

IT'S  
ALL  
ABOUT  
**THE**  
**JOURNEY**

## **ABOUT THE BANK**

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

## **OUR VISION**

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

## **OUR MISSION**

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

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

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



**IT'S  
ALL  
ABOUT  
THE  
JOURNEY**

Seylan Bank PLC | Annual Report 2016



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SCAN TO VIEW

<https://www.seylan.lk/annual-reports.html>



**IT'S  
ALL  
ABOUT  
THE  
JOURNEY**

Our strategic plan is set for the years ahead,  
just as it was in the years gone by...and we traverse  
the new path with our stakeholders,  
enjoying the many moments of success and  
challenge as we seek mutual well-being and prosperity.  
It is this journey undertaken by the Bank and  
its stakeholders that empowers and strengthens  
and makes the overhauling of mutual goals  
that much more satisfying.

**It truly is...all about the journey!**

## The Change for the Better

The Annual Report 2016 is a focused, concise report facilitating better understanding by the readers, while maintaining the transparency of the information for the benefit of all our stakeholders. In that respect, therefore, it is, comparatively, much leaner but more robust and more meaningful and user-friendly, which is our aim, to be able to convey to the general public in particular, the essence of what we all look forward to each year – a transparent, lucid and convincing affirmation of the financial soundness and sustainability of the Bank.

Accordingly, the Report communicates to the reader, the linkages between our underlying business model that fundamentally supports financial soundness and prudence and the story of how in this process, we relate this model to value creation for all our stakeholders. Consequently, the Bank's approach to sustainability is reflected throughout this Report.

## Profiling the Bank

Seylan Bank PLC, a licensed commercial bank and a public limited liability company incorporated in Sri Lanka and listed on the Colombo Stock Exchange, commenced its business in 1987 and is presently identified as one of the few systemically important banks in Sri Lanka. Corporate information regarding the Bank appears on page 290 and for information on its share ownership structure, identity and percentage of ownership, please refer to the 'Investor Information' section of this Annual Report.

## Presence and Scale of Operation

We intermediate financially through a well dispersed network of 166 delivery points, 202 ATMs and 100 student savings centres in Sri Lanka. Overseas, we have established a presence through a team of coordinators in Lebanon, Saudi Arabia and United Arab Emirates, where we focus on the remittances business through exchange houses in these countries. We have a staff strength of 3,165 employees, as at end December 2016.

In 2016, we enhanced our delivery points by adding 8 new branches, 20 ATMs and recruited 218 staff members to the Bank.

Our Group consists of a subsidiary namely, Seylan Developments PLC, in which the Bank holds an equity stake of 70.51%, as explained in the Notes to the Financial Statements. There were no significant changes in the size structure, ownership or supply chain of the Bank during 2016.

## Brands, Products, Services and Operational Structure

The operational structure of the Bank comprises six main sections – Branch Banking, Corporate and Foreign Currency Banking, Retail Banking, Treasury Operations, International and Trade Finance and the newly formed Project Finance Unit. These divisions of the organisation offer an array of financial services to customers through various delivery channels. A description of our products appears on pages 124 to 125 of this Annual Report.

## Compliance

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

## Sustainability Reporting Framework

This is our fourth Integrated Report, which encompasses economic, social and environmental performances of Seylan Bank PLC, for the reporting period and the manner, in which we relate to our key stakeholders in creating sustainable value, the details of which are contained in the relevant sustainability sections of the Report. Our report is based on the Global Reporting Initiative (GRI) G4 and is prepared in accordance with 'core' criteria.

## Limitations and Boundary

This Report mainly covers sustainability impacts, opportunities and risks arising from the Bank's activities in the financial services sector, where some of the GRI indicators may not be applicable to its operations. This Report does not extend to the Bank's subsidiary, Seylan Developments PLC, which produces its own Annual Report.

## Content of the Report

The Report presents both positive and negative performance of the Bank in a manner in which our Stakeholders are able to see the total picture of the Bank's policies, operations and processes. This holistic approach has helped us to identify our weaknesses and build on our strengths to make our presence sustainable.

## Comparative Information

The Annual Report for the financial year 2016, presents Key Performance Indicators, together with comparative information, for the last year and includes a summary of sustainability indices, which we have developed to monitor our performance in relation to diverse stakeholder interests. There are no significant changes/restatements from the previous reporting periods in the scope and aspects boundaries.

## Independent Assurance

The Bank's policy recognises the importance of obtaining an independent assurance of its sustainability report and, accordingly, the Bank has obtained the services of Messrs KPMG for appropriate assurance in this regard, which appears on pages 282 to 283 of this Annual Report. This Integrated Report can be accessed through our website at <https://www.seylan.lk/annual-reports.html>

## Contact Person for Editorial Information

Mrs. Champika Dodanwela  
Chief Financial Officer  
Seylan Bank PLC  
Tel: 011-2456358  
Fax: 011-2452612  
e-mail: champikad@seylan.lk

# OUR VALUE CREATION STRATEGY

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HIGHLIGHTS

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LETTER FROM  
THE CHAIRMAN

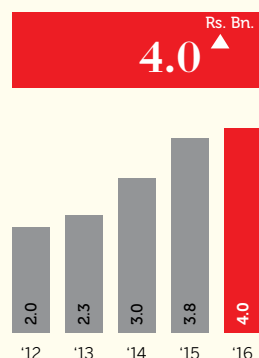
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LETTER FROM THE DIRECTOR/  
CHIEF EXECUTIVE OFFICER

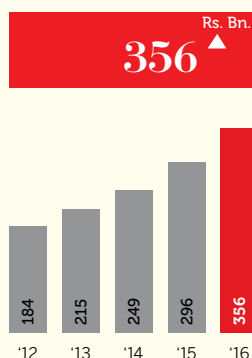
|   | BANK               |                  |             | GROUP              |                  |             |
|---|--------------------|------------------|-------------|--------------------|------------------|-------------|
|   | 2016<br>Rs. '000   | 2015<br>Rs. '000 | Change<br>% | 2016<br>Rs. '000   | 2015<br>Rs. '000 | Change<br>% |
| <b>During The Year</b>  |                    |                  |             |                    |                  |             |
| Income  | <b>38,092,193</b>  | 28,586,081       | 33.25       | <b>38,132,079</b>  | 28,628,850       | 33.19       |
| Operating Profit before Income Tax  | <b>5,733,718</b>   | 5,776,711        | (0.74)      | <b>5,771,245</b>   | 5,822,611        | (0.88)      |
| Income Tax Expense  | <b>1,723,268</b>   | 1,945,767        | (11.44)     | <b>1,736,355</b>   | 1,936,662        | (10.34)     |
| Profit Attributable to Equity Holders of the Bank                             | <b>4,010,450</b>   | 3,830,944        | 4.69        | <b>4,013,132</b>   | 3,855,296        | 4.09        |
| Other Comprehensive Income for the Year, Net of Tax                           | <b>(345,204)</b>   | (1,053,977)      | 67.25       | <b>(327,867)</b>   | (1,047,397)      | 68.70       |
| Total Comprehensive Income Attributable to Equity Holders of the Bank         | <b>3,665,246</b>   | 2,776,967        | 31.99       | <b>3,680,154</b>   | 2,805,940        | 31.16       |
| Revenue to Government   | <b>3,072,633</b>   | 3,202,007        | (4.04)      | <b>3,079,238</b>   | 3,192,902        | (3.56)      |
| Gross Dividend – Note   | <b>1,121,121</b>   | 948,641          | 18.18       | <b>1,121,121</b>   | 948,641          | 18.18       |
| <b>At the Year End</b>  |                    |                  |             |                    |                  |             |
| Total Equity Attributable to Equity Holders of the Bank                       | <b>27,772,282</b>  | 25,055,677       | 10.84       | <b>29,020,274</b>  | 26,287,740       | 10.39       |
| Retained Earnings   | <b>14,050,233</b>  | 11,125,666       | 26.29       | <b>14,304,925</b>  | 11,376,269       | 25.74       |
| Customer Deposits   | <b>273,456,344</b> | 224,525,455      | 21.79       | <b>273,456,344</b> | 224,525,455      | 21.79       |
| Customer Loans and Receivables  | <b>236,020,197</b> | 193,103,942      | 22.22       | <b>236,020,197</b> | 193,103,942      | 22.22       |
| Total Assets  | <b>356,012,556</b> | 296,330,133      | 20.14       | <b>358,249,441</b> | 298,585,564      | 19.98       |
| <b>Information Per Ordinary Share</b>   |                    |                  |             |                    |                  |             |
| Basic/Diluted Earnings per Share (Rs.)  | <b>11.63</b>       | 11.11            | 4.69        | <b>11.63</b>       | 11.18            | 4.09        |
| Dividends (Rs.) – Note  | <b>3.25</b>        | 2.75             | 18.18       | <b>3.25</b>        | 2.75             | 18.18       |
| Net Assets Value per Share (Rs.)  | <b>80.51</b>       | 72.63            | 10.84       | <b>84.13</b>       | 76.21            | 10.39       |
| Market Value (Rs.) – As at End of the Year                                    |                    |                  |             |                    |                  |             |
| – Voting Shares   | <b>90.00</b>       | 95.00            | (5.26)      | -                  | -                | -           |
| – Non-Voting Shares   | <b>59.00</b>       | 73.00            | (19.18)     | -                  | -                | -           |
| <b>Statutory/Other Ratios (%)</b>   |                    |                  |             |                    |                  |             |
| Core Capital Adequacy<br>(Minimum Requirement – 5%)                           | <b>10.74</b>       | 12.24            | (12.25)     | <b>10.94</b>       | 12.48            | (12.34)     |
| Total Capital Adequacy<br>(Minimum Requirement – 10%)                         | <b>13.18</b>       | 12.87            | 2.41        | <b>13.33</b>       | 13.08            | 1.91        |
| <b>Liquidity</b>  |                    |                  |             |                    |                  |             |
| – Domestic Banking Unit Operations (%)<br>(Minimum Requirement – 20%)         | <b>22.68</b>       | 27.56            | (17.71)     | -                  | -                | -           |
| – Foreign Currency Banking Unit Operations (%)<br>(Minimum Requirement – 20%) | <b>26.24</b>       | 21.51            | 21.99       | -                  | -                | -           |
| Price Earnings Ratio – Voting (Times)   | <b>7.74</b>        | 8.55             | (9.47)      | <b>7.74</b>        | 8.50             | (8.94)      |
| – Non-Voting (Times)  | <b>5.07</b>        | 6.57             | (22.83)     | <b>5.07</b>        | 6.53             | (22.36)     |
| Dividend Cover (Times) – Note   | <b>3.58</b>        | 4.04             | (11.38)     | <b>3.58</b>        | 4.06             | (11.82)     |

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

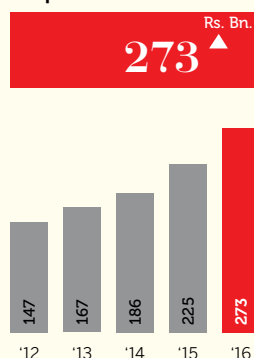
#### Achieved the Highest Ever Profit



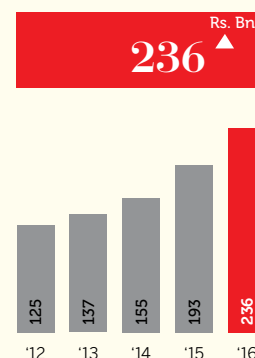
#### Total Assets Reached



#### Deposits Base Surpassed



#### Net Advances Portfolio of



#### Recorded a Healthy Capital Adequacy Ratio of

**13.18%**

#### Net Assets Value per Share Increased in 2016 to

**Rs. 80.51**



## Investor

Recorded a Return on Equity of

(%)  
**15.18**

Highest ever dividend per share of

Rs.  
**3.25**

Earnings per Share increased to

Rs.  
**11.63**

## Customers



Opened 8 new branches and relocated and refurbished 14 branches to expand footprint and enhance customer convenience



Added 20 ATMs and 6 Cash Deposit Machines (CDMs) to strengthen and enhance our ATM and CDM coverage in the Country



Revamped Internet Banking system, offering many value added functionalities with stringent security enhancement

## Employees



of average service period

over  
**13 years**



Recruited 218 new staff members to the Bank



Over Rs. 1.4 Mn. annual average benefits per employee



Females accounted for 43% of employees

## Business Partners



Over Rs. 218 Mn. purchases from locally based suppliers



over  
**500**

registered suppliers



More than 15 years relationship with 22 correspondent banks

## Social & Environmental



Opened 40 'Seylan Pahasara' libraries across the country in 2016, raising the total number of libraries to 120



Donated over Rs. 10 Mn. relief to flood victims



Over Rs. 16 Mn. for education related pursuits



102,237 Kg of paper recycled during the year



Despite many challenges, through **judicious execution of a set of coherent strategies** over the past several years we were able to maintain consistency in our performance.

Dear shareholders,

I am pleased to state that Seylan Bank has been consistent in sustaining its overall performance during the year under review. Despite many challenges we were confronted with, judicious execution of a set of coherent strategies over the past several years made this possible. As a result, the Bank has emerged as a force to reckon with in the highly competitive banking space in the country and has positioned itself as a Systemically Important Bank.

## Global and Sri Lankan Economy

The global economy suffered another lacklustre year in 2016 due to many reasons such as Brexit, the Chinese economic slowdown and changes in US policy. As a result global GDP growth slowed down and is expected to improve only modestly in 2017.

Despite the global setbacks and the proliferation of geopolitical risks in various parts of the world, the Sri Lankan economy achieved a moderate growth during the first nine months of 2016. Credit and deposit growth have moderated, and interest rates have remained high throughout the year, reflecting the macroeconomic environment that prevailed.

## Our Performance

The Bank continued its growth momentum with total assets reaching Rs. 356 Bn. recording over 20% growth in 2016. Both credit and deposits grew in a commensurate manner, illustrating optimum deployment of our funding resources in the pursuit of productive assets. The strides we have made are reflected in our bottom line which crossed the Rs. 4 Bn. milestone in 2016.

While strengthening our financial performance, we continued our focus on sustainability initiatives, education in particular. We built 40 libraries in schools during the year, increasing the total to 120 as detailed in the sustainability report.

## Our Footprint

Our branch network continues to make a positive contribution to our bottom line with more branches achieving their Key Performance Indicators compared to last year, thus consolidating the investment we continue to make in them. It is imperative therefore that we continue to leverage on our existing infrastructure, with a firm endeavour to keep our cost structure down, but yet to be able to improve productivity, which is key to any strategy we embark upon.

I also wish to make a special reference here to the active contribution the Bank makes for promoting the SME sector of the country, by optimising the delivery channels of our widespread network of branches to this sector.

## Regulation and Supervision

Our financial soundness indicators (FSIs) as reflected in our statutory ratios, are at healthy levels, but we shall not be complacent and shall ensure that we are well positioned for the long term. Strong and tested contingency plans should be in place to meet internal and external shocks which can impact these FSIs. The Central Bank's expectations of the industry have already been communicated in their Road Map, and Basel III has just been implemented. These are all factors we need to reckon in our strategies for the future.

Being a financial intermediary and given the increasing risks in the operating environment, our commitment to good corporate governance and risk management frameworks need not be overemphasised. The highest standards of governance and prudent risk management practices have been embedded into our culture to ensure full compliance and optimum trade-off between risk and return.

## Our Future Strategy

The question we now need to ask ourselves is whether we are geared for the future. It is time, therefore to look at ourselves from afar. This will give us an entirely independent, external, perspective of our strengths and

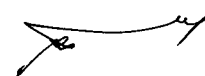
weaknesses, how we can optimise and transform them into more productive opportunities for the Bank and to be able to strike the right balance between opportunities and market realities.

## Appreciation

We have witnessed the strides the Bank has taken in its arduous journey so far. I am fully aware that it is with the utmost commitment and sincerity of purpose of the Board of Directors, the Chief Executive Officer Mr. Kapila Ariyaratne and the entire staff of the Bank who traversed this path with determination, that made this journey over a rough terrain, a reality and worthwhile. I commend them all and wish them well, in our common purpose for the success of the Bank. I would also like to thank the former Chairman, Mr. Nihal Jayamanne PC for his unwavering commitment in leading the Bank over three years. We also invited two new Independent Directors to your Board this year: Mr. Anushka Wijesinha and Mrs. Sandya Salgado, with effect from 1st December 2016. I am confident that their extensive experience will add tremendous value to the Bank.

To our valued customers who have continued to be loyal, we look forward to taking you along with us on this journey to even greater heights and thank you for your loyalty and patronage which underpins our success. We are also deeply appreciative of the trust reposed in us by investors and all other stakeholders, as well as the support we have always been able to count on from the regulators which has been a great source of strength to us on this journey.

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



**W.M.R.S. Dias**  
Chairman

21st February 2017



We have successfully embedded a culture of change and constant improvement into the organisation over the past few years. **We will now leverage our strengths, capitalise on opportunities and share our success with all our stakeholders.**

Pursuing a clear strategic vision and rising to a variety of external challenges, we have been consistently achieving remarkable results over the past few years. We have also upgraded and strengthened our internal systems and processes to ensure that we serve our customers better and through that added value to all our stakeholders. Our 3,165 strong work force spread across 166 Banking Centres has embraced this vision as one and working with commitment, professionalism and an excellent team spirit has taken the Bank along the path to progress.

For us 2016 is the culmination of the first stage of a journey undertaken along the path defined by our Strategic Plan 2012-2016. Along the way we have enjoyed many moments of success made all the more sweeter by a sense of collective achievement in overcoming a constant stream of challenges. Armed with this sense of collective achievement we look forward to the next phase of our journey towards growth and prosperity which will consolidate and build on the good work done so far.

## Our 2016 Performance

During the year which saw a steady rise in market interest rates we achieved YOY growth rates of approximately 22% on both our lending and deposit portfolios despite stresses faced by some of our more significant client segments we achieved this growth while reducing our NPA ratio. Our CASA ratio stood at 32.52% despite the shift witnessed towards higher yielding products due to rising rates but it is noteworthy that a significant portion of this CASA is in stable longer term products.

2016 marked the last year of the five year strategic plan that we launched in 2012. I am pleased to highlight that during this period we have doubled the size of the Bank while taking big strides in branch expansion and refurbishment, brand equity value, enhancing customer service, new product offerings and IT infrastructure.

The plan period that began with a largely internal focus on aspects such as process improvement, staff morale and brand equity ended in 2016 where we focused on growth and expansion. This bears testimony to the fact that we achieved our strategic imperatives year on year allowing us to compete on equal terms with industry leaders.

We also succeeded in embedding a 'change and improvement' mindset into the Organisation, so that continuous improvement and sustainable change became the norm. However we never lost sight of the fact that our loyal clientele must always be served in a manner that exceeded their expectations, adding value to them through every interaction they had with us. Doing this with a smile and a genuine commitment has paid rich dividends to us through deepened relationships and enhanced loyalty across all our customer segments. This brought in the results that we achieved and enabled our staff to participate in this success through higher remuneration and benefits as well as enhanced career prospects.

## Our New Strategic Plan

'Aspiration 2020', our strategic plan for 2017-2020 has its basic focus on growth and is built on certain key pillars which have been identified. The plan has been developed through wide internal participation and expert external assistance and we are determined to execute it diligently to achieve the set milestones to realise our vision of becoming the leading financial services provider, as recognised by our stakeholders.

'Aspiration 2020' will focus on harnessing the benefits of the digital revolution that is sweeping across the industry and channelling the resultant efficiencies in to improving interaction with our value creating customers. Our product and process improvements are all centered around this concept and will be driven with our core resolve to serve our customers better and in a proactive manner. This we are sure will carry us through to the targets that we have set out to achieve in ROA, ROE, Brand equity and market capitalisation.

## The Seylan Family

Our successful journey in 2016 would not have been possible without the support of our loyal and committed employees who have consistently worked with dedication and team spirit to deliver excellent value to our stakeholders. They have also enjoyed an enriching working environment and the pleasure that comes with becoming the best that they can in their chosen field of activity. It is this ethos that inspire our 3,165 employees and in turn the Bank is committed to develop and nurture them to become achievers and leaders.

## Our Footprint

In expanding our footprint our desire is to project our presence selectively in strategically important places. We envisage that all our branches will be advanced in state-of-the-art service technology. We are conscious of the immense potential in the new growth areas of the Sri Lankan economy, and will invest in preparing our human resources to cater to these specific market segments. Our branch network already comprises 166 Banking Centres island-wide. As we grow in geographical presence and strength, we are committed to provide the best and most comprehensive banking products and services to people across the country.

## Optimal Capital Level

The Bank is maintaining a healthy Capital Adequacy and a solid liquidity position. In 2016 the Bank reported Core Capital Adequacy Ratio of 10.74% and Total Capital Adequacy Ratio of 13.18% which are above the mandatory levels.

With the introduction of new global regulatory standard – Basel III, Banks will require increased capital requirements with an aim to enhance the quality, quantity and transparency of capital base and improve the loss absorbing capacity. The Bank has already taken the measures to adhere to Basel III requirements on liquidity and capital coverage.

We have been successful in attracting long-term funding from overseas banks and Development Finance Institutions who were keen to support our planned growth in the SME sector. This is the first time in our history that the Bank has been able to secure such long-term funding together with technical assistance which we believe will stand in good stead for our future expansion.

## Contributing to the Communities

Seylan Bank's journey towards excellence has always been guided and supported by a strong focus on sustainability and effective community engagement.

As a responsible corporate citizen, Seylan Bank continues to engage with the community to ensure their well-being. We have chosen the field of education due to its key social impact and through the 'Seylan *Pehesara*' Library Project launched in 2012, we have donated and equipped 40 new libraries in 2016 taking the total to 120.

## Appreciation

Our achievements have always been made possible through a team effort where everyone – from the members of the Board to the newest recruits manning our counters – have contributed wholeheartedly towards achieving our goals and I sincerely thank the Board of Directors, members of Corporate and Executive Management and all members of our staff for their contribution. I also wish to express my gratitude to the former Chairman Mr. Nihal Jayamanne PC under whose stewardship the Bank continued its journey to prosperity and with whom it was my privilege to work closely and welcome the new Chairman Mr. Ravi Dias, a well-known and versatile veteran in the banking industry.

Finally none of this would have been possible without our investors, loyal customers and all other stakeholders who have reposed their confidence, unwaveringly, in the Seylan Bank and with whom we look forward to continue our journey towards mutual growth and prosperity. After all, it's all about the Journey!



**Kapila Ariyaratne**  
Director/Chief Executive Officer

21st February 2017

# SUSTAINABLE STEWARDSHIP

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BOARD OF DIRECTORS

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HOW WE MANAGE RISK

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SENIOR MANAGEMENT TEAM

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HOW WE GOVERN

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# BOARD OF DIRECTORS



4 Mr. Kapila P. Ariyaratne

1 Mr. W.M.R.S. Dias

2 Mr. Ishara C. Nanayakkara

3 Ms. M. Coralie Pietersz

8

7

11

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Mr. P.L.S. Kumar Perera

Mr. W.D. Kapila Jayawardena

Mrs. Sandya K. Salgado

Mr. Anushka S. Wijesinha

Rear Admiral B. Ananda J.G. Peiris

Mr. Sarantha P.S. Ranatunga

Mr. S. Vivan Corea



The profiles of the Directors who were on the Board of Seylan Bank PLC as at 31st December 2016 are given below. Their interests in the ordinary voting, non-voting shares and the debentures of the Bank are mentioned in the 'Report of the Board of Directors' published on pages 62. The directorships/ positions held by the Directors in other institutions and the substantial shareholdings in other entities are listed in the Annexure to the 'Report of the Board of Directors' on pages 65 to 67.

1

### Mr. W.M.R.S. Dias

Non-Executive Director/Chairman

#### Qualifications:

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

#### Appointed to the Board:

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

#### Membership on Board Sub-committees:

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

#### Other Positions in the Bank:

Trustee of the Seylan Bank Employees' Gratuity Trust Fund.

#### Skills and Experience:

Banker by profession having served Commercial Bank of Ceylon PLC for a long period and retired after serving as its Managing Director/Chief Executive Officer in July 2014. Committee Member of the Ceylon Chamber of Commerce.

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

2

### Mr. Ishara C. Nanayakkara

Non-Executive Director/  
Deputy Chairman

#### Qualifications:

Diploma in Business Accounting and Finance (Aus)

#### Appointed to the Board:

On 24th November 2009 as a Non-Executive Director of Seylan Bank PLC and was appointed as its Deputy Chairman with effect from 17th January 2013.

#### Membership on Board Sub-committees:

Board Nomination Committee, Board Human Resources and Remuneration

Committee, Board Credit Committee (Chairman) and Board Sustainability Committee (Chairman).

#### Skills and Experience:

Mr. Nanayakkara is a prominent entrepreneur serving on the Boards of many corporates and conglomerates in the region. He initially ventured into the arena of financial services with a strategic investment in Lanka ORIX Leasing Company PLC and was appointed to the Board in 2002. Today, he is the Deputy Chairman of LOLC and the Executive Deputy Chairman of LOLC Finance PLC, holding directorships in many of its subsidiaries and associate companies.

Backed by over a decade of professional experience in the industry, Mr. Nanayakkara holds the role of Chairman of Commercial Leasing & Finance PLC, one of Sri Lanka's leading financial service providers, as well as LOLC Life Assurance Limited. His vision to cater to the entire value chain of the finance sector is manifested in the development of Micro Finance, Islamic Finance, factoring through LOLC Factors, LOLC Life and General Insurance Companies and stock broking through LOLC Securities Limited.

Leveraging LOLC Group's expertise in the SME sector, the expansion into the micro sector was spearheaded by Mr. Nanayakkara, who is the Chairman of its Micro Credit Companies: LOLC Micro Credit Company Limited, the only private sector microfinance institution in the country with foreign equity, and BRAC Lanka Finance PLC. He also holds a directorship at PRASAC, the largest microfinance company in Cambodia. Mr. Nanayakkara's interest in microfinance led to the inauguration of LOLC Myanmar Micro Finance Company Limited, a green field investment in Myanmar in which he was the founding Chairman, and currently serves as a Director. His proficiency in micro finance in the region is further demonstrated by his involvement at strategic level in LOLC Cambodia Limited, the 5th largest microfinance company in Cambodia.

Mr. Nanayakkara's motivation to expand into various growth peripheries is further illustrated through his role as

the Executive Chairman of Brown & Company PLC and Browns Investments PLC. Through strategic investments, he is committed to catalysing development in the growth sectors of the Sri Lankan economy such as construction. His passion for sustainable investment is reflected through his involvement in renewable energy, forestry and plantations. His involvement in the Boards of leading companies of these sectors reflects such business philosophy.

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

3

### Ms. M. Coralie Pietersz

Independent Director/Senior Director

#### Qualifications:

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

#### Appointed to the Board:

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

#### Membership on Board Sub-committees:

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

#### Skills and Experience:

Has over 20 years experience at senior level in corporate finance, accounting and auditing in several industries in both private and public sectors including several years of experience in the banking sector. Currently, she is the Finance Director of Finlays Colombo Limited, Hapugastenne Plantations PLC and Udapussellawa Plantations PLC. Prior to joining Finlays Colombo Limited, Ms. Coralie Pietersz was Group Chief Financial Officer of Richard Pieris & Co. PLC.

She is a Council Member 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:

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

#### Appointed to the Board:

On 16th February 2015 as an Executive Director

#### Membership of Board Sub-committees:

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

#### Other Positions in the Bank:

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

#### Skills and Experience:

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

5

### Rear Admiral B. Ananda J.G. Peiris

Independent Director

#### Qualifications:

Qualified at the National Defence College – Dhaka – Bangladesh; Passed Staff Course at the Naval Staff College – New Port – USA; Holds Diploma in Security Studies – Hawaii – USA; Followed International Patrol Vessel Course – Portsmouth – United Kingdom; Specialised in Long Navigation Course –

Cochin – India; Sub Lieutenant Technical Course, Cochin – India; Pacific Fleet Combined Force Maritime Component Course – Hawaii – USA.

#### Appointed to the Board:

On 8th January 2009 as an Independent Director

#### Membership of Board Sub-committees:

Board Nomination Committee (Chairman), Board Human Resources and Remuneration Committee, Board Credit Committee, Board Sustainability Committee, Board Marketing and Product Development Committee, Board Governance and Compliance Committee and Board Related Party Transactions Review Committee.

#### Other Positions in the Bank:

Trustee of the Seylan Bank Employees' Gratuity Trust Fund.

#### Skills and Experience:

A decorated officer of the Sri Lanka Navy counting a service record of over 34 years during which period he had undergone extensive training in the Indian Navy, Bangladeshi Navy, Royal Navy and US Navy. His naval experience includes serving as the Area Commander – Eastern Naval Command, Western Naval Command and Southern Naval Command. Twice appointed as the Deputy Area Commander of Northern Naval Command and Squadron Commander Fast Attack Craft and has taken part in almost all major operations in the North and the East. Had also been the Director – Naval Administration and Welfare, Director – Naval Personnel & Training and Director General (Services), Sri Lanka Navy.

Was granted the accolades of *Rana Sura Padakkama* (RSP), *Vishishta Sewa Vibhushanaya* (VSV), and *Uttama Seva Padakkama* (USP) for his service to the Nation, while he was also awarded several medals during his tenure of service in the Navy including Sri Lanka Navy 50th Anniversary Medal, President's Inauguration Medal (1978), North East Operation Medal and *Purna Bumi Padakkama*.

Rear Admiral Peiris won the admiration of the entire nation for the pivotal role he played as the Director General of the Sri Lanka Civil Defence Force of Sri Lanka from 2009-2015. His contribution to uplift the living standards of the 40,000 men and women in the Civil Defence Force, speaks volumes. Through healthy involvement of this workforce, he has been able to contribute towards the development of agriculture and growth in numerous spheres in Sri Lanka specially in war torn, affected forward areas.

6

### Mr. Samantha P.S. Ranatunga

Independent Director

#### Qualifications:

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

#### Appointed to the Board:

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

#### Membership on Board Sub-committees:

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

#### Other Positions in the Bank:

Trustee of the Seylan Bank Employees' Gratuity Trust Fund.

#### Skills and Experience:

Over 20 years experience in the field of management, marketing and managing FMCG business. Joined the Board of CIC on 21st May 2002, appointed as the Chief Operating Officer in February 2005 and as the Managing Director/ Chief Executive Officer in April 2009. He is a Non-Executive Director of a number of unlisted companies in the CIC Group including Akzo Nobel Paints Lanka (Pvt) Limited and a Non-Executive Director of Chemanex PLC. He is the Chairman of the Ceylon Chamber of Commerce and has led the Sri Lanka Chamber of Commerce delegations to various countries.

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

7

### Mr. W.D. Kapila Jayawardena

Non-Executive Director

#### Qualifications:

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

#### Appointed to the Board:

On 1st August 2013 as a Non-Executive Director

#### Membership on Board Sub-committees:

Board Audit Committee

#### Skills and Experience:

Former CEO and Country Head of Citibank N.A. Sri Lanka. Has varied experience in the fields of Investment Banking, Banking Operations, Audit, Relationship Management, Corporate Finance, Corporate Banking and Treasury Management. Was appointed as the Chairman of the Sri Lanka Banks Association (SLBA) in 2003/04. Has served as a President of the American Chamber of Commerce in Sri Lanka in 2006/07 and was appointed to the Financial Sector Reforms Committee (FSRC). A member of the National Council of Economic Development (NCED) and has also served as a Board Member of the United States-Sri Lanka Fulbright Commission. Joined LOLC in the year 2007 as the Group Managing Director/CEO and heads all business and operating functions of LOLC group. He is a member of the main Board of the LOLC Group.

8

### Mr. P.L.S. Kumar Perera

Independent Director

#### Qualifications:

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

#### Appointed to the Board:

On 23rd September 2013 as an Independent Director.

#### Membership on Board Sub-committees:

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

#### Skills and Experience:

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

9

**Mr. S. Viran Corea**

Non-Executive Director

**Qualifications:**

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

**Appointed to the Board:**

On 14th May 2015 as a Non-Executive Director.

**Membership on Board Sub-committees:**

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

**Skills and Experience:**

Counsel and Legal Consultant with over 19 years experience at the Bar. His experience in private practice has included the fields of constitutional and administrative law, human rights law, commercial law, industrial law, arbitration, contract law and land law. He has been involved as counsel in a number of landmark cases of national and public importance, reported in the Sri Lanka Law Reports. In 2012, he was picked as an Asia Society Asia 21 Young Leader.

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

10

**Mr. Anushka S. Wijesinha**

Independent Director

**Qualifications:**

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

**Appointed to the Board:**

On 1st December 2016 as an Independent Director.

**Membership on Board Sub-committees:**

Board Credit Committee, Board Related Party Transactions Review Committee.

**Skills and Experience:**

Mr. Anushka Wijesinha is an economist with a track record of research and advisory work across Asia. He has published many national and international publications, focusing on innovation, private sector development and international economics. He is currently the Chief Economist of the Ceylon Chamber of Commerce where he heads the Economic Intelligence Unit.

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

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

11

**Mrs. Sandya K. Salgado**

Independent Director

**Qualifications:**

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

**Appointed to the Board:**

On 1st December 2016 as an Independent Director.

**Membership on Board Sub-committees:**

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

**Skills and Experience:**

Mrs. Sandya Salgado is a specialist in Strategic Communications and Sustainable Business Management with

over 30 years of management experience in both corporate and development sectors.

She is also trained at Johns Hopkins University in Baltimore, USA, in Strategic Communications. She was handpicked by Ogilvy & Mather Worldwide to introduce the concept of Brand Activation to Sri Lanka and as the CEO of OgilvyAction, she launched, led and managed this company for twelve years.

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

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

Currently she is the Director of a private company, Film Island, functioning as its Business Strategist, with an objective of developing Cinema Tourism to Sri Lanka. She is also a Managing Partner of her consulting company Good Karma, through which she promotes the concept of Sustainable Business Management.

Fulfilling her social obligations, she serves as Vice-President of the Sri Lanka Association of Girl Guides, Board Member of Lebara Foundation, Council Member of the University of Sri Jayewardenepura and Secretary of the International Film Producers' Association of Sri Lanka.

Director/Chief Executive Officer



1 Mr. Kapila Ariyaratne

Senior Deputy General Managers



2 Mr. Tissa Nanayakkara  
Senior Deputy General Manager – Retail Banking



3 Mr. Nimal Tillekeratne  
Senior Deputy General Manager – Operations

Deputy General Managers



4 Mr. Wijitha Rohana  
Deputy General Manager – Branch Credit



5 Mr. Somadasa Palihawadana  
Deputy General Manager – Treasury



6 Mr. Chitral De Silva  
Deputy General Manager – Branches



7 Mr. Tilan Wijeyesekera  
Deputy General Manager – Marketing and Personal Banking



8 Mr. Ramesh Jayasekara  
Chief Risk Officer



9 Mr. Delvin Pereira  
Deputy General Manager – Consumer Finance



10 Mr. Chanaka Goonewardene  
Deputy General Manager – Information Technology



11 Mr. Najill Farouk  
Deputy General Manager – Corporate Banking



12 Mr. Jayantha Amarasinghe  
Deputy General Manager – Human Resources



**13** **Mr. Piyal Hennayake**  
Deputy General Manager – Project Finance



**14** **Mrs. Champika Dodanwela**  
Chief Financial Officer

**Assistant General Managers**



**15** **Miss Rohini Weerakkody**  
Assistant General Manager – Operations



**16** **Mrs. Yasanthie Udurawane**  
Assistant General Manager – Credit Administration



**17** **Mr. Shanaka Perera**  
Acting Head of Treasury/Chief Dealer



**18** **Mr. Wasantha Karunaratne**  
Assistant General Manager – Services



**19** **Mr. Kapila Rathnayaka**  
Assistant General Manager – Premises Maintenance



**20** **Mr. Gerald Wanigaratne**  
Assistant General Manager – Information Technology



**21** **Mrs. Kaushalya Hatch**  
Head of Legal



**22** **Mr. Aruna Fernando**  
Assistant General Manager – Credit Risk

**Mr. Kapila Ariyaratne**

Director/Chief Executive Officer  
BSc (Honours – First Class),  
University of Colombo  
Overall banking experience – Over 30 Years

**Mr. Tissa Nanayakkara**

Senior Deputy General Manager – Retail Banking  
AIB – Part I  
Overall banking experience – 36 Years

**Mr. Nimal Tillekeratne**

Senior Deputy General Manager – Operations  
Associate Member of Institute of Bankers  
Sri Lanka  
Passed finalist of Executive Diploma in Business  
Statistics from University of Moratuwa  
Overall banking experience – 39 Years

**Mr. Wijitha Rohana**

Deputy General Manager – Branch Credit  
Associate Member of Institute of Bankers of  
Sri Lanka  
Postgraduate Diploma in Business and Financial  
Administration – The Institute of Chartered  
Accountants of Sri Lanka  
Overall banking experience – 37 Years

**Mr. Somadasa Palihawadana**

Deputy General Manager – Treasury  
BSc (General) – University of Colombo  
BTI (Part I)  
Overall banking experience – 42 Years

**Mr. Chitral De Silva**

Deputy General Manager – Branches  
Executive Diploma in Business Administration  
(EDBA) – University of Colombo  
Overall banking experience – 34 Years

**Mr. Tilan Wijeyesekera**

Deputy General Manager –  
Marketing and Personal Banking  
FSLIM, Practicing Marketer (SL)  
Postgraduate Diploma in Marketing  
Overall banking experience – 6 Years

**Mr. Ramesh Jayasekara**

Chief Risk Officer  
Associate of The Institute of Chartered  
Accountants of Sri Lanka  
Bachelor of Commerce (First Class),  
University of Colombo  
Associate of Chartered Institute of  
Marketing – UK  
Associate of Institute of Certified  
Management Accountants  
Overall banking experience – 12 Years

**Mr. Delvin Pereira**

Deputy General Manager – Consumer Finance  
Master's in Business Administration –  
University of Western Sydney  
Certified Management Accountant – Australia  
Intermediate in Banking – Sri Lanka  
Overall banking experience – 30 Years

**Mr. Chanaka Goonewardene**

Deputy General Manager –  
Information Technology  
Associate Member of Institute of Bankers –  
Sri Lanka  
Master's in Business Administration –  
University of Exeter, UK  
Certificate of Executive Management –  
PIM Sri Lanka  
Member, Institute Management and Information  
Systems – UK  
Overall banking experience – 35 Years

**Mr. Najill Farouk**

Deputy General Manager – Corporate Banking  
Associate of Institute of Bankers  
Master's Degree in Business – University  
of Colombo  
Overall banking experience – 33 Years

**Mr. Jayantha Amarasinghe**

Deputy General Manager – Human Resources  
Master's in Business Administration –  
Buckinghamshire New University  
Bachelor of Law (LLB),  
Attorney-at-Law,  
National Diploma in Human Resources  
Management – Institute of Personnel  
Management Sri Lanka (Inc)  
Postgraduate Diploma in Management –  
Sri Lanka Institute of Marketing  
Overall banking experience – 10 Years

**Mr. Piyal Hennayake**

Deputy General Manager – Project Finance  
BSc – Engineering Honours  
Postgraduate Diploma in Engineering  
MBA in Management of Technology  
Chartered Engineer  
Member IESL, Graduate Member – SLID  
Overall banking experience – 22 Years

**Mrs. Champika Dodanwela**

Chief Financial Officer  
Master's in Business Administration,  
Fellow Member of ACCA UK  
Associate Member of Certified  
Management Accountants,  
Fellow Member of Institute of Bankers Sri Lanka  
BSc Applied Accounting  
BSc Management  
Overall banking experience – 25 Years

**Ms. Rohini Weerakkody**

Assistant General Manager – Operations  
Associate of the Institute of Bankers – Sri Lanka  
Diploma in Bank Management – IBSL  
Master's in Business Administration  
(Hudersfield)  
ICA International Diploma in Compliance –  
International Compliance Association  
Overall banking experience – 33 Years

**Ms. Yasanthie Udurawane**

Assistant General Manager –  
Credit Administration  
AIB – Part I  
Overall banking experience – 34 Years

**Mr. Shanaka Perera**

Acting Head of Treasury/Chief Dealer  
Master's in Business Administration –  
PIM – University of Sri Jayawardenepura  
FIB – Institute of Bankers of Sri Lanka (IBSL)  
PG.Ex. Diploma in Bank Management – IBSL  
Diploma in Treasury and Risk  
Management – IBSL  
CMA (Australia)  
Overall banking experience – 26 Years

**Mr. Wasantha Karunaratne**

Assistant General Manager – Services  
Diploma in Purchasing and Materials  
Management  
Overall banking experience – 6 Years

**Mr. Kapila Rathnayaka**

Assistant General Manager –  
Premises Maintenance  
BSc – Engineering Honours  
MBA (PIM USJ) Chartered Engineer  
Corporate Member of Institution of Engineers  
Overall banking experience – 7 Years

**Mr. Gerald Wanigaratne**

Assistant General Manager –  
Information Technology  
MBA (Information Technology) – University  
of Wales UWIC  
Certified Information System Auditor  
Certified Information Security Manager  
Overall banking experience – 33 Years

**Ms. Kaushalya Hatch**

Head of Legal  
Attorney-at-Law  
Overall banking experience – 14 Years

**Mr. Aruna Fernando**

Assistant General Manager –  
Credit Risk  
Master's in Business Administration – PIM,  
University of Sri Jayawardenepura,  
AIB (Sri Lanka)  
Postgraduate level Certificate Course in  
Modern Commercial Banking – PIM, University  
of Sri Jayawardenepura  
Special Course Credited by GARP on Bank Risk  
Management, Euromoney Learning Solutions  
Overall banking experience – 28 Years

## Chairman's Statement

The importance of corporate governance cannot be overstated in sustaining trust in business. A very good standard of corporate governance and reporting are vital for the effective functioning of markets, benefiting investors, stakeholders and the wider public interest. Adherence to corporate governance codes should be followed up for a healthy corporate culture ensuring long-term sustainability of business.

The Board of Seylan Bank PLC focuses on influencing, assessing and monitoring good corporate culture with a view to strengthening same throughout the organisation. To put these efforts into perspective, the Bank has in place a Corporate Governance Framework formulated by the Board Governance and Compliance Committee and approved by the Board.

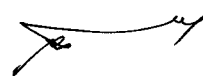
Statements and Disclosures in compliance with Section 3 (1) (xvi) of the Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended) and with Section D.5.1 of the Code of Best Practice (2013) on Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka are made in the Annual Corporate Governance Report on the pages that follow. I wish to state that the recommendations of the Examiners of the Central Bank of Sri Lanka and the External Auditors pursuant to their respective reviews have helped the Bank in improving its Corporate Governance practices and processes.

With the commitment and support of the Board of Directors and the management in implementing and maintaining a good governance culture within the Bank, I am

confident that the governance practices established are continuously improved and sustained.

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

Yours sincerely,



**W.M.R.S. Dias**  
Chairman

21st February 2017  
Colombo

## Governance Related Highlights/Initiatives of the Board during the Year – 2016

|                |  |
|----------------|--|
| 8th May        | Mr. Nihal Jayamanne PC, Independent Director/Chairman retired in compliance with Section 3 (3) (i) of the Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended) on reaching the age of 70 years. |
| 9th May        | Non-Executive Director, Mr. W.M.R.S. Dias was appointed as Chairman.   |
| 9th May        | Independent Director, Ms. Coralie Pietersz was appointed as Senior Director in compliance with section 3 (5) (ii) of the Banking Act Directions on Corporate Governance.   |
| 30th May       | Board Sub-committees were reconstituted.   |
| 28th July      | Board approved the engagement of Messrs. Boston Consulting Group, India for its next four-year Strategic Plan – 2017-2020.   |
| 29th September | The responsibilities of the Board Governance and Compliance Committee in relation to the 'Review of Related Party Transactions' were vested in the Related Party Transactions Review Committee.                      |
| 1st December   | Mr. Anushka S. Wijesinha and Mrs. Sandya K. Salgado were appointed as Independent Directors to the Board.  |

## Seylan Bank PLC's Governance Framework

Seylan Bank PLC is a licensed commercial bank and a public limited liability company listed on the Main Board of the Colombo Stock Exchange. Seylan Bank's Corporate Governance Framework is mainly founded on the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46 (1) of the Banking Act No. 30 of 1988 (as amended) (hereinafter referred to as the 'Banking Act Directions'), other Banking Act Directions such as the Directions relating to ownership of issued capital carrying voting rights and risk management; provisions of the Companies Act No. 07 of 2007; the Articles of Association of the Bank and the Code of Best Practice (2013) on Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka and; the Rules of the Colombo Stock Exchange as amended from time to time.



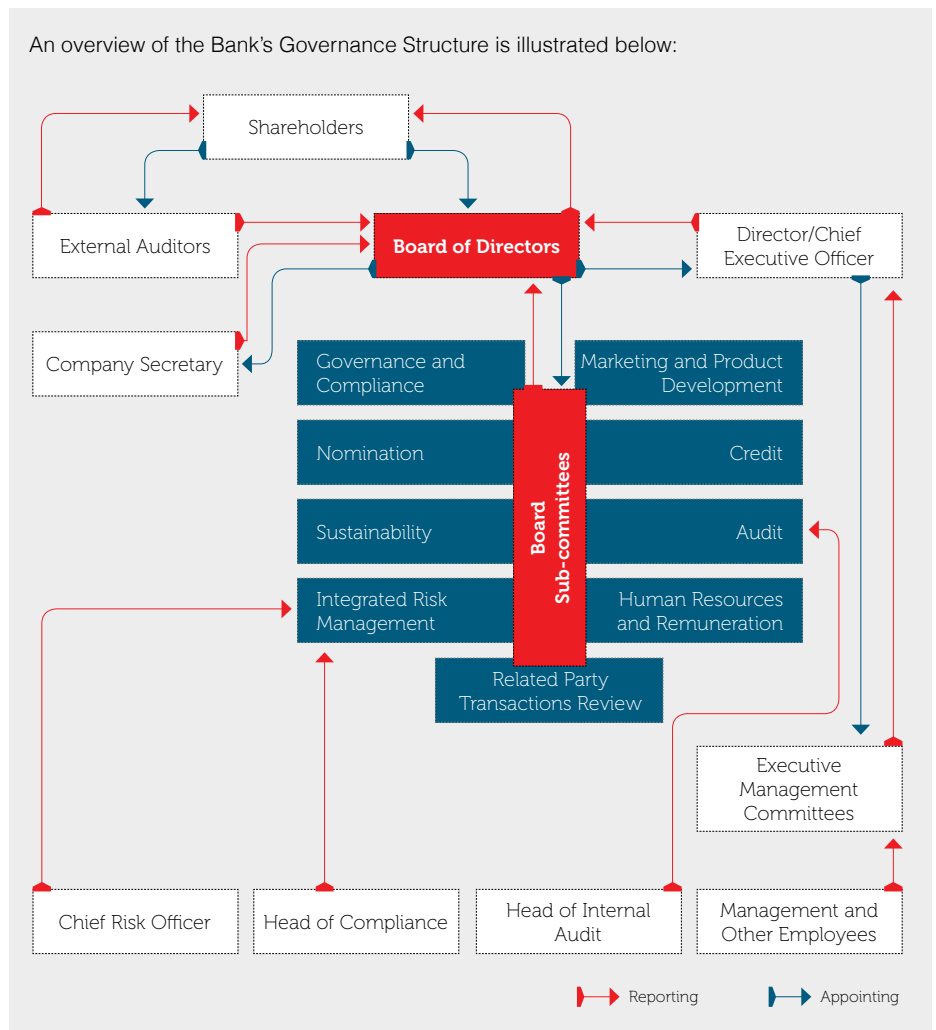
The Articles of Association of the Bank is adopted in line with the provisions of the Companies Act No. 07 of 2007 and the Banking Act No. 30 of 1988 and its Directions. The Bank is governed by the regulations contained in the current Articles, subject however to repeal, alteration or addition to the Articles by special resolution when deemed necessary and appropriate. Where the provisions of the Banking Act No. 30 of 1988 (as amended) and the Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended) supersedes that of the Articles of Association of the Bank, provisions of the Banking Act and the said Directions prevail over the provisions contained in the Articles of Association. However, where the Articles of Association of the Bank set a more stringent standard than that specified in the Banking Act and/or Directions, such provisions in the Articles of Association will be followed by the Bank {(Refer: Section 3 (9) (iv) of the Banking Act Direction No. 11 of 2007 on Corporate Governance) (Banking and Directions)}.

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

### Bank's Governance Principles

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

An overview of the Bank's Governance Structure is illustrated below:



## Corporate Governance Compliance Report

For purposes of compliance with Section 3 (1) (xvi) of the Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended) and with Section D.5.1 of the Code of Best Practice (2013) on Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL), the statements and disclosures made from pages 24 to 45 shall be deemed as the Annual Corporate Governance Report of the Bank.

### Rules of the Colombo Stock Exchange (CSE) Relating to Corporate Governance

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

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

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

|                             | Sections    |
|-----------------------------|-------------|
| Directors                   | A.1 to A.11 |
| Directors' Remuneration     | B.1 to B.3  |
| Relations with Shareholders | C.1 to C.3  |
| Accountability and Audit    | D.1 to D.5  |
| Institutional Investors     | E.1 and E.2 |
| Other Investors             | F.1 and F.2 |
| Sustainability Reporting    | G           |

### A.1 Directors

#### An Effective Board to Direct and Control the Company

The Directors of the Bank's Board are professionals with diversified expertise in the fields of banking, finance, accounting, insurance, law, economics, research, marketing, strategic communication, security, intelligence, etc. as highlighted below:

| Director  | Expertise  |
|---|--|
| Mr. W.M.R.S. Dias – Non-Executive Director/Chairman           | Banking and Finance  |
| Mr. I.C. Nanayakkara – Non-Executive Director/Deputy Chairman | Business, Finance and Insurance  |
| Ms. M.C. Pietersz – Independent Director/Senior Director      | Corporate Finance, Accounting, Auditing and Banking                            |
| Mr. K.P. Ariyaratne – Director/Chief Executive Officer (CEO)  | Banking and Finance  |
| Rear Admiral B.A.J.G. Peiris – Independent Director           | Security, Intelligence, Administration   |
| Mr. S.P.S. Ranatunga – Independent Director                   | Marketing and Management   |
| Mr. W.D.K. Jayawardena – Non-Executive Director               | Banking, Finance, Treasury Management and Audit                                |
| Mr. P.L.S.K. Perera – Independent Director                    | Banking (Central Bank), Exchange Control, Administration                       |
| Mr. S.V. Corea – Non-Executive Director                       | Law – Commercial, contract, civil, industrial, constitutional and human rights |
| Mr. A.S. Wijesinha – Independent Director                     | Macroeconomics, Research, Policy Advisory                                      |
| Mrs. S.K. Salgado – Independent Director                      | Strategic Communications and Sustainable Business Management                   |

Further information on each of the Directors' professional background and work-related experience is provided on pages 15 to 18. (Profiles of the Directors).

## Board Meetings

Twelve regular Board meetings were held at monthly intervals and five special Board meetings were held at different times of the year to consider important and/or urgent issues. The details of the eligibility for attendance as against actual attendance of the Directors at the twelve regular meetings and the two (out of the five) special meetings convened with due notices are given below:

| Director/Status/Position   | Date of Appointment<br>(and Changes during the Year 2016)                              | *No. of Meetings<br>Eligible to have<br>Attended | No. of<br>Meetings<br>Attended | Attendance<br>as a<br>Percentage (%) |
|--|--|--|--------------------------------|--------------------------------------|
| Mr. Nihal M. Jayamanne PC – Independent Director/Chairman          | 30th December 2008<br>(retired on 8th May 2016)  | 5  | 5                              | 100                                  |
| Mr. W.M.R.S. Dias – Non-Executive Director/Chairman                | 29th May 2015<br>(appointed as Chairman with<br>effect from 9th May 2016)              | 14   | 14                             | 100                                  |
| Mr. Ishara C. Nanayakkara – Non-Executive Director/Deputy Chairman | 24th November 2009   | 14   | 11                             | 78.57                                |
| Ms. M. Coralie Pietersz – Independent Director/Senior Director     | 23rd September 2013<br>(appointed as Senior Director<br>with effect from 9th May 2016) | 14   | 12                             | 85.71                                |
| Mr. Kapila P. Ariyaratne – Director/Chief Executive Officer        | 16th February 2015   | 14   | 14                             | 100                                  |
| Rear Admiral B. Ananda J.G. Peiris – Independent Director          | 8th January 2009   | 14   | 12                             | 85.71                                |
| Mr. Samantha P.S. Ranatunga – Independent Director                 | 12th January 2010  | 14   | 12                             | 85.71                                |
| Mr. W.D. Kapila Jayawardena – Non-Executive Director               | 1st August 2013  | 14   | 12                             | 85.71                                |
| Mr. P.L.S. Kumar Perera – Independent Director                     | 23rd September 2013  | 14   | 13                             | 92.86                                |
| Mr. S. Viran Corea – Non-Executive Director                        | 14th May 2015  | 14   | 14                             | 100                                  |
| Mr. Anushka S. Wijesinha – Independent Director                    | 1st December 2016  | **1  | 1                              | 100                                  |
| Mrs. Sandya K. Salgado – Independent Director                      | 1st December 2016  | **1  | 1                              | 100                                  |

\* One adjourned meeting and three Special/Emergency Meetings held (with the required quorum present) were not taken into account for attendance eligibility due to short notice of less than one working day given.

\*\* Eligibility excluded in respect of one special meeting due to short notice for such meeting in respect of these two Directors who were appointed on 1st December 2016.

## Board Responsibilities

Some of the key responsibilities of the Board are: determining the structure of the management of affairs of the Bank, delegating business operations to Key Management Personnel led by the CEO appointed by the Board, policy making and risk management for the business. Banking Act Directions – Section 3 (1) – Board Responsibilities in the table reporting compliance with Banking Act Directions (page 32 to 35) provides a comprehensive update of the responsibilities carried out by the Board of Directors.

## Board Sub-committees

The Board is authorised under the Articles of Association to delegate its powers and responsibilities to the Committees established by the Board. The Committees assist the Board in discharging its responsibilities. Memberships of the Committees are structured so as to derive the best use of the skills across the Board. All Committees are chaired by Non-Executive Directors. The Director/

CEO attends those meetings of the Committees in which he is not a member, on invitation.

Reports of the Board Sub-committees summarising the activities of the Committees during the year and signed by the respective Chairpersons are published in the Annual Report (refer pages 54 to 56 ) and the attendance of the respective Directors who are members of these Committees is tabulated and given on page 26.

## Compliance with Related Regulations and Access to Independent Professional Advice

A Board approved procedure is in place enabling Directors to seek independent professional advice at the Bank's expense as and when such advice is considered necessary.

## Advice and Services of the Company Secretary

The members of the Board have access to the advice and services of the Company Secretary in relation to the

Board's responsibilities and procedures in terms of the applicable rules, regulations and best practices.

## Independent Judgement of Directors

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

## Dedication of Adequate Time and Effort by the Board and Board Committees

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

## Training for Directors

When a Director is appointed to the Board, the Company Secretary presents them with an updated 'Introductory document for new Directors' with relevant material information of the Bank and other guidelines for Directors including the Corporate Governance Framework, relevant policies, codes, declarations and returns for the Directors' perusal and compliance. Regular presentations of different business areas by the respective heads of business units were also arranged and made at Board meetings during the year which provided an opportunity for Directors to receive a comprehensive understanding and update on the progress of those functions. During the year, some Directors participated in conferences and forums such as Economic Forums and sessions organised by vendors on digital banking.

