financial liabilities at amortised cost due to depositors	70,020,018	83,307,516	82,113,753	51,951,586	90,661,844	378,054,717
Financial liabilities at amortised cost due to debt securities holders	8,046,703	379,181	-	-	-	8,425,884
Due to banks and other borrowings	7,495,282	8,442,000	12,855,754	-	-	28,793,036
Debt securities issued	710,832	3,055,112	1,624,250	12,156,750	2,324,000	19,870,944
Group balances payable	48,984	3,075	-	129,000	-	181,059
Lease liabilities	632	19,321	248,609	410,974	3,672,096	4,351,632
	86,322,451	95,206,205	96,842,366	64,648,310	96,657,940	439,677,272
Non-interest bearing liabilities						
Demand deposits	22,676,641	-	-	-	-	22,676,641
Other liabilities	7,776,649	-	-	-	-	7,776,649
Derivative financial instruments	177,946	45,032	-	-	-	222,978
Current tax liabilities	525,389	-	-	-	-	525,389
Deferred tax liabilities	725,326	-	-	-	-	725,326
Dividend payable	42,748	-	-	-	-	42,748
Group balances payable	19,910	-	-	-	-	19,910
Equity	-	-	-	-	44,627,274	44,627,274
	31,944,609	45,032	-	-	44,627,274	76,616,915
Total liabilities and equity	118,267,060	95,251,237	96,842,366	64,648,310	141,285,214	516,294,187

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

Bucket type	Bucket	Currency	Assets '000	Liabilities '000	Mismatch '000	Cumulative gap USD '000	As a % of total liabilities	(-/+) mismatch limits %
Regulatory – Liquidity	RL: < 1M	USD	83,959	80,808	3,151	3,151	0.75%	20%
	RL: 1M-3M		129,248	74,270	54,978	58,129	13.89%	20%
	RL: 3M-6M		42,925	57,244	-14,319	43,810	10.47%	20%
	RL: 6M-12M		47,823	110,300	-62,477	-18,667	-4.46%	30%
	RL: 1Y-3Y		63,879	67,547	-3,668	-22,335	-5.34%	20%
	RL: 3Y-5Y		30,601	3,039	27,562	5,227	1.25%	20%
	RL: 5Y-10Y		15,076	0	15,076	20,303	4.85%	10%
	RL: > 10Y		5,455	25,205	-19,750	553	0.13%	10%
	Exposure		418,966	418,413	553			

Bucket type	Bucket	Currency	Assets '000	Liabilities '000	Mismatch '000	Cumulative gap GBP '000	As a % of total liabilities	(-) Mismatch limits %
Regulatory – Liquidity	RL: < 1M	GBP	6,769	3,444	3,325	3,325	21.63%	20.00%
	RL: 1M-3M		7,716	3,464	4,252	7,577	49.29%	20.00%
	RL: 3M-6M		45	2,148	-2,103	5,474	35.61%	20.00%
	RL: 6M-12M		90	6,184	-6,094	-620	-4.03%	30.00%
	RL: 1Y-3Y		167	0	167	-453	-2.95%	20.00%
	RL: 3Y-5Y		102	0	102	-351	-2.28%	20.00%
	RL: 5Y-10Y		363	0	363	12	0.08%	10.00%
	RL: > 10Y		134	134	0	12	0.08%	10.00%
	Exposure		15,386	15,374	12			

Bucket type	Bucket	Currency	Assets '000	Liabilities '000	Mismatch '000	Cumulative Gap EUR '000	As a % of total liabilities	(-) Mismatch limits %
Regulatory – Liquidity	RL: < 1M	EUR	6,069	1,348	4,721	4,721	29.50%	20.00%
	RL: 1M-3M		9,667	6,468	3,199	7,920	49.48%	20.00%
	RL: 3M-6M		0	1,879	-1,879	6,041	37.74%	20.00%
	RL: 6M-12M		0	6,013	-6,013	28	0.18%	30.00%
	RL: 1Y-3Y		0	25	-25	3	0.02%	20.00%
	RL: > 10Y		276	273	3	6	0.04%	10.00%
	Exposure		16,012	16,006	6			

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 116.01% as of 31 December 2019 has been calculated in accordance with the regulatory guidelines with regard to the LCR.

LCR components

	Liquidity value (LCR Mn.)	
	31 December 2019	31 December 2018
High quality liquid assets	68,352	54,800
Gross outflows	103,244	86,307
Gross inflows	44,327	26,839
Net outflows	58,917	59,468
LCR Ratio (%)	116.01	92.15

Basel III computation of liquidity coverage ratio

Item	Amount (LKR '000)					
	Reporting period - 31 December 2019			Reporting period - 31 December 2018		
	Total un-weighted value	Factor %	Total weighted value	Total un-weighted value	Factor %	Total weighted value
Total Stock of High-Quality Liquid Assets (HQLA)	-	-	68,352,139	-	-	54,800,053
Total Adjusted Level 1A Assets	68,421,922		68,421,923	55,294,220	-	55,294,220
Level 1A Assets	68,258,877	100	68,258,877	54,673,046	100	54,673,046
Total Adjusted Level 2A Assets	-	-	-	-	-	-
Level 2A Assets	-	-	-	-	-	-
Total Adjusted Level 2B Assets	-	-	93,262	-	-	127,007
Level 2B Assets	186,524	50	93,262	254,014	50	127,007
Total Cash Outflows	-	-	103,244,816	-	-	86,307,265
Deposits	296,507,444	10	29,650,744	272,105,628	10	27,210,563
Unsecured Wholesale Funding	94,242,828	25-100	52,666,981	77,731,112	25-100	42,931,261
Secured Funding Transactions	-	-	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	146,086,878	0-100	7,655,240	124,824,143	0-100	7,309,085
Additional Requirements	13,271,851	100	13,271,851	8,856,356	100	8,856,356
Total Cash Inflows	-	-	44,327,152	-	-	26,838,579
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-	-	-
Committed Facilities	-	-	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	24,122,613	50-100	41,683,180	49,351,190	50-100	24,675,595
Operational Deposits	3,620,477	-	-	5,087,053	-	-
Other Cash Inflows	5,287,944	50-100	2,643,972	1,795,332	50-100	2,162,984
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days)*100	-	-	116.01	-	-	92.15

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, 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 risk of loss arising from inadequate or failed 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 inherent 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. Managing operational risks is a key element of the Integrated Risk Management Framework of the Bank. Therefore the Bank is planning to implement an Operational Risk Management System to enhance operational risk management capabilities of the Bank by way of automating manual processes while establishing a sound framework.

Operational risk management framework and responsibilities

Under the Comprehensive Operational Risk Management Policy, 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 is practised in the daily activities of all employees.

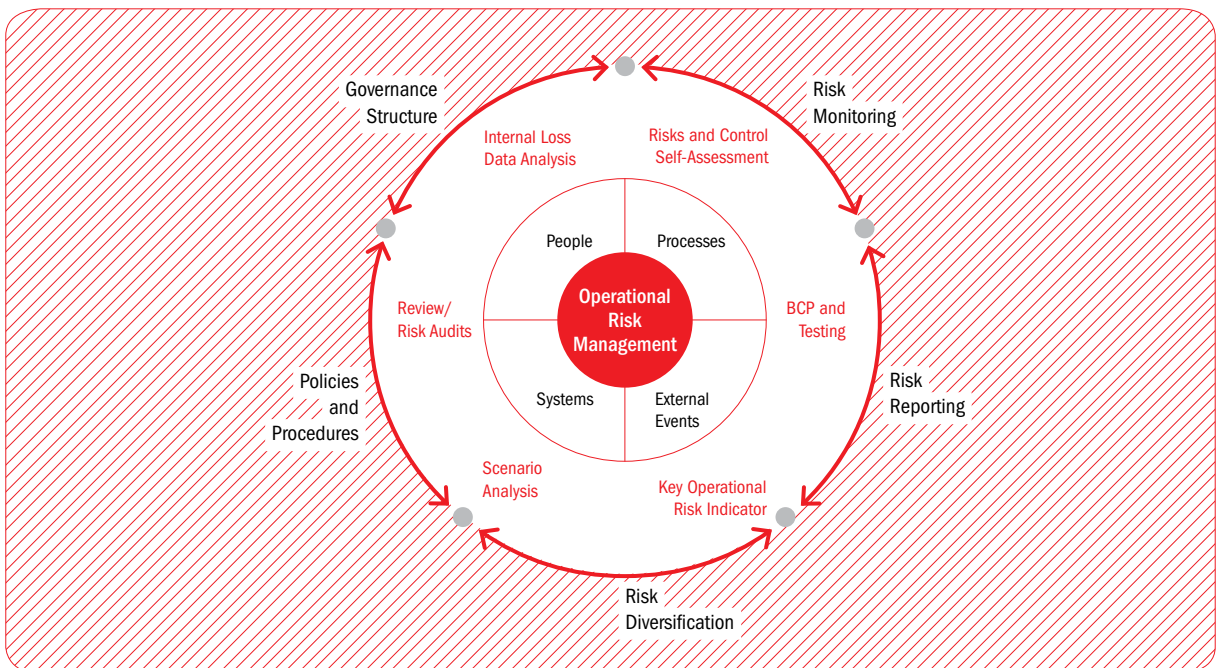
The objective of the Operational Risk Management (ORM) Division is to implement and enforce an appropriate framework for identification, assessment, monitoring, and reporting of operational risks. ORM enables the Bank to identify and assess operational risk categories across the Bank's different processes; to detect critical risk areas of work associated with an increased risk level and to develop response actions to mitigate identified risks. The ORM ensures

that operational risk exposure remains within the Bank's specified risk appetite. Following policies and guidelines are established within the Bank to manage operational risk effectively.

- Operational Risk Management Policy
- Corporate Information Security Policy
- Business Continuity Management Policy
- Incidents and Near-Miss Events Management Policy
- Fraud Risk Management Policy
- Insurance Governance Policy
- Business Process Outsourcing Policy

The Operational Risk Management function is enabled through day-to-day management within a predefined framework. The Head of Operational Risk Management Unit reports to the Chief Risk Officer (CRO) and an Executive Market and Operational Risk Management Committee (EMORMC). EMORMC is chaired by Director/CEO of the Bank and consists of members from Operations, IT, Treasury, Finance, Compliance, Internal Audit, and Risk Management. The CRO represents the risk management 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 II and regulatory requirements, industry best practices have been used to design the following risk management techniques to monitor and manage Operational Risk in the Bank:

Technique	Management/Mitigation																		
Risk and Control Self-Assessment (RCSA)	Centralised key business units of the Bank carry out RCSA annually 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.																		
Appointment of Unit Operational Risk Coordinators (UORC)	ORMU has appointed UORC for all the departments/units in the Bank. An awareness session was conducted to brief the officers on Operational Risk and the responsibilities. UORC have to report incidents on a monthly basis, provide information for Key Risk Indicators, and complete RCSA on annual basis.																		
Collecting and analysing Internal Loss Data (ILD), Incident and Near-Miss events data collection	<p>ILD 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, and Commercial Banking in which the Bank operates its activities. Loss events exceeding LKR 500,000 are reported as required by the Central Bank of Sri Lanka (CBSL) quarterly.</p> <p>All the incidents reported by respective departments are recorded in a database and a root-cause analysis is performed in order to provide recommendations to ensure non-recurrence of the same incidents in the future.</p> <p>Further the operational losses incurred in the year 2019 are reported mainly under execution delivery process management and the charts given below exhibit the operational losses incurred for the past two years.</p> <p>Operational losses %</p> <table border="1"> <caption>Operational Losses by Category</caption> <thead> <tr> <th>Year</th> <th>Internal fraud</th> <th>External fraud</th> <th>Damages to Physical assets</th> <th>Business disruption and system failures</th> <th>Execution delivery and process management</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>65.72</td> <td>23.23</td> <td>11.05</td> <td>0.00</td> <td>0.00</td> </tr> <tr> <td>2018</td> <td>99.44</td> <td>0.23</td> <td>0.05</td> <td>0.28</td> <td>0.00</td> </tr> </tbody> </table>	Year	Internal fraud	External fraud	Damages to Physical assets	Business disruption and system failures	Execution delivery and process management	2019	65.72	23.23	11.05	0.00	0.00	2018	99.44	0.23	0.05	0.28	0.00
Year	Internal fraud	External fraud	Damages to Physical assets	Business disruption and system failures	Execution delivery and process management														
2019	65.72	23.23	11.05	0.00	0.00														
2018	99.44	0.23	0.05	0.28	0.00														
Establishing and reviewing Key Operational Risk Indicators (KORI)	<p>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 EMORMC and BIRMC by way of a dashboard and monitored against the corresponding threshold levels. The appropriate action plans are directed to mitigate the risks based on those indicators.</p> <div style="border: 1px solid red; padding: 10px; margin-top: 10px;"> <table border="0" style="width: 100%; text-align: center;"> <tr> <td style="width: 16.6%;">Human Resources</td> <td style="width: 16.6%;">Credit Cards</td> <td style="width: 16.6%;">Audit</td> <td style="width: 16.6%;">Pawning</td> <td style="width: 16.6%;">Operations and systems</td> <td style="width: 16.6%;">Service Level and Reputation</td> </tr> <tr> <td>Staff Frauds</td> <td>Card Frauds</td> <td>Overdue Audit Findings</td> <td>Fake Articles</td> <td>System Down Time</td> <td>Legal Cases against the Bank</td> </tr> <tr> <td>Internal Frauds</td> <td>Skimmed Transactions</td> <td>Repeated High Risk Audit Findings</td> <td>Over Assessments</td> <td>Teller/ATM Cash Differences</td> <td>Cheque returns</td> </tr> </table> </div>	Human Resources	Credit Cards	Audit	Pawning	Operations and systems	Service Level and Reputation	Staff Frauds	Card Frauds	Overdue Audit Findings	Fake Articles	System Down Time	Legal Cases against the Bank	Internal Frauds	Skimmed Transactions	Repeated High Risk Audit Findings	Over Assessments	Teller/ATM Cash Differences	Cheque returns
Human Resources	Credit Cards	Audit	Pawning	Operations and systems	Service Level and Reputation														
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Technique	Management/Mitigation
Reviewing information risk, integrity, and availability	The Bank is in a position to identify and respond to suspicious 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, Data classification software, Security Information and Event Management (SIEM), Web Application Firewall system, and Internal 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 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 has 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.
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 ongoing basis. The Bank has engaged an insurance broker to source terms, evaluate, and add value 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 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.

	Gross income		
	2019 LKR '000	2018 LKR '000	2017 LKR '000
Gross income	24,044,577	23,070,781	20,567,269
Capital charge for operational risk (15%)	3,384,130		
Risk-weighted amount for operational risk	27,073,039		

Details of outsourcing activities

Outsourcing involves transferring responsibility for carrying out Information Technology and Business Processing functions (previously carried out 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.

Definition and applicability

- An “Outsourcing Arrangement” is an agreement between Seylan Bank PLC and a “Service Provider”, whereby the service provider performs an activity, functions 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 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 the 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 2019	Previous reporting period 31 December 2018
Common Equity Tier 1 (CET 1) capital after adjustments	43,051,519	33,486,749
Common Equity Tier 1 (CET 1) capital	43,976,176	34,442,303
Equity capital (stated capital)/assigned capital	17,044,724	12,025,795
Reserve fund	1,952,957	1,768,944
Published retained earnings/(Accumulated retained losses)	22,836,779	19,673,566
Published accumulated Other Comprehensive Income (OCI)	179,455	(1,055,427)
General and other disclosed reserves	1,962,261	2,029,424
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	924,657	955,554
Goodwill (net)	-	-
Intangible assets (net)	607,267	576,091
Others	317,390	379,463
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	13,652,491	10,195,799
Total Tier 2 capital	13,652,491	10,195,799
Qualifying Tier 2 capital instruments	12,270,650	9,802,650
Revaluation gains	393,149	393,149
Loan loss provisions	988,692	-
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
Total adjustments to Tier 2	-	-
Investment in own shares	-	-
Others (specify)	-	-
Total Tier 1 capital	43,051,519	33,486,749
Total capital	56,704,009	43,682,548

Item	Amount (LKR '000)	
	Reporting period 31 December 2019	Previous reporting period 31 December 2018
Total risk weighted assets (RWA)	382,084,421	328,331,166
RWAs for credit risk	352,681,982	300,834,151
RWAs for market risk	2,329,400	1,661,514
RWAs for operational risk	27,073,039	25,835,501
CET 1 capital ratio (including capital conservation buffer, counter cyclical capital buffer and surcharge on D-SIBs) (%)	11.27	10.20
of which: capital conservation buffer (%)	2.500	1.875
of which: Counter cyclical Buffer (%)		
of which: Capital Surcharge on D-SIBs (%)		
Total Tier 1 capital ratio (%)	11.27	10.20
Total capital ratio (including capital conservation buffer, counter cyclical capital buffer and surcharge on D-SIBs) (%)	14.84	13.30
of which: capital conservation buffer (%)	2.500	1.875
of which: Counter cyclical Buffer (%)		
of which: Capital Surcharge on D-SIBs (%)		

CET 1 capital increased during the year primarily due to rights issue, OCI gains and 2019 profits.

Risk-weighted assets (RWAs)

The RWAs increased in 2019 primarily due to growth in loans and advances of the Bank.

Item	Minimum requirement		Reporting period 31 December 2019	Previous reporting period 31 December 2018
	2019	2018		
Key regulatory ratios – Capital and liquidity				
Regulatory capital				
Common equity Tier 1 (LKR '000)			43,051,519	33,486,749
Tier 1 capital (LKR '000)			43,051,519	33,486,749
Total capital (LKR '000)			56,704,009	43,682,547
Regulatory capital ratios				
Common equity Tier 1 capital ratio (%)	7.000	6.375	11.27	10.20
Tier 1 capital ratio (%)	8.500	7.875	11.27	10.20
Total capital ratio (%)	12.500	11.875	14.84	13.30
Leverage ratio* (%)	3.00	3.00	8.17	7.20
Net stable funding ratio* (%)	100.00	90.00	109.11	110.00
Regulatory liquidity				
Statutory liquid assets				
Domestic Banking Unit (LKR '000)			90,379,939	80,722,525
Off-shore Banking Unit (USD '000)			29,493	31,468
Statutory liquid assets ratio				
Domestic Banking Unit (%)	20	20	21.40	21.44
Off-shore Banking Unit (%)	20	20	21.81	22.08
Liquidity coverage ratio – LKR (%)	100	90	169.60	128.76
Liquidity coverage ratio – All currency (%)	100	90	116.01	92.15

Computation of leverage ratio

	Amount (LKR '000)
	Reporting period 31 December 2019
Tier 1 capital	43,051,519
Total exposures	527,061,840
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	487,327,129
Derivative exposures	800,747
Securities financing transaction exposures	5,165,159
Other off-balance sheet exposures	33,768,806
Basel III leverage ratio (%) (Tier 1/total exposure)	8.17

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.

As of 31 December 2019, the Bank was well capitalised, with a Total Capital Adequacy Ratio of 14.84% and a Tier 1 capital ratio of 11.27% in excess of the mandatory regulatory requirements of the Basel III Tier 1 ratio of 8.50%, and total capital ratio of 12.50%.

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

Total Tier 1 Capital items are:

1. Common Equity Tier 1 (CET1) Capital
 - Equity capital or stated capital/ assigned capital
 - Reserve fund
 - Published retained earnings/ (Accumulated retained losses)
 - Accumulated other comprehensive income (OCI)
 - General and other disclosed reserves
 - Unpublished current year's profit/ (losses) and gains reflected in OCI
2. Additional Tier 1 (AT1) Capital
 - Qualifying Additional Tier 1 Capital Instruments that are issued by the Bank that meet criteria for inclusion in AT1 Capital

Tier 2 capital

Total Tier 2 Capital items are:

- Qualifying Tier 2 Capital Instruments such as BASEL III compliant debentures approved by CBSL
- Revaluation gains approved by CBSL
- Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties

Total capital base is the summation of the Tier 1 and Tier 2 Capital after adjustments to CET1 Capital and AT1 Capital as specified in the Direction.

Risk exposures in line with the Budget 2020, and profit/balance sheet forecasts thereafter

The Bank's Board Approved Capital Augmentation Plan, based on the Budget and the Profit and Balance Sheet Forecasts thereafter has included the estimated /required Tier 1 and Tier 2 capital infusion during the period till 2021. Furthermore, the Bank's five year Projection on the Performance includes the projections for the capital infusion required from 2020 to 2024.

The Bank is planning to revise the Strategic Plan 2020 considering the Bank's future growth outlook, average industry growth, peer growth, and necessary inputs from the CBSL published documents etc. Furthermore, the relevant macroeconomic parameters will be factored in the calculations. Currently, the Bank employs a mix of top-down and bottom-up approach to arrive at the forecasts.

Basel III minimum capital requirements and buffers

As per the Banking Act Direction No. 01 of 2016 dated 29 December 2016 on Capital Requirements under BASEL III which was effective from 1 July 2017 and the amendments thereto under Directions No. 11 of 2019 dated 20 December 2019, the minimum required capital ratios to be maintained by the Bank are as follows:

Every licensed bank shall maintain, at all times, the minimum capital ratios prescribed below in Table 01 and shall ensure compliance with Schedule I to the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for licensed banks.

Table 01 – Capital requirements for licensed banks

Components of capital	Capital adequacy ratio to be maintained %
Common Equity Tier 1 including Capital Conservation Buffer	7.00%
Total Tier 1 including Capital Conservation Buffer	8.50%
Total Capital Ratio including Capital Conservation Buffer	12.50%

Licensed banks which are determined as Domestic Systemically Important banks (D-SIBs) from time to time shall maintain Higher Loss Absorbency (HLA) requirements as specified by the Monetary Board in the form of Common Equity Tier 1 (CET1), as given below:

Table 02 – Capital requirements for D-SIBs

Components of capital	Capital adequacy ratio to be maintained %
Common equity Tier 1 including Capital Conservation Buffer	7.00 + HLA
Total Tier 1 including Capital Conservation Buffer	8.50 + HLA
Total capital ratio including Capital Conservation Buffer	12.50 + HLA

HLA requirements as the minimum capital surcharge on D-SIBs are given below:

Bucket	HLA requirement (CET 1 as a % of risk-weighted assets)
3	2.0
2	1.5
1	1.0

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 planning to move into the Standardised Measurement Approach for operational risk calculation.

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.

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	Debnture issue – 2016 (5 years and 7 years)	Debnture issue – 2018 (5 years, 7 years and 10 years)	Debnture issue – 2019 (5 years)
Issuer	Seylan Bank PLC	Seylan Bank PLC	Seylan Bank PLC	Seylan Bank PLC	Seylan Bank PLC
Unique Identifier (e., ISIN or Bloomberg Identifier for Private Placement)	LK0182N00002	LK0182X00001	LK0182023559 LK0182023567 LK0182023542	LK0182023955 LK0182023963 LK0182023971	LK0182D24219 LK0182D24227
Governing Law (s) of the Instrument	Provisions of 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 of 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, 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, 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, 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	18 April 2019
Par Value of Instrument	N/A	N/A	LKR 100.00 each	LKR 100.00 each	LKR 100.00 each
Prepetual or Dated	N/A	N/A	dated	dated	dated
Original Maturity Date, If Applicable	N/A	N/A	15 July 2021	28 March 2023 28 March 2025 28 March 2028	18 April 2024
Amount Recognised in Regulatory Capital (in '000 as at the Reporting Date)	10,884,710	6,160,014	3,155,150	4,865,500	4,250,000
Accounting Classification (Equity/Liability)	Equity	Equity	Liability	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	N/A
Subsequent Call Dates, If Applicable	N/A	N/A	N/A	N/A	N/A
Coupons/Dividends					
Fixed or Floating Dividend/Coupon	Dividend as decided by the Board annually	Dividend as decided by the Board annually	Fixed and floating interest rate	Fixed interest rate	Fixed interest rate
Coupon Rate and any Related Index	As decided by the Board	As decided by the Board	Semi-Annual Interest – 13.0% p.a. (for 5 years), Semi-Annual Interest - 6 month T-Bill (gross) + 1.50% (for 5 years), Semi-Annual Interest – 13.75% p.a. (for 7 years)	Semi-Annual Interest – 12.85% p.a. (for 5 years), Semi-Annual Interest – 13.20% (for 7 years), Semi-Annual Interest – 13.50% p.a. (for 10 years)	Semi-Annual Interest – 14.5% p.a. Semi-Annual Interest – 10.50% p.a
Non-Cumulative or Cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Convertible or Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Convertible	Convertible
If Convertible, Conversion Trigger (s)				when determined a "Trigger Event" at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka	when determined a "Trigger Event" at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka
If Convertible, Fully or Partially				when determined at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka	when determined at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka
If Convertible, Mandatory or Optional				Mandatory in the event of a "Trigger Event"	Mandatory in the event of a "Trigger Event"
If Convertible, Conversion Rate				Simple average of the daily Volume Weighted Average Price of an Ordinary Voting Share of the Bank (as published by the Colombo Stock Exchange) during the three (03) months period immediately preceding the Trigger Event, as determined by the Monetary Board.	Simple average of the daily Volume Weighted Average Price of an Ordinary Voting Share of the Bank (as published by the Colombo Stock Exchange) during the three (03) months period immediately preceding the Trigger Event, as determined by the Monetary Board.

Legal risk

Legal risk is the risk of financial or reputational loss that could arise from failure to comply with statutory and regulatory requirements, internal policies, prescribed best practices, lack of awareness, uncertainty of the outcome of all litigation and probable adverse consequences resulting from deficient documentation.

The Bank manages these legal risks effectively having proper monitoring and controls in all business and supporting areas. Further, through the Legal Department all contracts and security documentation are 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.

The 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 permanent attendee.

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 of Directors 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 a 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 of this type and successfully solved them without any reputational damage.

The Bank also recognises 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.

Relief offered to the tourism sector

Under the relief package introduced by the Government of Sri Lanka to the Tourism sector (post 21 April 2019), the Bank has offered several concessions to clients operating in the Hospitality industry.

Accordingly, credit facilities (including facilities granted in foreign currency denominations) totalling to LKR 4,611.6 Mn. has been granted capital moratorium and a further sum of LKR 504.9 Mn. of interest/capital recoverable has been deferred as at 31 December 2019.

Additionally, new working capital loans to the value of LKR 1,041.1 Mn. (of which

LKR 958.0 Mn. – outstanding as at 31 December 2019) was granted under the "Enterprise Sri Lanka" programme. The Central Bank of Sri Lanka subsidises 75% of the interest for loans granted under this programme.

Achievements during 2019 and outlook for 2020

1. Full roll-out of the Loan Origination System (LOS) across the network, thereby reducing the time taken to evaluate/approve facilities, 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. Credit Standards and Policy Manual was revised during the year 2019.
4. 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-2020 is underway and more industry segments will be included as per the needs of the business lines.
5. Credit risk reviews to the value of LKR 132.3 Bn. (High value reviews of LKR 116.8 Bn. and small to mid tier facilities of LKR 15.4 Bn.) were completed in 2019 covering 34.5% of the performing advances as at 31 December 2018.
6. Rigorous monitoring of non-performing advances by the Executive Credit Risk Management Committee has enabled to control the NPA ratio.
7. Awareness sessions on Lending Guidelines were completed covering all the SME Credit HUBs of the Bank. The sessions were designed to encourage credit staff to utilise the Lending Guidelines in their day-to-day credit related activities in order to improve credit quality and increase turnaround time of credit approval process.
8. Used data analytics to identify credit default behaviours in the product portfolio.
9. Approval was obtained for a risk-based pricing criteria and implementation to be carried out in 2020.

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 Measurement Approach 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 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 commenced in 2019 and is expected to be completed in the second quarter of 2020.
14. 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 the 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 – Bank Only

Item	Amount (LKR '000) as at 31 December 2019				
	a	b	c	d	e
	Carrying values as reported in published Financial Statements	Carrying values under scope of regulatory reporting	Subject to credit risk framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets	516,294,187	519,219,255	518,611,989	5,273,119	607,267
Cash and cash equivalents	11,758,729	12,315,716	12,315,716		
Balances with Central Bank	14,458,970	14,458,970	14,458,970		
Placements with banks	1,173,278	1,179,100	1,179,100		
Derivative financial instruments	134,756				
Other financial assets held for trading	7,118,016	6,979,716	6,979,716	5,273,119	
Securities purchased under resale agreements	5,165,159	5,163,569	5,163,569		
Loans and receivables to banks	-	-			
Loans and receivables to other customers	379,259,064	382,415,908	382,415,908		
Financial investments - Available-for-sale	55,591,526				
Financial investments - Held-to-maturity	21,873,584	72,198,901	72,198,901		
Investments in subsidiaries	1,153,602	1,153,602	1,153,602		
Investments in associates and joint ventures		-			
Property, plant and equipment	4,384,467	4,384,467	4,384,468		
Investment properties	-	-			
Goodwill and intangible assets	607,267	607,267			607,267
Deferred tax assets	-				
Other assets	13,615,769	18,362,039	18,362,039		
Liabilities	471,666,913	-	-	-	-
Due to banks	28,769,629				
Derivative financial instruments	222,978				
Other financial assets held for trading					
Financial liabilities designated at fair value through profit or loss					
Due to other customers	400,731,358				
Other borrowings	8,449,291				
Debt securities issued	19,870,944				
Current tax liabilities	525,389				
Deferred tax liabilities	725,326				
Other provisions					
Other liabilities	12,171,029				

Item	Amount (LKR '000) as at 31 December 2019				
	a	b	c	d	e
	Carrying values as reported in published Financial Statements	Carrying values under scope of regulatory reporting	Subject to credit risk framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
Due to subsidiaries	200,969				
Subordinated term debts					
Off-balance sheet liabilities	146,169,925	193,374,468	182,677,209	-	-
Guarantees	38,387,248	43,246,095	39,609,903		
Performance bonds					
Letters of credit	12,213,693	12,167,370	12,084,217		
Foreign exchange contracts	(326,882)	43,720,593	43,720,593		
Other contingent items	12,042,064	10,394,142	6,983,220		
Undrawn loan commitments	83,126,458	80,279,276	80,279,276		
Other commitments	727,344	3,566,992			
Shareholders' equity					
Equity Capital (stated capital)/assigned capital					
of which amount eligible for CET1	17,044,724	17,044,723			
of which amount eligible for AT1		-			
Retained earnings	22,823,239	20,466,561			
Accumulated other comprehensive income					
Other reserves	4,759,311	6,402,331			
Total shareholders' equity	44,627,274	43,913,615	-	-	-

Column a. presents the assets, liabilities and equity on standalone SLFRS basis. Pillar III disclosures as at 31 December 2019 are presented in accordance with regulatory capital concepts and rules.

A. Explanations of differences between accounting and regulatory exposure amounts

	LKR '000
Total assets as per carrying values reported in published Financial Statements (column a)	516,294,187
Total assets as per carrying values reported under scope of regulatory reporting (column b)	519,219,255
Difference	2,925,068

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 the valuation framework, the valuation models used by the Bank, and the fair value hierarchy are disclosed in Note 6 to the Financial Statements.

Sustainable Results



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Financial Calendar

Financial calendar – 2019

	Released to the Colombo Stock Exchange (CSE)	Published in the newspapers
Interim Financial Statements (Audited) for the 4th Quarter/Year ended 31 December 2018	20 February 2019	13 March 2019
Final Audited Financial Statements for the year ended 31 December 2018 and Annual Report – 2018	28 February 2019: Circulated to the shareholders on or before 5 March 2019, and to the debenture holders in end March 2019	
1st Quarter/three months ended 31 March 2019	2 May 2019	10 May 2019
2nd Quarter/six months ended 30 June 2019	30 July 2019	9 August 2019
3rd Quarter/nine months ended 30 September 2019	30 October 2019	7 November 2019
32nd Annual General Meeting Held on Thursday, 28 March 2019 at the Grand Ballroom, Galadari Hotel, No. 64, Lotus Road, Colombo 1		
First and final ordinary dividend for the year ended 31 December 2018 issued on 28 March 2019		

Proposed financial calendar – 2020

		Proposed date
Interim Financial Statements (Audited) for the 4th Quarter/Year ended 31 December 2019	To be released to the Colombo Stock Exchange (CSE)	February 2020
Final Audited Financial Statements for the year ended 31 December 2019 and Annual Report – 2019	<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 30 March 2020 Mid-March 2020
33rd Annual General Meeting (AGM)	Scheduled to be held at the Grand Ballroom, Galadari Hotel, No. 64, Lotus Road, Colombo 1	On Monday, 30 March 2020
First and final ordinary dividend for the year ended 31 December 2019	Payable subject to the approval of the shareholders at the AGM	On or before 9 April 2020
Interim (unaudited or audited) Financial Statements	Statements in respect of the four quarters of 2020 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 155 to 244 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 for the year ended 31 December 2019;
- the Financial Statements for the year ended 31 December 2019 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 (2017) published by The Institute of Chartered Accountants of Sri Lanka.
- in preparing the Financial Statements for the year ended 31 December 2019, appropriate accounting policies, judgements and estimates have been considered 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 the person responsible for their preparation and signed on behalf of the Board of Directors by two Directors of the Bank on 21 February 2020.

External Auditors' reviews and opinions

The Bank's Auditors, Messrs KPMG was engaged to carry out reviews and sample checks on the effectiveness of the systems of internal control as they consider appropriate and necessary in providing their opinion on the Financial Statements. Messrs KPMG have examined the Financial Statements made available together with all other financial records, minutes of meetings of the Board and the Board subcommittees and related information and have expressed their opinion which appears on page 152 to 154 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 and in compliance with Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007 (as amended) is published on pages 109 to 110 and Bank's Independent Auditors' Report on our assessment of Bank's internal controls over financial reporting is published on page 111 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 Section 56 (2) 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.

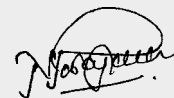
The Directors confirm that to the best of their knowledge and belief, all statutory payments due and payable to all statutory and regulatory authorities as at the reporting date, have been paid by the Bank and its subsidiaries or where relevant provided for.

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

21 February 2020
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 2019 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.

Bank has applied SLFRS 16 – “Leases” using the modified retrospective approach from 1 January 2019. Accordingly the information provided for last year is not restated.

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 pages 152 to 154 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.

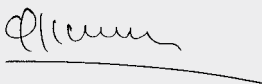
The Audit Committee pre-approves the audit and non-audit services provided by Messrs KPMG in order to ensure that the provision of such services does not impair Messrs KPMG's independence.

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.



K P Ariyaratne
Director/Chief Executive Officer



Ms Champika Dodanwela
Chief Financial Officer

21 February 2020
Colombo

Independent Auditors' Report



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(Chartered Accountants)
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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 2019, and the income statement, 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 155 to 244.

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 2019, 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 Group 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 judgment, 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 – “Financial Instruments”

Refer to the accounting policies in “Note 5.4.5 to the Financial Statements: Impairment”, “Note 3 to the Financial Statements: Use of Estimates and Judgments”, and “explanatory Note 24 to the Financial Statements: Financial assets at amortised cost – Loans and Advances”.

Risk description

As disclosed in Note 24 to the financial statements, the Company has recorded LKR 389,991,475,000 and LKR 10,732,411,000 as at 31 December 2019 as customer loans and advances and expected credit losses respectively.