**Directors' Attendance at Board Sub-committee Meetings During the Year 2016 – Number of Meetings Attended of the Number of Meetings Eligible to Attend by Each Director at Each Sub-committee Meeting are as follows:**

| Director  | Audit   | Integrated Risk Management | Human Resources and Remuneration | Nomination    | Credit          | Marketing and Product Development | Sustainability | Governance and Compliance | Related Party Transactions Review |
|---|---|----------------------------|----------------------------------|---------------|-----------------|-----------------------------------|----------------|---------------------------|-----------------------------------|
| Mr. Nihal M. Jayamanne PC – Independent Director/Chairman (retired on 8th May 2016)                           | (M)<br>1 of 1   |                            | (C)<br>2 of 2                    | (M)<br>3 of 3 |                 | (M)<br>1 of 1                     |                | (C)<br>1 of 1             |                                   |
| Mr. W.M.R.S. Dias – Non-Executive Director/Chairman (appointed as Chairman on 9th May 2016)                   | (M)<br>5 of 5   | (M)<br>2 of 2              |                                  | (M)<br>3 of 3 |                 | (M)<br>1 of 1                     |                | (M)<br>4 of 4             |                                   |
| Mr. Ishara C. Nanayakkara – Non-Executive Director/Deputy Chairman  |   |                            | (M)<br>2 of 4                    | (M)<br>4 of 7 | (C)<br>14 of 21 |                                   | (C)<br>2 of 2  |                           |                                   |
| Ms. M. Coralie Pietersz – Independent Director/Senior Director (appointed as Senior Director on 9th May 2016) | (C)<br>11 of 11   | (M)<br>4 of 4              | (M)<br>3 of 4                    |               |                 |                                   |                | (M)<br>3 of 4             | (M)<br>1 of 2                     |
| Mr. Kapila P. Ariyaratne – Director/Chief Executive Officer   |   | (M)<br>3 of 3              |                                  |               | (M)<br>20 of 21 | (M)<br>2 of 2                     | (M)<br>2 of 2  |                           |                                   |
| Rear Admiral B. Ananda J.G. Peiris – Independent Director   |   |                            | (M)<br>4 of 4                    | (C)<br>6 of 7 | (M)<br>16 of 21 | (M)<br>2 of 2                     | (M)<br>1 of 2  | (M)<br>4 of 4             | (M)<br>2 of 2                     |
| Mr. Samantha P.S. Ranatunga – Independent Director  | (M)<br>8 of 11  | (C)<br>4 of 4              | ** (M/C)<br>4 of 4               | (M)<br>7 of 7 |                 | (C)<br>2 of 2                     | (M)<br>1 of 2  |                           |                                   |
| Mr. W.D. Kapila Jayawardena – Non-Executive Director  | (M)<br>4 of 6   |                            |                                  |               |                 |                                   |                |                           |                                   |
| Mr. P.L.S. Kumar Perera – Independent Director  |   |                            |                                  | (M)<br>3 of 3 | (M)<br>20 of 21 |                                   |                | ** (M/C)<br>4 of 4        | (C)<br>2 of 2                     |
| Mr. S. Viran Corea – Non-Executive Director   |   |                            |                                  |               |                 | (M)<br>2 of 2                     | (M)<br>3 of 4  | (M)<br>2 of 2             |                                   |
| Mr. Anushka S. Wijesinha – Independent Director   | Appointed to the Board with effect from 1st December 2016 – Not appointed to any Committees during the period ended 31st December 2016. |                            |                                  |               |                 |                                   |                |                           |                                   |
| Mrs. Sandya K. Salgado – Independent Director   | Appointed to the Board with effect from 1st December 2016 – Not appointed to any Committees during the period ended 31st December 2016  |                            |                                  |               |                 |                                   |                |                           |                                   |

C – Chairman of Committee M – Member of the Committee

\*\*M/C – Appointed as the Chairman of the Committee subsequent to the retirement of Mr. Nihal M. Jayamanne PC

**Note:** Additionally, 3 special meetings of the Audit Committee were held on 3 separate days on which regular meetings of the Audit Committee were held.

## A.2 Chairman and Chief Executive Officer

The role of the Chairman and that of the CEO are separate and are not performed by the same individual. There is a clear division of responsibilities of the Chairman, the Board and the executive management all of which are duly documented. The Chairman does not engage in activities involving direct supervision of Key Management Personnel or any other executive

duties. The CEO functions as the apex executive-in-charge of the day-to-day management of the Bank's operations and business. He is responsible for the overall management of the operations and business of the Bank as delegated by the Board.

## A.3 Role of the Chairman

The Chairman provides leadership to the Board and ensures that the Board members effectively discharge their

responsibilities and make an active contribution to the Board's affairs. He ensures that the Board collectively decides on key issues and discharges its responsibilities effectively. A further description of the Chairman's Role is provided under Direction ref: 3 (5) (iv) in the table reporting compliance with Banking Act Directions (page 38).

## A.4 Financial Acumen

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

## A.5 Board Balance

### Board Composition

The Board follows the provisions of its Articles of Association and that of the Banking Act Direction Section 3 (2) (i) where it is stated that the number of Directors on the Board of a licensed commercial bank shall not be less than seven and not more than thirteen. No persons were appointed as alternate directors to the Directors on Board during the year. Since the positions of Chairman and CEO are held by two separate individuals there was no requirement to appoint a Senior Independent Director. However, in terms of the Banking Act Directions, Ms. M.C. Pietersz was appointed as the Senior Director with effect from 9th May 2016 pursuant to the appointment of Non-Executive Director, Mr. W.M.R.S. Dias as Chairman of the Bank, who was determined as 'non-independent' being nominated by Sri Lanka Insurance Corporation Limited, material shareholder of the Bank.

The Board comprised 10 Directors during the period 1st January to 8th May 2016, nine Directors from 9th May to 30th November 2016 and 11 Directors from 1st December to 31st December 2016. The composition included one Executive Director and four Non-Independent Non-Executive Directors at all times while the balance number consisted of Independent Non-Executive Directors. As at 31st December 2016, the Board consisted of one Executive Director (CEO) and 10 Non-Executive Directors of whom six were Independent Directors.

### Non-Executive Directors and Independent Directors

The Board follows the requirements of the Banking Act Directions {Refer Section No. 3 (2) (iv)} where it is stated that the Board shall have at least three

Independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher. This requirement was maintained throughout the year as described in the preceding paragraph.

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

### Proceedings of Board Meetings

Minutes of Board meetings are recorded by the Company Secretary in sufficient detail to enable a proper assessment to be made of the extent of deliberations and any decisions taken at the meetings. The minutes include concerns raised by Directors and also the ultimate decisions made by the Board. Directors do not participate when transactions/matters in which they have an interest (Directors' interest or related party interest) are discussed for decision-making. The Board discussed matters without the presence of the Director/CEO when matters concerning the Director/CEO were discussed at Board meetings.

## A.6 Information to the Board

Timely and adequate information/documents (soft copy format) are provided to the Board together with the agenda and minutes of the previous meetings seven days prior to the regular meetings. When a notice of a special/emergency meeting is given, the purpose of such meeting is duly briefed and related information/documents (if any) provided. The members of the management attend the meetings on-call to respond to queries raised at Board meetings and to provide additional information when required by the Board members. The Chairman and/or the CEO briefs the Directors on issues arising at Board meetings and they also ensure to brief the new Directors on the Board, the background to the matters arising from the proceedings of the past meetings.

## A.7 Appointment to the Board

### Procedure for Appointment of New Directors and the Board Nomination Committee

The Policy Governing Appointment of Directors which is in place takes cognisance of the Board's role in this regard. The Board has vested with the Board Nomination Committee (BNC), its responsibility of identifying individuals qualified to become members of the Board and recommending candidates for the Board's selection as Directors whenever the requirement arises for the appointment of an additional Director or filling of a casual vacancy on the Board. This key responsibility is defined in Terms of Reference of the BNC. As at 31st December 2016, the BNC comprised five Non-Executive Directors, majority of whom were independent and was chaired by Independent Director, Rear Admiral B.A.J.G. Peiris. Please refer page 48 for the Report of the Board Nomination Committee for further information on the Committee.

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

### Disclosure of Appointment of Directors and Their Profiles

Appointments of new Directors to the Board are informed to the shareholders through announcements to the Colombo Stock Exchange and also on the Bank's corporate website. The status of the Director appointed (Executive, Non-Executive or Independent), and a brief profile of the Director including the nature and expertise in relevant functional areas, names of companies in which he/she held/hold directorships or memberships are also conveyed in the said disclosure. The Bank complied with this request when Directors, Mr. A.S. Wijesinha and Mrs. S.K. Salgado were appointed to the Board during the year 2016.

## A.8 Re-election of Directors

### Re-election of Non-Executive Directors Longest in Office

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

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

|      |   |
|------|---|
| 2014 | Rear Admiral B.A.J.G. Peiris                          |
| 2015 | Mr. Nihal Jayamanne PC and Mr. I.C. Nanayakkara       |
| 2016 | Rear Admiral B.A.J.G. Peiris and Mr. S.P.S. Ranatunga |

The Board Nomination Committee identified in terms of Article 83 of the Articles and recommended the re-election of Non-Executive Director, Mr. W.D.K. Jayawardena and Independent Director Ms. M.C. Pietersz who are due to retire by rotation in terms of Article 82 of the Articles which said recommendations were concurred by the Board and have been included in the Agenda for the AGM scheduled to be held on 31st March 2017.

### Directors Appointed for Specified Term Subject to Election by the Shareholders

In terms of the Banking Act Directions on Corporate Governance [Direction No. 3 (2) (ii) and No. 3 (3) (i)], the total period of service of a Director other than a Director who holds position of Chief Executive Officer shall not exceed nine years subject to the age limit of 70 years whichever occurs first. In terms of Article 89 of the Articles of Association and

Direction 3 (2) (x) of the Banking Act Directions, the Directors appointed are subject to election by the shareholders at the AGM that follows their appointment. Proposals in terms of the said Articles and the said Direction for the election of Mr. Anushka S. Wijesinha and Mrs. Sandya K. Salgado who were appointed on 1st December 2016 have been included in the Agenda for the AGM scheduled to be held on 31st March 2017.

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

## A.9 Annual Appraisal of Performance of Board and Board Sub-committees

The Board has in place a formal process for reviewing its own performance and that of its Committees annually. Every Director is required to complete a detailed questionnaire which aims to obtain Directors' feedback on the Board's performance on many aspects including: Structure of the Board and its Committees; Board culture and relationships with stakeholders; meeting processes; effectiveness of Board proceedings; implementation of strategy; evaluation of performance against goals and targets of the CEO and the KMPs; succession planning and knowledge and skills update.

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

The Board of Directors also submitted their own self-assessments reporting on their extent of contribution to the Board and to the Board Sub-committees they represent while each of the Board Sub-committees also carried out an evaluation of the performance of the respective Committee and submitted their reports to the Board in January 2017 and February 2017, respectively.

## A.10 Disclosure of Information in Relation to Directors in the Annual Report

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

| Description – Section Disclosing the Requirement  | Page/s                  |
|---|-------------------------|
| Name, qualifications and brief profile; nature and expertise in relevant functional areas – <i>Profile of the Directors</i>   | 15-18                   |
| Whether Executive, Non-Executive and/or Independent – <i>Profile of the Directors; Corporate Governance Report; Corporate Information; Board and Board Sub-committee Attendance Tables; Report of the Board of Directors on the State of Affairs of the Company ('Directors' Report')</i>   | 15; 22; 290; 25; 26; 58 |
| Immediate family and/or material business relationships with other Directors – <i>Not applicable – as no Director has any immediate family and/or material business relationship with other Directors. Directors have submitted declarations in this regard.</i>  | –                       |
| <ul style="list-style-type: none"> <li>Names of listed companies in Sri Lanka in which the Director concerned serves as a Director</li> <li>Number of Board seats by each Director indicating listed and unlisted companies and whether in an Executive or Non-Executive capacity – <i>Annexure to the Directors' Report</i></li> </ul> | 65-67                   |
| Number and percentage of Board meetings attended during the year – <i>Board meetings Attendance Table</i>   | 25                      |
| Names of Board Committees in which the Director serves as Chairman or member – <i>Profile of the Directors; Board Sub-committee Attendance Table; Reports of the respective Sub-committees</i>  | 15;26; 46-54            |
| Committee meetings attended during the year – <i>Board Sub-committee Attendance Table</i>   | 26                      |

## A.11 Appraisal of Chief Executive Officer (CEO)

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

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

## B.1 Directors' Remuneration Procedure

A Remuneration Policy recommended by the Board Human Resources and Remuneration Committee and approved by the Board is in place which specifies the policy for remuneration and compensation to the Board of Directors, the CEO, Senior Management and other staff. Directors collectively decide on the CEO's remuneration and benefits as well as the professional fees and any benefits payable to Non-Executive Directors as recommended by the Committee. The Committee seeks independent advice to determine revisions and compensation packages when deemed necessary to discharge these responsibilities.

## B.2 Level and make up of Directors' Remuneration

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

Director/CEO's (Executive Director) remuneration and benefits are aligned with the actual performance and market compensation levels. They are subject to periodic review by the Human Resources and Remuneration Committee and approval of the Board.

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

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

## B.3 Disclosure of Remuneration

Details relating to the composition of the Board Human Resources and Remuneration Committee its scope, responsibilities, the Bank's policy on remuneration, etc. are disclosed in the Report of the Board Human Resources and Remuneration Committee on page 47 of the Annual Report. Aggregate remuneration paid during the year to Key Management Personnel (KMPs) including the Executive Director and Non-Executive Directors is disclosed under the Banking Act Directions {Refer Section 3 (8) (ii) (f)} in the table reporting compliance with Banking Act Directions page 45.

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

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

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

At the last AGM of the Bank which was held on 31st March 2016, approximately 68% exercised their votes by attending in person or by proxy. Proxy votes are separately counted and declared at the outset of the Annual General Meeting and also recorded in the Minutes.

An automated process is in place to count the two way proxies received. All members of the Board of Directors are present at Annual General Meeting unless otherwise due to unavoidable circumstances they have requested to be excused and such request is informed by the Chairman to the shareholders at the start of the AGM. Based on the subject matter of the question raised, the Chairman or the Director/CEO or the Director chairing the Sub-committee which overlooks the particular subject responds to the questions. A separate resolution is proposed for each item of business providing the shareholders the opportunity to consider and decide each item separately.

## C.2 Communication with Shareholders

The key channel of disseminating timely information to the shareholders is the announcements via the Colombo Stock Exchange whilst the Annual Report and the Annual General Meeting can be considered as the primary modes of communication of the Bank with the shareholders. A Board approved Shareholder Communication Policy is in place and published in the Bank's corporate website [www.seylan.lk](http://www.seylan.lk). The objective of the Policy is to enhance long-term shareholder relationship through regular communication. Shareholders may at any time direct queries, request for publicly available information relating to the Bank, provide comments and suggestions to the Directors or management or the Company Secretary of the Bank.

The Company Secretary ensures that all shareholder queries/requests relating to their shareholding are duly addressed and responded effectively within a reasonable timeframe. Any correspondence which requires the management's or Board's attention is referred to them accordingly.

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

### C.3 Disclosure of Proposed Major Transactions to Shareholders

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 2016 warranting disclosure in the Annual Report. Related party transactions are disclosed in Note 50 to the Financial Statements.

### D.1 Financial Reporting

#### Proper Disclosure of Interim and Other Price Sensitive and Statutorily Mandated Reports to Regulators

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

### Directors' Report

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

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

| Principle    | Disclosure and Section of the Annual Report/Comment   | Page/s |
|--------------|---|--------|
| <b>D.1.3</b> | <b>Statements of Responsibilities for Preparation and Presentation of Financial Statements</b>  |        |
|              | • Directors' Responsibility for Financial Reporting   | 157    |
|              | • Report of the Auditors  | 160    |
|              | • Directors' Statement on Internal Control  | 55     |
| <b>D.1.4</b> | <b>Management Discussion and Analysis Report</b>  |        |
|              | • 'Our Value Creation Story'  | 95-154 |
| <b>D.1.5</b> | <b>Confirmation that the Business is a Going Concern</b>  |        |
|              | • Report of the Directors on the State of Affairs of the Company  | 58     |
|              | • Directors' Statement of Responsibility on Financial Statements published in this Annual Report.   | 157    |
|              | • Note 2.5 (ii) to the Financial Statements   | 171    |
| <b>D.1.6</b> | <b>Net Assets Value Against Shareholders' Funds</b>   |        |
|              | • The net assets value was maintained throughout the year and therefore, the requirement to take remedial action by summoning an Extraordinary General Meeting did not arise. The Financial Statements explains the movement of net assets during the year. |        |
| <b>D.1.7</b> | <b>Related Party Transactions</b>   |        |
|              | • Notes 50 to the Financial Statements  | 253    |
|              | A Board approved Policy on Related Party Transactions and Conflicts of Interest is in place which adequately covers the Bank's policy and procedures on same.   |        |

### D.2 Internal Control

#### Effectiveness of Risk Management and Internal Controls

A Board approved Risk Management Framework in terms of the Banking Act Direction No. 07 of 2011 is in place. The Bank has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Bank. The Board has delegated this responsibility to the Board Integrated Risk Management Committee and the Chief Risk Officer who reports to the Committee quarterly. The Committee reviews and ensures that management implements the policies adopted by the Board by establishing the internal controls necessary for same and duly monitoring the implementation.

A fully-fledged Internal Audit Department is functional and is governed by the Internal Audit Charter. The Head of Internal Audit reports to the Board Audit Committee. The Committee reviews internal control issues and risk management measures identified by the Internal Audit Division and the adequacy and effectiveness of same is evaluated. Issues that require the attention of the Board are explained by the Chairperson of the Committee to the Board for discussion and decision on appropriate actions.

The statement on the effectiveness of Bank's internal control mechanism is reviewed and recommended by the Board Audit Committee and a Directors' Statement on Internal Control is published in the Annual Report.



The Bank also received an assurance report from the External Auditors in this regard pursuant to the independent audit conducted by them in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors’ Statement on Internal Control.

### D.3 Board Audit Committee

During the year, the Board Audit Committee established with Board approved Terms of Reference comprised more than three Non-Executive Directors of which more than two were Independent Directors and was chaired by Independent Director, Ms. M.C. Pietersz. The Board Audit Committee Report on page 46 provides information relating to the composition, scope and responsibilities and summary of activities carried out by the Committee.

### D.4 Code of Business Conduct and Ethics

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

- The Code of Business Conduct and Ethics for Directors; and
- The Code of Conduct as well as the Code of Ethics for the Bank’s employees including the senior management.

The Code of Business Conduct and Ethics for Directors of Seylan Bank covers principles and guidelines which the Directors are expected to abide by to protect the business interests of the Bank and to maintain the Bank’s reputation and foster compliance with applicable legal and regulatory obligations.

The annual declaration to the effect that the Directors are aware and will abide by the Code of Business Conduct and Ethics for Directors was signed by all Directors during the year. The adoption of the Code and Conduct and the Code of Ethics for the Bank’s employees has been communicated to them via email and the Codes have been uploaded on the Bank’s Intranet for perusal and due adherence by all staff.

An affirmative statement by the Chairman that there has not been any violation of any of the provisions of the Code has been provided in the ‘Chairman’s Statement’ on page 22 of this Report.

### E.1 Institutional Investors

As at 31st December 2016, the Bank’s ordinary voting shareholder base consisted of 9,245 shareholders of which 315 with a total percentage of 86.79% were held by Institutional shareholders. These shareholders make effective use of their voting rights at the General meetings of Shareholders. The Annual General Meeting is the forum utilised by the Board as well as the Shareholders of the Bank to have an effective dialogue with one another.

### E.2 Evaluation of Governance Disclosures

The institutional investors have access to substantial information relating to the Bank including the Bank’s Annual Reports, Interim Reports, Profiles of the Board of Directors and other investor information on its corporate website ([www.seylan.lk](http://www.seylan.lk)) for this purpose and particularly the Board structure. Institutional shareholders are at liberty to vote on resolutions relating to governance arrangements, including the election/re-election of Directors and appointment/reappointment of Auditors.

## F.1 Investing/Divesting Decisions by Individual Shareholders

As at 31st December 2016, the shareholding distribution of the Bank reflected a shareholding percentage of 13.21% by 8,930 individual ordinary voting shareholders who make effective use of their voting rights at the General meetings of Shareholders. Shareholders are advised to carry out adequate analysis or seek independent professional advice in investing and divesting decisions when offers for additional capital issues (e.g. rights issues) are made by the Bank.

### G.1 Principles of Sustainability Reporting

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

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

|       |   | Page/s  |
|-------|---|---------|
| G.1.1 | Principle of Economic Sustainability Governance   | 116-120 |
| G.1.2 | Principle of Environmental Governance   | 151-153 |
| G.1.3 | Principle of Labour Practices Governance  | 130-138 |
| G.1.4 | Principle of Society Governance   | 145-150 |
| G.1.5 | Principle of Product Responsibility Governance  | 121-128 |
| G.1.6 | Principle of Stakeholder Identification, Engagement and Effective Communication   | 91-92   |
| G.1.7 | Sustainability Reporting and Disclosure<br>The Bank’s Sustainability Reporting and Disclosure is based on the Global Reporting Initiative Guidelines (GRI). Please refer pages 116 to 154 for a detailed report followed by the Sustainability Assurance Report of the External Auditors on pages 282 to 283. |         |

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

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

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

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

| CBSL Direction        | Level of Compliance   |
|-----------------------|---|
| <b>3 (1)</b>          | <b>Responsibilities of the Board</b>  |
| 3 (1) (i) – (a, b, c) | <b>Ensuring the Safety and Soundness of the Bank</b> <p>The Board has taken relevant measures to ensure the safety and stability of the Bank during the year under review including the following:</p> <ul style="list-style-type: none"><li>• <b>Providing Strategic Direction</b> – The objectives and strategies were communicated through the annual budget approved by the Board. The progress on implementation and achievement of the set targets were reported to the Board by the CFO and the CEO on a monthly basis. The annual budget is aligned to the Board approved five year Strategic Plan 2012-2016, the progress of which was monitored by the designated corporate management and the CEO and reported quarterly to the Board in the first two quarters of the year. The Board waived the requirement for reporting in respect of the second two quarters in view of the preparation for the next four year Strategic Plan of the Bank.</li><li>• <b>Overall Risk Policies and Risk Management</b> framework in line with the strategies is in place. The Board Integrated Risk Management Committee ensures that the Bank's Risk Management Unit headed by the Chief Risk Officer identifies principal risks and with the approval of the Board puts in place policies and guidelines for implementation. Systems put in place were constantly tested and reviewed by the Risk Management Unit and reported to the Committee.</li></ul> |
| 3 (1) (i) (d)         | <b>Stakeholder Engagement Policy</b> – A Stakeholder Engagement Policy is in place in respect of communication with all stakeholders, including depositors, creditors, shareholders and borrowers. The Bank also adopted and implemented the Customer Charter of Licensed Banks as directed in the Banking Act Direction No. 8 of 2011. A separate Shareholder Communication Policy approved by the Board is also in place. The Customer Charter and the Shareholder Communication Policy are accessible on the Bank's website, <a href="http://www.seylan.lk">www.seylan.lk</a> . <p>A Communication Policy recommended by the Board Marketing and Product Development Committee and approved by the Board is also in place. This policy provides guiding principles for both internal and external communication, mainly corporate information to the media and public.</p>   |
| 3 (1) (i) (e)         | <b>Internal control systems and management information systems</b> – Adequacy and integrity of the Bank's internal control systems and management information systems were reviewed by the Board Audit Committee. The decisions and/or actions taken are submitted for Board's information and/or action as appropriate.  |

| CBSL Direction                  | Level of Compliance  |
|---------------------------------|--|
| 3 (1) (i) (f)                   | <p><b>Identification of Key Management Personnel (KMPs)</b> – Directors and identified members of the Senior Management are deemed as Key Management Personnel of the Bank who are in a position to influence and exercise control over business activities, operations, audit and risk management. KMPs are deemed as ‘related parties’ and therefore, necessary steps are taken to ensure compliance with the relevant Banking Act Directions on Related Party Transactions and Provisions of the Sri Lanka Accounting Standards on Related Party Transactions and to avoid conflicts of interest. The Bank’s Policy on Related Party Transactions and Avoidance of Conflicts of Interests and the Code of Ethics provide necessary principles, guidelines and processes to be followed by KMPs.</p>   |
| 3 (1) (i) (g)                   | <p><b>Defining of areas of authority and key responsibilities</b> – The key responsibilities of Key Management Personnel are defined in their job responsibilities, whilst the Directors derive their responsibilities from the regulations and directions, mainly, the Banking Act Directions and is documented in the Board approved Corporate Governance Framework. A Board approved document on Authority and Key Responsibilities for the Board of Directors and for the Key Management Personnel is also in place.</p>   |
| 3 (1) (i) (i)                   | <p><b>Effectiveness of the Board’s own governance practices</b> – The Board carries out a self-evaluation annually which process includes an assessment of the effectiveness of the governance practices including the succession planning, management of conflicts of interest and the determination of weaknesses. The scope and responsibilities of the Board Governance and Compliance Committee defines this requirement.</p>   |
| 3 (1) (i) (h);<br>3 (1) (i) (k) | <p><b>Oversight of the affairs of the Bank by Key Management Personnel</b> – Policies and decisions of the Board and Board Sub-committees are communicated to the Key Management Personnel by minute extracts requiring appropriate follow up actions.</p> <p>Reports and proposals from Key Management Personnel including those pursuant to discussions and decisions at corporate management meetings or the related Management Committee meetings headed by the CEO are submitted to the Board and Board Sub-committees for information, review, and/or approval. These processes ensure appropriate oversight of the Board on the affairs of the Bank carried out by Key Management Personnel. The CEO and Key Management Personnel heading different areas of authority are met at meetings of the Board Sub-committees as well as at Board meetings which provide an opportunity for the Board to discuss the progress and the extent to which policies, corporate strategies and objectives of the Bank are implemented.</p> |
| 3 (1) (i) (j)                   | <p><b>Succession plan for Key Management Personnel</b> – The Bank has in place a Succession Plan for Key Management Personnel including development plans for the successors which were periodically updated to the Board Nomination Committee.</p>  |
| 3 (1) (i) (l)                   | <p><b>Understanding of the Regulatory Environment</b> – The Board is updated of the changes in the regulatory environment by the CEO and relevant Key Management Personnel at the Board Sub-committee level and at Board level which discusses and/or endorses the steps taken to comply with such changes as appropriate. The Board ensures that the Bank maintains an effective dialogue and relationship with the regulators.</p>   |
| 3 (1) (i) (m)                   | <p><b>Hiring of External Auditors</b> – 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 recommendation for hiring of the External Auditors in accordance with the said Policy.</p>   |
| 3 (1) (ii)                      | <p><b>Appointment of Chairman and Chief Executive Officer</b> – Mr. Nihal Jayamanne PC who was the Independent Non-Executive Chairman as at the beginning of the year 2016, retired on 8th May 2016 in terms of Section 3 (3) (i) of the Banking Act Directions, on reaching the age of 70 years. Non-Executive Director, Mr. W.M.R.S. Dias was appointed as the Chairman of the Bank with effect from 9th May 2016. Mr. Kapila Ariyaratne functions as the Director/Chief Executive Officer of the Bank. The functions and responsibilities of the Chairman and the Chief Executive Officer are defined and documented in the Board-approved Corporate Governance Framework of the Bank.</p>  |

| CBSL Direction              | Level of Compliance   |
|-----------------------------|---|
| 3 (1) (iii)                 | <p><b>Frequency of Board Meetings and participation of Directors</b> – Regular meetings were held monthly with special meetings held as and when required. Twelve regular Board meetings were held monthly and five special Board meetings were held at different times of the year to consider important and/or urgent issues. Resolutions by circulation were restricted to matters of a routine and/or urgent nature.</p> <p><b>Quorum</b> – The quorum at Board meetings is minimum five members or above 50% of the number on the Board whichever is higher and with majority Non-Executive Directors. The quorum required in this manner was maintained from commencement to the conclusion of proceedings of Board meetings held during the year.</p> <p>Directors actively participate and share their views and contribute at Board proceedings. Directors have also devoted adequate time for Board meetings as well as for Board Sub-committee meetings during the year. The details of the meetings held and the Directors attendance are disclosed on page 25.</p> |
| 3 (1) (iv);<br>3 (1) (xiii) | <p><b>Agenda</b> – 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 Sub-committees. Since adequate notice of the next meeting is provided, Directors have the opportunity to include matters and/or proposals to be considered at Board meetings. The Directors also propose and collectively agree on matters to be included in the Agenda of Board meetings and Committee meetings.</p> <p>Timely and adequate information is provided by Management to the Board prior to the regular Board meetings. Members of the Management also make themselves available on call to respond to queries raised at Board meetings and to provide additional information when required by the Board members.</p>  |
| 3 (1) (v)                   | <p><b>Notice of Meeting</b> – 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. Special/emergency meetings were called with lesser notice period due to the urgency of the matters concerned.</p>   |
| 3 (1) (vi)                  | <p><b>Attendance</b> – At every Board meeting, the Company Secretary apprises the Directors the record of their attendance at Board meetings held in the period of twelve months immediately preceding the regular Board meeting. During the year, all Directors attended more than two-thirds of the meetings held over a twelve month period. None of the Directors were absent at three consecutive meetings held.</p>   |
| 3 (1) (vii)                 | <p><b>Company Secretary</b> – Mrs. N.N. Najumudeen, who is a qualified Chartered Secretary, is the Bank's Company Secretary appointed by the Board and is not an employee of any other organisation or institution (Section 43 of the Banking Act).</p> <p>The Company Secretary reports to the Board and to the Board Sub-committees on matters relevant to the proper functioning of the Board and the Board Sub-committees. The Company Secretary is also responsible for the administration and day-to-day operations of the Company Secretariat including shareholder communications, communications with the regulatory authorities such as the Colombo Stock Exchange, the Securities and Exchange Commission of Sri Lanka, the Registrar of Companies and the Central Bank of Sri Lanka.</p>  |
| 3 (1) (viii)                | <p>The Directors have access to the advice and services of the Company Secretary in ensuring that Board responsibilities, procedures and applicable rules and regulations are followed.</p>   |
| 3 (1) (ix)<br>3 (1) (x)     | <p><b>Minutes of Board Meetings</b> – Minutes of Board meetings are recorded by the Company Secretary in sufficient detail to enable a proper assessment to be made of the extent of deliberations and any decisions taken at the meetings. Minutes of Board meetings are prepared and circulated to the Directors to enable them to peruse same and confirm/clarify/rectify and record any discrepancy at the Board meeting that follows. Minutes are maintained by the Company Secretary for inspection of any Director and required extracts are also issued on reasonable notice.</p>   |
| 3 (1) (xi)                  | <p><b>Independent Professional Advice</b> – Directors are entitled to seek independent professional advice at the expense of the Bank in furtherance of their duties and contribution in the interest of the Bank. A Board approved procedure is in place for this purpose which was reviewed and approved by the Board during the year.</p>  |

| CBSL Direction | Level of Compliance   |
|----------------|---|
| 3 (1) (xii)    | <b>Avoidance of Conflicts of Interest</b> – Directors avoid conflicts of interests, or the appearance of conflicts of interest in their activities with and commitments to other organisations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter is dealt with at a Board meeting, Directors abstain from voting on any such resolution in which the Directors have related party interests or are interested by virtue of their directorships. The interested Directors are not counted in the quorum for the relevant agenda item.  |
| 3 (1) (xiii)   | <b>Schedule of matters reserved for Board's decision</b> – (Please refer 3 (1) (iv) (Agenda) on page 36).   |
| 3 (1) (xiv)    | <b>Bank's Ability/Inability to Meet its Obligations on Payments</b> – The Board has adopted a Contingency Funding Plan which addresses the procedures to be followed by the Bank and keeping the Director Bank Supervision informed in a liquidity crisis situation, i.e. if it considers that it is, or is unlikely to be able to meet its obligations or is about to suspend payments due to depositors and other creditors. The Plan was last reviewed and approved in January 2016. The Bank however, did not face a situation of being unable to meet its obligations on payments during the year.   |
| 3 (1) (xv)     | <b>Capitalisation of the Bank</b> – The Board has ensured that the Bank duly complies with capital adequacy requirements as required by the Monetary Board. The revised two year Capital Augmentation Plan for 2016-2018 was approved by the Board and further reviewed pursuant to the Debenture Issue allotment in July 2016. The plan took into consideration the projected growth patterns, expected targets, and estimated dividend payouts. The Bank's total capital ratio was in compliance with the prudential limit from 2014 to 2016 confirming that it is adequately capitalised unless there is an unexpected growth in risk-weighted assets.   |
| 3 (1) (xvi)    | <b>Annual Corporate Governance Report</b> – This Report serves to meet the requirement of this provision, viz. publishing of the Annual Corporate Governance Report in compliance with Direction 3 of these Directions.   |
| 3 (1) (xvii)   | <b>Scheme of Self-assessment</b> – The Board has adopted a Scheme of Self-Assessment. Directors submit their self-assessment reports annually which are shared with the Directors at a Board meeting and filed of record by the Company Secretary.  |
| <b>3 (2)</b>   | <b>The Board's Composition</b>  |
| 3 (2) (i)      | <p><b>Board of Directors as at 31st December 2016</b> – The number of Directors on the Board was not less than seven or not more than 13 throughout the year.</p> <p>The number of Directors during the year fluctuated between 9 and 11 due to the retirement of Independent Director/Chairman, Mr. Nihal Jayamanne PC on 8th May 2016 and the appointment of Mr. A.S. Wijesinha and Mrs. S.K. Salgado on 1st December 2016.</p> <p>The Board consisted of the following members as at 31st December 2016:</p> <ol style="list-style-type: none"> <li>1. Mr. W.M.R.S. Dias (Non-Executive Director/Chairman) – appointed as Chairman with effect from 9th May 2016.</li> <li>2. Mr. I.C. Nanayakkara (Non-Executive Director/Deputy Chairman)</li> <li>3. Ms. M.C. Pietersz (Independent Non-Executive Director/Senior Director) – appointed as Senior Director with effect from 9th May 2016.</li> <li>4. Mr. K.P. Ariyaratne (Director/Chief Executive Officer)</li> <li>5. Rear Admiral B.A.J.G. Peiris (Independent Non-Executive Director)</li> <li>6. Mr. S.P.S. Ranatunga (Independent Non-Executive Director)</li> <li>7. Mr. W.D.K. Jayawardena (Non-Executive Director)</li> <li>8. Mr. P.L.S.K. Perera (Independent Non-Executive Director)</li> <li>9. Mr. S.V. Corea (Non-Executive Director)</li> <li>10. Mr. A.S. Wijesinha (Independent Non-Executive Director)</li> <li>11. Mrs. S.K. Salgado (Independent Non-Executive Director)</li> </ol> |
| 3 (2) (ii)     | The tenure of directorship of the above named Non-Executive Directors has not exceeded nine years as they were appointed on or after 8th January 2009.  |

| CBSL Direction | Level of Compliance  |
|----------------|--|
| 3 (2) (iii)    | Director/CEO, Mr. Kapila Ariyaratne is the only Executive Director on the Board appointed for a defined term of contract approved by the Board which is less than 9 years.   |
| 3 (2) (iv)     | <p><b>Independent Directors</b> – The number of Independent Non-Executive Directors during the year 2016 fluctuated between 4 and 6 due to the retirement of Independent Director/Chairman, Mr. Nihal Jayamanne PC on 8th May 2016 and the appointment of Independent Directors, Mr. A.S. Wijesinha and Mrs. S.K. Salgado on 1st December 2016. The number exceeded the minimum requirement of three Independent Non-Executive Directors as well as one-third of the total number of Directors on the Board at all times during the year.</p> <p>The Board determines the Independent and Non-Independent status of the Non-Executive Directors based on the declarations submitted by them in accordance with the criteria defined in the Banking Act Directions No. 3 (2) (iv) and Section 7.10.4 of the Rules of the Colombo Stock Exchange. A declaration to this effect is obtained from Non-Executive Directors at the time of their appointment and thereafter annually.</p>                                |
| 3 (2) (v)      | <b>Alternate Directors</b> – No alternate directors were appointed during the year.  |
| 3 (2) (vi)     | <b>Non-Executive Directors</b> – The Non-Executive Directors on the Board consisted of eminent personnel with extensive experience in the field of banking, finance, law, insurance, marketing, economics, research, strategic communications and other related fields. Their expertise brought in independent judgements on issues relating to strategy, performance and resources. The profiles of the Directors are published in the Bank's Annual Report on pages 15 to 18.  |
| 3 (2) (vii)    | <b>Non-Executive Directors composition at Board Meetings</b> – Meetings of the Board held during the year were duly constituted with the required quorum and more than fifty percent of the quorum was represented by Non-Executive Directors.   |
| 3 (2) (viii)   | <b>Identification of Status of Directors in Corporate Communications</b> – The Directors were identified as executive; Non-Executive and independent in all corporate communications including the Annual Report and in this Corporate Governance Report. Persons who held identified positions, e.g., Chairman, Deputy Chairman and CEO were also disclosed with such designations.   |
| 3 (2) (ix)     | <b>Procedure for Appointment of Directors</b> – A Board approved procedure is in place for the appointment of new Directors to the Board which acts as a guideline to the Board when appointments to the Board are considered. The Board Nomination Committee is vested with the responsibility of identifying new Directors and/or considering the suitability of nominee Directors to the Board.   |
| 3 (2) (x)      | <p><b>Election of Directors Appointed to Fill Casual Vacancy on the Board</b> – Non-Executive Directors, Messrs W.M.R.S. Dias and S.V. Corea who were appointed during the year 2015 to fill the casual vacancies on the Board subsequent to the resignations of the two nominees of Sri Lanka Insurance Corporation Limited (material shareholder of the Bank) were proposed for election and elected by the shareholders at the Annual General Meeting (AGM) held on 31st March 2016.</p> <p>Independent Directors, Mr. A.S. Wijesinha and Mrs. S.K. Salgado who were appointed on 1st December 2016 will be subject to election at the ensuing AGM.</p>   |
| 3 (2) (xi)     | <p><b>Change of Directorate</b> – Changes of directorate (appointment, resignation, retirement, etc.) are informed to the shareholders and other interested parties via announcements made to the Colombo Stock Exchange (CSE). Directors' resignations/retirements are informed with reasons for such resignation or retirement as appropriate.</p> <p>The retirement of Independent Director/Chairman, Mr. Nihal Jayamanne PC on 8th May 2016 was notified to the shareholders through the Colombo Stock Exchange stating that the retirement was in terms of Section 3 (3) (i) of the Banking Act Directions, viz. reaching the age of 70 years.</p> <p>Information pertaining to change in directorate were also published and incorporated in the notes to the Interim (quarterly) Financial Statements issued to the CSE and published in the newspapers. Information pertaining to changes to the directorate during the year is provided in the Report of the Board of Directors of the Annual Report.</p> |
| 3 (2) (xii)    | <b>Appointments in any Other Bank</b> – No Director and no employee of the Bank has been appointed, elected or nominated as a Director of another Bank. No other Bank is a subsidiary or an associate of Seylan Bank PLC.  |

**3 (3)****Criteria to Assess the Fitness and Propriety of Directors**

All appointments to the Board were made after obtaining approval of the Director, Bank Supervision, Central Bank of Sri Lanka in terms of Section 42 of the Banking Act No.30 of 1988 (as amended). Declarations and Affidavits in terms of the said Section 42 were obtained from the persons nominated by the Board and forwarded to the Director, Bank Supervision for this purpose. Declarations and Affidavits of the continuing Directors were also forwarded to the Director, Bank Supervision prior to the Annual General Meeting in 2016 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 CBSL Direction stipulates that a person who is over 70 years of age shall not serve as a Director. Other than Independent Director/Chairman, Mr. Nihal Jayamanne PC who retired from the Board on 8th May 2016 upon reaching the age of 70, no other Directors on the Board exceeded the age of 70 during the year.

## 3 (3) (ii) (Amended by Direction No. 3 of 2013)

**Directorships in other Companies/Institutions** – No Director holds directorships in more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank. Please refer Annexure to the Report of the Board of Directors for details (Pages 65 to 67).

**3 (4)****Management Functions Delegated by the Board of Directors**3 (4) (i)  
3 (4) (ii)  
3 (4) (iii)

**Board Delegation Arrangements in Place** – The Board is empowered by the Articles of Association to delegate any of its powers to Board appointed Sub-committees consisting of such member or members as the Board thinks fit.

The Board has delegated matters pertaining to the affairs of the Bank to the Board Sub-committees within the scope of the respective Board approved Terms of Reference. The CEO and other Key Management Personnel work within the Board approved delegated authority limits and the scope of their job descriptions.

Reviews and revisions of the delegation processes as proposed by the Chief Executive Officer and the respective Key Management Personnel are carried out by the Board taking into account business needs and structural changes. The Board ensures that the delegation processes do not hinder or reduce the Board's overall powers to effectively discharge its functions and ensures that they remain relevant to the needs of the Bank.

**3 (5)****Chairman and the Chief Executive Officer**

## 3 (5) (i)

**Chairman and Chief Executive Officer** – Mr. Nihal Jayamanne PC was the Chairman of the Bank until 8th May 2016 and Mr. W.M.R.S. Dias was appointed as the Chairman on 9th May 2016. Mr. Kapila Ariyaratne is the Chief Executive Officer (CEO) of the Bank. The Chairman's role is to provide leadership to the Board and 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 described in the Corporate Governance Framework of the Bank.

## 3 (5) (ii)

**Independent Status of the Chairman and Senior Director** – Upon the retirement of Chairman, Mr. Nihal Jayamanne PC who was a Non-Executive Independent Director, Mr. W.M.R.S. Dias who is a Non-Executive Director was appointed as Chairman on 9th May 2016. Independent Director, Ms. M.C. Pietersz was appointed as Senior Director with effect from 9th May 2016. The Terms of Reference for the Senior Director was recommended by the Board Governance and Compliance Committee and approved by the Board during the year.

| CBSL Direction          | Level of Compliance  |
|-------------------------|--|
| 3 (5) (iii)             | <p><b>Disclosure of the Identity and Relationship of the Chairman and the CEO and Other Board Members –</b><br/>The Declarations submitted by the Directors upon appointment and annually by the continuing Directors as well as the Declaration submitted by the Chief Executive Officer (CEO) confirm that no relationship of any nature (including financial, business, family or other material/relevant relationships) existed between the Chairman and the CEO and between the Chairman and the other members on the Board during the year 2016 other than as described below:</p> <ul style="list-style-type: none"> <li>• Directors, Messrs I.C. Nanayakkara and W.D.K. Jayawardena held common directorships and related party interests in companies within the LOLC Group and the Browns Group and they represented the Bank's material shareholders LOLC Investments Limited and Brown &amp; Company PLC.</li> <li>• Directors, Messrs W.M.R.S. Dias and S.V. Corea were nominated to the Board by the Bank's material shareholder, Sri Lanka Insurance Corporation Limited.</li> </ul>  |
| 3 (5) (iv) to 3 (5) (x) | <p><b>Chairman's Role –</b> The Chairman's role can be described as follows:</p> <ol style="list-style-type: none"> <li>i. Provides leadership to the Board and ensures that the Board effectively discharges its responsibilities and that all key issues are discussed in a timely manner.</li> <li>ii. 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.</li> <li>iii. Directors, especially new Directors on the Board are duly briefed by the Chairman on issues arising at Board meetings.</li> <li>iv. Encourages all Directors to make an active contribution to the Board's affairs. Majority of the Non-Executive Directors chairs and/or are members of the Board Sub-committees and thereby play an active role in executing the responsibilities delegated by the Board to the Committees in the best interest of the Bank.</li> <li>v. The two Chairpersons during the year, namely Mr. Nihal Jayamanne PC and Mr. W.M.R.S. Dias functioned in a Non-Executive capacity and did not engage in direct supervision of the Key Management Personnel or any other executive duties.</li> <li>vi. 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.</li> </ol> |
| 3 (5) (xi)              | <p><b>Chief Executive Officer –</b> Mr. Kapila Ariyaratne, Director/Chief Executive Officer (CEO) of the Bank heads the Senior Management Team of the Bank and reports to the Board of Directors as well as to the Board Sub-committees. His main function and responsibility is the overall management of the operations and business of the Bank in line with its strategic objectives.</p>  |
| <b>3 (6)</b>            | <p><b>Board Appointed Committees</b></p> <p><b>3 (6) (i) Sub-committees Appointed by the Board –</b> The Board has established nine Board Sub-committees including the four Committees as set out in these directions, namely the Board Audit Committee, the Board Human Resources and Remuneration Committee, the Nomination Committee and the Board Integrated Risk Management Committee.</p> <p>The other five Committees are the Credit Committee, Sustainability Committee, Marketing and Product Development Committee, Governance and Compliance Committee and the Related Party Transactions Review Committee.</p> <p>The Board appointed Sub-committees function within the Board approved Terms of Reference.</p> <p>Company Secretary, Mrs. N.N. Najumudeen functioned as the Secretary to each of these Committees during the year. Minutes of the meeting proceedings and matters arising from the minutes as well as papers/reports that required Board's attention and/or decision were circulated to the Board by the Secretary.</p> <p>The Reports of the Board Sub-committees as reviewed and approved by the Board of Directors are published in the Annual Report (Pages 46 to 54).</p>  |



| CBSL Direction                   | Level of Compliance   |
|----------------------------------|---|
| 3 (6) (ii)                       | <b>Board Audit Committee (BAC)</b>  |
| 3 (6) (ii) (a)<br>3 (6) (ii) (b) | <p><b>Members and Chairperson of the BAC</b> – Ms. M.C. Pietersz (BSc, MBA, ACA, FCA) is an Independent Non-Executive Director and was appointed to the BAC as its Chairperson with effect from 27th September 2013. Ms. Pietersz counts over 20 years senior level experience in finance, banking, accounting and audit.</p> <p>The BAC comprised three Non-Executive Directors during the major part of the year 2016. Two of the three Non-Executive Directors were Independent, namely, Ms. M.C. Pietersz and Mr. S.P.S. Ranatunga.</p>   |
| 3 (6) (ii) (c)<br>3 (6) (ii) (d) | <p><b>BAC's role with regard to External Auditors</b> – In line with its Terms of Reference, the BAC has reviewed and/or made relevant recommendations including the following:</p> <ul style="list-style-type: none"> <li>• The re-appointment of Messrs KPMG, Chartered Accountants as the Bank's External Auditors for audit services in compliance with the relevant regulations and guidelines. Pursuant to recommendations, Messrs KPMG were reappointed as the Auditors for the financial year 2016 by the shareholders at the Annual General Meeting held on 31st March 2016.</li> <li>• The implementation of guidelines issued from time to time by the Central Bank of Sri Lanka.</li> <li>• The application of relevant accounting standards, including the requirements of the Sri Lanka Financial Reporting Standards (SLFRS/LKAS) complying with the IAS and the IFRS in all material respects.</li> <li>• The incumbent Audit Partner was engaged from the financial year 2014.</li> <li>• Representation submitted by the External Auditors stating their independence and the objectivity and effectiveness of the audit processes in accordance with applicable standards and best practices.</li> </ul> |
| 3 (6) (ii) (e)                   | <p><b>Non-Audit Services</b> – The BAC reviewed the non-audit services provided by the External Auditors and was of the view that such services were not within the category of services identified as restricted under the guidelines issued by the Central Bank of Sri Lanka for External Auditors relating to their statutory duties in terms of Section 39 of Banking Act No. 30 of 1988 and as amended by Banking Act No. 33 of 1995. A Board approved policy relating to the engagement of non-audit services is in place.</p>  |
| 3 (6) (ii) (f)                   | <p><b>Scope of External Audit</b> – The BAC discussed with the External Auditors, the nature and the scope of audit in respect of the financial year, 2016 at a meeting held with the Auditors in the last quarter of 2016. 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.</p>  |
| 3 (6) (ii) (g)                   | <p><b>Review of the Bank's Financial Information</b> – The BAC reviewed/commented/recommended as appropriate on the Bank's financial information and reports which were submitted by the Chief Financial Officer and ensured the relevance of the Financial Statements prepared for disclosure and published in the Bank's Annual Report and in the quarterly Financial Statements and reports. The BAC also reviewed the draft audited interim Financial Statements for the half year ended 30th June 2016 before they were submitted for Board's review. The draft interim Financial Statements were reviewed by the Internal Audit before they were submitted to the BAC by the Chief Financial Officer.</p>   |
| 3 (6) (ii) (h)                   | <p><b>Meeting with the External Auditors</b> – The BAC met with the External Auditors without the presence of the management and the Director/CEO twice during the year and discussed issues, management responses arising from the interim and final audits. The External Auditors were also invited to meetings of the BAC to present and highlight key audit findings of the 2015 year-end audit and to present the Audit plan of the 2016 year-end audit. The BAC ensures that there would be no limitation of scope or incidents that could have a negative impact on the effectiveness of the external audit.</p>   |
| 3 (6) (ii) (i)                   | <p><b>Management Letters of the External Auditors</b> – The BAC reviewed the Management Letter in respect of the Audit for the financial year ended 31st December 2015 and also reviewed the findings and observations on the Interim Audit of the six months ended 30th June 2016 and issued appropriate recommendations and guidance to ensure that issues were duly addressed/resolved by the respective line management.</p>  |

| CBSL Direction                            | Level of Compliance   |
|---|---|
| 3 (6) (ii) (j) I and<br>3 (6) (ii) (j) VI | <b>Internal Audit Functions</b> – The BAC reviewed the adequacy of the internal audit function and ensured that it conformed to the principles of the Internal Audit Charter. The Internal Audit Charter defines the scope, functions, authority, responsibility, adjudication, external relationship management and ethics that assist and direct/guide the Internal Audit Department to discharge its functions independently. 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                         | <b>Internal Audit Plan/Programme</b> – The Internal Audit Division carried out its responsibilities in line with the approved Audit Plan of the Internal Audit for the year 2016 and 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 as deemed appropriate and ensured that the relevant line management took steps to address/rectify/resolve the audit findings which were outstanding.  |
| 3 (6) (ii) (j) III                        | <b>Appraisals/Assessments of Performance of Senior Staff of the Internal Audit</b> – The Committee noted the appraisals/assessment of performance of the senior staff of the Internal Audit Department whilst it carried out an evaluation of the Acting Head of Internal Audit in the first quarter 2016. The evaluation of the Acting Head of Internal Audit for the year 2016 was carried out by the BAC in January 2017.  |
| 3 (6) (ii) (j) IV and<br>3 (6) (ii) (j) V | <b>Adequacy of Human Resources for Internal Audit Function</b> – The BAC reviewed the adequacy of the human resources for the internal audit functions and recommended appointments/succession planning for the position of Head of Internal Audit. The BAC is apprised of senior staff resignations of the Internal Audit Department including the reasons for such resignations.  |
| 3 (6) (ii) (k)                            | <b>Findings of the Internal Audit</b> – Internal Audit findings with attention on major findings were reported to the BAC and taken up at the BAC meetings that followed which reviewed the status including management responses and made appropriate recommendations where necessary.   |
| 3 (6) (ii) (l)                            | <b>Invitees to the Meetings of the BAC</b> – The Chief Executive Officer, the Chief Financial Officer and the Acting Head of Internal Audit attended the meetings of the BAC during the year. Heads of operational and business units, Information Technology, and Human Resources were also called in to the meetings to discuss the follow up actions on the audit findings. External Auditors also attended the meetings of the BAC to present external audit findings. The BAC also met with representatives of the External Auditors on two occasions in the absence of the Director/CEO and the management members. |
| 3 (6) (ii) (m)                            | <b>Authority to Investigate</b> – The BAC's Terms of Reference provides it authority to investigate into any matter within its Terms of Reference; obtain the resources which it needs to carry out the investigation; full access to information; and authority to obtain external professional advice and to invite outsiders with relevant experience to be involved, if necessary.  |
| 3 (6) (ii) (n) and<br>3 (6)(ii) (p)       | <b>Meetings of the BAC</b> – The BAC held eleven regular meetings and three special meetings during the year. 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)                            | <b>Report of the BAC</b> – A Report of the BAC signed by the Chairperson is included in this Annual Report summarising the activities of the BAC, meetings and attendance of the members at the meetings held during the year. Please refer page 46.  |
| 3 (6) (ii) (q)                            | <b>Whistle Blowing Policy</b> – The Bank has put in place a Whistle Blowing Policy. 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 Division on whistle blower complaints and were reported to the BAC including follow up action as appropriate.  |
| 3 (6) (iii)<br>3 (6) (iii) (a)            | <b>Board Human Resources and Remuneration Committee (BHRRC)</b><br>Determination of the Remuneration Policy which 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, the Key Management Personnel as well as other employees of the Bank is a key responsibility of the Committee. A Board approved Remuneration Policy is in place.   |

| CBSL Direction  | Level of Compliance   |
|-----------------|---|
| 3 (6) (iii) (b) | <b>Goals and Targets</b> – The Key Performance Indicators (goals and targets) of Director/CEO and of the KMPs in respect of the year 2016 were tabled and approved by the Committee and the Board at the respective meetings.   |
| 3 (6) (iii) (c) | <b>Evaluations of the Performance of the CEO and the KMPs</b> – The Committee considered the evaluations of the performance of the Director/CEO and the KMPs against the approved KPIs for the year 2015 which was an indicator to determine revision of remuneration and profit/performance based bonus during the year 2016.  |
| 3 (6) (iii) (d) | <b>Proceedings at Meetings of the BHRRC</b> – Director/CEO attends the meetings of the Committee by invitation. He was not present at meetings of the Committee, when matters relating to him were being discussed.<br><br>Further details summarising the responsibilities of the Committee and attendance of Directors are provided in the Report of the BHRRC included in this Annual Report on page 47.   |
| 3 (6) (iv)      | <b>Board Nomination Committee (BNC)</b>   |
| 3 (6) (iv) (a)  | <b>Procedure Selection/Appointment of Directors, CEO and KMPs</b> – Appointment of Key Management Personnel (KMPs) including the Chief Executive Officer (CEO) comes under the scope and responsibilities of the Board Nomination Committee as set out in its Terms of Reference. The procedure to select and appoint new Directors is set out in the Board approved Policy Governing Appointment of Directors. A Policy on Human Resources Planning, Selection and Recruitment of KMPs and a Succession Policy for the KMPs are also in place.   |
| 3 (6) (iv) (b)  | <b>Re-election of Current Directors</b> – The BNC recommends the re-election of the Directors who are due to retire in accordance with the Companies Act and the Bank's Articles of Association (the Articles) taking into account their contribution to the Board. Pursuant to obtaining Board's concurrence of the BNC's recommendation, it is included in the Agenda of the Annual General Meeting (AGM) seeking shareholders' approval for the re-election. Pursuant to such recommendations, at the AGM held on 31st March 2016, Independent Directors, Rear Admiral B.A.J.G. Peiris and Mr. S.P.S. Ranatunga were re-elected in terms of Article 82 of the Articles.<br><br><b>Re-election of Directors in 2017</b> – Pursuant to the recommendations of the BNC as well as the Board the proposals for the re-election of Non-Executive Director, Mr. W.D.K. Jayawardena and Independent Director, Ms. M.C. Pietersz who are due to retire by rotation in terms of Article 82 of the Articles have been included in the Agenda of the AGM scheduled to be held on 31st March 2017. |
| 3 (6) (iv) (c)  | <b>Criteria for Eligibility – CEO and KMPs</b> – The criteria for eligibility such as qualifications, experience and key attributes are considered for appointment or promotion to the position of CEO and KMPs as defined in the respective job descriptions each of which have been agreed by the Committee.  |
| 3 (6) (iv) (d)  | <b>Fitness and Propriety of Directors, CEO and KMPs</b> – Affidavits and Declarations to assess the fitness and propriety of Directors, CEO and Key Management Personnel in terms of the Banking Act and its Directions are obtained prior to the appointment of Directors and at the time of appointing a KMP. Prior to the date of the AGM of the Bank every year, the Affidavits and Declarations submitted by the continuing Directors are forwarded to the Director, Bank Supervision for review and approval.   |
| 3 (6) (iv) (e)  | <b>Succession Plan</b> – The BNC considers and discusses matters relating to succession arrangements of Directors including retiring Directors prior to such occurrence and also takes into consideration the regulatory guidelines and criteria to fill any such vacancy. Appointment of Mr. W.M.R.S. Dias as the Chairman and the appointment of two Independent Directors, namely Mr. A.S. Wijesinha and Mrs. S.K. Salgado during the year affirms this responsibility. The Committee reviewed the succession arrangements for Key Management Personnel at its meetings held during the year. A Board approved Policy on Succession Planning for Key Management Positions is in place.   |
| 3 (6) (iv) (f)  | <b>Composition</b> – The BNC comprised five Non-Executive Directors as at 31st December 2016, three of whom were Independent and was chaired by Independent Director, Rear Admiral B.A.J.G. Peiris. Director/CEO attends the meetings of the Committee by invitation.   |

| CBSL Direction | Level of Compliance  |
|----------------|--|
| 3 (6) (v)      | <p><b>Board Integrated Risk Management Committee (BIRMC)</b></p>   |
| 3 (6) (v) (a)  | <p><b>Composition of the Committee</b> – As at 31st December 2016, the BIRMC comprised three Non-Executive Directors, two of whom were Independent Directors, the Director/CEO and the Chief Risk Officer (CRO) and was chaired by Independent Director, Mr. S.P.S. Ranatunga. The Chief Financial Officer and the Head of Compliance were co-opted to the Committee. The CRO is the Key Management Personnel 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 are co-opted to this Committee. Other Key Management Personnel and management attend the meetings when invited by the Committee.</p>  |
| 3 (6) (v) (b)  | <p><b>Assessment of Risks</b> – The three Executive Sub-committees, namely the Assets and Liability Management Committee, the Executive Credit Risk Management Committee and the Executive Market and Operational Risk Management Committee 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 were reported to the BIRMC at its quarterly meetings which were reviewed by the Committee and appropriate advice provided. The risk management policies approved by the Board provide a framework for management and assessment of the overall risks to the Bank.</p> <p>The Committee also reviewed the risk assessments on a group basis by considering the risk assessments of the Subsidiary, Seylan Developments PLC (SDP) the principal activity of which is property development.</p> |
| 3 (6) (v) (c)  | <p><b>Effectiveness of Management Level Committees</b> – The reports submitted by the Chief Risk Officer pursuant to the proceedings of the Asset Liability Management Committee, the Executive Credit Risk Management Committee and the Executive Market and Operational Risk Management Committee as well as the minutes of the said Committees were reviewed and the effectiveness of the three Committees assessed by the BIRMC.</p>   |
| 3 (6) (v) (d)  | <p><b>Actions to Mitigate Specific Risks</b> – The BIRMC advises on corrective action by the management to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels approved by the Committee in line with the Bank’s policies and regulatory requirements.</p>   |
| 3 (6) (v) (e)  | <p><b>Frequency of Meetings</b> – The Committee’s Terms of Reference provides that the Committee shall meet at least quarterly. The Committee met quarterly during the year 2016.</p>  |
| 3 (6) (v) (f)  | <p><b>Action Against those who Fail to Identify Specific Risks</b> – Responsible officers of branches or departments failing to identify specific risks were identified during the internal audit reviews and internal audit investigations carried out and reported in the audit/investigation reports. Depending on the nature of the offence the reports were submitted to the line management and/or the Head of Human Resources and/or Chief Executive Officer and/or to the Disciplinary Unit for appropriate action.</p> <p>Reports on high risk offences including line management’s action taken to prevent such offences in the future were submitted to the BIRMC for information and appropriate advice where necessary.</p>   |
| 3 (6) (v) (g)  | <p><b>Risk Assessment Report to the Board</b> – Copies of the confirmed minutes of the Committee and Committee recommendations are submitted to the Board meeting that follows the Committee meetings for the Board’s perusal and appropriate decisions/concurrence.</p>   |
| 3 (6) (v) (h)  | <p><b>Compliance Function</b> – The Head of Compliance is a Key Management Personnel of the Bank and is responsible for assessing the Bank’s compliance with laws, regulations, regulatory guidelines and industry best practices. The Compliance Officer reports to the Committee at its quarterly meetings. The Compliance Officer also submits a Compliance Report to the Board to its regular meetings held monthly.</p>   |

**3 (7)****Related Party Transactions**

3 (7) (i)

**Avoidance of Conflicts of Interest** – The Board takes necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with related parties of the Bank as defined in Direction No. 3 (7) (i) which includes, any of the Bank’s subsidiary companies; Bank’s associate companies; Directors of the Bank; Key Management Personnel (KMP); a close relation of any of the Bank’s Directors or KMP; 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 has a substantial interest.