SLFRS 9 “Financial Instruments” has introduced an expected credit loss (ECL) model which takes into account judgement and estimation in setting the assumptions such as forward looking probability of default (PD), loss given default (LGD), macro-economic scenarios including the weightage assigned and required data inputs.

Our responses

Our audit procedures included;

- Obtaining an understanding of the Company's process to determine ECL allowance, evaluating the ECL model methodology against established market practice and criteria set out in the accounting standards;
- Challenging the key assumptions in the ECL models, including staging, PD and LGD and evaluating the reasonableness of management's key judgement and estimates;



Risk description	Our responses
<p>The Company has applied processes, systems and controls for the calculation of expected credit loss impairment allowance with the application of significant judgments and estimates which are subject to uncertainty and management bias; and assessment of the relevance and reliability of data used for ECL measurement.</p> <p>The allowance for credit impairment has been identified as a Key Audit Matter as the Company has significant credit exposure to number of customers across a wide range of lending and other products and industries.</p>	<ul style="list-style-type: none"> • Testing the accuracy and completeness of the data inputs by reviewing the reconciliations between source systems and the ECL models, assessing the economic information used, weightage applied and evaluating the forward looking scenarios; • Recalculation of ECL for a selected 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; • Challenging recoverability of the forecasted cash flows by comparing them to the historical performance of the customers and the expected future performance where applicable; • Assessing external collateral valuer's credentials and comparing external valuations to values used in Management's impairment assessments; • Testing governance and controls over the application of collective provision model adjustments. This included assessing the components of model adjustments, trends in the credit risk concentration of specific portfolios and our understanding of economic conditions; and • 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.

IT Systems and Controls over Financial Reporting

Risk description	Our responses
<p>The Company's key financial accounting and reporting processes are highly dependent on the automated controls over the Company's information systems. As such there exist a risk that lapses in the IT control environment including automated accounting procedures, IT dependent manual controls, controls preventing unauthorised access and changes to IT systems and data are critical to the recording of financial information and could result in the financial reporting/accounting records being materially misstated.</p> <p>The IT systems and controls, as they impact the financial recording and reporting of transactions, is a Key Audit Matter and our audit approach could significantly differ depending on the effective operation of the Company's IT controls.</p>	<p>We used our internal IT specialists to perform audit procedures to assess IT systems and controls over financial reporting, which included the following:</p> <ul style="list-style-type: none"> • Assessing the governance and higher-level controls in place across the IT environment, including the approach to Group policy design, review and awareness, and IT Risk Management practices; • Testing design, implementation and the operating effectiveness of automated controls, principally relating to the automated calculation of financial transactions. We tested the inputs used for automated calculations with source data and verified the accuracy of the logic used for the calculation for a sample of transactions; • Testing significant accounts-related IT application controls which are relevant to the accuracy of system calculation, consistency of data transmission, covering business in loans, interbank business, bills, retail business and others, as well as key accounting procedures; and • Assessing the management's evaluation of access rights granted to applicants relevant to financial accounting and reporting systems and tested resolution of a sample of exceptions.

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 auditor's 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 2294.

Chartered Accountants
Colombo, Sri Lanka

21 February 2020

Income Statement

For the year ended 31 December	Note	Bank			Group		
		2019 LKR '000	2018 LKR '000	Change %	2019 LKR '000	2018 LKR '000	Change %
Gross income	6	61,369,654	54,872,530	11.84	61,356,249	54,844,593	11.87
Interest income		55,423,358	49,229,214	12.58	55,430,879	49,230,380	12.59
Less: Interest expenses		36,790,839	31,482,218	16.86	36,488,082	31,440,293	16.06
Net interest income	7	18,632,519	17,746,996	4.99	18,942,797	17,790,087	6.48
Fee and commission income		4,457,325	4,252,240	4.82	4,457,109	4,251,808	4.83
Less: Fee and commission expenses		224,554	198,273	13.25	224,554	198,604	13.07
Net fee and commission income	8	4,232,771	4,053,967	4.41	4,232,555	4,053,204	4.42
Net gains/(losses) from trading	9	(497,595)	961,832	(151.73)	(496,010)	961,634	(151.58)
Net gains from derecognition of financial assets	10	320,472	51,936	517.05	320,472	51,936	517.05
Net other operating income	11	1,666,094	377,308	341.57	1,643,799	348,835	371.23
Total operating income		24,354,261	23,192,039	5.01	24,643,613	23,205,696	6.20
Less: Impairment charges	12	3,882,718	3,475,186	11.73	3,882,718	3,475,195	11.73
Net operating income		20,471,543	19,716,853	3.83	20,760,895	19,730,501	5.22
Less: Operating expenses	13						
Personnel expenses	14	6,492,596	5,782,333	12.28	6,526,826	5,816,527	12.21
Additional gratuity expense	43	81,212	1,134,771	(92.84)	81,212	1,134,771	(92.84)
Depreciation and amortisation expenses		842,447	745,823	12.96	909,869	809,868	12.35
Depreciation - right-of-use assets/lease expenses	31	473,310	704,207	(32.79)	432,183	477,301	(9.45)
Other expenses		4,716,195	4,570,177	3.20	4,776,552	4,691,620	1.81
Operating profit before taxes		7,865,783	6,779,542	16.02	8,034,253	6,800,414	18.14
Less: Value added tax on financial services		1,621,116	1,675,346	(3.24)	1,621,116	1,675,346	(3.24)
Less: Nation building tax on financial services		193,281	223,380	(13.47)	193,281	223,380	(13.47)
Less: Debt repayment levy		952,746	214,564	344.04	952,746	214,564	344.04
Profit before income tax		5,098,640	4,666,252	9.27	5,267,110	4,687,124	12.37
Less: Income tax expense	15	1,418,378	1,477,046	(3.97)	1,468,858	1,536,268	(4.39)
Profit for the year		3,680,262	3,189,206	15.40	3,798,252	3,150,856	20.55
Profit attributable to:							
- Equity holders of the Bank		3,680,262	3,189,206	15.40	3,732,691	3,137,243	18.98
- Non-controlling interest		-	-	-	65,561	13,613	381.61
Profit for the year		3,680,262	3,189,206	15.40	3,798,252	3,150,856	20.55
Basic/diluted earnings per share (LKR)	16	8.99	7.97	12.80	9.12	7.84	16.33
Dividend per share - Gross (LKR)		2.00*	2.50	(20.00)			

* The proposed dividend, which is to be approved at the Annual General Meeting.

Notes on pages 164 to 244 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		
		2019 LKR '000	2018 LKR '000	Change %	2019 LKR '000	2018 LKR '000	Change %
Profit for the year		3,680,262	3,189,206	15.40	3,798,252	3,150,856	20.55
Other comprehensive income, net of tax							
Items that will be reclassified to income statement in subsequent periods							
Net movement of cash flow hedge reserve	46.5	(62,073)	35,906	(272.88)	(62,073)	35,906	(272.88)
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	46.4	2,539,877	(1,537,937)	265.15	2,545,242	(1,540,145)	265.26
Less: Deferred tax effect relating to items that will be reclassified to income statement	34	711,165	(432,786)	264.32	711,495	(430,786)	265.16
Items that will not be reclassified to income statement in subsequent periods							
Change in fair value on investments in equity instruments measured at fair value through other comprehensive income	46.4	315,941	405,236	(22.04)	316,841	405,236	(21.81)
Revaluation of property, plant and equipment	46.2	-	-	-	118,360	140,375	(15.68)
Actuarial gain on defined benefit obligations	43.1.8	177,461	84,326	110.45	175,163	83,844	108.92
Less: Deferred tax effect relating to items that will not be reclassified to income statement	34	26,509	37,028	(28.41)	59,650	76,244	(21.76)
Other comprehensive income for the year, net of tax		2,233,532	(616,711)	462.17	2,322,388	(520,242)	546.41
Total comprehensive income for the year		5,913,794	2,572,495	129.89	6,120,640	2,630,614	132.67
Total comprehensive income attributable to:							
Equity holders of the Bank		5,913,794	2,572,495	129.89	6,028,876	2,588,552	132.91
Non-controlling interest		-	-	-	91,764	42,062	118.16
Total comprehensive income for the year		5,913,794	2,572,495	129.89	6,120,640	2,630,614	132.67

Notes on pages 164 to 244 form an integral part of these Financial Statements.

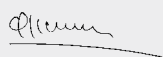
Statement of Financial Position

As at 31 December	Note	Bank			Group		
		2019 LKR '000	2018 LKR '000	Change %	2019 LKR '000	2018 LKR '000	Change %
Assets							
Cash and cash equivalents	19	11,758,729	12,573,611	(6.48)	11,758,769	12,573,651	(6.48)
Balances with Central Bank of Sri Lanka	20	14,458,970	18,472,275	(21.73)	14,458,970	18,472,275	(21.73)
Placements with banks and finance companies	21	1,173,278	-	100.00	1,173,278	-	100.00
Derivative financial instruments	22	134,756	1,676,958	(91.96)	134,756	1,676,958	(91.96)
Financial assets recognised through profit or loss							
- Measured at fair value	23	7,118,016	4,918,336	44.72	7,124,752	4,923,487	44.71
- Designated at fair value		-	-	-	-	-	-
Financial assets at amortised cost							
- Loans and advances	24	379,259,064	326,882,538	16.02	379,259,064	326,882,538	16.02
- Debt and other instruments	25	27,038,743	29,593,496	(8.63)	27,038,743	29,593,496	(8.63)
Financial assets measured at fair value through other comprehensive income	26	55,591,526	58,770,720	(5.41)	55,645,538	58,819,604	(5.40)
Investment in subsidiary	27	1,153,602	1,153,602	-	-	-	-
Group balances receivable	28	40,000	40,600	(1.48)	-	-	-
Property, plant and equipment	29	4,347,933	3,739,526	16.27	7,088,440	6,357,092	11.50
Leasehold rights	30	36,534	38,479	(5.05)	562,635	571,990	(1.64)
Right-of-use assets	31	4,457,472	-	100.00	1,667,714	-	100.00
Investment properties	32	-	-	-	853,157	845,138	0.95
Intangible assets	33	607,267	576,091	5.41	607,267	576,091	5.41
Deferred tax assets	34	-	270,275	(100.00)	-	99,648	(100.00)
Other assets	35	9,118,297	8,226,511	10.84	9,158,186	8,269,528	10.75
Total assets		516,294,187	466,933,018	10.57	516,531,269	469,661,496	9.98
Liabilities							
Due to banks	36	28,769,629	26,378,781	9.06	28,769,629	26,378,781	9.06
Derivative financial instruments	22	222,978	145,339	53.42	222,978	145,339	53.42
Financial liabilities at amortised cost							
- Due to depositors	37	400,731,358	357,560,187	12.07	400,731,358	357,560,187	12.07
- Due to debt securities holders	38	8,425,884	21,094,525	(60.06)	8,425,884	21,094,525	(60.06)
- Due to other borrowers	39	23,407	32,018	(26.89)	23,407	32,018	(26.89)
Group balances payable	40	200,969	211,686	(5.06)	-	-	-
Debt securities issued	41	19,870,944	16,329,400	21.69	19,870,944	16,329,400	21.69
Current tax liabilities	42	525,389	1,209,464	(56.56)	490,699	1,185,533	(58.61)
Deferred tax liabilities	34	725,326	-	100.00	947,225	-	100.00
Lease liabilities		4,351,632	-	100.00	1,507,618	-	100.00
Other liabilities	43	7,819,397	9,361,819	(16.48)	7,897,473	9,472,350	(16.63)
Total liabilities		471,666,913	432,323,219	9.10	468,887,215	432,198,133	8.49
Equity							
Stated capital	44	17,044,724	12,025,795	41.73	17,044,724	12,025,795	41.73
Statutory reserve fund	45	1,952,957	1,768,944	10.40	1,952,957	1,768,944	10.40
Retained earnings		22,823,239	19,798,647	15.28	23,494,184	20,419,229	15.06
Other reserves	46	2,806,354	1,016,413	176.10	3,887,601	2,032,938	91.23
Total equity attributable to equity holders of the Bank		44,627,274	34,609,799	28.94	46,379,466	36,246,906	27.95
Non-controlling interest	27.2	-	-	-	1,264,588	1,216,457	3.96
Total equity		44,627,274	34,609,799	28.94	47,644,054	37,463,363	27.18
Total equity and liabilities		516,294,187	466,933,018	10.57	516,531,269	469,661,496	9.98
Commitments and contingencies	47	150,147,271	129,692,642	15.77	150,189,462	129,721,740	15.78
Net assets value per share (LKR)		88.61	94.54	(6.27)	92.09	99.01	(6.99)
Memorandum information							
Number of employees		3,360	3,344	0.48	3,381	3,366	0.45
Number of banking centres		173	170	1.76	173	170	1.76

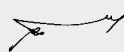
Notes on pages 164 to 244 form an integral part of these Financial Statements.

The Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

Approved and signed for and on behalf of the Board.



Ms Champika Dodanwela
Chief Financial Officer



W M R S Dias
Chairman



Kapila Ariyaratne
Director/Chief Executive Officer

21 February 2020
Colombo

Statement of Changes in Equity

Bank	
For the year ended 31 December	
	Note
(1) Balance as at 1 January 2018	
Adjustment on initial application of SLFRS 9, net of tax	
(2) Restated balance as at 1 January 2018	
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 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 dividend to equity holders	17
Reversal of revaluation on disposed property, plant and equipment	46.2
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	
Balance as at 31 December 2018 (2 + 3+ 4)	
(1) Balance as at 1 January 2019	
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 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
(2) Total comprehensive income for the year	
Transactions with equity holders, recognised directly in equity	
Cash/scrip dividend to equity holders	17
Rights issue	44
Reversal of revaluation on disposed property, plant and equipment	46.2
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
(3) Total transactions with equity holders	
Balance as at 31 December 2019 (1 + 2 + 3)	

* 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).

Notes on pages 164 to 244 form an integral part of these Financial Statements.

FVOCI Reserve – Fair Value through Other Comprehensive Income Reserve.

	Stated capital		Statutory reserve fund*	Retained earnings	Other reserves			Total
	Ordinary shares - voting LKR '000	Ordinary shares - non-voting LKR '000			Revaluation reserve LKR '000	FVOCI reserve LKR '000	Other reserves LKR '000	
	7,319,076	3,909,193	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)
	7,319,076	3,909,193	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
	404,131	393,395	-	(1,240,596)	-	-	-	(443,070)
	-	-	-	376,203	(376,203)	-	-	-
	-	-	159,460	(159,460)	-	-	-	-
	-	-	-	8,727	-	-	(8,727)	-
	-	-	-	517,579	-	(517,579)	-	-
	404,131	393,395	159,460	(497,547)	(376,203)	(517,579)	(8,727)	(443,070)
	7,723,207	4,302,588	1,768,944	19,798,647	866,290	(1,879,301)	2,029,424	34,609,799
	7,723,207	4,302,588	1,768,944	19,798,647	866,290	(1,879,301)	2,029,424	34,609,799
	-	-	-	3,680,262	-	-	-	3,680,262
	-	-	-	177,461	-	-	-	177,461
	-	-	-	-	-	1,828,712	-	1,828,712
	-	-	-	-	-	289,432	-	289,432
	-	-	-	-	-	-	(62,073)	(62,073)
	-	-	-	3,857,723	-	2,118,144	(62,073)	5,913,794
	316,659	313,032	-	(915,248)	-	-	-	(285,557)
	2,844,844	1,544,394	-	-	-	-	-	4,389,238
	-	-	-	7,978	(7,978)	-	-	-
	-	-	184,013	(184,013)	-	-	-	-
	-	-	-	5,090	-	-	(5,090)	-
	-	-	-	253,062	-	(253,062)	-	-
	3,161,503	1,857,426	184,013	(833,131)	(7,978)	(253,062)	(5,090)	4,103,681
	10,884,710	6,160,014	1,952,957	22,823,239	858,312	(14,219)	1,962,261	44,627,274

Group			
For the year ended 31 December			
	Note	Stated capital	
		Ordinary shares - voting LKR '000	Ordinary shares - non-voting LKR '000
(1) Balance as at 1 January 2018		7,319,076	3,909,193
Adjustment on initial application of SLFRS 9, net of tax		-	-
(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)			
- Revaluation of property, plant and equipment	46.2	-	-
- Actuarial gain on defined benefit obligations	43.1.8	-	-
- Net 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 dividend	17	404,131	393,395
Reversal of revaluation on disposed property, plant and equipment	46.2	-	-
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
(1) Balance as at 1 January 2019		7,723,207	4,302,588
Total comprehensive income for the year			
Profit for the year		-	-
Other comprehensive income (net of tax)			
- Revaluation of property, plant and equipment	46.2	-	-
- Actuarial gain on defined benefit obligations	43.1.8	-	-
- Net gains 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	-	-
- Reversal of FVOCI reserve of equity instruments written-off	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 dividend	17	316,659	313,032
Rights issue	44	2,844,844	1,544,394
Reversal of revaluation on disposed property, plant and equipment	46.2	-	-
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	-	-
(3) Total transactions with equity holders		3,161,503	1,857,426
Balance as at 31 December 2019 (1 + 2 + 3)		10,884,710	6,160,014

* 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).

Notes on pages 164 to 244 form an integral part of these Financial Statements.

FVOCI Reserve - Fair Value through Other Comprehensive Income Reserve.

	Statutory reserve fund* LKR '000	Retained earnings LKR '000	Other reserves			Total LKR '000	Non-controlling Interest LKR '000	Total equity LKR '000
			Revaluation reserve LKR '000	FVOCI reserve LKR '000	Other reserves LKR '000			
	1,609,484	17,818,539	1,967,727	945,496	2,257,458	35,826,973	1,213,666	37,040,639
	-	(121,806)	-	(1,603,743)	-	(1,725,549)	-	(1,725,549)
	1,609,484	17,696,733	1,967,727	(658,247)	2,257,458	34,101,424	1,213,666	35,315,090
	-	3,137,243	-	-	-	3,137,243	13,613	3,150,856
	-	-	71,327	-	-	71,327	29,832	101,159
	-	83,986	-	-	-	83,986	(142)	83,844
	-	(1,410)	-	(1,106,708)	-	(1,108,118)	(1,241)	(1,109,359)
	-	-	-	368,208	-	368,208	-	368,208
	-	-	-	-	35,906	35,906	-	35,906
	-	3,219,819	71,327	(738,500)	35,906	2,588,552	42,062	2,630,614
	-	(1,240,596)	-	-	-	(443,070)	(39,271)	(482,341)
	-	376,427	(376,427)	-	-	-	-	-
	159,460	(159,460)	-	-	-	-	-	-
	-	8,727	-	-	(8,727)	-	-	-
	-	517,579	-	(517,579)	-	-	-	-
	159,460	(497,323)	(376,427)	(517,579)	(8,727)	(443,070)	(39,271)	(482,341)
	1,768,944	20,419,229	1,662,627	(1,914,326)	2,284,637	36,246,906	1,216,457	37,463,363
	1,768,944	20,419,229	1,662,627	(1,914,326)	2,284,637	36,246,906	1,216,457	37,463,363
	-	3,732,691	-	-	-	3,732,691	65,561	3,798,252
	-	-	60,088	-	-	60,088	25,131	85,219
	-	175,841	-	-	-	175,841	(678)	175,163
	-	-	-	1,832,262	-	1,832,262	1,485	1,833,747
	-	-	-	290,067	-	290,067	265	290,332
	-	(564)	-	564	-	-	-	-
	-	-	-	-	(62,073)	(62,073)	-	(62,073)
	-	3,907,968	60,088	2,122,893	(62,073)	6,028,876	91,764	6,120,640
	-	(915,245)	-	-	-	(285,554)	(43,633)	(329,187)
	-	-	-	-	-	4,389,238	-	4,389,238
	-	7,987	(7,987)	-	-	-	-	-
	184,013	(184,013)	-	-	-	-	-	-
	-	5,090	-	-	(5,090)	-	-	-
	-	253,168	-	(253,168)	-	-	-	-
	184,013	(833,013)	(7,987)	(253,168)	(5,090)	4,103,684	(43,633)	4,060,051
	1,952,957	23,494,184	1,714,728	(44,601)	2,217,474	46,379,466	1,264,588	47,644,054

Cash Flow Statement

For the year ended 31 December

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Cash flows from operating activities				
Interest receipts	53,327,880	46,871,290	53,335,401	46,872,456
Interest payments	(33,251,720)	(28,162,777)	(32,964,887)	(28,139,546)
Net commission receipts	4,232,771	4,053,967	4,232,555	4,053,204
Trading income	66,587	79,954	68,172	79,756
Payments to employees	(6,249,124)	(5,973,776)	(6,283,773)	(6,008,216)
VAT and NBT on financial services and DRL	(2,694,167)	(2,258,810)	(2,694,167)	(2,258,810)
Receipts from other operating activities	2,780,711	1,596,098	2,848,147	1,686,424
Payments on other operating activities	(5,067,052)	(5,213,731)	(5,127,664)	(5,099,763)
Operating profit before changes in operating assets and liabilities [Note (a)]	13,145,886	10,992,215	13,413,784	11,185,505
(Increase)/decrease in operating assets:				
Balances with Central Bank of Sri Lanka	4,013,305	647,568	4,013,305	647,568
Financial assets at amortised cost - Loans and advances	(54,623,855)	(48,243,676)	(54,623,855)	(48,243,676)
Other assets	(2,784,945)	(1,745,640)	7,341	(1,740,419)
Increase/(decrease) in operating liabilities:				
Financial liabilities at amortised cost - Due to depositors	42,076,603	48,740,109	42,076,603	48,740,109
Financial liabilities at amortised cost - Due to debt securities holders	(12,663,143)	4,463,652	(12,663,143)	4,463,652
Financial liabilities at amortised cost - Due to other borrowers	(8,611)	9,622	(8,611)	9,622
Other liabilities	1,491,808	(1,246,270)	(1,557,197)	(360,964)
Due to banks	2,390,848	(674,191)	2,390,848	(674,191)
Cash (used in)/generated from operating activities before income tax	(6,962,104)	12,943,389	(6,950,925)	14,027,206
Income tax paid	(1,827,863)	(1,690,523)	(1,829,340)	(1,715,678)
Net cash (used in)/generated from operating activities	(8,789,967)	11,252,866	(8,780,265)	12,311,528
Cash flows from investing activities				
Purchase of property, plant and equipment	(1,321,767)	(870,778)	(1,374,033)	(887,614)
Improvements to investment properties	-	-	(20,357)	(4,246)
Proceeds from sale of property, plant and equipment	38,302	972,594	38,308	38,795
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 [Note (b)]	4,826,187	(3,733,611)	4,826,187	(3,733,611)
Net proceeds from sale, maturity and purchase of financial investments of shares and debentures	124,660	338,335	117,946	289,640
Reverse repurchase agreements maturing after three months	1,819	2,248	1,819	2,248
Net purchase of intangible assets	(185,862)	(332,855)	(185,862)	(332,855)
Net cash flow from acquisition of investment in subsidiaries	-	-	-	-
Net cash flow from disposal of subsidiaries	-	-	-	-
Dividend received from investment in subsidiaries	89,726	84,509	-	-
Dividend received from other investments	24,989	41,641	24,989	41,641
Net cash (used in)/generated from investing activities	3,598,054	(3,497,917)	3,428,997	(4,586,002)
Cash flows from financing activities				
Net proceeds from the issue of ordinary share capital	4,389,238	-	4,389,238	-
Net proceeds from the issue of other equity instruments	-	-	-	-
Net proceeds from the issue of subordinated debt	5,000,000	6,234,000	4,971,000	6,134,000
Repayment of subordinated debt	(1,866,550)	(2,462,280)	(1,866,550)	(2,312,280)
Interest paid on subordinated debt	(1,577,377)	(1,320,046)	(1,561,452)	(1,309,155)
Interest paid on un-subordinated debt	(402,293)	(438,365)	(402,293)	(430,562)
Dividend paid to non-controlling interest	-	-	(54,302)	(39,271)
Dividend paid to shareholders of the Bank	(287,567)	(440,436)	(287,567)	(440,436)
Dividend paid to holders of other equity instruments	-	-	-	-
Payment of lease liabilities	(748,544)	-	(521,812)	-
Net cash generated from financing activities	4,506,907	1,572,873	4,666,262	1,602,296
Net increase/(decrease) in cash and cash equivalents	(685,006)	9,327,822	(685,006)	9,327,822
Cash and cash equivalents at beginning of the year	25,401,673	16,073,851	25,402,211	16,074,389
Cash and cash equivalents at end of the year	24,716,667	25,401,673	24,717,205	25,402,211
Reconciliation of cash and cash equivalents				
Cash and cash equivalents (Note 19)	11,775,495	12,598,457	11,775,535	12,598,497
Placements with banks and finance companies (Note 21)	1,179,174	-	1,179,672	498
Government of Sri Lanka Treasury Bills/Bonds and Development Bonds maturing within three months	6,601,739	7,346,010	6,601,739	7,346,010
Securities purchased under resale agreements maturing within three months	5,160,259	5,457,206	5,160,259	5,457,206
	24,716,667	25,401,673	24,717,205	25,402,211

Note (a) Reconciliation of operating profit before changes in operating assets and liabilities

For the year ended 31 December	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Profit before income tax	5,098,640	4,666,252	5,267,110	4,687,124
Accrual for interest income	(2,095,478)	(2,195,972)	(2,095,478)	(2,195,972)
Notional tax credit on Government securities	-	(161,952)	-	(161,952)
Accrual for interest expenses	1,559,449	1,561,030	1,559,449	1,561,030
Fair value adjustment on derivative financial instruments	769,252	(1,082,007)	769,252	(1,082,007)
Straight lining of operating leases	(191,696)	(1,058)	(191,696)	(1,058)
Loss on revaluation of foreign exchange income	919,618	1,362,326	919,618	1,363,166
Dividend income	(114,715)	(126,150)	(24,989)	(41,641)
Unrealised fair value (gains)/losses on financial instruments measured at fair value through profit/loss	(205,070)	200,129	(205,070)	200,129
Profit from sale of property, plant and equipment	(10,758)	(35,865)	(10,753)	(35,872)
Profit from sale of assets held-for-sale	-	(33,457)	-	-
Depreciation of freehold property, plant and equipment	685,816	623,662	733,490	669,522
Depreciation of right-of-use assets	458,369	-	417,242	-
Depreciation of leasehold rights	1,945	1,946	9,355	9,356
Depreciation of investment properties	-	-	12,338	10,775
Amortisation of intangible assets	154,686	120,215	154,686	120,215
Impairment charges on loans and advances	3,848,416	3,516,040	3,848,416	3,516,040
Amortisation of pre-paid staff cost	303,632	247,541	303,665	247,815
Accrual for VAT and NBT on financial services and DRL	72,978	(145,520)	72,978	(145,520)
Accrual for employee retirement benefits liability	21,052	695,787	20,600	695,267
Impairment charges on other financial assets	34,302	(40,854)	34,302	(40,845)
Accrual for leave encashment provision	34,987	4,206	34,987	4,206
Accrual for other expenses	(179,209)	57,505	(179,463)	66,010
Interest paid to debt securities holders	1,979,670	1,758,411	1,963,745	1,739,717
Operating profit before changes in operating assets and liabilities	13,145,886	10,992,215	13,413,784	11,185,505

Note (b) 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

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Treasury bills	(1,110,925)	1,653,753	(1,110,925)	1,653,753
Treasury bonds	2,851,710	(6,402,573)	2,851,710	(6,402,573)
Sri Lanka Development Bonds	3,085,402	1,015,209	3,085,402	1,015,209
Total	4,826,187	(3,733,611)	4,826,187	(3,733,611)

Notes on pages 164 to 244 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 2019 is 3,360 (2018 - 3,344).

1.1 Principal activities and nature of the business

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, situated at No. 90, Galle Road, Colombo 03, 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 16 - "Leases" has been applied. Changes to significant accounting policies are described in Note 4.

2.2 Approval of Financial Statements by Directors

The Financial Statements as at 31 December 2019 were authorised for issue by the Board of Directors on 21 February 2020.

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.

The Bank/Group applied SLFRS 16 using the modified retrospective approach (option B), under which no cumulative effect of initial application is recognised in retained earnings as at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated - i.e. it is presented, as previously reported, under LKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in SLFRS 16 have not generally been applied to comparative information.

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 on going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements are described in the following notes:

(I) Judgements

(a) Classification 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.

(b) Assessment of credit risk

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.

(c) 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.

(d) Determination of control over investee

(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.

Measurement of defined benefit Obligations

The costs of the defined benefit plans are determined using an actuarial valuation. The actuarial valuation involves making assumptions about mortality rates, staff turnover, disability rate, retirement age, rate of discount, salary increments etc.

Contingencies

The management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain,

as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due processes in respective legal jurisdictions.

4. Changes in accounting policies

The Bank/Group has applied SLFRS 16 Leases using modified retrospective approach from 1 January 2019. The effects of initially applying this standard mainly attributed to following:

- Recognition of right-of-use assets
- Recognition of corresponding lease liabilities

Except for the change 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 16 - "Leases"

The Group applied SLFRS 16 using the modified retrospective approach, under which an amount equal to the lease liability is accounted for as the right-of-use asset as at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated. The details of the changes in the accounting policies are disclosed below. Additionally, the disclosure requirements in SLFRS 16 have not generally been applied to comparative information.

(a) Definition of a lease

Previously, the Bank/Group determined at contract inception whether an arrangement is or contains a lease under International Financial Reporting Interpretations Committee 4 (IFRIC 4) determining whether an arrangement contains a Lease. The Bank/Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 5.12.

On transition to SLFRS 16, the Bank/Group elected to apply the practical expedient to the assessment of which transaction are leases. It applied SLFRS 16 only to contracts that were previously identified as leases.

(b) As a lessee

The Group previously classified these leases as operating leases under LKAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under SLFRS 16, the Group recognises right-of-use assets and lease

liabilities for leases of branch and office premises - i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019.

Right-of-use assets are measured at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payables relating to that lease recognised in the Statement of Financial Position, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Group used a number of practical expedients when applying SLFRS 16 to leases previously classified as operating leases under LKAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

(c) As a lessor

The Group leases out certain property and equipment. The Group had classified these leases as follows:

- finance leases of property and equipment Note 29;
- operating leases of investment property Notes 30 and 32.

The Group is not required to make any adjustments on transition to SLFRS 16 for leases in which it acts as a lessor.

The Group has applied SLFRS 15 - "Revenue from Contracts with Customers" to allocate consideration in the contract to each lease and non-lease component.

(d) Impact on Financial Statements

On transition to SLFRS 16, the Group recognised equal additional right-of-use

assets and lease liabilities. The impact on transition is summarised below:

	1 January 2019 LKR Mn.
Right-of-use assets	4,442.20
Lease liabilities	4,442.20
Retained earnings	-

	1 January 2019 LKR Mn.
Right-of-use assets	4,442.20
LKAS 17 adjustment	29.03
Prepayment (Rent paid in advance)	293.15
Right-of-use assets presented in Note 31	4,764.38

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate as at 1 January 2019. The weighted average rate applied is 10%.

	1 January 2019 LKR Mn.
Operating lease commitments as at 31 December 2018 as disclosed under LKAS 17 in the Bank's Consolidated Financial Statements	2,259.31
SHO Agreement (99 Years)	19,595.58
Discounted using the incremental borrowing rate as at 1 January 2019	(17,368.21)
Recognition exemption for leases of low-value assets	(19.86)
Recognition exemption for leases with less than 12 months of lease term at transition	(24.62)
Lease liabilities recognised as at 1 January 2019	4,442.20

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 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 the uncertainties relating to the formation of the trusts and beneficial ownership.

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 54.

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 to 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 Classification

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 Solely Payments of Principal and Interest (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.

5.4.3 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

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.

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 Impairment

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".

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as "Stage 3 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.

5.4.6 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.

The Bank's Risk Management Division closely monitors the Hedging Activities that are been carried out by the Treasury Front Office for their compliance and effectiveness, as a Risk Management Strategy. The Bank enters into hedging transactions within the Bank's approved limits such as Counter Party Limits, Dealer Limits and Gap Limits, and always study the Market Outlook prior to entering into such transactions.

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 remeasurement 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 of its purchase price and any directly attributable expenditure. The cost of a self-constructed investment property is its cost at the date when the construction or development is 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 32 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 54.

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 54 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 $\frac{1}{3}$ -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.

5.12 Leases

The Group has applied SLFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under LKAS 17 and IFRIC 4. The details of accounting policies under LKAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in SLFRS 16.

(a) Group acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced

by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liabilities separately in the Statement of Financial Position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(b) Group acting as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019 the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

i. As a lessee

The Group did not have any finance leases under LKAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Group's Statement of Financial Position. Payments made under operating leases were recognised in profit or loss on a straight-line basis

over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

ii. As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

5.13 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.

5.14 Inventories

Inventory mainly consists of stationery, Tikiri gifts and cards. Bank account the inventory of stationery and Tikiri gifts at weighted average cost method, and the cards at cost.

5.15 Liabilities and provisions

5.15.1 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.

5.15.2 Dividend payable

Provision for final dividend is recognised at the time the dividend is recommended and declared by the Board of Directors and is approved by the shareholders. Interim dividend payable is recognised when the Board approves such dividend in accordance with the Companies Act No. 07 of 2007.

5.16 Employee retirement benefits

5.16.1 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's 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's 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 re-measures 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.

5.16.2 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.

5.16.2 (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.

5.16.2 (b) Employees' Trust Fund

The Bank contributes 3% of the salary of each employee to the Employees' Trust Fund. The total amount recognised as an expense to the Bank for contribution to ETF is disclosed in the Note 14 to Financial Statements.

5.17 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.

5.18 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.

5.19 Commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. The Bank's share of any contingencies and capital commitments of a subsidiary, 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

5.20 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

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.

5.21 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 Notes 15.4 and in Notes 34 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.

Withholding Tax on Dividends has been abolished with effect from 1 January 2020 subject to Parliamentary approval for amendments to Finance Act.

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. NBT has been abolished with effect from 1 December 2019 subject to Parliamentary approval for amendments to Nation Building Tax 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. DRL has been abolished with effect from 1 January 2020 subject to Parliamentary approval for amendments to Finance Act.

5.21.6 Economic Service Charges (ESC)

As per Economic Service Charge Act No. 13 of 2006, 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. ESC has been abolished with effect from 1 January 2020 subject to Parliamentary approval for amendments to ESC Act.

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. Weighted average number of ordinary shares has been calculated as per LKAS 33 considering the theoretical ex-rights value per share and the adjustment factor applicable for Rights Issue.

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 and liquidity support 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 through Other Comprehensive Income Reserve

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 50 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 2020. Accordingly, the Group has not applied the following new standards in preparing these Consolidated Financial Statements.

The following amended standards are not expected to have a significant impact on the Group's Consolidated Financial Statements.

- Amendments to references to conceptual framework in Sri Lanka Financial Reporting Standards
- Definition of a business (Amendments to SLFRS 3)
- SLFRS 17 Insurance Contracts
- Interest rate benchmark reforms. (Amendments to SLFRS 9, LKAS 39, and SLFRS 7)

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 Bank's 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 expected credit losses held by the Bank against those assets.