A Board approved Policy on Related Party Transactions and Avoidance of Conflicts of Interest is in place.

3 (7) (ii)

**Types of Transactions with Related Parties** – Transactions are carried out with related parties in the normal course of business as disclosed in the Annual Report under Note 50 to the Financial Statements on ‘Related Party Disclosures’.

3 (7) (iii)

**Favourable Treatment** – The Board ensures that the Bank does not engage in transactions with related parties, in a manner that would grant such parties ‘more favourable treatment’ than that accorded to other constituents of the Bank carrying on the same business such as charging of a lower rate of interest than the Bank’s best lending rate 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.

The Board approved Policy ensures that all employees are aware of these guidelines. Heads of Divisions/ relevant officers who deal in related party transactions consider 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 Officer on a quarterly basis.

3 (7) (iv)

**Accommodation to a Director or to a Close Relation of a Director (if any)** – was granted with the approval of the Board of Directors with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. Such accommodation is also secured by such security as may from time to time be determined by 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**

Independent Directors, Mr. A.S. Wijesinha and Mrs. S.K. Salgado who were appointed on 1st December 2016 nor their close relations had been granted any accommodation by the Bank prior to their appointments to the Board. However, Mrs. S.K. Salgado held substantial interest in a company to which the Bank has granted accommodation secured against cash deposits. Since the said facility was a related party transaction, the Board reviewed same and ensured that it was adequately secured as determined by the Monetary Board of the Central Bank of Sri Lanka.

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 than on the basis of a scheme 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**

The Bank’s Policy on Related Party Transactions provides that no accommodation granted by the Bank under Direction 3 (7) (v) and 3 (7) (vi), nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect. The Bank has complied with this requirement.

**3 (8)****Disclosures**

3 (8) (i)

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

The above Reports are released to the Colombo Stock Exchange (CSE) and uploaded on its website [www.cse.lk](http://www.cse.lk) for the information of the shareholders and the general public prior to publishing in the newspapers. The Reports are also available on the Bank's corporate website [www.seylan.lk](http://www.seylan.lk). The 'Financial Calendar' appearing on page 156 provides the relevant dates.

3 (8) (ii) (a)

**The Directors' Responsibility Statement for Financial Reporting and the Chief Executive Officer's and Chief Financial Officer's Responsibility Statement for Financial Reporting**

The above Statements (pages 157 to 158) confirm that the Financial Statements for the year ended 31st December 2016 published are in conformity with all rules and regulatory requirements.

3 (8) (ii) (b)

**Directors' Statement on Internal Control**

The above Statement (pages 55 to 56) confirms that the financial reporting system provides reasonable assurance regarding the financial report and that the preparation of the Financial Statements for external purposes has been done in accordance with all relevant accounting principles and regulatory requirements.

3 (8) (ii) (c)

**External Auditors' Certification**

The Bank has obtained an Assurance Report on the internal controls over financial reporting from the External Auditors in accordance with the 'Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Reports for Banks on Directors' Statements on Internal Control'. Refer page 57.

3 (8) (ii) (d)

**Details of the Directors**

- Names, qualifications, expertise: Refer Profiles of Directors on pages 15 to 18.
- Fitness and Propriety: Refer Report of the Board of Directors on page 61.
- Details on Directors' interest in other entities – Refer Annexure to the Report of the Board of Directors on pages 65 to 67.
- Related Party Transactions – Refer Note 50 to the Financial Statements.
- Fees/Remuneration paid to Directors – Refer disclosure under Direction 3 (8) (ii) (f) on page 45.

3 (8) (ii) (e)

**Total Net Accommodations to Related Parties**

Accommodation granted to related parties is given in Note 50 to the Financial Statements.

The net accommodation as at 31st December 2016, 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<br>Rs. Mn. | % of Regulatory<br>Capital |
|--|-------------------|----------------------------|
| Directors, Key Management Personnel and their close relations<br>(Transactions including credit card accommodations)                 | 280.36            | 0.89                       |
| Subsidiary, Seylan Developments PLC  | 75.00             | 0.24                       |
| Material shareholders of the Bank and concerns in which a Director<br>of the Bank or material shareholder has a substantial interest | 8,682.48*         | 27.42                      |
| Other entities including common Directorship Entities  | 5,071.54**        | 16.02                      |

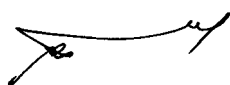
\* Includes Securities Purchased under Resale Agreements – Rs. 1,696 Mn.

\*\* Includes accommodations non-funded, undrawn facilities – Rs. 4,210 Mn.

| CBSL Direction  | Level of Compliance   |                          |                   |                      |        |   |       |   |        |  |        |   |        |   |        |
|---|---|--------------------------|-------------------|----------------------|--------|---|-------|---|--------|--|--------|---|--------|---|--------|
| 3 (8) (ii) (f)  | <p><b>Remuneration to Key Management Personnel (KMPs) and Transactions with Key Management Personnel and Aggregate Values of the Transactions of the Bank with its KMPs</b></p> <p>The aggregate remuneration paid to Key Management Personnel and transactions of the Bank with Key Management Personnel during the year 2016 were as follows:</p> <table border="1"> <thead> <tr> <th>Remuneration/Transaction</th> <th>Amount<br/>Rs. Mn.</th> </tr> </thead> <tbody> <tr> <td>Remuneration to KMPs</td> <td>218.18</td> </tr> <tr> <td>Directors' Fees for Non-Executive Directors</td> <td>18.78</td> </tr> <tr> <td>Loans and Advances (including Credit Card Accommodations to KMPs and Non-Executive Directors)</td> <td>135.78</td> </tr> <tr> <td>Deposits of KMPs and Non-Executive Directors</td> <td>304.40</td> </tr> <tr> <td>Investments by KMPs and Non-Executive Directors – Other Investments (Liabilities)</td> <td>245.10</td> </tr> <tr> <td>Other Instruments with KMPs and Non-Executive Directors – Securities Purchased under Resale Agreements (Assets)</td> <td>144.58</td> </tr> </tbody> </table> | Remuneration/Transaction | Amount<br>Rs. Mn. | Remuneration to KMPs | 218.18 | Directors' Fees for Non-Executive Directors | 18.78 | Loans and Advances (including Credit Card Accommodations to KMPs and Non-Executive Directors) | 135.78 | Deposits of KMPs and Non-Executive Directors | 304.40 | Investments by KMPs and Non-Executive Directors – Other Investments (Liabilities) | 245.10 | Other Instruments with KMPs and Non-Executive Directors – Securities Purchased under Resale Agreements (Assets) | 144.58 |
| Remuneration/Transaction  | Amount<br>Rs. Mn.   |                          |                   |                      |        |   |       |   |        |  |        |   |        |   |        |
| Remuneration to KMPs  | 218.18  |                          |                   |                      |        |   |       |   |        |  |        |   |        |   |        |
| Directors' Fees for Non-Executive Directors   | 18.78   |                          |                   |                      |        |   |       |   |        |  |        |   |        |   |        |
| Loans and Advances (including Credit Card Accommodations to KMPs and Non-Executive Directors)                   | 135.78  |                          |                   |                      |        |   |       |   |        |  |        |   |        |   |        |
| Deposits of KMPs and Non-Executive Directors  | 304.40  |                          |                   |                      |        |   |       |   |        |  |        |   |        |   |        |
| Investments by KMPs and Non-Executive Directors – Other Investments (Liabilities)                               | 245.10  |                          |                   |                      |        |   |       |   |        |  |        |   |        |   |        |
| Other Instruments with KMPs and Non-Executive Directors – Securities Purchased under Resale Agreements (Assets) | 144.58  |                          |                   |                      |        |   |       |   |        |  |        |   |        |   |        |
| 3 (8) (ii) (g)  | <p><b>External Auditors Certification of the Compliance with Direction No. 11 of 2007 on Corporate Governance</b></p> <p>The External Auditors have performed an agreed-upon procedure in accordance with the principles set out in the Sri Lanka Related Services Practice Statement 4750 and have provided a Factual Findings Report to the Board on the Bank's extent of compliance with the Directions as disclosed in this Corporate Governance Report. Please refer confirmation stated at the end of this Report.</p>  |                          |                   |                      |        |   |       |   |        |  |        |   |        |   |        |
| 3 (8) (ii) (h)  | <p><b>Compliance with Prudential Requirements, Regulations, Laws and Internal Controls</b></p> <p>Statement of Directors' Responsibility for Financial Reporting on pages 157 to 158 and Directors' Statement on Internal Controls on pages 55 to 56 provide the extent of Bank's compliance in this regard.</p>  |                          |                   |                      |        |   |       |   |        |  |        |   |        |   |        |
| 3 (8) (ii) (i)  | <p><b>Supervisory Concerns</b></p> <p>There were no significant supervisory concerns on lapses in the Bank's risk management system or non-compliance with these Directions that have been pointed out by the Director, Bank Supervision, Central Bank of Sri Lanka and requiring disclosure to the public.</p>   |                          |                   |                      |        |   |       |   |        |  |        |   |        |   |        |
| <b>3 (9)</b>  | <b>Transitional and General Provisions</b>  |                          |                   |                      |        |   |       |   |        |  |        |   |        |   |        |
| 3 (9) (i)   | <p>The Board of Seylan Bank PLC was reconstituted on the 30th December 2008 and the current Directors were appointed on or after the said date. Therefore, the directions relating to compliance with the transitional provisions of the Banking Act Directions No. 11 of 2007, are not applicable to the Bank.</p>   |                          |                   |                      |        |   |       |   |        |  |        |   |        |   |        |

## 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 21st February 2017 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.



**W.M.R.S. Dias**  
Chairman

21st February 2017  
Colombo



**(Mrs.) N.N. Najumudeen**  
Company Secretary

The Board Audit Committee, with authority and responsibilities, vested by the Board, presents its report for the year ended 2016. This Report was approved by the Board of Directors.

### Board Audit Committee's Objective

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

### Terms of Reference

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

### Composition of the Committee during the Year

The Committee comprised:

- Ms. M. Coralie Pietersz\* – Independent Director, Chairperson of the Committee
- Mr. Nihal Jayamanne PC – Independent Director (resigned from the Committee with effect from 25th February 2016)
- Mr. Samantha P.S. Ranatunga\* – Independent Director
- Mr. W.M.R.S. Dias – Non-Executive Director (resigned from the Committee with effect from 30th May 2016)
- Mr. W.D. Kapila Jayawardena\* – Non-Executive Director (appointed to the Committee with effect from 30th May 2016)

\*Members as at 31st December 2016 (Independent Director, Mr. Kumar Perera was appointed to the Committee on 25th January 2017)

The Chairperson of the Committee is an Associate Member of the Institute of Chartered Accountants in England and Wales and a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, with over

30 years experience in auditing, finance, accounting and banking of which over 20 years is at senior level. The profiles of the members of the Committee are given on page 15 to 18 of this Annual Report.

To assist the Committee in fulfilling its role, the Chief Executive Officer, The Chief Financial Officer and the Head of Internal Audit were invited by the Committee and attended the meetings of the Committee. Other members of the Board and senior management/staff of the Bank and External Auditors were also invited and attended the meetings as and when the Committee required their presence. The Company Secretary functioned as the Secretary to the Audit Committee.

### Meetings

The Committee held a total of 14 meetings (including three special meetings) during the year, which included four meetings with the External Auditors; two without the presence of the Director/CEO and Management and two meetings in the presence of the Executive Management.

### Attendance of the Members at the Audit Committee Meetings

The attendance of the members at the meetings is presented in the table on page 26 of this Annual Report.

### Responsibilities and Activities of the Committee

The responsibilities and activities of the Committee are described in the following sections of the Corporate Governance Report (pages 39 to 40 of the Annual Report) which reports compliance with the Banking Act Direction No. 11 of 2007 on Corporate Governance.

| Section                | Responsibility  |
|------------------------|---|
| 3 (6) (ii) (c) and (d) | The Audit Committee's role with regard to External Auditors |
| 3 (6) (ii) (e)         | Non-Audit Services  |
| 3 (6) (ii) (f)         | Scope of External Audit                                     |
| 3 (6) (ii) (g)         | Review of the Bank's Financial Information                  |
| 3 (6) (ii) (h)         | Meeting with the External Auditors                          |
| 3 (6) (ii) (i)         | Management Letters of the External Auditors                 |

| Section                | Responsibility   |
|------------------------|--|
| 3 (6) (ii) (j)         | Internal Audit Functions<br>Internal Audit Plan/<br>Programme<br>Appraisals/assessments of performance of senior staff of the Internal Audit Department<br>Adequacy of human resources for internal audit function   |
| 3 (6) (ii) (k) and (m) | Findings of the Internal Audit; Authority to Investigate   |
| 3 (6) (ii) (n) and (p) | Meetings and Minutes of the Audit Committee  |
| 3 (6) (ii) (q)         | Whistle-Blowing Policy   |
| 3 (8) (ii) (b) and (c) | Internal Controls – Whilst the management is primarily responsible for the Financial Statements and for maintaining effective internal control over financial reporting and assessing the effectiveness of such control systems, the Committee maintained vigilance in exercising its oversight role in respect of financial reporting, internal controls and the risk management process. |

### 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 submitted its Report to the Board.



**Coralie Pietersz**  
Chairperson  
Audit Committee  
(Independent Director/Senior Director)

21st February 2017  
Colombo



The Board Human Resources and Remuneration Committee ('the BHRRC' or 'the Committee') presents its report for the year ended 31st December 2016. This Report was approved by the Board of Directors.

### Scope and Objective of the Committee

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 Directors, the Chief Executive Officer (CEO) and Key Management Personnel (KMPs) of the Bank. Its primary responsibilities include reviewing, monitoring and making recommendations to the Board of Directors on matters of strategic importance related to human resources and remuneration of all other employees of the Bank as well. The responsibilities are detailed in the Terms of Reference of the Committee approved by the Board.

### Composition of the Committee

The Committee comprised the following members during the year 2016:

- Mr. Nihal Jayamanne PC –  
Independent Director – Chairman of the Committee (retired on 8th May 2016)
- Mr. Samantha P.S. Ranatunga –  
Independent Director – Chairman of the Committee with effect from 30th May 2016
- Mr. Ishara C. Nanayakkara –  
Non-Executive Director
- Rear Admiral B. Ananda J.G. Peiris –  
Independent Director
- Ms. M. Coralie Pietersz –  
Independent Director

*(Mrs. Sandya K. Salgado – Independent Director was appointed to the Committee with effect from 25th January 2017)*

The Company Secretary functioned as the Secretary to the Committee during the year. Director/Chief Executive Officer (CEO) and Head of Human Resources, who are responsible for overseeing the overall Human Resources management function of the Bank, attended the Meetings on invitation of the Committee and participated in the deliberations

except when matters of their own interest, performance and compensation were discussed.

### Meetings

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

The attendance of the Members at the Meetings of the Committee was satisfactory as presented in the table on page 26 of the Annual Report.

### Remuneration Policy

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

### Directors' Remuneration and Benefits

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

The Terms of Reference of the Committee, provides that the Committee shall make recommendations to the Board for granting any special payments and/or benefits to the Executive Directors, upon their resignation or retirement and to any Non-Executive Director upon their retirement, in addition to normal fees and/or remuneration, subject to disclosure of the aggregate value of total special payments/benefits made to resigning/retiring Executive Directors or retiring

Non-Executive Directors during the respective financial year in the Annual Report.

### Aggregate Remuneration to Directors, CEO and the KMPs

Aggregate remunerations paid to the Directors, CEO and the KMPs are disclosed under Direction ref 3 (8) (ii) (f) in the table reporting compliance with the Banking Act Directions on Corporate Governance (page 45).

### Responsibilities of the Committee

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

- 3 (6) (iii) (a) to (d) of the Banking Act Directions – Pages 40 to 41.
- Sections A.11, B.1, B.2 and B.3 of the Code of Best Practice – Page 29.

### Self-evaluation of the Committee

The Committee carried out a self-evaluation of the Committee's performance during the year and submitted its Report to the Board.



**Samantha Ranatunga**  
Chairman

Board Human Resources and Remuneration Committee  
(Independent Director)

21st February 2017  
Colombo

The Board Nomination Committee ('the Committee') presents its Report for the year ended 31st December 2016, pursuant to the review of its performance during the year 2016. This report was approved by the Board of Directors.

### Main Objective of the Board Nomination Committee

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

### Composition of the Board Nomination Committee

During the year 2016, the Committee was reconstituted and as at 31st December 2016, comprised five Non-Executive Directors, three of whom were Independent Directors as mentioned below:

Rear Admiral B. Ananda J.G. Peiris –  
Independent Director – Chairman  
of the Committee

Mr. Nihal Jayamanne PC –  
Independent Director  
(retired on 8th May 2016)

Mr. Ishara C. Nanayakkara –  
Non-Executive Director

Mr. Samantha P.S. Ranatunga –  
Independent Director

Mr. W.M.R.S. Dias –  
Non-Executive Director  
(appointed on 30th May 2016)

Mr. P.L.S. Kumar Perera –  
Independent Director  
(appointed on 30th May 2016)

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

### Meeting Proceedings of the Board Nomination Committee

The Committee held seven meetings during the year. Copies of the minutes of the meetings and reports on the recommendations and decisions of the Committee were tabled at the Board Meetings that ensued for perusal and concurrence/decision as appropriate.

### Attendance of Members at Meetings

Attendance of the members at the Committee meetings is presented in the table on page 26 of the Annual Report.

### Scope of Work and Responsibilities of the Committee

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

- Section 3 (6) (iv) (a) to (f) of the Banking Act Directions – Page 41
- Section A.7 and A.8 of the Code of Best Practice – Pages 26 to 28

### Evaluation of the Committee

The Board Nomination Committee carried out a self-evaluation of its performance at the Meeting of the Committee and submitted its Report to the Board.



**Rear Admiral Ananda Peiris**  
Chairman

Board Nomination Committee  
(Independent Director)

21st February 2017

Colombo

The Board Integrated Risk Management Committee ('BIRMC' or 'the Committee') presents its Report for the year ended 31st December 2016. The Report was formally presented and approved by the Board of Directors.

### Overall Objective of the Board Integrated Risk Management Committee

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

### Composition of the BIRMC

The Committee was reconstituted during the year:

**Mr. Samantha P.S. Ranatunga\*** – Independent Director, Chairman of the Committee

**Ms. M. Coralie Pietersz\*** – Independent Director

**Mr. W.D. Kapila Jayawardena** – Non-Executive Director (resigned from the Committee with effect from 30th May 2016)

**Mr. P.L.S. Kumar Perera** – Non-Executive Director, Independent Director (resigned from the Committee with effect from 25th February 2016)

**Mr. W.M.R.S. Dias\*** – Non-Executive Director (appointed with effect from 30th May 2016)

**Mr. Kapila P. Ariyaratne\*** – Director/CEO (appointed with effect from 25th February 2016)

**Mr. Christie Nanayakkara** – Chief Risk Officer (resigned with effect from 30th June 2016)

**Mr. Ramesh J. Jayasekara\*** – Chief Risk Officer (appointed with effect from 1st July 2016)

*\* Members as at 31st December 2016*

*(Mr. P.L.S. Kumar Perera – Independent Director was reappointed to the Committee with effect from 25th January 2017)*

The Head of Compliance and the Chief Financial Officer are co-opted to the Committee. The Company Secretary

functioned as the Secretary to the Committee during the year.

### Meetings of the BIRMC

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

### Attendance

The Chief Risk Officer was present at all meetings of the Committee held during the year. Details of attendance of the Directors (who were members of the Committee) at the meetings held during the year are presented in the table summarising the attendance of Directors at Sub-committee meetings on page 26.

### Terms of Reference

The Terms of Reference of the Committee was revised during the year.

### Activities of the Committee

The activities carried out by the Committee during the year, have been briefed in the following sections of the Corporate Governance Report (page 42 of the Annual Report) which reports the Bank's compliance with the Banking Act Directions on Corporate Governance No. 11 of 2007.

| Section       | Activities of the Committee/Extent of compliance with the role and responsibilities defined in the Terms of Reference |
|---------------|---|
| 3 (6) (v) (b) | The process for assessment of risks   |
| 3 (6) (v) (c) | Effectiveness of Management Level Committees  |
| 3 (6) (v) (d) | Actions to mitigate specific risks  |
| 3 (6) (v) (f) | Action against those who fail to identify specific risks  |

### Compliance Function

The Head of Compliance reports directly to the BIRMC and is responsible for the due compliance by the Bank with laws, regulations, guidelines and industry best practices relating to licensed commercial banks.

### Integrated Risk Management Policy Framework and System Implementation

Review of policies related to risk management; effectiveness of the Business Continuity Planning, Disaster Recovery Testing; progress on the implementation of the Baseline Security Standards; Internal Capital Adequacy Assessment Process, progress on moving to the Advanced Approaches and the Regulatory Capital Requirements (2016-2019) in line with the Central Bank guidelines on BASEL III; were some of the supplementary activities endorsed by the Committee during the year.

### Risk Management Department

The Risk Management Department is an independent unit headed by the Chief Risk Officer (CRO), which carries out its responsibility to create, to manage and to implement a pervasive bank wide risk culture. The BIRMC reviewed the adequacy of the structure of Risk Management Department to focus on improving communication and implementation of risk management responsibilities at all levels of the Bank. A comprehensive report prepared by the Risk Management Department and approved by the Committee disclosing the Bank's level of risk management and assessment including the levels of risk under different risk categories, is presented on pages 68 to 86 of the Annual Report.

### Evaluation of the Board Integrated Risk Management Committee

The Members of the BIRMC carried out a self-assessment of the Committee's activities during the year and submitted its Report to the Board.



**Samantha Ranatunga**  
Chairman

Board Integrated Risk Management Committee (Independent Director)

21st February 2017  
Colombo

The Board Sustainability Committee ('the Committee'), with its authority and responsibilities vested by the Board, presents its report for the year 2016. This Report was approved by the Board.

### Composition

During the year, the Committee comprised:

**Mr. Ishara C. Nanayakkara** –  
Non-Executive Director  
Chairman of the Committee

**Mr. Samantha P.S. Ranatunga** –  
Independent Director

**Rear Admiral B. Ananda J.G. Peiris** –  
Independent Director

**Mr. Kapila P. Ariyaratne** –  
Director/CEO

**Mr. S. Viran Corea** –  
Non-Executive Director

*(Mrs. Sandya K. Salgado, Independent Director was appointed to the Committee on 25th January 2017).*

The Chief Financial Officer, the Head of Marketing and the Assistant General Manager Finance attended the Meetings of the Committee held during the year, by invitation. The Company Secretary functioned as the Secretary to the Committee.

### Meetings

Two meetings of the Board Sustainability Committee were held during the year 2016 and one Resolution was passed by circulation. Details of the Directors' attendance at the meetings are presented in the table appearing on page 26 of the Annual Report. Copies of the confirmed minutes of the meetings were circulated to the Board for review and concurrence of the matters discussed.

### Terms of Reference and Scope and Responsibilities of the Committee

The Terms of Reference (TOR) of the Committee was revised and approved during the year. The scope and responsibilities of the Committee is set out in the TOR which stipulates that the Bank shall follow the GRI (Global Reporting Initiative) Sustainability Reporting Guidelines for reporting sustainability initiatives of the Bank.

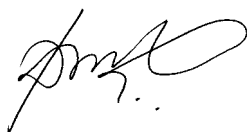
### Corporate Social Responsibility (CSR) Activities

The CSR activities during the year were steered by the Executive Sustainability Committee headed by Director/CEO. 'Seylan Pehasara', the 100 School Library Project for the period 2013 to 2016 was successfully completed in March 2016 with the opening of the 100th Library at the Weerapuranappu Model School in Moratuwa. The Committee approved the continuation of the 'Seylan Pehasara' project for establishing a further 150 school libraries as well as a project for the renovation/maintenance of the already established 100 libraries at schools across the country during the next three years. The Bank also carried out several other CSR projects to support communities, which included initiatives by the branches on a regional basis. Pages 116 to 154 of the Annual Report provide a detailed update of the Sustainability/CSR initiatives of the Bank.

The Bank's External Auditors, Messrs KPMG were engaged by the Bank for assurance services relating to Sustainability Reporting, who provided their assurance report in respect of the year 2016, which is published on pages 282 to 283 of the Annual Report.

### Evaluation of the Committee

The Committee carried out a self-evaluation of the activities of the Committee and submitted its Report to the Board.



#### Ishara Nanayakkara

Chairman

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

21st February 2017  
Colombo

The Board Credit Committee ('the Committee') presents this Report in respect of the year 2016, which report was approved by the Board of Directors.

### Scope and Responsibilities of the Board Credit Committee

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

- 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 as well as processes for recoveries, empowerment and accountability for credit decision-making.
- Supporting and reinforcing the independent role of Credit Risk Management and ensuring that it has the ability, determination and assertiveness to influence key credit decision-makers at all levels.

### Composition of the Board Credit Committee as at 31st December 2016

The Committee comprised:

Mr. Ishara C. Nanayakkara –  
Non-Executive Director,  
Chairman of the Committee

Rear Admiral B. Ananda J.G. Peiris –  
Independent Director

Mr. P.L.S. Kumar Perera –  
Independent Director

Mr. Kapila P. Ariyaratne –  
Director/CEO

*(Mr. Kumar Perera resigned from the Committee with effect from 25th January 2017 and Independent Director, Mr. Anushka Wijesinha was appointed with effect from 25th January 2017.)*

The Company Secretary functioned as the Secretary to the Committee.

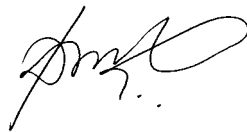
### Meetings of the Board Credit Committee

The Committee held 21 Meetings during the year (27 Meetings were held in 2015). Six resolutions by circulations were also passed from time to time in respect of credit proposals, which required approval on an urgent basis. Recommendations of the Committee were circulated to the Board for approval, whilst copies of the confirmed Minutes were tabled for the perusal of the Board at the monthly Board Meetings and important issues discussed. Recommendations of the Committee, in respect of proposals for new facilities (exceeding a decided limit) were evaluated by the Board at the Meetings of the Board of Directors. Directors abstained from voting on any resolution in which the Directors had related party interests or were interested by virtue of their Directorships. Such Directors were not counted in the quorum for the relevant agenda item.

The attendance of the members at the meetings was satisfactory as noted in the table presenting the Directors' attendance at Sub-committee meetings on page 26.

### Evaluation of the Committee

The Committee carried out an evaluation of its proceedings during the year and submitted its Report to the Board.



**Ishara Nanayakkara**  
Chairman  
Board Credit Committee  
(Non-Executive Director/  
Deputy Chairman)

21st February 2017  
Colombo

The Board Marketing and Product Development Committee ('the Committee'), with its authority and responsibilities vested by the Board, presents its Report for the year 2016. This report was approved by the Board.

### **Composition of the Board Marketing and Product Development Committee**

During the year, the Committee comprised:

Mr. Samantha P.S. Ranatunga –  
Independent Director,  
(Chairman of the Committee)

Mr. Nihal Jayamanne PC –  
Independent Director,  
(retired on 8th May 2016)

Mr. W.M.R.S. Dias –  
Non-Executive Director, (appointed  
with effect from 30th May 2016)

Rear Admiral B. Ananda J.G. Peiris –  
Independent Director

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

(Mrs. Sandya K. Salgado –  
Independent Director, was appointed to  
the Committee on 25th January 2017)

Head of Marketing and Personal Banking and the Chief Financial Officer were co-opted to the Committee and attended regular meetings. The Company Secretary functioned as the Secretary to the Committee.

### **Scope and Objectives Defined in the Terms of Reference of the Committee**

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

### **Meetings of the Committee**

The Committee held 2 Meetings during the year, whilst 3 Resolutions were passed by circulation for approving product launches and promotions. Refer page 26 for attendance of the members at the Meetings. The Committee reviewed with in-depth deliberations, competitor strategies, market share, banking sector spends, etc., vis-à-vis the progress and performance of the different products and promotional campaigns undertaken by the Bank, in line with the approved Strategic Marketing Plan of the Bank for the year 2016. The Committee also reviewed key initiatives recommended by the Head of Marketing and Personal Banking towards achieving the overall objectives of the Bank.

Copies of the minutes of the Meetings and Resolutions passed by circulation were submitted for the perusal of the Board. Recommendations (if any) arising from the Meeting proceedings were taken up at the Board Meetings that followed the Committee Meetings for review and comments/decision.

### **Evaluation of the Committee**

The Committee carried out a self-evaluation of the performance and effectiveness of the Committee during the year 2016 and submitted its Report to the Board.



**Samantha Ranatunga**  
Chairman  
Board Marketing and Product  
Development Committee  
(Independent Director)

21st February 2017  
Colombo

The Board Governance and Compliance Committee of Seylan Bank PLC presents its report for the year ended 31st December 2016. This Report was approved by the Board of Directors.

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

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

This scope and objective is set out in the Terms of Reference of the Committee. The Terms of Reference was revised during the year pursuant to vesting its responsibility for conforming with the provisions of the Code of Best Practice on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka and Section 9 of the Rules of the Colombo Stock Exchange relating to 'Related Party Transactions' to the Related Party Transactions Review Committee.

### Composition

During the year, the Committee comprised the following members:

- Mr. Nihal Jayamanne PC – Independent Director/Chairman of the Committee (retired on 8th May 2016)
- Mr. P.L.S. Kumar Perera – Independent Director/Chairman of the Committee (appointed as Chairman with effect from 30th May 2016)
- Rear Admiral B. Ananda J.G. Peiris – Independent Director

Ms. M. Coralie Pietersz – Independent Director

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

Mr. S. Viran Corea – Non-Executive Director

The Company Secretary functioned as the Secretary to the Committee.

The Director/Chief Executive Officer and the Head of Compliance attended the regular meetings of the Committee on invitation. The Terms of Reference of the Committee provide that on invitation, any of the Directors, the Chief Risk Officer, the Head of Internal Audit and any other members of the Management shall attend the meetings of the BGCC or part thereof to provide pertinent information as necessary.

### Meetings of the Board Governance and Compliance Committee

The Committee held 4 meetings during the year. Details of attendance of members at the meetings are presented in the table on page 26 of this Annual Report. Copies of the Minutes of the Meetings were submitted for the perusal of the Board. Recommendations arising out of the Minutes of the Committee Meetings were taken up at the Board Meetings that followed the Committee Meetings for review and decision.

### Key Responsibilities of the Committee

#### Governance

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

### Compliance

The Committee reviewed several aspects of the Bank's compliance, including risk based compliance processes.

### Evaluation of the Committee

The Committee carried out a self-evaluation of the performance and effectiveness of the Committee and submitted its Report to the Board.



**Kumar Perera**  
Chairman

Board Governance and Compliance Committee  
(Independent Director)

21st February 2017  
Colombo

The Related Party Transactions Review Committee ('the Committee' or 'RPTRC') of the Board presents its report for the year ended 31st December 2016. This Report was approved by the Board of Directors.

### Establishment of the Committee

The Board Governance and Compliance Committee (BGCC) of the Bank was established in 2014, with the objective of assisting the Board of Directors ('the Board') of Seylan Bank PLC in adopting appropriate governance standards for the Bank in fulfilling the Board's responsibility for oversight of the corporate governance and compliance processes and practices. A key responsibility of the BGCC was conforming with the provisions of the Code of Best Practice on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka (the SEC Code on Related Party Transactions). The BGCC recommended that the Board establish a separate committee, viz. 'Related Party Transactions Review Committee' to comply with Section 9 of the Listing Rules of the Colombo Stock Exchange (CSE) and the said SEC Code on Related Party Transactions. Accordingly, a Related Party Transactions Review Committee was constituted by the Bank in September 2016 and the responsibilities of the BGCC relating to review of related party transactions were vested with the RPTRC.

### Terms of Reference of the Committee

The Terms of Reference of the Committee prepared in line with the aforementioned Rules and Code was approved by the Board.

### Composition

The Committee comprised the following members:

Mr. P.L.S. Kumar Perera –  
Independent Director,  
Chairman of the Committee

Ms. M. Coralie Pietersz –  
Independent Director

Rear Admiral B. Ananda J.G. Peiris –  
Independent Director

Mr. S. Viran Corea –  
Non-Executive Director

*(Mr. Anushka S. Wijesinha – Independent Director, was appointed to the Committee on 25th January 2017)*

The Company Secretary functioned as the Secretary to the Committee.

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

### Meetings of the RPTRC


The Committee held 2 Meetings during the year. Details of attendance of the members at the meetings are presented in the table on page 26 of this Annual Report. Copies of the confirmed minutes of Meetings were submitted for the perusal of the Board.

### Review of Related Party Transactions

Both the BGCC (until September 2016) and the RPTRC (with effect from October 2016) ensured compliance with Section 9 of the Rules of the CSE and the SEC Code on Related Party Transactions. It was noted that the Bank did not carry out any related party transactions, which were within the ambit of the said Rules and the Code and which required shareholder approval and/or disclosure.

### Evaluation of the Committee

The Committee carried out a self-evaluation of the performance and effectiveness of the Committee and submitted its Report to the Board.



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

21st February 2017  
Colombo



## Introduction

The system of internal control is a critical component of Seylan Bank PLC's ('Bank') management and a foundation for safe and sound operations. A sound internal control system is established with the intention of ensuring that the goals and objectives of the Bank will be met, will achieve long-term profitability targets and maintain reliable financial and managerial reporting, while ensuring compliance with laws and regulations as well as internal policies and procedures.

The internal control process comprises the following main elements:

- a. Management oversight and control culture.
- b. Risk recognition and assessment.
- c. Control activities and segregation of duties.
- d. Information and communication.
- e. Monitoring activities and correcting deficiencies.

The internal control mechanism is an ongoing process for identifying, evaluating and managing significant risks faced by the Bank and ensuring that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with the relevant accounting principles and regulatory requirements.

## Responsibility

The Board of Directors ('Board') is responsible for the adequacy and effectiveness of the Bank's system of internal controls. However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

## Framework for Managing Significant Risks

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to business environment and regulatory guidelines. The process is regularly reviewed by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka (ICASL). The Board has assessed the internal control system taking into account principles for the assessment of internal control system as given in that guidance. As required by the Direction No. 11 of 2007, section 3 (8) (ii) (b) under the Banking Act, the Board of Directors presents this report.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks. The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes and is in accordance with relevant accounting principles and regulatory requirements.

## Key Features of the Process Adopted in Reviewing the Design and Effectiveness of the Internal Control System Over Financial Reporting

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

- The Board Committees established by the Board, assist the Board in ensuring the effectiveness of the Bank's daily operations and that the Bank's operations are in accordance

with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.

- The Internal Audit Division of the Bank verifies compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational basis and highlights significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.
- The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Division, the external auditors, regulatory authorities and management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The Minutes of the Audit Committee meetings are tabled at the Board Meeting of the Bank on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on page 46.
- Apart from the Audit Committee, Board Committees have been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations. These Committees include the Integrated Risk Management Committee, Governance and Compliance

Committee, Human Resource and Remuneration Committee, the Nomination Committee, the Credit Committee, the Sustainability Committee, the Marketing and Product Development Committee and the Related Party Transactions Review Committee.

- Operational committees have also been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Asset and Liability Management Committee (ALCO), the Executive Credit Risk Management Committee, the Executive Market and Operational Risk Management Committee, the Executive Crisis Management Committee, the Business Continuity Steering Committee, the Senior Management Committee, the Performance Review Committee and the Information Technology Steering Committee.
- Policies and procedures to ensure compliance with internal controls and the relevant laws and regulations are set out in operations manuals, guidelines and the directives issued by the Bank which are updated from time to time.
- Based on the formats given in the 'Guidance for Directors of Banks on the Directors' Statement on internal control' in the Sri Lanka Standard on Assurance Engagements 3050, issued by The Institute of Chartered Accountants of Sri Lanka, all the said controls including the IT general controls and branch level application controls, were documented.
- In assessing the internal control system over financial reporting, the management of the Bank collated all procedures and controls that are connected with significant accounts

and disclosures of the financial statements of the Bank. These in turn were observed and checked by the Internal Audit Division for suitability of design and effectiveness on an ongoing basis.

- The Board has also taken into consideration the requirements of 'Sri Lanka Financial Reporting Standards 9 – Financial Instruments' which is effective from financial year commencing from 1st January 2018, as it is expected to have significant impact on the classification and impairment of financial instruments of the Bank. A high level impact assessment of potential impact on transition to SLFRS 9 has already been completed. The next phase being the implementation phase will commence in March 2017.
- The recommendations made by the external auditors in connection with the internal control system for the financial year ended 31st December 2015 were taken into consideration and appropriate measures were taken to incorporate them. The recommendations made by the external auditors in connection with the internal control system for the financial year ended 31st December 2016 will be addressed in the ensuing year.
- This report and assessment does not include the subsidiary of the Bank.

### Confirmation

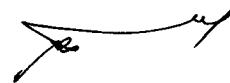
Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) and regulatory requirements of the Central Bank of Sri Lanka.

### 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 31st December 2016 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 57 to this Annual Report.

By order of the Board of Directors of

**Seylan Bank PLC**



**W.M.R.S. Dias**  
Chairman



**Coralie Pietersz**  
Chairperson  
Board Audit Committee

21st February 2017



**KPMG**  
 (Chartered Accountants)  
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## 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 31st December 2016 as set out in pages 55 to 56 in this Annual Report.

## Management's Responsibility for the Statement on Internal Control

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

## Scope of the Engagement in Compliance with SLSAE 3050

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

## Summary of Work Performed

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

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

- a. Enquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the Directors in the Annual Report.
- b. Reviewed the documentation prepared by the Directors to support their Statement made.
- c. Related the Statement made by the Directors to our knowledge of the Bank obtained during the audit of the Financial Statements.
- d. Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
- e. 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.
- f. 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.
- g. Obtained written representations from Directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

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

also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.

## Our Conclusion

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

**Chartered Accountants**  
 Colombo

21st February 2017

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

The Directors of Seylan Bank PLC (hereinafter referred to as 'the Board' or 'the Directors') present their Report on the State of Affairs of Seylan Bank PLC ('the Bank' or 'the Company') as published in this Annual Report of the Bank which also consists of the following statements for the financial year ended 31st December 2016:

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

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

This Report and the aforementioned Financial Statements were reviewed and approved by the Board of Directors on 21st February 2017.

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, the Code of Best Practice (2013) on Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

## 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 30th May 2007. The registered office and the head office of the Bank is at 'Seylan Towers', No. 90, Galle Road, Colombo 03.

The Bank has been listed on the Colombo Stock Exchange since 5th January 1989. The Bank's ordinary shares (both voting and non-voting) and its unsecured, redeemable debentures are listed in the Colombo Stock Exchange. Fitch Ratings Lanka Limited has affirmed the Bank's National Long-Term Rating at A-(lka) with a stable outlook and has affirmed the Bank's senior unsecured debentures at A-(lka) whilst assigning a BBB+(lka) for its subordinated debt.

## Vision and Mission and Corporate Conduct

### Vision

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

### Mission

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

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

## 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 principal activities of the Bank and the Group during the financial year under review.

## Group Structure

The only Subsidiary of the Bank, Seylan Developments PLC is a public limited liability company listed on the Colombo Stock Exchange. The principal activities of Seylan Developments PLC are property development and management. The Bank held a 70.51% stake in Seylan Developments PLC as at 31st December 2016. The Bank received a dividend of Rs. 56,339,340/- paid by the Subsidiary during the year under review.

## Branch Network

As at 31st December 2016, the Bank's branch network consisted of 166 banking centres and 100 Student Savings Centres. Details of the Banking centre locations are given on pages 274 to 277.

## Review of Performance in 2016 and Future Development Plans

The letters from the Chairman and the Chief Executive Officer, and 'Our Value Creation Story' published in this Annual Report provide an overall assessment and review of the Bank's operations and financial performance during the year 2016 and they speak about the future development plans of the Bank.

## Financial Statements and Financial Reporting

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

The Audited Financial Statements of the Bank and the Group for the financial year ended 31st December 2016 certified by the Chief Financial Officer and the Director/Chief Executive Officer and signed by two Directors in terms of sections 151, 152 and 168 (1) (b) of

the Companies Act No. 07 of 2007 as published in this Annual Report form an integral part of this Report.

## 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 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, Banking Act No. 30 of 1988 (as amended), the Listing Rules of the Colombo Stock Exchange and Banking Act Direction No. 11 of 2007 (as amended) and the Directions and guidelines thereto.

The Statement of Directors' Responsibility for Financial Reporting which appears on pages 157 and 158 of this Annual Report, form an integral part of this Report of the Directors.

## 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 2016 and their Report on the Financial Statements appear on page 160 of this Annual Report.

## Significant Accounting Policies

The significant accounting policies adopted in the preparation of the Financial Statements are given on pages 171 to 199 in this Annual Report.

## Financial Results

### Income

The income of the Bank and income of the Group as at the end of the year 2016 is given in the table below. An analysis of the income is given in the Notes to the

Financial Statements published in this Annual Report:

| Income                | BANK            |                 | GROUP           |                 |
|-----------------------|-----------------|-----------------|-----------------|-----------------|
|                       | 2016<br>Rs. Bn. | 2015<br>Rs. Bn. | 2016<br>Rs. Bn. | 2015<br>Rs. Bn. |
| Gross Income (Note 6) | <b>38.092</b>   | <b>28.586</b>   | <b>38.132</b>   | <b>28.629</b>   |
| Operating Income      | <b>17.762</b>   | <b>16.146</b>   | <b>17.813</b>   | <b>16.199</b>   |

## Profit and Appropriations

A summary of the consolidated financial results of the operations of the Group during the year ended 31st December 2016 is given below:

|   | 2016<br>Rs. '000  | 2015<br>Rs. '000  |
|---|-------------------|-------------------|
| Profit before Income Tax                        | <b>5,771,245</b>  | <b>5,822,611</b>  |
| Less: Income Tax                                | <b>1,736,355</b>  | <b>1,936,662</b>  |
| Profit after Income Tax                         | <b>4,034,890</b>  | <b>3,885,949</b>  |
| Attributable to Non-Controlling Interest        | <b>21,758</b>     | <b>30,653</b>     |
| Net Profit Attributable to Equity Holders       | <b>4,013,132</b>  | <b>3,855,296</b>  |
| Retained Profit brought Forward after Dividends | <b>10,427,628</b> | <b>7,561,058</b>  |
| Profit Available for Appropriation              | <b>14,440,760</b> | <b>11,416,354</b> |
| Transfer to Reserve Fund                        | <b>(200,523)</b>  | <b>(191,547)</b>  |
| Other Transfers/Adjustments                     | <b>64,688</b>     | <b>151,462</b>    |
| Balance Carried Forward                         | <b>14,304,925</b> | <b>11,376,269</b> |

## Taxation

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

## Capital Expenditure

The total capital Expenditure incurred on the acquisition of Property, Plant & Equipment of the Bank and the Group during the year is given in Notes 29, 30 and 32 to the Financial Statements.

Capital expenditure approved and contracted as at year ended 31st December 2016 is given in Note 47 to Financial Statements.

## Acquisition of Property, Plant & Equipment, Leasehold Rights and Intangible Assets

| BANK             |                  | GROUP            |                  |
|------------------|------------------|------------------|------------------|
| 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>850,209</b>   | <b>714,214</b>   | <b>851,674</b>   | <b>774,346</b>   |

## Freehold Properties

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

| BANK             |                  | GROUP            |                  |
|------------------|------------------|------------------|------------------|
| 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>2,537,191</b> | <b>1,701,403</b> | <b>4,161,652</b> | <b>3,324,286</b> |

All freehold land and buildings 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 29.4.1 to the Financial Statements.

## Donations

During the year, the Bank made donations amounting to Rs. 12,700,000/- which included a sum of Rs. 10,000,000/- donated to the flood victims through the 'Sathkaraka Sewa' in collaboration with EBC Network in May 2016. (Donations made in 2015 amounted to Rs. 436,000/-).

## Recommendation of Ordinary Dividend and Solvency Certification

The Directors have recommended a first and final ordinary dividend of Rs. 3.25 per share (both ordinary voting and ordinary non-voting) for the year ended 31st December 2016. The dividend of Rs. 3.25 per share will consist of Rs. 1.00 per share in the form of cash dividend and Rs. 2.25 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 and upon such approval, the dividend will be paid/issued to the shareholders registered as at the entitlement date, i.e. 31st March 2017 on or before 12th April 2017.

The Board of Directors was satisfied that the Bank would meet the solvency test in terms of the provisions of Section 56 (3) of the Companies Act No. 07 of 2007 immediately after the proposed dividend. A Certificate of Solvency has also been obtained by the Bank from the External Auditors in compliance with Section 56 (2) of the Companies Act, confirming the Board's declaration of solvency.

Please refer the enclosed 'Circular to Shareholders' for further details.

The Bank paid a first and final ordinary dividend (cash) of Rs. 2.75 per share for the financial year ended 31st December 2015 on 11th April 2016.

## Reserves

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

| BANK              |                   | GROUP             |                   |
|-------------------|-------------------|-------------------|-------------------|
| 2016<br>Rs. '000  | 2015<br>Rs. '000  | 2016<br>Rs. '000  | 2015<br>Rs. '000  |
| <b>17,242,558</b> | <b>14,525,953</b> | <b>18,490,550</b> | <b>15,758,016</b> |

## Stated Capital

The stated capital of the Bank as at 31st December 2016 was Rs. 10,529,724,017/-.

The shares issued by the Bank is given in the table below:

|                            | 2016               | 2015        |
|----------------------------|--------------------|-------------|
| Ordinary Voting Shares     | <b>175,977,401</b> | 175,977,401 |
| Ordinary Non-Voting Shares | <b>168,983,009</b> | 168,983,009 |

## Shareholdings

As at 31st December 2016, the number of registered shareholders of the Bank included 9,245 ordinary voting shareholders and 6,866 ordinary non-voting shareholders. The public holding as at 31st December 2016 as per the Rules of the Colombo Stock Exchange is as follows:

| Public Holding             | Shareholders | No. of Shares     | Percentage as at 31st December 2016 | Percentage 31st December 2015 |
|----------------------------|--------------|-------------------|-------------------------------------|-------------------------------|
| Ordinary Voting Shares     | <b>9,229</b> | <b>95,506,389</b> | <b>54.28</b>                        | <b>54.27</b>                  |
| Ordinary Non-voting Shares | <b>6,859</b> | <b>94,581,209</b> | <b>55.96</b>                        | <b>55.97</b>                  |

An analysis of the distribution of shareholdings and lists of twenty largest ordinary voting and ordinary non-voting shareholders of the Bank are provided on pages 269 to 271 of this Annual Report.

## Debentures Issued During the Year

The Bank proceeded with a debenture issue of 30 Mn. unsecured, subordinated, redeemable debentures of the par value of Rs. 100/- each aggregating up to a value of Rs. 3 Bn. with an option to issue further 20 Mn. of such Debentures in the event of an over subscription, by way of a

public issue to be listed on the Colombo Stock Exchange (CSE) upon allotment. The said issue was oversubscribed and the Bank allotted 50 Mn. debentures amounting to Rs. 5 Bn. to the investors on 15th July 2016 and listed such debentures on the CSE.

During the year, the Board also approved that the Bank proceed with a further public issue of Debentures to be listed on the CSE and submitted its application to the CSE seeking approval. The approval was pending as at the date of this Report.

## Debt Capital

As at 31st December 2016, the Bank had issued quoted debentures to the value of Rs.12,134,870,000/- (2015 – Rs. 7,134,870,000/-). Particulars of the quoted debentures as at 31st December 2016 are given on page 272 of this Annual Report:

## Investors' Information

Information including earnings, profitability, dividend, net assets and market value per share is given under Financial Highlights of this Annual Report. Information pertaining to share prices and debenture prices is given in this Annual Report on pages 271 and 272.

## Equitable Treatment of Shareholders

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

The profiles of the Board of Directors are given on pages 15 to 18 of this Annual Report.

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.

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

## Recommendations for Re-election/Election of Directors

In terms of Article 82 of the Articles of Association, Mr. W.D. Kapila Jayawardena and Ms. M. Coralie Pietersz retire by rotation at the forthcoming Annual General Meeting (AGM) of the Bank and offer themselves for re-election pursuant to the Board Nomination Committee and the Board of Directors evaluating and recommending their re-election as Directors.

In terms of Article 89 of the Articles of Association, Mr. Anushka S. Wijesinha and Mrs. Sandya K. Salgado who were appointed with effect from 1st December 2016 by the Board of Directors will be subject to election by the shareholders at the forthcoming AGM. The Board Nomination Committee and the Board of Directors recommend their election as Directors.

## Directorate

Changes during 2016

| Name of Director   | Change: Appointment/Resignation/Retirement  |
|--|---|
| Mr. N.M. Jayamanne PC – Independent Director/Chairman          | Retired on 8th May 2016 in terms of Section 3 (3) (i) of the Banking Act Directions No. 11 of 2007 and Section 210 (1) of the Companies Act No. 07 of 2007 upon reaching the age of 70 years. |
| Mr. W.M.R.S. Dias – Non-Executive Director/Chairman            | Appointed as the Chairman with effect from 9th May 2016.  |
| Ms. M. Coralie Pietersz – Independent Director/Senior Director | Appointed as Senior Director, with effect from 9th May 2016 in terms of Section 3 (5) (ii) of the Banking Act Directions No. 11 of 2007.  |
| Mr. Anushka S. Wijesinha – Independent Director                | Appointed with effect from 1st December 2016.   |
| Mrs. Sandya K. Salgado – Independent Director                  | Appointed with effect from 1st December 2016.   |

## Directors who held office as at 31st December 2016

| Name of Director                   | Status as at 31st December 2016        |
|------------------------------------|--|
| Mr. W.M.R.S. Dias                  | Non-Executive Director/Chairman        |
| Mr. Ishara C. Nanayakkara          | Non-Executive Director/Deputy Chairman |
| Ms. M. Coralie Pietersz            | Independent Director/Senior Director   |
| Mr. Kapila P. Ariyaratne           | Director/Chief Executive Officer       |
| Rear Admiral B. Ananda J.G. Peiris | Independent Director                   |
| Mr. Samantha P.S. Ranatunga        | Independent Director                   |
| Mr. W.D.Kapila Jayawardena         | Non-Executive Director                 |
| Mr. P.L.S. Kumar Perera            | Independent Director                   |
| Mr. S. Viran Corea                 | Non-Executive Director                 |
| Mr. Anushka S. Wijesinha           | Independent Director                   |
| Mrs. Sandya K. Salgado             | Independent Director                   |

## Meetings of the Board of Directors

Twelve regular monthly meetings and five special meetings were held during the year. The special meetings were held to consider and decide on important and urgent issues. Schedules of Directors' attendance at Board meetings (at the 12 regular meetings and two special meetings (of the five special meetings) held with due notice) and Directors' attendance at Board Subcommittee meetings are presented in the Corporate Governance Report in this Annual Report on pages 25 and 26.

## Directors' Interest Register

The Directors have declared their interests in contracts to the Board of Directors from time to time in accordance with Section 192 (2) of the Companies Act No. 07 of 2007 and had refrained from voting on matters in which they were materially interested. The declarations of disclosures (if any) are reported to the Board at the meeting that ensue such declarations. All such disclosures made have been duly recorded in the Directors' Interest Register.

Transactions arising out of the disclosures made are given in the Note 50 to the Audited Financial Statements. Lists of directorships (stating executive/non-executive/independent status) held by the Directors and their substantial shareholdings including public listed (quoted) companies as at 31st December 2016 are provided in the annexure to this Report.

## Directors' Interest in Shares and Debentures of the Bank

Directors' holdings in shares and debentures of the Bank as at 31st December 2016 are given below:

| Name of Director                      | 31.12.2016 | 31.12.2015 | Shares;<br>Debentures (Par value: Rs.100/-) |
|---------------------------------------|------------|------------|---|
| Mr. W.M.R.S. Dias                     | Nil        | Nil        | –   |
| Mr. Ishara C. Nanayakkara             | Nil        | Nil        | –   |
| Ms. M. Coralie Pietersz               | Nil        | Nil        | –   |
| Mr. Kapila P. Ariyaratne              | 36,521     | 30,000     | Ordinary Voting shares                      |
|                                       | 125,000    | 125,000    | Ordinary Non-voting shares                  |
|                                       | 30,000     | 30,000     | Debentures 2013/2018 – Annual interest      |
|                                       | 10,000     | 10,000     | Debentures 2013/2018 – Semi-Annual interest |
|                                       | 32,700     | N/A        | Debentures 2016 – Semi- Annual Interest     |
| Rear Admiral B. Ananda J.G. Peiris    | Nil        | Nil        | –   |
| Mr. Samantha P.S. Ranatunga           | Nil        | Nil        | –   |
| Mr. W.D. Kapila Jayawardena           | Nil        | Nil        | –   |
| Mr. P.L.S.Kumar Perera                | Nil        | Nil        | –   |
| Mr. S. Viran Corea                    | Nil        | Nil        | –   |
| Mr. Anushka S. Wijesinha              | Nil        | N/A        | –   |
| Mrs. Sandya K. Salgado                | Nil        | N/A        | –   |
| Percentage Shareholding of Directors: |            |            |   |
| Ordinary voting shares                | 0.02%      | 0.02%      |   |
| Ordinary non-voting shares            | 0.07%      | 0.07%      |   |

No change in the Directors' interest in shares and debentures occurred after 31st December 2016 and before the date of this Report of the Board of Directors.

## Directors' Remuneration

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

## Insurance and Indemnity

Pursuant to a decision taken by the Board, as authorised by the Articles of Association of the Bank, the Bank obtained Directors and Officers Liability Insurance Cover in respect of the year 2016/17.

## Directorate of the Subsidiary, Seylan Developments PLC

The Board of the Subsidiary, Seylan Developments PLC as at 31st December 2016 comprised six Directors, all of whom are Non-Executive, namely, Messrs K.P. Ariyaratne (Chairman), S. Palihawadana (Deputy Chairman), R.J. Jayasekara, P.D. Hennayake, P. Saravanapavan and L.T. Kiringoda. Messrs P. Saravanapavan and L.T. Kiringoda are Independent Non-Executive Directors.

## Board Sub-committees

The Board is empowered by the Articles of Association to delegate any of its powers to Board appointed Sub-committees consisting of such member or members as the Board thinks fit. The Board has delegated matters pertaining to the affairs of the Bank to the Board Sub-committees within the



scope of the respective Board approved Terms of Reference. The following Board Sub-committees were functional as at 31st December 2016:

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

Reports of these Board Sub-Committees are published on pages 46 to 54 of this Annual Report.

## Corporate Governance

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

The extent of compliance with the directions, rules and best practice guidelines are described in the Corporate Governance Report appearing on pages 22 to 45.

The External Certification of the Bank's compliance with the Central Bank's Code of Corporate Governance performed in line with agreed upon procedures set out in Sri Lanka Related Services Practice Statement (SLRSPS 4750) was provided by the Bank's External Auditors, Messrs KPMG.

## Risk Management and System of Internal Controls

### Risk Management

The Board has ensured the implementation of a sound risk

management framework for which the Bank has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Bank. The Directors continuously review this process when the Chief Risk Officer reports and updates the Board Integrated Risk Management Committee at its quarterly meetings.

The Report of the Board Integrated Risk Management Committee is given on page 49 of this Annual Report whilst a detailed Risk Management Report of the Bank is given on pages 68 to 86.

## System of Internal Control

The Board acknowledges its responsibilities for the Bank's system of internal control to facilitate the identification, assessment and management of risk, the protection of shareholders' investments and the Bank's assets. The Directors recognise that they are responsible for providing a return to shareholders, which is consistent with the responsible assessment and mitigation of risks.

A system of effective internal controls is a critical component of bank management and a foundation for the safe and sound operation of banking organisations. A system of strong internal controls can help to ensure that the goals and objectives of the Bank are met, that the Bank achieves its long-term profitability targets, and maintains reliable financial and managerial reporting. Such a system can also help to ensure that the bank complies with laws and regulations as well as policies, plans, internal rules and procedures, and decrease the risk of unexpected losses or damage to the Bank's reputation.