Credit quality analysis

	2019				2018
	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	351,687,856	12,768,586	1,797,369	366,253,811	315,383,190
Grade 3: NPA special mention	-	-	3,713,201	3,713,201	5,083,985
Grade 4: NPA substandard	-	-	4,001,147	4,001,147	5,525,763
Grade 5: NPA doubtful	-	-	4,042,855	4,042,855	3,322,769
Grade 6: NPA loss	-	-	11,980,461	11,980,461	7,459,363
Total gross loans and advances	351,687,856	12,768,586	25,535,033	389,991,475	336,775,070
Expected credit loss allowance	(701,757)	(573,870)	(9,456,784)	(10,732,411)	(9,892,532)
Total net loans and advances	350,986,099	12,194,716	16,078,249	379,259,064	326,882,538
Financial assets at amortised cost: Debt and other instruments					
Government Securities – Treasury Bonds	19,923,449	-	-	19,923,449	20,356,443
Sri Lanka Development Bonds	1,292,045	-	-	1,292,045	3,032,380
Quoted debentures	-	-	-	-	81,140
Unquoted debentures	669,569	-	-	669,569	671,089
Securities purchased under resale agreements	5,165,159	-	-	5,165,159	5,462,167
Total financial assets measured at amortised cost	27,050,222	-	-	27,050,222	29,603,219
Expected credit loss allowance	(11,479)	-	-	(11,479)	(9,723)
Net financial assets measured at amortised cost	27,038,743	-	-	27,038,743	29,593,496
Cash and cash equivalents (balances with banks)					
Balances with local banks	126,633	-	-	126,633	40,697
Balances with foreign banks	3,226,570	-	-	3,226,570	4,928,598
Total balances with banks	3,353,203	-	-	3,353,203	4,969,295
Expected credit loss allowance	(16,766)	-	-	(16,766)	(24,846)
Net balances with Banks	3,336,437	-	-	3,336,437	4,944,449
Placements with banks and finance companies					
Term deposits with banks	1,179,174	-	-	1,179,174	-
Total placements with banks and finance companies	1,179,174	-	-	1,179,174	-
Expected credit loss allowance	(5,896)	-	-	(5,896)	-
Net placements with banks and finance companies	1,173,278	-	-	1,173,278	-

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 macro-economic variables and credit risk and credit losses.

The key drivers for credit risk 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	2019 LKR '000	2018 LKR '000
Documentary bills (excluding export bills purchased at current exchange rate)	158,127	116,068
Government Securities	4,469,099	45,552
Stocks, bonds, debentures, sundries including life policies	1,742,684	186,135
Fixed, savings, other deposits and pawning	45,144,520	43,898,101
Stock in trade	2,986,244	2,447,251
Immovable property, plant and machinery	134,780,561	136,478,463
Personal guarantees and Promissory Notes	12,552,851	10,816,132
Trust receipts	1,715,118	2,702,264
Leasing agreements and motor vehicles	21,032,894	18,758,598
Other securities	90,498,125	60,264,982
	315,080,223	275,713,546
On clean basis	78,596,046	63,487,360
Total*	393,676,269	339,200,906

*Loans and advances outstanding amount with interest receivable.

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 2019 %
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	80*
Securities purchased under resale agreement	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 2019 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	2019		2018	
	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	1,356,180	2,348,523	794,024	1,562,833
Additions during the year	2,707,235	6,215,092	818,206	1,034,590
Disposal during the year	(92,289)	(180,550)	(256,050)	(248,900)
Balance as at 31 December	3,971,126	8,383,065	1,356,180	2,348,523

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner.

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 256).

The table below shows the carrying amounts of the Bank's exposures to other financial instruments:

	2019	2018
	LKR '000	LKR '000
Financial assets recognised through profit or loss – Measured at fair value	7,118,016	4,918,336
Derivative financial instruments (assets)	134,756	1,676,958
Financial assets measured at fair value through other comprehensive income	55,591,526	58,770,720
Financial assets at amortised cost – Debt and other instruments	27,038,743	29,593,496

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:

	2019		2018	
	DBU %	FCBU %	DBU %	FCBU %
At 31 December	21.40	21.81	21.44	22.08
Average for the year	22.08	22.09	22.13	23.54
Maximum for the year	23.00	23.28	23.02	27.83
Minimum for the year	21.09	21.24	21.32	21.67

Maturity analysis for the financial liabilities is shown below with their undiscounted contractual cash flows over the future periods:

Financial Liabilities – 2019

	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	7,683,788	9,291,265	16,735,621	-	33,710,674
Financial liabilities at amortised cost – Due to depositors	174,867,880	220,525,538	20,354,524	10,544,483	426,292,425
Debt securities issued	710,832	3,042,511	20,708,166	4,611,900	29,073,409
Financial liabilities at amortised cost – Due to debt securities holders	8,249,078	417,327	-	-	8,666,405
Lease Liabilities	639	20,206	781,625	20,566,086	21,368,556
Derivative liabilities					
Derivative financial instruments	222,978	-	-	-	222,978

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	509,155	2,023,115	16,967,846	4,923,495	24,423,611
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

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:

	2019	
	Carrying amount LKR '000	Fair value LKR '000
Cash and cash equivalents*	11,758,729	11,758,729
Placements with banks and finance companies	1,173,278	1,173,278
Balances with Central Bank of Sri Lanka*	14,458,970	14,458,970
Treasury Bills/Bonds	78,900,565	79,662,928
Bills purchased*	4,097,264	4,097,264
Total liquidity reserve	110,388,806	111,151,169

* The carrying amounts approximate their fair values as they are short-term in nature (less than twelve months).

Liquidity coverage ratio

The Bank has a Liquidity Coverage Ratio (LCR) as defined by the regulator. The LCR is intended to promote the short-term resilience of a bank's liquidity risk profile over a 30-day period. The ratio is defined as the amount of High Quality Liquid Assets (HQLA) that could be used to raise liquidity, measured against the total volume of net cash outflows, arising from both actual and contingent exposures, in a stressed scenario.

The LCR complements the Bank's stress testing framework. By maintaining a ratio in excess of minimum regulatory requirements, the LCR seeks to ensure that the Bank holds adequate liquidity resources to mitigate a short-term liquidity stress.

Commencing from 1 April 2015, all commercial banks maintained Liquidity Coverage Ratios (LCR) as prescribed by CBSL in respect of Rupee Liquidity Minimum Requirement for local currency operations and All Currency Liquidity Minimum Requirement for the overall operations effective from 1 January 2018 and 1 January 2019 onwards are given below:

Minimum requirement (%) - Effective from	
1 January 2019 onwards	1 January 2018
100	90

The following were the Liquidity Coverage Ratios (%) of the Bank as at 31st December:

	2019	2018
Rupee Liquidity Requirement for local currency operations	169.60	128.76
All Currency Liquidity Requirement for the overall operations	116.01	92.15

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 2019 and 31 December 2018:

	2019				2018			
	Encumbered		Unencumbered		Encumbered		Unencumbered	
	Pledged as collateral LKR '000	Other LKR '000	Other LKR '000	Total LKR '000	Pledged as collateral LKR '000	Other LKR '000	Other LKR '000	Total LKR '000
Cash and cash equivalents	-	-	11,758,729	11,758,729	-	-	12,573,611	12,573,611
Placements with banks and finance companies	-	-	1,173,278	1,173,278	-	-	-	-
Financial assets recognised through profit or loss - Measured at fair value	169,770	-	6,948,246	7,118,016	771,211	-	4,147,125	4,918,336
Financial assets at amortised cost - loans and advances	-	-	379,259,064	379,259,064	-	-	326,882,538	326,882,538
Financial assets measured at fair value through other comprehensive income/ financial assets at amortised cost	10,096,558	-	72,533,711	82,630,269	23,020,307	-	65,343,909	88,364,216
Other assets	-	-	34,354,831	34,354,831	-	-	34,194,317	34,194,317
Total assets	10,266,328	-	506,027,859	516,294,187	23,791,518	-	443,141,500	466,933,018

Contingency funding plan

The Bank has put in place a comprehensive Contingency Funding Plan (CFP) to be used during a liquidity crisis to endure adverse situations.

The CFP helps to monitor liquidity risk, ensure that an appropriate amount of liquid assets are maintained and ensure funding requirements can be met at various scenarios, and manage access to funding sources.

In a crisis situation, management has little time to plan its strategy, and as such the management understands importance to have a well-developed contingency liquidity funding plan prior to a crisis occurring.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads 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.

	2019			2018		
	Carrying amount LKR '000	Trading portfolios LKR '000	Non-trading portfolios LKR '000	Carrying amount LKR '000	Trading portfolios LKR '000	Non-trading portfolios LKR '000
Assets subject to market risk						
Financial assets recognised through profit or loss – Measured at fair value	7,118,016	7,118,016	-	4,918,336	4,918,336	-
Derivative financial instruments	134,756	134,756	-	1,676,958	1,676,958	-
Placements with banks and finance companies	1,173,278	-	1,173,278	-	-	-
Financial assets at amortised cost – Loans and advances	379,259,064	-	379,259,064	326,882,538	-	326,882,538
Financial assets measured at fair value through other comprehensive income	55,591,526	-	55,591,526	58,770,720	-	58,770,720
Securities purchased under resale agreements	5,165,159	-	5,165,159	5,462,167	-	5,462,167
	448,441,799	7,252,772	441,189,027	397,710,719	6,595,294	391,115,425
Liabilities subject to market risk						
Derivative financial instruments	222,978	222,978	-	145,339	145,339	-
Due to depositors	400,731,358	-	400,731,358	357,560,187	-	357,560,187
Debt securities Issued	19,870,944	-	19,870,944	16,329,400	-	16,329,400
Due to banks	28,769,629	-	28,769,629	26,378,781	-	26,378,781
Due to other borrowers	23,407	-	23,407	32,018	-	32,018
Due to debt securities holders	8,425,884	-	8,425,884	21,094,525	-	21,094,525
	458,044,200	222,978	457,821,222	421,540,250	145,339	421,394,911

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 Bank's core banking activities.

The interest rate position for the 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 Bank's net interest income.

The changes issued by the Monetary Board during the year 2019 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	22 February 2019		31 May 2019		23 August 2019	
Standing Deposit Facility Rate (SDFR)	No Change	8.00%	Reduced by 50 basis points	7.50%	Reduced by 50 basis points	7.00%
Standing Lending Facility Rate (SLFR)	No Change	9.00%	Reduced by 50 basis points	8.50%	Reduced by 50 basis points	8.00%
Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of commercial banks	Reduced by 1 percentage points	5.00%	No Change	5.00%	No Change	5.00%

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) and a 200 bp, parallel fall or rise in all yield curves and are used to measure both Earnings at Risk (EAR) and Economic and a 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.
Sensitivity of projected net interest income 2020 (EAR)				
As at 31 December 2019	(392.36)	392.36	(784.73)	784.73
As at 31 December 2018	(421.62)	421.62	(843.24)	843.24

Maturity gaps

A summary of the Bank's 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:

31 December 2019	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
Interest earning assets					
Placements with banks and finance companies	1,173,278	1,173,278	-	-	-
Loans and advances	379,259,064	174,073,001	75,742,142	103,320,428	26,123,493
Financial assets recognised through profit or loss/ financial assets at amortised cost/financial assets measured at fair value through other comprehensive income excluding equities	82,893,435	6,601,739	6,334,610	63,334,016	6,623,070
Securities purchased under resale agreements	5,165,159	5,160,259	4,900	-	-
Non-interest earning assets	47,803,251	35,452,499	1,745,873	335	10,604,544
Total assets	516,294,187	222,460,776	83,827,525	166,654,779	43,351,107
Interest bearing liabilities					
Due to depositors	378,054,717	149,174,658	203,325,538	16,580,660	8,973,861
Due to banks and other borrowers	28,793,036	7,495,282	8,442,000	12,855,754	-
Due to debt securities holders	8,425,884	8,046,703	379,181	-	-
Debt securities issued	19,870,944	710,832	3,055,112	13,781,000	2,324,000
Group balances payable	181,059	48,984	3,075	129,000	-
Non-interest bearing liabilities	80,968,547	31,945,241	64,353	659,583	48,299,370
Total liabilities	516,294,187	197,421,700	215,269,259	44,005,997	59,597,231
Gaps	-	25,039,076	(131,441,734)	122,648,782	(16,246,124)

31 December 2018	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
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/ financial assets at amortised cost/financial assets measured at fair value through other comprehensive income 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)

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 bourse, the Bank disposed all the share investments done with a trading intention 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.

The Bank ensures all market risk measures are adhered as laid down in the latest directions published by the Central Bank as well as according to best market practices followed locally and globally.

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	
	2019 '000	2018 '000	2019 LKR '000	2018 LKR '000
Net foreign currency exposure				
Great Britain Pound	12.39	13.31	2,961.22	3,079.27
United States Dollar	553.03	568.83	100,319.25	103,668.87
Euro	6.12	8.18	1,246.59	1,704.92
Japanese Yen	232.84	(154.02)	388.96	(254.04)
Australian Dollar	19.61	15.05	2,494.51	1,937.94

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 2019			NOP as on 31 December 2018		
	USD '000	LKR '000		USD '000	LKR '000
NOP	698	126,547	NOP	722	131,581

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	132,874	6,327	5	138,160	6,579
10	139,202	12,655	10	144,739	13,158
15	145,529	18,982	15	151,318	19,737

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 I 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.

As per the Banking Act Direction No. 01 of 2016 dated 29 December 2016 on Capital Requirements under BASEL III which was effective from 1 July 2017 and the amendments thereto under Directions No. 11 of 2019 dated 20 December 2019, the minimum required capital ratios to be maintained by the Bank are as follows:

- Every licensed bank shall maintain, at all times, the minimum capital ratios prescribed in the table below and shall ensure compliance with Schedule I to the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for licensed banks.
- Licensed banks which are determined as Domestic Systemically Important Banks (D-SIBs) from time to time shall maintain Higher Loss Absorbency (HLA) requirements as specified by the Monetary Board in the form of Common Equity Tier 1 (CET1), as given in the table below:

Components of capital	Capital adequacy Ratio to be maintained by Licensed Banks	Capital adequacy Ratio to be maintained by Licensed Banks determined as D-SIBs
Common Equity Tier 1 including Capital Conservation Buffer	7.00%	7.00% + HLA
Total Tier 1 including Capital Conservation Buffer	8.50%	8.50% + HLA
Total Capital Ratio including Capital Conservation Buffer	12.50%	12.50% + HLA

HLA requirements as the minimum capital surcharge on D-SIBs are given below:

Bucket	HLA Requirement (CET1 as a % of risk-weighted assets)
3	2.0
2	1.5
1	1.0

The Bank and the Group Capital Adequacy (Basel III) details as at 31 December are given below:

Assets	2019		2018	
	Bank LKR Mn.	Group LKR Mn.	Bank LKR Mn.	Group LKR Mn.
Total risk-weighted amount (Including off-balance sheet items)	382,084	382,489	328,331	331,083
Risk weighted amount of off-balance sheet exposure	33,769	33,769	24,665	24,663
Capital				
Common Equity Tier 1 Capital	43,052	43,943	33,487	34,325
Total Tier 1 Capital	43,052	43,943	33,487	34,325
Total Capital	56,704	57,467	43,683	44,371
Capital adequacy ratios				
Common Equity Tier 1 capital ratio (%)	11.27	11.49	10.20	10.37
Tier 1 Capital (%)	11.27	11.49	10.20	10.37
Total Capital ratio (%)	14.84	15.02	13.30	13.40

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;
- Re-performance 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.

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.

	2019			2018		
	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 fair value through other comprehensive income						
Financial assets measured at fair value through profit or loss	5,273,119	1,844,897	-	3,061,557	1,856,779	-
Derivative financial instruments	-	134,756	-	-	1,676,958	-
Financial assets measured at fair value through other comprehensive income	47,988,588	6,714,606	888,332	50,994,192	6,985,621	790,907
Financial liabilities measured at fair value through profit or loss						
Derivative financial instruments	-	222,978	-	-	145,339	-

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:

	2019 LKR '000	2018 LKR '000
Financial assets measured at fair value through other comprehensive income (Level 3)		
Balance as at 1 January	790,907	658,663
Total fair value gain in other comprehensive income	97,425	132,244
Balance as at 31 December	888,332	790,907

ii. Unobservable inputs used in measuring fair value

The table below sets out information about significant unobservable inputs used as at 31 December 2019 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

Type of financial instrument	Fair values as at 31 December 2019 LKR '000	Valuation technique	Significant unobservable input	Fair value measurement sensitivity to unobservable inputs
Investment in unquoted equities	888,332	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 2019		31 December 2018	
	Carrying value LKR '000	Fair value LKR '000	Carrying value LKR '000	Fair value LKR '000
Financial assets				
Cash and cash equivalents	11,758,729	11,758,729	12,573,611	12,573,611
Balances with Central Bank of Sri Lanka	14,458,970	14,458,970	18,472,275	18,472,275
Placements with banks and finance companies	1,173,278	1,173,278	-	-
Financial assets at amortised cost - Loans and advances	379,259,064	379,042,412	326,882,538	326,487,617
Financial assets at amortised cost - Debt and other instruments	27,038,743	27,812,328	29,593,496	29,349,677
Other financial assets	6,471,794	6,471,794	6,106,130	6,106,130
Financial liabilities				
Due to banks	28,769,629	28,769,629	26,378,781	26,378,781
Due to depositors	400,731,358	400,731,358	357,560,187	357,560,187
Due to debt securities holders	8,425,884	8,425,884	21,094,525	21,094,525
Due to other borrowers	23,407	23,407	32,018	32,018
Debt securities issued	19,870,944	19,671,517	16,329,400	15,061,394
Lease liabilities	4,351,632	4,351,632	-	-
Other financial liabilities	6,025,050	6,025,050	7,796,332	7,796,332

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 2019	Level I LKR '000	Level II LKR '000	Level III LKR '000	Total LKR '000
Financial assets				
Cash and cash equivalents	-	11,758,729	-	11,758,729
Balances with Central Bank of Sri Lanka	-	14,458,970	-	14,458,970
Placements with banks and finance companies	-	1,173,278	-	1,173,278
Financial assets at amortised cost - Loans and advances	-	-	379,042,412	379,042,412
Financial assets at amortised cost - Debt and other instruments	20,686,014	6,457,002	669,312	27,812,328
Other financial assets	-	-	6,471,794	6,471,794
Financial liabilities				
Due to banks	-	-	28,769,629	28,769,629
Due to depositors	-	-	400,731,358	400,731,358
Due to debt securities holders	-	8,425,884	-	8,425,884
Due to other borrowers	-	-	23,407	23,407
Debt securities issued	-	19,671,517	-	19,671,517
Lease Liabilities	-	-	4,351,632	4,351,632
Other financial liabilities	-	-	6,025,050	6,025,050

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 66% 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 2019 was LKR 20,715 Mn. as against the carrying value which amounted to LKR 20,932 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 55% of the amounts due to banks and others as at the reporting date have a remaining contractual maturity of less than one year. Majority of the balance amount comprised floating rate instruments. Therefore fair value of amounts due to banks approximate to the carrying value as at the reporting date.

Deposits

More than 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 premature upliftment. Amounts paid to customers in the event of premature upliftment would not be materially different to its carrying value as at date. Therefore fair value of customer deposits approximates to their carrying value as at the reporting date.

Securities sold under repurchase agreement

Securities sold under repurchase agreements have a remaining contractual maturity of less than twelve months. Accordingly, carrying value of these borrowings would not be materially different to their fair values as at the reporting date.

Debentures

Debentures include fixed and variable rate debentures. In respect of fixed rate debentures, fair value has been determined by discounting the future cash flows by the interest rates prevailing as at the reporting date for similar instruments. Accordingly the total debentures had a fair value of LKR 19,672 Mn. as at 31 December 2019 as against its carrying value which amounted to LKR 19,871 Mn.

6. Gross income

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Interest income (Note 7.1)	55,423,358	49,229,214	55,430,879	49,230,380
Fee and commission income (Note 8.1)	4,457,325	4,252,240	4,457,109	4,251,808
Net gains/(losses) from trading (Note 9)	(497,595)	961,832	(496,010)	961,634
Net gains from derecognition of financial assets (Note 10)	320,472	51,936	320,472	51,936
Net other operating income (Note 11)	1,666,094	377,308	1,643,799	348,835
Total gross income	61,369,654	54,872,530	61,356,249	54,844,593

7. Net interest income

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
7.1 Interest income				
Placements with banks	102,291	37,930	102,291	37,930
Financial assets recognised through profit or loss				
– Measured at fair value				
Government Securities* (Note 7.3)	514,844	237,501	514,844	237,501
Financial assets at amortised cost				
– Loans and advances**	46,271,838	40,924,219	46,271,289	40,921,683
– Debt and other instruments				
Government Securities* (Note 7.3)	2,881,787	2,399,247	2,881,787	2,399,247
Debt instruments	64,250	82,840	64,250	85,931
Financial assets measured at fair value through other comprehensive income				
Government Securities* (Note 7.3)	5,056,730	5,046,020	5,056,730	5,046,020
Debt instruments	12,190	20,074	19,661	20,074
Other***	519,428	481,383	520,027	481,994
Total interest income	55,423,358	49,229,214	55,430,879	49,230,380
7.2 Interest expenses				
Due to banks	2,452,250	2,623,599	2,452,502	2,624,025
Financial liabilities at amortised cost				
– Due to depositors	30,775,405	26,321,155	30,771,413	26,297,498
– Due to debt securities holders (Note 7.3)	711,495	767,809	711,495	767,809
– Due to other borrowers	1,105	1,122	1,105	1,122
Debt securities issued	2,419,840	1,768,533	2,403,915	1,749,839
Lease liabilities****	430,744	-	147,652	-
Total interest expenses	36,790,839	31,482,218	36,488,082	31,440,293
Net interest income	18,632,519	17,746,996	18,942,797	17,790,087

* As per the provision of the Inland Revenue Act No. 24 of 2017 effective from 1 April 2018, interest income from Government securities are excluded from withholding tax. Hence, notional tax credit hitherto claimed by the Bank was discontinued from 1 April 2018. In 2018 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.

** Interest Income on Loans and Advances includes interest accrued on impaired loans of LKR 604,823,128.00 in 2019 (LKR 536,082,704.00 for 2018) and corresponding debit entry has been recorded under impairment charges (on net basis).

Interest income adjustment of LKR 292,616,230.00 in 2019 (LKR 236,252,318.00 for 2018) on staff loans at preferential interest rate that included in interest income has been recognised as staff benefit under personal expenses.

*** Comprises interest subsidy on the Special Deposit Scheme for citizens over 60 years, introduced by the Government of Sri Lanka.

**** Interest Expense on lease liabilities recognised as per SLFRS 16 on "Leases" w.e.f. 1 January 2019.

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
7.3 Net interest income from Sri Lanka Government Securities				
Interest income	8,453,361	7,682,768	8,453,361	7,682,768
Less: Interest expenses	711,495	767,809	711,495	767,809
Net interest income from Sri Lanka Government securities	7,741,866	6,914,959	7,741,866	6,914,959

8. Net fee and commission income

	Banking		Treasury		Property/ investments		Unallocated/ eliminations		Total	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
8.1 Fee and commission income										
Comprising										
Loans	768,022	743,378	-	-	-	-	139	155	768,161	743,533
Cards	1,257,109	1,242,974	-	-	-	-	2	1	1,257,111	1,242,975
Trade and remittances	800,712	773,007	-	-	-	-	-	-	800,712	773,007
Deposits	105,830	105,279	-	-	-	-	-	-	105,830	105,279
Guarantees	533,424	414,870	-	-	-	-	-	-	533,424	414,870
Other financial services	946,058	927,583	7,282	7,967	-	-	38,747	37,026	992,087	972,576
Total fee and commission income - Bank	4,411,155	4,207,091	7,282	7,967	-	-	38,888	37,182	4,457,325	4,252,240
Subsidiary										
Deposits	-	-	-	-	-	-	(216)	(432)	(216)	(432)
Total fee and commission income - Group	4,411,155	4,207,091	7,282	7,967	-	-	38,672	36,750	4,457,109	4,251,808
8.2 Fee and commission expenses										
Comprising										
Brokerage fees	-	2,268	12,426	12,612	-	-	-	-	12,426	14,880
Loans/cards	97,237	91,373	-	-	-	-	-	-	97,237	91,373
Other financial services	101,627	76,962	13,264	15,058	-	-	-	-	114,891	92,020
Total fee and commission expenses - Bank	198,864	170,603	25,690	27,670	-	-	-	-	224,554	198,273
Subsidiary										
Other financial services	-	-	-	-	-	331	-	-	-	331
Total fee and commission expenses - Group	198,864	170,603	25,690	27,670	-	331	-	-	224,554	198,604
Total net fee and commission income - Bank	4,212,291	4,036,488	(18,408)	(19,703)	-	-	38,888	37,182	4,232,771	4,053,967
Total net fee and commission income - Group	4,212,291	4,036,488	(18,408)	(19,703)	-	(331)	38,672	36,750	4,232,555	4,053,204

9. Net gains/(losses) from trading

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Derivative financial instruments				
From banks	(776,047)	1,087,655	(776,047)	1,087,655
From other customers	6,795	(5,648)	6,795	(5,648)
Financial assets recognised through profit or loss*				
- Measured at fair value				
Equities	-	(566)	1,585	(764)
Government securities	271,657	(119,609)	271,657	(119,609)
Total net gains/(losses) from trading	(497,595)	961,832	(496,010)	961,634

* Includes net capital gains/(losses) and net mark to market gains/(losses).

10. Net gains from derecognition of financial assets

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Financial assets measured at fair value through other comprehensive income				
Government securities	320,472	51,936	320,472	51,936
Total net gains from derecognition of financial assets	320,472	51,936	320,472	51,936

11. Net other operating income

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Dividend income*				
Equity investments measured at fair value through profit or loss	-	72	-	72
Equity investments measured at fair value through other comprehensive income - quoted	5,749	9,184	5,749	9,184
Equity investments measured at fair value through other comprehensive income - unquoted	19,240	32,385	19,240	32,385
Subsidiary	89,726	84,509	-	-
Profit on sale of property, plant and equipment	10,758	35,865	10,753	35,872
Profit on sale of assets held for sale	-	33,457	-	-
Foreign exchange income**	1,385,538	87,343	1,384,500	86,503
Recovery of loans written-off	155,083	94,493	155,083	94,493
Rent and other income	-	-	68,474	90,326
Total other operating income - net	1,666,094	377,308	1,643,799	348,835

* Includes dividend received from equity investments, derecognised during the reporting period.

** Foreign exchange income represents both revaluation gain/(loss) on the Bank's net open position and realised exchange gain/(loss) on foreign currency transactions.

12. Impairment charges

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Loans and advances (Note 12.1)	3,848,416	3,516,040	3,848,416	3,516,040
Financial assets measured at amortised cost (Note 25.5)	1,756	(25,403)	1,756	(25,403)
Financial assets measured at FVOCI (Note 26.7)	34,678	(38,066)	34,678	(38,057)
Cash and cash equivalents (Note 19.1)	(8,080)	19,908	(8,080)	19,908
Placements with banks and finance companies (Note 21.1)	5,896	(7,276)	5,896	(7,276)
Undrawn credit commitments and financial guarantees (Note 43.3)	52	9,983	52	9,983
Total impairment charges	3,882,718	3,475,186	3,882,718	3,475,195
12.1 Loans and advances				
Impairment charges – Stage 1 (Note 24.3.1)	103,489	(77,404)	103,489	(77,404)
Impairment charges – Stage 2 (Note 24.3.1)	(246,876)	513,617	(246,876)	513,617
Impairment charges – Stage 3 (Note 24.3.1)	3,987,081	3,069,660	3,987,081	3,069,660
Loans written-off	4,722	10,167	4,722	10,167
Total impairment charges on loans and advances	3,848,416	3,516,040	3,848,416	3,516,040

13. Operating expenses

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Operating expenses include the following:				
Directors' emoluments	52,738	53,711	56,273	56,153
Auditors' remunerations				
Audit fees and expenses	10,260	9,752	11,421	10,873
Audit-related fees and expenses	5,173	5,351	5,173	5,392
Non-audit services	3,629	5,243	3,629	5,243
Depreciation – freehold property, plant and equipment (Note 29)	685,816	623,662	733,490	669,522
Depreciation – leasehold rights (Note 30)	1,945	1,946	9,355	9,356
Depreciation – right-of-use assets/lease expenses (Note 31)*	473,310	704,207	432,183	477,301
Depreciation – investment properties (Note 32)	-	-	12,338	10,775
Amortisation of intangible assets (Note 33)	154,686	120,215	154,686	120,215
Donations	97	1,125	540	1,577
Legal expenses	185,050	120,119	185,250	120,412
Sri Lanka deposit insurance fund contribution	389,657	338,843	389,657	338,843
Crop insurance levy	36,569	31,920	36,569	31,920

* Operating leases have been accounted as per SLFRS 16 – “Leases” w.e.f. 1 January 2019 (Refer Note 5.12).

14. Personnel expenses

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Personnel expenses include the following:				
Salaries and bonuses	4,299,195	3,926,649	4,315,746	3,946,503
Contribution to Employees' Provident Fund	445,817	401,426	447,870	403,512
Contribution to Employees' Trust Fund	111,463	100,357	111,976	100,878
Provision for defined benefit obligations (Note 43.1.6)	236,840	81,535	236,389	81,015
Amortisation of prepaid staff cost	303,632	247,541	303,665	247,815
Other staff related expenses	1,095,649	1,024,825	1,111,180	1,036,804
Total personnel expenses	6,492,596	5,782,333	6,526,826	5,816,527

15. Income tax expense

The components of income tax expense for the years ended 31 December 2019 and 2018 are:

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
15.1 Income tax expense recognised in income statement				
15.1.1 Current tax expense				
- Tax on current year's profits (Note 15.2)	1,188,231	2,039,561	1,224,390	2,039,561
- (Over provision)/under provision in respect of previous years	(30,883)	-	(30,883)	61
	1,157,348	2,039,561	1,193,507	2,039,622
15.1.2 Deferred taxation				
- Charge/(reversal) on temporary differences (Note 34)	261,030	(562,515)	275,351	(503,354)
	261,030	(562,515)	275,351	(503,354)
Total income tax expense	1,418,378	1,477,046	1,468,858	1,536,268

- Current tax on profits has been computed at the rate of 28% on the taxable income arising from banking and leasing businesses.
- Leasing has been deemed as blended loans by the Inland Revenue Act No. 24 of 2017 enabling bank to treat leasing business under business of banking.
- The subsidiary has computed taxation based on the rate 28% - standard rate applicable for companies.
- It has been proposed to reduce income tax rate on companies from 28% to 24% pending formal approval from the Parliament as an amendment to the Inland Revenue Act No. 24 of 2017. As it is not considered as substantially enacted the tax rate adapted for the computation of deferred tax remains at of 28%.

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
15.2 Reconciliation of the accounting profit to income tax expense				
Profit before income tax	5,098,640	4,666,252	5,267,110	4,687,124
Less: Profit/(loss) from leasing business	(460,058)	(429,274)	(460,058)	(429,274)
Profit/(loss) from banking business	5,558,698	5,095,526	5,727,168	5,116,398
Add: Disallowable expenses	7,903,265	7,366,857	8,471,874	7,550,691
Less: Allowable expenses	7,897,615	4,293,665	8,343,373	4,314,535
Exempt income (Note 15.6)	(668,616)	(266,763)	(668,616)	(266,763)
Business income from banking activities	4,895,732	7,901,955	5,187,053	8,085,791
Business income/(loss) from leasing activities (Note 15.3)	(652,049)	(389,811)	(652,049)	(389,811)
Total statutory income	4,243,683	7,512,144	4,535,004	7,695,980
Add: Tax losses incurred for the year - leasing (Note 15.3)	652,049	389,811	652,049	389,811
Less: Tax losses set-off (Note 15.3)	652,049	617,809	814,231	801,643
Assessable income	4,243,683	7,284,146	4,372,822	7,284,148
Taxable income	4,243,683	7,284,146	4,372,822	7,284,148
Tax on current year's profit	1,188,231	2,039,561	1,224,390	2,039,561
(Over)/under provision in respect of previous years	(30,883)	-	(30,883)	61
Transfer to deferred taxation (Note 15.4)	261,030	(562,515)	275,351	(503,354)
Total income tax expense	1,418,378	1,477,046	1,468,858	1,536,268
Effective income tax rate (Note 15.5)(%)	28	32	28	33
Effective current tax rate (Excluding deferred tax)(%)*	23	44	23	44

* The difference of effective income tax rate and effective current tax rate attributes to the temporary differences from additional gratuity, lease receivables, right-of-use assets, impairment and leave encashment provision.

	2019 %	2018 %
Income tax rates on		
a. Domestic Operations of the Bank/Foreign Currency Banking Unit of the Bank (On-Shore Operations and Off-Shore Operations)	28	28
b. Seylan Developments PLC	28	28

	Bank				Group			
	2019		2018		2019		2018	
	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	4,235,123	1,185,834	7,276,616	2,037,453	4,364,262	1,221,993	7,276,618	2,037,453
Off-shore profits	8,560	2,397	7,530	2,108	8,560	2,397	7,530	2,018
	4,243,683	1,188,231	7,284,146	2,039,561	4,372,822	1,224,390	7,284,148	2,039,471

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
15.3 Tax losses brought forward				
Tax losses brought forward	-	227,998	593,260	1,005,092
Add: Tax losses incurred during the year	652,049	389,811	652,049	389,811
Less: Tax losses utilised during the year	652,049	617,809	814,231	801,643
Less: Tax losses disallowed to be carried forward	-	-	-	-
Unutilised tax losses carried forward	-	-	431,078	593,260
15.4 Deferred tax expense/(income)				
Deferred tax - liabilities				
Property, plant and equipment	40,348	(94,204)	57,726	(86,517)
Lease receivables	(86,692)	(190,555)	(86,692)	(190,555)
Revaluation gain brought forward	-	-	-	-
Right-of-use-assets	30,068	-	(18,400)	
	(16,276)	(284,759)	(47,366)	(277,072)
Deferred tax - assets				
Leave encashment provision	(9,796)	(1,178)	(9,796)	(1,178)
Other provisions	2,572	3,819	2,572	3,819
Additional gratuity liability	(153,263)	(251,292)	(153,263)	(251,292)
Tax losses carried forward	-	63,839	45,411	115,313
Expected credit loss allowance	437,793	(92,944)	437,793	(92,944)
	277,306	(277,756)	322,717	(226,282)
Other temporary differences	-	-	-	-
Transfer to deferred taxation	261,030	(562,515)	275,351	(503,354)

	Bank				Group			
	2019		2018		2019		2018	
	%	LKR '000	%	LKR '000	%	LKR '000	%	LKR '000
15.5 Reconciliation of effective tax rate								
Profit before income tax	-	5,098,640	-	4,666,252	-	5,267,110	-	4,687,124
Income tax for the year	28	1,427,619	28	1,306,551	28	1,474,791	28	1,312,395
Tax effect of expenses that are not deductible for tax purposes	44	2,212,914	45	2,062,720	45	2,372,125	46	2,114,193
Tax effect of expenses that are deductible for tax purposes	(43)	(2,211,332)	(26)	(1,202,226)	(44)	(2,336,146)	(26)	(1,208,070)
Exempt income (Note 15.6)	(4)	(187,212)	(2)	(74,694)	(4)	(187,212)	(2)	(74,694)
Business income from leasing activities	(4)	(182,574)	(2)	(109,147)	(3)	(182,574)	(2)	(109,147)
Adjustments/tax losses	3	128,816	1	56,357	2	83,406	-	4,884
(Over)/under provision in respect of previous years	(1)	(30,883)	-	-	(1)	(30,883)	-	61
Deferred taxation	5	261,030	(12)	(562,515)	5	275,351	(11)	(503,354)
Total income tax expense (Note 15.2)	28	1,418,378	32	1,477,046	28	1,468,858	33	1,536,268

15.6 Exempt income

As instructed by the Ministry of Finance on 31 January 2020, and clarified by the Inland Revenue Department on 12 February 2020, the exemption granted to interest on sovereign bonds with effect from 1 April 2018 includes interest on Sri Lanka Development bonds. Accordingly interest from Sri Lanka Development Bonds has been treated as exempt income in the provisional tax computation.