The Directors confirm that there is a process for identifying, evaluating and managing the risks faced by the Bank and the operational effectiveness of the related controls, which has been in place for the year under review and up to the date of approval of this Annual Report.

## 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.

## Outstanding Litigation

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

## Environmental Protection

The Bank has not engaged in any activity that is harmful or hazardous to the environment. Measures taken by the Bank on environmental protection and its sustainability initiatives are detailed in 'Our Value Creation Story' published on pages 95 to 154.

## 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.

## Events after the Reporting Period

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

## Human Resources

During the past year the Board continued its focus on areas of succession planning for Key Management Personnel, competency development of staff and consolidation of the performance driven culture across the Bank. Furthermore, the Bank also gave attention to the manpower planning strategy towards driving the Bank's productivity while ensuring that we have a high

performing and engaged workforce equipped to deliver core values of the Bank. The Bank's staff strength as at 31st December 2016 was 3,165.

## Employees' Share Owning Scheme

Six employee share owning trust companies ('Companies') were established by the Bank in 1995 and in 1999/2000 which have acquired shares of the Bank from time to time at the market prices prevailing at that time. The Bank was the settler of the trusts and the purchase of the shares were fully funded by the Bank. These companies currently hold a total of 12,752,994 shares of the Bank's ordinary (voting) shares. The details of the facilities granted by the Bank to these companies for the purchase of such shares are provided in Note 50.2.1.1 to the Financial Statements.

These shares are the subject matter of court actions, the details of the litigation filed against the Bank and the six Employee Share Ownership Trust Companies by certain former employees of the Bank are provided in Note 46 to the Financial Statements. The Companies will not be able to dispose of or transfer these shares until the final determination of the court actions. Therefore, the Bank is not in a position to comply with Section 5.6.10 of the Listing Rules of the CSE until final determination of the said court actions.

## Going Concern

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

## Auditors

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

|  | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
|--|------------------|------------------|
| <b>Audit Fees</b>                            |                  |                  |
| Audit Service Fees for the Year under Review | <b>8,843</b>     | 8,381            |
| Audit-Related Fees                           | <b>5,522</b>     | 4,477            |
| Non-audit Fees                               | <b>1,080</b>     | 366              |
| <b>Consolidated Audit Fees</b>               |                  |                  |
| Audit Service Fees for the Year under Review | <b>9,856</b>     | 9,303            |
| Audit-Related Fees                           | <b>5,522</b>     | 4,477            |
| Non-audit Fees                               | <b>1,175</b>     | 463              |

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

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

## Independence of the Auditors

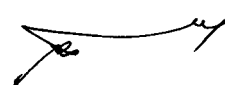
Based on an assessment carried out by the Board Audit Sub-committee upon adoption of a policy for the engagement of Auditors, the Board is of the opinion that the External Auditors, Messrs KPMG can be deemed to be independent for all intents and purposes considering the following factors:

- 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 are negotiated and are not above industry norms.
- The Firm had the necessary skills to competently carry out the non-audit related assignments entrusted to them.
- The Auditors do not receive fees from other assignments except as stated above.
- Partner and Audit-team rotation was complied with in 2014.
- Messrs KPMG is a firm of high repute.

## Notice of Annual General Meeting

Notice of Meeting relating to the Thirtieth Annual General Meeting of the Bank scheduled to be held on 31st March 2017 at 10.00 a.m. at the Kings Court of Cinnamon Lakeside, No. 115, Sir Chittampalam A. Gardiner Mawatha, Colombo 02 is circulated to the shareholders with this Annual Report.

For and on behalf of the Board of Directors of Seylan Bank PLC,




**W.M.R.S. Dias**  
Chairman



**Ishara C. Nanayakkara**  
Deputy Chairman



**Kapila P. Ariyaratne**  
Director/Chief Executive Officer



**(Mrs.) N.N. Najumudeen**  
Company Secretary

21st February 2017  
Colombo

## Directors Interest Register and Directors' Interest in Transactions as at 31st December 2016

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.

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

The transactions (if any) of the Bank with the Directors and with these entities are disclosed in Note 50 to the Financial Statements on pages 253 to 256.

| Entity  | Directorships<br>(Executive/Non-Executive Status) | Substantial<br>Shareholding %<br>(if any) |
|---|---|---|
| <b>Mr. W.M.R.S. Dias (Non-Executive Director/Chairman)</b>                |   |   |
| <b>Listed Entities</b>  |   |   |
| 1. Carson Cumberbatch PLC   | Non Executive Director*                           | -   |
| 2. Senkadagala Finance PLC  | Non Executive Chairman*                           | -   |
| 3. Tokyo Cement Co. (Lanka) PLC   | Non Executive Director*                           | -   |
| <b>Unlisted Entities</b>  |   |   |
| 4. Ceylon Tea Marketing (Pvt) Limited                                     | Non Executive Director*                           | -   |
| 5. South Asia Textiles (Pvt) Limited                                      | Non Executive Director*                           | -   |
| * Independent Director  |   |   |
| <b>Mr. Ishara C. Nanayakkara (Deputy Chairman/Non-Executive Director)</b> |   |   |
| <b>Listed Entities</b>  |   |   |
| 1. Agstar Fertilisers PLC   | Non-Executive Director                            | -   |
| 2. BRAC Lanka Finance PLC   | Non-Executive Chairman                            | -   |
| 3. Browns Capital PLC   | Non-Executive Chairman                            | -   |
| 4. Brown & Company PLC  | Executive Chairman                                | -   |
| 5. Browns Investments PLC   | Executive Chairman                                | -   |
| 6. Commercial Leasing and Finance PLC                                     | Non-Executive Chairman                            | -   |
| 7. LOLC Finance PLC   | Executive Deputy Chairman                         | -   |
| 8. Lanka ORIX Leasing Company PLC   | Deputy Chairman/Executive Director                | 12.60                                     |
| <b>Unlisted Entities</b>  |   |   |
| 9. Associated Battery Manufacturers (Cey) Limited                         | Non-Executive Director                            | -   |
| 10. F L M C Plantations (Pvt) Limited                                     | Non-Executive Director                            | -   |
| 11. LOLC International (Pvt) Limited                                      | Non-Executive Director                            | -   |
| 12. LOLC Life Assurance Limited   | Non-Executive Chairman                            | -   |
| 13. LOLC Micro Credit Limited   | Non-Executive Chairman                            | -   |
| 14. LOLC Myanmar Microfinance Co. Limited                                 | Non-Executive Director                            | -   |
| 15. LOLC (Private) Limited  | Non-Executive Director                            | -   |
| 16. PRASAC Micro Finance Institution                                      | Non-Executive Director                            | -   |
| 17. Pussellawa Plantations Limited  | Non-Executive Director                            | -   |
| 18. Sagasolar Power (Pvt) Limited   | Non-Executive Director                            | -   |
| 19. Sierra Constructions Limited  | Non-Executive Director                            | -   |
| 20. Medford Investments (Pvt) Limited                                     | Shareholder                                       | 25.00                                     |

| Entity  | Directorships<br>(Executive/Non-Executive Status) | Substantial<br>Shareholding %<br>(if any) |
|---|---|---|
| <b>Ms. M. Coralie Pietersz (Independent Director/Senior Director)</b> |   |   |
| <b>Listed Entities</b>  |   |   |
| 1. Bogala Graphite Lanka PLC  | Non-Executive Director*                           | -   |
| 2. Haputagastenna Plantations PLC                                     | Finance Director (Executive)                      | -   |
| 3. Udapussellawa Plantations PLC                                      | Finance Director (Executive)                      | -   |
| <b>Unlisted Entities</b>  |   |   |
| 4. Finlay Airline Agencies (Pvt) Limited                              | Executive Director                                | -   |
| 5. Finlay Cold Storage (Pvt) Limited                                  | Executive Director                                | -   |
| 6. Finlays Colombo Limited  | Finance Director (Executive)                      | -   |
| 7. Finlay Insurance Brokers (Pvt) Limited                             | Executive Director                                | -   |
| 8. Finlays Linehaul Express (Pvt) Limited                             | Executive Director                                | -   |
| 9. Finlay Plantation Management (Pvt) Limited                         | Executive Director                                | -   |
| 10. Finlay Properties (Pvt) Limited                                   | Executive Director                                | -   |
| 11. Finlay Rentokil Ceylon (Pvt) Limited                              | Executive Director                                | -   |
| 12. Finlay Teas (Pvt) Limited   | Executive Director                                | -   |
| 13. Finlay Tea Estates Lanka (Pvt) Limited                            | Executive Director                                | -   |
| 14. Finlay Tea Solutions Colombo (Pvt) Limited                        | Executive Director                                | -   |
| * Independent Director  |   |   |
| <b>Mr. Kapila P. Ariyaratne (Director/Chief Executive Officer)</b>    |   |   |
| <b>Listed Entities</b>  |   |   |
| 1. Seylan Developments PLC  | Chairman /Non-executive Director                  | -   |
| <b>Unlisted Entities</b>  |   |   |
| 2. Esots (Pvt) Limited  | Non-Executive Chairman                            | -   |
| 3. Lanka Financial Services Bureau Limited                            | Non-Executive Director                            | -   |
| 4. Sesot (Pvt) Limited  | Non-Executive Chairman                            | -   |
| 5. Seyshop (Pvt) Limited  | Non-Executive Chairman                            | -   |
| 6. Seybest (Pvt) Limited  | Non-Executive Chairman                            | -   |
| 7. Seyfest (Pvt) Limited  | Non-Executive Chairman                            | -   |
| 8. Sotse (Pvt) Limited  | Non-Executive Chairman                            | -   |
| <b>Rear Admiral B. Ananda J.G. Peiris (Independent Director)</b>      | No Directorships                                  | Nil                                       |
| <b>Mr. Samantha P.S. Ranatunga (Independent Director)</b>             |   |   |
| <b>Listed Entities</b>  |   |   |
| 1. CIC Holdings PLC   | Managing Director/CEO (Executive)                 | -   |
| 2. Chemanex PLC   | Non-Executive Director                            | -   |
| <b>Unlisted Entities</b>  |   |   |
| 3. Akzo Nobel Paints Lanka (Pvt) Limited                              | Non-Executive Director                            | -   |
| 4. CIC Agribusiness (Pvt) Limited                                     | Non-Executive Director                            | -   |
| 5. CIC Agri Produce Export (Pvt) Limited                              | Non-Executive Director                            | -   |
| 6. CIC Agri Produce Marketing (Pvt) Limited                           | Non-Executive Director                            | -   |
| 7. CIC Dairies (Pvt) Limited  | Non-Executive Director                            | -   |
| 8. CIC Feeds (Pvt) Limited  | Non-Executive Director                            | -   |
| 9. CIC Grains (Pvt) Limited   | Non-Executive Director                            | -   |
| 10. CIC Lifesciences Limited  | Non-Executive Director                            | -   |

| Entity   | Directorships<br>(Executive/Non-Executive Status) | Substantial<br>Shareholding %<br>(if any) |
|--|---|---|
| 11. CIC Poultry Farms Limited                  | Non-Executive Director                            | -   |
| 12. CIC Properties (Pvt) Limited               | Non-Executive Director                            | -   |
| 13. CIC Seeds (Pvt) Limited                    | Non-Executive Director                            | -   |
| 14. CIC Vetcare (Pvt) Limited                  | Non-Executive Director                            | -   |
| 15. CISCO Speciality Packaging (Pvt) Limited   | Managing Director                                 | -   |
| 16. Commercial Insurance Brokers (Pvt) Limited | Non-Executive Director                            | -   |
| 17. Cropwiz (Pvt) Limited                      | Non-Executive Director                            | -   |
| 18. Link Natural Products (Pvt) Limited        | Non-Executive Director                            | -   |

#### Mr. W.D. Kapila Jayawardena (Non-Executive Director)

##### Listed Entities

|                                     |                        |   |
|-------------------------------------|------------------------|---|
| 1. BRAC Lanka Finance PLC           | Non-Executive Director | - |
| 2. Browns Capital PLC               | Non-Executive Director | - |
| 3. Brown & Co. PLC                  | Non-Executive Director | - |
| 4. Browns Investments PLC           | Non-Executive Director | - |
| 5. Commercial Leasing & Finance PLC | Non-Executive Director | - |
| 6. Eden Hotel Lanka PLC             | Non-Executive Chairman | - |
| 7. Lanka ORIX Leasing Co PLC        | Managing Director/CEO  | - |
| 8. Palm Garden Hotels PLC           | Non-Executive Chairman | - |

##### Unlisted Entities

|                                      |                        |   |
|--------------------------------------|------------------------|---|
| 9. F L M C Plantations (Pvt) Limited | Non-Executive Director | - |
| 10. LOLC General Insurance Limited   | Non-Executive Director | - |
| 11. LOLC International (Pvt) Limited | Non-Executive Director | - |
| 12. LOLC Micro Credit Limited        | Non-Executive Director | - |
| 13. LOLC Securities Limited          | Non-Executive Chairman | - |
| 14. Pussellawa Plantations Limited   | Non-Executive Director | - |
| 15. Riverina Resort (Pvt) Limited    | Non-Executive Director | - |

#### Mr. P.L.S. Kumar Perera (Independent Director)

No Directorships Nil

#### Mr. S. Viran Corea (Non-Executive Director)

No Directorships Nil

#### Mr. Anushka S. Wijesinha (Independent Director)

##### Unlisted Entities

|  |                         |   |
|--|-------------------------|---|
| 1. BizEx Consulting (Pvt) Limited  | Executive Director      | - |
| 2. FairFirst Insurance Limited<br>(formerly known as Asian Alliance Insurance Limited) | Non-Executive Director  | - |
| 3. HNB Grameen Finance Limited   | Non-Executive Director* | - |
| 4. Union Assurance General Limited   | Non-Executive Director* | - |

\* Independent Director

#### Mrs. Sandya K. Salgado (Independent Director)

##### Unlisted Entities

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

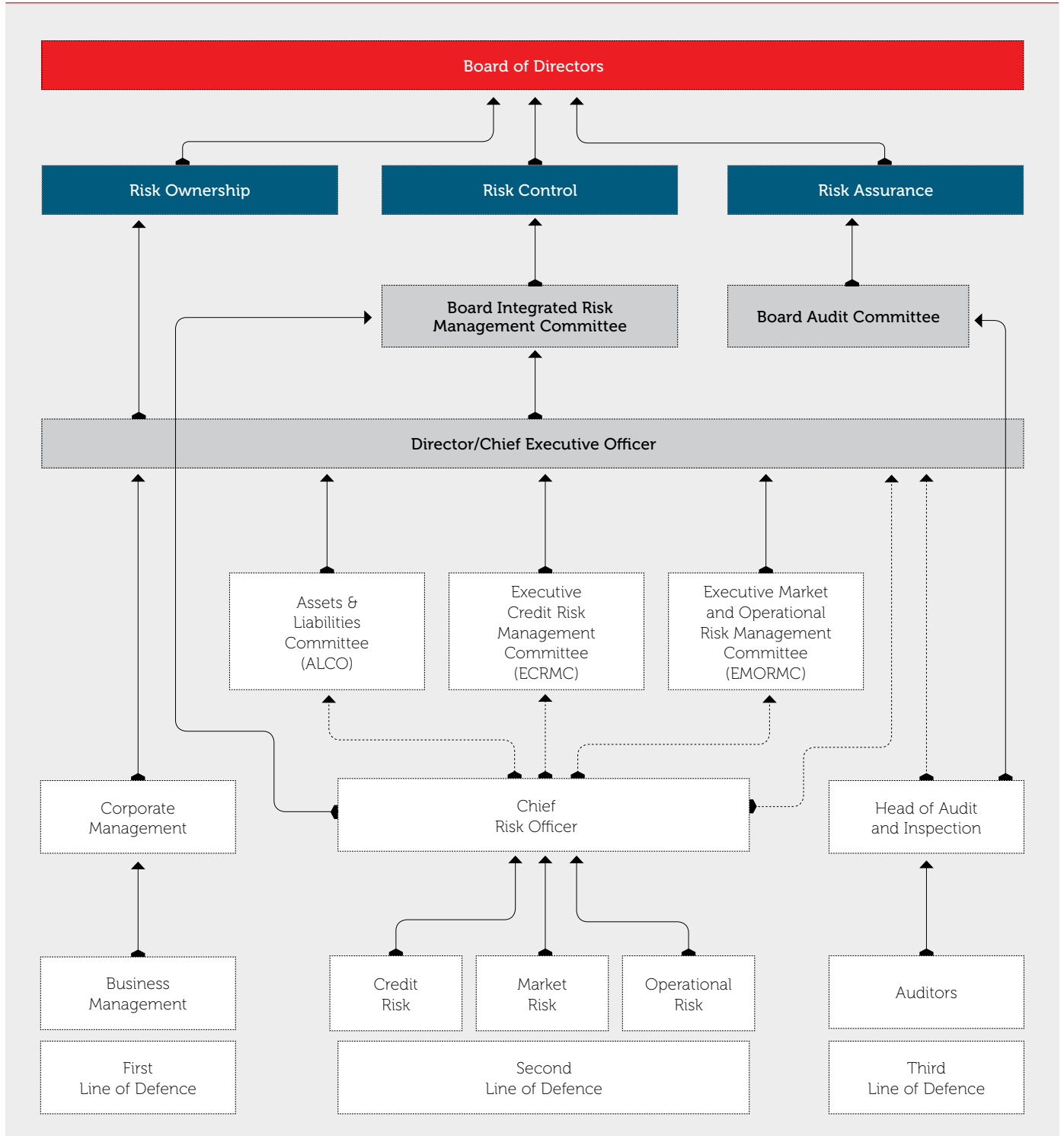
## Integrated Risk Management and Governance Structure

Risk management in Seylan Bank comprises three lines of defence. The Director/Chief Executive Officer has delegated responsibility for

originating and managing all risks to business managers within stipulated risk limits (1st line of defence). Risk management across the entire organisation has been assigned to an independent Chief Risk Officer (2nd line of defence). The internal and external

audit provides the risk assurance (3rd line of defence). Seylan Bank's Board has established two Board committees supported by three executive risk management committees to oversee risk management as shown on the following chart.

### Integrated Risk Management Structure



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

As per Basel II second Pillar, we prepare and submit the findings of Internal Capital Adequacy Assessment Process (ICAAP) in order to go beyond management of key risks, namely Credit, Market and Operational. We also use tools such as VaR, stress testing and other simulations within approved threshold limits to contain risks. The entire risk management function is carried out with defined roles and responsibilities and have the oversight of the Board of Directors. IT systems are constantly upgraded to facilitate the risk management process, whilst regular training and communication takes place to create a risk management culture across the Bank. We are ready to implement alternative standardised approach in computing capital on operational risk and certainly geared to adhere to new guidelines introduced by the regulator. We also have developed a dashboard to monitor and report comprehensive overall view of risk with given targets and thresholds to manage risk within the approved appetite and tolerance.

## Credit Risk Management

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

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

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

The Credit Standards & Policy Manual outlines the fundamental standards and disciplines that the Bank has implemented to actively manage credit risk across our lending book. The Credit Procedure Manual on the other hand, outlines the proper processes to be adopted in evaluating proposals and granting of credit facilities to clients. These standards, policies and procedures lay down key roles and responsibilities of those required to originate, identify, analyse, rate, review, price, report, diversify, control/mitigate and manage credit risks and are applicable to all lending activities undertaken by our Bank. These two Manuals are reviewed regularly and updated throughout the year on a regular basis to ensure consistency with the Bank's business strategy. The Lending Guidelines outlines the Bank's strategic risk/reward objectives in the light of evolving market conditions by clearly setting out the preferred industries and lending types to be targeted for lending growth during each calendar year. The Lending

Guidelines are also reviewed biannually to better align the Bank's lending strategies with the emerging trends in the market.

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

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

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

## Assessment of Credit Risk

In order to grow the Bank's loan book on high quality loans and advances, there is a clear segregation of duties between transaction originators in business areas and approving authorities under

the risk function. All credit exposure limits are approved within a well-defined credit approval authority framework. Credit risk evaluation and approval is undertaken by experienced credit risk professionals operating within a clearly defined delegated authority framework, with only the most senior credit officers entrusted with the higher levels of delegated authority. All high value credit propositions above a certain threshold level are approved by the Board Credit Committee or the Board of Directors as relevant.

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

## Functions of Credit Risk Management

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

All high value lending proposals and reviews are subjected to an independent critical examination by the CRMU to ascertain whether the risks have been fully identified and evaluated, they are in line with the Bank's Lending Guidelines and risk acceptance criteria, risks have been adequately mitigated, the facilities are well-structured and whether proposed credit exposures are at prudent levels. CRMU then recommends that the approving authority either approves the

proposal (with additional risk mitigants/ conditions wherever necessary) or declines it. In addition to this exercise it is mandatory that all the high value credit propositions need to be approved by the CRO on an independent basis. Further, it is envisaged to assign credit risk managers at Area Offices commencing early 2017 with a view of broad basing the risk oversight on the medium sized credit propositions and simultaneously enhancing the delegated authority level of the Area Managers leading to better efficiencies within the credit approval hierarchy.

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

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

Credit Risk Review Unit (CRRU) independently reviews the already approved high level facilities within three months of drawdown/renewal focusing on the approval, disbursement, relationship management and credit portfolio management processes. Further, CRRU identifies instances of non-compliance with credit standards, policies, procedures and Lending Guidelines, if any. Also, CRRU independently ascertains whether there had been any emerging risks that have not been addressed at the time of evaluating the credit proposals or whether there are any facilities where any appropriate remedial actions have not been initiated. Based on this critical assessment, CRRU makes

recommendations which are aimed at reducing the risk of default and minimising losses in the event of default. The lessons learnt from these reviews and recommended actions are referred to Risk Committees and circulated to all lending officers on a regular basis leading to qualitative improvements across the Bank's lending portfolio. In addition, CRRU also involves in conducting training programmes at Regional locations and at the Training Centre to educate the branch managers and the credit staff about the proper usage of the Lending Guidelines and evaluation of credit proposals in order to improve Bank's credit quality.

## Credit Administration Unit

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

## Credit Rating and Measurement

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

As part of the Bank's credit risk management strategy, a 'Credit Rating System' was initially introduced in April 2007, with the broader objective of improving the credit quality of the Bank through pre-qualifying borrowers for credit facilities and risk based pricing of such credit facilities through an objective risk analysis. As a further step towards developing this credit rating system to be in line with the vastly changed macro-economic conditions and as well as to meet the regulatory requirements vis-à-vis the CBSL/BASEL guidelines, the Bank upgraded the Credit Rating System during the year 2014. The Bank plans to



introduce new Credit Rating Models to grade customers belonging to important business segments at a much more accurate level with specific focus on the strengths, weaknesses and business dynamics of such sectors. Further, one of the main prerequisites of moving to the IRB approach for the computation of capital requirement for credit risk is the need for vibrant Internal Rating Models to risk grade the clients and the availability of through the cycle probability of default [PD] values for a minimum period of five years. The Bank therefore has taken measures to conduct a gap study to assess the Bank's readiness to move to the IRB approach with the assistance of two reputed consultancy firms from India during the year 2017.

### Credit Evaluation and Approval Process

The Bank commenced designing Loan Origination System [LOS] in mid December 2015 to streamline the credit evaluation/approval process across all business channels. After a tedious well-structured development process, the live implementation of this System was done at two pilot branches in December 2016. The Bank is currently making arrangements to roll out this System across all the branches and lending units during the first half of the year 2017. This System is expected to provide the foundation for an efficient credit appraisal process by reducing the time taken to evaluate/approve facilities thus improving the quality of the credit portfolio.

### Credit Risk Mitigation

In mitigating credit risk, the Bank primarily relies on a rigorous assessment of credit applicants, the strength of their business model, sustainable financial conditions and our ability to meet their financial requirements. Further, the lending proposals are normally required to show more than one independent credible source of repayment. The primary source is established through a conservative evaluation of whether the borrower's realistic projected cash flows will be sufficient to repay their debts. The Bank normally requires this to be supported by at least one

alternative way of settling the debt in the event of unforeseen adverse circumstances but firmly believes that the availability of collateral does not in itself make an unacceptable lending proposition acceptable.

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

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

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

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

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

### Non-Performing Advances by Collateral Type

| Collateral Type<br>(Secured by) | 2016<br>Rs. '000  | 2015<br>Rs. '000  |
|---------------------------------|-------------------|-------------------|
| Cash/Shares                     | 432,591           | 135,135           |
| Immovable Property              | 5,912,148         | 5,662,485         |
| Movable Assets                  | 567,887           | 427,118           |
| Other Securities                | 3,278,965         | 2,682,758         |
| Pawned Articles                 | 57,086            | 106,137           |
| Clean                           | 1,327,847         | 1,165,487         |
| <b>Grand Total</b>              | <b>11,576,524</b> | <b>10,179,120</b> |

*Excluding interest receivables.*

### Monitoring, Reporting and Disclosure of Credit Risk

Corporate, Business and Area Management are primarily responsible for monitoring the performance of their lending to ensure that the Bank's credit portfolio profitability and lending quality objectives are achieved. Credit risk management uses a comprehensive range of quantitative tools and Bank wide credit limits to monitor lending, contingent commitments and other off-Balance Sheet exposures, profitability, quality trends and concentrations and identifies whether the Bank is growing undue exposure concentrations and whether credit risks are adequately remunerated. The Risk Management Unit makes recommendations for suitable amendments if required, after reviewing the existing credit policy framework.

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

Below, we present the qualitative and quantitative disclosures of credit risk of the Bank.

# The Bank implemented the Loan Origination System [LOS] in two pilot branches in December 2016 to streamline the credit evaluation/approval process across all business channels.

## Qualitative Disclosures

### Definition of Past Due and Impaired

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

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

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

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

The 'impaired and restructured loans' category comprises loans not included above where, for economic or legal reasons related to the debtor's financial difficulties, a concession has been granted to the debtor that would not otherwise be considered. Where the concession results

in the expected cash flows discounted at the effective interest rate being less than the loan's carrying value, an impairment allowance will be raised.

### Approach on Specific and Collective Loan Loss Provisioning:

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

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

Estimating the amount and timing of future recoveries involves significant judgement and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market. Loan losses that have been incurred but have not been separately identified at the Statement of Financial Position date are determined on a portfolio basis, which takes into account past loss experience as a result of uncertainties arising from the economic environment and defaults based on portfolio trends. Under SLFRS/LKAS, impairment allowances are recognised where there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition and where these events have had an impact

on the estimated future cash flows of the financial asset or portfolio of financial assets. Impairment of loans and receivables is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If the carrying amount is less than the discounted cash flows, then no further allowance is necessary. Impairment allowances are measured individually for assets that are individually significant, and collectively where a portfolio comprises homogeneous assets and where appropriate statistical techniques are available.

### Credit Risk Concentrations with Limits:

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

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

### Related Party Lending

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

## Over Exposure to Geographical Areas, Economic Sectors and Lending Products:

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

## Quantitative Disclosures

### Credit Exposure by Product Types as at 31st December 2016

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

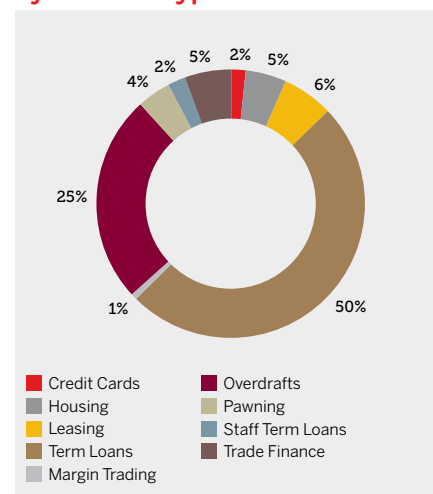
|                    | Total as at<br>31st December 2016<br>Rs. '000 | Total as at<br>31st December 2015<br>Rs. '000 |
|--------------------|---|---|
| Credit Cards       | 3,803,627                                     | 3,189,905                                     |
| Housing            | 12,515,412                                    | 11,058,900                                    |
| Leasing            | 14,685,690                                    | 14,922,249                                    |
| Term Loans         | 119,960,901                                   | 86,521,954                                    |
| Margin Trading     | 2,658,052                                     | 3,241,982                                     |
| Overdrafts         | 60,076,383                                    | 51,040,860                                    |
| Pawning            | 9,609,406                                     | 8,979,333                                     |
| Staff Term Loans   | 5,521,128                                     | 5,149,180                                     |
| Trade Finance      | 13,242,583                                    | 14,737,608                                    |
| <b>Grand Total</b> | <b>242,073,182</b>                            | <b>198,841,971</b>                            |

### The Sector-wise Comparison: December 2016 and December 2015

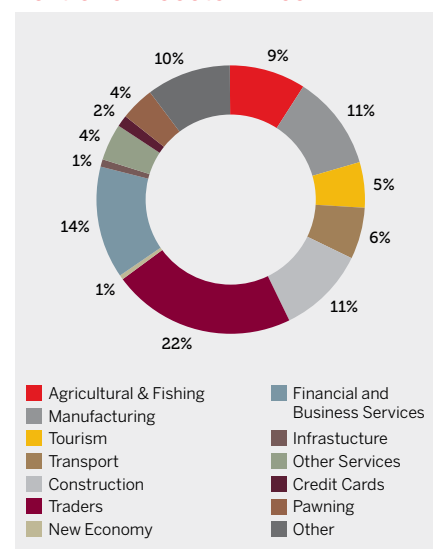
| Sector                          | Total As at<br>31st December 2016<br>Rs. '000 | Total As at<br>31st December 2015<br>Rs. '000 |
|---------------------------------|---|---|
| Agriculture and Fishing         | 22,248,480                                    | 20,428,830                                    |
| Manufacturing                   | 27,769,604                                    | 24,351,199                                    |
| Tourism                         | 12,857,420                                    | 12,133,427                                    |
| Transport                       | 14,815,137                                    | 13,404,195                                    |
| Construction                    | 25,976,024                                    | 20,035,613                                    |
| Traders                         | 52,720,784                                    | 44,927,045                                    |
| New Economy                     | 1,779,022                                     | 1,478,977                                     |
| Financial and Business Services | 32,678,949                                    | 23,069,741                                    |
| Infrastructure                  | 2,391,832                                     | 2,533,766                                     |
| Other Services                  | 10,274,482                                    | 9,517,149                                     |
| Credit Cards                    | 3,803,627                                     | 3,189,905                                     |
| Pawning*                        | 9,609,406                                     | 8,979,333                                     |
| Other                           | 25,148,415                                    | 14,792,791                                    |
| <b>Grand Total</b>              | <b>242,073,182</b>                            | <b>198,841,971</b>                            |

\* Pawning includes agriculture sector lending.

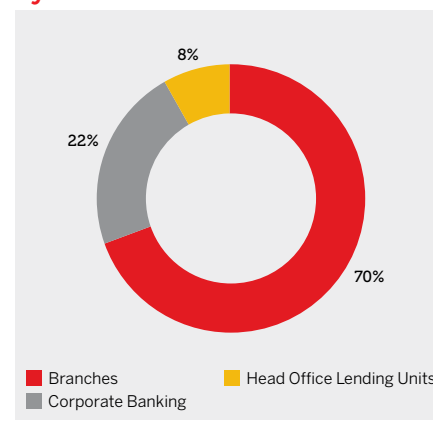
## Credit Exposures by Product Type



## Analysis of the Advances Portfolio – Sector Wise



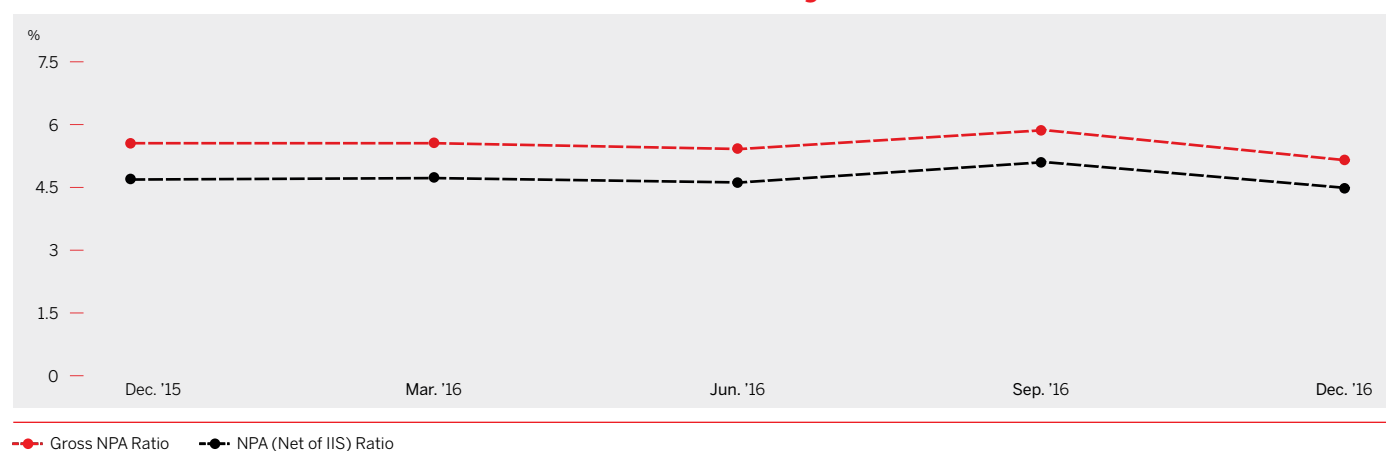
## Advances Portfolio by Business Unit Wise



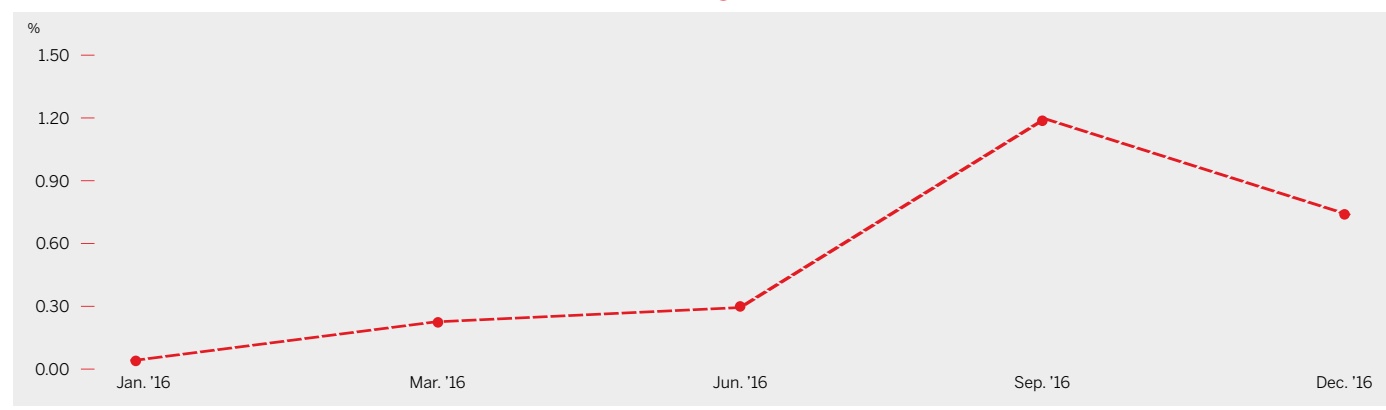
## Age Analysis of Non-Performing Loans by Product Distribution (Excluding Interest Receivables) – 31st December 2016 Based on CBSL Directions

| Loan Category      | 3-6 Months<br>NPA Special<br>Mention<br>Rs. '000 | 6-12 Months<br>NPA<br>Substandard<br>Rs. '000 | 12-18 Months<br>NPA<br>Doubtful<br>Rs. '000 | 18 Months<br>NPA<br>Loss<br>Rs. '000 | Grand<br>Total<br>Rs. '000 |
|--------------------|--|---|---|--------------------------------------|----------------------------|
| Credit Cards       | 61,701   | 32,817  | 27,669                                      | 202,393                              | 324,580                    |
| Housing            | 167,225  | 190,115                                       | 96,780                                      | 426,179                              | 880,299                    |
| Leasing            | 314,758  | 36,251  | 27,454                                      | 187,395                              | 565,858                    |
| Margin Trading     | -  | -   | -   | 59,759                               | 59,759                     |
| Overdrafts         | 423,788  | 246,608                                       | 125,408                                     | 1,632,381                            | 2,428,185                  |
| Pawning            | 13,907   | -   | -   | 43,179                               | 57,086                     |
| Staff Term Loans   | 9,837  | 16,598  | 2,640                                       | 17,281                               | 46,356                     |
| Term Loans         | 1,317,815  | 554,544                                       | 238,054                                     | 4,742,567                            | 6,852,980                  |
| Trade Finance      | 138,997  | 22,731  | 15,000                                      | 184,693                              | 361,421                    |
| <b>Grand Total</b> | <b>2,448,028</b>                                 | <b>1,099,664</b>                              | <b>533,005</b>                              | <b>7,495,827</b>                     | <b>11,576,524</b>          |

### The Reduction in the Gross NPA & NPA (Net of IIS) Ratios during the Year

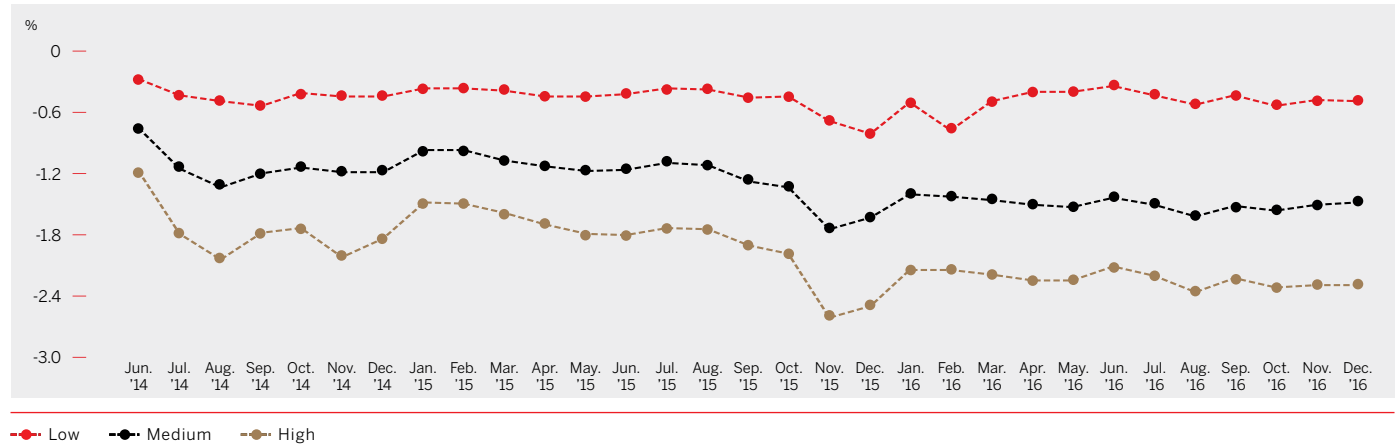


### The Net Infection Ratio of the Advances Portfolio during the Year

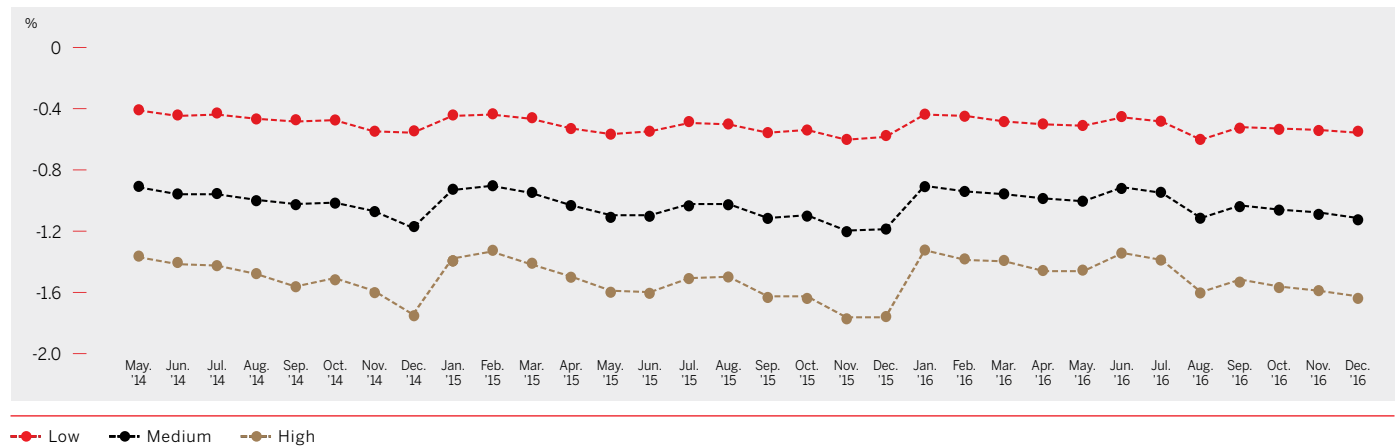


## Stress Tests on Credit Risks as at 31st December 2016

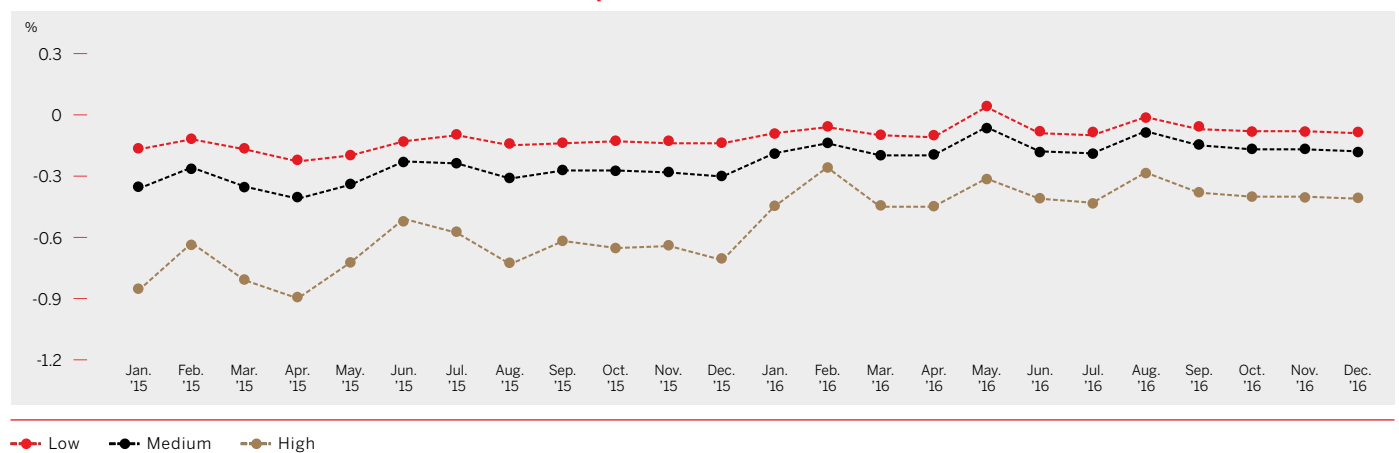
### Stress Test On the Credit Concentration Risk – Default by Large Borrowers – Net Impact on CAR



### Asset Classification Downgrading Stress Test – Net Impact on CAR



### Stress Test on Fall in Collateral Value – Net Impact on CAR



## Market Risk Management

### Market Risk Framework

At Seylan Bank a significant amount of our businesses is subject to market risk, defined as the potential for change in the market value of our trading and investment portfolios.

Market risk can arise from changes in interest rates and foreign exchange rates, equity prices, commodity prices and other relevant parameters, such as market volatility and market implied default probabilities.

One of the primary objectives of Market Risk Management is to play the role of an independent risk function, to ensure that the business units do not expose the Bank to unacceptable losses outside of our risk appetite. To achieve this objective, Market Risk Management unit works closely with the business units and other control and support teams such as Finance, Audit, IT and Compliance.

Market Risk Management Unit is established to promote oversight of all market risks, where a framework is put in place to systematically identify, assess, monitor and report the risk arising due to market risk; helping timely escalation to senior management and in turn promoting effective decision-making. The risk managers identify these types of risks through active portfolio analysis and engagement with the business areas.

The Market Risk Management Unit which is an integral part of the Risk Management Unit reports to CRO and is overseen and managed by ALCO and the EMORMC (Executive Market and Operational Risk Management Committee).

### Managing and Measuring Market Risk

At Seylan Bank we aim to accurately measure all types of market risks by a comprehensive set of risk matrices

reflecting internal and regulatory requirements. Accordingly, we measure market risks by several internally developed key risk matrices which include a comprehensive and dynamic limit framework and regulator defined market risk approaches.

### Value at Risk (VaR)

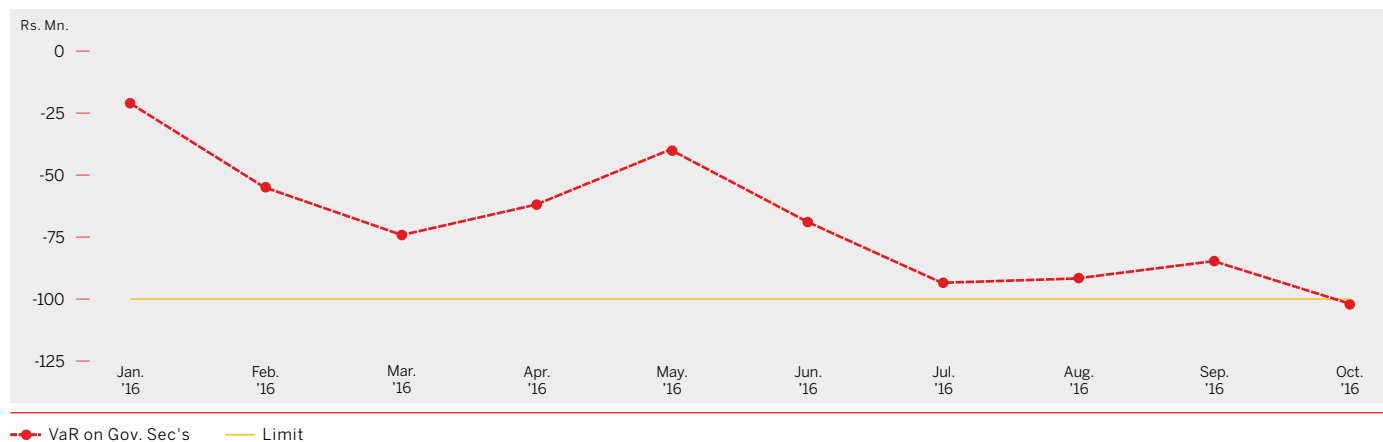
VaR is a quantitative measure of the potential loss (in value) of fair value positions due to market movements that will not exceed in a defined period of time and at a defined confidence level.

Our value at risk for the trading businesses is based on historical simulation models.

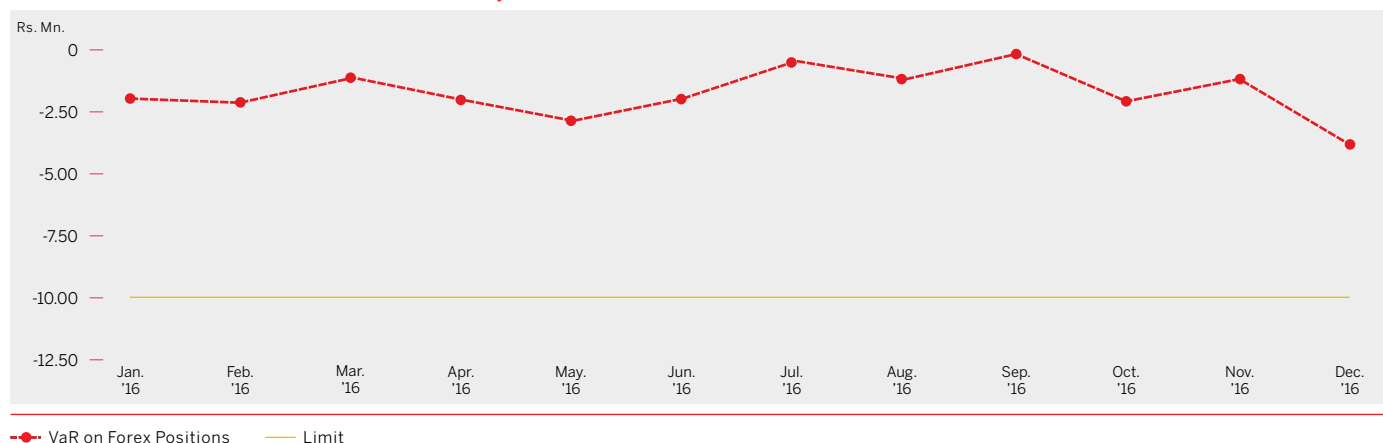
We calculate VaR using a 99% confidence level for a one day holding period. This means we estimate there is a 99 in 100 chance that a daily mark-to-market loss from our trading positions will be less than the reported VaR.

The Value at Risk (VaR) on the Bank's trading exposure during the year is depicted in the graphs below:

### Value at Risk (VaR) on Government Securities Trading Exposure – 2016



### Value at Risk (VaR) on the Forex Net Open Position – 2016



## Trading Market Risk

The Bank's primary mechanism to manage Trading Market Risk is the application of our Risk Appetite Framework of which the limit framework is a key component. The Management and the Board supported by Market Risk Management Unit has set Value at Risk, Management Action Trigger Limits and Stop Loss Limits for market risk in the trading book. This overall appetite is given to our Treasury Division based on an established business plan. We have aligned these limits down to individual portfolios as well as the dealing personnel of the Treasury Unit.

To ensure dynamism in risk monitoring and management, the Bank purchased a Treasury System which facilitates enhanced risk monitoring on a real time basis. This has boosted the robustness of Treasury Middle Office to monitor the risk in real time and escalate any exceptions to the management.

The Treasury is responsible for adhering to the limits against which exposures are monitored and reported. The Board approved risk limits are monitored on a daily, weekly and monthly basis and the relevant authorities appraised on a timely manner.

## Stress Testing and Sensitivity Analysis

Stress testing is a key risk management technique, which evaluates the potential effects of extreme market events and extreme movements in individual risk factors. It is one of the core quantitative tools used to assess the market risk of the Bank's positions and complements VaR.

Market Risk Management Unit performs stress testing to capture a variety of risks pertaining to portfolios' and exposures.

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

### Sensitivity of the Foreign Exchange Exposure as at 31st December 2016

| Stress Test Scenario | Net Open Position USD '000 | Open Position Rs. '000 | Risk-Weighted Assets of the Open Position Rs. '000 | Impact on Required Capital Rs. '000 | Impact on P & L Rs. '000 | Net Impact on CAR % | Current CAR % |
|----------------------|----------------------------|------------------------|--|-------------------------------------|--------------------------|---------------------|---------------|
|                      | <b>2,406</b>               | <b>361,454</b>         | <b>36,145</b>                                      |                                     |                          |                     |               |
| Scenario             |                            |                        |  |                                     |                          |                     |               |
| Minor                | -5%                        | <b>343,381</b>         | <b>34,338</b>                                      | <b>1,807</b>                        | <b>18,073</b>            | <b>0.00</b>         |               |
| Moderate             | -10%                       | <b>325,308</b>         | <b>32,531</b>                                      | <b>3,615</b>                        | <b>36,146</b>            | <b>-0.01</b>        | <b>13.18</b>  |
| Major                | -15%                       | <b>307,236</b>         | <b>30,724</b>                                      | <b>5,422</b>                        | <b>54,218</b>            | <b>-0.01</b>        |               |

### Sensitivity of the Equity Trading Exposure as at 31st December 2016

| Equity Position (Prior to Stress) | Invested Value Rs. '000 | Equity Carrying Value Rs. '000 | Specific Capital Charge (CSE Listed) Rs. '000 | General Market Capital Charge Rs. '000 | Total Capital Required Rs. '000 | Current CAR % |
|-----------------------------------|-------------------------|--------------------------------|---|--|---------------------------------|---------------|
|                                   | <b>7,592</b>            | <b>7,490</b>                   | <b>749</b>                                    | <b>749</b>                             | <b>1,498</b>                    | <b>13.18</b>  |
| Scenario                          |                         |                                |   |  |                                 |               |
| Minor                             | -10%                    | <b>6,741</b>                   | <b>(749)</b>                                  | <b>674</b>                             | <b>1,348</b>                    | <b>0.00</b>   |
| Moderate                          | -20%                    | <b>5,992</b>                   | <b>(1,498)</b>                                | <b>599</b>                             | <b>1,198</b>                    | <b>0.00</b>   |
| Major                             | -30%                    | <b>5,243</b>                   | <b>(2,247)</b>                                | <b>524</b>                             | <b>1,049</b>                    | <b>0.00</b>   |

### Sensitivity of the Equity AFS Exposure (Listed on the Colombo Stock Exchange) as at 31st December 2016

| Equity Position (Prior to Stress) | Invested Value (CSE Listed) Rs. '000 | Equity Carrying Value (CSE Listed) Rs. '000 | Specific Capital Charge Rs. '000 | General Market Capital Charge Rs. '000 | Total Capital Required Rs. '000 | Current CAR % |
|-----------------------------------|--------------------------------------|---|----------------------------------|--|---------------------------------|---------------|
|                                   | <b>279,444</b>                       | <b>215,145</b>                              | <b>15,460</b>                    | <b>21,514</b>                          | <b>36,974</b>                   | <b>13.18</b>  |
| Scenario                          |                                      |   |                                  |  |                                 |               |
| Minor                             | -10%                                 | <b>193,630</b>                              | <b>(21,514)</b>                  | <b>13,914</b>                          | <b>33,277</b>                   | <b>0.00</b>   |
| Moderate                          | -20%                                 | <b>172,116</b>                              | <b>(43,029)</b>                  | <b>12,368</b>                          | <b>29,579</b>                   | <b>-0.01</b>  |
| Major                             | -30%                                 | <b>150,601</b>                              | <b>(64,543)</b>                  | <b>10,822</b>                          | <b>25,882</b>                   | <b>-0.01</b>  |

## Market Risk Reporting

Market Risk Management reporting creates transparency on the risk profile and facilitates the understanding of core market risk drivers to all levels of the organisation. The Management Board and specialised Committees such as ALCO and EMORMC receive regular reporting, as well as ad hoc reporting as required, on market risk, regulatory capital and stress testing.

The Board Intergrated Risk Management Committee receives risk information on a quarterly basis.

Additionally, Market Risk Management Unit produces daily and weekly market risk specific reports and limit excess reports for each asset class on a daily basis which is triggered real time.

## Non-Trading Market Risk

Non-trading market risk arises primarily from activities in the banking book and from certain Off-Balance Sheet items. Significant market risk factors, the Bank is exposed and overseen by the Market Risk Management Unit are:

- Interest rate risk
- Market risks from Off-Balance Sheet items such as foreign exchange risk

## Interest Rate Risk

The interest rate risk generally arises from:

- Mismatch in repricing dates of assets and liabilities, where the risk to the Bank's revenue, mostly interest income, in the case of unfavourable changes of market interest rates resulting in changes in the interest gain/loss;
- Yield curve risk is the risk of experiencing an adverse shift in market interest rates associated with investing in fixed income instruments. The risk is associated with either a flattening or steepening of the yield curve, which is a result of changing yields.

The Bank's interest rate risk is managed by Treasury and is closely monitored by the Market Risk Management Unit.

The Bank measures and monitors the interest rate risk related to the Trading Book and the Banking Book with the use of the following risk measures:

- PV01: Price value of a basis point denotes interest rate risk expressed as a cash value, related to maintaining of a given position when interest rates change by one basis point;
- Value at Risk (VaR)
- NII (Net Interest Income): a change in the net interest income representing the difference between interest income and expense with an interest rate change at a specified level.

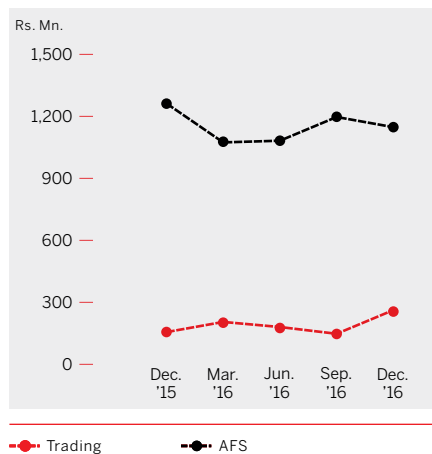
Additionally, the Bank performs stress tests involving sensitivity analysis and examines the effects of interest rate changes on the net interest income of the Bank.

While the interest rate risk in the banking book is reported on a monthly basis, interest rate risk on the trading book is Marked to Market on a daily basis and reported to the management weekly or more frequently during volatile market movements.

The Bank uses Weighted Average Portfolio Durations, to analyse the impact of a 100 bps shift in market yields, on the prices of Government Securities: Trading and AFS portfolios.

The results are presented below:

### Impact of 100 bps Parallel shift on the Trading and Available-for-Sale Portfolio



## Interest Rate Risk of the Banking Book

The following table presents a change in annual net interest income with the rate change by +/-100 and 250 bps and balance sheet assumed to be stable. The analysis is based on the following assumptions:

- For an interest rate change: Interest on savings accounts shall not increase/decrease, except when rates change by 250 bps, where the savings component will increase/decrease by 75 bps only.
- The interest sensitive assets and liabilities are bucketed on their repricing maturities or failing which on their contractual maturities.

| Change in the Net Interest Income per Annum | 31st December 2016<br>Rs. '000 | 31st December 2015<br>Rs. '000 |
|---|--------------------------------|--------------------------------|
| 100 bps                                     | <b>+/-265,419</b>              | <b>+/-214,664</b>              |
| 250 bps                                     | <b>+/-680,274</b>              | <b>+/-499,900</b>              |

## Foreign Exchange Risk

Foreign exchange risk is the risk resulting from unhedged positions exposed to changes in market exchange rates due to transactions arising from foreign currency denominated dealings or in holding foreign exchange assets and liabilities.

The majority of this foreign exchange risk triggers through internal trade back transactions and is therefore reflected and managed via the Net Open Position Limit as an unhedged residual risk.

The objective of currency risk management is to protect the exchange gains and obtain financial benefits through transactions concluded in FX instruments at risk levels accepted by the Bank.

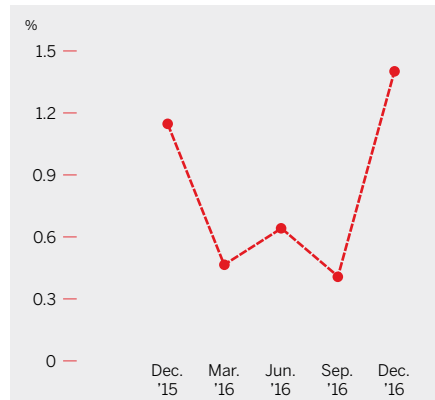
Foreign currency risk management process involves its measurement through:

- Calculation of the total position of the Bank;
- Calculation of the position in each currency;
- Calculation of Value at Risk (VaR);
- Sensitivity Analysis.



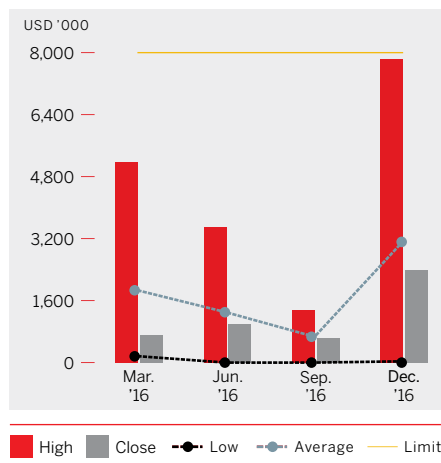
The following graph presents the NOP during the year as a percentage of the Tier I Capital:

### Un-hedged Open Foreign Currency Ratio



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

### Net Open Position



### Equity Investment Risk

Non-trading market risk from investment exposures are predominantly the equity risk arising from our investments categorised as strategic investments and held as Available-for-Sale assets.

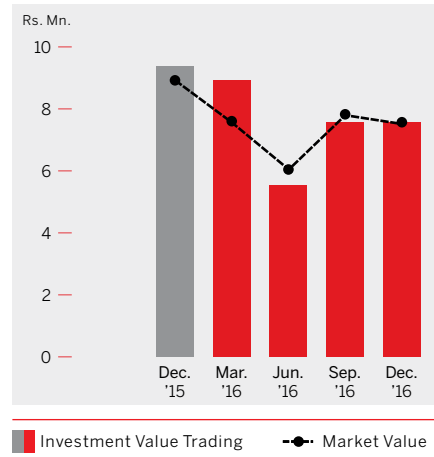
Held-for-trading equity risk arises mainly due to the investments done for trading purposes and is subject to equity price risk.

Although the Bank's exposure to this risk is negligible, mark to market is done daily on the held-for-trading and available-for-sale portfolios respectively, to identify the impact on profit/OCI due to changes in equity prices.

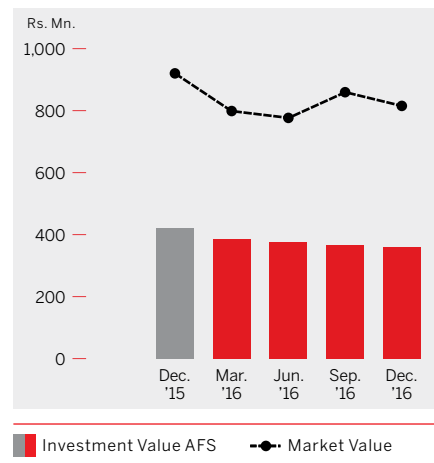
In addition, the Bank also performs the VaR calculations, on the equity investment portfolios monthly to identify the impact on earning.

The Graphs represent the investments in the trading and the AFS portfolios and the behaviour of market values of the equity investment portfolios:

### Equity Investments – Trading



### Equity Investments – Available-for-Sale



### Liquidity Risk

Liquidity risk is the risk arising from our potential inability to meet payment obligations when due or being able to meet these obligations at excessive costs. The objective of the Bank's liquidity risk management framework is to ensure that the Bank can fulfil its payment obligations at all times and can manage liquidity and funding risk within the risk appetite. The framework

considers relevant and significant liquidity risk, whether on Balance Sheet or Off-Balance Sheet.

Our liquidity risk management framework has been an important factor in maintaining adequate liquidity and in managing our funding profile during 2016. The risk framework is managed mainly through the stock approach and the floor approach as per regulatory and internal guidelines.

The objective of liquidity risk management is to manage funds On- and Off-Balance Sheet transactions in order to ensure cost effective funding sources and their appropriate use. The Bank's ALCO manages the structure of the Banks assets and liabilities through a robust maturity mismatch profile so as to ensure optimal liquidity management and achieve financial ratios with the liquidity risk levels accepted by the Bank.

Treasury manages liquidity and funding, in accordance with the Management and Board approved risk appetite across a range of relevant matrices, and implements a number of tools to manage and ensure compliance.

In addition, Treasury works closely in conjunction with Market Risk Management Unit and Finance to analyse and understand the underlying liquidity characteristics of the business portfolios. These characteristics are immediately brought to the notice of the Members of ALCO and frequent meetings are held to understand changes in the Bank's position arising from business activities and market circumstances and to address such needs as and when they arise.

Dedicated limits are given to ensure that the Bank meets its overall liquidity and funding appetite.

The Board Integrated Risk Management Committee is informed of performance against these risk appetite metrics, on a quarterly Scorecard.

The following table represents the matrix used to measure and manage liquidity and funding risk as per internal and regulatory requirements:

| Ratio   | Limit % | December 16 % | December 15 % |
|---|---------|---------------|---------------|
| Net Loans to Total Assets   | >60.00  | <b>66</b>     | 65            |
| Loans to Customer Deposits (Calculated as ADR)  | <97.50  | <b>89</b>     | 89            |
| Liquid Assets to Short-Term Liabilities   | >70.00  | <b>131</b>    | 137           |
| Large Liabilities (minus) Temporary Investments to Earning Assets (minus) Temporary Investments | <10.00  | <b>10</b>     | 8             |
| Purchased Funds to Total Assets   | <25.00  | <b>20</b>     | 19            |
| Commitments to Total Loans  | <25.00  | <b>15</b>     | 17            |
| <b>Funding Concentration</b>  |         |               |               |
| Swaps (USD Mn.)   | 150     | <b>91</b>     | 60            |
| External Borrowing – (Value in Rs. Bn.)   | 25      | <b>17</b>     | 19            |

## Funding Risk Management

The Bank's primary instrument for monitoring and managing funding risk is the funding profile of assets and liabilities. To produce the Funding Matrix, all funding-relevant assets and liabilities are mapped into time buckets corresponding to their contractual or assumed maturities. This allows the Bank to identify expected excesses and shortfalls in liabilities over assets in each time bucket, facilitating the management of potential liquidity exposures.

The liquidity maturity profile is based on contractual cash flow information. If the contractual maturity profile of a product does not adequately reflect the liquidity maturity profile, it is replaced by assumed maturities.

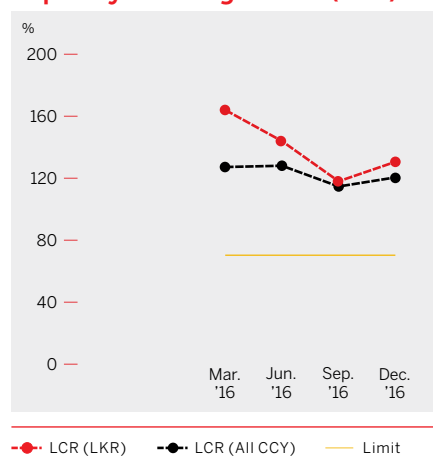
## Liquidity Coverage Ratio

In addition to the internal stress tests, the Bank calculates the Liquidity Coverage Ratio (LCR), as set out by the Basel Committee in January 2013.

The LCR is intended to promote the short-term resilience of a bank's liquidity risk profile over a 30-day stress scenario. The ratio is defined as the amount of High-Quality Liquid Assets 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 accepted level as stipulated by the Basel Committee of 100% is to be met by January 2019 until such time the ratio may evolve between 70-90%.

The following graph represents the movement of the LCR of the Bank from the 1st quarter to the last quarter of 2016:

### Movement of the Bank's Liquidity Coverage Ratio (LCR)



## Operational Risk Management

Operational risk is the risk of loss or damage resulting from inadequate or failed internal processes, people and systems or from external events including legal risk but excluding strategic risk. Dealing with operational risks is a key element of the Integrated Risk Management Framework of the Bank.

### Operational Risk Management Framework and Responsibilities

Under the Comprehensive Operational Risk Management Policy and the Framework, the roles and responsibilities for operational risk have been defined

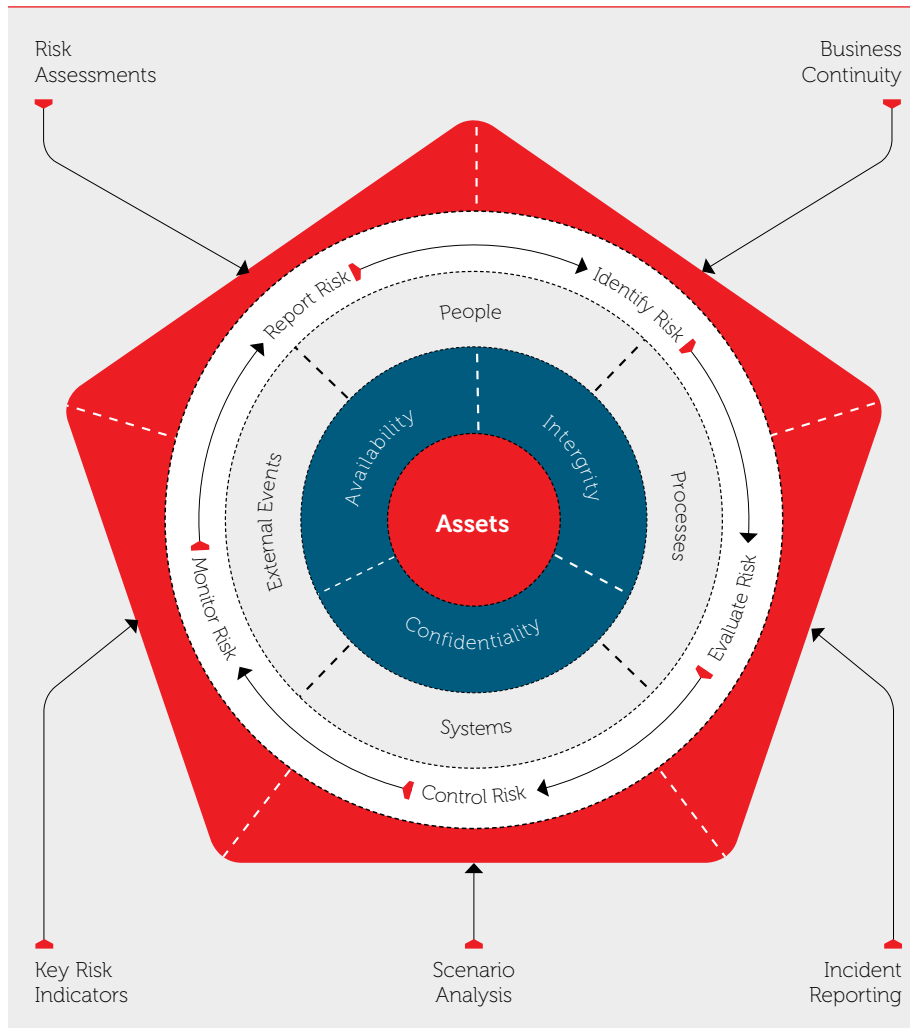
from Board level to business unit levels. Operational risk is monitored on a regular basis and the operational Risk Management Policy Framework is practiced in the daily activities of all employees.

The objective of the Operational Risk Management (ORM) division is to establish sound control practices to increase the effectiveness of the Bank's resources and minimise financial losses. The Head of operational risk reports to the Chief Risk Officer and an Executive Risk Management Committee (EMORMC) for reporting and oversight. The CRO accordingly represents the risk function at the Board Integrated Risk Management Committee (BIRMC) for reporting and accountability. The BIRMC ensures suitable execution of its instructions through the defined governance structure.

Operational Risk Management division has developed practices under the following policies to assist in identifying, measuring, monitoring and reporting operational risk:

- Operational Risk Management
- Corporate Information Security
- Business Continuity Management
- Incident and Near Miss Management
- Fraud Risk Management
- Insurance Governance
- Business Process Outsourcing

## Operational Risk Management Concepts & Mitigants

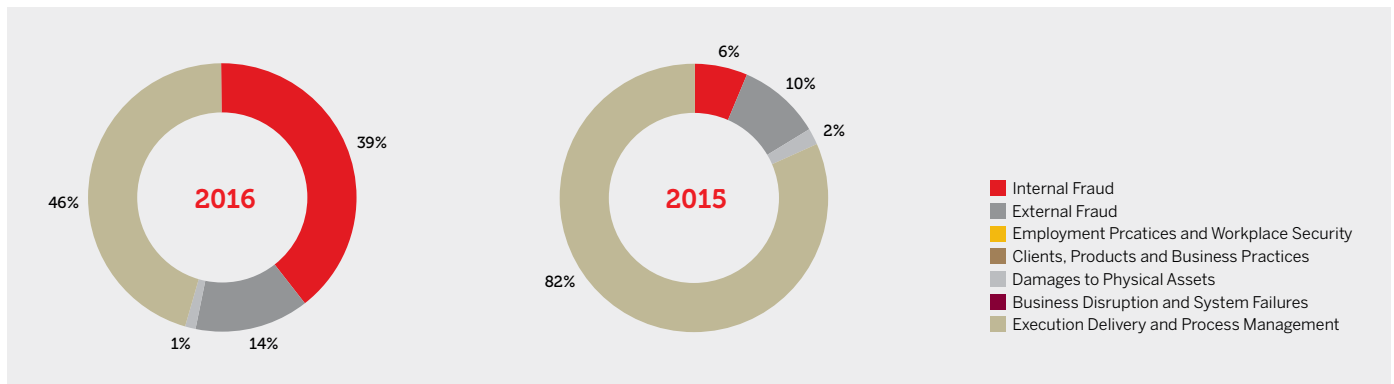


### Operational Risk Management (ORM) Techniques/Programmes

Based on Basel II and regulatory requirements, the Industry Best Practices have been used to design the following risk management techniques for ORM programmes.

| Technique   | Management/Mitigation  |
|---|--|
| Risk Control Self-Assessment process (RCSA)   | Centralised key business units/branches of the Bank carry out RCSA at least on an annual basis for their business processes to identify the inherent risks proactively. Findings from the RCSA exercise are used to mitigate the residual risks through implementation of proper action plans.   |
| Collecting and analysing Internal Loss Data (ILD), incident and near-miss data collection | <p>ILDs are classified into seven loss types and four broad business lines such as Trading and Sales, Payments and Settlements, Retail Banking, Commercial Banking in which Bank operates its activities. Loss events exceeding Rs. 500,000/- have been reported as required by the Central Bank (CBSL) quarterly. Following graph exhibits the operational losses incurred for the last 2 years.</p> <p>The gross operational losses in 2016 increased to Rs. 29 Mn. compared to Rs. 18 Mn. in 2015. The major contributors to operational losses attributed to execution delivery and process management and internal frauds. The control environment, insurance arrangements and disciplinary actions taken against the policy violators could be considered as mitigating actions on it.</p> |

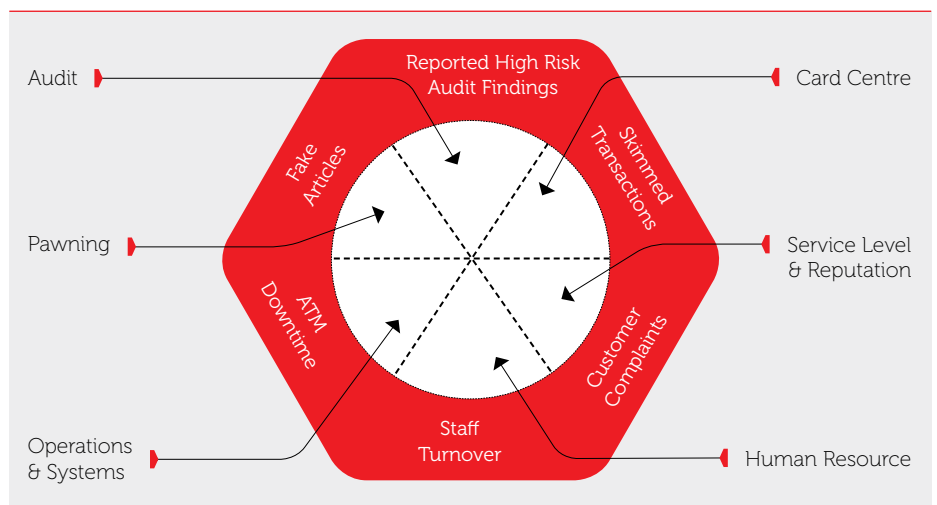
**Operational Loss**



Establishing and reviewing Key Operational Risk Indicators (KORI)

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

**Sample of Key Operational Risk Indicators**



Reviewing information risk, integrity and availability

Bank is in the position to identify and respond to suspect information flows and intruder attacks while observing the system readiness through the information risk management practices using the tools and techniques such as modern firewall technologies, intruder detection and prevention systems. Presently, the Bank is in the process of implementing bank-wide Baseline Security Standard in compliance with the regulatory requirement and continuous monitoring of cyber attacks.

As per the Information Security Policy and Framework all IT modifications/implementations are reviewed on information security aspects to avoid operational losses.

Effectiveness of business continuity and disaster recovery plans (BCP)

Business continuity planning (BCP) ensures the capability and resilience to business disruption that may arise from internal or external events and should reduce any adverse impact on business operations, as well as profitability and reputation. Bank has a well-established Disaster Recovery Site and carried out several drills for critical systems including core banking systems in order to verify the readiness of business continuity-related issues. The related executive committees and regulators are being updated on outcomes of the BCP and DR drills with the appropriate actions.

| Technique                        | Management/Mitigation  |
|----------------------------------|--|
| Outsourcing services             | <p>Outsourcing takes place when the Bank uses another party to perform non-core banking functions that would traditionally have been undertaken by the Bank itself. As a result, Bank will be benefited in focusing on its core banking activities while having the non-core functions being taken care by outside experts.</p> <p>Bank has outsourced some business functions under its comprehensive policy after evaluating whether the services are suitable for outsourcing based on assessment of the risks involved and undertaking due diligence tests on the companies concerned such as credibility and ability of the owners, BCP arrangements, technical and skilled manpower capability, financial strength, legal etc.</p> |
| Insurance Arrangements           | <p>Bank has taken cover from the insurance providers as one of the risk mitigation strategies for high severity low probability and the uncontrollable operational risk events such as natural disasters, fire as well as internal and external frauds, errors, omissions, hold up, employee fidelity etc. However, insurance has not been used for taking upon us risks that would otherwise not be undertaken thereby avoiding moral hazards. The insurance policy is reviewed annually for effectiveness of the same.</p>   |
| Reviewing New Products/Processes | <p>Bank was able to provide risk assurance for the newly implemented products through the Product Management Procedure. This procedure includes the proactive risk identification, assessment and introduced mitigation control for risks inherent to new products, processes, systems and their amended versions as well as to projects that have a material impact on Bank's operations.</p>   |

## Legal Risk

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

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

## Compliance Risk Management

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

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

### Key Initiatives during the Year 2016:

Compliance department was assigned a dedicated compliance Officer at the beginning of the year to ensure high level of compliance risk management. The Department was also restructured with a view of enhancing the scope of compliance function.

Much focus was given during the year on increasing staff awareness and bridging knowledge gaps which may lead to compliance breaches. Accordingly an e-learning module was developed on AML compliance the target audience of which is the branch front line staff. Also a comprehensive compliance reference guide containing all material

information arranged in a user friendly manner was developed and published in the Bank's intranet to enable staff to have easy access to compliance related information.

## Strategic Risk Management

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

The Bank has recently developed a four year strategic plan (2017/2020) and is in the process of implementation. Corporate management and the Board takes the responsibility to lead the Bank, while maintaining its vision and mission in order to minimise the failures in the business environment.

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

## Reputation Risk Management

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

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

## BASEL III Approach and Readiness

We have implemented an Internal Credit Rating Module, which will enable to record data and validate same to move to Internal Rating Based approach (IRB)

in computing the capital adequacy for credit risk. The Bank has taken steps to conduct a gap study to assess the Bank's readiness to move to the IRB approach.

We have conducted parallel computation of capital adequacy on operational risk under the alternative standardised approach and await CBSL green light to proceed.

We have moved to Pillar II to capture all other risks that are not covered under Pillar I through the Internal Capital Adequacy Assessment Process (ICAAP).

Market disclosures are carried out as per CBSL Guidelines and as per disclosure policy in line with Pillar III requirements.

The Bank has commenced computing the liquidity coverage ratio and net stable funding ratio following the regulators road map while moving to Basel III requirements and aligning its capital to liquidity requirements.

## Achievements during 2016 and Outlook for 2017

- i. Implementation of a new Treasury System during 2016. This has boosted the robustness of the treasury middle office to monitor the risk on an online real time basis.
- ii. The issuance of lending guidelines, covering specific economic activity/ industry segment, has enabled the business units to evaluate the counterparty risk. As a result, we have kept the infection ratio low.
- iii. Implementation of effective credit risk review process, where 41% of advances granted have been independently reviewed and identified shortcomings mitigated to improve the credit quality.
- iv. Rigorous monitoring of non-performing advances by the Executive Credit Risk Management Committee enabled to reduce the NPA ratio.
- v. Several training programmes were internally designed and conducted to improve the risk taking ability of the staff of business units.
- vi. Assign credit managers to area offices during 2017 with a view to broadbasing risk oversight of medium size credit propositions.
- vii. Full roll-out of the Loan Origination System (LOS) across the network, thereby reducing the time taken to evaluate/approve facility, thus improving the quality of credit.
- viii. Use data analytics to identify credit default behaviours in the product portfolio.
- ix. Obtain regulatory approval to compute capital adequacy of operational risk under the alternative standardised approach.
- x. Upgrade the Bank's ALM and VaR systems used to monitor market risk of the Bank.

## Key Risk Indicators

### Dash Board on Key Credit, Market, Liquidity and Operational Indicators

|  | December 2016 % | December 2015 % | Low | Medium | High |
|--|-----------------|-----------------|-----|--------|------|
| <b>Credit Risk</b>   |                 |                 |     |        |      |
| Gross NPA Ratio (as per CBSL)  | 5.14            | 5.57            |     | ○      |      |
| NPA Ratio (Net of IIS) (as per CBSL)   | 4.47            | 4.68            |     | ○      |      |
| Impaired Loans (Carrying Amount)/<br>Loans and Receivables (Carrying Amount) | 2.98            | 3.09            | ○   |        |      |
| Increase/(Decrease) of Impaired Loans  | 12.12           | -24.94          |     | ○      |      |
| Past Due Loans + Impaired Loans/<br>Loans and Receivables (Gross)            | 12.85           | 13.88           |     | ○      |      |
| Past Due Loans/Neither Past Due nor Impaired                                 | 8.79            | 9.57            |     | ○      |      |
| Increase/(Decrease) of Past Due Loans  | 13.14           | -18.73          |     | ○      |      |
| Open Credit Exposure   | 25.35           | 23.78           | ○   |        |      |
| Allowance for Impairment/Impaired Loans (Gross)                              | 43.93           | 46.80           |     | ○      |      |

|   |             |               | December<br>2016<br>%            | December<br>2015<br>%    | Low | Medium | High |
|---|-------------|---------------|----------------------------------|--------------------------|-----|--------|------|
| <b>Market and Interest Rate Risk</b>  |             |               |                                  |                          |     |        |      |
| <b>Maturity Gaps</b>  |             |               |                                  |                          |     |        |      |
| Maturity Gap Less than One Year to Total Liabilities                                |             | Less than 25% | <b>-22.74</b>                    | -22.12                   |     |        | ○    |
| <b>Investments</b>  |             |               |                                  |                          |     |        |      |
| Government Securities to Total Assets<br>(Int. Bearing)                             |             | Less than 30% | <b>20.59</b>                     | 26.87                    |     |        | ○    |
| <b>Equities</b>   |             |               |                                  |                          |     |        |      |
| Market Value of Equity Investments (Quoted) to<br>Total Assets (Int. Bearing)       |             | Less than 1%  | <b>0.08</b>                      | 0.35                     |     |        | ○    |
| <b>Net Open Position Short(-)/Long(+)</b> (USD)                                     |             | 8 Mn.         | <b>2.406 Mn.</b>                 | 1.898 Mn.                |     |        | ○    |
| <b>Liquidity and Funding Risk</b>   |             |               |                                  |                          |     |        |      |
|   | Measurement | Limit         | December<br>2016                 | December<br>2015         |     |        |      |
| Statutory Liquidity Ratio   |             |               |                                  |                          |     |        |      |
| - Domestic Banking Unit (DBU)   | (%)         | 21.00         | <b>22.68</b>                     | 27.56                    |     |        | ○    |
| - Foreign Currency Banking Unit (FCBU)  | (%)         | 21.00         | <b>26.24</b>                     | 21.51                    |     |        | ○    |
| <b>Advances to Deposits Ratio</b>   |             |               |                                  |                          |     |        |      |
| Advances to Deposits Ratio – Bank   | (%)         | 97.50         | <b>88.52</b>                     | 88.56                    |     |        | ○    |
| Advances to Deposits Ratio – LCY  | (%)         | 97.50         | <b>90.43</b>                     | 88.99                    |     |        | ○    |
| Advances to Deposits Ratio – FCY  | (%)         | 97.50         | <b>70.90</b>                     | 84.20                    |     |        | ○    |
| Advances to Deposits + Debentures   | (%)         | 95.00         | <b>84.66</b>                     | 85.82                    |     |        | ○    |
| Advances to Stable Funds  | (%)         | 100.00        | <b>88.50</b>                     | 83.50                    |     |        | ○    |
| Funding Concentration   |             |               |                                  |                          |     |        |      |
| SWAPs   | US\$ Mn.    | 150 Mn.       | <b>91.00</b>                     | 59.75                    |     |        | ○    |
| <b>Operational Risk</b>   |             |               |                                  |                          |     |        |      |
|   | Measurement | Limit         | 2016                             | 2015                     |     |        |      |
| Pawning Losses as Percentage of Pawning<br>Capital Outstanding                      | (%)         | Zero          | <b>NIL</b>                       | NIL                      |     |        | ○    |
| Cheque Returns as Percentage of Total Cheques<br>in Clearing                        | (%)         | 3             | <b>3.40</b>                      | 2.69                     |     |        | ○    |
| Non-rectified High Risk Findings (< 90 days)<br>Over Total High Risk Audit Findings | (%)         | Zero          | <b>1.55</b>                      | 1.18                     |     |        | ○    |
| Number of Skimming Cards and Non-EMV<br>Converted POS Transactions                  |             | Zero          | <b>Rs. 0.46 Mn.<br/>27 Trans</b> | Rs. 1.97 Mn.<br>36 Trans |     |        | ○    |
| Staff Turnover  | (%)         | 4             | <b>3.95</b>                      | 5.00                     |     |        | ○    |
| Password Compromise   |             | Zero          | <b>NiL</b>                       | NIL                      |     |        | ○    |

## Capital Adequacy Computation – Bank

|   | On-Balance Sheet Assets and Credit Equivalent of Off-Balance Sheet Assets |                  | Risk-Weighted Assets |                  |
|---|---|------------------|----------------------|------------------|
|   | 2016<br>Rs. '000  | 2015<br>Rs. '000 | 2016<br>Rs. '000     | 2015<br>Rs. '000 |
| <b>A. Risk Weighted Assets</b>  |   |                  |                      |                  |
| <b>Credit Risk</b>  |   |                  |                      |                  |
| Risk-Weighted Assets – On-Balance Sheet Exposure                          | <b>321,564,364</b>  | 261,552,019      | <b>199,546,741</b>   | 159,821,286      |
| Risk-Weighted Assets – Off-Balance Sheet Exposure                         | <b>13,609,868</b>   | 11,748,938       | <b>12,482,908</b>    | 9,882,115        |
| Total Risk-Weighted Assets – Credit Risk                                  | <b>335,174,232</b>  | 273,300,957      | <b>212,029,649</b>   | 169,703,401      |
| Total Risk-Weighted Assets – Market Risk                                  |   |                  | <b>3,947,610</b>     | 3,562,170        |
| Total Risk-Weighted Assets – Operational Risk                             |   |                  | <b>24,319,271</b>    | 21,767,982       |
| <b>B. Computation of Capital</b>  |   |                  |                      |                  |
| Total Eligible Core Capital (TIER I Capital)                              | <b>25,805,714</b>   | 23,881,138       |                      |                  |
| Total Eligible Supplementary Capital (TIER II Capital)                    | <b>5,855,771</b>  | 1,216,750        |                      |                  |
| <b>Total Capital Base</b>   | <b>31,661,485</b>   | 25,097,888       |                      |                  |
| <b>C. Computation of Ratios</b>   |   |                  |                      |                  |
| <b>Total Risk-Weighted Assets (RWA)</b>                                   |   |                  |                      |                  |
| Total Risk-Weighted Assets for Credit Risk                                | <b>212,029,649</b>  | 169,703,401      |                      |                  |
| Total Risk-Weighted Assets – Market Risk                                  | <b>3,947,610</b>  | 3,562,170        |                      |                  |
| Total Risk-Weighted Assets – Operational Risk                             | <b>24,319,271</b>   | 21,767,982       |                      |                  |
| <b>Sub Total</b>  | <b>240,296,530</b>  | 195,033,553      |                      |                  |
| <b>Minimum Capital Charge</b>   |   |                  |                      |                  |
| Minimum Capital Charge for Credit Risk                                    | <b>21,202,965</b>   | 16,970,340       |                      |                  |
| Minimum Capital Charge for Market Risk                                    | <b>394,761</b>  | 356,217          |                      |                  |
| Minimum Capital Charge for Operational Risk                               | <b>2,431,927</b>  | 2,176,798        |                      |                  |
| <b>Sub Total</b>  | <b>24,029,653</b>   | 19,503,355       |                      |                  |
| <b>Total Capital Available to Meet the Capital Charge for Credit Risk</b> |   |                  |                      |                  |
| Total Eligible Core Capital (TIER I Capital)                              | <b>25,805,714</b>   | 23,881,138       |                      |                  |
| Total Eligible Supplementary Capital (TIER II Capital)                    | <b>5,855,771</b>  | 1,216,750        |                      |                  |
| <b>Total Capital Base</b>   | <b>31,661,485</b>   | 25,097,888       |                      |                  |
| <b>Core Capital Ratio (Minimum Requirement 5%)</b>                        |   |                  |                      |                  |
| Total Eligible Core Capital (TIER I Capital)                              | <b>25,805,714</b>   | 23,881,138       |                      |                  |
| Total Risk-Weighted Assets  | <b>240,296,530</b>  | 195,033,553      |                      |                  |
| Core Capital Adequacy Ratio (%)   | <b>10.74</b>  | 12.24            |                      |                  |
| <b>Total Capital Ratio (Minimum Requirement 10%)</b>                      |   |                  |                      |                  |
| Total Capital Base  | <b>31,661,485</b>   | 25,097,888       |                      |                  |
| Total Risk-Weighted Assets  | <b>240,296,530</b>  | 195,033,553      |                      |                  |
| Total Capital Adequacy Ratio (%)  | <b>13.18</b>  | 12.87            |                      |                  |

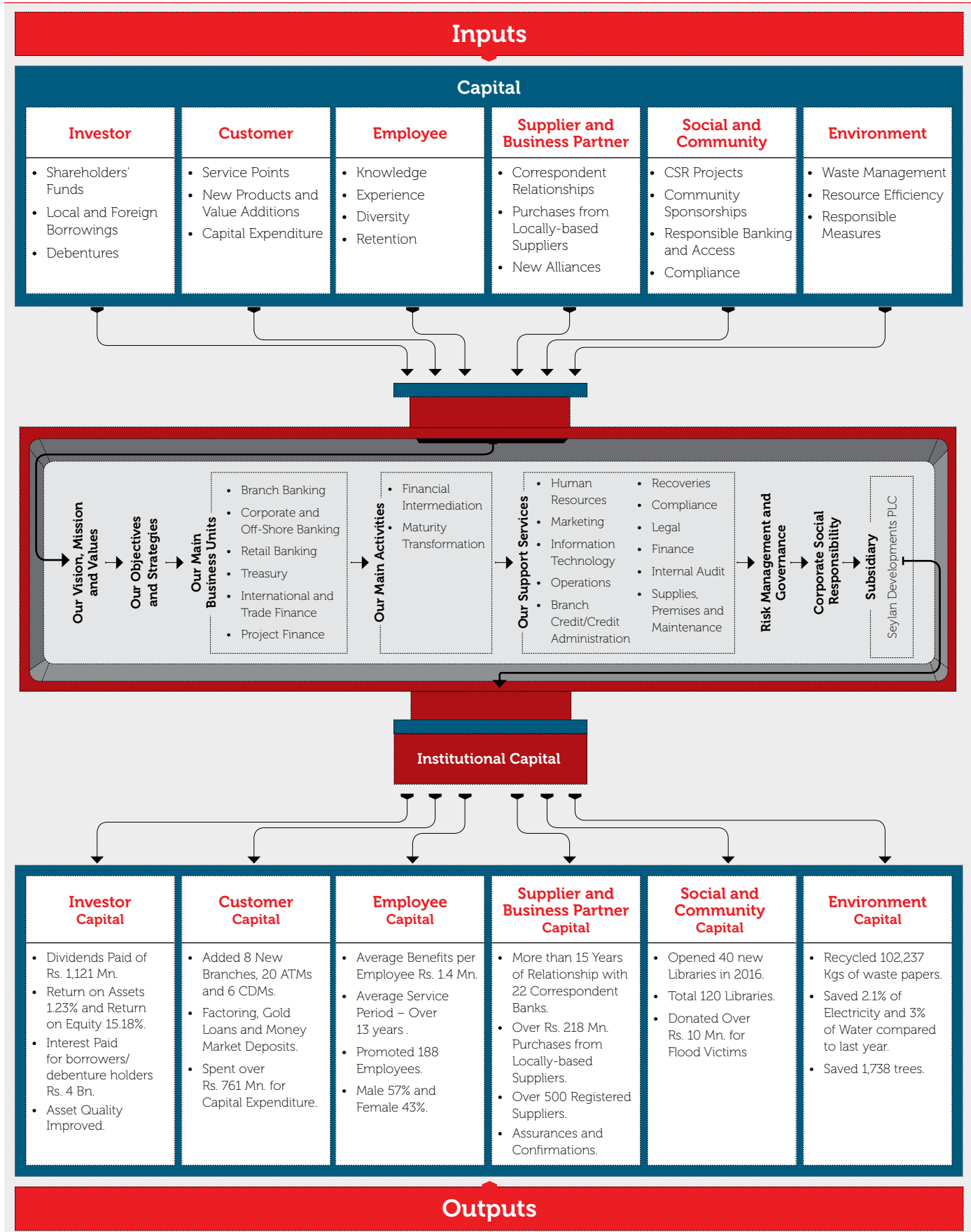


# OUR VALUE CREATION MODEL

**087-094**

Seylan Bank PLC, had the distinction of being, at the time of commencement, one of just two new indigenous banks to gain entry into Sri Lanka's financial system, which had, up to then, been dominated by the old-established, indigenous and foreign banks operating in the country. It has made immense strides since then and faced many challenges to emerge today as a Bank to be reckoned with amongst the six systemically important banks in the country, with total assets in excess of Rs. 350 Bn. The Seylan Group comprises of the Bank and its subsidiary of Seylan Developments PLC.

## Our Value Creation Model



## Why We Create Value (Our Ultimate Goal)

### A New Strategy for the Future

With the success of our strategic plan 2012/2016 where we achieved a commensurate increase across the board, we are now on the cusp of achieving greater heights, ready to launch our next strategic plan. We are now poised to improve our rank in the industry through better management by benchmarking ourselves against those of the leaders in industry. Accordingly we have hired a renowned firm of external consultants (Boston Consulting Group – BCG) to chart out our strategy for 2017/20.

In consultation with BCG, we have identified certain key strategic imperatives which will form the key pillars of the 2017-2020 plan.

## How We Create Value (A Robust Model)

As a commercial bank, Seylan Bank's business model is primarily centered around financial intermediation and maturity transformation.

While gearing primarily remains the cornerstone of our business model, we are aware that it exposes the Bank to a multitude of risks. As you would read later in this report, the Bank has established a sound risk management framework with necessary oversight of the Board of Directors and thereby has been able to successfully manage such risks.

### Institutional Capital

Institutional Capital is an integral part of our value creation model. This together with Financial Capital helps the Bank to deliver value to its stakeholders. Its essential components are intellectual property, knowledge, systems and procedures, brand value, corporate culture, business values, ethics and integrity.

### Corporate Culture and Value

Seylan Bank was established with its distinctive tagline 'The Bank with a Heart' and has, unequivocally, defined itself as a

friendly and service oriented alternative. From inception, the Bank attempted to instil a value-based culture and has been able to successfully uphold these values to date by presenting itself as a flexible, customer-friendly, banking institution. We are a Bank built on a more ethical and caring culture. This unique identity has helped us to differentiate ourselves in the business, purely from our recognition of the relationship that exists between brand management and the customer, as a strategic enhancer of stakeholder value.

### Systems, Processes and Technologies

Through innovative product development, the Bank has been successful in differentiating its position, particularly in the domain of digital technology. We are now poised to invest further in the digital space to leverage on increasing preference for social media amongst our target groups. Our internal systems and processes are continuously being upgraded and developed with a strong focus on Innovation and Information Technology, has become part and parcel of our customer services and plays a vital role in executing our day-to-day operations.

We are now moving into the digital space. Our latest product, the Seylan Seylfie, a state-of-the-art digital bank account to empower the youth, is aimed at the tech savvy target group. These are indeed exciting propositions for the future within the architecture of our new strategic plan.

### Compliance

As a licensed commercial bank with the rank of a systemically important bank in the financial system and as an intermediary with fiduciary responsibility, the need to be compliant with the legal provisions and regulatory directions governing our operations is paramount, even in the face of severe competitive pressures. A compliance culture has therefore been strongly imbued amongst all levels of our staff not only to protect the Bank from reputational risk but, more profoundly to stand by and not compromise, the high standard of business ethics that underscores whatever we do.

## Business Ethics and Integrity

A natural concomitant of our compliance culture, we espouse the highest standards of business ethics and integrity. Business ethics is one of our key values by which we stand and is inculcated into all levels of management across the board and drives our strategy and direction. We have a comprehensive governance framework in place and the Corporate Governance Report explains these measures in detail.

Since the Bank was established in 1987 with its distinctive promise, 'The Bank with a Heart' we have made considerable progress to cater to a new generation of customers amongst the youth and the adolescent population of this country, where we see immense potential for an expanded market share.

The Bank has, progressively developed a solid internal control system encompassing all operations, for effective accountability and product enhancement, which minimises errors, omissions and frauds, while ensuring accuracy and completeness of information for decision-making; and for the provision of speedy and efficient customer solutions. Its essential components range from the basic controls of segregation of duties.

It is our desire to be recognised by our customers as a reliable and responsible long-term business partner. We treat our customers as well as our competitors, in a professional manner with respect and offer quality products and services, whilst, respecting the culture of the business segments and regions in which we operate.

Unlike financial capital, institutional capital cannot be quantified. However, over the years, we have been able to build on our institutional capital base, which is supplemented by various forms of external capital such as investor capital, customer capital, supplier and business partner capital, community capital and environmental capital in our drive to deliver value to, and derive value from stakeholders.

## Anti-Corruption

As a responsible corporate citizen and in preserving our reputation at all times, the Bank has written a Code of Conduct that, *inter alia*, includes provisions relating to anti-corruption. Having imbued these principles into our Code of Conduct, it is a business imperative. These provisions have been explained to all staff and are reinforced through continuous review and updates and monitored throughout all business operations. We are proud of our unblemished track record which supports our firm resolve to make our operations sustainable into the future.

## What Creates Value (Healthy Relationships)

### Bank's Approach to Sustainability

A sustainable strategy is the key for the long-term viability of any organisation.

Seylan Bank engages with its stakeholders on a continuous basis, in order to understand their diverse needs and expectations. This provides insights to its day-to-day operations and decision-making processes and in turn helps the Bank to deliver value to its stakeholders.

The Bank requires the continuous support of its key stakeholders – investors, customers, employees, suppliers and business partners, community and the environment. The Bank benefits from their expertise, advice and constructive criticism and believe that they, in turn, benefit from their relationships with the Bank. In this light, the Bank has an important role to play in allocating financial resources responsibly and efficiently to activities that will generate growth, productivity and support economic transformation in its country's operation.

Seylan Bank plays a significant role in demonstrating transparency in its commitment to environmental and social practices. Keeping true to its tagline, 'The Bank with a Heart', Seylan Bank wishes the financial well-being of all its stakeholders. In delivering this, the Bank ensures exemplary governance, robust risk management, efficiently and ethically driven business operations.

Sustainability is an integral part of the Bank's core business. It is not an ad hoc exercise but is a key element of the Bank's strategy and is implemented in the interest of all its stakeholders. In order to meet all social obligations, the Bank continues to consciously manage the impacts of its operations and thereby contributing towards a sustainable future. The Bank is open, transparent and accountable in its sustainability initiatives as well as reporting.

Our CSR strategy which is described in detail in the report has been revolving around the stakeholders of the Bank towards the economic prosperity of the entire nation. It is amalgamated with the core business strategies and implemented for the best interest of the stakeholders to meet the sustainability parameters set below and explained in detail under the stakeholder engagement:

1. Sustainable value creation
2. Service beyond banking
3. Recognise human capital
4. Connecting with communities
5. Long-Lasting ethical relationship
6. Minimising our impact on the environment.

## Governance, Risk Management and Sustainability Stewardship

Committed to uphold the highest standards of business integrity and professional ethics on all scores, Seylan corporate governance framework rewards our stakeholders with a greater creation of value, year on year. Sustainability is one of our core determinants of the core banking business which works around maximising our shareholders' wealth in a sustainable manner and safeguarding the rights of all our stakeholders, as paramount.

With all our activities, the Bank's sustainability is also governed by our corporate ethics and values. Our governance framework is set out in detail in the 'Corporate Governance' segment of this Annual Report.

Risk is an integral aspect of the banking business and the Bank consistently aims towards delivering superior long-term

shareholder value by achieving an appropriate trade-off between risk and return. The details of the approach are explained in detail in the risk report.

The Board Sustainability Sub-committee, Management Committee, Sustainability Manager and Sustainability Wardens drive sustainability of the Bank. The Board Sustainability Sub-committee is responsible for developing strategies in line with the core business strategies. The Management Committee which is led by Senior Management focuses on all economic, social and environmental aspects, while overseeing and monitoring the entire sustainability process of the Bank.

We are governed by the regulatory directions issued by the Central Bank of Sri Lanka (CBSL), the Colombo Stock Exchange (CSE) and industry codes of best practices, hence ensuring responsible banking. Certain key practices/guidelines are listed below:

| Internal Policies for Responsible Banking  | Regulatory Directions and Voluntary Code of Practice Adopted by the Bank for Responsible Banking   |
|--|--|
| <ul style="list-style-type: none"> <li>• Staff Code of Conduct</li> <li>• Information Security Policy</li> <li>• Credit Policy</li> <li>• Recovery Policy</li> </ul> | <ul style="list-style-type: none"> <li>• Know your customer policy</li> <li>• Anti-Money laundering policy</li> <li>• Customer Charter</li> <li>• Misleading and Unethical Advertisements</li> </ul>   |
| <ul style="list-style-type: none"> <li>• Treasury Investment Policy</li> <li>• Asset and Liability Policy</li> </ul>   | <ul style="list-style-type: none"> <li>• Display of interest rates, exchange rates and service charges</li> <li>• Inadequate/Incorrect Disclosures/press statements</li> <li>• Code of best practices on corporate governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the SEC</li> </ul> |
| <ul style="list-style-type: none"> <li>• Sustainability Policy</li> </ul>  | <ul style="list-style-type: none"> <li>• Approval of CBSL for the authority to accept deposits and do other banking functions</li> <li>• Accounting Standards – SLFRS/LKAS</li> </ul>  |
| <ul style="list-style-type: none"> <li>• Integrated Risk Management Policy</li> <li>• Whistle Blowing Policy</li> <li>• Related Party Transactions Policy</li> </ul> |  |

## Stakeholder Engagement

A stakeholder is an individual or a group that has an interest in the Bank and who can either affect or be affected by the activities of the Bank. Stakeholders can be internal or external. Internal stakeholders are people whose interest in the Bank comes through a direct relationship, such as employees. External stakeholders are those who do not directly work with the Bank but are affected by the actions and outcomes of the Bank's operations.

While stakeholders are significantly affected by the Bank's operations, they

in return have the ability to affect the day-to-day operations of the Bank. Seylan Bank strives to understand what matters to its key stakeholders, to build trust and to create value for all its stakeholders in the long-term.





Engaging with stakeholders on a day-to-day basis and maintaining a healthy relationship, is imperative for the long-term sustainability of the business.

We are committed to developing and maintaining appropriate relationships with our stakeholders, across all business units and functions. Our

stakeholder engagement policy clearly defines responsibility and approaches in handling stakeholder engagement. We are responsible for coordinating our engagement effectively with all the stakeholders.

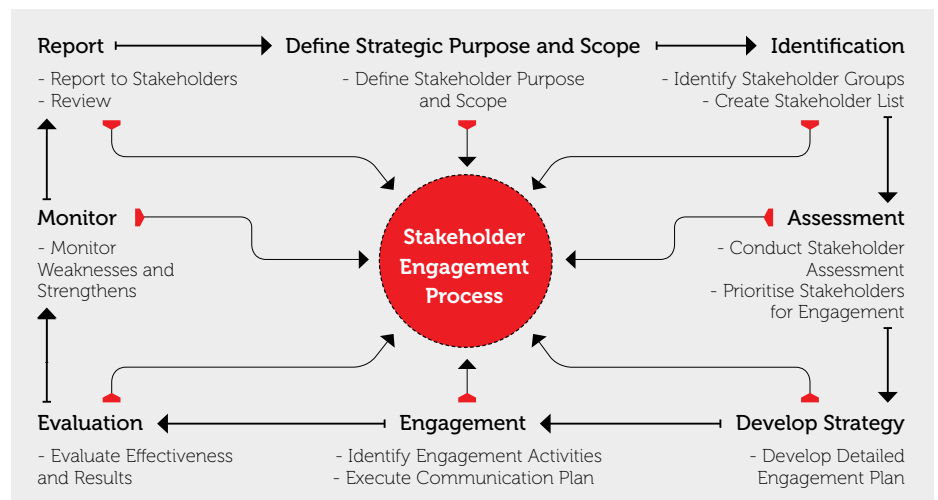
The Bank considers stakeholder feedback a critical criterion for the future enhancement of its sustainability reporting initiatives. As such, an Investor/Stakeholder Feedback forms are attached to this Report and serve as a formal feedback mechanism, in addition to the continuous stakeholder engagement process.

| Stakeholder   | Key Topics and Concerns Raised   | How the Bank Responded to Such Topics and Concerns  | Method of Engagement   | Frequency of Engagement  |
|---|--|---|--|--|
|  <p><b>Investors</b></p>   | <ul style="list-style-type: none"> <li>Financial performance of the Bank and business growth</li> <li>Sustainable growth</li> <li>Liquidity Management</li> <li>Governance and risk management framework</li> <li>Business overview, business strategy and challenges.</li> <li>Asset quality of the Bank.</li> <li>Behaviour of key economic indicators such as interest rates, exchange rates, etc.</li> </ul> | <ul style="list-style-type: none"> <li>Manage the business effectively and efficiently to deliver sustainable wealth</li> <li>Implement effective risk management policies, and adequate internal controls</li> <li>Protect and facilitate stakeholder rights and ensure fairness and transparency</li> <li>Ensure regulatory compliance and responsible banking</li> <li>More details on individual engagement activities are given under Investor Relations</li> </ul>  | <ul style="list-style-type: none"> <li>Annual reports</li> <li>Interim Financial Statements</li> <li>Annual General Meeting</li> <li>Extraordinary General Meetings</li> <li>Investor presentation</li> <li>Media releases</li> <li>Announcements submitted to the Colombo Stock Exchange</li> <li>Face-to-face discussions</li> <li>Bank website</li> </ul> | <ul style="list-style-type: none"> <li>Annually</li> <li>Quarterly</li> <li>Annually</li> <li>As and when required</li> <li>As and when required</li> <li>As and when required</li> <li>As and when required</li> <li>As and when required</li> <li>Regularly</li> </ul> |
|  <p><b>Customers</b></p> | <ul style="list-style-type: none"> <li>Product Innovation</li> <li>Make banking convenient and flexible</li> <li>Level of customer service</li> <li>Availability of branches, ATMs</li> <li>Product pricing (interest rates and fees and charges)</li> <li>Service quality</li> </ul>  | <ul style="list-style-type: none"> <li>Opinions and concerns of customers are gathered through various forms of engagement</li> <li>Bank's Call Centre Unit promptly attending to customer enquiries and concerns</li> <li>The Bank conducts annual customer surveys to obtain feedback on satisfaction levels and improvements on products and services</li> <li>Make banking convenient and flexible by continuously expanding branches</li> <li>Delivering superior customer services with constant value additions</li> </ul> | <ul style="list-style-type: none"> <li>Banking Centres</li> <li>ATMs</li> <li>Call centres</li> <li>Student saving centres</li> <li>eBanking</li> <li>Bank website</li> <li>Customer satisfaction surveys</li> <li>Customer targeted workshops</li> <li>Customer complaints</li> <li>Social media channels</li> </ul>  | <ul style="list-style-type: none"> <li>Regularly</li> <li>Regularly</li> <li>Regularly</li> <li>Regularly</li> <li>Regularly</li> <li>Regularly</li> <li>Annually</li> <li>As and when required</li> <li>As and when required</li> <li>Regularly</li> </ul>              |

| Stakeholder   | Key Topics and Concerns Raised   | How the Bank Responded to Such Topics and Concerns  | Method of Engagement  | Frequency of Engagement  |
|---|--|---|---|--|
| <br><b>Employees</b>                       | <ul style="list-style-type: none"> <li>• Staff welfare measures</li> <li>• Remuneration</li> <li>• Retain existing talent of the Bank</li> <li>• Maintain work-life balance</li> <li>• Motivation and recognition</li> </ul>   | <ul style="list-style-type: none"> <li>• Provide necessary training and development</li> <li>• Effective performance appraisal system</li> <li>• Maintain equal opportunity, human rights and conducive labour relations practices</li> <li>• Measurements are undertaken to bring about work-life balance</li> </ul>                                       | <ul style="list-style-type: none"> <li>• Staff meetings</li> <li>• Performance review meetings</li> <li>• Discussion with unions</li> <li>• 'Seylan Banker' newsletter</li> <li>• Intranet/ circulars</li> <li>• Internal circulars</li> <li>• Latest updates through staff email</li> <li>• Staff activities such as get-togethers, sports competitions</li> </ul> | <ul style="list-style-type: none"> <li>Monthly</li> <li>Monthly</li> <li>Regularly</li> <li>Quarterly</li> <li>Regularly</li> <li>Regularly</li> <li>As and when required</li> <li>As and when required</li> </ul>                         |
| <br><b>Suppliers and Business Partners</b> | <ul style="list-style-type: none"> <li>• Fair pricing</li> <li>• Quality of the suppliers goods and services</li> <li>• Operational efficiencies in the procurement process</li> <li>• Transparency and equal opportunity in the selection process of the suppliers</li> </ul> | <ul style="list-style-type: none"> <li>• Comprehensive and transparent procurement policy with adequate controls</li> <li>• Regular engagement with suppliers to identify and resolve issues and build long-lasting relationships</li> </ul>  | <ul style="list-style-type: none"> <li>• Onsite service representatives</li> <li>• Visits and meetings</li> <li>• Official communication (Letters, Calls etc.)</li> <li>• Tender invitations</li> <li>• Suppliers registration</li> </ul>   | <ul style="list-style-type: none"> <li>Regularly</li> <li>As and when required</li> <li>As and when required</li> <li>As and when required</li> <li>Annually</li> </ul>  |
| <br><b>Community</b>                       | <ul style="list-style-type: none"> <li>• Investments on community</li> <li>• Access to fair and affordable banking in rural areas</li> <li>• Corporate responsibility initiatives</li> <li>• Micro financing and development of SME</li> <li>• Financial inclusion</li> </ul>  | <ul style="list-style-type: none"> <li>• Provide assistance for self-employment through micro financing</li> <li>• Enhance financial inclusion by inculcating a banking habit</li> <li>• Support needy children in education and other activities</li> <li>• Contribute towards a healthy nation</li> <li>• Other contributions and sponsorships</li> </ul> | <ul style="list-style-type: none"> <li>• Bank's delivery channels</li> <li>• Media releases</li> <li>• Sponsorship for community events</li> <li>• Donations</li> <li>• Seminars/workshops</li> <li>• Bank website</li> <li>• Social media</li> <li>• 'Seylan Pehesara' library project</li> </ul>  | <ul style="list-style-type: none"> <li>Regularly</li> <li>As and when required</li> <li>As and when required</li> <li>As and when required</li> <li>As and when required</li> <li>Regularly</li> <li>Regularly</li> <li>Ongoing</li> </ul> |
| <br><b>Environment</b>                   | <ul style="list-style-type: none"> <li>• Waste/Energy Management</li> <li>• Greenhouse gas emissions</li> </ul>  | <ul style="list-style-type: none"> <li>• Promote green compliance</li> <li>• Educate and create awareness among staff members</li> <li>• Reduce Carbon footprints</li> </ul>  | <ul style="list-style-type: none"> <li>• CSR activities</li> <li>• Awareness workshops</li> <li>• Eco-friendly lending</li> <li>• E-based solutions</li> </ul>  | <ul style="list-style-type: none"> <li>Regularly</li> <li>Regularly</li> <li>Regularly</li> <li>Regularly</li> </ul>   |

## Stakeholder Engagement Process

We at Seylan Bank, engage with many stakeholders who have different aspirations and our stakeholder engagement process is the key mechanism to identify our main stakeholders. A comprehensive engagement process is in place which addresses economic, social and environmental issues while distributing responsibility across the Bank.



## Materiality

In the preparation and compilation of this Report, materiality proved to be a challenge.

### Materiality Assessment

Our goal for this report is to address the issues our stakeholders such as investors, customers, employees, suppliers community, environment and business partners, care about most and to inform anyone looking for information about our progress as a responsible Bank in a clear, comprehensive and accessible way. Issues that we consider material are those that have a direct or indirect impact on our stakeholders' decisions to do business with us. In this context, the sustainability report reflect the Bank's significant economic, environmental and

social impacts that would substantively influence the assessment and decisions of its stakeholders.

The basis of our assessment has been the degree of significance to our stakeholders and to the Bank to operate ethically and as a responsible corporate citizen as detailed below:

- Degree of influence the Bank has over each aspect.
- The extent to which the resources in question are used in Bank's operations.
- The extent of various stakeholder interactions and their levels of expectations.
- The degree of responsibility that should be demonstrated by a responsible corporate citizen.

- The impacts arising from the activities of customers and other contributors to our supply chain.
- The degree of value that the Bank can deliver in relation to each aspect.

The Bank follows a systematic process to determine materiality of issues to be reported.

### Assessment of Materiality for Reporting

The table below depicts the significant levels for each economic, environmental and social aspect from the point of view of the Bank and its stakeholders. This applies the principles of stakeholder inclusiveness, in the context of sustainability, materiality and completeness.