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 2019 and 2018.

Diluted earnings per share and the basic earnings per share is the same due to non-availability of potentially dilutive ordinary shares.

	Bank		Group	
	2019	2018 Restated	2019	2018 Restated
Total profit after tax attributable to equity holders of the Bank (LKR '000)	3,680,262	3,189,206	3,732,691	3,137,243
Weighted average number of ordinary shares as at 31 December - ('000) (Note 16.1)	409,441	400,391	409,441	400,391
Basic/diluted earnings per share (LKR)	8.99	7.97	9.12	7.84

	2019		2018	
	Outstanding	Weighted average	Outstanding	Weighted average restated
16.1 Weighted average number of ordinary shares for earnings per share computation				
Number of shares held as at 1 January	366,099,092	366,099,092	354,456,106	354,456,106
Add: Number of Shares issued due to Scrip Dividend - 2018	-	-	11,642,986	11,642,986
Add: Number of Shares issued due to Scrip Dividend - 2019	11,618,748	11,618,748	-	-
Add: Number of Shares issued due to Rights Issue	125,905,946	31,723,643	-	-
Number of shares held as at 31 December	503,623,786	409,441,483	366,099,092	366,099,092
Restatement due to subsequent scrip issue				11,618,748
Restatement due to subsequent rights issue				22,673,091
Weighted average number of ordinary shares as at 31 December		409,441,483		400,390,931

Weighted average number of ordinary shares as at 31 December 2018 has been restated based on the number of shares issued for scrip dividend and rights issue in 2019 as per Sri Lanka Accounting Standard (LKAS 33) - "Earnings per Share".

17. Dividends

	Bank/Group	
	2019 LKR '000	2018 LKR '000
Ordinary share dividends		
Net dividend paid		
Cash dividends	174,126	332,117
Scrip dividends	629,690	797,526
Tax deducted at source	111,432	110,953
Gross dividend	915,248	1,240,596

The Board of Directors of the Bank has recommended the payment of a final dividend of LKR 2.00 per share for both voting and non-voting ordinary shareholders of the Bank to be paid by way of LKR 1.00 cash dividend per share and LKR 1.00 scrip dividend per share for the year ended 31 December 2019 (Bank declared a final dividend of LKR 2.50 per share for 2018 by way of LKR 0.50 cash dividend per share and LKR 2.00 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 30 March 2020. Final dividend proposed for the year 2019 amounts to LKR 1,007,247,572.00 (LKR 915,247,730.00 for 2018).

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

	2019			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 (AC) LKR '000	
Assets				
Cash and cash equivalents	-	-	11,758,729	11,758,729
Balances with Central Bank of Sri Lanka	-	-	14,458,970	14,458,970
Placements with banks and finance companies	-	-	1,173,278	1,173,278
Derivative financial instruments	134,756	-	-	134,756
Securities purchased under resale agreements	-	-	5,165,159	5,165,159
Customer loans and advances	-	-	379,259,064	379,259,064
Debt instruments	-	74,055	669,204	743,259
Equity instruments	-	1,689,691	-	1,689,691
Government securities	7,118,016	53,827,780	21,204,380	82,150,176
Group balances receivable	-	-	40,000	40,000
Other financial assets	-	-	6,471,794	6,471,794
Total financial assets	7,252,772	55,591,526	440,200,578	503,044,876

	2019		
	Financial liabilities measured at fair value through profit or loss (FVTPL) LKR '000	Financial liabilities measured at amortised cost (AC) LKR '000	Total LKR '000
Liabilities			
Due to banks	-	28,769,629	28,769,629
Derivative financial instruments	222,978	-	222,978
Due to depositors	-	400,731,358	400,731,358
Securities sold under repurchase agreements	-	8,425,884	8,425,884
Due to other borrowers	-	23,407	23,407
Group balances payable	-	200,969	200,969
Debt securities issued	-	19,870,944	19,870,944
Lease liabilities	-	4,351,632	4,351,632
Other financial liabilities	-	6,025,050	6,025,050
Total financial liabilities	222,978	468,398,873	468,621,851

	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 (AC) 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

	2018		
	Financial liabilities measured at fair value through profit or loss (FVTPL) LKR '000	Financial liabilities measured at amortised cost (AC) 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

18.2 Group

	2019			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 (AC) LKR '000	
Assets				
Cash and cash equivalents	-	-	11,758,769	11,758,769
Balances with Central Bank of Sri Lanka	-	-	14,458,970	14,458,970
Placements with banks and finance companies	-	-	1,173,278	1,173,278
Derivative financial instruments	134,756	-	-	134,756
Securities purchased under resale agreements	-	-	5,165,159	5,165,159
Customer loans and advances	-	-	379,259,064	379,259,064
Debt instruments	-	128,067	669,204	797,271
Equity instruments	6,736	1,689,691	-	1,696,427
Government securities	7,118,016	53,827,780	21,204,380	82,150,176
Other financial assets	-	-	6,497,010	6,497,010
Total financial assets	7,259,508	55,645,538	440,185,834	503,090,880

	Financial liabilities measured at fair value through profit or loss (FVTPL) LKR '000	Financial liabilities measured at amortised cost (AC) LKR '000	Total LKR '000
	Liabilities		
Due to banks	-	28,769,629	28,769,629
Derivative financial instruments	222,978	-	222,978
Due to depositors	-	400,731,358	400,731,358
Securities sold under repurchase agreements	-	8,425,884	8,425,884
Due to other borrowers	-	23,407	23,407
Debt securities issued	-	19,870,944	19,870,944
Lease liabilities	-	1,507,618	1,507,618
Other financial liabilities	-	6,062,631	6,062,631
Total financial liabilities	222,978	465,391,471	465,614,449

	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 (AC) 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

	2018		
	Financial liabilities measured at fair value through profit or loss (FVTPL) LKR '000	Financial liabilities measured at amortised cost (AC) 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

19. Cash and cash equivalents

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Cash in hand – local currency	8,117,084	7,405,769	8,117,124	7,405,809
Cash in hand – foreign currency	305,208	223,393	305,208	223,393
Balances with local banks	126,633	40,697	126,633	40,697
Balances with foreign banks	3,226,570	4,928,598	3,226,570	4,928,598
Total cash and cash equivalents	11,775,495	12,598,457	11,775,535	12,598,497
Expected credit loss allowance (Note 19.1)	(16,766)	(24,846)	(16,766)	(24,846)
Total cash and cash equivalents – net	11,758,729	12,573,611	11,758,769	12,573,651

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
19.1 Movement in expected credit loss allowance during the year				
Stage 1				
Balance as at 1 January	24,846	-	24,846	-
Adjustment on initial application of SLFRS 9	-	4,938	-	4,938
Adjusted balance as at 1 January	24,846	4,938	24,846	4,938
Charge/(write back) to income statement	(8,080)	19,908	(8,080)	19,908
Balance as at 31 December	16,766	24,846	16,766	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 5% (5% for the period from 1 March 2019 to 31 December 2019, 6% for the period from 16 November 2018 to 28 February 2019 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	
	2019 LKR '000	2018 LKR '000
Statutory balances with the Central Bank of Sri Lanka	14,458,970	18,472,275
Total balances with Central Bank of Sri Lanka	14,458,970	18,472,275

21. Placements with banks and finance companies

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Term deposits with banks	1,179,174	-	1,179,174	-
Term deposits with finance companies	-	-	498	498
Total placements with banks and finance companies	1,179,174	-	1,179,672	498
Expected credit loss allowance (Note 21.1)	(5,896)	-	(6,394)	(498)
Total placements with banks and finance companies – net	1,173,278	-	1,173,278	-

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
21.1 Movement in expected credit loss allowance during the year				
Stage 1				
Balance as at 1 January	-	-	498	498
Adjustment on initial application of SLFRS 9	-	7,276	-	7,276
Adjusted balance as at 1 January	-	7,276	498	7,774
Charge/(write back) to income statement	5,896	(7,276)	5,896	(7,276)
Balance as at 31 December	5,896	-	6,394	498

22. Derivative financial instruments

	Bank/Group	
	2019 LKR '000	2018 LKR '000
22.1 Derivative assets		
Foreign currency derivatives		
Forward foreign exchange contracts		
- Designated as cash flow hedges (Note 22.2.1)	5,496	779,777
- Not designated as cash flow hedges	129,260	897,181
	134,756	1,676,958
22.2 Derivative liabilities		
Foreign currency derivatives		
Forward foreign exchange contracts		
- Designated as cash flow hedges (Note 22.2.1)	76,308	-
- Not designated as cash flow hedges	146,670	145,339
	222,978	145,339

22.2.1 Cash flow hedges of foreign currency borrowings

The Group enter into forward foreign exchange contracts to hedge the foreign currency risks arising from borrowings denominated in foreign currencies. These are designated as cash flow hedges.

The fair value of derivatives designated as cash flow hedge is as follows:

Instrument type	Bank/Group	
	2019 LKR '000	2018 LKR '000
Forward foreign exchange contracts	(70,812)	779,777
	(70,812)	779,777

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 2019	USD 33 Mn.	-	-
31 December 2018	USD 41 Mn.	-	-

23. Financial assets measured at Fair Value Through Profit and Loss (FVTPL)

	2019		2018	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
Quoted equities (Note 23.1)	-	6,736	-	5,151
Government securities - Treasury Bills	506,234	506,234	167,513	167,513
Government securities - Treasury Bonds	4,766,885	4,766,885	2,894,044	2,894,044
Sri Lanka Development Bonds	1,844,897	1,844,897	1,856,779	1,856,779
Total financial assets measured at FVTPL	7,118,016	7,124,752	4,918,336	4,923,487

	2019			2018		
	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						
Subsidiary						
Banks finance and insurance						
Commercial Leasing & Finance Company PLC	1,981,038	9,905	6,736	1,981,038	9,905	5,151
Total equity investments measured at FVTPL - Subsidiary		9,905	6,736		9,905	5,151
Total equity investments measured at FVTPL - Group		9,905	6,736		9,905	5,151
Mark to market valuation losses*		(3,169)			(4,754)	

	2019		2018	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
23.2 Analysis of financial assets measured at FVTPL				
23.2.1 By currency				
Sri Lankan Rupee	5,273,119	5,279,855	3,061,557	3,066,708
United States Dollar	1,844,897	1,844,897	1,856,779	1,856,779
Total financial assets measured at FVTPL	7,118,016	7,124,752	4,918,336	4,923,487
23.2.2 By collateralisation				
Pledged as collateral	169,770	169,770	771,211	771,211
Unencumbered	6,948,246	6,954,982	4,147,125	4,152,276
Total financial assets measured at FVTPL	7,118,016	7,124,752	4,918,336	4,923,487

	2019		2018	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
23.3 Fair value consists of				
Total cost/amortised cost	6,947,943	6,957,848	5,091,207	5,101,112
Mark to market valuation gains/(losses)*	170,073	166,904	(172,871)	(177,625)
Total fair value	7,118,016	7,124,752	4,918,336	4,923,487

* Mark to market valuation gains/(losses) of financial assets measured at fair value through profit and loss is included in net gains/(losses) from trading (Note 9).

24. Financial assets at amortised cost – Loans and advances

	Bank/Group	
	2019 LKR '000	2018 LKR '000
Gross loans and advances under;		
Stage 1	351,687,856	297,528,951
Stage 2	12,768,586	16,810,638
Stage 3	25,535,033	22,435,481
Gross loans and advances	389,991,475	336,775,070
Less: Expected credit loss allowance under; (Note 24.3)		
Stage 1	701,757	598,268
Stage 2	573,870	820,746
Stage 3	9,456,784	8,473,518
Total expected credit loss allowance for loans and advances	10,732,411	9,892,532
Total loans and advances – Net	379,259,064	326,882,538

	Bank/Group	
	2019 LKR '000	2018 LKR '000
24.1 Analysis of gross loans and advances		
24.1.1 By product		
Local currency		
Export bills	10,615	-
Import bills	304,831	636,183
Local bills	247,963	77,844
Lease rental receivables (Note 24.2)	20,932,145	18,904,050
Overdrafts	60,306,083	61,716,516
Revolving import loans	17,958,104	13,341,077
Packing credit loans	1,947,964	2,805,240
Trust receipt loans	1,715,118	2,702,264
Staff loans	6,671,261	6,497,835
Housing loans	16,589,494	15,518,085
Pawning receivables	12,282,669	11,661,946
Refinance loans	7,640,631	3,321,294
Credit cards	6,681,209	6,180,328
Margin trading	2,879,599	2,453,096
Factoring	2,600,010	2,161,148
Term loans	186,376,199	151,140,641
Total gross loans and advances – Local currency	345,143,895	299,117,547
Foreign currency		
Export bills	2,924,324	3,538,191
Import bills	589,960	407,074
Local bills	19,571	42,947
Overdrafts	472,059	972,118
Revolving import loans	1,001,607	394,283
Packing credit loans	11,565,189	8,570,902
Housing loans	175,201	171,441
Term loans	28,099,669	23,560,567
Total gross loans and advances – Foreign currency	44,847,580	37,657,523
Total gross loans and advances	389,991,475	336,775,070

	Bank/Group	
	2019 LKR '000	2018 LKR '000
24.1.2 By currency		
Sri Lankan Rupee	345,143,895	299,117,547
United States Dollar	44,382,468	37,157,712
Great Britain Pound	311,575	200,877
Japanese Yen	107,475	5,430
Australian Dollar	25,751	26,818
Euro	12,211	266,686
Singapore Dollar	8,100	-
Total gross loans and advances	389,991,475	336,775,070
24.1.3 By industry		
Agriculture, forestry and fishing	45,297,127	37,625,509
Manufacturing	45,166,464	37,198,335
Tourism	17,625,124	16,252,297
Transportation and storage	11,074,340	9,742,348
Construction	54,896,974	41,440,151
Infrastructure development	7,509,939	3,323,194
Wholesale and retail trade	61,285,303	60,397,918
Information technology and communication services	1,898,642	1,256,461
Financial services	46,571,957	42,432,898
Professional, scientific, and technical activities	7,040,423	3,530,132
Arts, entertainment, and recreation	935,130	721,142
Education	2,388,141	1,571,342
Healthcare, social services, and support services	12,291,421	11,315,050
Consumption	73,646,778	67,495,527
Lending to overseas entities	2,363,712	2,472,766
Total gross loans and advances	389,991,475	336,775,070

	Bank/Group	
	2019 LKR '000	2018 LKR '000
24.2 Lease rental receivables		
Lease rental receivables within one year (Note 24.2.1)	7,331,349	6,612,252
Lease rental receivables later than one year and not later than five years (Note 24.2.2)	13,548,169	12,243,973
Lease rental receivables later than five years (Note 24.2.3)	52,627	47,825
	20,932,145	18,904,050
24.2.1 Lease rental receivables within one year		
Gross lease rental receivables	10,166,248	9,006,124
Unearned income	(2,834,899)	(2,393,872)
	7,331,349	6,612,252
24.2.2 Lease rental receivables later than one year and not later than five years		
Gross lease rental receivables	16,515,917	14,805,716
Deposits of rental	(76,199)	(53,005)
Unearned income	(2,891,549)	(2,508,738)
	13,548,169	12,243,973
24.2.3 Lease rental receivables later than five years		
Gross lease rental receivables	57,784	52,557
Unearned income	(5,157)	(4,732)
	52,627	47,825

	Bank/Group	
	2019 LKR '000	2018 LKR '000
24.3 Movements in expected credit loss allowance on loans and advances		
Balance as at 1 January	9,892,532	5,607,466
Adjustment on initial application of SLFRS 9	-	2,095,203
Adjusted balance as at 1 January	9,892,532	7,702,669
Charge/(write back) to income statement	3,843,694	3,505,873
Reversal for write-off during the year	(2,398,992)	(779,928)
Interest accrued on impaired loans and advances	(604,823)	(536,082)
Other movements	-	-
Balance as at 31 December	10,732,411	9,892,532
24.3.1 Stagewise movements in expected credit loss allowance during the year		
Stage 1		
Balance as at 1 January	598,268	675,672
Charge/(write back) to income statement	103,489	(77,404)
Reversal for write-off during the Year	-	-
Other movements	-	-
Balance as at 31 December	701,757	598,268
Stage 2		
Balance as at 1 January	820,746	307,129
Charge/(write back) to income statement	(246,876)	513,617
Reversal for write-off during the Year	-	-
Other movements	-	-
Balance as at 31 December	573,870	820,746
Stage 3		
Balance as at 1 January	8,473,518	6,719,868
Charge/(write back) to income statement	3,987,081	3,069,660
Reversal for write-off during the year	(2,398,992)	(779,928)
Interest accrued on impaired loans and advances	(604,823)	(536,082)
Other movements	-	-
Balance as at 31 December	9,456,784	8,473,518

25. Financial assets at amortised cost – Debt and other instruments

	Bank/Group	
	2019 LKR '000	2018 LKR '000
Government securities – Treasury Bonds	19,923,449	20,356,443
Sri Lanka Development Bonds	1,292,045	3,032,380
Quoted debentures (Note 25.1)	-	81,140
Unquoted debentures (Note 25.2)	669,569	671,089
Securities purchased under resale agreements	5,165,159	5,462,167
Total financial assets measured at amortised cost	27,050,222	29,603,219
Expected credit loss allowance	(11,479)	(9,723)
Total financial assets at amortised cost – net	27,038,743	29,593,496

Bank/Group	
2019 LKR '000	2018 LKR '000

25.1 Quoted debentures

Richard Pieris and Company PLC (515,000 debentures of LKR 100.00 each)	-	52,960
Hemas Holdings PLC (274,200 debentures of LKR 100.00 each)	-	28,180
Total quoted debentures at amortised cost	-	81,140

Bank/Group	
2019 LKR '000	2018 LKR '000

25.2 Unquoted debentures

HNB Finance Limited	669,569	671,089
Total unquoted debentures at amortised cost	669,569	671,089

Bank/Group	
2019 LKR '000	2018 LKR '000

25.3 Analysis of financial assets at amortised cost – Debt and other instruments

25.3.1 By currency

Sri Lankan Rupee	25,758,177	26,570,839
United States Dollar	1,292,045	3,032,380
Total financial assets at amortised cost	27,050,222	29,603,219

25.3.2 By collateralisation

Pledged as collateral	937,548	2,602,343
Unencumbered	26,112,674	27,000,876
Total financial assets at amortised cost	27,050,222	29,603,219

Bank/Group	
2019 LKR '000	2018 LKR '000

25.4 Reconciliation for financial assets at amortised cost – Debt and other instruments

Balance as at 1 January	29,593,496	23,280,633
Adjustment on initial application of SLFRS 9	-	(35,126)
Adjusted balance as at 1 January	29,593,496	23,245,507
Net acquisitions/(maturities) during the year	(2,556,509)	6,322,586
Net expected credit losses during the year (Note 25.5)	1,756	25,403
Balance as at 31 December	27,038,743	29,593,496

Bank/Group	
2019 LKR '000	2018 LKR '000

25.5 Movement in expected credit loss allowance during the year

Stage 1

Balance as at 1 January	9,723	-
Adjustment on initial application of SLFRS 9	-	35,126
Adjusted balance as at 1 January	9,723	35,126
Charge/(write back) to income statement	1,756	(25,403)
Balance as at 31 December	11,479	9,723

26. Financial assets measured at fair value through other comprehensive income (FVOCI)

	2019		2018	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
Quoted equities (Note 26.1)	801,359	801,359	869,251	869,251
Unquoted equities (Note 26.2)	888,332	888,332	790,907	790,907
Government securities - Treasury Bills	2,611,725	2,611,725	3,133,044	3,133,044
Government securities - Treasury Bonds	44,575,504	44,575,504	46,991,897	46,991,897
Sri Lanka Development Bonds	6,640,551	6,640,551	6,867,609	6,867,609
Quoted debentures (Note 26.3)	74,055	128,067	118,012	166,896
Total financial assets measured at FVOCI	55,591,526	55,645,538	58,770,720	58,819,604
Allowance for expected credit losses (Note 26.7)	59,397	59,406	24,719	24,728

	2019			2018		
	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	1,304	1,003,163	29,393	2,006
Diversified holdings						
John Keells Holdings PLC	527,135	95,168	88,348	660,142	119,181	105,425
Financial services						
Visa Inc.	18,000	21,749	613,531	28,000	33,831	673,290
Hotels and travels						
John Keells Hotels PLC	3,552,311	43,693	41,207	3,552,311	43,693	27,708
Jetwing Symphony PLC	3,328,749	49,931	37,615	3,328,749	49,931	39,945
Manufacturing						
Chevron Lubricants Lanka PLC	120,407	19,329	9,018	120,407	19,329	8,766
Piramal Glass Ceylon PLC	627,401	3,842	2,823	627,401	3,842	2,384
Power and energy						
Lanka IOC PLC	395,421	18,037	7,513	395,421	18,037	9,727
Total quoted equity investments measured at FVOCI - Bank/Group		281,142	801,359		317,237	869,251

	2019			2018		
	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	57,427	2,900	290	54,205
LankaClear (Pvt) Limited	1,000,000	10,000	150,168	1,000,000	10,000	125,781
Lanka Financial Services Bureau Limited	500,000	5,000	-	225,000	2,250	2,623
Transnational Lanka Records Solutions (Pvt) Limited	1,000,000	10,000	52,914	1,000,000	10,000	48,170
HNB Finance Limited*	233,200,000	2,332,000	627,823	233,200,000	2,332,000	560,128
Total unquoted equity investments measured at FVOCI - Bank		2,357,290	888,332		2,354,540	790,907
Asian Finance Company Limited	-	-	-	75,000	750	-
Certis Lanka Home Nursing & Swift Care (Pvt) Limited	-	-	-	75,000	750	-
International Consultancy & Corporate Services (Pvt) Limited	-	-	-	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		44,041	-		45,591	-
Total unquoted equity investments measured at FVOCI - Group		2,401,331	888,332		2,400,131	790,907

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 2018

LankaClear (Pvt) Limited - 31 March 2019

Lanka Financial Services Bureau Limited - 31 March 2019

Transnational Lanka Records Solutions (Pvt) Limited - 30 June 2019

HNB Finance Limited - 31 March 2019

* 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.

	2019		2018	
	Amortised cost LKR '000	Fair value LKR '000	Amortised cost LKR '000	Fair value LKR '000
26.3 Quoted debentures				
Pan Asia Banking Corporation PLC (486,112 debentures of LKR 100.00 each)	-	-	50,072	48,839
HDFC Bank of Sri Lanka (745,300 debentures of LKR 100.00 each)	75,388	74,055	75,366	69,173
Total quoted debentures measured at FVOCI - Bank	75,388	74,055	125,438	118,012
LOLC Finance PLC (500,000 Debentures of LKR 100.00 each)	53,091	54,012	53,091	48,884
Total quoted debentures measured at FVOCI - Subsidiary	53,091	54,012	53,091	48,884
Total quoted debentures measured at FVOCI - Group	128,479	128,067	178,529	166,896

26.4 Analysis of financial assets measured at FVOCI

26.4.1 By currency

	2019		2018	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
Sri Lankan Rupee	48,337,444	48,391,456	51,229,821	51,278,705
United States Dollar	7,254,082	7,254,082	7,540,899	7,540,899
Total financial assets measured at FVOCI	55,591,526	55,645,538	58,770,720	58,819,604

26.4.2 By collateralisation

	2019		2018	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
Pledged as collateral	9,159,010	9,159,010	20,417,964	20,417,964
Unencumbered	46,432,516	46,486,528	38,352,756	38,401,640
Total financial assets measured at FVOCI	55,591,526	55,645,538	58,770,720	58,819,604

26.5 Fair value consists of

	2019		2018	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
Total cost/amortised cost	55,813,581	55,910,930	61,595,531	61,692,725
Accumulated fair value change recognised through				
- Other comprehensive income	(281,452)	(324,798)	(2,849,530)	(2,897,849)
- Income statement	59,397	59,406	24,719	24,728
Total fair value	55,591,526	55,645,538	58,770,720	58,819,604

26.6 Accumulated fair value change

	2019		2018	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
Fair value change as at 1 January	(2,824,811)	(2,873,121)	(1,174,531)	(1,221,284)
Fair value change during the year	2,602,756	2,607,729	(1,650,280)	(1,651,837)
Fair value change as at 31 December	(222,055)	(265,392)	(2,824,811)	(2,873,121)

26.7 Movement in expected credit loss allowance during the year

Stage 1

	2019		2018	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
Balance as at 1 January	24,719	24,728	-	-
Adjustment on initial application of SLFRS 9	-	-	62,785	62,785
Adjusted balance as at 1 January	24,719	24,728	62,785	62,785
Charge/(write back) to income statement	34,678	34,678	(38,066)	(38,057)
Balance as at 31 December	59,397	59,406	24,719	24,728

27. Investment in subsidiary

Primary activity	2019				2018			
	Number of ordinary equities	Holding %	Cost LKR '000	Market value LKR '000	Number of ordinary equities	Holding %	Cost LKR '000	Market value LKR '000
Seylan Developments PLC Property development/management	104,332,112	70.51	1,153,602	1,199,819	104,332,112	70.51	1,153,602	1,147,653
			1,153,602	1,199,819			1,153,602	1,147,653

	2019 LKR '000	2018 LKR '000
27.1 Non-Controlling Interest (NCI) in Subsidiary, Seylan Developments PLC		
NCI (%)	29.49	29.49
Total assets	5,768,910	5,638,682
Total liabilities	775,216	704,135
Net assets	4,993,694	4,934,547
Carrying amount of NCI (Note 27.2)	1,264,588	1,216,457
Revenue	295,831	291,487
Profit	193,013	255,036
Total comprehensive income	207,104	246,104
Profit allocated to NCI	65,561	13,613
Cash flows from operating activities	183,991	174,892
Cash flows from investing activities	(80,110)	(908,536)
Cash flows from financing activities - before dividend to NCI	(104,332)	(93,897)
Cash flows from financing activities - cash dividend to NCI	(43,633)	(39,271)
Net increase/(decrease) in cash and cash equivalents	(44,084)	(866,812)
27.2 Carrying amount of Non-Controlling Interest (NCI)		
Balance as at 1 January	1,216,457	1,213,666
Profit for the year	65,561	13,613
Other comprehensive income, net of tax	26,203	28,449
Dividend paid for the year	(43,633)	(39,271)
Balance as at 31 December	1,264,588	1,216,457

28. Group balances receivable

	Bank	
	2019 LKR '000	2018 LKR '000
Seylan Developments PLC	40,000	40,600
	40,000	40,600

29. Property, plant and equipment

	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
29.1 Bank								
Cost/valuation								
Balance as at 1 January 2018	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
Disposals/write-offs	-	-	(1,515,779)	(8,702)	(19,395)	(17,148)	(332)	(1,561,356)
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
Additions and improvements	-	-	986,283	133,981	200,533	970	-	1,321,767
Disposals/write-offs	(21,600)	(3,400)	(116,665)	(22,091)	(69,164)	(30,536)	-	(263,456)
Balance as at 31 December 2019	1,272,517	305,674	3,974,936	1,399,096	2,109,051	150,786	48,065	9,260,125
Accumulated depreciation								
Balance as at 1 January 2018	-	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
Disposals/write-offs	-	-	(1,515,643)	(8,418)	(18,252)	(15,981)	(332)	(1,558,626)
Balance as at 31 December 2018	-	27,553	1,778,403	995,208	1,498,138	114,921	48,065	4,462,288
Charge for the year	-	13,763	368,428	100,683	180,280	22,662	-	685,816
Disposals/write-offs	-	(480)	(116,625)	(22,084)	(69,121)	(27,602)	-	(235,912)
Balance as at 31 December 2019	-	40,836	2,030,206	1,073,807	1,609,297	109,981	48,065	4,912,192
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						
As at 31 December 2019								
Cost/valuation less accumulated depreciation	1,272,517	264,838	1,944,730	325,289	499,754	40,805	-	4,347,933
Accumulated impairment	-	-	-	-	-	-	-	-
Net carrying amount	1,272,517	264,838	1,944,730	325,289	499,754	40,805	-	4,347,933
Market value*	1,272,517	264,838						

* 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.

There were no restriction on the title of the property, plant and equipment of the Bank as at the reporting date. Further, there were no items pledged as securities for liabilities.

The Bank holds properties at Balangoda and Deal Place, Colombo 3 worth of LKR 46 Mn. and 235 Mn. Bank will decide the future course of action on these two properties.

	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 2018	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 on revaluation	-	72,383	-	-	-	-	-	72,383
Disposals/write-offs	-	-	(1,515,779)	(8,702)	(19,671)	(17,148)	(332)	(1,561,632)
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
Additions and improvements	-	-	987,374	185,069	200,620	970	-	1,374,033
Surplus on revaluation	-	82,336	-	-	-	-	-	82,336
Disposals/write-offs	(21,600)	(3,400)	(116,673)	(22,091)	(69,172)	(30,536)	-	(263,472)
Balance as at 31 December 2019	1,272,517	2,981,736	3,982,775	1,550,642	2,121,509	150,786	48,065	12,108,030
Accumulated depreciation								
Balance as at 1 January 2018	-	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)
Balance as at 31 December 2018	-	27,553	1,783,139	1,079,668	1,504,695	114,921	48,065	4,558,041
Charge for the year	-	49,787	369,159	109,990	181,892	22,662	-	733,490
Revaluation adjustment on accumulated depreciation	-	(36,024)	-	-	-	-	-	(36,024)
Disposals/write-offs	-	(480)	(116,629)	(22,084)	(69,122)	(27,602)	-	(235,917)
Balance as at 31 December 2019	-	40,836	2,035,669	1,167,574	1,617,465	109,981	48,065	5,019,590
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						
As at 31 December 2019								
Cost/valuation less accumulated depreciation	1,272,517	2,940,900	1,947,106	383,068	504,044	40,805	-	7,088,440
Accumulated impairment	-	-	-	-	-	-	-	-
Net carrying amount	1,272,517	2,940,900	1,947,106	383,068	504,044	40,805	-	7,088,440
Market value*	1,272,517	2,940,900						

* 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	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Computer equipment	1,000,659	879,156	1,001,638	879,817
Office machines and equipment	816,928	758,686	839,622	780,599
Fixtures, fittings and furniture	1,162,858	1,046,284	1,166,150	1,046,284
Motor vehicles	47,277	57,663	47,277	57,663
Leased assets	48,065	48,065	48,065	48,065
Total fully-depreciated property, plant and equipment	3,075,787	2,789,854	3,102,752	2,812,428
Total fully-depreciated intangible assets	1,413,000	1,370,098	1,413,000	1,370,098
Total fully-depreciated assets	4,488,787	4,159,952	4,515,752	4,182,526

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 31.12.2019 LKR '000	Net book value as at 31.12.2019 LKR '000
				Land as at 31.12.2019 LKR '000	Building as at 31.12.2019 LKR '000		
29.4.1 Freehold land and buildings							
1. 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	3,159	136,841
2. 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	2,473	114,027
3. 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	2,179	27,071
4. Avisawella 71, Ratnapura Road, Avisawella	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	3,332	79,168
5. 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	3,079	176,221
6. 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	4,418	95,582
7. 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	676	12,824
8. 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	1,551	19,249

Address	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs	Extent	Cost/valuation		Accumulated depreciation as at 31.12.2019 LKR '000	Net book value as at 31.12.2019 LKR '000
				Land as at 31.12.2019 LKR '000	Building as at 31.12.2019 LKR '000		
9. 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	3,743	77,257
10. 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	1,133	17,017
11. 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	390	32,365
12. 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	3,887	49,113
13. 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	3,577	99,723
14. 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	1,222	23,278
15. 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	420	46,017
16. 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
17. 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	2,657	62,343
18. 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	463	2,137
19. 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	1,718	84,132
20. 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	759	147,990
Total freehold land and buildings - Bank				1,272,517	305,674	40,836	1,537,355
21. 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.		-	2,676,062	-	2,676,062
Total freehold buildings - Subsidiary				-	2,676,062	-	2,676,062
Total freehold land and buildings - Group				1,272,517	2,981,736	40,836	4,213,417

* Revalued on 31 December 2019.

The property situated at No. 547, Debarawewa, Tissamaharama was disposed during the year 2019.

Description of the valuation techniques together with narrative description on sensitivity of the fair value measurement to changes in significant unobservable inputs are given below:

Valuation technique	Significant unobservable valuation inputs	Sensitivity of the fair value measurement to inputs
Market comparable method		
This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location, condition of specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value.	Price per perch for land Price per square foot for building Depreciation rate for building	Estimated fair value would get increased/(decreased) if; Price per perch would get higher/(lower) Price per square foot would get higher/(lower) Depreciation rate for building would get lower/(higher)
Investment method		
This method involves the capitalisation of the expected rental income at an appropriate rate of years purchased currently characterised by the real estate market.	Gross annual rentals Years of purchase	Estimated fair value would get increased/(decreased) if; Gross annual rentals would get higher/(lower) Years purchase would get higher/(lower)
Depreciated replacement cost method		
This method involves the capitalisation of the expected cost of construction at an appropriate remaining life of the building.	Cost of construction Full life of building Remaining life of building	Estimated fair value would get increased/(decreased) if; Cost of construction would get higher/(lower)

Address	2019					
	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						
1. Nuwara Eliya						
48 and 48/1, Park Road, Nuwara Eliya	20.28 P	22,603	19,580	3,931	5,452	32,800
2. Hingurakgoda						
13 and 14, Airport Road, Hingurakgoda	15.84 P	4,356	8,544	3,095	6,071	3,734
Total leasehold land and buildings - Bank		26,959	28,124	7,026	11,523	36,534
3. Seylan Tower Land - East Tower						
90, Galle Road, Colombo 3		640,549	-	114,448	-	526,101
Total leasehold land - Subsidiary		640,549	-	114,448	-	526,101
Total leasehold land and buildings - Group		667,508	28,124	121,474	11,523	562,635
Total land and buildings - Group		1,940,025	3,009,860	121,474	52,359	4,776,052

	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	1,272,517	-	1,272,517
Freehold buildings	305,674	40,836	264,838
Total freehold land and buildings - Bank	1,578,191	40,836	1,537,355
Leasehold land	26,959	7,026	19,933
Leasehold buildings	28,124	11,523	16,601
Total leasehold land and buildings - Bank	55,083	18,549	36,534
Total land and buildings - Bank	1,633,274	59,385	1,573,889
Freehold buildings - Subsidiary	2,676,062	-	2,676,062
Leasehold land - Subsidiary	640,549	114,448	526,101
Total land and buildings - Subsidiary	3,316,611	114,448	3,202,163
Total land and buildings - Group	4,949,885	173,833	4,776,052

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					
	2019			2018		
	Land LKR '000	Buildings LKR '000	Total LKR '000	Land LKR '000	Buildings LKR '000	Total LKR '000
Cost	462,558	126,197	588,755	465,586	132,139	597,725
Accumulated depreciation	-	(48,937)	(48,937)	-	(47,625)	(47,625)
Carrying value	462,558	77,260	539,818	465,586	84,514	550,100

30. Leasehold rights

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
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	16,604	14,658	123,642	114,286
Charge for the year	1,945	1,946	9,355	9,356
Balance as at 31 December	18,549	16,604	132,997	123,642
Net carrying amount	36,534	38,479	562,635	571,990

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.