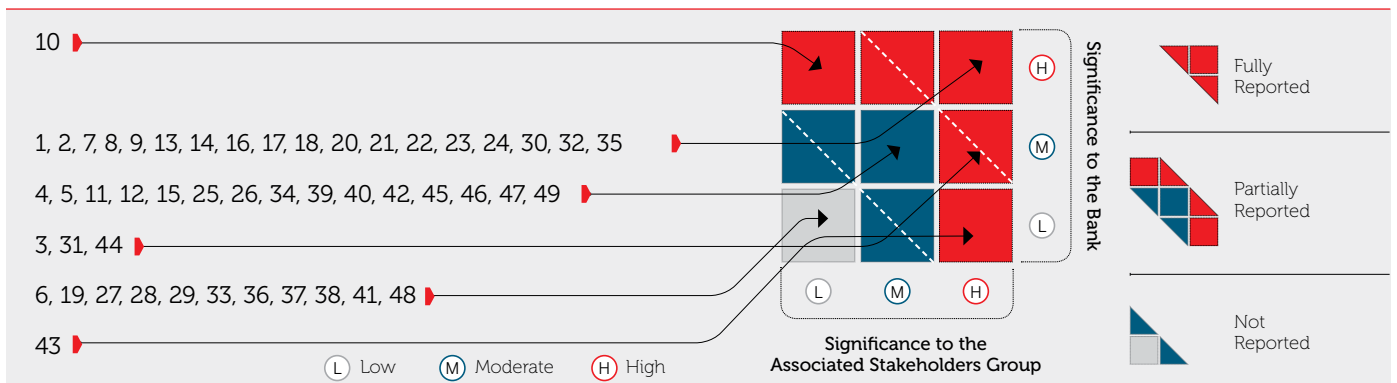
| Aspect                                   | Materiality                                  |                         |                         | Relevant Indicators (GRI) | Aspect Boundary    |           |           |           |             |                                 |   |
|--|--|-------------------------|-------------------------|---------------------------|--------------------|-----------|-----------|-----------|-------------|---------------------------------|---|
|  | Overall Bank                                 | Associated Stakeholders | Reporting/Not Reporting |                           | Internal           |           |           | External  |             |                                 |   |
|  |  |                         |                         |                           | Employees          | Investors | Customers | Community | Environment | Suppliers and Business Partners |   |
| Economic                                 | 1. Economic Performance                      | (H)                     | (H)                     | ✓                         | G4 – EC1, EC3, EC4 |           | ✓         |           |             |                                 |   |
|  | 2. Market Presence                           | (H)                     | (H)                     | ✓                         | G4 – EC5-EC6       |           | ✓         |           |             |                                 |   |
|  | 3. Indirect Economic Impact                  | (M)                     | (H)                     | ✓                         | G4 – EC9           |           | ✓         |           | ✓           |                                 |   |
|  | 4. Procurement Practices                     | (M)                     | (M)                     | ✓                         | G4 – EC9           |           |           |           |             |                                 | ✓ |
| Social: Product Responsibility           | 5. Customer Health and Safety                | (M)                     | (M)                     | ✓                         | G4 – PR1:PR2       |           |           |           | ✓           |                                 |   |
|  | 6. Product and Service Labelling             | (L)                     | (L)                     | *                         | –                  |           |           |           |             |                                 |   |
|  | 7. Marketing Communications                  | (H)                     | (H)                     | ✓                         | G4 – PR6:PR7       |           |           |           | ✓           |                                 |   |
|  | 8. Customer Privacy                          | (H)                     | (H)                     | ✓                         | G4 – PR8           |           |           |           | ✓           |                                 |   |
|  | 9. Compliance                                | (H)                     | (H)                     | ✓                         | G4 – PR9           |           |           |           |             |                                 | ✓ |
|  | 10. Product Portfolio                        | (H)                     | (L)                     | ✓                         | G4 – FS1:FS8       |           |           |           | ✓           |                                 |   |
|  | 11. Audit                                    | (M)                     | (M)                     | ✓                         | G4 – FS9           |           |           |           | ✓           |                                 |   |
|  | 12. Active Ownership                         | (M)                     | (M)                     | ✓                         | G4 – FS12          |           |           |           | ✓           |                                 |   |
| Social: Labour Practices and Decent Work | 13. Employment                               | (H)                     | (H)                     | ✓                         | G4 – LA1, LA3      | ✓         |           |           |             |                                 |   |
|  | 14. Labour/Management Relations              | (H)                     | (H)                     | ✓                         | G4 – LA4           | ✓         |           |           |             |                                 |   |
|  | 15. Occupational Health and Safety           | (M)                     | (M)                     | ✓                         | G4 – LA6           | ✓         |           |           |             |                                 |   |
|  | 16. Training and Education                   | (H)                     | (H)                     | ✓                         | G4 – LA9:LA11      | ✓         |           |           |             |                                 |   |
|  | 17. Diversity and Equal Opportunity          | (H)                     | (H)                     | ✓                         | G4 – LA12          | ✓         |           |           |             |                                 |   |
|  | 18. Equal Remuneration for Men and Women     | (H)                     | (H)                     | ✓                         | G4 – LA13          | ✓         |           |           |             |                                 |   |
|  | 19. Supplier Assessment for Labour Practices | (L)                     | (L)                     | *                         | –                  |           |           |           |             |                                 |   |
|  | 20. Labour Practices Grievance Mechanisms    | (H)                     | (H)                     | ✓                         | G4-LA16            | ✓         |           |           |             |                                 |   |

| Aspect               | Materiality  |                         |                         | Relevant Indicators (GRI) | Aspect Boundary |           |           |           |             |                                 |   |
|----------------------|--|-------------------------|-------------------------|---------------------------|-----------------|-----------|-----------|-----------|-------------|---------------------------------|---|
|                      | Overall Bank   | Associated Stakeholders | Reporting/Not Reporting |                           | Internal        |           |           | External  |             |                                 |   |
|                      |  |                         |                         |                           | Employees       | Investors | Customers | Community | Environment | Suppliers and Business Partners |   |
| Social: Human Rights | 21. Investment                                       | (H)                     | (H)                     | ✓                         | G4 – HR2        | ✓         |           |           |             |                                 |   |
|                      | 22. Non-Discrimination                               | (H)                     | (H)                     | ✓                         | G4 – HR3        | ✓         |           |           |             |                                 |   |
|                      | 23. Freedom of Association and Collective Bargaining | (H)                     | (H)                     | ✓                         | G4 – HR4        | ✓         |           |           |             |                                 |   |
|                      | 24. Child Labour                                     | (H)                     | (H)                     | ✓                         | G4 – HR5        | ✓         |           |           |             |                                 |   |
|                      | 25. Forced or Compulsory Labour                      | (M)                     | (M)                     | ✓                         | G4 – HR6        | ✓         |           |           |             |                                 |   |
|                      | 26. Security Practices                               | (M)                     | (M)                     | ✓                         | G4 – HR7        | ✓         |           |           |             |                                 |   |
|                      | 27. Indigenous Rights                                | (L)                     | (L)                     | *                         | –               |           |           |           |             |                                 |   |
|                      | 28. Assessment – Human Rights                        | (L)                     | (L)                     | *                         | –               |           |           |           |             |                                 |   |
|                      | 29. Supplier Human Rights Assessment                 | (L)                     | (L)                     | *                         | –               |           |           |           |             |                                 |   |
|                      | 30. Human Rights Grievance Mechanisms                | (H)                     | (H)                     | ✓                         | G4 – HR12       | ✓         |           |           |             |                                 |   |
| Social: Society      | 31. Local Communities                                | (M)                     | (H)                     | ✓                         | G4 – S01:S02    |           |           |           |             | ✓                               |   |
|                      | 32. Anti-Corruption                                  | (H)                     | (H)                     | ✓                         | G4 – S04, S05   |           |           |           |             | ✓                               |   |
|                      | 33. Public Policy                                    | (L)                     | (L)                     | *                         | –               |           |           |           |             |                                 |   |
|                      | 34. Anti-Competitive Behaviour                       | (M)                     | (M)                     | ✓                         | G4 – S07        |           |           |           |             | ✓                               |   |
|                      | 35. Compliance                                       | (H)                     | (H)                     | ✓                         | G4 – S08        |           |           |           |             | ✓                               |   |
|                      | 36. Supplier Assessment for Impacts on Society       | (L)                     | (L)                     | *                         | –               |           |           |           |             |                                 |   |
|                      | 37. Grievances Mechanisms for Impacts on Society     | (L)                     | (L)                     | *                         | –               |           |           |           |             |                                 |   |
| Environment          | 38. Materials  | (L)                     | (L)                     | *                         | –               |           |           |           |             |                                 |   |
|                      | 39. Energy   | (M)                     | (M)                     | ✓                         | G4 – EN3, EN6   |           |           |           |             |                                 | ✓ |
|                      | 40. Water  | (M)                     | (M)                     | ✓                         | G4 – EN8        |           |           |           |             |                                 | ✓ |
|                      | 41. Biodiversity                                     | (L)                     | (L)                     | *                         | –               |           |           |           |             |                                 |   |
|                      | 42. Emissions  | (M)                     | (M)                     | ✓                         | G4 – EN19       |           |           |           |             |                                 | ✓ |
|                      | 43. Effluents and Waste                              | (L)                     | (H)                     | ✓                         | G4 – EN23       |           |           |           |             |                                 | ✓ |
|                      | 44. Products and Services                            | (M)                     | (H)                     | ✓                         | G4 – EN27       |           |           |           |             |                                 | ✓ |
|                      | 45. Compliance                                       | (M)                     | (M)                     | ✓                         | G4 – EN29       |           |           |           |             |                                 | ✓ |
|                      | 46. Transport  | (M)                     | (M)                     | ✓                         | G4 – EN30       |           |           |           |             |                                 | ✓ |
|                      | 47. Overall  | (M)                     | (M)                     | ✓                         | G4 – EN31       |           |           |           |             |                                 | ✓ |
|                      | 48. Supplier Environment Assessment                  | (L)                     | (L)                     | *                         | –               |           |           |           |             |                                 |   |
|                      | 49. Environmental Grievance Mechanism                | (M)                     | (M)                     | ✓                         | G4 – EN34       |           |           |           |             |                                 | ✓ |

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

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

## Materiality Matrix





# OUR VALUE CREATION STORY

## 095-154

The 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. External capital supplements financial capital and indeed drives the generation of financial capital. They are thus integral to each other. External capital resonates from within our stakeholders, unlike financial capital which has to be derived. It is the driving force for the generation of internal capital.

**096**

THE CONTEXT

**098**

FINANCIAL  
VALUE CREATION

**116**

INFORMED INVESTORS

**121**

SATISFIED CUSTOMERS

**130**

MOTIVATED EMPLOYEES

**140**

TRUSTED PARTNERS

**144**

RESPONSIBLE CORPORATE CITIZENSHIP

# Outlook for Sri Lanka in 2017 is somewhat promising. Monetary policy reforms, growth in tourism, SME industries, agriculture are expected to uplift the economy.

## The Global Economy

The global economy suffered another lackluster year in 2016 with global economic growth remaining soft for several reasons which were region-specific as well, like structural adjustments and recurring natural disasters, amongst others. The key dampening factors to global growth were the geopolitical events of Brexit, the ongoing civil war in Syria, the change in the United States, as well as interest rate hikes by the US Federal Reserve, the forthcoming elections in France and Germany and the projected slowdown in the Chinese economy.

Global GDP growth was at 3.1% with only a modest improvement expected in 2017. The key challenges to global growth in 2017 were forecasted to be rising interest rates and inflation and upward pressure for the US\$ from the new administration's tax reforms, fiscal easing, investments in infrastructure etc.

Key growth drivers in Asia are expected to be high productivity especially in China and other emerging economies. The key challenges for Asian economies would be geopolitical issues, territorial disputes,

political transitions, US interest rate hikes and protectionist policies. Clarity on the possible impact of the new US policies is still awaited by the US policymakers. The Indian economy was expected to slow down due to the currency reforms.

Global inflation edged upwards in November recording the highest inflation rate in more than two years, primarily due to increase in commodities prices.

The dollar and the euro remain broadly unchanged in real effective terms. However, the two main currencies which recorded the largest movements across currencies were the depreciation of the pound following Brexit and the appreciation of the Japanese yen. Currencies of commodity exporters have generally appreciated with the recovery in commodity prices.

## Future Outlook

According to the Global Economic Outlook, the World economy's slow growth momentum will continue due to uncertainty in policies, volatile markets and geopolitical tensions. Accelerating inflation and a soaring US Dollar as the Federal Reserve raises interest rates,

are also risks to the economic balance. The projected increase in global growth in 2017 is driven primarily by emerging market and developing economies, indicating the gradual normalisation of macroeconomic conditions in several countries.

## The Sri Lankan Economy

Gross Domestic Product (GDP) resulted in a positive growth rate of 4.1% in the third quarter 2016. The industrial sector recorded an increase while there was a negative growth in the agricultural sector.

Overall, inflation has been contained within mid-single digit levels and core inflation continued its upward trend in 2016, reflecting the firming up of demand conditions in the economy and the revisions made to the tax structure in the latter part of the year.

The Central Bank's policy rates – Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) – stood at 7% and 8.50% respectively by the end of November 2016. Market interest rates were on an upward trend compared to last year mainly due to monetary tightening measures.

Credit to the private sector increased during the first ten months in 2016, compared to the same period of 2015. Earnings from tourism sector recorded a significant growth compared to the same period last year. The tourist arrivals to the country in 2016 crossed two million milestone. Workers' remittances increased marginally for the first eleven months of the year.

### Future Outlook

Country to focus on the:

- A flexible inflation targeting (FIT) framework which will strengthen monetary policy.
- An enhanced monetary policy framework which focuses on stabilising inflation in mid-single digits over the medium-term.
- Growth in certain sectors such as Tourism, SME industries, Agriculture etc.

- More focus on mid-term and long-term Strategies and structural developments.
- Exports are expected to strengthen with the improvement of bilateral trade relations.
- Regaining of GSP+ would strengthen the earnings from exports.
- Sri Lankan plans to create a knowledge based social market economy and an export oriented economy.
- Several technology based developments specialising in various sectors to be envisaged island-wide.

## The Banking Industry

The banking sector plays a pivotal role in the development of the country's economy through financial intermediation. Through a network of 25 licensed commercial banks (13 local banks and 12 foreign banks) and 7 licensed specialised banks, it channels public deposits to investments and consumption. The banking sector continued to enhance efficiency of financial intermediation by expanding its outreach via conventional as well as alternative distribution channels, development of new products and services, streamlining internal processes and improving service standards.

Profit before Tax of the banking industry increased in 2016 compared to last year.

Profitability ratios such as Return on Assets (ROA) and Return on Equity (ROE) have improved marginally during the first ten months of 2016. However, the Net interest margin deteriorated this year.

Total assets of the banking sector grew moderately as at end November 2016. Loans and advances continued to be the predominant asset class of banking sector assets.

Total deposits grew YOY as at end November 2016 with interest bearing term deposits accounting for the largest increase due to higher interest rates offered and competitive pricing by banks. This impacted the industry's non-interest bearing and low cost CASA deposits ratio which declined moderately this year.

Proactive measures taken by the industry progressively over the last three years to recover NPA, to improve credit risk management and enhance the quality of loan assets. As a result Gross Non-Performing Advances Ratio has improved as at November end 2016.

Regulatory Capital remained at a healthy level although overall, capital funds of the banking sector lagged behind the increase in risk weighted assets in 2016, with the Core Capital Adequacy Ratio (CAR) and Total Capital Adequacy Ratio still being comfortably above the mandatory levels of 5% and 10%.

### Future Outlook

In its road map published recently, the Central Bank has identified the key elements which will have an impact for the banking industry in the future. These are premised almost entirely on strengthening the regulatory framework in line with international best regulatory practice as espoused by the Basel Committee and, more profoundly, to ensure a robust and resilient banking industry.

The proposed enhancement of minimum regulatory capital requirement is expected to strengthen the financial soundness in the sector.

Banking sector will continue to expand on traditional access points whilst placing more emphasis on digital based e-Initiatives.

4.1



**Sri Lanka's Gross Domestic Product (GDP) grew at a rate of 4.1% in the third quarter 2016. The industrial sector recorded an increase.**

Total assets increased by 20% to Rs. 356 Bn. which was higher than last year's growth rate of 18.9% and indeed one of the highest asset growth rates ever achieved.

## Financial Review

### Highlights:

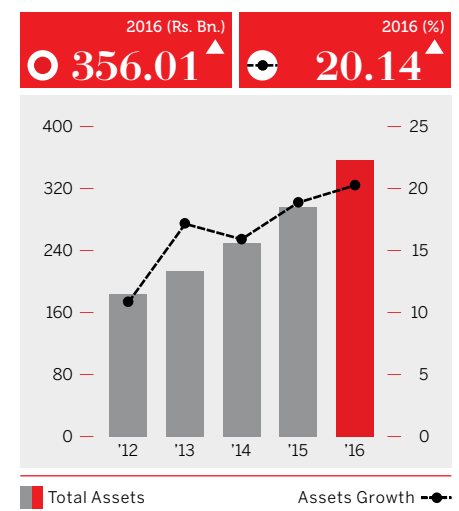
- Maintained the growth momentum in profits to surpass last year's highest ever with a profit after tax of Rs. 4.01 Bn. during the year, the new highest ever in the Bank's 29 years history
- Total Assets base reached Rs. 356 Bn., a growth of 20.14% over 2015
- Successfully mobilised Rs. 48.9 Bn. of deposits, a growth of 21.79%
- Net advances grew by Rs. 42.9 Bn., a growth of 22.22%
- Achieved regulatory Capital Adequacy Ratio of 13.18% which is above the statutory minimum of 10%
- Strong liquidity ratio of 22.68% (DBU) as at 31st December 2016
- Profit per employee increased to Rs. 1.27 Mn. in 2016.

## Statement of Financial Position as at end December 2016

### Growth

Total assets increased by 20.14% to Rs. 356 Bn. which was higher than last year's growth rate of 18.86% and indeed one of the highest asset growth rates ever achieved. This enabled the Bank to further consolidate its position as one of the systemically important domestic commercial banks in the country's financial system.

### Total Assets & Assets Growth



This growth was financed primarily by a commensurate growth in deposits of 21.79% as against 20.76% in 2015. The distribution of assets was largely in credit which grew by 22.22%.

## Advances

A significant growth momentum in credit was experienced during the year, resulting in growth of 22.22%. Term loans grew by 37.18% while overdrafts and housing loans also grew by 17.70% and 13.17% respectively.

Consolidation of the pawning portfolio continued into 2016 with a 7.02% growth. Foreign currency financing grew by 10.98%, the major component of which was in United States Dollar (US\$), recording a growth of 13.18%.

## Deposits

Deposit growth of 21.79% in 2016 surpassed our 2015 growth rate of 20.76%. The deposit campaigns conducted across the island were very fruitful which helped to increase the total deposit base to Rs. 273.46 Bn. in a very competitive market. The Bank's multiple range of deposit products with diverse value added features, targeting a wide spectrum of customer segments from infants to senior citizens, contributed to this growth.

In our deposit drive in 2016, our low cost CASA deposits accounted for 15.24% (Rs. 7.459 Bn.) of the deposits mobilised during the year. The CASA to total deposits ratio stood at 32.52% in 2016 despite the shift witnessed from low cost deposits towards the higher yielding fixed deposits during the year due to the widening of the difference between interest rates on savings deposits and term deposits.

## Impaired Loan and Provision for Impairment

Impaired loans increased from Rs. 11.2 Bn. to Rs. 12.5 Bn. and the impairment provision from Rs. 5,738 Mn. in 2015 to Rs. 6,053 Mn. in 2016. The increase in the impairment losses charged to the P&L. The individual impairment allowance increased from Rs. 2,020 Mn. in 2015 to Rs. 2,421 Mn. with a net impairment charge for 2016 of Rs. 931.59 Mn. recording an increase

of 10.73% over 2015. Collective impairment provision declined from Rs. 3,718 Mn. to Rs. 3,632 Mn. during the year under review, reflecting a reduction of 2.32%.

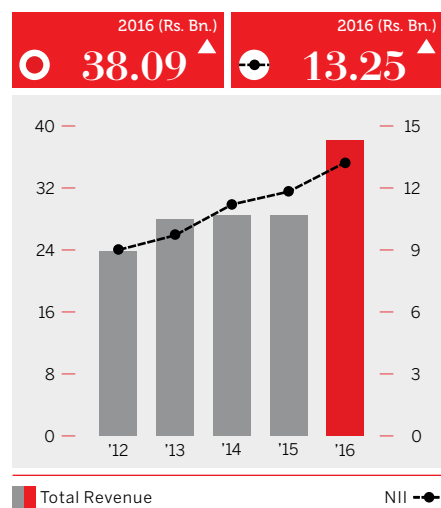
## Income Statement/ Statement of Profit or Loss and Comprehensive Income

### Income

During the year, total income increased by 33.25% to Rs. 38.09 Bn. from Rs. 28.58 Bn. in 2015. However, the increase in interest expense by 63.96% and the declining trend in the net interest margin since 2014, from 4.42% in 2015 to 4.19% in 2016, due to pressure on interest margins impacted net interest income which grew only by 12.03%. Other operating income increased by 293.92% during the year. It was also noted that the non-interest income growth supported the growth in the overall income. An increase of 293.92% in other operating income reported during the year. The growth momentum in Fee and Commission income was maintained, which grew by 14.66%, albeit lower than the growth rate of 19.75% recorded in 2015.

### Net Interest Income (NII)

#### Total Revenue and Net Interest Income



The high interest rates on deposits and other borrowings in 2016 saw an increase in interest expense by as much as 63.96% against only 0.68% increase in 2015. The contribution of NII to total operating income in 2016 was, higher at 74.58% as against 73.24% in 2015.

## Fee and Commission Income

The growth momentum in fee and commission income was maintained in 2016, at Rs. 3,223 Mn. In 2016, it reflected an increase of 14.66% over the previous year. This was mainly due to enhanced core banking operations and represented 18.15% of total operating income, compared to 17.41% recorded in 2015.

## Net Trading Income, Net Gain on Financial Investments and Other Operating Income

Net Trading Income, Net Gain on Investments and Other Operating Income accounted for 7.95% of total operating income in 2016 against 10.06% in 2015, due to capital losses incurred in 2016.

During the year 2016 net capital losses recorded in the Income Statement was Rs. 169 Mn. as against the net capital gains of Rs. 317 Mn. recorded in 2015 on Government Securities portfolio.

Other operating income in 2016 recorded a significant increase of 293.92% over 2015 mainly due to recovery of loans written off earlier and lower foreign exchange revaluation losses compared to 2015.

## Total Operating Income

Total operating income was Rs. 17,762 Mn. in 2016 as compared to Rs. 16,146 Mn., a growth of 10% over the last year. NII, net fee and commission and other operating income contributed for the said increase in total operating income.

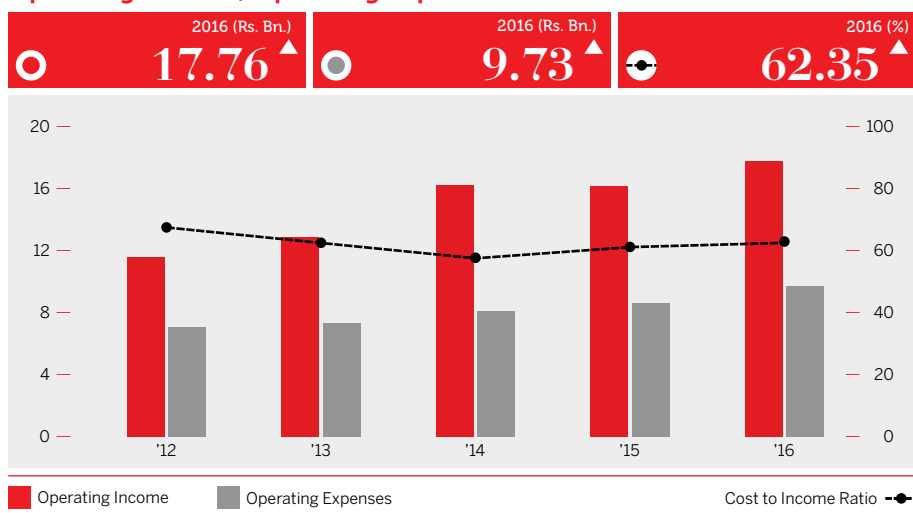
Once the capital losses on Government Securities are excluded, total operating income reflects Rs. 17,931 Mn. as against Rs. 15,829 Mn. reported in 2015 with a growth of 13.28% over the year.

**22.2**



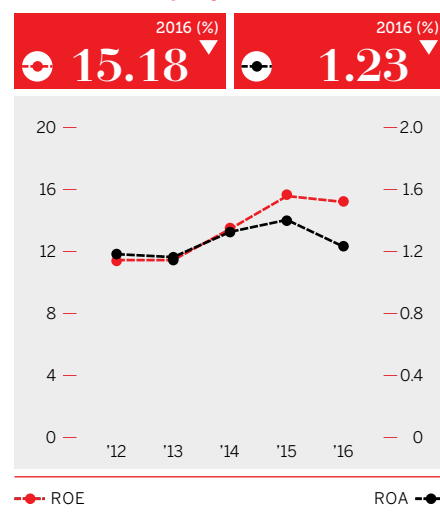
**A significant growth of 22.2% in Advances was experienced during the year.**

## Operating Income, Operating Expenses and Cost to Income Ratio



Cost to income ratio calculated after considering VAT on financial services.

## Return on Equity and Assets



Accordingly, Return on Assets (ROA) stood at 1.23% while Return on Equity (ROE) reported at 15.18%.

## Capital

The Bank continued to be well capitalised, with a core capital adequacy ratio and a total capital adequacy ratio of 10.74% and 13.18% respectively in 2016. Internally-generated capital in the form of retained earnings increased by 26.29% in 2016, while there was a decline in other reserves by 18.46% mainly due to the mark to market loss on the available-for-sale portfolio.

## Shareholders' Funds

Shareholders' funds increased by Rs. 2,716.6 Mn. or by 10.84% in 2016. Accordingly, the net assets value per share of the Bank improved from Rs. 72.63 in 2015 to Rs. 80.51 in 2016, while the net assets value per share of the Group improved from Rs. 76.21 in 2015 to Rs. 84.13 in 2016.

**4.69%**

A 4.69% growth of profit after tax was recorded in 2016.

## Operating Expenses

Operating expenses increased from Rs. 8,624.57 Mn. in 2015 to Rs. 9,725.15 Mn. in 2016 by 12.76%. Premises equipment and establishment expenses increased by 20.47% against 6.36% in 2015, as a result of branch upgrading, refurbishments, relocations etc. Other overhead expenses increased by 11.93% over the last year and stood at Rs. 2,910.67 Mn. in 2016. Further personnel expenses increased by 9.92% from Rs. 4,194 Mn. to Rs. 4,610 Mn. with the increase in staff benefits in 2016.

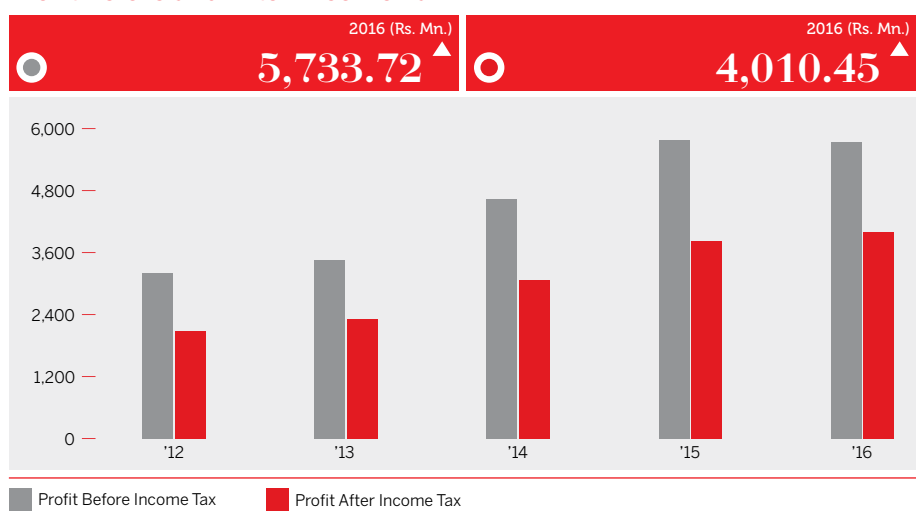
## Taxation

The effective tax rate reduced to 30% in 2016 against 34% in 2015. Total income tax provision declined by 11.44% for the year to Rs. 1,723 Mn. from Rs. 1,946 Mn. in 2015. The Bank recorded a net deferred tax liability of Rs. 11.87 Mn. in 2016 against Rs. 336.10 Mn. at the end of 2015. The tax effects of temporary differences that led to a significant reduction in deferred tax liability are presented in Note 33 to the Financial Statements.

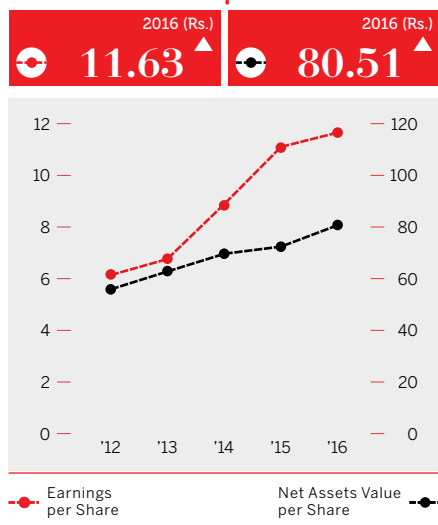
## Profitability

The net profit after tax recorded a growth of 4.69% and stood at Rs. 4,010.45 Mn. while the Group net profit after tax recorded a year on year growth of 3.83% to Rs. 4,034.89 Mn. for the year ended 31st December 2016.

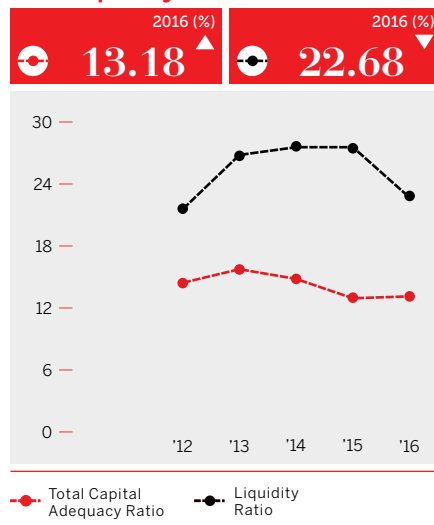
## Profit Before and After Income Tax



## Earnings per Share and Net Assets Value per Share



## Total Capital Adequacy and Liquidity Ratio



## Assessment of Economic Capital

Whilst ensuring compliance with the mandatory regulatory capital adequacy ratios, all banks are encouraged to make a continuous, internal assessment of their economic capital needs, relative to their perceived risk exposures and against their projected expansion. This entails a continuous assessment of our capital levels against all risk exposures, including those that are not captured under the regulatory capital standard, our expansion plans and the resilience of our capital levels to withstand internal or external shocks under stressed conditions.

## Liquidity – Adequate and in Excess of Mandatory Limits

Liquid assets of the Bank represented 29.32% of total assets and 24.83% of deposits and other liabilities, reflecting a healthy net credit to deposit ratio of 86.31% as at 31st December 2016. Liquid assets to short-term current and savings deposits stood at approximately 99%. Liquidity has been well-managed much above the statutory limit of 20% of total assets.

Liquidity in the Domestic Banking Unit stood at 22.68% and in the Foreign Currency Banking Unit at 26.24% against the statutory minimum of 20% for both units. While the liquid assets ratio measures the stock of liquid assets held by the Bank to cover its liabilities as they fall due, the flow of liquid assets too is closely monitored and managed by the Assets and Liabilities Committee (ALCO) of the Bank, which identifies funding risks through a maturity mismatch analysis of its domestic and foreign currency assets and liabilities and adopts appropriate strategies to fund these gaps at the least cost to the Bank. The liquidity ratios, as enumerated in the Risk Management Report, are closely monitored by the ALCO to ensure the effective management of the Bank's liquidity position.

The Bank proposes a final dividend of Rs. 3.25 per share (inclusive of a scrip dividend of Rs. 2.25 per share) compared to the cash dividend of Rs 2.75 per share in 2015.

## Our Financial Soundness Indicators (FSIs)

The key FSIs which illustrate the financial soundness of a banking institution and which are benchmarked against international best regulatory practice espoused by the Basel Committee are, in the order of importance:

- Capital Strength/Adequacy
- Asset Quality which denotes the productivity of the Bank's earning assets
- Liquidity – which denotes the Bank's ability to meet its day-to-day obligations
- Profitability and earnings

## Capital Adequacy – Strong

The bedrock of any financial institution, particularly of a deposit taking bank, is the adequacy and strength of its capital. This is more because banks are highly leveraged institutions which function largely on borrowed funds with minimum levels of capital. In this regard, we are proud to be one of the strongly capitalised banks by local and international regulatory standards, despite the increasing trend in risk-weighted assets commensurate with the growth in credit.

## Organic Growth of Capital

At 13.18% our total regulatory capital ratio is well in excess of the mandatory minimum of 10%. More importantly the quality of capital is strong and comprises primarily of Tier I common equity or core capital as against the mandated minimum of 5%. It is also far in excess of the Basel III CET 1 ratio of 7%. The organic growth of capital represented in our Core Capital Ratio is the result of the Bank's prudent profit retention policy.

## Statutory Reserve Fund

Statutory Reserve Fund, which is a prudential regulatory capital reserve, is established by a mandatory transfer of 5% of profit after tax each year to cover potential losses in the business. The Reserve Fund stood at Rs. 1.38 Bn. as at end 2016.

## Capital Growth

The growth trend in capital since the Bank was first recapitalised in 2009, at an annual average growth rate of over 36% is significant and has helped the Bank to be compliant with the mandatory capital ratios and to be comfortably above the regulatory minimum since then. This has given the Bank the operational flexibility to grow its asset book productively. We are also happy to note that our capital funds which aggregates Rs. 27.77 Bn., is already in excess of the proposed increase in minimum capital funds for domestic banks.

# The profit after tax for the Bank recorded a growth of 4.69% and stood at Rs. 4,010 Mn. while the Group net profit after tax recorded a year on year growth of 3.83% to Rs. 4,035 Mn.

## Profitability Sustainable – Highest Achieved in Bank’s History

The profit after tax for the Bank recorded a growth of 4.69% and stood at Rs. 4,010.45 Mn. while the Group profit after tax recorded a year on year growth 3.83% to Rs. 4,034.89 Mn. for the year ended 31st December 2016.

The Bank’s pre-tax profits recorded a marginal decline of 0.74% to reach Rs. 5,733.72 Mn. compared to Rs. 5,776.71 Mn. in 2015, while Group pre-tax profits also declined by 0.88% to Rs. 5,771.24 Mn.

Return on Assets (ROA) stood at 1.23% and Return on Equity (ROE) at 15.18%.

## Cost to Income/Efficiency Ratio

The cost to income ratio increased to 62.35% in 2016 compared to 61.20% in 2015, due to an increase in staff salary costs and additional investment on branch relocations and refurbishments (cost to income ratio excluding VAT and NBT in 2016 stood at 54.75%, in comparison with 53.41% in 2015).

## Key Performance Indicators (KPIs)

### Growth Trend in Assets, Deposits and Advances – Market Share of 4% Maintained

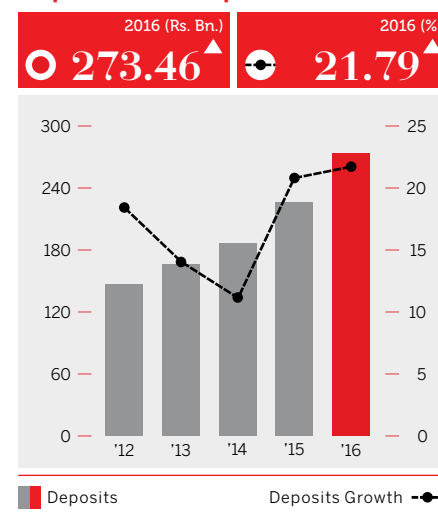
Interest rate and market risks inherent in our assets and liabilities were managed within prudent limits, while ensuring that adequate liquidity and funding sources were available to sustain the growth of the Bank. The Assets and Liabilities Committee strictly monitored the mismatches in the Balance Sheet and improved its structure and tenure with appropriate deposit mobilising and in measures and strategies in credit marketing.

## Assets – Positive Growth Trend Continued

The positive growth trend in total assets continued apace at 20.14% in 2016, which was higher than the 18.86% growth in 2015. The growth thrust in 2016 was primarily in loans and advances.

## Deposits – Growth Momentum

### Deposits and Deposits Growth



Deposits stood at Rs. 273.46 Bn. as at 31st December 2016, compared to Rs. 224.53 Bn. at the end of 2015, which was a considerable improvement and a growth of 21.79%. Deposits funded 76.81% of total assets in 2016. The growth in low cost deposits was 9.16% and stood at Rs. 88,927 Mn. as at 31st December 2016. Low cost CASA

|                                      | 2016<br>Rs. Mn. | 2015<br>Rs. Mn. | Growth<br>% |
|--------------------------------------|-----------------|-----------------|-------------|
| Deposits                             | <b>273,456</b>  | 224,525         | 21.79       |
| Net Loans and Advances               | <b>236,020</b>  | 193,104         | 22.22       |
| Net Interest Income (NII)            | <b>13,247</b>   | 11,825          | 12.03       |
| Net Fee, Commission and Other Income | <b>4,515</b>    | 4,321           | 4.49        |
| Profit after Income Tax              | <b>4,010</b>    | 3,831           | 4.69        |

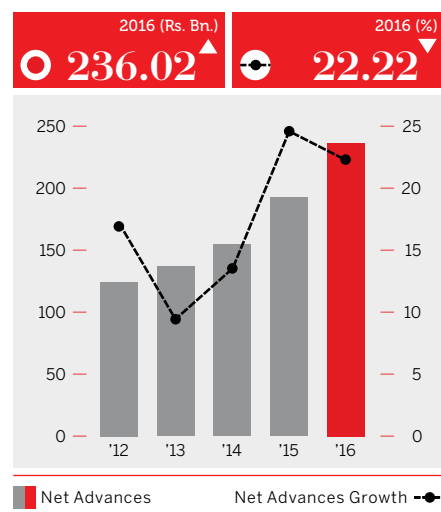


deposits accounted for 15.24% of the net deposit growth for 2016 and accounted for 32.5% of total deposits. Total interest-bearing deposits increased to Rs. 251.81 Bn. in 2016 from Rs. 206.78 Bn. a year ago. Total non-interest bearing deposits increased to Rs. 21.65 Bn. in 2016 from Rs. 17.75 Bn. a year ago.

## Loans and Advances – Growth Momentum

Supported by the growth in deposits, net loans and advances outpaced deposit growth to record a growth of approximately 22.22% to Rs. 236.020 Bn. as at 31st December 2016, which was marginally lower than the growth of 24.61% in 2015. The lower growth momentum in 2016 reflected the business climate in a very competitive market for loans and deposits which prevailed and was reflected largely in term loans (37.18%). Pawning advances grew marginally. Credit growth was largely driven by the SME and corporate sector. We will continue to focus both on increasing our market share in the corporate sector, as well as increased business volumes through the branch network.

## Net Advances and Net Advances Growth



## Future Outlook

### Increase Shareholder Value

Improving returns to its stakeholders is a crucial determinant of our continuing strategic and operational focus.

ROA and ROE are considered to be better benchmarks of performance to be able to enhance the wealth of the Bank and consequently, the returns to stakeholders.

All businesses are concerned with the prudent allocation of capital, competitive pricing, operational efficiency and service quality amongst others. Within these considerations, ROA indicates the efficiency with which we allocate our assets to maximise productivity and returns. The ROE signifies how efficiently shareholder capital is deployed in the business to maximise the return thereon.

Our actual and estimated values are indicated in the table below:

| Year                             | 2016 Actual | 2015 Actual | 2017 Target |
|----------------------------------|-------------|-------------|-------------|
| ROE (%)                          | 15.18       | 15.62       | > 15.5      |
| ROA (%)                          | 1.23        | 1.40        | > 1.45      |
| EPS (Rs.)                        | 11.63       | 11.11       | > 12.00     |
| Net Assets Value per Share (Rs.) | 80.51       | 72.63       | > 90.00     |

## Growth of the Business Volumes

The business volumes are to be increased to meet proposed strategic plan growth targets.

Our actual and estimated growth in deposits and advances are indicated in the table below:

| Year           | 2016 Actual Rs. Bn. | 2015 Actual Rs. Bn. | 2017 Target Rs. Bn. |
|----------------|---------------------|---------------------|---------------------|
| Total Deposits | 273                 | 225                 | >325                |
| Total Advances | 242                 | 199                 | >290                |

## Improvement of Processes

Further, the Bank is continuously working on several strategic initiatives to enhance the operational efficiency, service quality and optimising returns to stakeholders as proposed in the strategic plan 2017 – 2020.

| Project                                    | Responsibility              |
|--|-----------------------------|
| Digitalisation and Automation of Processes | Head of Branches/Operations |
| Cost Optimisation                          | Chief Financial Officer     |
| Service Quality Improvements               | Head of Branches/Operations |

## Performance of Business Units

### Branch Banking

Branch banking has been the major source of the Bank's business and it covers a majority of our operations. Our branch footprint spreads all over the island with 166 Banking centres and 100 student savings centres, where we serve all segments of the community.

### Focus

Branch Banking is shifting focus towards multichannel banking solutions while expanding the traditional branch network and addressing the needs and providing solutions to both traditional and eBanking customers, while offering variety and convenience.

### Key Strengths

- Island-wide branch network, distribution of over 200 ATM machines and introduced 6 CDM machines.
- Extensive product range covering newborn to senior citizens and individual to large corporate.
- Superior customer service with friendly staff ('Service from the Heart').

### Future Outlook

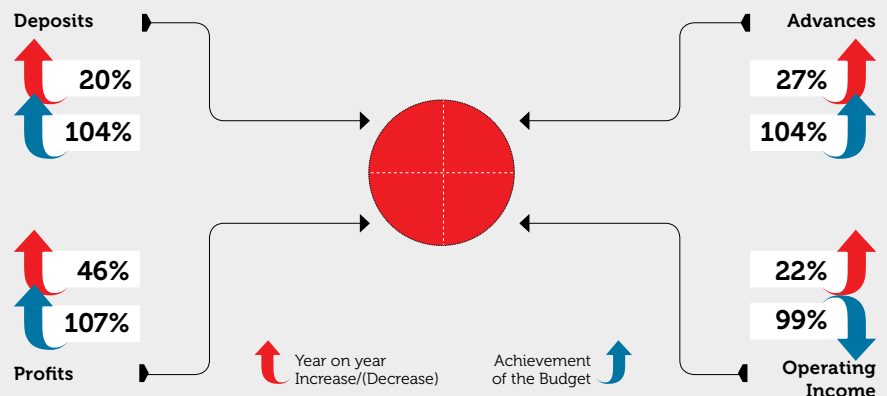
- Continue in expanding our branch network in selected locations and re-modernising branch network focusing on lean, automated and sales-oriented branch network as the way forward.
- The Bank will continue to add new features, options and a widespread of payment options giving customers a new experience in Internet Banking and the security of two factor authentication for certain types of transactions.
- Increase investment in technology based self-service channels available for customers 24/7.
- The Bank will also take into consideration the level of sophistication required in digitalisation efforts to facilitate the transactional banking.



### Strategies and Achievements

| Strategy   | Achievement   |
|--|---|
| Mobilise business volumes through expansion          | Opened 8 new branches and added 20 ATMs to the network.   |
| Enhance customer convenience                         | Seven branches were converted to 365 day banking centres (Millennium, Galle, Kiribathgoda, Matara, Panadura, Wellawatta and Wennappuwa).                      |
| Introduce and enhance multichannel banking solutions | Installed Cash Deposit Machines (CDM), and Intelligent Cheque Deposit Systems.<br>The new version of retail internet banking portal was launched in mid 2016. |

### Performance Achieved in 2016



## Corporate and Off-shore Banking

Corporate Banking division is made up with Domestic Banking Unit (DBU) and Foreign Currency Banking Unit (FCBU).

### Focus

Strengthening and expanding relationship with the Bank's corporate customers through customised service with tailor-made products backed by skillful relationship management while growing corporate banking portfolio of the Bank.

### Key Strengths

- Provide customised banking solutions while offering a wide range of product and service portfolio.
- Experienced and skillful team.



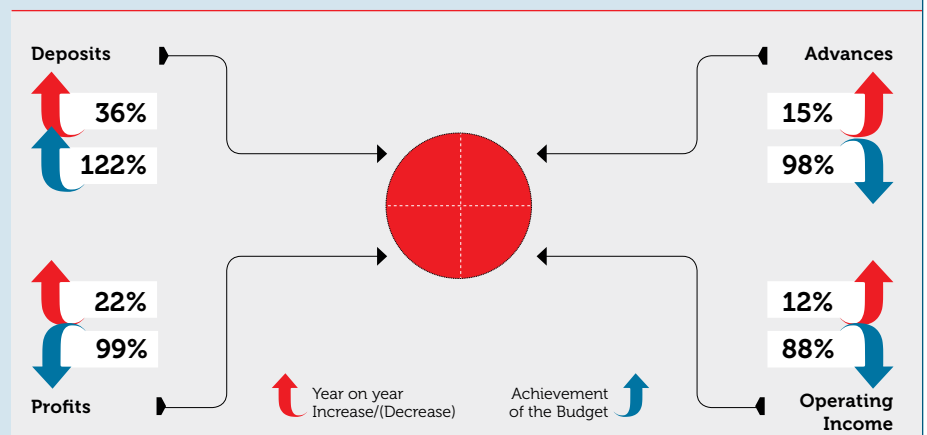
## Strategies and Achievements

| Strategy                     | Achievement  |
|------------------------------|--|
| Customer centric offerings   | <ul style="list-style-type: none"> <li>Customised the services and product solutions to suit the needs of the customers business.</li> <li>Strengthened the existing corporate relationships, and penetrate the market to acquire profitable corporate relationships.</li> </ul> |
| Finding new business avenues | <ul style="list-style-type: none"> <li>Established new relationships and expand the clientele.</li> <li>Focused on growing trade customers.</li> <li>Strengthened the risk management initiatives.</li> </ul>  |

## Future Outlook

- Continue to maintain a healthy level of credit quality while achieving loan book growth focusing on sectors such as Construction, Logistics, Tourism, Telecommunication, Healthcare, Pharmaceuticals and BOI approved ventures.
- Establish relationship with large corporate with special emphasis on export-oriented companies, off-shore and participate in syndicate loans.
- Further strengthen risk awareness and risk based decision-making.
- Strengthen the trade finance business and infrastructure projects lending and capitalise on such business opportunities.

## Performance Achieved in 2016



## Retail Banking

The Bank's retail banking business represents credit cards, pawning, leasing, housing loans, margin trading, personal loans and factoring which serves its customers through branch network.

The Bank was successful in achieving its objectives of increasing portfolios in stiff market conditions. Further, Bank introduced several innovative solutions as well as conducted aggressive marketing campaigns and offered exclusive benefits for our customers throughout the year.

### Focus

Focus on eChannels for delivery, introduce aggressive sales culture and differentiate through friendly customer service in contributing to increased volumes and bottom line.

### Key Strengths

- Superior and friendly customer service.
- Widespread product portfolio.
- Equipped with island-wide branch network with modern electronic banking space.

### Future Outlook

- Aggressive drive for credit card base growth through customer acquisition and retention.
- Providing personalised customer offers according to their lifestyle needs.
- Further strengthen the direct sales team and make them a part of Bank's central sales team.

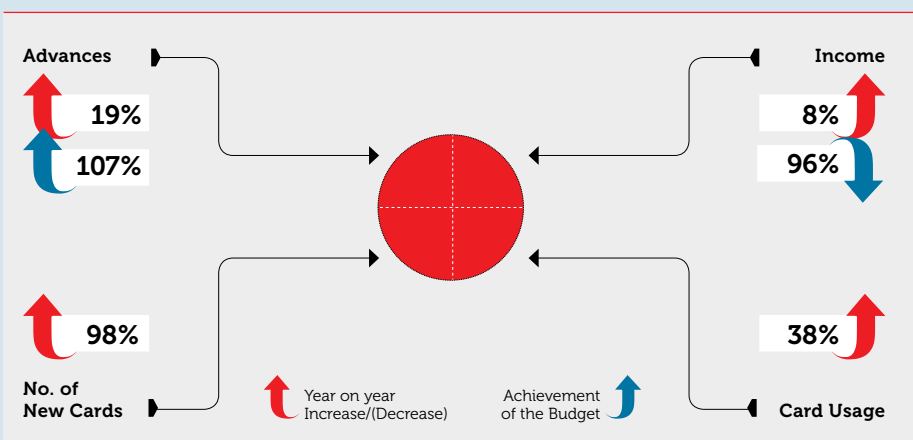
## Credit Cards



### Strategies and Achievements

| Strategy                      | Achievement   |
|-------------------------------|---|
| Introduce sales culture       | Recruited and developed a strong direct sales team. Carried out sales promotional activities in selected cities, private and government sector offices and leading super markets. |
| Enhance the volumes and value | Exclusive credit/debit card offers. Launched Mpay card acceptance facility to SME customer segment.   |

### Performance Achieved in 2016



## Pawning

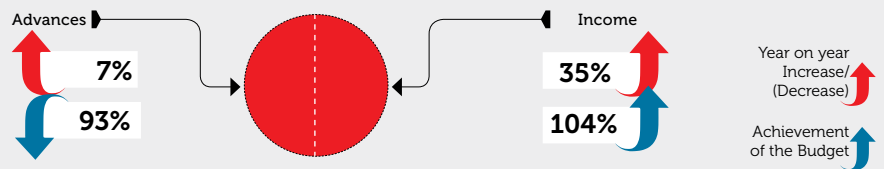
### Strategies and Achievements

| Strategy  | Achievement  |
|---|--|
| Growth in pawning base                          | Granted selective lending with more personalised service.<br>Conducted branch level outdoor promotional campaigns with the participation of a renowned Radio channel.<br>Introduced Gold loan facility to customers. |
| Enhance service excellence and close monitoring | Closely monitored market conditions and guided branches with regulatory changes.   |

### Future Outlook

- Continue to grow the pawning base with envisaged expansion.

### Performance Achieved in 2016



## Leasing

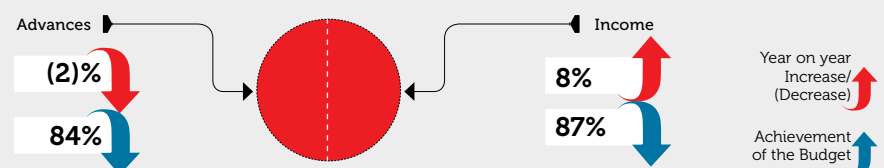
### Strategies and Achievements

| Strategy   | Achievement  |
|--|--|
| Sustain the growth despite the restricted business environment | Moved to potential business avenues.   |
| Enhance brand visibility                                       | Sponsored the 'Colombo Motor Show 2016' which is considered as the premier motor show in the country, as well as sponsored 'Auto Vision 2016'.<br>Conducted branch level promotional campaigns named 'Seylan Riyapola' with vehicle dealers in the area. |

### Future Outlook

- Maintain the growth momentum and remain competitive in the market.

### Performance Achieved in 2016



## Housing

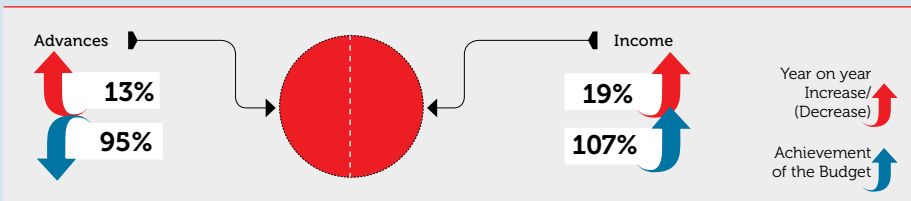
### Strategies and Achievements

| Strategy                 | Achievement   |
|--------------------------|---|
| Strategic tie-ups        | Pursued tie-ups with property developers, real estate agents, and leading contractors.  |
| Enhance brand visibility | Sponsored the 'Seylan <i>Kedella</i> ', 'Art of Living Exhibition' 2016 and 'Construct Exhibition 2016' considered as leading housing exhibitions in the country. |

### Future Outlook

- Pursue tie-ups with property developers, real estate agents, condominium property developers and leading contractors.
- Enhance brand visibility.

### Performance Achieved in 2016



## Margin Trading

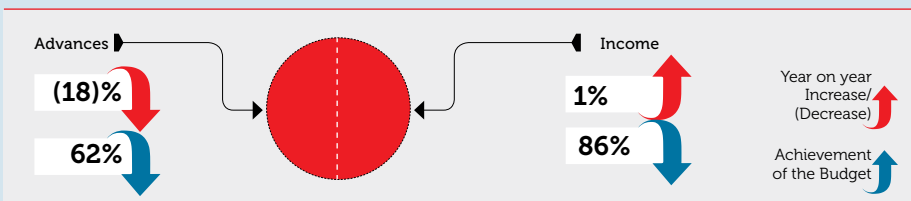
### Strategies and Achievements

| Strategy             | Achievement  |
|----------------------|--|
| Retain the portfolio | Managed to maintain the portfolio throughout the year despite the market conditions. |

### Future Outlook

- Market analysts predict an improvement in the stock market during the year 2017 and plan to capitalise on the upturn.

### Performance Achieved in 2016





## Personal Loans

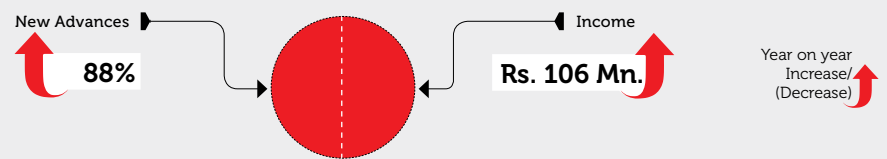
### Strategies and Achievements

| Strategy                 | Achievement   |
|--------------------------|---|
| Enhance brand visibility | Sponsored Educational fairs.<br>Tie-ups with listed companies.<br>Media campaign for awareness of products. |
| New product offerings    | Introduced new loan products targeting key segments.<br>(Government employees etc.)                         |

### Future Outlook

- Expand and further strengthen the sales and marketing strategies.

### Performance Achieved in 2016

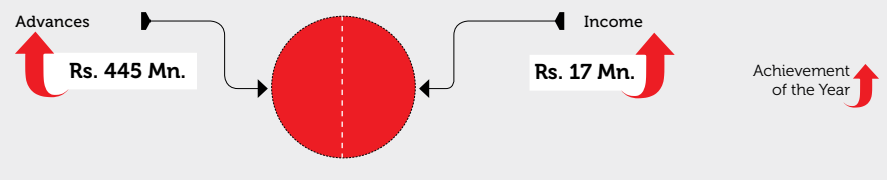


## Factoring

### Strategies and Achievements

| Strategy                     | Achievement  |
|------------------------------|--|
| Focus on product development | New unit Set-up under Consumer Finance Unit to conduct factoring business.<br>Main emphasis was given to streamline systems, policies and procedures pertaining to factoring.<br>Product introduction training conducted to create awareness among credit related staff. |

### Performance Achieved in 2016



### Future Outlook

- Continue to focus on business development by making availability the product at all our branches.

\* Factoring set up in 2016

## Treasury

Despite volatility in local and international market conditions, the Bank's treasury division had a successful year.

Our treasury division consists of Treasury Department, Primary Dealer Unit and Gold Investment Unit.

### Focus

Managing Assets and Liabilities, sourcing of funds towards capital adequacy, maintaining adequate liquidity positions, managing interest rate risk, currency risk for the Bank in compliance with regulatory requirements.

### Key Strengths

- Ability to offer a sophisticated range of treasury products.
- Experienced and dedicated staff to manage the critical functions.



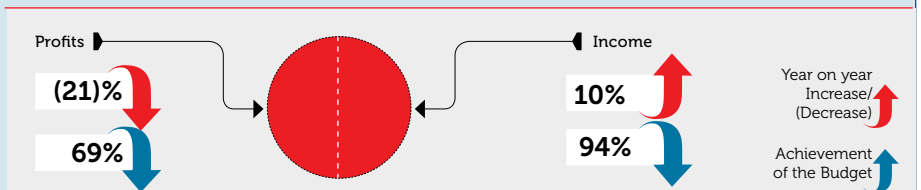
### Future Outlook

- The phase 2 of the integrated treasury management system incorporating commodities (gold), equity, corporate debt and market risk modules.
- The government securities and the corporate debt portfolios will be prudently managed to enhance profitability and mitigate risks.
- The treasury will liaise closely with trade finance, corporate banking divisions and branches to enhance the trade volumes to increase the exchange income.
- The treasury corporate sales desk will be strengthened and would be deployed to acquire new treasury and trade customers, treasury product sales, customer advisory services in relation to treasury and high value deposit mobilisation etc.

## Strategies and Achievements

| Strategy                         | Achievement   |
|----------------------------------|---|
| Proactively manage the portfolio | <ul style="list-style-type: none"> <li>Diversified the Treasury investment portfolio.</li> <li>Increased funding lines were sourced from international banks to finance the Bank's expanding trade and related activities.</li> <li>Increased forex trading lines.</li> </ul>   |
| Improve risk management          | <ul style="list-style-type: none"> <li>Implemented a robust treasury risk management framework and limit structure as per regulatory requirements.</li> </ul>   |
| Process improvements             | <ul style="list-style-type: none"> <li>The fully integrated new treasury management system was implemented during the year. The system facilitates straight through processing of Government securities, Forex and Money market products, online exchange position monitoring and online monitoring of treasury related regulatory and internal risk parameters.</li> </ul> |

## Performance Achieved in 2016





## International and Trade Finance

Bank's International Division was restructured to handle the operational aspects of the trade and remittances services while strengthening and delegating the branches to promote the business which created strong relationships with customers.