Group – 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.

31. Right-of-use assets

SLFRS 16 – “Leases”, requires lessee to recognise all leases to on their Statement of Financial Position as lease liabilities with the corresponding right-of-use assets w.e.f. 1 January 2019. Previously, these leases were classified as operating leases under LKAS 17 – “Leases”.

31.1 Lease payable as lessee

The Group leases a number of branch and office premises. The leases generally run for a period of 10 years, with an option to renew the lease after that date. Specially Bank's subsidiary, Seylan Developments PLC had entered in to a 99-year 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.

	2019	
	Bank LKR '000	Group LKR '000
Balance as at 1 January 2019	-	-
Adjustment on initial application of SLFRS 16	4,764,385	1,933,500
Additions for the year	156,210	156,210
Depreciation charge for the year	(458,369)	(417,242)
Reversal on early termination	(4,754)	(4,754)
Balance as at 31 December 2019	4,457,472	1,667,714

As at 31 December 2018, the future minimum lease payments under operating leases were payable as per LKAS 17 – “Leases” as follows:

	2018	
	Bank LKR '000	Group LKR '000
Maturity analysis – Contractual undiscounted cash flows		
Less than one year	266,877	39,971
Between one and five years	791,157	791,158
More than five years	1,201,272	1,201,282
	2,259,306	2,032,411

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
31.1.1 Amounts recognised in income statement				
As per SLFRS 16 – Leases				
Interest on lease liabilities	430,744		147,652	
Recognised in interest expenses	430,744		147,652	
Expenses relating to short-term and low-value assets	14,941		14,941	
Depreciation – right-of-use assets	458,369		417,242	
Recognised in other expenses	473,310		432,183	
As per LKAS 17 – Leases				
Lease expense		704,207		477,301
Recognised in other expenses		704,207		477,301
Total amount recognised in income statement	904,054	704,207	579,835	477,301

	2019	
	Bank LKR '000	Group LKR '000
31.1.2 Amounts recognised in cash flow statement		
Payment for lease liabilities	748,544	521,812

31.2 Lease receivable as lessor

The Group enters in to 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.

Maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date as follows:

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Maturity analysis – Contractual undiscounted cash flows				
Less than one year	-	-	42,439	40,615
Between one and five years	-	-	28,752	22,168
More than five years	-	-	409	-
	-	-	71,600	62,783

32. Investment properties

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Cost				
Balance as at 1 January	-	-	1,140,007	1,135,761
Additions during the year	-	-	20,357	4,246
Cost as at 31 December (Note 32.1)	-	-	1,160,364	1,140,007
Provision for impairment	-	-	(71,462)	(71,462)
Cost less impairment as at 31 December	-	-	1,088,902	1,068,545

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Accumulated depreciation				
Balance as at 1 January	-	-	223,407	212,632
Charge for the year	-	-	12,338	10,775
Balance as at 31 December	-	-	235,745	223,407
Carrying value as at 31 December	-	-	853,157	845,138

Bank accounts its investment properties at cost and revalues these properties periodically on a systematic basis for disclosure purposes (Note 54).

Address	Group			
	Extent	Date of valuation	Cost LKR '000	Market value LKR '000
32.1 Investment properties (Group) – 2019				
Seylan Towers – West Tower, 90, Galle Road, Colombo 3	111,191sq.ft	31.12.2019	1,086,652	1,309,500
Moratuwa Lake Villas, St. Peter's Road, Moratuwa	0A 1R 05P	31.12.2019	3,361	3,825
Ja-Ela commercial complex*			70,351	-
			1,160,364	

* Fully impaired.

During the year ended 31 December 2019, LKR 62,779,730.00 was recognised as rental income in profit or loss (2018: LKR 70,923,386.00). Repairs and maintenance expenses recorded under premises, equipment, establishment expenses for the year ended 31 December 2019 is LKR 7,267,022.00 (2018: LKR 4,873,733.00).

Direct operating expenses (including repairs and maintenance) arising from investment property that generate rental income during the period is LKR 19,757,729.00 (2018: LKR 17,588,066.00).

Direct operating expenses (including repairs and maintenance) arising from investment property that not generate rental income during the period is nil in 2019 and 2018.

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.	Rentals of two similar residential apartment buildings have been taken as comparable residential market rents (LKR 425,000.00 and LKR 500,000.00).	There is a direct relationship between the estimated fair value and market rents.
			All risk rates for residential segment of the subject property has been taken at 4%.	There is an inverse relationship between the estimated fair value and all risk rates.
			Current replacement cost of construction is estimated as LKR 23,750.00 per sq. ft.	Estimated fair value would increase if replacement cost gets higher.
			Full life of the building is taken as 100 years and the remaining life is taken as 68 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 13,750,000.00 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.

33. Intangible assets

	Bank/Group	
	2019 LKR '000	2018 LKR '000
Software and software related		
Cost		
Balance as at 1 January	2,267,602	2,431,307
Additions for the year	185,862	332,855
Write-offs during the year	(1,976)	(496,560)
Balance as at 31 December	2,451,488	2,267,602
Accumulated amortisation		
Balance as at 1 January	1,691,511	2,067,856
Amortisation for the year	154,686	120,215
Write-offs during the year	(1,976)	(496,560)
Balance as at 31 December	1,844,221	1,691,511
Net carrying amount	607,267	576,091

There were no restriction on the title of the intangible assets of the Bank as at the reporting date. Further, there were no items pledged as securities for liabilities.

34. Deferred tax assets/(liabilities)

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Balance as at 1 January	270,275	(1,359,044)	99,648	(1,431,294)
Adjustment on initial application of SLFRS 9	-	671,046	-	671,046
Adjusted balance as at 1 January	270,275	(687,998)	99,648	(760,248)
Recognised in the profit or loss				
(Charge)/reversal for the year (Note 15.1)	(261,030)	562,515	(275,351)	503,354
Recognised in other comprehensive income				
Effect on revaluation of property, plant and equipment	-	-	(36,621)	(39,216)
Effect on net fair value losses(gains) on financial investment measured at FVOCI (Note 46.4)	(737,674)	395,758	(738,004)	395,758
Recognised in equity				
Effect on revaluation of property, plant and equipment	3,103	-	3,103	-
Balance as at 31 December (Notes 34.1 and 34.2)	(725,326)	270,275	(947,225)	99,648

It has been proposed to reduce income tax rate on companies from 28% to 24% pending formal approval from the parliament as an amendment to the Inland Revenue Act No. 24 of 2017. As it is not considered as substantially enacted the tax rate adopted for the computation of deferred tax remains at of 28%.

	Bank			
	2019		2018	
	Temporary difference LKR '000	Tax LKR '000	Temporary difference LKR '000	Tax LKR '000
34.1 Analysis of deferred tax assets and liabilities				
Deferred tax - liabilities				
Property, plant and equipment	1,323,958	370,707	1,179,857	330,360
Lease receivables	1,725,857	483,240	2,035,473	569,932
Revaluation gains brought forward	61,736	17,286	72,818	20,389
Revaluation surplus on land	828,531	231,989	828,531	231,989
Right-of-use assets	107,385	30,068	-	-
	4,047,467	1,133,290	4,116,679	1,152,670
Deferred tax - assets				
Leave encashment provision (Note 43.2)	203,373	56,944	168,386	47,148
Other provisions	149,850	41,958	159,034	44,529
Additional gratuity liability	1,444,838	404,555	897,470	251,292
Tax losses carried forward (Note 15.3)	-	-	-	-
Reversal of revaluation loss on property, plant and equipment	20,911	5,855	20,911	5,855
Expected credit loss allowances	1,164,987	326,196	2,728,538	763,991
Fair value changes recognised through OCI	(1,526,942)	(427,544)	1,107,609	310,130
	1,457,017	407,964	5,081,948	1,422,945
Net deferred tax assets/(liabilities) (Note 34.1.1)	(2,590,450)	(725,326)	965,269	270,275

	Bank									
	2019					2018				
	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
34.1.1 Movement in temporary differences										
Taxable temporary differences										
Property, plant and equipment	1,179,857	144,101	-	-	1,323,958	1,516,307	(336,450)	-	-	1,179,857
Lease receivables	2,035,473	(309,616)	-	-	1,725,857	2,716,026	(680,553)	-	-	2,035,473
Revaluation gains brought forward	72,818	-	-	(11,082)	61,736	72,818	-	-	-	72,818
Revaluation surplus on land	828,531	-	-	-	828,531	828,531	-	-	-	828,531
Right-of-use assets	-	107,385	-	-	107,385	-	-	-	-	-
	4,116,679	(58,130)	-	(11,082)	4,047,467	5,133,682	(1,017,003)	-	-	4,116,679
Deductible temporary differences										
Leave encashment provision	168,386	34,987	-	-	203,373	164,180	4,206	-	-	168,386
Other provisions	159,034	(9,184)	-	-	149,850	172,675	(13,641)	-	-	159,034
Additional gratuity liability	897,470	547,368	-	-	1,444,838	-	897,470	-	-	897,470
Tax losses carried forward	-	-	-	-	-	227,998	(227,998)	-	-	-
Reversal of revaluation loss on property, plant and equipment	20,911	-	-	-	20,911	20,911	-	-	-	20,911
Expected credit loss allowances	2,728,538	(1,563,551)	-	-	1,164,987	-	331,943	-	2,396,595*	2,728,538
Fair value changes recognised through OCI**	1,107,609	-	(2,634,551)	-	(1,526,942)	(305,811)	-	1,413,420	-	1,107,609
	5,081,948	(990,380)	(2,634,551)	-	1,457,017	279,953	991,980	1,413,420	2,396,595	5,081,948
Net (taxable)/deductible temporary differences	965,269	(932,250)	(2,634,551)	11,082	(2,590,450)	(4,853,729)	2,008,983	1,413,420	2,396,595	965,269

*This represents temporary difference arising from adjustment on initial application of SLFRS 9.

**The movement represent fair value changes recognised through other comprehensive income.

	Group			
	2019		2018	
	Temporary difference LKR '000	Tax LKR '000	Temporary difference LKR '000	Tax LKR '000
34.2 Analysis of deferred tax assets and liabilities				
Deferred tax - liabilities				
Property, plant and equipment	1,474,050	412,734	1,267,886	355,008
Lease receivables	1,725,857	483,240	2,035,473	569,932
Revaluation gains brought forward	1,271,454	356,007	1,187,433	332,481
Revaluation surplus on land	828,531	231,989	828,531	231,989
Right-of-use assets	(65,715)	(18,400)		
	5,234,177	1,465,570	5,319,323	1,489,410
Deferred tax - assets				
Leave encashment provision (Note 43.2)	203,373	56,944	168,386	47,148
Other provisions	149,850	41,958	159,034	44,529
Additional gratuity liability	1,444,838	404,555	897,470	251,291
Tax losses carried forward (Note 15.3)	431,078	120,702	593,260	166,113
Reversal of revaluation loss on property, plant and equipment	(51,116)	(14,312)	(18,305)	(5,125)
Expected credit loss allowances	1,164,987	326,196	2,728,538	763,991
Fair value changes recognised through OCI	(1,491,778)	(417,698)	1,146,825	321,111
	1,851,232	518,345	5,675,208	1,589,058
Net deferred tax assets/(liabilities) (Note 34.2.1)	(3,382,945)	(947,225)	355,885	99,648

	Group									
	2019					2018				
	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
34.2.1 Movement in temporary differences										
Taxable temporary differences										
Property, plant and equipment	1,267,886	206,164	-	-	1,474,050	1,576,877	(308,991)	-	-	1,267,886
Lease rental receivables	2,035,473	(309,616)	-	-	1,725,857	2,716,026	(680,553)	-	-	2,035,473
Revaluation gains brought forward	1,187,433	-	(35,685)	119,706	1,271,454	1,047,378	-	140,055	-	1,187,433
Revaluation surplus on land	828,531	-	-	-	828,531	828,531	-	-	-	828,531
Right-of-use assets	-	(65,715)	-	-	(65,715)	-	-	-	-	-
	5,319,323	(169,167)	(35,685)	119,706	5,234,177	6,168,812	(989,544)	140,055	-	5,319,323
Deductible temporary differences										
Leave encashment provision	168,386	34,987	-	-	203,373	164,180	4,206	-	-	168,386
Other provisions	159,034	(9,184)	-	-	149,850	172,675	(13,641)	-	-	159,034
Additional gratuity liability	897,470	547,368	-	-	1,444,838	-	897,470	-	-	897,470
Tax losses carried forward	593,260	(162,182)	-	-	431,078	1,005,092	(411,832)	-	-	593,260
Reversal of revaluation loss on property, plant and equipment	(18,305)	-	(32,811)	-	(51,116)	20,911	-	(39,216)	-	(18,305)
Expected credit loss allowances	2,728,538	(1,563,551)	-	-	1,164,987	-	331,943	-	2,396,595*	2,728,538
Fair value changes recognised through OCI**	1,146,825	-	(2,638,603)	-	(1,491,778)	(305,811)	-	1,452,636	-	1,146,825
	5,675,208	(1,152,562)	(2,671,414)	-	1,851,232	1,057,047	808,146	1,413,420	2,396,595	5,675,208
Net (taxable)/deductible temporary differences	355,885	(983,395)	(2,635,729)	(119,706)	(3,382,945)	(5,111,765)	1,797,690	1,273,365	2,396,595	355,885

* This represents temporary difference arising from adjustment on initial application of SLFRS 9.

** The movement represent fair value changes recognised through other comprehensive income.

35. Other assets

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Deposits and prepayments	799,659	967,338	816,204	983,776
Clearing house balance	2,474,268	3,435,770	2,474,268	3,435,770
Inventories	144,347	151,003	148,513	156,444
Sundry debtors	1,330,848	391,660	1,330,848	391,660
Other receivables	1,683,811	1,162,541	1,683,811	1,162,541
Due from trust companies	113,154	113,183	113,154	113,183
Prepaid staff cost	1,869,164	1,609,476	1,869,459	1,609,767
Other debtors	703,046	395,540	721,929	416,387
Total other assets	9,118,297	8,226,511	9,158,186	8,269,528

36. Due to banks

	Bank/Group	
	2019 LKR '000	2018 LKR '000
Call money borrowings	15,769,686	10,795,666
Refinance borrowings	2,660,253	2,258,992
Borrowings from local banks	479	71,093
Borrowings from foreign banks	119,884	89,481
Borrowings from development finance institutions	10,219,327	13,163,549
Total due to banks	28,769,629	26,378,781

37. Financial liabilities at amortised cost – Due to depositors

	Bank/Group	
	2019 LKR '000	2018 LKR '000
Total due to depositors	400,731,358	357,560,187
37.1 Analysis of due to depositors		
37.1.1 By product		
Local currency		
Demand deposits	19,438,400	16,885,181
Savings deposits	79,208,251	70,292,893
Time deposits	251,643,284	228,239,813
Certificates of deposit	2,833,926	2,874,580
Total due to depositors – Local currency	353,123,861	318,292,467
Foreign currency		
Demand deposits	3,238,241	5,485,326
Savings deposits	11,877,218	10,451,956
Time deposits	32,492,038	23,330,438
Total due to depositors – Foreign currency	47,607,497	39,267,720
Total due to depositors by product	400,731,358	357,560,187
37.1.2 By currency		
Sri Lankan Rupee	353,123,861	318,292,467
United States Dollar	39,704,462	33,296,544
Great Britain Pound	3,103,413	3,045,840
Euro	2,071,375	1,204,116
Australian Dollar	1,397,092	1,250,428
Japanese Yen	964,342	107,556
Canadian Dollar	208,492	197,353
Singapore Dollar	68,539	94,637
Swiss Franc	53,023	52,185
New Zealand Dollar	27,177	7,850
Danish Krone	6,460	6,266
Swedish Kroner	1,573	577
Norwegian Kroner	1,136	1,393
Hong-Kong Dollar	239	1,923
Chinese Renminbi	174	981
United Arab Emirates Dirham	-	71
Total due to depositors by currency	400,731,358	357,560,187
37.1.3 By customer category		
Banks	9,524,086	11,244,299
Finance companies	10,948,699	5,903,959
Other customers	380,258,573	340,411,929
Total due to depositors by customer category	400,731,358	357,560,187
37.1.4 By maturity		
Due within one year	375,176,837	333,151,362
Due after one year	25,554,521	24,408,825
Total due to depositors by maturity	400,731,358	357,560,187

38. Financial liabilities at amortised cost – Due to debt securities holders

	Bank/Group	
	2019 LKR '000	2018 LKR '000
Securities sold under repurchase agreements (Repo)	8,425,884	21,094,525
	8,425,884	21,094,525

39. Financial liabilities at amortised cost – Due to other borrowers

	Bank/Group	
	2019 LKR '000	2018 LKR '000
Refinance borrowings – Other institutions (Coconut Cultivation Board)	23,407	32,018
	23,407	32,018

40. Group balances payable

	Bank	
	2019 LKR '000	2018 LKR '000
Seylan Developments PLC	200,969	211,686
	200,969	211,686

41. Debt securities issued

Issue	Interest rate	Colombo Stock Exchange listing	Subordinated/Unsubordinated	Interest payable frequency	Allotment date	Maturity date	Face Value	Bank/Group	
								Amortised cost	
								2019 LKR '000	2018 LKR '000
41.1 Fixed rate debentures									
2014-2019	8.35% p.a	Listed	Unsubordinated	Semi-Annually	23.12.2014	22.12.2019	30	-	30
2014-2019	8.60% p.a	Listed	Unsubordinated	Annually	23.12.2014	22.12.2019	1,866,520	-	1,870,038
2014-2020	8.60% p.a	Listed	Unsubordinated	Semi-Annually	23.12.2014	22.12.2020	2,505,520	2,506,168	2,506,096
2014-2020	8.75% p.a	Listed	Unsubordinated	Annually	23.12.2014	22.12.2020	300,520	305,833	305,242
2016-2021	13.00% p.a	Listed	Subordinated	Semi-Annually	15.07.2016	14.07.2021	1,710,320	1,814,594	1,813,893
2016-2023	13.75% p.a	Listed	Subordinated	Semi-Annually	15.07.2016	14.07.2023	3,272,280	3,482,063	3,480,830
2018-2023	12.85% p.a	Listed	Subordinated	Semi-Annually	29.03.2018	28.03.2023	3,910,000	3,936,085	3,933,333
2018-2025	13.20% p.a	Listed	Subordinated	Semi-Annually	29.03.2018	28.03.2025	715,000	739,306	738,788
2018-2028	13.50% p.a	Listed	Subordinated	Semi-Annually	29.03.2018	28.03.2028	1,609,000	1,664,940	1,663,750
2019-2024	15.00% p.a	Listed	Subordinated	Annually	18.04.2019	17.04.2024	3,773,400	4,141,409	-
2019-2024	14.50% p.a	Listed	Subordinated	Semi-Annually	18.04.2019	17.04.2024	1,226,600	1,263,146	-
Total fixed rate debentures								19,853,544	16,312,000
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	17,400	17,400	17,400
Total fixed floating debentures								17,400	17,400
Total debentures								19,870,944	16,329,400
41.3 Debentures by maturity									
2019									
– Within one year							2,806,040	3,765,944	-
– After one year							16,234,000	16,105,000	-
2018									
– Within one year							1,866,550	-	2,389,360
– After one year							14,040,040	-	13,940,040
Based on capital and interest maturities (Note 52. 2)									
Total debentures								19,870,944	16,329,400

41.4 Utilisation of funds raised through debentures issued in April 2019 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 the date of allotment	5 Bn.	5 Bn.	100%	5 Bn.	100%	Not Applicable
2.	To meet the current credit demand (loans and advances) of the Bank	Within 12 months from the date of the allotment or 31 December 2019 whichever is earlier						

42. Current tax liabilities

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Opening balance as at 1 January	1,209,464	1,022,378	1,185,533	1,046,249
Charge for the year	1,188,231	2,039,561	1,224,390	2,039,561
Tax Impact of gain on sale of property	3,103	-	3,103	-
Less: Payments/deductions	(1,875,409)	(1,852,475)	(1,922,327)	(1,900,277)
Closing balance as at 31 December	525,389	1,209,464	490,699	1,185,533

43. Other liabilities

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Accrued expenses	699,607	856,718	712,753	870,116
Margin accounts	821,765	1,973,381	821,765	1,973,381
Deposit funding accounts	2,393,096	3,389,018	2,393,096	3,389,018
Dividend payable	42,748	44,758	60,684	58,757
Provision for defined benefit obligations (Net) (Note 43.1.1)	457,758	113,001	451,646	105,043
Sundry creditors	1,164,753	1,096,535	1,164,753	1,096,535
Value added tax and other statutory payables	360,678	293,461	364,035	295,278
Cheques payable	619,058	683,466	619,058	683,466
Leave encashment provision (Note 43.2)	203,373	168,386	203,373	168,386
Expected credit loss allowance on undrawn credit commitments and financial guarantees (Note 43.3)	264,087	264,035	264,087	264,035
Other creditors	792,474	479,060	842,223	568,335
Total other liabilities	7,819,397	9,361,819	7,897,473	9,472,350

43.1 Defined benefit obligations

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.

Refer to the Note 5.16.1 to the Financial Statements on "Defined Benefit Plan". The shares acquired by the gratuity Trust Fund for the settlement of enhanced gratuity liabilities have been recorded under plan assets.

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.

Actuarial valuation as at 31 December 2019 was carried out by Actuarial & Management Consultants (Private) Limited, a firm of professional actuaries.

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
43.1.1 The amount recognised in the statement of financial position				
Present value of defined benefit obligations (Note 43.1.3)	3,238,921	2,632,072	3,247,324	2,637,707
Fair value of plan assets (Note 43.1.4)	(2,781,163)	(2,519,071)	(2,795,678)	(2,532,664)
Provision for defined benefit obligations	457,758	113,001	451,646	105,043
43.1.2 Plan assets				
Balance with banks	185,154	30,558	185,214	30,594
Investment in Treasury Bills, Bonds and Repo	1,200,387	1,175,669	1,200,487	1,175,876
Investment in fixed deposits	707,822	811,678	722,177	825,028
Expected proceeds from sale of trust company shares (Note 43.1.7)	21,874	501,166	21,874	501,166
Investment in shares	665,926	-	665,926	-
	2,781,163	2,519,071	2,795,678	2,532,664

Plan assets are held by an approved external gratuity trust fund.

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 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	2,632,072	1,237,690	2,637,707	1,244,738
Current service cost	163,139	136,365	163,644	136,717
Interest cost	315,849	136,146	316,524	136,921
Actuarial (gains)/loss on PV DBO	279,149	(108,695)	281,277	(109,547)
Benefits paid by the plan	(151,288)	(60,397)	(151,828)	(62,085)
Past service cost	-	1,290,963	-	1,290,963
Liability for defined benefit obligations as at 31 December	3,238,921	2,632,072	3,247,324	2,637,707
43.1.4 Movement in plan assets				
Fair value of plan assets as at 1 January	2,519,071	1,736,150	2,532,664	1,751,118
Expected return on plan assets	242,148	190,976	243,779	192,623
Expected proceeds from sale of trust company shares (Note 43.1.7)	21,874	501,166	21,874	501,166
Reversal of expected proceeds from sale of trust company shares booked in 2018 (Note 43.1.7)	(501,166)	-	(501,166)	-
Contribution paid into plan	193,914	175,545	193,914	175,545
Benefits paid by the plan	(151,288)	(60,397)	(151,828)	(62,085)
Actuarial gain/(loss) on plan assets	456,610	(24,369)	456,441	(25,703)
Fair value of plan assets as at 31 December	2,781,163	2,519,071	2,795,678	2,532,664
43.1.5 Actuarial (gain) or loss				
Actuarial (gain)/loss for the year - Obligation	279,149	(108,695)	281,277	(109,547)
Actuarial (gain)/loss for the year - Plan Assets	(456,610)	24,369	(456,441)	25,703
Actuarial gain recognised in other comprehensive income	(177,461)	(84,326)	175,163	(83,844)
43.1.6 Amount recognised in the Income Statement				
Current service cost	163,139	136,365	163,644	136,717
Interest cost	315,849	136,146	316,524	136,921
Expected return on plan assets	(242,148)	(190,976)	(243,779)	(192,623)
Amount recognised in the income statement as personnel expenses (Note 14)	236,840	81,535	236,389	81,015
Amount recognised in the income statement for additional gratuity expense (Note 43.1.7)	81,212	1,134,771	81,212	1,134,771
	318,052	1,216,306	317,601	1,215,786
43.1.7 Amount recognised in the income statement for additional gratuity expense				
Additional gratuity expense (Note 43.1.3)	-	1,290,963	-	1,290,963
Payments made to ex-staff members	103,086	344,974	103,086	344,974
Expected proceeds from sale of trust company shares	(21,874)	(501,166)	(21,874)	(501,166)
	81,212	1,134,771	81,212	1,134,771

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
43.1.8 Amount recognised in other comprehensive income				
Actuarial gain recognised in the year	177,461	84,326	175,163	83,844
Amount recognised in other comprehensive income	177,461	84,326	175,163	83,844

	Bank	
	2019	2018
43.1.9 Actuarial assumptions		
Demographic assumptions		
Mortality in service	A 1967/70 Mortality table issued by the Institute of Actuaries London	A 1967/70 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	11.00%	12.00%
Salary increment	2020 - 8.5%, 2021 - 5%, 2022 - 3%, 2023 - 3%, 2024 - 10%, 2025 - 3%, 2026 - 3% and 2027 - 10%	2019 - 9.00%, 2020 - 8.50%, 2021 - 5%, 2022 - 3%, 2023 - 3% and 2024 - 10%, 2025 - 3%, 2026 - 3% and 2027 - 10%
	Next increment due on 1 January 2020	Next increment due on 1 January 2019

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 %	2019	
		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	**	(226,382)	(226,382)
(1)	**	253,906	253,906
*	1	280,666	280,666
*	(1)	(252,892)	(252,829)

* Discount rate is fixed at 11%.

** Salary increment rates 2020 - 8.5%, 2021 - 5%, 2022 - 3%, 2023 - 3%, 2024 - 10%, 2025 - 3%, 2026 - 3% and 2027 - 10%.

Subsidiary

Increase/(decrease) in discount rate %	Increase/(decrease) in salary increment rate %	2019	
		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	**	(488)	(488)
(1)	**	536	536
*	1	594	594
*	(1)	(547)	(547)

* Discount rate is fixed at 11%.

** Salary increment rate 7.0% over the period.

43.1.11 Maturity profile of the defined benefit obligations**Bank**

Future working lifetime	Defined benefit obligations LKR '000
Within next 12 months	268,624
Between 1-2 years	366,478
Between 2-5 years	545,781
Between 5-10 years	1,211,134
Beyond 10 years	846,904
Total	3,238,921
Weighted average duration of defined benefit obligations	8.14 years

Subsidiary

Future working lifetime	Defined benefit obligations LKR '000
Within next 12 months	970
Between 1-2 years	581
Between 2-5 years	2,960
Between 5-10 years	2,851
Beyond 10 years	1,041
Total	8,403
Weighted average duration of defined benefit obligations	6.67 years

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
43.2 Leave encashment provision				
Balance as at 1 January	168,386	164,180	168,386	164,180
Leave encashment during the year	-	-	-	-
Amount charged to Income Statement during the year	34,987	4,206	34,987	4,206
Balance as at 31 December	203,373	168,386	203,373	168,386

43.2.1 Actuarial assumptions

	Bank	
	2019	2018
Demographic assumptions		
Mortality in service	A 1967/70 Mortality table issued by the Institute of Actuaries London	A 1967/70 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	11.00%	12.00%
Salary increment	2020 - 8.5%, 2021 - 5%, 2022 - 3%, 2023 - 3%, 2024 - 10%, 2025 - 3%, 2026 - 3% and 2027 - 10%	2019 - 9.00%, 2020 - 8.50%, 2021 - 5%, 2022 - 3%, 2023 - 3%, 2024 - 10%, 2025 - 3%, 2026 - 3% and 2027 - 10%
	Next increment due on 1 January 2020	Next increment due on 1 January 2019

43.2.2 Sensitivity of assumptions employed in actuarial valuation

Increase/(decrease) in discount rate %	Increase/(decrease) in salary increment rate %	Bank	
		2019	
		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	**	(15,515)	(15,515)
(1)	**	17,637	17,637
*	1	19,411	19,411
*	(1)	(17,242)	(17,242)

* Discount rate is fixed at 11%.

** Salary increment rates 2020 - 8.5%, 2021 - 5%, 2022 - 3%, 2023 - 3%, 2024 - 10%, 2025 - 3%, 2026 - 3% and 2027 - 10%.

	Bank/Group	
	2019 LKR '000	2018 LKR '000
43.3 Expected credit loss allowance on undrawn credit commitments and financial guarantees		
Stage 1		
Balance as at 1 January	264,035	-
Adjustment on initial application of SLFRS 9	-	254,052
Adjusted balance as at 1 January	264,035	254,052
Charge to Income statement	52	9,983
Balance as at 31 December	264,087	264,035

44. Stated capital

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Ordinary shares - voting (Note 44.1)	10,884,710	7,723,207	10,884,710	7,723,207
Ordinary shares - non-voting (Note 44.2)	6,160,014	4,302,588	6,160,014	4,302,588
Total stated capital	17,044,724	12,025,795	17,044,724	12,025,795
44.1 Ordinary shares - voting				
Balance as at 1 January	7,723,207	7,319,076	7,723,207	7,319,076
Issued for scrip dividend - 4,490,341 ordinary shares of LKR 90.00 each	-	404,131	-	404,131
Issued for scrip dividend - 4,504,394 ordinary shares of LKR 70.30 each	316,659	-	316,659	-
Issued during the year - Rights - 62,869,468 ordinary shares of LKR 45.25 each	2,844,844	-	2,844,844	-
251,477,872 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 shares of LKR 90.00 each and 4,504,394 shares of LKR 70.30 each, 62,869,468 shares of LKR 45.25 and net of issue expenses LKR 114,277,753.00)	10,884,710	7,723,207	10,884,710	7,723,207
44.2 Ordinary shares - non-voting				
Balance as at 1 January	4,302,588	3,909,193	4,302,588	3,909,193
Issued for scrip dividend - 7,152,645 ordinary shares of LKR 55.00 each	-	393,395	-	393,395
Issued for scrip dividend - 7,114,354 ordinary shares of LKR 44.00 each	313,032	-	313,032	-
Issued during the year - Rights - 63,036,478 ordinary shares of LKR 24.50 each	1,544,394	-	1,544,394	-
252,145,914 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 7,114,354 shares of LKR 44.00 each, 63,036,478 shares of LKR 24.50 each and net of issue expenses LKR 67,302,925.00)	6,160,014	4,302,588	6,160,014	4,302,588

45. Statutory reserve fund

	Bank/Group	
	2019 LKR '000	2018 LKR '000
Balance as at 1 January	1,768,944	1,609,484
Transferred during the year*	184,013	159,460
Balance as at 31 December	1,952,957	1,768,944

* 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.

46. Other reserves

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Capital reserve (Note 46.1)	418,021	418,021	673,234	673,234
Revaluation reserve (Note 46.2)	858,312	866,290	1,714,728	1,662,627
General reserve (Note 46.3)	33,787	33,787	33,787	33,787
Fair value through other comprehensive income reserve (Note 46.4)	(14,219)	(1,879,301)	(44,601)	(1,914,326)
Cash flow hedge reserve (Note 46.5)	(33,533)	28,540	(33,533)	28,540
Investment fund reserve (Note 46.6)	1,543,986	1,549,076	1,543,986	1,549,076
Total other reserves	2,806,354	1,016,413	3,887,601	2,032,938

46.1 Movement in capital reserve

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
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 – Capital reserve 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	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
46.2 Movement in revaluation reserve				
Balance as at 1 January	866,290	1,242,493	1,662,627	1,967,727
Surplus on revaluation during the year	-	-	118,360	140,375
Deferred tax impact on revaluation surplus during the year	-	-	(33,141)	(39,216)
Transferred to non-controlling interest	-	-	(25,131)	(29,739)
Transferred to retained earnings	(7,978)	(376,203)	(7,987)	(376,520)
Balance as at 31 December	858,312	866,290	1,714,728	1,662,627

In addition to the Bank's revaluation reserve, Group includes the surplus on revaluation of property, plant and equipment of the Subsidiary.

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 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

General reserve consists 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	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
46.4 Movement in fair value through other comprehensive income reserve				
Balance as at 1 January	(1,879,301)	945,408	(1,914,326)	945,496
Adjustment on initial application of SLFRS 9, net of tax	-	(1,570,187)	-	(1,603,743)
Adjusted balance as at 1 January	(1,879,301)	(624,779)	(1,914,326)	(658,247)
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	2,539,877	(1,537,937)	2,545,242	(1,540,145)
Change in fair value on investments in equity instruments designated at fair value through other comprehensive income	315,941	405,236	316,841	405,236
Deferred tax impact on net fair value (gain)/loss (Note 34)	(737,674)	395,758	(738,004)	395,758
Transferred to non-controlling interest	-	-	(1,942)	651
Reversal of FVOCI reserve of equity instruments written off	-	-	800	-
Net gain on disposal of equity investments transferred to retained earnings	(253,062)	(517,579)	(253,212)	(517,579)
Balance as at 31 December	(14,219)	(1,879,301)	(44,601)	(1,914,326)

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
46.5 Movement in cash flow hedge reserve				
Balance as at 1 January	28,540	(7,366)	28,540	(7,366)
Transferred to Income Statement	(62,073)	35,906	(62,073)	35,906
Balance as at 31 December	(33,533)	28,540	(33,533)	28,540

	Bank		Group	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
46.6 Movement in investment fund reserve				
Balance as at 1 January	1,549,076	1,557,803	1,549,076	1,557,803
Transferred to retained earnings	(5,090)	(8,727)	(5,090)	(8,727)
Balance as at 31 December	1,543,986	1,549,076	1,543,986	1,549,076

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.

Transfers to the investment fund reserve	LKR '000
8% on the value addition attributable to financial services	1,257,105
5% of taxable profits	409,598
	1,666,703

Utilisation of investment fund reserve

Qualifying investments

Long-term Government Securities with maturity period over 7 years	Maturity value LKR	Date of maturity	Interest rate %
Treasury Bond	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	1,511,700,000		

Qualifying loans purpose	Loans granted Nos.	Amount outstanding LKR	Tenure of the loan in years	Interest rate %
Construction of hotels and for related purpose	1	51,874,000	10	5-year Treasury Bond rate +2%
Total qualifying loans		51,874,000		
Total investment in Government Securities and qualifying loans		1,563,574,000		

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	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
47.1 Commitments				
Undrawn credit commitments	80,279,277	72,594,592	80,279,277	72,594,592
Capital commitments (Note 49.1)	806,240	950,420	848,431	981,284
Total commitments	81,085,517	73,545,012	81,127,708	73,575,876
47.2 Contingencies				
Acceptances	10,394,142	11,216,359	10,394,142	11,216,359
Standby letters of credit	522,262	524,454	522,262	524,454
Guarantees	43,246,095	30,677,415	43,246,095	30,675,649
Documentary credit	11,645,108	9,811,322	11,645,108	9,811,322
Bills for collection	3,566,992	2,652,762	3,566,992	2,652,762
Forward exchange contracts (net)	(312,845)	1,265,318	(312,845)	1,265,318
Total contingencies	69,061,754	56,147,630	69,061,754	56,145,864
Total commitments and contingencies	150,147,271	129,692,642	150,189,462	129,721,740

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 conformant 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 150 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 the Bank for dishonouring a Guarantee issued by former BCCI Bank after the Bank took over the local operations of BCCI. Judgement delivered in favour of the plaintiff. The Bank has appealed. (Guarantee value USD 72,730.23 and USD 56,732.25) Appeal case is fixed for hearing on 16 July 2020.

2. 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. Arguments on 17 July 2020.

3. D C 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 the Bank. Case No. 23391/MR to be called on 29 May 2020 and HC (Civil)159/06 (I) to be called for written submissions on 2 April 2020.

4. 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 allowing the plaintiff to amend the plaint and directing the Commercial High Court to proceed with the case. Case will be called on 28 April 2020 to file the amended answer.

5. CHC 559/10/MR

Plaintiff has claimed damages of LKR 5.0 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. Petition of appeal has not been received by the Bank to date.

6. CHC 377/12 MR

Plaintiff filed action for negligence against a cheque fraud claiming LKR 5.0 Mn. as damages. Case is fixed for further trial on 30 March 2020.

7. DC AMPARA 356/DAMAGES

The plaintiff who is an ex-staff member of the Bank filed action claiming damages of LKR 50.0 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. Further inquiry is fixed for 22 June 2020.

8. 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 is on 2 November 2020.

9. DC COLOMBO 17/99/CO –

[SC (APP) 85A/2009]

Action filed by Hatton National Bank to nullify the Mortgage Bond executed in favour of the 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". Argument is on 5 March 2020 (Mortgage Bond Value LKR 38,774,635.81).

10. DC MOUNT LAVINIA 4246/03/M

(WP/HCCA/MT/03/18/F)

Action filed claiming damages for LKR 2.0 Mn. alleging wrongful seizure of goods in execution of a writ by the Bank. Judgement delivered against the Bank on 6 November 2017. Bank filed Notice of Appeal. Case is fixed for mention on 30 March 2020.

11. 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 30 October 2020.

12. 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 was remanded. At the trial bank raised a preliminary objection on the jurisdiction and the same was dismissed by the District Court. Bank appealed against the said order. Appellate Court delivered the order in favour of the Bank. Accordingly matter to be transferred to Commercial High court.

13. CHC 713/19 MR (DMR 1675/15)

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 was remanded. At the trial Bank raised a preliminary objection on the jurisdiction and the same was dismissed by the District Court. Bank appealed against the said order. Appellate Court delivered the order in favour of the Bank. Accordingly the matter was transferred to Commercial High Court. Trial is on 21 May 2020.

14. DC COLOMBO 0093/15/DMR

(WP/HCCA/82/2019/F)

This case has been filed claiming LKR 505,510.10 alleging a wrongful reduction of savings account balance. Judgement delivered in favour of the plaintiff. The Bank has appealed against the judgement. Appeal petition was filed on 3 June 2019. Not yet listed.

15. DLM 00152/2013

Plaintiff filed this action claiming LKR 10.0 Mn. for non-receipt of original deeds. Judgement delivered against the Bank awarding LKR 1.0 Mn. as damages. Plaintiff has appealed against the Judgement. Not yet listed.

16. DC AMPARA 3547/M and DC Ampara 3548/M

These actions have been instituted by the plaintiffs claiming LKR 200.0 Mn. from each case as damages and to obtain a direction from Court to return articles pawned by the plaintiffs. Both cases are fixed for further trial on 25 May 2020.

17. 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 came to the Bank with third parties and claiming LKR 20.0 Mn. and LKR 6.5 Mn. respectively as damages from the Bank. Both cases are fixed for further Trial on 20 May 2020.

18. 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 12 March 2020.

19. 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. Case was withdrawn by the plaintiff on 21 May 2019 with liberty to file fresh action. Bank to proceed with cross claim. Case will be called on 4 August 2020 for trial.

20. SC APPEAL 21/15 (SC HC LA 63/19)

The case bearing HC Civil 253/17/MR has been instituted by the plaintiff and obtained a stay order preventing the Bank from paying 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 and final order of same was delivered to release the Fixed Deposits held under lien with the Bank. Bank appealed against the said order. This case is refixed for hearing on 23 July 2020.

21. DC KALMUNAI 6029/2017/M

This action has been instituted by the plaintiff claiming that a sum of LKR 2.0 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 trial on 12 March 2020.

22. 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. Trial on 31 March 2020.

23. DC TRINCOMALEE 4604/18/SPL

A customer has filed this case claiming LKR 30.0 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 18.0 Mn. Written submissions is on 13 March 2020.

Cross claims made against the Bank on cases filed by the Bank**24. 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 as prayed for in the plaint and the case was 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. Petition of appeal filed under Case No. SC/CHC/App/60/2018 and the appeal was dismissed on 27 January 2020.

25. DC RATNAPURA 12734/M

Bank has filed this case in DC Ratnapura to recover the dues, there is a cross claim of LKR 2,500,000.00 made by the defendant. Trial is on 3 June 2020.

26. CHC331/11/MR

Bank has initiated legal action to recover the dues of a leasing facility. Customer has filed the answer with a cross claim of LKR 100.0 Mn. Settlement or pre-trial is on 23 April 2020.

27. DC COLOMBO 4237/18/DMR

A case had been filed under case No. HC (Civil) 311/14/MR to recover outstanding due to the Bank. Subsequently the said case was withdrawn by the Bank. Thereafter

customer filed a case under DC Colombo 4237/18/DMR against the Bank claiming LKR 200 Mn. as damages for instituting the said case No. HC (Civil) 311/14/MR. The matter is fixed for Pre-trial on 2 March 2020.

28. Tax matters filed by the Bank CA TAX 23/2013 (SC/APP/46/2016)

The Commissioner General of Inland Revenue has 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 denominated in foreign currency. The Bank appealed against this assessment, and the Tax Appeals Commission upheld assessment.

Being aggrieved by the determination provided by the Tax Appeals Commission, the Bank filed the case (No. CA TAX 23/2013) in the Court of Appeal seeking judiciary intervention.

The preliminary issue raised by the bank with regard to the "time bar period" was determined in favour of Commissioner General of Inland Revenue by the Court of Appeal. Bank in return, appealed to the Supreme Court under the Case No. SC/APP/46/2016. The Supreme Court granted leave to appeal and the hearing was concluded on 28 March 2017 where the judgment has been reserved.

Pending the Supreme Court decision, the Court of Appeal continued with the main issue under the said case No. CA TAX 23/2013 on the deductibility of the attributable cost on Sri Lanka Development Bonds. The final judgement in this regard is expected on 30 April 2020.

Cases filed against the Bank (Others)

Apart from the above cases, there are Appeals filed against the Bank, Land related cases and Partition cases filed over the properties mortgaged to the Bank, Winding up actions filed against the customers who have been enjoying credit facilities with the Bank, Claim cases filed over the properties seized under Court action, Testamentary Cases filed over the estate of deceased clients who have been enjoying credit facilities, Fundamental rights case on a property seized by the Government which has been mortgaged to the Bank, writ applications filed in Court of Appeal, appeals filed on eviction orders, appeal filed against the defamation case filed by the Bank and cases filed against the Bank on other matters.

Labour Related Cases

29. 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. Plaintiffs filed evidence by affidavit. Cross examination of plaintiffs/hearing is due on 24 and 30 March 2020.

Filed DTR 154/2016 to DTR 159/2016 against the Bank and the share owning trust companies Esots (Private) Limited, Sesot (Private) Limited, Sotse (Private) Limited, Seyfest (Private) Limited, Seybest (Private) Limited and Seyshop (Private) Limited and the Bank in District Court Colombo. Relief sought is for the implementation of the Trust Deeds. Plaintiffs served interrogatories and the Bank was directed by Court to reply those. The Bank obtained a stay order from the Civil Appeal High Court of Colombo suspending the order to reply interrogatories. Cases DTR 154/2016 and DTR 156/2016 are to be called on 26 March 2020 and other cases are to be called on 6 March 2020 to verify the status of appeal. The 06 Civil Appeal High Court of Colombo cases filed by the Bank and the trust companies are refiled for argument on 17 March 2020.

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. Complaint was amended reflecting withdrawal and death of parties and substitution in place of dead parties. Amended plaint and answer filed accordingly. Pre-trial hearing is due on 6 March 2020.

Filed DTR 001/2018 to DTR 004/2018 against the Bank and the share owning trust companies Esots (Private) Limited, Seyshop (Private) Limited, Sotse (Private) Limited and Seybest (Private) Limited and the Bank in District Court Colombo. The relief sought is to obtain judgement declaring the trust as valid and its implementation. Complaint was amended

reflecting withdrawal and death of parties and substitution in place of dead parties. Amended plaint and answer filed accordingly. Pre-trial hearing is due on 6 March 2020.

Writ application CA 88/2019 in Court of Appeal against the Commissioner General of Labour and an ex-employee. The Bank filed this case seeking:

- A Writ of Certiorari invalidating the directive of Commissioner General of Labour to pay additional gratuity in excess of the statutory gratuity.
- A Writ of Prohibition prohibiting the Commissioner General of Labour and its officers from initiating action for recovery of such additional gratuity.

The case is fixed for argument/hearing on 19 March 2020.

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. Also an ex-employee has filed an action claiming the amount offered as voluntary retirement scheme where he has resigned from the services while a disciplinary inquiry was proceeding against him.

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 balance sheet 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.

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	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
49.1 Approved and contracted for	806,240	950,420	848,431	981,284
49.2 Approved but not contracted for	34,927	22,745	34,927	22,745

50. Events after the reporting period

Proposed final dividend

The Board of Directors of the Bank recommended a final dividend of LKR 2.00 per share on both voting and non-voting shares of the Bank, to be paid by way of LKR 1.00 cash dividend per share and LKR 1.00 scrip dividend per share for the financial year 2019.

Further, this dividend is to be approved at the Annual General Meeting to be held on 30 March 2020. This proposed final dividend has not been recognised as a liability as at 31 December 2019. Final dividend proposed for the year 2019 amounts to LKR 1,007,247,572.00.

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.

No circumstances have arisen since the reporting date which would require adjustments to or disclosure in the Financial Statements other than above.

51. Related party transactions

The Bank/Group carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as related parties as per the Sri Lanka Accounting Standard - (LKAS) 24 - "Related Party Disclosure", other than transactions that are the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff at concessionary rate.

51.1 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 KMP of the Bank. As the Bank is the Ultimate Parent of its Subsidiary mentioned in Note 51.2 and the Board of Directors of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group. Accordingly, the Board of Directors of the Bank is also KMP of the Group.

51.1.1 Compensation of KMP

For the year ended 31 December	Bank		Group	
	2019 LKR Mn.	2018 LKR Mn.	2019 LKR Mn.	2018 LKR Mn.
Short-term employment benefits	94.95	93.59	98.49	96.03
Post-employment benefits	8.16	8.16	8.16	8.16
Total	103.11	101.75	106.65	104.19
Other non-cash benefits to KMP	3.27	2.70	3.27	2.70

51.1.2 Transactions, arrangements and agreements involving KMP and their CFM

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. CFM are related parties to the Bank/Group.

As at 31 December	2019 LKR Mn.	2018 LKR Mn.
51.1.2.1 Statement of financial position - Bank/Group		
Assets		
Loans and advances	11.89	11.56
Credit cards	0.93	1.39
Total	12.82	12.95
Liabilities		
Deposits	68.96	99.32
Other investments	123.27	28.27
Total	192.23	127.59
51.1.2.2 Commitment and contingencies - Bank/Group		
Undrawn facilities	28.83	24.08
Total	28.83	24.08
Expected credit loss (Stage 1) as at 31 December 2019 related to the outstanding Loans and advances, credit cards and undrawn balances of KMPs' and CFMs' is an insignificant amount.		
At the time of evaluating accommodation by The Board Credit Committee and The Related Party Transactions Review Committee, adequacy of the securities has been considered.		
51.1.2.3 Accommodation as a percentage of Bank's regulatory capital		
Direct and indirect accommodation (%)	0.07	0.08

For the year ended 31 December	2019 LKR Mn.	2018 LKR Mn.
51.1.2.4 Income Statement - Bank/Group		
Interest income	1.71	1.79
Interest expenses	13.39	8.04
Compensation to KMP - Bank	106.38	104.45
Compensation to KMP - Group	109.92	106.89

As at 31 December	2019	2018
51.1.2.5 Shareholding of KMP and CFM		
Investment in Bank shares – voting (Number of shares)	73,383	40,498
Investment in Bank shares – non-voting (Number of shares)	233,128	211,275
Net dividend paid (LKR Mn.)	0.53	0.77

51.2 Other related party transactions

The Bank/Group had the following financial dealings during the year 2019 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.

51.2.1 Transactions with other related parties/Common Directorships

As at 31 December	Subsidiary		Share trust companies and post-employment benefit plans		State institutions		Shareholders with significant influence		Common directorship entities	
	2019 LKR Mn.	2018 LKR Mn.	2019 LKR Mn.	2018 LKR Mn.	2019 LKR Mn.	2018 LKR Mn.	2019 LKR Mn.	2018 LKR Mn.	2019 LKR Mn.	2018 LKR Mn.
51.2.1.1 Statement of Financial Position – Bank/Group										
Assets										
Loans and advances	-	-	96.58	96.58	-	-	8,126.21	5,995.83	1,287.04	7,487.67
Other receivable – Rent deposit	40.00	40.60	-	-	-	-	-	-	-	-
Equities (quoted/unquoted)	-	-	-	-	-	-	9.91**	10.00*	2,332.00	2,332.00
Debtentures (quoted/unquoted)	-	-	-	-	-	-	124.53***	124.53***	665.00	665.00
Interest and other receivables	-	-	604.44	489.51	-	-	22.52	14.75	4.72	24.26
Total	40.00	40.60	701.02	586.09	-	-	8,283.17	6,145.11	4,288.76	10,508.93
Liabilities										
Deposits	65.50	108.35	4,240.53	3,956.76	4,258.17	577.76	1,398.95	1,098.17	955.28	364.57
Securities sold under repurchase agreements	-	-	1,225.00	1,225.00	-	-	14.64	-	-	-
Other instruments including debtentures	129.00	100.00	5,146.34	4,464.28	5,169.09	5,894.09	10.84	110.84	-	-
Interest and other payables	6.47	3.34	321.48	249.41	10.56	80.21	4.15	0.12	41.58	0.10
Total	200.97	211.69	10,933.35	9,895.45	9,437.82	6,552.06	1,428.58	1,209.13	996.86	364.67
51.2.1.2 Commitments and contingencies – Bank/Group										
Non-funded facilities	-	1.77	-	-	-	-	1,604.13	1,025.88	513.01	948.46
Undrawn facilities	175.00	175.00	104.71	104.71	-	-	2,594.99	3,498.25	1,704.61	419.30
Total	175.00	176.77	104.71	104.71	-	-	4,199.12	4,524.13	2,217.62	1,367.76
51.2.1.3 Accommodations as a percentage of Bank's regulatory capital										
Direct and indirect accommodations (%)	0.31	0.40	0.35	0.46	-	-	21.96	24.37	7.35	21.79

* Includes quoted equities held by Seylan Developments PLC (2,000,000 shares @ LKR 5.00 each)

** Includes quoted equities held by Seylan Developments PLC (1,981,038 shares @ LKR 5.00 each)

*** Includes quoted 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	
	2019 LKR Mn.	2018 LKR Mn.	2019 LKR Mn.	2018 LKR Mn.	2019 LKR Mn.	2018 LKR Mn.	2019 LKR Mn.	2018 LKR Mn.	2019 LKR Mn.	2018 LKR Mn.
51.2.1.4 Income Statement – Bank/Group										
Income	90.49	87.48	43.97	36.99	-	-	529.66	707.66	139.39	411.80
Expenses	247.28	243.51	822.32	728.16	810.27	732.66	136.35	60.53	74.40	6.99
51.2.1.5 Other transactions – Bank/Group										
Other payments	-	-	193.91	175.55	-	-	-	-	-	-

As at 31 December	Share trust companies and post-employment benefit plans		State institutions		Shareholders with significant influence		Common directorship entities	
	2019	2018	2019	2018	2019	2018	2019	2018
51.2.1.6 Shareholding of other related parties								
Investment in Bank shares – Voting (Number of shares)	16,839,421	13,341,918	82,004,285	63,486,331	58,912,449	43,129,117	-	-
Investment in Bank shares – Non-voting (Number of shares)	-	-	17,460,870	12,602,992	113,742,196	81,620,088	50,761	32,309
Net dividend paid (LKR Mn.)	29.29	41.41	167.06	232.88	273.90	383.35	0.07	0.10

51.2.2 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.

51.2.2.1 Voting share holding by state institutions in Seylan Bank PLC is 32.61% as at 31 December 2019

	Number of shares - voting	%
Sri Lanka Insurance Corporation Limited	37,721,674	15.00
Employees' Provident Fund	24,789,462	9.86
Bank of Ceylon	14,145,629	5.62
Employees' Trust Fund Board	5,347,520	2.13

51.2.2.2 Non-voting share holding by state institutions in Seylan Bank PLC is 6.92% as at 31 December 2019

	Number of shares - non-voting	%
Employees' Provident Fund	13,449,364	5.33
Employees' Trust Fund Board	4,011,506	1.59

51.2.2.3 Central Bank of Sri Lanka

Relationship with the Bank	Nature of the transactions	Amount LKR '000
Government-related entity	Treasury bills	3,117,959
	Treasury bonds including Sri Lanka Development Bonds	79,032,217
	Securities purchased under resale agreement	5,165,159
	Interest income (Note 7.3)	8,453,361
	Interest expenses (Note 7.3)	711,495
	Annual license fees	24,150
	Sri Lanka deposit insurance fund contribution (Note 13)	389,657
	Balance with Central Bank of Sri Lanka (Note 20)	14,458,970

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 accommodation (funded/non-funded), deposits, utility bills, telephone charges, crib charges and statutory payments, etc. There are no other transactions that are collectively significant with Government related entities.

52. Maturity analysis

52.1 Assets – Bank

An analysis of the total assets employed as at 31 December 2019 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 31.12.2019 LKR '000
Interest earning assets						
Loans and advances	174,073,001	75,742,142	62,891,469	40,428,959	26,123,493	379,259,064
Placements with Banks and Finance Companies	1,173,278	-	-	-	-	1,173,278
Government of Sri Lanka Treasury Bills/Bonds and Development Bonds	6,601,739	6,256,352	26,668,098	36,665,918	5,958,070	82,150,177
Investments in debentures	-	78,258	-	-	665,000	743,258
Securities purchased under resale agreements	5,160,259	4,900	-	-	-	5,165,159
	187,008,277	82,081,652	89,559,567	77,094,877	32,746,563	468,490,936
Non-interest earning assets						
Cash in hand	8,422,292	-	-	-	-	8,422,292
Balances with Central Bank of Sri Lanka	14,458,970	-	-	-	-	14,458,970
Balances with banks	3,336,437	-	-	-	-	3,336,437
Investments in equities	-	1,689,691	-	-	1,153,602	2,843,293
Group balances receivable	-	40,000	-	-	-	40,000
Property, plant and equipment/leasehold rights/intangible assets/intangible assets/right-of-use assets	-	-	-	-	9,449,206	9,449,206
Derivative financial instruments	118,366	16,142	248	-	-	134,756
Other assets	9,116,434	40	-	87	1,736	9,118,297
	35,452,499	1,745,873	248	87	10,604,544	47,803,251
Total assets	222,460,776	83,827,525	89,559,815	77,094,964	43,351,107	516,294,187

52.2 Liabilities and equity – Bank

An analysis of the total liabilities and equity as at 31 December 2019 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 31.12.2019 LKR '000
Interest-bearing liabilities						
Financial liabilities at amortised cost due to depositors	149,174,658	203,325,538	10,744,634	5,836,026	8,973,861	378,054,717
Financial liabilities at amortised cost due to debt securities holders	8,046,703	379,181	-	-	-	8,425,884
Due to banks and other borrowings	7,495,282	8,442,000	12,855,754	-	-	28,793,036
Debt securities issued	710,832	3,055,112	1,624,250	12,156,750	2,324,000	19,870,944
Group balances payable	48,984	3,075	-	129,000	-	181,059
Lease Liabilities	632	19,321	248,609	410,974	3,672,096	4,351,632
	165,477,091	215,224,227	25,473,247	18,532,750	14,969,957	439,677,272
Non-interest-bearing liabilities						
Demand deposits	22,676,641	-	-	-	-	22,676,641
Other liabilities	7,776,649	-	-	-	-	7,776,649
Derivative financial instruments	177,946	45,032	-	-	-	222,978
Current tax liabilities	525,389	-	-	-	-	525,389
Deferred tax liabilities	725,326	-	-	-	-	725,326
Dividend payable	42,748	-	-	-	-	42,748
Group balances payable	19,910	-	-	-	-	19,910
Equity	-	-	-	-	44,627,274	44,627,274
	31,944,609	45,032	-	-	44,627,274	76,616,915
Total liabilities and equity	197,421,700	215,269,259	25,473,247	18,532,750	59,597,231	516,294,187

52.3 Assets – Group

An analysis of the total assets employed as at 31 December 2019 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 31.12.2019 LKR '000
Interest earning assets						
Loans and advances	174,073,001	75,742,142	62,891,469	40,428,959	26,123,493	379,259,064
Placements with Banks and Finance Companies	1,173,278	-	-	-	-	1,173,278
Government of Sri Lanka Treasury Bills/ Bonds and Development Bonds	6,601,739	6,256,352	26,668,098	36,665,918	5,958,070	82,150,177
Investments in debentures	-	132,270	-	-	665,000	797,270
Securities purchased under resale agreements	5,160,259	4,900	-	-	-	5,165,159
	187,008,277	82,135,664	89,559,567	77,094,877	32,746,563	468,544,948
Non-interest earning assets						
Cash in hand	8,422,332	-	-	-	-	8,422,332
Balances with Central Bank of Sri Lanka	14,458,970	-	-	-	-	14,458,970
Balances with banks	3,336,437	-	-	-	-	3,336,437
Investments in equities	-	1,696,427	-	-	-	1,696,427
Investment properties	-	-	-	-	853,157	853,157
Property, plant and equipment/ leasehold rights/intangible assets/ right-of-use assets	-	-	-	-	9,926,056	9,926,056
Derivative financial instruments	118,366	16,142	248	-	-	134,756
Other assets	9,156,323	40	-	87	1,736	9,158,186
	35,492,428	1,712,609	248	87	10,780,949	47,986,321
Total assets	222,500,705	83,848,273	89,559,815	77,094,964	43,527,512	516,531,269

52.4 Liabilities and equity – Group

An analysis of the total liabilities and equity as at 31 December 2019 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 31.12.2019 LKR '000
Interest-bearing liabilities						
Financial liabilities at amortised cost due to depositors	149,174,658	203,325,538	10,744,634	5,836,026	8,973,861	378,054,717
Financial liabilities at amortised cost due to debt securities holders	8,046,703	379,181	-	-	-	8,425,884
Due to banks and other borrowings	7,495,282	8,442,000	12,855,754	-	-	28,793,036
Debt securities issued	710,832	3,055,112	1,624,250	12,156,750	2,324,000	19,870,944
Lease liabilities	632	19,321	248,609	410,974	828,082	1,507,618
	165,428,107	215,221,152	25,473,247	18,403,750	12,125,943	436,652,199
Non-interest-bearing liabilities						
Demand deposits	22,676,641	-	-	-	-	22,676,641
Other liabilities	7,836,789	-	-	-	-	7,836,789
Derivative financial instruments	177,946	45,032	-	-	-	222,978
Current tax liabilities	490,699	-	-	-	-	490,699
Deferred tax liabilities	947,225	-	-	-	-	947,225
Dividend payable	60,684	-	-	-	-	60,684
Equity	-	-	-	-	46,379,466	46,379,466
Non-controlling interest	-	-	-	-	1,264,588	1,264,588
	32,189,984	45,032	-	-	47,644,054	79,879,070
Total liabilities and equity	197,618,091	215,266,184	25,473,247	18,403,750	59,769,997	516,531,269

53. 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 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	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Interest income	44,354,198	39,433,269	8,149,517	7,564,222
Less: Interest expense	30,653,923	26,577,198	5,882,915	4,902,821
Net interest income	13,700,275	12,856,071	2,266,602	2,661,401
Fee and commission income	4,411,155	4,207,091	7,282	7,967
Less: Fee and commission expense	198,864	170,603	25,690	27,670
Net fee and commission income	4,212,291	4,036,488	(18,408)	(19,703)
Net interest, fee and commission income	17,912,566	16,892,559	2,248,194	2,641,698
Net gains/(losses) from trading	-	-	(497,595)	961,832
Net gains from derecognition of financial assets	-	-	320,472	51,936
Other operating income (net)	214,631	131,355	1,350,554	(313,441)
Inter segment revenue	(185,939)	(240,202)	105,396	162,148
Total operating income	17,941,258	16,783,712	3,527,021	3,504,173
Less: Depreciation and amortisation charge for the year	398,188	329,537	11,847	2,446
Less: Depreciation - right-of-use assets/lease expense	473,310	704,207	-	-
Less: Impairment charge for the year	3,848,468	3,547,746	34,250	(75,174)
Less: Additional gratuity expense	-	-	-	-
Less: Operating expenses, VAT, NBT and DRL	10,855,834	9,010,818	957,728	1,008,195
Reportable segment profit before income tax	2,365,458	3,191,404	2,523,196	2,568,706
Less: 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	380,038,661	325,748,146	111,573,070	119,264,746
Segment accumulated amortisation	(1,799,351)	(1,540,992)	(46,798)	(43,631)
Total assets	378,239,310	324,207,154	111,526,272	119,221,115
Reportable segment liabilities and equity	398,777,673	359,738,993	61,975,807	61,449,330
Total liabilities and equity	398,777,673	359,738,993	61,975,807	61,449,330
Cash flows from operating activities	(12,001,658)	9,434,292	2,569,293	2,495,978
Cash flows from investing activities	(492,086)	311,371	4,951,502	(3,421,760)
Cash flows from financing activities	(748,544)	-	1,153,780	2,013,309
Capital expenditure	(498,398)	(607,899)	(6,913)	(37,988)

Property/investments		Unallocated/eliminations		Total	
2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
27,987	46,053	2,899,177	2,186,836	55,430,879	49,230,380
801	2,962	(49,557)	(42,688)	36,488,082	31,440,293
27,186	43,091	2,948,734	2,229,524	18,942,797	17,790,087
-	-	38,672	36,750	4,457,109	4,251,808
-	331	-	-	224,554	198,604
-	(331)	38,672	36,750	4,232,555	4,053,204
27,186	42,760	2,987,406	2,266,274	23,175,352	21,843,291
1,585	(198)	-	-	(496,010)	961,634
-	-	-	-	320,472	51,936
322,706	364,280	(244,092)	166,641	1,643,799	348,835
-	-	80,543	78,054	-	-
351,477	406,842	2,823,857	2,510,969	24,643,613	23,205,696
890	921	498,944	476,964	909,869	809,868
-	-	(41,127)	(226,906)	432,183	477,301
(16)	60	16	2,563	3,882,718	3,475,195
-	-	81,212	1,134,771	81,212	1,134,771
94,801	79,978	2,162,158	2,522,446	14,070,521	12,621,437
255,802	325,883	122,654	(1,398,869)	5,267,110	4,687,124
				1,468,858	1,536,268
				3,798,252	3,150,856
				3,732,691	3,137,243
				65,561	13,613
				3,798,252	3,150,856
				2,322,388	(520,242)
5,772,164	5,641,053	26,379,927	25,604,152	523,763,822	476,258,097
(3,254)	(2,371)	(5,383,150)	(5,009,607)	(7,232,553)	(6,596,601)
5,768,910	5,638,682	20,996,777	20,594,545	516,531,269	469,661,496
5,768,910	5,638,682	50,008,879	42,834,491	516,531,269	469,661,496
5,768,910	5,638,682	50,008,879	42,834,491	516,531,269	469,661,496
183,991	174,892	468,109	206,366	(8,780,265)	12,311,528
(80,110)	(908,536)	(950,309)	(567,077)	3,428,997	(4,586,002)
(147,965)	(133,168)	4,408,991	(277,845)	4,666,262	1,602,296
(72,623)	(21,082)	(1,002,318)	(557,746)	(1,580,252)	(1,224,715)

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.

54. 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 Tower) owned by Seylan Developments PLC is rented out to Seylan Bank PLC and is occupied by the Bank.

Therefore the land and buildings does not qualify as investment property in the Consolidated Financial Statements.

The land is treated as lease hold rights and the building as a Property in the Consolidated Financial Statements and have been depreciated accordingly (LKAS 40).

	Adjustments LKR '000	Group impact LKR '000	Non-controlling interest impact LKR '000
Adjustments to revaluation gain/(loss) on investment properties and deferred tax			
Reversal of revaluation gain recognised in the Statement of Comprehensive Income by SD in 2019	(27,919)	(19,686)	(8,233)
Reversal of deferred tax recognised in the Statement of Comprehensive Income by SD in 2019	(3,722)	(2,624)	(1,098)
Gain on revaluation of East Tower in 2019 adjusted to revaluation reserves in Consolidated Financial Statements	118,360	83,456	34,904
Deferred tax on revaluation gain of East Tower in 2019 recognised in Consolidated Financial Statements	(33,141)	(23,368)	(9,773)
Adjustment on SLFRS 16 (East Tower) in the Consolidated Financial Statements	96,862	68,298	28,564
Tax adjustment on SLFRS 16 (East Tower) in the Consolidated Financial Statements	30,637	21,602	9,035
	181,077	127,678	53,399
Charging of depreciation			
Charges depreciation adjusted in Consolidated Financial Statements of Comprehensive Income for 2019	(66,534)	(46,913)	(19,621)
	(66,534)	(46,913)	(19,621)

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Ten Years at a Glance

Year ended 31 December	2019 LKR Mn.	2018 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.	2015 LKR Mn.	2014 LKR Mn.	2013 LKR Mn.	2012 LKR Mn.	2011 LKR Mn.	2010* LKR Mn.
Trading results										
Gross income	61,370	54,873	49,161	37,873	28,586	28,564	28,091	23,726	18,824	20,032
Profit before income tax	5,098	4,666	6,656	5,734	5,777	4,649	3,454	3,199	1,181	1,998
Income tax	1,418	1,477	2,226	1,724	1,946	1,571	1,138	1,135	505	769
Profit after taxation	3,680	3,189	4,430	4,010	3,831	3,078	2,316	2,064	676	1,229
Other comprehensive income, net of tax	2,234	(617)	2,426	(345)	(1,054)	(55)	913	(139)	(346)	-
Total comprehensive income	5,914	2,572	6,856	3,665	2,777	3,023	3,229	1,925	330	-
Dividends proposed (ordinary)										
LKR per share	2.00	2.50	3.50	3.25	2.75	2.50	2.25	2.00	1.00	1.00

As at 31 December	2019 LKR Mn.	2018 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.	2015 LKR Mn.	2014 LKR Mn.	2013 LKR Mn.	2012 LKR Mn.	2011 LKR Mn.	2010 LKR Mn.
Financial position										
Assets										
Cash and short-term funds (including securities purchased under resale agreements)	16,924	18,036	10,070	15,653	10,113	24,436	10,910	6,728	7,865	5,965
Balances with Central Bank of Sri Lanka	14,459	18,472	19,120	16,212	8,564	7,432	7,505	8,029	7,071	5,454
Investments (including investment properties)	84,583	87,820	82,976	73,336	72,203	48,859	49,351	33,879	35,033	40,341
Loans and advances, placements with banks and finance companies (including leases and bills of exchange)	380,432	326,883	282,317	236,355	193,862	157,297	137,523	124,728	106,390	89,091
Investment in subsidiary	1,154	1,154	1,154	1,154	1,152	1,106	801	793	793	359
Other assets (including taxation)	9,293	10,214	8,590	8,669	6,915	6,887	5,994	6,871	5,977	6,011
Property, plant and equipment, right-of-use assets, leasehold rights and intangible assets	9,449	4,354	3,899	4,634	3,522	3,294	3,077	2,633	2,815	3,010
Total assets	516,294	466,933	408,126	356,013	296,331	249,311	215,161	183,661	165,944	150,231
Liabilities										
Customer deposits and due to banks	429,501	383,939	334,152	291,185	244,310	197,540	178,916	152,865	131,292	112,880
Borrowings and debentures	28,320	37,456	29,148	28,491	18,605	20,090	7,830	4,896	12,203	18,183
Other liabilities (including lease liabilities)	12,552	9,674	8,197	7,756	7,486	6,327	5,546	6,353	4,906	6,366
Taxation (including deferred taxation)	1,251	1,209	2,381	762	843	1,324	1,091	683	217	41
Dividends payable	43	45	42	46	31	21	16	13	24	22
Total liabilities	471,667	432,323	373,920	328,240	271,275	225,302	193,399	164,810	148,642	137,492
Equity										
Stated capital	17,045	12,026	11,228	10,530	10,530	10,530	10,530	10,225	10,259	5,568
Reserve fund	1,953	1,769	1,609	1,388	1,187	996	842	726	619	569
Reserves	25,629	20,815	21,369	15,855	13,339	12,483	10,390	7,900	6,424	6,602
Total equity	44,627	34,610	34,206	27,773	25,056	24,009	21,762	18,851	17,302	12,739
Total equity and liabilities	516,294	466,933	408,126	356,013	296,331	249,311	215,161	183,661	165,944	150,231
Commitments and contingencies	150,147	129,693	99,501	64,111	57,222	45,098	35,473	31,287	36,247	30,197

* Based on SLAS applicable prior to 1 January 2012.