### Focus

Centralised processing of all Import and Export related transactions of the Bank whilst maintaining relationships with global correspondent banks.

### Key Strengths

- Successfully maintaining a global network of over 300 correspondent banking/financial relationships.
- Facilitating to enhance the trade knowledge of customers.
- Long standing relationship with correspondent banks, exchange houses and remittance services.



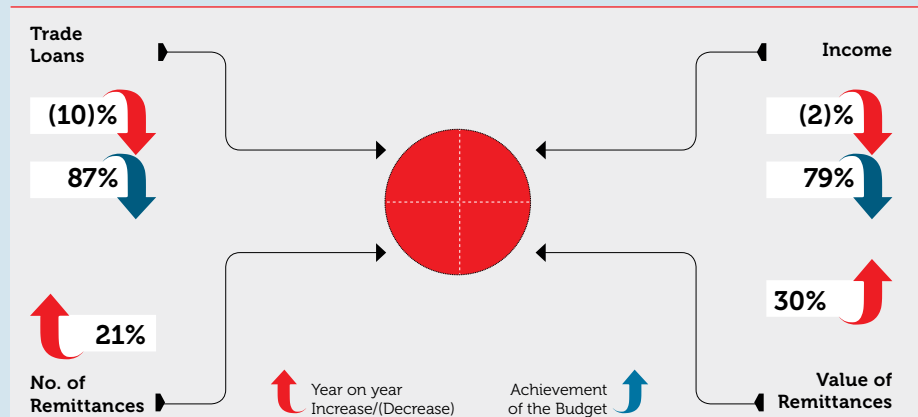
### Future Outlook

- Further diversifying the trade portfolio and canvass trade clients from diversified segments.
- Special Tariff of charges to be introduced exclusively for 'Entrepot Trade' in order to attract both Import & Export business.
- Strengthen the existing correspondent banking relationships with globally-reputed banks.
- Bank will look forward to continue the expansion of agent network to have greater convenience for remitters.
- The Bank will venture into a new trade services system in 2017. It will give the Bank an enormous flexibility in handling trade related services and also it will be the platform for the trade service module in corporate internet banking portal.

## Strategies and Achievements

| Strategy                      | Achievement   |
|-------------------------------|---|
| Focus on business development | Flexible trade tariff and competitive exchange rates, enabled us to create a sustainable competitive advantage. Introduced a special promotion for 'Permit Holders' with concessions.   |
| Focus on business development | Successful negotiations with Correspondent Banks for higher rebates on trade transactions. Visits made to most of the existing and potential trade clients to revive relationship which in turn helped to improve trade business. |

## Performance Achieved in 2016



## Project Finance

Project Finance Department was set up in 2016.

### Focus

Actively participate in the development of infrastructure and other economic activities, promote lending and other services.

### Key Strengths

- New offering to the customers.
- Ability to offer comprehensive financial packages.
- Current national demand for project finance.

## Strategies and Achievements

### Strategy

Focus on product development

### Achievement

Networking with project finance and corporate banking divisions of other banks for loan syndication.  
 Actions were taken to identify and cater to project finance requirements of customers.  
 Steps taken internally to promote project related lending.

## Future Outlook

- Be the first choice Banker for syndications by leading banks.
- Explore FCBU project lending and projects approved by BOI.
- Develop links with industry associations to gain opportunities.

## Support Functions

### Recoveries

#### Focus

Facilitate branches to minimise non-performing advances, monitoring of new additions, take prompt actions wherever necessary and initiate recovery actions.

## Future Outlook

- Centralise collection unit to be formed to monitor and follow up delinquencies.
- Strengthen the monitoring process and ensure high level of credit quality.

## Strategies and Achievements

### Strategy

Strengthen the recovery and monitoring process

### Achievement

Measures were initiated to timely identify potential NPA, monitor and initiate corrective actions.  
 Assessed risk-related controls, ensure high level of credit quality.  
 Further strengthened the monitoring process.  
 A separate unit was formed to concentrate on recovery of clients whose outstandings have been written off/down.  
 Special recovery clinics were conducted island-wide with the assistance of area offices.

## Marketing

This department plays a pivotal role in raising the Bank's corporate image, positioning product portfolio.

### Focus

Enhance overall Bank's corporate image, strengthen corporate position and promote the products and services offered by the Bank.

### Key Strengths

- Extensive and innovative product portfolio.
- Well positioned corporate brand and visibility.



### Future Outlook

- Enhance the brand equity.
- Enhance below the line performance: Increase visibility and support product campaigns through increased visibility at below the line level.
- Enhance distribution through alternate channel development.
- Smarter, proactive media strategy to gain higher share of voice with increase efficiency on media.

## Strategies and Achievements

| Strategy                             | Achievement  |
|--------------------------------------|--|
| Enhance the brand equity and value   | <p>Strengthened corporate brand equity through enhanced visibility and loyalty building.</p> <p>Enhanced consumer engagement with the brands, products and services.</p> <p>Re-focused on public relations strategy to gain higher stakeholder visibility.</p> |
| Innovative products offering         | <p>Launched 'Money Market' savings accounts, 'Gold Loans' and 'Factoring' as new products, targeting different customer segments.</p> <p>Revamped 'Seylan Sure' product to offer enhanced benefits for customers.</p>  |
| Enhance social and digital marketing | <p>Measures were taken to enhance Bank's social and digital media visibility in the digital space as the most socially engaged bank in Sri Lanka.</p>  |

## Information Technology

As a key facilitator for the Bank's operations, Information Technology plays a leading role in providing technological solutions to the entire Bank to provide a competitive edge in today's banking environment.

### Focus

Providing continuous support to ensure smooth integration of all business operations and improve overall operational efficiency of the Bank.



### Future Outlook

1. Upgrade the core banking system and card management system.
2. Further strengthen IT security and control aspects with:
  - a. Data Leakage Protection (DLP)
  - b. Maker/Checker enhancements
3. New modules or enhanced features:
  - a. Trade Finance  
Present trade finance module to be replaced with new module with additional features.
  - b. Digital signature capturing/ biometric, Mcash and eZ Cash.

### Strategies and Achievements

| Strategy   | Achievement   |
|--|---|
| Enhance IT based solutions to deliver superior benefits to internal and external customers | <p>Upgraded ATMs in line with Global standard (the first Bank to have a fully EMV compliant ATM network in Sri Lanka).<br/>Installed self-service Cash Deposits Machines (CDM).<br/>The new Internet Banking system was implemented for retail and mobile platforms.<br/>Mobile App was implemented allowing customers to do their banking through their smartphones and tablets.<br/>Introduced One Time Password (OTP) security feature to the account holders.</p> |
| System improvements and automation   | <p>Implemented common electronic fund transfer system.<br/>Successfully implemented several new solutions. (i.e. - One Time Password – OTP, eLearning and training).</p>  |

## Branch Credit

Facilitate credit approval process, guide branches on regulatory requirements, inculcate best credit practices and simplify credit process.



## Strategies and Achievements

| Strategy  | Achievement   |
|---|---|
| Growth of business volumes                            | Continued to grow the SME and commercial lending through the branch network and also to focused on selected sectors.  |
| Enhanced customer capabilities and build relationship | Conducted eight capacity building training programmes through resource personnel for low end SME clients in branches. |
| Strengthened risk management and operational process  | Further strengthened the risk management and monitoring processes.  |

### Future Outlook

- Focus on business opportunities arising through strategic development projects initiated by the Government such as Tourism, Construction etc.
- Increase commercial, high end SME portfolio for existing clients and potential new clients.

## Credit Administration Unit

Carry out all credit administration process of the Bank which ensures the clear distinction between credit marketing and origination functions are maintained, while assuaging quality credit documentation processes are in place.

## Strategies and Achievements

| Strategy                    | Achievement   |
|-----------------------------|---|
| Centralisation of processes | Centralised recovery of charges relating to loans as per approved terms.  |
| Knowledge sharing           | Conducted training for credit staff to inculcate proper credit discipline and ensure both internal and external controls are not compromised. |

### Future Outlook

- Centralising issuance of facility commitment letters to ensure that all terms and conditions of approval and also internal and external controls are not compromised.

## Group Performance

### Seylan Developments PLC

Seylan Developments PLC (SDP) is a public limited liability company incorporated in Sri Lanka on 3rd September 1992, quoted on the Colombo Stock Exchange on the same day and re-registered under the Companies Act No. 07 of 2007, on 22nd May 2008. Seylan Bank PLC is the Parent Company of Seylan Developments PLC holding 70.51% as at 31st December 2016, compared to 70.42% recorded in 2015.

SDP manages and maintains 'Seylan Towers' which comprises twin towers in which the East Tower is the Head Office of Seylan Bank PLC and West Tower comprises 16 numbers of luxury apartments.

The Company's Board of Directors is as follows:

Mr. Kapila P. Ariyaratne  
Chairman/Non-Executive Director

Mr. S. Palihawadana  
Deputy Chairman/Non-Executive Director

Mr. P. Saravanapavan  
Independent Non-Executive Director

Mr. R.J. Jayasekara  
Non-Executive Director

Mr. P. Hennayake  
Non-Executive Director

Mr. L.T. Kiringoda  
Independent Non-Executive Director



We are committed to deliver **maximum value** to our shareholders. Our core activities are structured and managed to create economic prosperity through value additions, through a consistent growth in our Key Performance Indicators.

### 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.

Our key strategic priorities in 2016 are:

- Consistent creation of wealth and sustainable growth.
- Ensuring a sustainable return.
- Transparent and responsible banking.

The relationship with our shareholders is the key factor of our success in past years and remunerative returns, safety of their investment and constant growth are main concerns of our shareholders. We are committed to deliver maximum value to our shareholders and our core activities are structured and managed to create economic prosperity through value additions.

## Shareholder Profile

### Distribution of Shareholding

|  | 2016               | 2015        | 2014        | 2013        | 2012        |
|--|--------------------|-------------|-------------|-------------|-------------|
| Stated Capital (Rs. Mn.)                                     | <b>10,530</b>      | 10,530      | 10,530      | 10,530      | 10,225      |
| No. of Shares – Voting & Non-Voting                          | <b>344,960,410</b> | 344,960,410 | 344,960,410 | 344,960,410 | 338,079,999 |
| No. of Shareholders – Voting & Non-Voting                    | <b>16,111</b>      | 16,477      | 16,866      | 18,755      | 20,094      |
| No. of Shares – Held by Resident Shareholders                | <b>324,985,086</b> | 323,148,443 | 321,488,665 | 334,180,259 | 328,452,922 |
| No. of Resident Shareholders                                 | <b>15,870</b>      | 16,232      | 16,629      | 18,501      | 19,871      |
| No. of Shares – Held by Non-Resident Shareholders            | <b>19,975,324</b>  | 21,811,967  | 23,471,745  | 10,780,151  | 9,627,077   |
| No. of Non-Resident Shareholders                             | <b>241</b>         | 245         | 237         | 254         | 223         |
| No. of Shares – Individuals                                  | <b>71,624,112</b>  | 64,244,024  | 62,033,868  | 74,293,653  | 87,575,620  |
| No. of Individual Shareholders                               | <b>15,469</b>      | 15,810      | 16,242      | 18,139      | 19,402      |
| No. of Shares – Held by Corporate Shareholders               | <b>273,336,298</b> | 280,716,386 | 282,926,542 | 270,666,757 | 250,504,379 |
| No. of Corporate Shareholders                                | <b>642</b>         | 667         | 624         | 616         | 692         |
| <b>No. of Shares Held by the Twenty Largest Shareholders</b> |                    |             |             |             |             |
| Voting   | <b>148,792,777</b> | 144,722,578 | 147,626,034 | 156,641,775 | 151,857,473 |
| Non-Voting   | <b>113,858,658</b> | 112,335,603 | 117,968,588 | 112,267,580 | 99,716,241  |

The majority of the Bank's shareholders are resident individuals, detailed information on their shareholdings is given in the investor information section of this Report.

### Return to Shareholders



# 11.63

Rs.

Seylan Bank Recorded an Earnings Per Share of Rs. 11.63. Through a consistent growth in our Key Performance Indicators. We have been able to meet our undertaking to the shareholders to maximise the value.

Through a consistent growth in our Key Performance Indicators during the last 5 years, we have been able to meet our undertaking to the shareholders to maximise their value. There has been considerable value creation for shareholders as illustrated in this section of the report.

### Value Creation for Shareholders

|                                  | 2016         | 2015  | Change % |
|----------------------------------|--------------|-------|----------|
| Net Assets Value per Share (Rs.) | <b>80.51</b> | 72.63 | 10.84    |
| Earnings per Share (Rs.)         | <b>11.63</b> | 11.11 | 4.66     |
| Dividend per Share (Rs.)         | <b>3.25</b>  | 2.75  | 18.18    |

## Growth in Turnover, Profitability and Asset Base Over the Last Five Years

|                          | 2016<br>Rs. Mn. | 2015<br>Rs. Mn. | 2014<br>Rs. Mn. | 2013<br>Rs. Mn. | 2012<br>Rs. Mn. |
|--------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Turnover                 | <b>38,092</b>   | 28,586          | 28,564          | 28,091          | 23,726          |
| Profit before Income Tax | <b>5,734</b>    | 5,777           | 4,649           | 3,454           | 3,199           |
| Profit after Income Tax  | <b>4,010</b>    | 3,831           | 3,079           | 2,316           | 2,064           |
| Total Assets             | <b>356,013</b>  | 296,330         | 249,311         | 215,161         | 183,662         |

## Financial Value Added

The Bank's distribution of value addition to various stakeholders was significant as reflected in the Value Added Statement given below. It illustrates that the Bank distributed 9.12% to the investors and retained 28.37% for future expansion, while 37.51% was distributed among employees. The Bank's contribution to the development of the country has been Rs. 3,073 Mn. representing 25% of profit before income tax, VAT and NBT on financial services.

## Financial Value Added Statement

|   | 2016<br>Rs. Mn. | %             | 2015<br>Rs. Mn. | %      |
|---|-----------------|---------------|-----------------|--------|
| <b>Value Added</b>                          |                 |               |                 |        |
| Income Earned by Providing Banking Services | <b>38,092</b>   |               | 28,586          |        |
| Cost of Services                            | <b>(24,848)</b> |               | (16,387)        |        |
| <b>Value Added by Banking Services</b>      | <b>13,244</b>   |               | 12,199          |        |
| Net Impairment Losses                       | <b>(954)</b>    |               | (489)           |        |
|   | <b>12,290</b>   |               | 11,710          |        |
| <b>Value Allocation to Employees</b>        |                 |               |                 |        |
| Salaries, Wages and Other Benefits          | <b>4,610</b>    |               | 4,194           |        |
|   | <b>4,610</b>    | <b>37.51</b>  | 4,194           | 35.82  |
| <b>To Government</b>                        |                 |               |                 |        |
| Income Tax                                  | <b>1,723</b>    |               | 1,946           |        |
| VAT & NBT on Financial Services             | <b>1,350</b>    |               | 1,256           |        |
|   | <b>3,073</b>    | <b>25.00</b>  | 3,202           | 27.34  |
| <b>To Shareholders</b>                      |                 |               |                 |        |
| Dividends                                   | <b>1,121</b>    |               | 949             |        |
|   | <b>1,121</b>    | <b>9.12</b>   | 949             | 8.10   |
| <b>To Expansion and Growth</b>              |                 |               |                 |        |
| Retained Profit                             | <b>2,889</b>    |               | 2,882           |        |
| Depreciation and Amortisation               | <b>597</b>      |               | 483             |        |
|   | <b>3,486</b>    | <b>28.37</b>  | 3,365           | 28.74  |
|   | <b>12,290</b>   | <b>100.00</b> | 11,710          | 100.00 |



## Economic Value Addition

Economic value addition is a measure of profitability based on the cost of total invested equity and provides an indication of true economic value created to the shareholders by the Bank as against accounting profits. We take all measures to generate sustainable value to shareholders and this year we created Rs. 942 Mn. Tabulated below is the EVA created during last two years.

|  | 2016<br>R. Mn. | 2015<br>Rs. Mn. |
|--|----------------|-----------------|
| Shareholders' Funds  | <b>27,772</b>  | 25,056          |
| Add: Impairment Provision for Loans and Advances                               | <b>6,053</b>   | 5,738           |
| Total Invested Equity  | <b>33,825</b>  | 30,794          |
| <b>Earnings</b>  |                |                 |
| Profits Attributable to Shareholders   | <b>4,010</b>   | 3,831           |
| Add: Provision for Credit Losses/Impairment on Advances                        | <b>974</b>     | 489             |
|  | <b>4,984</b>   | 4,320           |
| Economic Cost % (12 Months Average Treasury Bill Rate<br>Plus 2% Risk Premium) | <b>11.95%</b>  | 8.65%           |
| Cost of Shareholders' Funds  | <b>4,042</b>   | 2,664           |
| <b>Economic Value Addition (EVA)</b>   | <b>942</b>     | 1,656           |

## Share Price Fluctuation

| Quarter<br>2016 | Share Price (Rs.) |            |        |            |         |            |
|-----------------|-------------------|------------|--------|------------|---------|------------|
|                 | Highest           |            | Lowest |            | Closing |            |
|                 | Voting            | Non-Voting | Voting | Non-Voting | Voting  | Non-Voting |
| 1st Quarter     | 95.00             | 73.00      | 77.00  | 58.50      | 86.00   | 63.00      |
| 2nd Quarter     | 97.80             | 71.90      | 83.00  | 60.10      | 89.00   | 62.00      |
| 3rd Quarter     | 101.00            | 69.00      | 88.00  | 60.20      | 92.80   | 64.40      |
| 4th Quarter     | 98.00             | 65.00      | 83.50  | 57.80      | 90.00   | 59.00      |

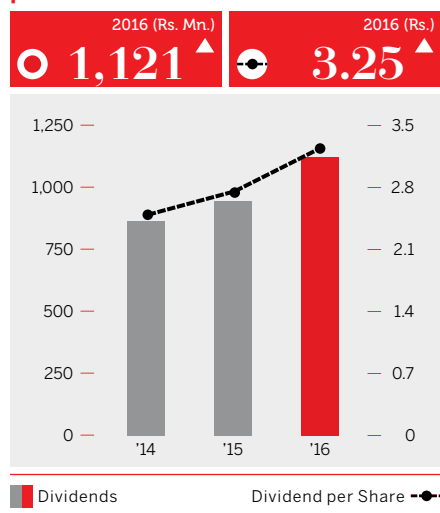
## Composition of Share Ownership

| No. of Shares       | Ordinary (Voting) Shares |                    |                              | Ordinary (Non-Voting) Shares |                    |                              |
|---------------------|--------------------------|--------------------|------------------------------|------------------------------|--------------------|------------------------------|
|                     | No. of Shareholders      | No. of Shares      | Percentage of Shareholding % | No. of Shareholders          | No. of Shares      | Percentage of Shareholding % |
| 1 - 1,000           | 6,934                    | 1,508,235          | 0.86                         | 3,510                        | 1,104,116          | 0.65                         |
| 1,001 - 10,000      | 2,007                    | 5,367,972          | 3.05                         | 2,574                        | 7,901,932          | 4.68                         |
| 10,001 - 100,000    | 238                      | 6,219,128          | 3.53                         | 653                          | 18,297,308         | 10.83                        |
| 100,001 - 1,000,000 | 46                       | 14,089,289         | 8.01                         | 114                          | 31,856,736         | 18.85                        |
| Over 1,000,000      | 20                       | 148,792,777        | 84.55                        | 15                           | 109,822,917        | 64.99                        |
| <b>Total</b>        | <b>9,245</b>             | <b>175,977,401</b> | <b>100.00</b>                | <b>6,866</b>                 | <b>168,983,009</b> | <b>100.00</b>                |

## Dividends

The objective of our dividend policy continues to be creating maximum value for shareholders, to boost market capitalisation, to support a prudent profit retention so as to build our organic capital whilst maintaining an attractive dividend policy for our shareholders and potential investors.

### Dividends and Dividend per Share



## Financial Reporting and Compliance

We ensure that all our stakeholders and the general public are informed regularly of the financial soundness of the Bank, primarily through the Annual Report and Interim Reports.

Financial Statements and related Notes thereto contained in this Report have been audited by our External Auditor, Messrs KPMG and other qualitative information and compliance with Global Reporting Initiatives (GRI) guidelines are assured by an Independent Auditor. The Report is also submitted to the Accounting & Auditing Standards Monitoring Board for their review of compliance with applicable Accounting Standards.

The Bank is committed to publish its Annual Report and Interim Reports in a timely manner and submit the required information to the Colombo Stock Exchange (CSE) on or before the stipulated dates. The Interim Financial Statements for 2016 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 for various aspects of its operations, including financial reporting, compliance, customer services and marketing initiatives.

| Award Category                                | Product/Promotion                     | Awarded by   | Award Type             |
|---|---------------------------------------|--|------------------------|
| 30 Best Performing Corporates                 | –                                     | Business Today Magazine  | 17th Position          |
| Annual Report – Banking Sector                | Seylan Bank Annual Report 2015        | CA Sri Lanka   | Compliance Certificate |
| Annual Report                                 | Financial Data – Banks Local          | ARC Awards International – 2016                                  | Bronze                 |
| Annual Report                                 | Interior Design – Banks Local         | ARC Awards International – 2016                                  | Honors                 |
| Innovative Launch Campaign of the Year        | Seylan Website Launch                 | Global Marketing Excellence Awards                               | Gold                   |
| Innovative Launch Campaign of the Year        | Seylan Website Launch                 | INDO LANKA Customer Engagement Forum                             | Gold                   |
| Best Use of Social Media in Marketing         | Seylan Social Media                   | Global Marketing Excellence Awards                               | Gold                   |
| Events and Promotions                         | Seylan Office Challenge               | INDO LANKA Customer Engagement Forum                             | Gold                   |
| Social Media Brand of the Year                | Seylan Bank PLC                       | INDO LANKA Customer Engagement Forum                             | Gold                   |
| Best Use of Social Media for Customer Service | Seylan Bank Customer Support Channels | CMO ASIA – Social and Digital Marketing Excellence Awards – 2016 | Gold                   |
| Best Use of Facebook                          | Seylan Facebook                       | CMO ASIA – Social and Digital Marketing Excellence Awards – 2016 | Gold                   |
| Best Website                                  | www.seylan.lk                         | CMO ASIA – Social and Digital Marketing Excellence Awards – 2016 | Certificate of Merit   |
| Best Use of Social Media in Marketing         | Seylan Social Channels                | CMO ASIA – Social and Digital Marketing Excellence Awards – 2016 | Certificate of Merit   |



## Defined Benefits and Defined Contributions

The Bank operates a retirement gratuity (defined benefit plan) for employees mandated under the Gratuity Act No. 12 of 1983.

The Bank duly carried out an actuarial valuation on the retirement benefit obligation as of year end and the Bank's actuary has used the Projected Unit Credit Method in accordance with LKAS 19 – 'Employee Benefits'. The

Bank makes contributions to two types of defined contribution plans for its employees as given below:

- Employee's Provident Fund
- Contribution to Employee's Trust Fund

More details on these contribution/defined benefit plans are given in the accounting policies and the Notes to the Financial Statements.

## Future Outlook

- Create wealth and value to our stakeholders with constant and sustainable growth levels, which is explained in detail in the overall outlook of the Bank in the value creation story.
- Improvement of risk management and compliance as a key aspect of the Bank's day-to-day business process and strengthen the controls and governance.

From the inception, we are renowned to serve with our hearts and committed to extend customer-centric service to our varied customers. Seylan has emerged and been distinguished as a leading banking service provider.

### Customer Responsibilities

The Banking industry in the country is increasingly becoming competitive so that we have to deliver exceptional value to our existing customers as well as our potential customers so as to distinguish ourselves and be defining as the Bank of first choice. Therefore Our strategic priorities are:

- Service beyond banking
- Expand Bank's footprint, enhance customer convenience and the service proposition
- Improving eChannels and engaging with the social media

### Service Beyond Banking

From the inception, we are renowned to serve with our hearts and committed to extend customer-centric service to our varied customers. Seylan has emerged and been distinguished as a leading banking service provider with customer orientation and innovation that extends far beyond the mere provision of services expected by customers.

We offer range of financial services to our customers through multi-channel delivery strategy, meeting and exceeding customer's expectations whilst enhancing value addition which is explained in detail below.

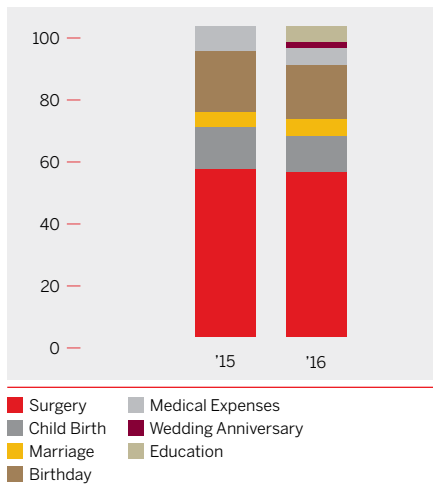
### Value Creation and Product Innovation

The Bank caters to all segments of the country adding value to their lives. We expect our customers to be educated and healthy, to be respected at every stage of life, to enjoy appreciation and recognition for their loyalty and support of the Bank. We promote these objectives through various schemes and projects.

### Seylan Sure

This scheme operates as a value addition scheme which incorporates assured benefits for our loyal savings and current account customers. The primary objective of this scheme is to extend support to our customers at various stages of life and instances where they need moral and financial support, through tangible means.

## Distribution of Seylan Sure Benefits (%)



## Customer and Product Responsibility

### Product Policy

The Bank takes great care to ensure that every product and service offered is relevant, meets and exceeds customer expectations, is non-exploitative and embodies the optimum levels of clarity and transparency.

We provide access to an array of financial services and products in response to various financial needs of our customers and potential customers, covering all ages and all sectors of the economy. As such, we respect the customer's right to have access to fair information on any banking transaction. Our communication of the Bank's products and services is always based on principles of ethical

and responsible advertising. The Bank is extremely conscious of the need to safeguard the interest of its customers and thus maintains an exemplary risk management regime through internal controls, well-documented policies, procedures etc. Seylan has pioneered several products and services that enhance convenience while ensuring maximum privacy and compliance with all applicable laws and regulations.

Our key focus in product responsibility is to aim for complete transparency and simplicity across the service delivery process and in the products offering.

### Product Portfolio

Our dynamic range of products and services is designed to symbolise Seylan Bank's vision to be 'Sri Lanka's leading financial services provider'.

The details of the currently operative deposits, lending products and other offerings are given on pages 124 and 125 of this Report.

### Product Innovation and Service Excellence

Our service from heart has displayed the commitment to execute robust customer centric strategies since inception. Seylan Bank has emerged and been recognised as a leading financial service provider with customer orientation, extending beyond merely providing services sought by its customers.

The Bank provides a whole spectrum of financial services to its customers through a number of delivery channels, meeting their expectations and thus enhancing the value additions which is explained in detail in this Report.

STUDENT  
SAVINGS  
CENTRES



SME  
HUBS



DIRECT  
SALES  
FORCE



# CHANNEL OPTIMISATION

Channel optimisation is one of the strategies the Bank has been adopting to provide **unprecedented convenience** to our customers. Over the past 29 years, the Bank has been expanding its delivery channels from the conventional brick and mortar branches to a number of alternative channels.

ATMs AND  
CDMs













CALL  
CENTRE







NEW AND  
UPGRADED  
BRANCHES






## Deposit Products

| Product   | Description   | Value Delivered                                    | Market Served                                 | Product   | Description  | Value Delivered              | Market Served  |
|---|---|--|---|---|--|------------------------------|--|
| <b>Seylan Sure</b><br>     | Offers definite benefits for personal savings and current account holders | Interest and reward benefits                       | Individuals aged above 18 years               | <b>Flexi Deposit</b><br>                   | Allows depositor to decide the period of deposit     | Interest benefits            | Corporate, SME, retail and individual clients  |
| <b>Tikiri</b><br>          | Big account for the little ones   | Interest, reward gifts and bonus interest benefits | Children below 15 years of age                | <b>Seylan Shakthi</b><br>                 | 4-year fixed deposit                                 | Interest and reward benefits | Corporate, SME, retail and individual clients  |
| <b>Seylan Harasara</b><br> | Senior citizens account   | Interest, reward benefits and priority service     | Senior citizens aged above 55 years           | <b>5star</b><br>                          | 5-year fixed deposit                                 | Interest and reward benefits | Corporate, SME, retail and individual clients  |
| <b>Cool Cash</b><br>      | Youth savings account with definite cash gift for birthday                | Interest and reward benefits                       | Youths aged between 18-29 years               | <b>Thilina Sayura</b><br>                 | Foreign currency deposit account with rewards        | Interest and reward benefits | Non-resident and Sri Lankan individuals who earn foreign exchange                    |
| <b>Millennium 30</b><br> | 30 day fixed deposit  | Interest benefits                                  | Corporate, SME, retail and individual clients | <b>Money Market Savings Account</b><br> | Short term savings account with higher interest rate | Interest benefits            | Corporate, high net-worth individual clients and collection accounts of institutions |



## Lending Products



| Product  | Description                 | Value Delivered   | Market Served      | Product   | Description   | Value Delivered   | Market Served                                 |
|--|-----------------------------|-------------------|--------------------|---|---|-------------------|---|
| <b>Seylan Siri Nivasa</b><br> | Unique housing loans scheme | Interest benefits | Individual clients | <b>Seylan Leasing</b><br>       | Finance leases for vehicles, motor cycles, machinery, plant and equipment | Interest benefits | Corporate, SME, retail and individual clients |
| <b>Seylan Pawning</b><br>     | Cash advance against gold   | Interest benefits | Individual clients | <b>Seylan Personal Loans</b><br> | Personal loan for any related purpose                                     | Interest benefits | Individual clients                            |

| Product   | Description   | Value Delivered                              | Market Served                                 |
|---|---|--|---|
| <b>Seylan SME</b>   |   |  |   |
|  | Specialised loan scheme for SME sector                                  | Interest benefits                            | SME clients                                   |
| <b>Scholar Loans</b>  |   |  |   |
|  | Unique higher education loan scheme                                     | Interest benefits                            | Individual clients                            |
| <b>Seylan Credit and Debit Cards</b>  |   |  |   |
|  | Visa, Master credit and debit cards                                     | Interest, annual fee and commission benefits | Individual clients                            |
| <b>Overdrafts</b>   |   |  |   |
|   | Overdraft facilities for personal and corporate current account holders | Interest and commission benefits             | Corporate, SME, retail and individual clients |

| Product  | Description   | Value Delivered                              | Market Served                                 |
|--|---|--|---|
| <b>Trade Finance</b>   |   |  |   |
|  | Imports and Exports   | Commission and interest benefits             | Corporate, SME, retail and individual clients |
| <b>Seylan Factoring</b>  |   |  |   |
|  | Provides working capital requirements against trade receivables   | Interest benefits and administration charges | Corporate, SME, Retail and Individuals        |
| <b>Seylan Gold Loans</b>   |   |  |   |
|   | Instant short term loan facility against Gold articles            | Interest benefits                            | Corporate, individual clients                 |
| <b>Other Facilities</b>  |   |  |   |
|  | Treasury Investments, Margin Trading facilities, Offshore Banking | Commission and interest benefits             | Corporate, SME, retail and individual clients |

## Other Offerings

| Product   | Description  | Value Delivered            | Market Served   |
|---|--|----------------------------|---|
| <b>Seylan eBanking</b>  |  |                            |   |
|  | Able to carry out variety of banking functions at their convenience at the click of a button | Low charges and access fee | Corporate, SME, retail & individual clients, minor & credit cardholders |
| <b>SEY Cash</b>   |  |                            |   |
|  | Low charges and access fee   | Commission benefits        | Individual clients  |

| Product   | Description   | Value Delivered | Market Served  |
|---|---|-----------------|--|
| <b>SMS Banking</b>  |   |                 |  |
|  | Opportunity to carry out selected banking functions via SMS | Free of charge  | Corporate, SME, retail & individual clients, minor & credit cardholders          |
| <b>Seylan Suhada Sewa</b>   |   |                 |  |
|  | Dedicated service for needy people in the society           | Free of charge  | Clergy, senior citizens, disabled people, pregnant ladies & mothers with infants |

## Expanding the Bank's Footprint, Enhancing Customer Convenience and the Service Proposition

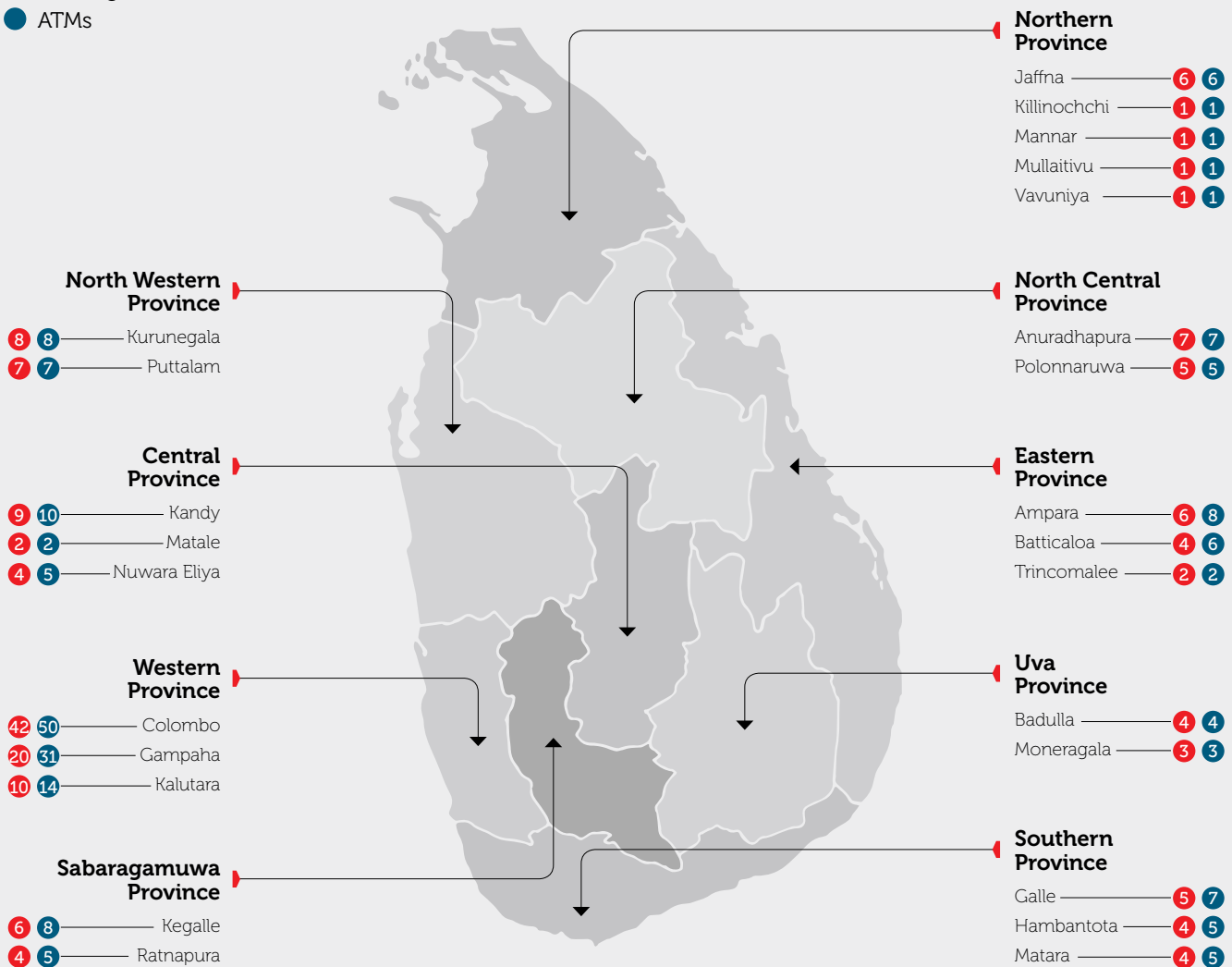
We recognise that all citizens have equal rights to access our products and services. Equal access to capital for all segments of the community is important from the perspective of maintaining the social balance. Hence, during 2016 we continued with our expansion strategy by adding 8 new branches and 20 ATMs

to our island-wide network. The branch relocation and refurbishment programme was also continued successfully during the year, completing refurbishments of 11 branches, whilst 3 branches were moved to new locations in order to offer a comfortable, modern, banking environment with disability access and many other additional convenience features. Further, we continue to make improvements in our processes and services with more customer and user friendly channels.



### Our Geographical Presence

- Banking Centres
- ATMs





## Improving eChannels and Engaging with the Social Media

### Improving eChannels

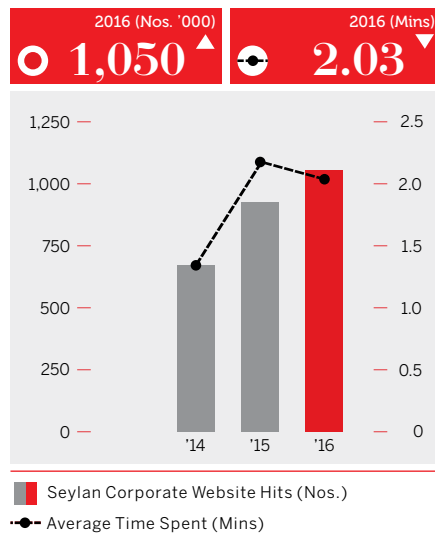
Catering to market demand from both individual and corporate customers, the Bank has strengthened its range of existing eChannel and web-based solutions.

### Internet Banking

Our new internet banking system was relaunched mainly focusing on user friendliness and customer centricity while strengthening transaction security. The new system offers extra convenience, and speedy experience, facilitating multi device access.

### Internet Banking Growth

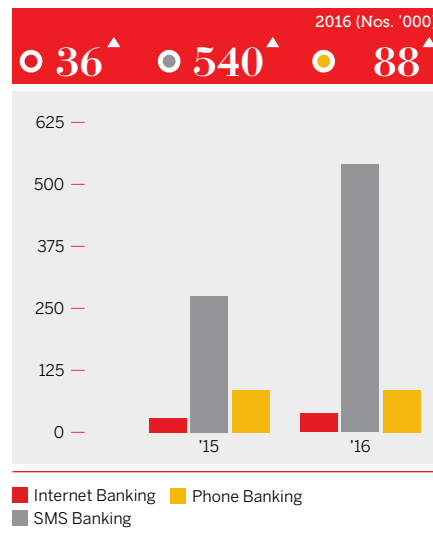
#### Seylan Corporate Website Hits



### Mobile Banking

With the rapid increase in the usage of sophisticated mobile devices among most Sri Lankans, especially the youth, we identified mobile banking as one of the most promising prospects in the future. As such we developed and introduced mobile app which includes social media connectivity with innovative look and superior security feature.

### Alternative Channels Usage



### Engaging with the Social Media

The Facebook page of Seylan Bank currently has over 500,000 fans, making the Seylan Bank the most socially engaging bank in Sri Lanka.

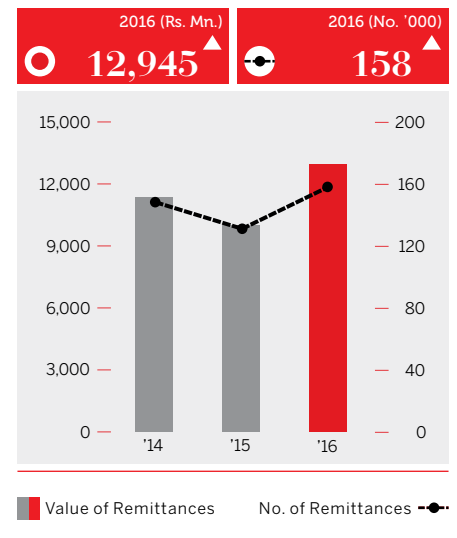
The year 2016, witnessed a growth in innovative activations hosted both online and offline through the social and digital media channels.

| As at 31st December | Facebook | Instagram | Twitter | LinkedIn |
|---------------------|----------|-----------|---------|----------|
| 2015                | 302,379  | 237       | 1,559   | 1,400    |
| 2016                | 518,345  | 7,923     | 3,344   | 2,064    |

### SeyCash Remittance

Recognising that migrant workers are the country's largest foreign exchange earners and in aligning with the Government's strategy to target Sri Lanka's expatriate workers around the world, we have strengthened our efforts at marketing our inward remittance service. Our main priority is to facilitate the remittance of their hard-earned money to their families at home at the least cost and speedily. We have not limited ourselves to facilitate inward remittances, we have enhanced our relationship by inculcating the savings habit, and cross-selling other banking products and services to these customers.

### Remittances



### Customer Health and Safety

Given the nature of our business as a financial services provider, impacts on health and safety aspects cannot be readily evaluated. However, we take maximum due care when we design our products and services to minimise any impact to the health and safety of our customers.

### Product/Service Labelling and Marketing Communication

The Bank's multi-layered range of products and banking solutions has been developed accordance with the Bank's product policy and certified by the Bank's Product Development Committee, by screening all relevant aspects including statutory regulations. We circulate accurate, clear, timely and relevant information with the salient features to all stakeholders.

- Ensuring that product features and pricing such as interest rates (both nominal and annual effective rates), fees, commissions, charges, tariffs, terms and conditions are displayed and understood by customers.
- Communicating in three languages (Sinhala, Tamil and English) via various channels, including brochures, digital and non-digital display boards and various other electronic and printed media.
- Ensuring that our marketing communication material does not contain any information that could mislead the public.

## Customer Privacy

Banking is primarily based on trust and confidentiality, as it deals with funds and property of the public. We handle large volumes of sensitive information generating from a wide range of banking transactions. Therefore, our supreme task is to protect customer privacy and maintain confidentiality at high levels.

The Bank's Audit and Inspection Department conducts periodic reviews to ensure all departments and business units responsible to adhering stipulated guidelines by internal and external regulators. During the period covered by this Report, there were no incidents reported of non-compliance to rules, regulations or ethics in product/service labelling, marketing communication or breaching of customer privacy.

## Customer Complaints

The fundamental principle to improve customer satisfaction is that customer complaints should be resolved fairly, effectively and without delay. We at Seylan, facilitate all our customers to lodge their complaints directly with the Personal Assistant to the Director/Chief Executive Officer and those complaints are handled with responsible, efficient and confidential manner.

## Compliance

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

## Customer Satisfaction and Mystery Shopper Survey

The true test of the success of our products and services is in the level of customer satisfaction, and our willingness to deal speedily to stem any dissatisfaction and with any gaps that are evident. With the support of experienced agents, we conduct 'customer satisfaction and mystery shopper survey' exercises on an annual basis with the following objectives:

- To determine the present satisfaction levels with regard to customer service requirements.
- To assess the needs and expectations of customers.
- To identify opportunities that can be leveraged on for competitive advantage.
- To evaluate the virtual impact of specific responses on overall customer loyalty.

- To guide our strategic direction for future improvement in the relevant areas.

Overall mystery shopper satisfaction level stood at 77% in 2016.

In addition to the above annual surveys, this year we placed Customer Satisfaction Indicator screens at our branches to get instant customer satisfaction level results.

## Sale of Banned or Disputed Products

The Bank engages in financial service oriented business and offers intangible services to its customers, and we do not sell or market products or services which are banned or disputed in the market or subject to stakeholder or public debate. Further, we do not finance any project which is illegal as clearly documented in our credit policy manual.

We provide a set of products and services which are highly regularised, duly registered and operated in strict compliance with CBSL customer charter.

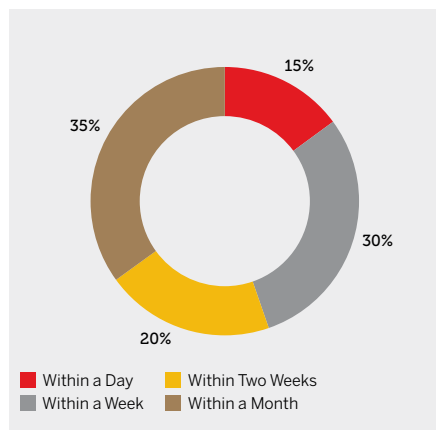
## Financial Services for Disadvantaged People

As a responsible banker, Seylan has undertaken several initiatives to improve the financial services offered to disadvantaged people.

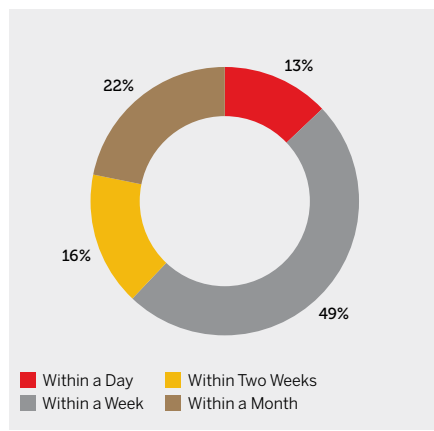
- Publishing advertising materials in three languages.
- Providing wheelchair access in branches.
- Conducting *Tikiri Kids* Banking day events in entire branch network with the active participation of parents to enhance finance literacy among them.

## Time Analysis to Resolve Customer Complaints

2016



2015



## Future Outlook

- Improve the value addition to the customers while making our products innovative, customer-friendly, meeting the needs of the customers.
- Our efforts in growing savings will promote financial literacy among children, youth and women.
- Expansion of our technology based channels for convenient banking.

**MANPOWER  
OPTIMISATION**



**TEAM  
BUILDING**



**ONLINE  
STAFF  
ENGAGEMENT**



# HR TRANSFORMATION

Our People are the corner stone of the Bank. It is they who provide that unparalleled service to the stakeholders, in particular to the customers. Hence, HR has been accorded the highest level of importance in the development of Bank's strategy.

**REWARDS  
AND  
RECOGNITION**



**DEVELOP  
LEADERS**





Seylan Bank is committed to treating every employee with respect and dignity and protecting their human rights. We offer equal employment opportunity to all, and are proud to be a leader in supporting diversity and inclusion.

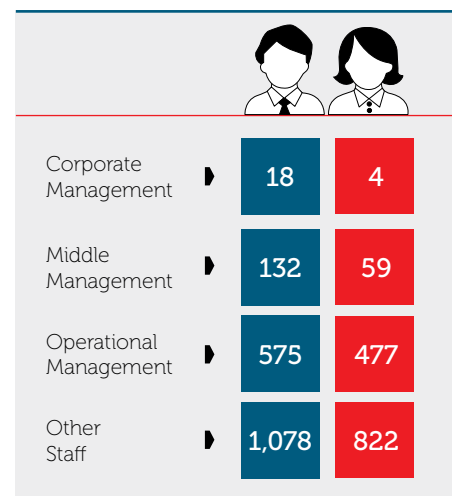
**Social Policy**

We believe that the key to our success and competitive advantage is our unique commitment to continuous improvement and results. We are committed to encourage our team members to enhance their skills; map out their careers and grow both personally and professionally.

Every employee at all levels of the workforce plays a part in enabling us to deliver value for all our stakeholders and, are therefore a valuable conduit in the value chain. As such, regular engagement with our employees is vital and aims at fostering constructive relationships for sound employee relations. Our diverse workforce comprised 3,165 employees as at 31st December 2016. Attracting, retaining and motivating employees is a key focus area for our Bank. Employees are therefore the backbone of our strength and we view them as crucial stakeholders and partner in our long-term success and sustainability.

**Our Staff Strength 2016**

Following graphics shows the Gender composition based on the management of the Bank:



## Employees Analysed by Grade and Age

| As at 31st December 2016 | 20 or Below |           | 21-30      |            | 31-40      |            | 41-50      |            | Above 50  |           | Total        |              | Grand Total  |
|--------------------------|-------------|-----------|------------|------------|------------|------------|------------|------------|-----------|-----------|--------------|--------------|--------------|
|                          | Male        | Female    | Male       | Female     | Male       | Female     | Male       | Female     | Male      | Female    | Male         | Female       |              |
| Corporate Management     | -           | -         | -          | -          | 2          | -          | 5          | 1          | 11        | 3         | 18           | 4            | 22           |
| Middle Management        | -           | -         | -          | -          | 10         | 5          | 89         | 43         | 33        | 11        | 132          | 59           | 191          |
| Operational Management   | -           | -         | 12         | 4          | 202        | 114        | 341        | 323        | 20        | 36        | 575          | 477          | 1,052        |
| Others                   | 17          | 20        | 333        | 448        | 465        | 284        | 236        | 60         | 27        | 10        | 1,078        | 822          | 1,900        |
| <b>Total</b>             | <b>17</b>   | <b>20</b> | <b>345</b> | <b>452</b> | <b>679</b> | <b>403</b> | <b>671</b> | <b>427</b> | <b>91</b> | <b>60</b> | <b>1,803</b> | <b>1,362</b> | <b>3,165</b> |

## Employees Analysed by Type of Employment and Contract

|              | 2016         | 2015         | 2014         | 2013         | 2012         |
|--------------|--------------|--------------|--------------|--------------|--------------|
| Full Time    | 3,165        | 3,085        | 2,947        | 3,049        | 3,061        |
| Part Time    | -            | -            | -            | -            | -            |
| <b>Total</b> | <b>3,165</b> | <b>3,085</b> | <b>2,947</b> | <b>3,049</b> | <b>3,061</b> |
| Permanent    | 2,790        | 2,843        | 2,829        | 2,863        | 2,954        |
| Contract     | 65           | 22           | 11           | 16           | 16           |
| Trainees     | 310          | 220          | 107          | 170          | 91           |
| <b>Total</b> | <b>3,165</b> | <b>3,085</b> | <b>2,947</b> | <b>3,049</b> | <b>3,061</b> |

## Employees Analysed by Type of Employment Contract and Gender based on the Management Category

|              | Non-Corporate Management |              | Corporate Management |          | Total        |              |              |
|--------------|--------------------------|--------------|----------------------|----------|--------------|--------------|--------------|
|              | Male                     | Female       | Male                 | Female   | Male         | Female       | Total        |
| Permanent    | 1,641                    | 1,133        | 13                   | 3        | 1,654        | 1,136        | 2,790        |
| Contract     | 37                       | 22           | 5                    | 1        | 42           | 23           | 65           |
| Trainees     | 107                      | 203          | -                    | -        | 107          | 203          | 310          |
| <b>Total</b> | <b>1,785</b>             | <b>1,358</b> | <b>18</b>            | <b>4</b> | <b>1,803</b> | <b>1,362</b> | <b>3,165</b> |

## Recruitment

We recruit talented, capable people from all over the country. Based on the HR rules and regulations most competent staff are recruited and all our Senior Management recruitments are from local communities. There is no different salary scale applicable for entry level employees based on locations and we pay industry level wages to them. All new recruits are given an orientation programme which helps them to understand the Bank operations and the relevant policies of the Bank.

## Recruitments Province-Wise

| Province      | 2016       |           |            |           |            | 2015      |           |            |           |            |
|---------------|------------|-----------|------------|-----------|------------|-----------|-----------|------------|-----------|------------|
|               | Male       | %         | Female     | %         | Total      | Male      | %         | Female     | %         | Total      |
| Central       | 16         | 44        | 20         | 56        | 36         | 21        | 43        | 28         | 57        | 49         |
| Eastern       | 2          | 50        | 2          | 50        | 4          | 5         | 29        | 12         | 71        | 17         |
| Northern      | 3          | 60        | 2          | 40        | 5          | 13        | 50        | 13         | 50        | 26         |
| North-Central | 5          | 63        | 3          | 37        | 8          | 2         | 22        | 7          | 78        | 9          |
| North-Western | 6          | 50        | 6          | 50        | 12         | 5         | 31        | 11         | 69        | 16         |
| Sabaragamuwa  | 3          | 60        | 2          | 40        | 5          | 1         | 12        | 7          | 88        | 8          |
| Southern      | 11         | 44        | 14         | 56        | 25         | 6         | 37        | 10         | 63        | 16         |
| Uva           | 2          | 40        | 3          | 60        | 5          | 3         | 50        | 3          | 50        | 6          |
| Western       | 60         | 51        | 58         | 49        | 118        | 38        | 33        | 76         | 67        | 114        |
| <b>Total</b>  | <b>108</b> | <b>50</b> | <b>110</b> | <b>50</b> | <b>218</b> | <b>94</b> | <b>36</b> | <b>167</b> | <b>64</b> | <b>261</b> |

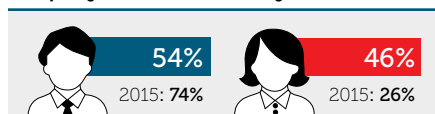
## Recruitments Age-Wise

| Age          | 2016       |            |            | 2015      |            |            |
|--------------|------------|------------|------------|-----------|------------|------------|
|              | Male       | Female     | Total      | Male      | Female     | Total      |
| 20 or Below  | 34         | 36         | 70         | 32        | 53         | 85         |
| 21-30        | 56         | 62         | 118        | 49        | 109        | 158        |
| 31-40        | 7          | 6          | 13         | 10        | 3          | 13         |
| 41-50        | 3          | 3          | 6          | 1         | 2          | 3          |
| Above 50     | 8          | 3          | 11         | 2         | -          | 2          |
| <b>Total</b> | <b>108</b> | <b>110</b> | <b>218</b> | <b>94</b> | <b>167</b> | <b>261</b> |

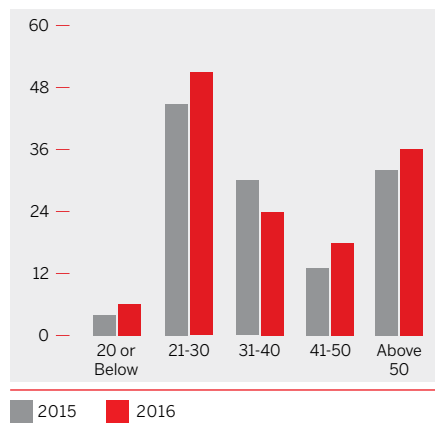
## Employee Turnover

Employee turnover by gender and age are analysed as per the below diagram. Employees resigned due to various reasons such as for further studies, personal reasons, better perks, migration, retirement etc.

### Employee Turnover by Gender



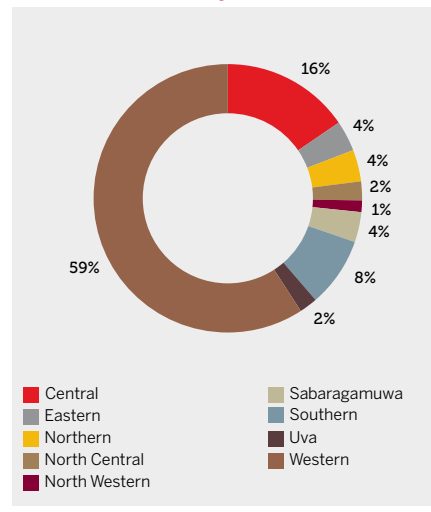
### Staff Turnover by Age



### Turnover by Age and Gender Analysis

| Age          | 2016      |           |            | 2015      |           |            |
|--------------|-----------|-----------|------------|-----------|-----------|------------|
|              | Male      | Female    | Total      | Male      | Female    | Total      |
| 20 or Below  | 1         | 5         | 6          | 4         | -         | 4          |
| 21-30        | 21        | 30        | 51         | 35        | 10        | 45         |
| 31-40        | 15        | 9         | 24         | 19        | 11        | 30         |
| 41-50        | 11        | 7         | 18         | 8         | 5         | 13         |
| Above 50     | 25        | 11        | 36         | 26        | 6         | 32         |
| <b>Total</b> | <b>73</b> | <b>62</b> | <b>135</b> | <b>92</b> | <b>32</b> | <b>124</b> |

### Staff Turnover by Province



### Employee Benefits

All permanent employees enjoy a variety of benefits in addition to their basic remuneration:

- Comprehensive medical and insurance scheme.
- Half a month's salary as a holiday incentive.

- Special allowances for cashiers and employees located in difficult stations.
- Discretionary two-months bonus (Certain grades are subject to one month's fixed bonus and variable performance bonus).
- Holiday bungalow facilities.
- Staff loans at concessionary rates such as, Housing, Vehicle, Computer and, Educational Loan.
- Financial support for professional and postgraduate studies by reimbursing the membership fee of professional bodies.