Summary of Performance Indicators

	Measure	2019	2018	2017	2016	2015
Size						
Assets growth	%	10.57	14.41	14.64	20.14	18.86
Commitments and contingencies/(total assets + commitments and contingencies)	%	22.53	21.74	19.60	15.26	16.18
Interest earning assets/total assets	%	90.74	89.63	89.50	88.67	90.11
Cash and balances with CBSL/total assets	%	5.08	6.65	6.72	6.90	5.52
Risk-weighted assets growth	%	16.37	19.36	14.47	23.21	22.72
Profitability						
Return on average assets	%	0.75	0.73	1.16	1.23	1.40
Return on average assets (excluding additional gratuity expense)	%	0.76	0.92	1.16	1.23	1.40
Return on average equity	%	9.29	9.27	14.30	15.18	15.62
Return on average equity (excluding additional gratuity expense)	%	9.33	11.51	14.30	15.18	15.62
Profit for the year/(total assets + commitments and contingencies)	%	0.55	0.53	0.87	0.95	1.08
Net interest margin on average total assets	%	3.79	4.06	4.05	4.13	4.33
Net interest margin on average interest earning assets	%	4.20	4.53	4.55	4.62	4.84
Net interest income/total income	%	30.36	32.34	31.40	35.35	41.37
Cost to income ratio (including additional gratuity expense)	%	63.12	64.90	61.02	62.35	61.20
Cost to income ratio (excluding additional gratuity expense)	%	62.79	60.00	61.02	62.35	61.20
Cost to income ratio (excluding additional gratuity expense, VAT, NBT, and DRL)	%	51.43	50.89	51.97	54.75	53.41
Average interest yield	%	12.50	12.56	12.79	11.26	9.64
Average interest cost	%	8.82	8.47	8.73	7.35	5.50
Interest rate spread	%	3.68	4.09	4.06	3.91	4.14
Interest yield on average customer advances	%	12.73	13.13	13.17	11.56	10.00
Interest cost on average customer deposits	%	8.12	7.92	8.01	6.44	4.97
Spread on customer deposits and advances	%	4.61	5.21	5.16	5.12	5.03
Dividend payout*	%	27.37	28.70	28.00	27.95	24.76
Growth rate of equity	%	28.94	1.18	23.17	10.84	4.36
Earnings per share**	LKR	8.99	7.97	11.07	10.02	9.57
Earnings per share (excluding additional gratuity expense)**	LKR	9.13	10.01	11.07	10.02	9.57
Ordinary dividend per share	LKR	2.00	2.50	3.50	3.25	2.75
Net assets value per share	LKR	88.61	94.54	96.50	80.51	72.63
Asset quality						
Expected credit loss/impairment allowance for loans and advances	LKR Mn.	10,732	9,893	5,607	6,053	5,738
Expected credit loss/impairment allowance for loans and advances	%	2.75	2.94	1.96	2.50	2.89
Provision cover	%	42.03	44.09	40.31	43.93	46.80
Capital adequacy						
Leverage on shareholders funds	Times	10.57	12.49	10.93	11.82	10.83
Leverage on capital funds (including debentures)	Times	7.00	8.17	7.74	7.84	8.19
Percentage earnings retained	%	72.63	71.30	72.00	72.05	75.24
Equity/deposits, borrowings and securities sold under re-purchase agreements	%	10.19	8.54	9.75	9.04	9.80
Equity/total assets	%	8.64	7.41	8.38	7.80	8.46
Equity/loans and advances	%	11.44	10.28	11.94	11.47	12.60
Liquidity and funding						
Loans and advances/deposits, borrowings and securities sold under re-purchase agreements	%	89.05	83.14	81.66	78.80	77.75
Deposits/deposits, borrowings, debentures and securities sold under re-purchase agreements	%	87.53	84.85	84.53	85.54	85.40
Liquid assets/total assets	%	21.38	22.57	24.06	24.83	26.50
Liquid assets/deposits, borrowings and securities sold under re-purchase agreements	%	25.20	26.02	27.99	28.78	30.70
Net lending or (borrowings) in call money market	LKR Mn.	(14,596)	(10,796)	(11,056)	(16,382)	(18,264)
Other data						
Number of banking centres		173	170	166	166	159
Number of staff members		3,360	3,344	3,199	3,165	3,085
Profit per staff member	LKR '000	1,095	954	1,385	1,267	1,242
Number of ordinary shares - Voting	000	251,478	184,104	179,614	175,977	175,977
- Non-voting	000	252,146	181,995	174,842	168,983	168,983
Share prices as at 31 December - Voting	LKR	52.50	78.00	87.20	90.00	95.00
- Non-voting	LKR	33.80	44.50	56.00	59.00	73.00

* Dividend for the year 2019 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		
	2019 USD '000	2018 USD '000	Change %	2019 USD '000	2018 USD '000	Change %
Gross income	338,311	301,084	12.36	338,238	300,931	12.40
Interest income	305,531	270,119	13.11	305,573	270,126	13.12
Less: Interest expenses	202,816	172,742	17.41	201,148	172,512	16.60
Net interest income	102,715	97,377	5.48	104,425	97,614	6.98
Fee and commission income	24,572	23,332	5.31	24,571	23,330	5.32
Less: Fee and commission expenses	1,238	1,088	13.79	1,238	1,090	13.58
Net fee and commission income	23,334	22,244	4.90	23,333	22,240	4.91
Net gains/(losses) from trading	(2,743)	5,278	(151.97)	(2,734)	5,276	(151.82)
Net gains from derecognition of financial assets	1,766	285	519.65	1,767	285	520.00
Net other operating income	9,185	2,070	343.72	9,061	1,914	373.41
Total operating income	134,257	127,254	5.50	135,852	127,329	6.69
Impairment charges	21,404	19,068	12.25	21,404	19,068	12.25
Net operating income	112,853	108,186	4.31	114,448	108,261	5.71
Less: Personnel expenses	35,792	31,727	12.81	35,980	31,915	12.74
Less: Additional gratuity expense	448	6,226	(92.80)	448	6,226	(92.80)
Less: Depreciation and amortisation expenses	4,644	4,092	13.49	5,016	4,444	12.87
Less: Depreciation - right-of-use assets/lease expense	2,609	3,864	(32.48)	2,382	2,619	(9.05)
Less: Other expenses	25,999	25,076	3.68	26,332	25,743	2.29
Operating profit before taxes	43,361	37,201	16.56	44,290	37,314	18.70
Less: Value added tax on financial services	8,937	9,193	(2.78)	8,937	9,193	(2.78)
Less: Nation building tax on financial services	1,065	1,226	(13.13)	1,065	1,226	(13.13)
Less: Debt repayment levy	5,252	1,177	346.22	5,252	1,177	346.22
Profit before income tax	28,107	25,605	9.77	29,036	25,718	12.90
Less: Income tax expense	7,819	8,106	(3.54)	8,097	8,429	(3.94)
Profit for the year	20,288	17,499	15.94	20,939	17,289	21.11
Profit attributable to:						
- Equity holders of the Bank	20,288	17,499	15.94	20,578	17,214	19.54
- Non-controlling interest	-	-	-	361	75	381.33
Profit for the year	20,288	17,499	15.94	20,939	17,289	21.11
Basic/diluted earnings per share (USD)	0.05	0.05	-	0.05	0.05	-
Other comprehensive income, net of tax						
Items that will be reclassified to income statement						
Net movement of cash flow hedge reserve	(342)	197	(273.60)	(342)	197	(273.60)
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	14,001	(8,440)	265.89	14,031	(8,452)	266.01
Less: Deferred tax effect relating to items that will be reclassified to income statement	3,920	(2,375)	265.05	3,922	(2,364)	265.91
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	1,742	2,224	(21.67)	1,746	2,224	(21.49)
Revaluation of property, plant and equipment	-	-	-	652	770	(15.32)
Actuarial gain on defined benefit obligations	978	463	111.23	966	460	110.00
Less: Deferred tax effect relating to items that will not be reclassified to income statement	146	203	(28.08)	329	418	(21.29)
Other comprehensive income for the year, net of tax	12,313	(3,384)	463.86	12,802	(2,855)	548.41
Total comprehensive income for the year	32,601	14,115	130.97	33,741	14,434	133.76
Total comprehensive income attributable to:						
- Equity holders of the Bank	32,601	14,115	130.97	33,235	14,203	134.00
- Non-controlling interest	-	-	-	506	231	119.05
Total comprehensive income for the year	32,601	14,115	130.97	33,741	14,434	133.76

Exchange rate of USD 1 was LKR 181.40 as at 31 December 2019 (LKR 182.25 as at 31 December 2018).

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		
	2019 USD '000	2018 USD '000	Change %	2019 USD '000	2018 USD '000	Change %
Assets						
Cash and cash equivalents	64,822	68,991	(6.04)	64,822	68,991	(6.04)
Balances with Central Bank of Sri Lanka	79,708	101,357	(21.36)	79,708	101,357	(21.36)
Placements with banks and finance companies	6,468	-	100.00	6,468	-	100.00
Derivative financial instruments	743	9,201	(91.92)	743	9,201	(91.92)
Financial assets recognised through profit or loss						
- Measured at fair value	39,239	26,987	45.40	39,276	27,015	45.39
- Designated at fair value	-	-	-	-	-	-
Financial assets at amortised cost						
- Loans and advances	2,090,734	1,793,594	16.57	2,090,734	1,793,594	16.57
- Debt and other instruments	149,056	162,379	(8.20)	149,056	162,379	(8.20)
Financial assets measured at fair value through other comprehensive income	306,458	322,473	(4.97)	306,756	322,741	(4.95)
Investment in subsidiary	6,359	6,330	0.46	-	-	-
Group balances receivable	221	223	(0.90)	-	-	-
Property, plant and equipment	23,969	20,519	16.81	39,076	34,881	12.03
Leasehold rights	201	211	(4.74)	3,102	3,138	(1.15)
Right-of-use assets	24,573	-	100.00	9,194	-	100.00
Investment properties	-	-	-	4,703	4,637	1.42
Intangible assets	3,348	3,161	5.92	3,348	3,161	5.92
Deferred tax assets	-	1,483	(100.00)	-	547	(100.00)
Other assets	50,265	45,138	11.36	50,485	45,375	11.26
Total assets	2,846,164	2,562,047	11.09	2,847,471	2,577,017	10.49
Liabilities						
Due to banks	158,598	144,740	9.57	158,598	144,740	9.57
Derivative financial instruments	1,229	797	54.20	1,229	797	54.20
Financial liabilities at amortised cost						
- Due to depositors	2,209,103	1,961,921	12.60	2,209,103	1,961,921	12.60
- Due to debt securities holders	46,449	115,745	(59.87)	46,449	115,745	(59.87)
- Due to other borrowers	129	176	(26.70)	129	176	(26.70)
Group balances payable	1,108	1,162	(4.65)	-	-	-
Debt securities issued	109,542	89,599	22.26	109,542	89,599	22.26
Current tax liabilities	2,896	6,636	(56.36)	2,705	6,505	(58.42)
Deferred tax liabilities	3,998	-	100.00	5,222	-	100.00
Lease liabilities	23,989	-	100.00	8,311	-	100.00
Other liabilities	43,107	51,368	(16.08)	43,538	51,973	(16.23)
Total liabilities	2,600,148	2,372,144	9.61	2,584,826	2,371,456	9.00
Equity						
Stated capital	93,962	65,985	42.40	93,962	65,985	42.40
Statutory reserve fund	10,766	9,706	10.92	10,766	9,706	10.92
Retained earnings	125,817	108,635	15.82	129,515	112,040	15.60
Other reserves	15,471	5,577	177.41	21,431	11,155	92.12
Total equity attributable to equity holders of the Bank	246,016	189,903	29.55	255,674	198,886	28.55
Non-controlling interest	-	-	-	6,971	6,675	4.43
Total equity	246,016	189,903	29.55	262,645	205,561	27.77
Total equity and liabilities	2,846,164	2,562,047	11.09	2,847,471	2,577,017	10.49
Commitments and contingencies	827,714	711,619	16.31	827,946	711,779	16.32
Net assets value per share (USD)	0.49	0.52	(5.77)	0.51	0.54	(5.56)

Exchange rate of USD 1 was LKR 181.40 as at 31 December 2019 (LKR 182.25 as at 31 December 2018).

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 2019

	2019		Comparative holdings of the top 20 holders in 2018	
	Number of shares held	%	Number of shares	%
1. Sri Lanka Insurance Corporation Ltd. [includes General Fund and Life Fund]	37,721,674	15.00	27,615,598	15.00
2. Brown & Company PLC A/C No. 1	34,892,388	13.87	25,544,310	13.87
3. Employees' Provident Fund	24,789,462	9.86	18,148,076	9.86
4. LOLC Investments Ltd.	24,019,936	9.55	17,584,715	9.55
5. National Development Bank PLC A/C No. 02	21,941,094	8.72	16,062,819	8.72
6. Mr R S Captain	15,424,909	6.13	11,305,272	6.14
7. Bank of Ceylon No. 1 Account	14,145,629	5.62	13,807,800	7.50
8. Seylan Bank PLC A/C No. 04 - Employees' Gratuity Trust Fund	12,684,300	5.04		
9. Employees' Trust Fund Board	5,347,520	2.13	3,914,857	2.13
10. Mr S E Captain	5,084,105	2.02	3,722,015	2.02
11. People's Leasing & Finance PLC/Don and Don Holdings (Pvt) Ltd.	4,476,431	1.78		
12. Ms L A Captain	2,653,526	1.06	2,590,415	1.41
13. SISIL Investment Holdings (Pvt) Ltd.	2,616,186	1.04		
14. NDB Capital Holdings Limited A/C No. 02	2,547,149	1.01		
15. AIA Insurance Lanka Ltd. A/C No. 07	2,340,357	0.93	1,693,458	0.92
16. Mr M J Fernando	1,226,585	0.49	897,969	0.49
17. Mr R R Leon	1,190,033	0.47	871,210	0.47
18. Mr K R B Fernando	1,088,123	0.43	1,062,137	0.58
19. Ambeon Holdings PLC	887,051	0.35	2,175,175	1.18
20. Sampath Bank PLC/Capital Trust Holdings Ltd.	755,195	0.30		
Total shares held by the top 20 holders	215,831,653	85.83		
Balance shares held by other 10,021 ordinary voting shareholders - as at 31 December 2019	35,646,219	14.17		
Total ordinary voting shares issued by the Bank	251,477,872	100.00	184,104,010	
Total ordinary voting shareholders	10,041		9,030	

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 of Sri Lanka vide their letter dated 14 September 2011 subject to the following:

- The joint holding of Brown & Company PLC A/C and LOLC Investments Ltd. 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 of Sri Lanka. The shareholder has informed that they are in discussion with the Central Bank of Sri Lanka and upon finalisation will be informing their proposal in this regard.

Twenty largest ordinary (non-voting) shareholders as at 31 December 2019

	2019		Comparative holdings of the top 20 holders in 2018	
	Number of shares held	%	Number of shares	%
1. LOLC Holdings PLC	111,429,583	44.19	79,955,209	43.93
2. Employees' Provident Fund	13,449,364	5.33	9,707,547	5.33
3. People's Leasing & Finance PLC/Don and Don Holdings (Pvt) Ltd.	5,911,428	2.34		
4. Akbar Brothers (Pvt) Ltd. A/C No. 1	5,415,210	2.15	3,782,747	2.08
5. Deutsche Bank AG as Trustee for JB Vantage Value Equity Fund	4,657,021	1.85	3,361,368	1.85
6. Mr E Thavagnanasooriyam & Mr E Thavagnasundaram	4,282,391	1.70	2,489,991	1.37
7. Pershing LLC S/A Averbach Grauson & Co.	4,273,884	1.70	3,277,769	1.80
8. Employees' Trust Fund Board	4,011,506	1.59	2,895,445	1.59
9. People's Leasing & Finance PLC/Mrs P Thavarajah	3,420,424	1.36		
10. First Capital Limited	3,187,073	1.26		
11. J B Cocoshell (Pvt) Ltd.	3,011,739	1.19	3,484,169	1.91
12. Merrill J Fernando & Sons (Pvt) Limited	2,800,825	1.11	2,021,594	1.11
13. Mr R R Leon	2,223,116	0.88	1,604,612	0.88
14. LOLC Technology Services Limited	2,201,808	0.87	1,584,901	0.87
15. Mr N Balasingam	1,972,634	0.78	1,898,423	1.04
16. GF Capital Global Ltd.	1,475,758	0.59	260,227	0.14
17. Mr D N N Lokuge	1,344,449	0.53	681,690	0.37
18. Mr R Gautam	1,296,789	0.51	1,029,488	0.57
19. Mr M J Fernando	1,268,314	0.50	915,451	0.50
20. Amaliya Private Limited	1,193,309	0.47		
Total shares held by the top 20 holders	178,826,625	70.92		
Balance shares held by other 7,764 ordinary non-voting shareholders - as at 31 December 2019	73,319,289	29.08		
Total ordinary non-voting shares issued by the Bank	252,145,914	100.00	181,995,082	
Total ordinary non-voting shareholders	7,784		6,728	

Shareholdings of Directors as at 31 December 2019

Directors' shareholding including the shareholding of the Director/Chief Executive Officer, Mr K P Ariyaratne, are given on page 117 of the Annual Report.

Ordinary shares (Quoted)

	Voting (SEYB-N)		Non-Voting (SEYB-X)	
	2019	2018	2019	2018
Number of shares issued	251,477,872	184,104,010	252,145,914	181,995,082
Dividend (LKR per share) Cash (LKR)	Proposed: 1.00	Paid: 0.50	Proposed: 1.00	Paid: 0.50
Scrip (LKR)	Proposed: 1.00	Paid: 2.00	Proposed: 1.00	Paid: 2.00
Share prices				
Highest (LKR)	79.90	94.80	45.90	59.00
Lowest (LKR)	47.00	64.10	27.10	37.00
Last traded (LKR)	52.50	78.00	33.80	44.50

Compliance with minimum public holding requirement

Period	Option under which the Bank is compliant	Float adjusted market capitalisation	Public Holding Percentage	No. of Public shareholders
As at 31 December 2018	Option 2	LKR 7.797 Bn.	54.30%	9,011
As at 31 December 2019	Option 3	LKR 7.240 Bn.	54.84%	10,021

Analysis of the distribution of shareholders as at 31 December 2019

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	7,194	1,570,905	0.625	3,674	1,063,789	0.422
1,001 - 10,000	2,356	6,572,985	2.614	3,130	10,829,538	4.295
10,001 - 100,000	411	8,993,912	3.576	832	22,808,678	9.046
100,001 - 1,000,000	62	20,150,663	8.013	121	30,873,747	12.244
1,000,001 and above	18	214,189,407	85.172	27	186,570,162	73.993
Total	10,041	251,477,872	100.000	7,784	252,145,914	100.000
Resident/non-resident						
Resident	9,897	247,322,574	98.35	7710	237,382,224	94.14
Non-resident	144	4,155,298	1.65	74	14,763,690	5.86
Individuals/Institutions						
Individuals	9,667	46,858,766	18.63	7410	64,241,146	25.48
Companies/Institutions	374	204,619,106	81.37	374	187,904,768	74.52

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	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Number of debentures issued	4,622,800		300		18,665,200		25,055,200		3,005,200	
Debenture prices										
Highest (LKR)									85.00	
Lowest (LKR)	Redeemed on 23 December 2018		Not traded in 2018 and 2019		Not traded in 2018 and 2019		Not traded in 2018 and 2019		85.00	
Last traded (LKR)									85.00	

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	
	2019	2018	2019	2018	2018	2017
Number of debentures issued	17,103,200		174,000		32,722,800	
Debenture prices						
Highest (LKR)	100.00	100.00	Not traded in 2018 and 2019		102.60	106.20
Lowest (LKR)	100.00	100.00			96.00	90.00
Last traded (LKR)	100.00	100.00			100.00	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	
	2019	2018	2019	2018	2019	2018
Number of debentures issued	39,100,000		7,150,000		16,090,000	
Debenture prices						
Highest (LKR)	99.81	100.06	100.00	Not traded in 2018		105.00
Lowest (LKR)	99.81	100.06	99.00			100.00
Last traded (LKR)	99.81	100.06	100.00			100.00

Debentures 2019

Listed on CSE in December 2019

(SEYB D458, D459)	Type A 5-year debentures (15.00% p.a.) Annual		Type B 5-year debentures (14.50% p.a.) semi-annual	
	2019	2018	2019	2018
Number of debentures issued	37,734,000		12,266,000	
Debenture prices				
Highest (LKR)	107.49		100.73	
Lowest (LKR)	106.49		100.72	
Last traded (LKR)	107.49		100.72	

Seylan Bank PLC - Debentures

	2019	2018
Debt (debentures)/equity ratio (times)	0.45	0.47
Debt (debentures plus long-term debt)/equity ratio (times)	0.67	0.85
Interest cover (times)	3.11	3.64
Quick asset ratio (times)	0.74	0.74
2014 Issue		
Interest yield as at date of last trade		
4 year fixed semi annual - 8.00% p.a. (Debenture matured and redeemed on 22 December 2018)		*
5 year fixed semi annual - 8.35% p.a. (Debenture matured and redeemed on 22 December 2019)	*	*
5 year fixed annual - 8.60% p.a. (Debenture matured and redeemed on 22 December 2019)	*	*
6 year fixed semi annual - 8.60% p.a.	*	*
6 year fixed annual - 8.75% p.a. (4 June 2019)/*	10.29%	*
Yield to maturity of trade done on		
4 year fixed semi annual - 8.00% p.a. (Debenture matured and redeemed on 22 December 2018)		*
5 year fixed semi annual - 8.35% p.a. (Debenture matured and redeemed on 22 December 2019)	*	*
5 year fixed annual - 8.60% p.a. (Debenture matured and redeemed on 22 December 2019)	*	*
6 year fixed semi annual - 8.60% p.a.	*	*
6 year fixed annual - 8.75% p.a. (4 June 2019)/*	20.88%	*
Interest rate of comparable Government Security		
4 years (Debenture matured and redeemed on 22 December 2018)		
5 years (Debenture matured and redeemed on 22 December 2019)		10.42%
6 years	8.36%	11.19%
2016 Issue		
Interest yield as at date of last trade		
5 year fixed semi annual - 13.00% p.a. (5 December 2019)/(17 October 2018)	13.42%	13.42%
5 year floating semi annual - six months treasury bill rate + 1.5%	*	*
7 year fixed semi annual - 13.75% p.a. (24 September 2019)/(24 December 2018)	14.22%	15.28%
Yield to maturity of trade done on		
5 year fixed semi annual - 13.00% p.a. (05 December 2019)/(17 October 2018)	12.98%	12.98%
5 year floating semi annual - six months treasury bill rate + 1.5%	*	*
7 year fixed semi annual - 13.75% p.a. (24 September 2019)/(24 December 2018)	13.73%	16.98%
Interest rate of comparable Government Security		
5 years	8.58%	11.36%
7 years	9.39%	11.61%
2018 Issue		
Interest yield as at date of last trade		
5 year fixed semi annual - 12.85% p.a. (11 June 2019)/(09 April 2018)	13.29%	13.25%
7 year fixed semi annual - 13.20% p.a. (22 October 2019)/*	13.64%	*
10 year fixed semi annual - 13.50% p.a. (17 December 2019)/*	13.96%	*
Yield to maturity of trade done on		
5 year fixed semi annual - 12.85% p.a. (11 June 2019)/(09 April 2018)	12.90%	12.83%
7 year fixed semi annual - 13.20% p.a. (22 October 2019)/*	13.19%	*
10 Year fixed semi annual - 13.50% p.a. (17 December 2019)/*	13.49%	*
Interest rate of comparable Government Security		
5 years	9.42%	11.72%
7 years	9.88%	11.81%
10 years	10.12%	11.92%
2019 Issue (Debenture allotted on 18 April 2019)		
Interest yield as at date of last trade		
5 year fixed annual - 15.00% p.a. (16 October 2019)	13.95%	
5 year fixed semi annual - 14.50% p.a. (17 May 2019)	14.92%	
Yield to maturity of trade done on		
5 year fixed annual - 15.00% p.a. (16 October 2019)	12.65%	
5 year fixed semi annual - 14.50% p.a. (17 May 2019)	14.28%	
Interest rate of comparable Government Security		
- 5 years	9.69%	

* No trading during the period.

Branch and ATM Network

Province-wise distribution

North Western

- Bowatte
- Chilaw
- Dankotuwa
- Dummalasuriya
- Giriulla
- Hettipola
- Katuneriya
- Kuliyaipitiya
- Kurunegala
- Kalpitiya
- Mawathagama
- Narammala
- Pannala
- Puttalam
- Rideegama
- Udappu
- Wariyapola
- Wennappuwa

Off-site ATMs

- Arugambay
- Bambalapitiya
- Batticaloa
- Borella
- Bloomfield Reid
- Ella
- General Hospital Colombo
- Hikkaduwa
- Horana
- Katunayaka
- Kuruwita
- Mahiyanganaya
- Makumbura
- Malabe
- Mirissa
- Mount Lavinia
- Negombo
- Pinnawala
- Ragama
- Rajagiriya
- Sapugaskanda
- Sethsiripaya
- Shangriila
- Unawatuna
- Trincomalee
- Head Office (Mobile)

Northern

- Chankanai
- Chavakachcheri
- Chunnakam
- Jaffna
- Kilinochchi
- Manipay
- Mannar
- Mullaitivu
- Nelliady
- Vavuniya

North Central

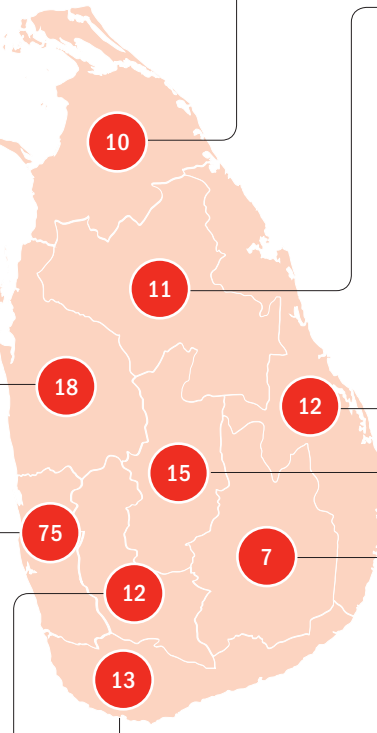
- Anuradhapura
- Aralaganwila
- Eppawala
- Hingurakgoda
- Kaduruwela
- Kekirawa
- Manampitiya
- Medawachchiya
- Nochchiyagama
- Galenbindunuwewa
- Padaviya

Western

- Aluthgama
- Attidiya
- Athurugiriya
- Avissawella
- Baduraliya
- Bambalapitiya
- Bandaragama
- Battaramulla
- Beruwala
- Boralesgamuwa
- Borella
- Cinnamon Gardens
- Colombo Fort Branch
- Colombo Gold Centre
- Dam Street
- Dehiwala
- Gampaha
- Ganemulla
- Godagama
- Gothatuwa
- Grandpass
- Havelock Town
- Homagama
- Horana
- Ingiriya
- Ja-ela
- Kadawatha
- Kalubowila
- Kalutara
- Kandana
- Katunayake
- Kelaniya
- Kiribathgoda
- Kirindiwela
- Kirulapone
- Kollupitiya
- Kotahena
- Kottawa
- Kochchikade
- Maharagama
- Malabe
- Marandaghamulla
- Maradana
- Matugama
- Meegoda

Millennium Branch

- Minuwangoda
- Mirigama
- Moratummulla
- Moratuwa
- Mount Lavinia
- Mutwal
- Nawala
- Negombo
- Nittambuwa
- Nugegoda
- Old Moor Street
- Panadura
- Pettah
- Piliyandala
- Pitakotte
- Raddolugama
- Ranpokunagama
- Sarikkamulla
- Soysapura
- Veyangoda
- Wadduwa
- Wattala
- Weliweriya
- Wellawatte
- Wijerama
- Yakkala
- Foreign Employment Bureau (EBC)
- Union Place
- Padukka



Sabragamuwa

- Balangoda
- Eheliyigoda
- Embillipitiya
- Godakawela
- Kegalle
- Kotiyakumbura
- Mawanella
- Pelmadulla
- Ratnapura
- Ruwanwella
- Warakapola
- Yatiantota

Southern

- Akuressa
- Ambalangoda
- Ambalantota
- Beliatta
- Galle
- Hambantota
- Hikkaduwa
- Kamburupitiya
- Karapitiya
- Koggala
- Matara
- Matara Bazaar
- Tissamaharama

Eastern

- Akkarapattu
- Ampara
- Batticaloa
- Chenkalady
- Dehiattakandiya
- Kalavanchikudy
- Kalmunai
- Kantale
- Kattankudy
- Pothuvil
- Sammanthurai
- Trincomalee

Central

- Bogawantalawa
- Dambulla
- Gampola
- Hasalaka
- Hatton
- Kandy
- Katugastota
- Matale
- Nawalapitiya
- Nuwara Eliya
- Pallekele
- Peradeniya
- Pilimathalawa
- Pussellawa
- Thalawakele

Uva

- Badulla
- Bandarawela
- Mahiyanganaya
- Monaragala
- Siyambalanduwa
- Welimada
- Katharagama

Geographical Analysis

Deposits, loans and advances

As at 31 December 2019

Province	Number of banking centres	Deposits LKR Mn.	%	Loans and advances LKR Mn.	%
Western	75	290,273	72.4	302,066	77.5
Southern	13	17,244	4.3	20,548	5.3
Uva	7	5,052	1.3	2,825	0.7
North-Central	11	8,470	2.1	5,393	1.4
North-Western	18	20,062	5.0	14,608	3.7
Eastern	12	10,790	2.7	9,487	2.4
Northern	10	10,846	2.7	6,458	1.7
Sabaragamuwa	12	16,496	4.1	13,199	3.4
Central	15	21,498	5.4	15,407	3.9
	173	400,731	100.0	389,991	100.0
Total expected credit loss allowance for loans and advances					(10,732)
Total	173	400,731		379,259*	

*Loans and advances net of expected credit loss allowance.

Commitments and contingencies

As at 31 December 2019

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	75	9,946	522	35,811	10,709	3,069	(312)	59,745
Southern	13	12	-	1,409	49	118	-	1,588
Uva	7	-	-	285	9	-	-	294
North-Central	11	-	-	1,647	5	18	-	1,670
North-Western	18	161	-	1,303	409	55	-	1,928
Eastern	12	-	-	441	6	2	-	449
Northern	10	5	-	661	35	-	-	701
Sabaragamuwa	12	66	-	624	131	14	-	835
Central	15	204	-	1,065	292	291	-	1,852
Contingencies	173	10,394	522	43,246	11,645	3,567	(312)	69,062
Commitments -								
Undrawn credit lines and capital commitments								81,085
Total	173	10,394	522	43,246	11,645	3,567	(312)	150,147

GRI Content Index

GRI standard/disclosure	Page No.	Report commentary title
GRI 102: General Disclosures 2016		
Organisational profile		
102-1 Name of the organisation	2	About Seylan
102-2 Activities, brands, products and services	2, 44-45	Business lines, product portfolio
102-3 Location of headquarters	272	Registered office and head office
102-4 Location of operations	3, 43	Presence and scale of operation, our geographical presence
102-5 Ownership and legal form	272	Legal form
102-6 Markets served	3, 44-45	Presence and scale of operation, product portfolio
102-7 Scale of the organisation	3, 4	Presence and scale of operation, financial highlights
102-8 Information on employees and other workers	51	Staff strength 2019
102-9 Supply chain	12-13, 61-63	Value creation model, trusted partners
102-10 Significant changes to the organisation and its supply chain	2	Support functions
102-11 Precautionary Principle or approach	71	ESG framework results in higher value creation
102-12 External initiatives	72	SLBA SBI
102-13 Membership of associations	61	Memberships in industry associations
Strategy		
102-14 Statement from senior decision-maker	6-7	Letter from the Chairman
Ethics and integrity		
102-16 Values, principles, standards, and norms of behaviour	12-16	Value creation model, how we create value, why we create value, what creates value
Governance		
102-18 Governance structure	85-87	Corporate governance report
Stakeholder engagement		
102-40 List of stakeholder groups	17-20	Stakeholder engagement
102-41 Collective bargaining agreements	59	Non-discrimination, freedom of association and collective bargaining
102-42 Identifying and selecting stakeholders	17-20	Stakeholder engagement
102-43 Approach to stakeholder engagement	17-20	Stakeholder engagement
102-44 Key topics and concerns raised	17-20	Stakeholder engagement
Reporting practice		
102-45 Entities included in the consolidated financial statements	3	Group company
102-46 Defining report content and topic boundaries	1,20	Content of the report, limitations and boundary, materiality
102-47 List of material topics	20	Materiality
102-48 Restatements of information	1	Comparative information
102-49 Changes in reporting	1	Comparative information
102-50 Reporting period	1	Content of the report
102-51 Date of most recent report	1	Comparative information
102-52 Reporting cycle	1	Content of the report
102-53 Contact point for questions regarding the report	1	Feedback may be directed to
102-54 Claims of reporting in accordance with the GRI Standards	1	Sustainability reporting framework
102-55 GRI content index	257-259	GRI Content Index
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GRI 200: Economic		
GRI 201: Economic performance 2016	26-35	Financial Value Creation
201-1 Direct economic value generated and distributed	40	Economic value addition
201-3 Defined benefit plan obligations and other retirement plans	226-227	Note number 43
201-4 Financial assistance received from Government	65-66	Loans under refinance scheme and Loans under subsidy scheme
GRI 202: Market presence 2016	74-75	Sustainability Performance Indicators
202-1 Ratios of standard entry level wage by gender compared to local minimum wage	74	Sustainability Performance Indicators
202-2 Proportion of senior management hired from the local community	74	Sustainability Performance Indicators
GRI 203: Indirect economic impacts 2016	64-69	Responsible Corporate Citizenship
203-1 Infrastructure investments and services supported	69	Sponsorships as a bridge of relationships
203-2 Significant indirect economic impacts	65-66	Loans under refinance scheme and Loans under interest subsidy scheme
GRI 204: Procurement practices 2016	63	The supply chain management and procurement policy
204-1 Proportion of spending on local suppliers	63	Locally-based vicinity when selecting suppliers
GRI 205: Anti-corruption 2016	68-69	Training for being complaint, our responsible role as a corporate citizen
205-1 Operations assessed for risks related to corruption	69	Our responsible role as a corporate citizen
205-2 Communication and training about anti-corruption policies and procedures	68	Training for being compliant
GRI 206: Anti-competitive behaviour 2016	69	Our responsible role as a corporate citizen
206-1 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	69	Our responsible role as a corporate citizen
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302-1 Energy consumption within the organisation	72, 75	Energy conservation, sustainability performance indicators
302-4 Reduction of energy consumption	75	Sustainability performance indicators
GRI 303: Water 2016	73	Water conservation
303-1 Water withdrawal by source	73	Water conservation
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306-2 Waste by type and disposal method	73	Waste management, e-waste management
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GRI 400: Social	50-60	Motivated employees
GRI 401: Employment 2016	51-54	Staff strength 2019
401-1 New employee hires and employee turnover	52-53	Recruitments, employee turnover
401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	53-54	Employee benefits
401-3 Parental leave	54	Employees who obtained parental leave and returned to work
GRI 402: Labour/Management relations 2016	59-60	Human rights
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GRI 403: Occupational health and safety 2016	58-60	Occupational health and safety
403-1 Workers representation in formal joint management-worker health and safety committees	53, 58, 60	Employee benefits, occupational health and safety, Initiatives to improve staff well-being

GRI standard/disclosure	Page No.	Report commentary title
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GRI 404: Training and education 2016	57-58	Training and education
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404-2 Programmes for upgrading employee skills and transition assistance programmes	57	Training and education
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Glossary

A

Acceptances

The signature on a Bill of Exchange indicates that the person on whom it is drawn accepts the conditions of the bill. In other words, a Bill of Exchange that has been accepted.

Accrual basis

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

Actuarial gain/loss

Gain or loss arising from the difference between estimates and actual experience in an entity's pension plan.

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.

Accounting policies

The specific principles, bases, conventions, rules, and practices adopted by an entity in preparing and presenting Financial Statements.

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.

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

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 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.

Financial instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

G**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.).

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.

Lease liabilities

Present value of contractual lease payments.

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 (NIM)

The margin is expected as net interest income divided by average interest earning assets.

Net stable funding ratio (NSFR)

Measures the amount of long-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 (NCI)

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.

Right-of-use asset

An asset that represents a lessee's right to use an underlying asset for the lease term.

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.

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).

U

Undrawn credit lines

Credit facilities approved but not yet utilised by the clients as at the reporting date.

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 පාර්ශවකරුවනි,

සමාලෝචනයට ලක් වන මෙම වසර තුළදී පැවැති දුෂ්කර වෙළෙඳපොළ තත්ත්වයට තේරුම් ප්‍රශංසනීය කාර්යසාධනයක් පවත්වා ගැනීමට සෙලාන් බැංකුව සමත් වී ඇත. අවදානම් කළමනාකරණය කරගැනීමේදී විවිධ ඉහළ මට්ටමේ වන අතරම ගනුදෙනුකරුවන්ගේ මූල්‍ය අවශ්‍යතාවන්ට සහාය දැක්වීම උදෙසා අවස්ථා හඹා යාමට බැංකුව කටයුතු කළේය. මෙහි ප්‍රතිඵලයක් වශයෙන් ධනාත්මක වර්ධනයක් වාර්තා කිරීමට බැංකුව සමත් වූ අතරම මුද්‍ර වත්කම් වටිනාකම රුපියල් බිලියන 500 පසුකර යාමට හැකි විය.

කෙසේ වෙතත්, 2018 අවසන් කාර්තුව තුළ දක්නට ලැබුණු අවිනිශ්චිත දේශපාලනික පරිසරය හා ඉන් අනතුරුව උද්ගත වූ පාස්කු ඉරිදා ප්‍රහාර මාලාවෙහි ප්‍රතිඵලයක් ලෙස 2019 වසර අතිශයින්ම අභියෝගාත්මක වසරක් බවට පත් විය. වසරේ පළමු මාස කිහිපය තුළ සක්‍රීය ස්වභාවයක් ගත් ව්‍යාපාරික ක්‍රියාකාරකම් නොමැති වීමෙන් පෙනී යන්නේ වාණිජමය ගනුදෙනු උදාසීන තත්ත්වයක පැවැති බවයි. එහි බලපෑම කර්මාන්තය පුරාවට බලපැවැත්වුණු අතර ව්‍යාපාරික අවස්ථා ඉතාම සීමිත තත්ත්වයක පැවතිණි.

අපගේ කාර්යසාධනය

සමස්තයක් ලෙස ගත්කල පැවැති අවස්ථා ප්‍රමාණය සීමා කරන්නට බලපෑ අභියෝගාත්මක ආර්ථික පරිසරය මධ්‍යයේ වුවද බැංකුව සිය ප්‍රධානතම මූල්‍ය දර්ශක ආශ්‍රිතව ගත වූ වසරට සාපේක්ෂව මධ්‍යස්ථ වසරක් වාර්තා කර තිබේ. සාර්ථක ලෙස හා අධි දායකත්වයකින් යුතුව ණයකර හා හිමිකම් හිකුතු සිදු කිරීම නිසා රුපියල් බිලියන 9.3 ක අතරම ප්‍රාග්ධනයක් උත්පාදනය කෙරුණු අතර බැංකුවේ ප්‍රාග්ධන ප්‍රමාණාත්මකත්ව තවදුරටත් සවිමත් කිරීමට එය හේතු විය. ආයෝජකයන් සහ කොටස් හිමියන් අපගේ බැංකුව කෙරෙහි තබා ඇති විශ්වාසය සනාථ කෙරෙන කාරණයක් ලෙසද මෙය සඳහන් කළ හැක.

පෙර වසර හා සැසඳීමේදී බැංකුව 2019 වසරේදී 15% ක වර්ධනයක් සනිටුහන් කරමින් රුපියල් බිලියන 3.7 ක බදු පසු ලාභයක් වාර්තා කරන ලදී. අප මෙම වසර තුළ කටයුතු කර ඇත්තේ ආදායම් උත්පාදනය වර්ධනය කරගන්නා අතරම අපගේ වියදම් හා පිරිවැය සීමාකර ගැනීමටද කටයුතු කරමිනි.

මෙම සමාලෝචිත වසර තුළදී අපගේ ණය හා අත්තිකාරම් කළඹ ආශ්‍රිතව 16% ක සතුටුදායක වර්ධනයක් පෙන්නුම් කර ඇති අතර සමස්ත ණය හා අත්තිකාරම් සමීප නිරීක්ෂණයට ලක් වීම හේතුවෙන් එතරම් සුභවාදී නොවූ ආර්ථික පරිසරයක් තුළ වුවද අක්‍රීය ණය අනුපාතිකය පහත බැස තිබේ. තවද අපගේ නොපසුබේනා උත්සාහය සහ ගනුදෙනුකරුවන්ට සපයන ලද සේවාව හි ගුණාත්මක බව හේතුවෙන් තැන්පතු 12% ක වර්ධනයක් පෙන්නුම් කරයි.

නියාමනය හා අධීක්ෂණය

සෑම විටකදීම මෙන් බැංකුවේ ක්‍රියාවලීන් හා සබැඳි නීති හා රෙගුලාසි සියල්ලටම නිසි ලෙස අනුකූලතාව දැක්වීමට අප කටයුතු කර ඇත. එකී කරණය සම්බන්ධයෙන් බැංකුවේ කාර්යසාධනය නිරන්තරයෙන් නිරීක්ෂණය කරමින් අපගේ ප්‍රතිපත්ති හා ක්‍රමවේද යාවත්කාල කිරීමට අපගේ අධ්‍යක්ෂ මණ්ඩල උප කමිටු පියවර ගනියි. ශ්‍රී ලංකා මහ බැංකුව සමග අපගේ සබඳතාවන් සවිමත්, අඛණ්ඩ හා විධිමත් ලෙස පවත්වා ගැනීමට අපට හැකි විය.

සෙලාන් ඩිජිටල් නැඹුරුව

පාරිභෝගිකයන්ගේ පහසුව මෙන්ම අපගේ නිෂ්පාදන හා සේවාවන් ප්‍රයෝජනයට ගැනීමට ඉහළ යාමට හේතු වූ තොරතුරු තාක්ෂණය හා සබැඳි සේවා අවකාශයන් භාවිත කිරීම වැඩිදියුණු කිරීම අතින්ද අප ඉදිරි පියවර රැසක් තබා තිබේ. අපගේ ගනුදෙනුකරුවන් වෙත වඩා හොඳින් සේවා සැපයීම උදෙසා නව තාක්ෂණයන් ඒකාබද්ධ කරගැනීමේ ප්‍රයත්නයන් ඉතාම සීඝ්‍ර ලෙස පවත්වා ගැනීමට හැකි වී ඇත. තාක්ෂණික නාලිකා සංවර්ධනය කිරීම උදෙසා අප විසින් සාක්ෂාත් කරගන්නා ලද සාර්ථකත්වය අපගේ ඩිජිටල් ගනුදෙනු කටයුතු ආශ්‍රිත වර්ධනයෙන් මනාව පෙනී යයි. විශේෂයෙන්ම, බැංකු කර්මාන්තය තුළ උද්ගත වන වෙනස්කම්වලට අනුකූලව ප්‍රගමනය වෙමින් සිය සේවා හා නිපැයුම් ලබා දෙන සෙලාන් බැංකුවට මෙය උද්යෝගීමත් පියවරකි.

අපගේ ප්‍රජාව හා පරිසරය

පාරිසරික හා සමාජමය බලපෑම කළමනාකරණය කරගැනීමේදී අවශ්‍ය මෙහෙයුම් රාමුව බිහි කිරීමට වැදගත් පාරිසරික හා සමාජ කළමනාකරණ පද්ධතිය වැඩිදියුණු කරගැනීම වෙනුවෙන් අපි නිරන්තරයෙන් කැප වී සිටින්නෙමු. වගකීම්සහගත මූල්‍ය මෙහෙයුම්වල නිරත වීමට අප ලබාදී ඇති ප්‍රතිඥාව අපගේ පාරිසරික හා සමාජ කළමනාකරණ ප්‍රතිපත්ති තුළ සඳහන් වේ.

"සෙලාන් පැහැසර" පුස්තකාල ව්‍යාපෘතිය යටතේ 200 වන පුස්තකාලය විවෘත කිරීමත් සමගින් එකී ව්‍යාපෘතියේ සුවිශේෂී සන්ධිස්ථානයක් සලකුණු කිරීමටද අපට හැකි විය. මෙම ව්‍යාපෘතිය හරහා දිවයින පුරාවටම සිසුන් විශාල සංඛ්‍යාවක් වෙනුවෙන් සේවය කිරීමට අපට හැකි වූ අතර පුස්තකාල 250 ක් දක්වා ව්‍යාප්ත වීමේ ඉදිරි ඉලක්කය හමුවේ මෙය අපට ඇති ප්‍රධානතම මෙහෙවරක් ලෙස සලකා අපි කටයුතු කරන්නෙමු.

අනුකූලතාව

බැංකුවේ ස්ථාවර මූල්‍ය පදනම නිසා මෙහෙයුම් කෙරෙහි පීඩනයක් එල්ල වීමට ඉඩ නොතබා සියලුම නියාමන බැඳීම් ඉටු කරමින් කටයුතු කිරීමට අපට හැකියාව ලැබිණි. බාසල් III අවශ්‍යතා සහ ශ්‍රී.ල.හි.පු 9 හි දැක්වෙන භානිකරණ ප්‍රතිපාදන බැඳීම් තවදුරටත් සමාලෝචනය කෙරෙනු ඇත.

ඉදිරි ගමන

ඉදිරියේදීද ව්‍යාපාරික අභියෝග උද්ගත වන ඕනෑම අවස්ථාවක නවෝත්පාදනාත්මක විසඳුම් සොයා යාම අපි නිරන්තරයෙන් කරන්නෙමු.

බැංකුවේ උපායමාර්ගික සැලසුම අපගේ අනාගත දිශානතිය වෙනුවෙන් පදනම සපයයි. පදනම් මූළධර්ම ආශ්‍රිතව සවිමත්භාවයක්ද මෙහෙයුම් ආශ්‍රිතව නමාසිලීන්වයක්ද පවත්වා ගැනීමට අපගේ බැංකුවට හැකි වී ඇත. මෙම සාධකය ඉදිරි වසරවලදී අපට ඇති ඉලක්ක සාක්ෂාත් කරගැනීමට අවශ්‍ය සූදානමක අප රඳවයි.

සුළු හා මධ්‍ය පරිමාණ ව්‍යවසාය අංශය කෙරෙහි අවධානය යොමු කරමින් අපගේ උපායමාර්ගික සැලැස්ම ක්‍රියාත්මක කිරීම තුළ සැලකිය යුතු ප්‍රගතියක් අප විසින් දැනටමත් අත්කර ගනිමින් තිබේ. මෙකී ව්‍යාපාරයන් රටෙහි ආර්ථික වර්ධනය උදෙසා අතිශයින්ම වැදගත් වන බව අපගේ විශ්වාසය වන අතර එකී ව්‍යාපාර සඳහා අමතර සහායක් අවශ්‍ය බවත් අපට හැඟී යයි.

අප ආයතනයේ දැනටමත් පවතින තිරසාරතාවට බාධා නොවන අයුරින් විවිධ කළමනාකාරණා තීරණ ගන්නා අතරම එකී ව්‍යාපාරික අංශ වෙත අපගේ සහාය ලබා දීමට අපි පියවර ගන්නෙමු.

ස්තූති කිරීම

2019 වසරේදී ඉලක්ක ජය ගැනීම සඳහා බැංකුව මෙයෙවීම වෙනුවෙන් තත් අයුරින් කටයුතු කළ අධ්‍යක්ෂ/ප්‍රධාන විධායක නිලධාරී කපිල ආරියරත්න මහතා ඇතුළු බැංකු කළමනාකාරීත්වය හා කාර්ය මණ්ඩලය වෙත අධ්‍යක්ෂ මණ්ඩලය වෙනුවෙන් මගේ ස්තූතිය පිරිනමන අතරම ඔවුන් සියලුම දෙනාට සුභ පතම්. එමෙන්ම, බැංකුව වෙනුවෙන් දක්වන ලද අඛණ්ඩ කැපවීම හා දායකත්වය වෙනුවෙන් අධ්‍යක්ෂ මණ්ඩලයේ සාමාජිකයන් සියලුම දෙනා වෙත ස්තූතිවන්ත වෙමි.

ලබා දුන් නිරන්තර සහයෝගය හා පාසීකත්වය වෙනුවෙන් අපගේ සියලුම ගනුදෙනුකාරහවතුන්, කොටස් හිමියන් හා පාර්ශවකරුවන් වෙතද මාගේ හෘදයාලම් ස්තූතිය හිමි විය යුතුය. 2020 වසරේදී නව ජවයකින් ඉදිරියට යාමට ගමන් අරඹා ඇති අපට ඔබ සෑම දෙනාම අප බැංකුවේ මෙහෙයුම් කෙරෙහි තබන විශ්වාසය අමිල ශක්තියකි.

එසේම, අප වෙත සෑම අවස්ථාවකදීම මගපෙන්වීම් හා සහයෝගය ලබා දීම සම්බන්ධයෙන් අපගේ නියාමන අධිකාරීන් වෙතද ස්තූතිවන්ත වෙමි.

ඔබ සියලුම දෙනා වෙත මාගේ සුභාශීසන පිරිනමමි.



ඩබ්ලිව් එම් ආර් එස් ඩයස්
සභාපති

2020 පෙබරවාරි 21

தலைவரின் கடிதம்

மதிப்புக்குரிய பங்காளர்களுக்கு,

மதிப்பாய்வு செய்யப்பட்ட நிதியாண்டில் சவாலான பொருளாதார சூழ்நிலைகளுக்கு மத்தியிலும் செலான் வங்கியானது சிறந்த நிதியியல் பெறுபேற்றினை வெளிப்படுத்தியுள்ளது. நிதி இடர்களைத் திறம்பட எதிர்கொண்டதன் வாயிலாக, வங்கியானது வாடிக்கையாளர்களின் நிதித் தேவைகளைப் பூர்த்தி செய்ய முடிந்துள்ளது. இதன் மூலமாக, செலான் வங்கியானது நேர்மறையான வளர்ச்சியைப் பதிவுசெய்துள்ளதுடன், வங்கியின் மொத்த சொத்துக்களின் பெறுமதி ரூபா 500 பில்லியன் ஆக அதிகரித்துள்ளது.

எனினும், 2018 நிதியாண்டில் இறுதிக்காலாண்டில் இடம்பெற்ற அரசியல் சாசன நெருக்கடி மற்றும் உயிர்த்த குாயிறு தாக்குதல்களைத் தொடர்ந்து நாட்டில் நிலவிய அசாதாரண சூழலானது 2019 நிதியாண்டு சவால் நிறைந்ததாக அமையக் காரணமாயிற்று. ஆண்டின் முதற் பகுதியில் வியாபார நடவடிக்கைகளில் காணப்பட்ட மந்த நிலை காரணமாக வியாபாரக் கொடுக்கல் வாங்கல்களில் கணிசமானளவு வீழ்ச்சி ஏற்பட்டது. இந்நிலைமையானது நிதித்துறையிலும் எதிர்மறையான தாக்கத்தினை ஏற்படுத்தியது.

எமது செயலாற்றுகை

வியாபார நடவடிக்கைகளுக்கு சவாலான பொருளாதார சூழல் நிலவிய போதும் வங்கியின் கடந்த நிதியாண்டுக்கான நிதியியல் குறிகாட்டிகள் மிதமான வளர்ச்சியை வெளிப்படுத்தியிருந்தன. குறிப்பாக, வெற்றிகரமாக இடம்பெற்ற கடன் பத்திரங்கள் மற்றும் உரிமை பங்கு வழங்கல் வாயிலாக ரூபா 9.3 பில்லியன் திரட்டப்பட்டதன் மூலம் வங்கியின் மூலதனத் திறன் மென்மேலும் வலுவடைந்தது. இது வங்கியின் மீது முதலீட்டாளர்கள் மற்றும் பங்குதாரர்கள் கொண்டுள்ள நம்பிக்கைக்குச் சிறந்த எடுத்துக்காட்டாக அமைந்தது.

2019 நிதியாண்டில் வரிக்குப் பின்னரான இலாபமாக ரூபா 3.7 பில்லியன் பதிவுசெய்யப்பட்டதுடன், கடந்த நிதியாண்டுடன் ஒப்பிடுகையில் இது 15% அதிகரிப்பினைக் காண்பிக்கின்றது. செலவாயினை அதிகரிக்கும் அதேவேளை செலவினங்களைக் கட்டுப்படுத்துவதன் மூலமே இது சாத்தியமாயிற்று.

எமது கடன்கள் மற்றும் முற்பணங்கள் 16% அதிகரிப்பினைப் பதிவுசெய்ததுடன், சவாலான பொருளாதார சூழலின் மத்தியிலும் தேறிய செயற்படாகடன்கள் மற்றும் முற்பணங்கள் விகிதமானது குறைவடைந்தமையானது கடன் வழங்கல் செயல்முறையிலான வினைத்திறனை வெளிப்படுத்துகிறது. எமது சேமிப்பு வைப்புகள் 12% இனால் அதிகரித்தமையானது வங்கியின் மேம்பட்ட வாடிக்கையாளர் சேவையினைப் பறைசாற்றுகின்றது.

ஒழுங்குபடுத்தல் மற்றும் மேற்பார்வை

உள்நாட்டு மற்றும் சர்வதேச நிதிச்சட்டங்கள் மற்றும் கட்டுப்பாடுகளுக்கு அமைய நாம் வங்கியின் வியாபார

நடவடிக்கைகளை முன்னெடுத்து வருகிறோம். எமது பணிப்பாளர் சபையின் துணைக் குழுக்கள் இது தொடர்பான கொள்கைகள் மற்றும் செயல்முறைகள் அமுல்படுத்தப்படுவதை மேற்பார்வை செய்து வருகின்றன. மத்திய வங்கியுடனான தொடர்புகள் வழமை போலவே சீராகப் பேணப்படுகின்றன.

செலான் டிஜிட்டல் புரட்சி

தகவல்தொழில்நுட்பம் மற்றும் அதனுடன் தொடர்புடைய பல்வேறு தளங்களைப் பயன்படுத்துவதில் ஏற்பட்டுள்ள முன்னேற்றமானது, வாடிக்கையாளர்கள் எமது சேவைகளை அதிகம் பயன்படுத்துவதற்கு வழிவகுத்துள்ளது. புத்தாக்கமான தீர்வுகளை அறிமுகப்படுத்தும் எமது பயணமானது, வாடிக்கையாளர்களின் பேராதரவின் மத்தியில் தொடர்ந்தும் முன்னோக்கிச் செல்கின்றது. பன்முகப்படுத்தப்பட்ட தளங்களில் மேற்கொள்ளப்படும் டிஜிட்டல் கொடுக்கல் வாங்கல்களிலான வளர்ச்சியானது இதற்குச் சிறந்த சான்றாக அமைகின்றது. இதன் மூலம், நிதித்துறையில் ஏற்பட்டு வரும் மாற்றங்களுக்கு வெற்றிகரமாக முகங்கொடுப்பதற்கென செலான் வங்கியானது தனது நிதிச் சேவைகளை பன்முகப்படுத்தி வருகின்றமை புலனாகின்றது.

எமது சமூகம் மற்றும் சூழல்

சமூக மற்றும் சுற்றுச் சூழல் பேண்தகு தன்மை கருதி, சூழல் பாதுகாப்பு மற்றும் சமூகப் பொறுப்பாண்மை தொடர்பான முறைமைகளை அமுல்படுத்துவதற்கு நாம் உறுதியுண்டுள்ளோம். எமது சமூக மற்றும் சூழலியல் மேலாண்மை தொடர்பான கொள்கையானது, பொறுப்பு வாழ்ந்த முறையில் சூழல் பாதுகாப்பு மற்றும் சமூகப் பொறுப்பாண்மைத் திட்டங்களுக்குப் பங்களிப்புச் செய்யும் வழிவகைகளைத் தெளிவாகக் குறிப்பிடுகிறது.

எமது 'செலான் ஹெசர்' நூலகத் திட்டத்தின் கீழ் அதன் 200 ஆவது நூலகமானது அண்மையில் வெற்றிகரமாகத் திறந்து வைக்கப்பட்டது. இந்த செயற்றிட்டத்தின் வாயிலாக நாடெங்கிலும் ஆயிரக்கணக்கான பாடசாலை மாணவர்கள் பயனடைந்துள்ளதுடன், 250 நூலகங்களைத் திறக்கும் எமது இலக்கினை நோக்கி உறுதிப்பாட்டுடன் பயணித்து வருகின்றோம்.

இணக்கப்பாட்டுத் தன்மை

வங்கியின் அடிப்படையான நிதியியல் கோட்பாடுகள் சட்ட ரீதியான கட்டப்பாடுகளை சிரமமின்றி எதிர்கொள்வதற்கு உதவுகின்றன. Basel III உடனான இணக்கப்பாட்டுத் தன்மை மற்றும் SLFRS 9 பெறுமான குறைப்பு ஒதுக்க மதிப்பீட்டு சரத்துக்களை அமுல்படுத்துவது தொடர்பான கட்டப்பாடுகள் தொடர்ந்தும் மதிப்பாய்வுக்கு உட்படுகின்றன.

எதிர்காலம் தொடர்பான முன்னோட்டம்

சவால் மிகுந்த பொருளாதார சூழ்நிலைகளின் போதும் வாடிக்கையாளர்களுக்கு புத்தாக்கமான

தீர்வுகளை தொடர்ந்தும் வழங்குவதற்கு நாம் உறுதியுண்டுள்ளோம்.

வங்கியின் மூலோபாயத் திட்டமானது எமது எதிர்கால இலக்குகளின் அடிப்படையில் கட்டமைக்கப்பட்டுள்ளது. எமது வங்கியானது அதன் அடிப்படை வியாபாரச் செயற்பாடுகளை உறுதிப்பாட்டுடன் முன்னெடுத்து வருகிறது. இதன் காரணமாக, எதிர்வரும் ஆண்டுகளிலும் எமது வியாபார இலக்குகளை அடைவதற்கான சாத்தியக்கூறு நிலவுகிறது.

குறிப்பாக, சிறிய மற்றும் நடுத்தரளவு தொழில்களை மையமாகக் கொண்ட எமது மூலோபாயத் திட்டத்தினை அமுல்படுத்துவதில் நாம் கணிசமானளவு முன்னேற்றத்தினைக் காண்பித்து வருகிறோம். எமது வழமையான வியாபார நடவடிக்கைகளின் ஒருபகுதியாக, நாட்டின் பொருளாதாரத்திற்கு அளப்பரிய பங்களிப்பினை வழங்கும் சிறிய மற்றும் நடுத்தரளவு தொழில்முனைவோருக்கு தொடர்ந்தும் உதவி வருகின்றோம்.

அந்தவகையில், நிறுவனத்தின் தொடர்ந்து இயங்கும் எண்ணக்கருவினை பாதிக்காத வகையில் மேற்கூறிய துறையினருக்குத் தொடர்ந்தும் எமது ஆதரவினை வழங்க எதிர்பார்க்கின்றோம்.

பாராட்டுகல்

2019 ஆம் ஆண்டில் வங்கியின் வியாபார இலக்குகளை அடைவதற்கு அர்ப்பணிப்புடன் உழைத்த எமது பணிப்பாளர் மற்றும் பிரதம நிறைவேற்று உத்தியோகத்தரான திரு கபில் ஆரியர்தன், வங்கியின் முகாமைத்துவம் மற்றும் ஊழியர்களுக்கு பணிப்பாளர் சபையின் சார்பாக எமது நன்றியைத் தெரிவித்துக் கொள்ள விரும்புகிறேன். உங்களது பங்களிப்புக்கு எமது பாராட்டுகள். அத்தோடு, உறுதிப்பாட்டுடன் செயலாற்றி வரும் பணிப்பாளர் சபையின் அனைத்து உறுப்பினர்களுக்கும் எனது நன்றிகள் உரித்தாகட்டும்.

எமது வாடிக்கையாளர்கள், பங்குதாரர்கள் மற்றும் அனைத்து பங்காளர்களினதும் இடைவிடாத ஆதரவுக்கு எனது உளமார்ந்த நன்றியைத் தெரிவித்துக் கொள்கிறேன். வங்கியின் வியாபார நடவடிக்கைகளின் மீது நீங்கள் கொண்டுள்ள அபாரமான நம்பிக்கையே எதிர்வரும் 2020 நிதியாண்டில் புத்துணர்ச்சியுடன் எமது பயணத்தை முன்னெடுப்பதற்கான அடித்தளமாக அமைகின்றது.

அத்தோடு, வியாபாரத்தின் அனைத்து நடவடிக்கைகளிலும் துணையாக இருக்கும் நிதிக் கட்டுப்பாட்டாளர்களுக்கும் எனது நன்றியைத் தெரிவித்துக் கொள்ள விரும்புகிறேன்.

உங்கள் அனைவருக்கும் எனது வாழ்த்துகள் உரித்தாகட்டும்.



டபீன்யு எம் ஆர் எஸ் டயல்
தலைவர்

21 பெப்ரவரி 2020

Circular to Shareholders



(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 2019 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 (LKR 2.00) on each ordinary (voting) share and ordinary (non-voting) share is recommended by the Board for the financial year ended 31 December 2019. The dividend is subject to due declaration and approval by the shareholders at the Company's Annual General Meeting ("AGM") to be held on Monday, 30 March 2020.

The dividend so declared will be satisfied:

- (i) Partly by way of payment in cash for a value of Rupee One (LKR 1.00) 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 Rupee One (LKR 1.00) 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 2019 which said profit has been recorded under "retained earnings" in the Company's Statement of Financial Position as at 31 December 2019. The Company made a profit of LKR 3,680 Mn., as reflected in the Audited Financial Statements for the year ended 31 December 2019.

The total amount of the dividend that is proposed to be so declared is rupees one billion seven million two hundred and forty seven thousand five hundred and seventy two only (LKR 1,007,247,572.00). The dividend to be satisfied in the following manner:

Method of satisfaction	Total amount (LKR)
By way of a payment in cash	503,623,786.00
By the allotment and issue of new ordinary shares	503,623,786.00
Total	1,007,247,572.00

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. Accordingly, the shares to be allotted would be as follows:

- (a) One new fully paid ordinary (voting) share for every 48.0000030539 existing ordinary (voting) shares held by the entitled shareholders; and
- (b) One new fully paid ordinary (non-voting) share for every 30.9000035661 existing ordinary (non-voting) shares held by the entitled shareholders.

Consequently, a maximum of five million two hundred and thirty nine thousand one hundred and twenty two (5,239,122) new ordinary (voting) shares and a maximum of eight million one hundred and sixty thousand sixty one (8,160,061)

new ordinary (non-voting) shares will be issued. Accordingly, the ordinary (voting) shares in issue will increase from 251,477,872 to 256,716,994 and the ordinary (non-voting) shares in issue will increase from 252,145,914 to 260,305,975. 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 forty-eight (LKR 48.00) per ordinary (voting) share and rupees thirty and cents ninety (LKR 30.90) per ordinary (non-voting) share respectively, being the closing prices of the respective shares as at the end of trading on 20 February 2020. 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 17,044,722,726.90 to LKR 17,548,346,512.90. Any difference in the stated capital arising due to the rounding-off of the number of shares to be issued will be considered together with the residual share fractions.

Fractions arising on allotment and issue of new shares

The residual share fractions arising from the aforementioned issue and allotment of new ordinary (voting) shares and ordinary (non-voting) shares will be aggregated and the ordinary (voting) shares and ordinary (non-voting) shares arising consequent to such aggregation will be allotted to a trustee to be nominated and appointed by the Board of Directors. The trustee so nominated and appointed will hold the said shares in trust and dispose such shares on the trading floor of the Colombo Stock Exchange ("CSE") within a reasonable period of time. The sales proceeds arising therefrom shall be distributed to a charity or charities as shall be determined and approved by the Board of Directors.

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
	48.0000030539	
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
	30.9000035661	

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 thereto) 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 within five market days.

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 2019 and shall be dependent on and subject to the shareholders passing the resolution declaring the said dividend.

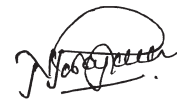
Annual General Meeting

The Annual Report of the Company and the Notice of the AGM scheduled to be held on Monday, 30 March 2020 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

2 March 2020

Note: Please contact the Company Secretariat on +94 11 245 6582, +94 11 245 6589 or +94 11 245 6551 for any clarification/information.

Notice of Meeting

NOTICE IS HEREBY GIVEN THAT the Thirty Third Annual General Meeting of Seylan Bank PLC (“the Bank” or “the Company”) will be held on Monday, 30 March 2020 at 10.00a.m. 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 2019 together with the Report of the Auditors thereon.
2. To declare a first and final Dividend for the financial year ended 31 December 2019 as recommended by the Board of Directors which said declaration is further explained in the Circular to Shareholders dated 2 March 2020 accompanying this Notice, and for this purpose to consider and if thought fit to pass the following resolution as an Ordinary resolution:

“THAT a first and final Dividend of a total sum of Rupees one billion seven million two hundred and forty seven thousand five hundred and seventy two only (LKR 1,007,247,572.00) which constitutes a dividend of Rupees two (LKR 2.00) per share be distributed to the holders of ordinary (voting) and ordinary (non-voting) shares as follows:

- (i) A sum of Rupee one (LKR 1.00) to be declared in cash on each ordinary (voting) and ordinary (non-voting) share; and
- (ii) A sum of Rupee one (LKR 1.00) to be declared by way of the allotment of new ordinary (voting) shares in the ratio of one new fully paid ordinary (voting) share for every 48.0000030539 existing ordinary (voting) shares held and one new fully paid ordinary (non-voting) share for every 30.9000035661 existing ordinary (non-voting) shares;

THAT such dividend be paid out of the profit of the Company for the year ended 31 December 2019 which said profit has been recorded under “retained earnings” of the Company’s Statement of Financial Position as at 31 December 2019;

THAT the shareholders entitled shall be those who are duly registered in the Company’s Shareholders’ Register as well as those shareholders whose names appear on the Central Depository Systems (Pvt) Ltd. as at the end of trading on the date of the Annual General Meeting;

THAT the total number of new ordinary (voting) shares to be issued would be a maximum of five million two hundred and thirty nine thousand one hundred and twenty two (5,239,122) and the total number of ordinary (non-voting) shares to be issued would be a maximum of eight million one hundred and sixty thousand sixty one only (8,160,061);

THAT the shares issued consequent to the allotment referred to above be listed on the CSE;

THAT the residual share fractions arising from the aforementioned issue and allotment of new ordinary (voting) shares and ordinary (non-voting) shares will be aggregated and allotted to a trustee who will dispose such shares on the trading floor of the CSE and the sales proceeds arising therefrom shall be distributed to a charity or charities as shall be determined and approved by the Board of Directors;

THAT the new ordinary (voting) shares and ordinary (non-voting) shares to be so allotted and issued shall not be eligible for the payment of the cash dividend declared hereby.”

The residual share fractions referred to in the above resolution shall mean the fractions after applying the respective formula for the issue and allotment of the new shares as indicated in the Circular dated 2 March 2020.

3. To re-elect as a Director, Mr W D K Jayawardena, who retires by rotation at the Annual General Meeting in terms of Article 82 of the Articles of Association of the Company. Mr W D K Jayawardena is the Deputy Chairman and a Non-Executive Director of the Bank appointed to the Board on 1 August 2013. His profile, Board subcommittee memberships and other directorships held are published on pages 77 and 120 respectively in the Annual Report.

4. To re-elect as a Director, Mr A S Wijesinha who retires at the Annual General Meeting in terms of Article 82 of the Articles of Association of the Company. Mr A S Wijesinha is an Independent Director of the Bank and was appointed to the Board on 1 December 2016. His profile and other directorships held are published on pages 78 and 121 respectively in the Annual Report.
5. To re-elect as a Director, Mrs S K Salgado, Independent Director, who retires at the Annual General Meeting in terms of Article 82 of the Articles of Association of the Company. Mrs S K Salgado is an Independent Director of the Bank appointed to the Board on 1 December 2016. Her profile and other directorships held are published on pages 79 and 121 respectively in the Annual Report.
6. To re-appoint M/s KPMG, Chartered Accountants as the Auditors of the Company for the ensuing year and to authorise the Board of Directors to determine their remuneration.
7. To authorise the Board of Directors to determine donations for 2020.
8. To consider any other business of which due notice has been given.

By Order of the Board of Directors of Seylan Bank PLC,



Mrs N N Najumudeen
Company Secretary

Colombo

2 March 2020

Please refer instructions regarding attendance at the meeting, on the reverse hereof:

Instructions regarding attendance at the meeting.**Notes**

- (a) An ordinary (voting) shareholder who is entitled to attend, speak and vote at the meeting is entitled to appoint a proxy to attend, speak and vote on his/her behalf.*
- (b) An ordinary (non-voting) shareholder who is entitled only to attend and speak at the meeting is entitled to appoint a proxy holder to attend and speak on his/her behalf.*
- (c) A proxy holder need not be a shareholder of the Company. A Form of Proxy is enclosed for this purpose.*
- (d) The completed Form of Proxy should be deposited at the Office of the Company Secretary at Level 15, Seylan Towers, No. 90, Galle Road, Colombo 03 not less than 48 hours before the time appointed for the holding of the Annual General Meeting. 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, Sri Lanka
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, 2018 and 2019 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 Abeysuriya
Independent Director

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

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, Sri Lanka

For any clarifications on this Report, please contact:

The Chief Financial Officer
Seylan Bank PLC
"Seylan Towers"
No. 90, Galle Road
Colombo 03, Sri Lanka
email : pmu@seylan.lk
Phone : +94 11 245 6371,
 : +94 11 245 6367
Fax : +94 11 245 2612

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/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 3 (Attention: The Company Secretary, Level 15, Seylan Towers) 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.

Investor Feedback Form

We welcome your comments and queries. In order to respond to your queries, please complete the following form and return to -

The Company Secretary
Seylan Bank PLC
Seylan Towers
No. 90, Galle Road
Colombo 03

Name (Mr/Mrs/Ms/Other) : _____
National Identity Card Number : _____
Permanent Mailing Address : _____
Contact Telephone : _____
Email : _____
Occupation/Profession : _____

Queries/Comments

.....	
..... Signature of Shareholder Date



**This Annual Report is
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This paradox in airline jargon truly describes the year gone by for Seylan Bank. In a year of challenge for the Bank and the industry, the saying illustrates the premise of opportunity that lies within challenge. The Bank dug deep, propelled by the strength of its core values and ethos to remain strong and resilient for the years ahead.



Seylan Bank PLC

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