71

%

In 2016 an increase of the Staff Satisfaction index to 71% was recorded for the overall Bank. Our Staff Satisfaction Survey is also an annual review of the effectiveness of our Human Resources Policy.

|   | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2014<br>Rs. '000 |
|---|------------------|------------------|------------------|
| <b>Staff Salaries</b>                         |                  |                  |                  |
| Basic Salary                                  | <b>2,634,154</b> | 2,355,912        | 2,135,629        |
| EPF 12%                                       | <b>316,171</b>   | 282,259          | 256,241          |
| ETF 3%  | <b>79,067</b>    | 70,572           | 64,068           |
| <b>Total</b>                                  | <b>3,029,392</b> | 2,708,743        | 2,455,938        |
| <b>Other Benefits</b>                         |                  |                  |                  |
| Holiday Pay                                   | <b>105,172</b>   | 94,885           | 84,397           |
| Medical                                       | <b>76,875</b>    | 77,839           | 60,590           |
| Bonus   | <b>466,006</b>   | 478,714          | 432,299          |
| Insurance                                     | <b>116,345</b>   | 105,835          | 72,434           |
| Welfare                                       | <b>63,300</b>    | 51,679           | 56,103           |
| Other Allowance/Benefits                      | <b>530,165</b>   | 501,587          | 504,883          |
| Amortisation of Prepaid Staff Cost            | <b>222,818</b>   | 174,853          | 244,746          |
| <b>Total Other Benefits</b>                   | <b>1,580,681</b> | 1,485,392        | 1,455,452        |
| <b>Total Benefits</b>                         | <b>4,610,073</b> | 4,194,135        | 3,911,390        |
| Training Cost                                 | <b>25,571</b>    | 17,983           | 14,971           |
| <b>Total Benefits including Training Cost</b> | <b>4,635,644</b> | 4,212,118        | 3,926,361        |
| No. of Staff                                  | <b>3,165</b>     | 3,085            | 2,947            |
| Average Benefits per Employee                 | <b>1,465</b>     | 1,365            | 1,332            |

## Employees Who Obtained Maternity Leave and Returned for Work

|                      | 2016       | 2015 | 2014 |
|----------------------|------------|------|------|
| No. of Staff         | <b>54</b>  | 75   | 63   |
| Returned to Work (%) | <b>100</b> | 100  | 100  |

## Recognition and Motivation

Staff Appraisal is carried out on an annual basis to evaluate staff performance and recommend the salary increments and their training and development needs. The Bank also operates employee award schemes to celebrate their success and to inspire others to reach new heights. We reward branches that achieve their KPIs with additional benefits and rewards based on the branch performances. This evaluation is very transparent and there is a sub-committee consisting of senior management involved in this process and they announce the criteria to the staff in advance.

## Staff Satisfaction

Our Staff Satisfaction Survey is also an annual review of the effectiveness of our Human Resources Policy and how we perform in this very important aspect of our value creation chain, which assists us in meeting the aspirations of our employees to be able to achieve a satisfied, motivated and committed workforce.

### Staff Satisfaction Survey

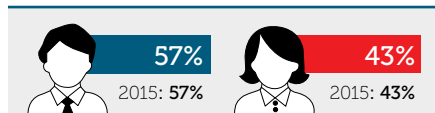


## Gender Equality

Seylan Bank values the equal treatment of men and women extremely high when it comes to staff appointments and continuing professional development and training and remuneration within the Bank.

|                        | 2016         |           |              |           |              | 2015         |           |              |           |              |
|------------------------|--------------|-----------|--------------|-----------|--------------|--------------|-----------|--------------|-----------|--------------|
|                        | Male         | %         | Female       | %         | Total        | Male         | %         | Female       | %         | Total        |
| Corporate Management   | 18           | 82        | 4            | 18        | 22           | 20           | 83        | 4            | 17        | 24           |
| Middle Management      | 132          | 69        | 59           | 31        | 191          | 123          | 72        | 48           | 28        | 171          |
| Operational Management | 575          | 55        | 477          | 45        | 1,052        | 574          | 55        | 472          | 45        | 1,046        |
| Others                 | 1,078        | 57        | 822          | 43        | 1,900        | 1,053        | 57        | 791          | 43        | 1,844        |
| <b>Total</b>           | <b>1,803</b> | <b>57</b> | <b>1,362</b> | <b>43</b> | <b>3,165</b> | <b>1,770</b> | <b>57</b> | <b>1,315</b> | <b>43</b> | <b>3,085</b> |

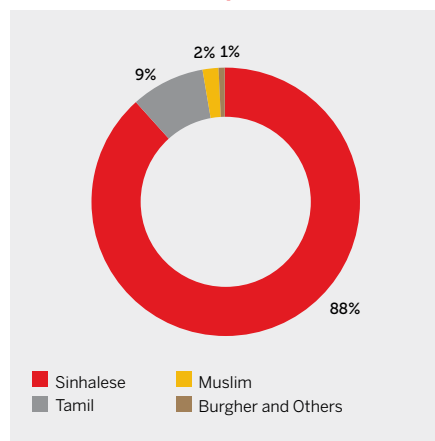
### Employee Composition by Gender



### Diversity

Seylan Bank is convinced that diversity enriches the Bank's corporate culture and that it is a long-term success factor. Bringing together people from diverse cultures with diverse skills, who can think differently, facilitates development of more creative and more comprehensive solutions to business challenges. We respect all persons regardless of their ethnic origin, religion, disabilities. In 2016, our workforce consist of 88% Sinhalese, 9% Tamil, 2% Muslim and 1% Burgher and others, whereas in 2015, 89% Sinhalese, 8% Tamil, 2% Muslim and 1% Burgher and Others.

### Staff Ethnic Group Wise – 2016



### Workforce based on the Ethnic Group

|              | 2016         |              |              | 2015         |              |              |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|              | Male         | Female       | Total        | Male         | Female       | Total        |
| Sinhalese    | 1,606        | 1,191        | 2,797        | 1,576        | 1,146        | 2,722        |
| Tamil        | 144          | 139          | 283          | 141          | 140          | 281          |
| Muslim       | 41           | 17           | 58           | 40           | 15           | 55           |
| Burgher      | 11           | 13           | 24           | 12           | 13           | 25           |
| Other        | 1            | 2            | 3            | 1            | 1            | 2            |
| <b>Total</b> | <b>1,803</b> | <b>1,362</b> | <b>3,165</b> | <b>1,770</b> | <b>1,315</b> | <b>3,085</b> |

### Workforce by Province and Gender

Our workforce is mainly concentrated in the Western Province with 70% of the total staff based in the head office and branches in the Western Province. In an effort to promote a healthy diversification of staff across the country and an equitable regional distribution of the staff, we make use of every possibility to recruit workforce from different provinces of the country.

43%

**43% of Seylan Bank's workforce is Female. Seylan Bank values the equal treatment of men and women extremely high when it comes to staff appointments and continuing professional development and training and remuneration within the Bank.**



## Workforce based on the Province and Gender

| Province      | 2016            |              |              |           |              |           | 2015            |              |              |           |              |           |
|---------------|-----------------|--------------|--------------|-----------|--------------|-----------|-----------------|--------------|--------------|-----------|--------------|-----------|
|               | No. of Branches | No. of Staff | Male         | %         | Female       | %         | No. of Branches | No. of Staff | Male         | %         | Female       | %         |
| Central       | 15              | 179          | 98           | 55        | 81           | 45        | 16              | 187          | 105          | 56        | 82           | 44        |
| Eastern       | 12              | 111          | 68           | 61        | 43           | 39        | 12              | 121          | 74           | 61        | 47           | 39        |
| Northern      | 10              | 96           | 61           | 64        | 35           | 36        | 9               | 104          | 64           | 62        | 40           | 38        |
| North-Central | 12              | 94           | 70           | 74        | 24           | 26        | 12              | 101          | 79           | 78        | 22           | 22        |
| North-Western | 15              | 154          | 95           | 62        | 59           | 38        | 12              | 126          | 74           | 59        | 52           | 41        |
| Sabaragamuwa  | 10              | 119          | 76           | 64        | 43           | 36        | 10              | 136          | 85           | 62        | 51           | 38        |
| Southern      | 13              | 148          | 97           | 66        | 51           | 34        | 12              | 138          | 84           | 61        | 54           | 39        |
| Uva           | 7               | 61           | 46           | 75        | 15           | 25        | 6               | 64           | 48           | 75        | 16           | 25        |
| Western       | 72              | 2,203        | 1,192        | 54        | 1,011        | 46        | 70              | 2,108        | 1,157        | 55        | 951          | 45        |
| <b>Total</b>  | <b>166</b>      | <b>3,165</b> | <b>1,803</b> | <b>57</b> | <b>1,362</b> | <b>43</b> | <b>159</b>      | <b>3,085</b> | <b>1,770</b> | <b>57</b> | <b>1,315</b> | <b>43</b> |

## Remuneration based on the Gender

|                        | 2016                           |        |                    |        |  |        |              | 2015                           |        |                    |        |  |        |              |
|------------------------|--------------------------------|--------|--------------------|--------|--|--------|--------------|--------------------------------|--------|--------------------|--------|--|--------|--------------|
|                        | Basic Salary (Monthly) Rs. Mn. |        | Total No. of Staff |        | Average Basic Salary (Monthly) Rs. Mn. |        | Salary Ratio | Basic Salary (Monthly) Rs. Mn. |        | Total No. of Staff |        | Average Basic Salary (Monthly) Rs. Mn. |        | Salary Ratio |
|                        | Male                           | Female | Male               | Female | Male                                   | Female | M/F          | Male                           | Female | Male               | Female | Male                                   | Female | M/F          |
| Corporate Management   | 7.62                           | 1.40   | 18                 | 4      | 0.42                                   | 0.35   | 1.21:1       | 8.94                           | 1.15   | 20                 | 4      | 0.45                                   | 0.29   | 1.56:1       |
| Middle Management      | 22.95                          | 10.27  | 132                | 59     | 0.17                                   | 0.17   | 1:1          | 19.38                          | 7.39   | 123                | 48     | 0.16                                   | 0.15   | 1.02:1       |
| Operational Management | 47.56                          | 39.55  | 575                | 477    | 0.08                                   | 0.08   | 1:1          | 43.17                          | 35.84  | 574                | 472    | 0.08                                   | 0.08   | 0.99:1       |
| Others                 | 52.04                          | 35.48  | 1,078              | 822    | 0.05                                   | 0.04   | 1.12:1       | 47.63                          | 32.21  | 1,053              | 791    | 0.05                                   | 0.04   | 1.11:1       |

## 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   | 10               | 5            | –             | –              | 1              | 6                  | 22           |
| Middle Management      | 27               | 4            | 6             | 7              | 15             | 132                | 191          |
| Operational Management | 25               | 20           | 119           | 72             | 353            | 463                | 1,052        |
| Others                 | 543              | 251          | 701           | 103            | 188            | 114                | 1,900        |
| <b>Total</b>           | <b>605</b>       | <b>280</b>   | <b>826</b>    | <b>182</b>     | <b>557</b>     | <b>715</b>         | <b>3,165</b> |

## Training and Education



Seylan Bank invests in its employees' continuing professional development on an ongoing basis. Competent, motivated, employees are a critical success factor for the Bank as well as a crucial competitive advantage.

All Bank employees discuss their career development prospects with their respective managers and agree on appropriate measures as part of

their Annual Structured Appraisal. The Bank has also designed a wide range of in-house and external seminars for their staff. The Bank has a comprehensive training calendar designed based on the needs of our staff which includes competency assessments, customer expectations and developments. Further a monthly training calendar is circulated among all the staff in order to ensure maximum participation by the staff.

## Number and Duration of Training Programmes

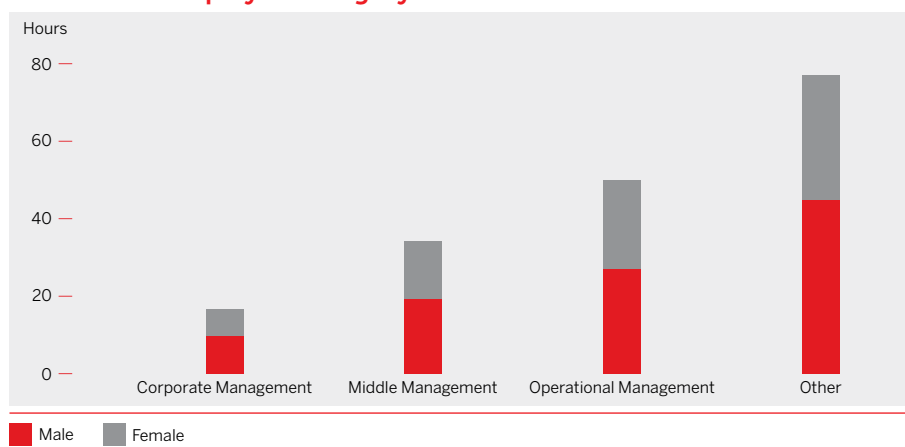
|              | 2016              |                |                     | 2015              |                |                     |
|--------------|-------------------|----------------|---------------------|-------------------|----------------|---------------------|
|              | No. of Programmes | Training Hours | No. of Participants | No. of Programmes | Hours Training | No. of Participants |
| Internal     | 212               | 65,225         | 5,356               | 174               | 66,251         | 5,851               |
| External     | 129               | 4,801          | 339                 | 126               | 2,560          | 320                 |
| Foreign      | 20                | 608            | 26                  | 18                | 320            | 21                  |
| <b>Total</b> | <b>361</b>        | <b>70,634</b>  | <b>5,721</b>        | <b>318</b>        | <b>69,131</b>  | <b>6,192</b>        |

This year highlights for staff training are as follows:

- Regional Training programmes are being carried out with number of participants from various regions such as training programme on Lending and Credit Risk, Marketing, Pawning Operations, Seylan Sure and NRFC etc.
- In order to improve the speech and presentation skills of our employees, Seylan Bank's staff training centre together with the Colombo Toastmasters Club carried out a highly interactive speech craft programme.
- Nine out bound training programmes and sixteen mind for success team building programmes were carried out during 2016.
- A Special ALCO training was carried out for the ALCO members and other senior business heads to understand the structure, peculiarities and functioning of the Bank's assets and liabilities and its, risk involved etc.
- Leadership transformation programmes were conducted to develop future leaders and participants. From the grades of Manager and above took part in this programme.
- Continuous training and orientation programmes were conducted on new products, customer care, communication skills, technical specialties, leadership, soft skills, internal control, risk and compliance among the existing staff and new recruits of the Bank.

| Name of Training Modules                   | 2016              |               |                     | 2015              |               |                     |
|--|-------------------|---------------|---------------------|-------------------|---------------|---------------------|
|  | No. of Programmes | Total Hours   | No. of Participants | No. of Programmes | Total Hours   | No. of Participants |
| General Banking Practices                  | 218               | 35,602        | 2,864               | 209               | 34,481        | 3,147               |
| Professional Development                   | 12                | 911           | 83                  | 7                 | 725           | 70                  |
| Communication and Negotiation Skills       | 16                | 1,637         | 190                 | 10                | 2,083         | 185                 |
| Marketing and Marketing Communications     | 31                | 9,322         | 927                 | 25                | 9,678         | 866                 |
| HR Management, Staff/Personnel Development | 45                | 15,909        | 934                 | 31                | 9,030         | 747                 |
| Compliance and Specialised Areas           | 39                | 7,253         | 723                 | 36                | 13,134        | 1,177               |
| <b>Total</b>                               | <b>361</b>        | <b>70,634</b> | <b>5,721</b>        | <b>318</b>        | <b>69,131</b> | <b>6,192</b>        |

### Average Hours of Training per Employee by Gender and Employee Category



## Training for Awareness

The Staff is kept well informed on product development, policies, procedures, regulatory changes and developments through circulars and internal memos. These communiqués are originated by the respective departments and communicated centrally by the Operations Department. Procedure manuals are in place for all products and services and are updated regularly. Operational policies are periodically reviewed and updated. Training programmes are conducted on all new products and procedures as and when necessary.

## Employee Sports and Other activities

Sports and culture plays a pivotal role in the life of Seylan Bank employees. Many activities are held during the year to keep staff motivation levels high and encourage networking, bonding and team spirit. Eg: Sports day, Basketball tournaments, Bakthi Gee, Christmas Carols etc.



## Occupational Health and Safety

**ZERO ACCIDENTS**

The Bank is responsible for organising occupational safety activities using an integrated management system and in compliance with the statutory regulations. We also ensure that the business continuity plan is in place and test it and review periodically, to ensure a hazard-free environment for our employees. Basic safety instructions are prominently displayed in all Seylan Bank branches. Moreover, as a service sector organisation, our employees are not exposed to the risk of occupational diseases.

|   | 2016   | 2015   | 2014   |
|---|--------|--------|--------|
| Staff Covered by the Health Plan (%)      | 100    | 100    | 100    |
| Average Medical Claims per Employee – Rs. | 24,289 | 25,230 | 20,560 |
| No. of Occupational Injuries/ Diseases    | Nil    | Nil    | Nil    |
| No. of Lost Days Rate                     | Nil    | Nil    | Nil    |

## Human Rights

### Human Rights Policy

Seylan Bank is committed to uphold the human rights standards enshrined in the Universal Declaration of Human Rights and the conventions of the International Labour 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.

Seylan Bank policies and practices promote and protect human rights, and strive to conduct its banking operations in a manner consistent with the United Nations Universal Declaration of Human Rights and the International Labour Organisation's Fundamental Conventions. Our commitment to fair, ethical and responsible business practices, as we engage with our employees is embodied in our values and Code of Conduct.

Seylan Bank is committed to treating every employee with respect and dignity and protecting their human rights. We offer equal employment opportunity to all, do not tolerate discrimination or harassment, and are proud to be a leader in supporting diversity and inclusion. We abide by labour laws and regulations and we conduct business including those that address child labour, forced labour, equal pay and non-discrimination in our workforce. The Bank strives to provide a safe and healthy work environment for all employees. Further in order to strengthen the employee relations and maintaining a zero industrial dispute environment the Bank provides continuous training on industrial relations best practices to employees.

## Grievances Handling Mechanisms

The Bank Grievance Policy provides a clear and transparent framework to deal with difficulties which may arise as part of their working relationship from an employee's perspective. It is important that employees have a course of action available, should they have a complaint. Procedures are necessary to ensure that everybody is treated in the same way and dealt with fairly, reasonably and in a timely manner.

In case of a grievance the staff should report to their immediate supervisor. If the matter is still unresolved it can be referred to the Bank's grievance handling committee.

The Bank has also introduced a Log Your Concern (LYC) system where employees are asked to log all their HR related queries and comments wherein the Bank will respond within 48 hours.

## Non-Discrimination, Freedom of Association and Collective Bargaining

The Bank has had no incidents of discrimination to date and has a zero tolerance of child labour. We consider freedom of association as a right of each employee.

We recognise the Ceylon Bank Employees Union (CBEU) and Seylan Bank Employees Union (SBEU) which comprise 93% of our staff, as a consultative and supportive group that articulates a forum for improved communication, grievances handling, career counseling and creating a healthy working environment to the employees.

## Whistle-Blowers Protection

Seylan Bank has a Whistle-Blower Policy which contains procedures for employees who have concerns about malpractices or illegal activities in the Bank's operations, which may have an adverse impact on the reputation of the Bank. Protecting the integrity and reputation of Seylan Bank requires the active support of all staff members who are required to report such incidents and infringements.

The Bank will ensure that staff members who do in good faith are given the utmost confidentiality and greatest degree of protection against any retaliation or reprisals, whether actual or threatened, as a result of their actions.

## Security Training

As Bank-wide security is an outsourced service, all required basic training was handled by the respective service providers and is facilitated by the Bank. Periodic tests and awareness programmes are carried out and checked by the Controller Intelligence and Security of the Bank to ensure compliance. In addition the Bank conducts training on customer care for security personnel to facilitate their role at branches and head office.

## Child Labour, Forced or Compulsory Labour, Indigenous People's Rights and Assessments

|  | 2016 | 2015 | 2014 |
|--|------|------|------|
| No. of Incidents of Discriminations                                    | Nil  | Nil  | Nil  |
| No. of Incidents from Forced or Compulsory Labour                      | Nil  | Nil  | Nil  |
| No. of Child Labour-Related Issues                                     | Nil  | Nil  | Nil  |
| No. of Identified Violations Involving the Rights of Indigenous People | Nil  | Nil  | Nil  |

## Pending Litigation

Pending Litigation against the Bank has been reported in Note 46 of the Financial Statements.

## Key Performance Indicators – Labour Relations and Human Rights

|  | 2016  | 2015  |
|--|-------|-------|
| CEBU and SBEU Membership   | 2,931 | 2,881 |
| Membership %   | 93    | 93    |
| No. of Hours of Staff Trained on HR Policies and Procedures Relevant to Operations | 96    | 38    |

## Minimum Notice Period

The Bank maintains an organisational practice of timely discussion of significant operational changes such as transfers, promotions and disciplinary actions etc. with employees and representatives of Trade Unions (TU). For this purpose, one month notice (senior levels three months notice) is given where practicable to help minimise any adverse impacts stemming from operational changes.

## Initiatives to Improve Work-Life Balance

Apart from the above measures, Seylan Bank has taken the following measures to assess and maintain the health and safety of the staff:

- Business continuity plan to address safety for all the staff in the case of an emergency.
- Improving a healthy and safe environment.
- Providing safe drinking water and a standard lighting system in place in all the branches and head office.
- Fire drill carried out annually in order to create awareness among the staff with team leaders, fire wardens, evacuation wardens at each level of head office and branches appointed for such emergencies.
- Introducing flexi working hours which enables staff to manage their personal as well as work life balance.

## Future Outlook

- Further strengthen the procedure for staff recognition and motivation.
- Training and development on the banking products and service excellence.
- Career development.
- Fostering employee voluntarism.

**MPAY AND  
MPOS SYSTEM**



**LOAN  
ORIGINATION  
SYSTEM (LOS)**

# **DIGITALISATION**

The Bank is cognisant that digitalisation is transforming the financial services industry across the world and that it is an opportunity as much as a challenge. Accordingly, the Bank continued to adopt new technology in many aspects of its operations. Plans have already been drawn up to procure specialised software solutions and further streamline the processes.

**LEAN  
BRANCHES**



**MOBILE  
BANKING  
APP**



**CUSTOMER  
ON BOARDING**





We at Seylan Bank have successfully built relationships with a range of business partners who play a pivotal role in our value creation process.

Suppliers and business partners have become more critical stakeholders.

Our key priorities in the above partnerships are:

- To build loyal relationships with suppliers and business partners
- Ethical practice

We at Seylan Bank have successfully built relationships with a range of business partners who play a pivotal role in our value creation process.

The Bank was awarded with the 'Technology and Innovation Outstanding On-Line Self Service Award' by Wells Fargo N.A for being among its top ten customers by region, that demonstrated a commitment to technology and innovation through the highest utilisation of Cyber Inquiry, a Wells Fargo's online information reporting tool.

### Loyal Relationships

The Bank has general memberships in a number of sectoral, industrial and professional organisations and associations as listed below which helps us to keep abreast of local and international best practices in the dynamic space of banking business:

- Credit Information Bureau
- Employers' Federation of Sri Lanka
- Institute of Bankers of Sri Lanka (IBSL)
- Lanka SWIFT User Group (LSUG)
- Sri Lanka Banks' Association (Guarantee) Limited
- The Ceylon Chamber of Commerce, Sri Lanka
- The Clearing Association of Bankers
- The National Chamber of Commerce, Sri Lanka
- Association of Banking Sector Risk Professionals
- Association of Compliance Officers of Bank, Sri Lanka
- Association of Professional Bankers (APB)

Further the Bank has its professional connections with the key professional bodies such as The Institute of Chartered Accountants of Sri Lanka, Chartered Institute of Management Accountants, Association of Chartered Certified Accountants, Certified Management Accountants etc.

Our correspondent banks comprise some of the world's largest financial institutions. We currently maintain relationships with over 300 global correspondent banks which help us in facilitating our international business for our customers.

# 300

No.

**We currently maintain relationships with over 300 global correspondent banks which help us in facilitating our international business for our customers.**

| Country                                    | City       | Name of the Bank                     | Commencement of Relationship |
|--|------------|--------------------------------------|------------------------------|
| <b>Relationship more than 15 years</b>     |            |                                      |                              |
| Australia                                  | Melbourne  | National Australia Bank              | Jan-93                       |
| Australia                                  | Sydney     | Commonwealth Bank of Australia       | Sep-01                       |
| Canada                                     | Toronto    | Royal Bank of Canada                 | Jan-93                       |
| Denmark                                    | Copenhagen | Danske Bank                          | May-94                       |
| Germany                                    | Frankfurt  | Deutsche Bank AG                     | Jan-93                       |
| Hongkong                                   | Hongkong   | Standard Chartered Bank              | Mar-96                       |
| India                                      | Chennai    | Bank of Ceylon – USD                 | Jan-96                       |
| India                                      | Mumbai     | Standard Chartered Bank              | Jan-96                       |
| Japan                                      | Tokyo      | Wells Fargo Bank                     | May-01                       |
| New Zealand                                | Wellington | Bank of New Zealand                  | May-93                       |
| Norway                                     | Oslo       | DNB Nor Bank                         | Jan-93                       |
| Saudi Arabia                               | Riyadh     | Saudi British Bank                   | Apr-96                       |
| Singapore                                  | Singapore  | Overseas Chinese Banking Corporation | Mar-96                       |
| Singapore                                  | Singapore  | Standard Chartered Bank              | Aug-00                       |
| Singapore                                  | Singapore  | United Overseas Bank                 | Dec-95                       |
| United Arab Emirates                       | Dubai      | Mashreq Bank, Dubai                  | Jan-00                       |
| United Kingdom                             | London     | Bank of Ceylon                       | Jan-93                       |
| United Kingdom                             | London     | Barclays Bank                        | Jan-93                       |
| United States of America                   | New York   | Deutsche Bank AG                     | Jan-93                       |
| United States of America                   | New York   | Mashreq Bank, Dubai                  | Jan-00                       |
| United States of America                   | New York   | Standard Chartered Bank              | Mar-96                       |
| United States of America                   | New York   | Wells Fargo Bank                     | May-01                       |
| <b>Relationship between 10 to 15 Years</b> |            |                                      |                              |
| Germany                                    | Frankfurt  | Commerz Bank                         | Apr-02                       |
| Germany                                    | Muenchen   | Unicredit Bank Ag                    | May-02                       |
| Italy                                      | Milano     | Unicredito Italiano                  | Mar-02                       |
| Pakistan                                   | Karachi    | Standard Chartered Bank              | Jan-04                       |

| Country                                   | City      | Name of the Bank              | Commencement of Relationship |
|---|-----------|-------------------------------|------------------------------|
| <b>Relationship between 5 to 10 Years</b> |           |                               |                              |
| Bangladesh                                | Dhaka     | Standard Chartered Bank       | Oct-11                       |
| India                                     | Chennai   | Bank of Ceylon – EUR          | Mar-11                       |
| Italy                                     | Milano    | Banca Popolare Di Milano      | May-08                       |
| South Korea                               | Seoul     | Korea Exchange Bank           | Sep-07                       |
| United Arab Emirates                      | Dubai     | National Bank of Abu Dhabi    | Feb-09                       |
| United States of America                  | New York  | Habib American Bank           | Oct-11                       |
| <b>Relationship Less than 5 years</b>     |           |                               |                              |
| China                                     | Shanghai  | Standard Chartered Bank       | Oct-12                       |
| Hongkong                                  | Hongkong  | National Bank of Abu Dhabi    | May-12                       |
| Oman                                      | Muscat    | Bank Dhofar S.A.O.G.          | Oct-14                       |
| South Korea                               | Seoul     | KB Kookmin Bank – South Korea | Oct-13                       |
| Switzerland                               | Zurich    | Zurcher Kantonalbank          | Sep-15                       |
| Sweden                                    | Stockholm | Danske Bank                   | Dec-15                       |
| United Arab Emirates                      | Dubai     | United Bank Limited           | Apr-13                       |
| United States of America                  | New York  | Standard Chartered Bank       | May-15                       |

## Close Connectivity

Several banks continued to show an interest in establishing working relationships with us. The following banks visited Seylan Bank during the year:

- Wells Fargo Bank N.A, New York
- Standard Chartered Bank, New York
- UBAF, France
- Danske Bank, Denmark
- UniCredit S.p.A., Italy
- Mashreqbank, Dubai
- Caixa Bank, Spain
- Deutsche Bank, New York
- Zurcher Kantonal Bank, Switzerland
- Saudi Hollandi Bank, Saudi Arabia
- Habib American Bank, New York
- HDFC, India
- Bank Dhofar, Sultanate of Oman
- Raiffeisen Bank, Bulgaria
- Rabo, Netherlands
- Credit Europe Bank, Netherlands
- Commerzbank, Germany
- Abu Dhabi Commercial Bank, UAE
- United Bank Limited, UAE
- Bank of Ceylon, Chennai
- UBI Banca, Italy
- Mauritius Commercial Bank

## Sharing Mutual Benefits

In affirmation of the mutually beneficial business relationships with the Bank, the following banks invited our staff for their seminars conducted during this year:

- 'Global Payment Services on the rapidly changing payments business and Global Trade' – by Wells Fargo, Bank N.A.
- 'International Trade Finance & Global Payments' – Standard Chartered Bank
- 'Navigating the new normal' – International Banking seminar – Mashreqbank, Dubai
- 'Global Payment Services, USD payments overview' – Wells Fargo, N.A.
- Dubai Regional Banking Conference – Wells Fargo Bank N.A
- 'Applicability of Marine Insurance in International Trade' by representatives from LOLC Insurance

## New Alliances

During the year the Bank signed an agreement for \$15 Mn. with the National Bank of Ras Al Khaimah.

## New Relationships

We successfully entered into new relationships with the following correspondents which further strengthened our global networking channels:

- Kotak Mahindra Bank, India
- Muscat Bank, Kingdom of Saudi Arabia
- Banco de Sabadell, Spain
- RAK Bank, Dubai
- Discussing with new funding agencies

## Bankers Acceptance Transactions

- Mashreqbank, UAE
- Bank Dhofar, Sultanate of Oman

## Account Relationships

- Agricultural Bank of China – A new CNY account was opened in order to facilitate CNY cross border transactions for clients

## Credit Lines

New interbank limits were established with the following banks:

- NSB, Colombo
- Axis Bank, Colombo.
- Banca UBAE S.p.A., Italy



Suppliers who provide support and outsourced services are essential for business continuity and the smooth functioning of the Bank's operations. **The Bank makes possible attempts to select locally based suppliers and service providers from the vicinity of our branches.**

## Ethical Practices

### Procurement Policy and Practices

All procurements follow a transparent tender procedure. Price negotiations are conducted by designated teams and committees depending on the contract value and focus. Suppliers and supplier information are treated with confidentiality and fair dealing. Thus, in accordance with the Bank's Sustainability Strategy and Corporate Procurement Strategy, it strives to incorporate environmental and social considerations into the procurement process. The Bank follows a concerted policy of non-discrimination irrespective to level of supplier business specially whether they are small-scale suppliers or large corporates.

From an internal perspective, the Bank encourages departments and branch offices to review their consumption of goods and services in order to reduce usage, recycle and reuse, wherever possible, in a bid to operate according to sustainable business principles.

Bank requires the contractors, suppliers and consultants to maintain highest standard of ethics during the procurement and execution of such contracts. We expect businesses who supply goods and services to Seylan Bank to operate responsibly, improving the lives of workers, their communities and the environment. As per our

knowledge we have not identified any incidents of Forced or Compulsory labour or child labour related issues with regard to our suppliers.

### Promote-Locally-based Suppliers

Suppliers who provide support and outsourced services are essential for business continuity and the smooth functioning of the Bank's operations. We contribute to GDP and employment creation, through our locally-based supplier network. The Bank also makes all possible attempts to select locally based suppliers and service providers from the vicinity of our branches especially for repairs and maintenance, janitorial services etc. Stationery which is our main material is being purchased from local suppliers.

### Cost of Services Obtained Locally in the Vicinity of Branches

|   | 2016<br>Rs. Mn. | 2015<br>Rs. Mn. |
|---|-----------------|-----------------|
| Tea and Coffee                              | <b>33.65</b>    | 35.02           |
| Subsidised Lunch for Staff                  | <b>57.07</b>    | 52.90           |
| Supply of Foliage/Maintenance of Fish Tanks | <b>4.87</b>     | 4.96            |
| Janitorial Services                         | <b>71.83</b>    | 60.74           |
| Repair and Maintenance                      | <b>36.33</b>    | 18.72           |
| Drinking Water                              | <b>11.38</b>    | 11.14           |
| Newspapers                                  | <b>3.21</b>     | 2.71            |
| <b>Total</b>                                | <b>218.34</b>   | 186.19          |

## Future Outlook

- Strengthen the networking and strategic alliances
- Maintain sustainable business through long lasting relationships with all the suppliers and business partners
- Promote ethical business practices



# The Bank considers that education has a strong correlation with social and economic development and the role of education becomes the most important in the development of the nation.

## Social Responsibility

Our approach and the strategic direction go beyond the national obligations and aspire to attain the ultimate objective of meeting the social needs, which focus on activities leading towards economic prosperity and development of community and the country at large.

As we endeavour to address national priorities, in this manner, all our efforts are carried out with active participation of the team encompassing our island-wide network of branches. Moreover, aligned to our value-added, strategy driven, Corporate Social Responsibility (CSR) approach, all projects are structured in a manner that would convey truly meaningful value to people and communities across the country while addressing the following national priorities;

- Community Empowerment
- Being compliant

From a business perspective, improvements in education conditions are seen as an important foundation for community development and empowerment.

## Fostering 'Education'

The Bank considers that education has a strong correlation with social and economic development and the role of education becomes the most important in development of human beings. Societies of literate and skilled citizens have more chances of development at the economic and social levels.

### 'Seylan *Pahasara*' Library Project

Since year 2013, Seylan Bank has been visiting less advantaged schools across the island, engaging with hundreds of principals, teachers and thousands of school children along with their parents and also heads of the Education Department through the above CSR drive.

In 2016, the Bank built 40 libraries across the island taking the total number of libraries provided from 80 to 120. Having successfully accomplished 100 libraries as part of its four-year plan, Seylan Bank's CSR journey now continues with its 2nd phase to accomplish 250 libraries by the year 2019.

While replenishing the libraries with quality reading material related to the respective curriculums, Seylan Bank also looked at boosting conducive reading environments in and around the libraries with a view to attract the book lovers and the reading habit. It also comprised of open air libraries in a few schools.

Up-scaling the project, the Bank opted to donate two computers together with two dongles based on the requirements of the respective schools, from its 51st library project onwards, so as to equip those libraries with the eLearning facility. It has helped students to broaden their learning experience by enabling the Internet downloading facility.



#### Island-wide distribution of New Libraries Completed during Year 2016

| Province      | No. of Libraries |
|---------------|------------------|
| Northern      | 3                |
| North Western | 6                |
| Western       | 16               |
| North Central | 2                |
| Central       | 6                |
| Sabaragamuwa  | 1                |
| Eastern       | 5                |
| Uva           | 1                |
| <b>Total</b>  | <b>40</b>        |

Investment Rs. 13.6 Mn.

#### Re-visiting Completed 'Seylan Pahasara' Libraries

The Bank decided to revisit the libraries on a rotational basis, that were completed during previous years to maintain the progressive development of students by way of replenishing the books and enhance the infrastructure.

#### Island-wide Distribution of Re-visits Completed during Year 2016

| Province      | No. of Libraries |
|---------------|------------------|
| Northern      | 1                |
| North Western | 3                |
| Western       | 2                |
| North Central | 1                |
| Central       | 1                |
| Sabaragamuwa  | 1                |
| Eastern       | 1                |
| Uva           | 1                |
| Southern      | 1                |
| <b>Total</b>  | <b>12</b>        |

Investment Rs. 0.5 Mn.

#### Initiatives at the Pilot Village

Parallel to the village adoption concept, the Bank has been supporting the education needs of students in Devamulla, in the Kalutara District, since year 2010, so as to foster education and facilitate gradual upliftment of their livelihood.



Identifying the causes for the economic problems of communities, and taking timely and appropriate action on a continuous basis, the Bank carried out this initiative for the sixth consecutive year to donate books, stationary and footwear. Also the Bank donated an open air class room to promote activity based learning.



#### Education for Differently-abled Children

Bank collaborated with the 'Sunera' Foundation in year 2015 to sponsor one workshop each for three consecutive years and as such the second year sponsorship (Rs. 350,000) was made to nurture educational needs of more than 25 differently-abled children comprised of each workshop conducted at a time.

#### Scholarship Programmes

Passing the scholarship examination enable students to receive a better education from a privileged school. Making all their dreams come true, Seylan Bank has been offering continuous support to students by providing them access to modulated scholarship seminars at which theoretical knowledge is imparted in an interactive delivery plan.



#### Step by Step to Financial Literacy

##### 'Tikiri Pola' Engagements with the Pre-Schools

The Seylan Bank visits schools throughout the island and meets primary students, their parents and teachers to organise mini fair in the schools' premises to inculcate the habit of saving from a tender age. This motivates them to know about the characters and characteristics of a Bank in a very simple approach. Seylan 'Tikiri Pola' is becoming a simple and fascinating outbound

experience famous amongst pre-school children. During the year the Bank has successfully conducted 48 *Tikiri Pola* events across the country.



### Kid's Banking Day

Seylan Bank has been conducting a special Kids Banking Day once a month to influence visits of children and their parents to our branch premises. This platform enables us to engage with them through various means so as to familiarise them with the formal banking channels, with better understanding and literacy.

### Philanthropic CSR

#### Donation for Flood Victims (Over Rs. 10 Mn.)

Seylan Bank partnered with the EBC Media Network to assist the public who were affected by the flood situation in the year 2016. The Bank made a sizable financial donation to the notable 'Sathkara' aid programme, which was directed towards relief operations amongst the flood victims. The employees of Seylan Bank too joined the 'Sathkara' team to visit the displaced victims and distribute rations.

Further, a special bank account number was created to support the victims to make sure that anyone who reaches out could conveniently make donations to those who were in need.

Seylan Bank introduced an SMS service for its credit cardholders, whereby cardholders can assist the flood relief by donating via an SMS. The Bank's islandwide network of 166 banking centres were mobilised as collection points for dry rations and water bottles. Seylan Bank, living up to its motto of being the 'The Bank with a Heart' made this initiative as a part of their social responsibilities.

### Staff Voluntarism

Seylan Bank promotes staff volunteerism since many of the staff are willing to collaborate with the CSR arm of the Bank through various means. Living up to the Seylan Bank's CSR objectives, our team voluntarily raised to donate medicine worth of Rs. 0.85 Mn. to 'Apeksha' Hospital, Maharagama, in an exemplary action to commemorate the Vesak festival meaningfully.



#### A Stronger Hand to Reach the Pinnacle of Mount Everest

Seylan Bank generously sponsored the experienced mountaineer duo, Ms. Jayanthi Kuru-Utumpala and Mr. Johann Peiris, the first ever Sri Lankans to reach the pinnacle of Mount Everest on 21st May 2016.



### Other Sponsorships, Donations and Philanthropy

Seylan Bank pays due attention to needs and wants of people with whom a huge network of communities are created across the delivery channels and interacted heavily through various social engagements. It is considered as an integral part of a long-term stakeholder relationship.

### Housing Loans

Customising the loan product with an array of options for a housing solution, from the purpose of purchasing a block of land, constructing a house, renovating, extending or completing an existing house or condominium, apartment, undertaking home improvement requirements, such as improving the interior décor in addition to, upgrading the furniture, purchasing electrical appliances, installing pantry cupboards and even landscaping of many middle and low-earning segment of the economy were catered and satisfied with easy and flexible terms and conditions being imposed.

Seylan Bank also encouraged savings, employment and investment opportunities around the country through various goods and supplies that were related to housing and construction industries such as carpentry, masonry and other related activities which would also stimulate indirect employment and uplift socio-economic states of low and middle social circles. Following table shows the distribution of housing loans granted over the years:

|                              | 2016  | 2015  |
|------------------------------|-------|-------|
| No. of Housing Loans Granted | 1,033 | 1,235 |
| Amount Granted (Rs. Mn.)     | 3,315 | 4,713 |

### Being a Responsible Corporate Citizen

Seylan Bank upholds a stringent compliance and adherence momentum on all statutory and other legal contexts to ensure its operations are perfectly aligned to safeguard interests of all stakeholders. It permits to maximise their benefits while staying agile with a resilient banking protocol in a sustainable landscape.

Some of salient provisions on above effect are as tabulated below:

| Compliance  | Level/Status of Compliance and actions taken   |
|---|--|
| Percentage and total number of business units analysed for risk in relation to corruption and percentage of employees trained in the Bank's anti-corruption policies and procedures | Bank identifies through audit trail the prevailing gaps and addresses them with customised training programmes as listed below.  |
| Actions taken in response to incidents of corruption  | Banks are highly regulated since it uses resources of public and shareholders for credit creation and investment purposes. Therefore there is a fiduciary responsibility to manage such money in the best interest of the stakeholders.<br><br>The Seylan Bank carries out its operations with very stringent controls, internal audit procedures, and disciplinary procedures in a manner safeguarding this conviction. |
| Participation in public policy development  | The Government of Sri Lanka encourages our rational proposals and invites us to partner with its new policy formulations in relation to Government Budget and tax laws etc.  |
| Total value of financial and in kind contributions to political parties and politicians   | The Bank has carried out its transactions in the ordinary course of business and on an arm's-length basis and there were no contributions made to political parties or politicians.  |
| Number of legal actions taken for anti-competitive behaviours   | Bank always complies with the laws and regulations of the country in handling marketing campaigns, displaying banners, conducting sales and road shows campaigns, using sound systems or on any other such occasions without any form of financial mis-selling. Bank did not encounter any legal action for any anti-competitive behaviour during the year.  |
| Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations   | There were no fines or non-monetary sanctions during the year under review.<br><br>The Bank has complied with all laws and regulations applicable to the Bank. The Monthly compliance report is tabled at the Board as a monitoring tool.  |

## Training for Being Responsible

| Type of Training          | 2016              |                     | 2015              |                     |
|---------------------------|-------------------|---------------------|-------------------|---------------------|
|                           | No. of Programmes | No. of Participants | No. of Programmes | No. of Participants |
| General Banking Practices | 218               | 2,864               | 209               | 3,147               |
| Anti-Money Laundering/KYC | 14                | 397                 | 8                 | 362                 |
| System Security           | 9                 | 131                 | 14                | 373                 |
| Accounting and Auditing   | 16                | 195                 | 14                | 442                 |

## Promote Financial Inclusiveness and Fostering Investments

We understand the different levels of capacity of the community and accordingly cater to a variety of people with the most appropriate solution. Seylan Bank has always been the banker to the middle and low-level income segments, guiding them in their business, so that they are able to contribute to the country's GDP and create employment opportunities in their respective fields, thus uplifting the standards of people.

**CASA  
ENABLERS**



**RESOURCE  
OPTIMISATION**

# **ENHANCING PRODUCTIVITY**

Productivity is the efficiency with which the Bank transforms its inputs into outputs through the Bank's business model.

Achieving higher levels of productivity is therefore a win-win proposition for both the Bank and the stakeholders since it enables delivery and deriving of more value to and from the stakeholders.

**BUSINESS  
INTELLIGENCE  
AND ANALYTICAL  
TOOLS**



**SERVICE  
ORIENTED  
IT ARCHITECTURE**

Supporting the needy sectors for  
Economic Development of the country –  
details of refinance schemes.

|   | Donor                                     | Eligible Sectors   | Loans Granted in 2016 |                   | Loans Granted in 2015 |                    |
|---|---|--|-----------------------|-------------------|-----------------------|--------------------|
|   |   |  | No. of Loans          | Amount<br>Rs. Mn. | No. of Loans          | Amount<br>Rs. Min. |
| <b>Refinance</b>  |   |  |                       |                   |                       |                    |
| <i>Kapruka Ayojana</i> Credit Scheme                                  | GOSL*                                     | Coconut cultivation  | <b>37</b>             | <b>16.11</b>      | 25                    | 7.5                |
| 'Saubagya' Prosperity Loan Scheme                                     | GOSL*                                     | Small and medium scale entrepreneurs                                 | <b>29</b>             | <b>19.07</b>      | 47                    | 67.42              |
| Small and Micro Leader and Entrepreneur Promotion Project (SMILE III) | Japan Bank for International Co-operation | Micro, small and medium scale entrepreneurs engaged in manufacturing | <b>145</b>            | <b>1,058.31</b>   | 19                    | 71.59              |
| <b>Subsidy Loan Schemes</b>   |   |  |                       |                   |                       |                    |
| Commercial scale Dairy development loan scheme                        | GOSL*                                     | Commercial scale dairy farmers and processors of dairy products      | <b>17</b>             | <b>33.85</b>      | 5                     | 4.62               |
| New Comprehensive Rural Credit scheme                                 | GOSL*                                     | Agriculture  | <b>1,016</b>          | <b>192.39</b>     | 505                   | 42.45              |
| Working capital loan scheme for Tea factories                         | GOSL*                                     | Tea  | <b>4</b>              | <b>166.79</b>     | 2                     | 12.02              |

\* Government of Sri Lanka.

## Future Outlook

- Comprehensive CSR plan to uplift national priorities in education together with 250 libraries and other education related engagements.
- Promote IT literacy in an e learning environment through the library project.
- Promoting investment, local purchases and developing entrepreneurs to widen the level of engagement whilst mitigating risks and losses prudently.
- Fostering SME investments and business opportunities.



## Environmental Stewardship



### Environmental Policy

We have a long-standing commitment to minimising both direct and indirect impact on our environment arising from our business activities. Whilst at the same time doing everything we can do to protect and replenish the natural resources around us.

Seylan Bank has a long-term commitment to look at the composition of every financial and other transaction in the environment perspective so as to accurately identify and implement strategies with due diligence to mitigate direct or indirect detrimental impact if any.

Seylan Bank is continuously monitoring efficiency in utilisation of resources such as electricity, paper etc. in an optimal manner in the best interest of future generations.

Given the nature of the business the impact of Bank's operations on the environment is limited. However Seylan Bank has taken many initiatives to make its operations more sustainable. In doing so the Bank focuses to optimise energy efficiency and minimise paper wastage so as to reduce its carbon footprint while carrying out green initiatives to boost positive impact.

Details of the Bank's sector-wise credit exposure are given as a Note to the Financial Statements on page 216.

### Ethical Environmental Practices

Our indirect adverse impact to environment if any that may arise due to granting loans and advances to our customers is screened and mitigated with the best environmental management practices.

Also being obliged to local environmental laws, rules, regulations, and other conditions, the Bank capitalises not only in obtaining Environmental Protection Licenses (EPL) in compliance with the guidelines stipulated by the Central Environmental Authority (CEA) but also in the implementation and maintenance of the standards specified therein as a regular post monitoring and corrective action tool throughout the loan payback period. This is held as a material requirement of the respective borrower to whom the funding is availed by us.

Our strategic priorities in 2016 were:

1. Resource efficiency
2. Ethical environmental practices

## Paperless Business Operations

Paper usage varies due to nature of the business of banking. Following practices are put into right place to effectively negate over dependency and reduce dependency on paper except for instances where such paper based legitimate agreements and disclosures are material to have in physical form. Accordingly Bank has been progressing with the following eBased processes being implemented with appropriate advancements done in order to improve efficiency and also to avail user friendliness and acceptance:

- While ensuring transparency and lucidity, number of pages in Annual Report 2016 was reduced to a greater extent, also prudently insisting on the required copies.
- Streamlining many back office functions of the Bank.
- Top-to-bottom communication is further facilitated through more user friendly eCircular infrastructure in order to discourage and eliminate printing of paper.
- Having ensured secured connectivity to iPads eBoard paper system is used successfully.
- Specific Training Programmes are facilitated across eMedia to eliminate printing of training materials.
- Biometric Attendance has been implemented to eliminate printing of records for various purposes.
- In order to expel paper-based operation from loan books, a 'Loan Originating System' is tested under pilot run in model branches, for its feasibility and live launch with necessary modifications with total compliance to audit trails.

## Energy Management

Bank's primary source of energy is electricity. We are continuously engaged in an energy audit trail to measure and rationalise our energy usage. As an energy efficient initiative all new branches are installed with inverter type air conditioners and LED bulbs.

## Water Management

Though our operations have no direct impact on or from water, we have put in place a mechanism to reduce water footprint through cost-saving and other initiatives, in addition to creating regular employee awareness.

### Volume of Water Withdrawal by Source

| Source   | Year and Water Usage in Units (U) per Employee(e) |           |               |           |               |           |
|--|---|-----------|---------------|-----------|---------------|-----------|
|  | 2016  | U/e       | 2015          | U/e       | 2014          | U/e       |
| Tube wells, Deep wells and from National Water Supply (Litres) | <b>79,335</b>                                     | <b>25</b> | <b>81,828</b> | <b>27</b> | <b>77,344</b> | <b>27</b> |

Although new branches were added to our distribution network and also new recruitments were absorbed into the cadre, our best practices have yielded productive results as proved by the numbers in the table above.

## Waste Management

Seylan Bank is conscious and cautious about waste that may damage the earth's eco systems and obstruct and arrest quality of life for the inhabitants. During the year following initiatives were carried out to deal with possible waste management practices:

- Replaced Computers with old versions and accessories were identified to be repaired for a worthy cause and to be coupled with a CSR initiative.
- Imposed an eWaste collecting period at our Head Office floors for easy collection.
- With the progression of paperless operational process, significant reduction on toner and print cartridges was achieved.

## Biodiversity

The Bank has no operational sites owned, leased or managed in protected areas of biodiversity. Though there are no significant, direct or indirect, impacts on bio diversity, we are conscious and appreciate the efforts to preserve the same through our funding projects.

## Emission Management

The Bank is committed to minimise emissions both directly and indirectly through measurement and monitoring of staff travel and thereby reducing fuel consumption and minimising carbon emission. As such we educate our drivers on safe driving and on other regulations which indirectly support the control of emission.

## Transport

The following initiatives were adopted to mitigate the carbon footprint and emissions through the Bank's transport process.

- Streamlining Staff Commuting and Official Travel.
- Offering Staff Trainings via eChannel.
- Prudent Supplies Management and establish the Economic Order Quantity.
- Streamlined the Mail Delivery System through an efficient courier engagement.
- Promoting Regional Level Training Programmes and Meetings.
- Regular Repairs and engine tunings of vehicles and Generators.
- Driver Trainings on Technical and Other Aspects.
- Authorising Branches to Hire vehicles from their locality.

As elaborated above Bank's Carbon Footprint is held at minimal levels through above environmental best practices.

## Supplier Environmental Assessment

We do not directly monitor the environmental impact of our own suppliers as its impact is insignificant and remote to both the stakeholders and the Bank.




## Environmental Grievance Mechanisms





During the year, there were no environmental grievance resulting from the Bank's operations.

## Future Outlook

- Create awareness on importance of the environment internally and externally.
- Conceptualise an effective and pragmatic Environment and Social Management Policy and implementation.
- Create a culture that promotes voluntary and passionate engagement towards making an effective contribution to the environment with collaborative stakeholder engagements.

## Sustainability Performance Indicators

| Stakeholder Group   | Indicator of Performance                             | Achievement    |         |         |         |         | GRI Indicator |
|---|--|----------------|---------|---------|---------|---------|---------------|
|   |  | 2016           | 2015    | 2014    | 2013    | 2012    |               |
| <br><b>Investors</b>   | Financial Value Added (Rs. Mn.)                      | <b>12,290</b>  | 11,710  | 10,238  | 8,280   | 7,660   | G4-EC1        |
|   | Economic Value Added (Rs. Mn.)                       | <b>942</b>     | 1,656   | 2,685   | 1,129   | 81      | G4-EC1        |
|   | Profit after Tax (Rs. Mn.)                           | <b>4,010</b>   | 3,831   | 3,079   | 2,316   | 2,064   | G4-EC1        |
|   | Earnings per Share (Rs.)                             | <b>11.63</b>   | 11.11   | 8.92    | 6.74    | 6.11    | G4-EC1        |
|   | Return on Equity (%)                                 | <b>15.18</b>   | 15.62   | 13.45   | 11.40   | 11.42   | G4-EC1        |
|   | Return on Assets (%)                                 | <b>1.23</b>    | 1.40    | 1.33    | 1.16    | 1.18    | G4-EC1        |
|   | Dividend per Share (Rs.)                             | <b>3.25</b>    | 2.75    | 2.50    | 2.25    | 2.00    | G4-EC1        |
|   | Customer Deposits (Rs. Mn.)                          | <b>273,456</b> | 224,525 | 185,924 | 167,371 | 146,727 | G4-9          |
|   | No. of KYC and Anti-Money Laundering Programmes      | <b>14</b>      | 8       | 9       | 105     | 43      | G4-SO4        |
|   | Penalties Arising from Non-Compliance to Laws        | <b>Nil</b>     | Nil     | Nil     | Nil     | Nil     | G4-PR7        |
| <br><b>Customers</b> | No. of Banking Centers                               | <b>166</b>     | 159     | 157     | 151     | 147     | G4-8          |
|   | No. of ATMs  | <b>202</b>     | 182     | 177     | 158     | 154     | G4-8          |
|   | Total Customer Advances (Gross) (Rs. Mn.)            | <b>242,073</b> | 198,942 | 161,975 | 144,167 | 132,974 | G4-9          |
|   | Number of Housing Loans                              | <b>5,864</b>   | 5,934   | 5,995   | 6,089   | 6,433   | G4-9          |
|   | Value of Housing Loans (Rs. Mn.)                     | <b>12,515</b>  | 11,059  | 9,174   | 8,683   | 9,055   | G4-9          |
|   | No. of <i>Tikiri</i> Kids Events Held                | <b>162</b>     | 170     | 95      | 56      | 45      | G4-SO1        |
|   | No. of Student Savings Centres                       | <b>100</b>     | 95      | 93      | 86      | 81      | G4-8          |
|   | No. of Customer Complaints                           | <b>74</b>      | 63      | 72      | 77      | 91      | G4-SO1        |
| <br><b>Employees</b> | Turnover Rate (%)                                    | <b>4.32</b>    | 4.11    | 4.00    | 4.41    | 5.34    | G4-LA1        |
|   | Permanent Employees (%)                              | <b>88</b>      | 92      | 96      | 94      | 96      | G4-10         |
|   | Average Benefits per Employee (Rs. '000)             | <b>1,457</b>   | 1,360   | 1,332   | 1,160   | 1,060   | G4-LA13       |
|   | Staff Covered by Health Plan (%)                     | <b>100</b>     | 100     | 100     | 100     | 100     | G4-LA5        |
|   | Work-Related Fatalities or Lost Days                 | <b>Nil</b>     | Nil     | Nil     | Nil     | Nil     | G4-LA6        |
|   | Women Employees (%)                                  | <b>43</b>      | 43      | 40      | 39      | 39      | G4-LA12       |
|   | Women in Corporate and Middle Management (%)         | <b>29</b>      | 27      | 26      | 25      | 24      | G4-LA12       |
|   | Union Membership (%)                                 | <b>93</b>      | 93      | 98      | 98      | 91      | G4-11         |
|   | No. of Pending Human Rights Cases Against the Bank   | <b>Nil</b>     | Nil     | Nil     | Nil     | Nil     |               |
|   | No. of Participants on External and Foreign Training | <b>365</b>     | 341     | 370     | 388     | 325     | G4-LA10       |

| Stakeholder Group  | Indicator of Performance  | Achievement      |           |           |           |           | GRI Indicator |  |
|--|---|------------------|-----------|-----------|-----------|-----------|---------------|--|
|  |   | 2016             | 2015      | 2014      | 2013      | 2012      |               |  |
| <br><b>Community</b>                                  | Contribution to Community Projects (Rs. Mn.)                            | <b>17.50</b>     | 7.80      | 0.93      | 4.54      | 0.19      | G4-SO1        |  |
|  | Contribution to Education-Related Pursuits (Rs. Mn.)                    | <b>16.70</b>     | 11.06     | 6.70      | 2.49      | 0.34      | G4-SO1        |  |
|  | No. of Loans Granted under 'Seylan Scholar'                             | <b>63</b>        | 61        | 71        | 57        | 55        | G4-SO1        |  |
| <br><b>Suppliers</b>                                  | Purchases from Locally-based Supplies (Rs. Mn.)                         | <b>218.30</b>    | 186.19    | 173.98    | 173.97    | 143.17    | G4-EC9        |  |
|  | No. of Complaints Received from Bidders and Suppliers                   | <b>Nil</b>       | Nil       | Nil       | Nil       | Nil       | G4-SO1        |  |
| <br><b>Environment</b>                                | Electricity Consumed (Units kWh) ('000)                                 | <b>9,165</b>     | 9,362     | 9,342     | 9,587     | 9,450     | G4-EN3        |  |
|  | Electricity Consumption – Units per Employee (kWh)                      | <b>2,896</b>     | 3,034     | 3,170     | 3,144     | 3,087     | G4-EN3        |  |
|  | Water Consumption – Units   | <b>79,335</b>    | 81,828    | 77,344    | 77,746    | 83,967    | G4-EN8        |  |
|  | Water Consumption – Units per Employee                                  | <b>25</b>        | 27        | 26        | 26        | 27        | G4-EN8        |  |
|  | Generator Diesel Consumption (Litres)                                   | <b>71,674</b>    | 62,251    | 73,211    | 71,603    | 97,189    | G4-EN3        |  |
|  | Petrol Consumption (Litres)   | <b>17,386</b>    | 21,382    | 30,977    | 24,923    | 27,436    | G4-EN3        |  |
|  | Diesel Consumption (Litres)   | <b>42,990</b>    | 35,400    | 44,878    | 32,387    | 56,531    | G4-EN3        |  |
|  | Lubricant Consumption (Litres)  | <b>685</b>       | 481       | 1,261     | 387       | 591       | G4-EN1        |  |
|  | Total Business Travels (km)   | <b>396,625</b>   | 545,002   | 363,134   | 356,410   | 420,150   | G4-EN30       |  |
|  | No. of A4 Paper Purchased – Packets                                     | <b>23,498</b>    | 21,000    | 19,441    | 18,009    | 16,950    | G4-EN1        |  |
|  | Weight of A4 Paper (kg)   | <b>281,976</b>   | 252,000   | 233,292   | 216,108   | 203,400   | G4-EN1        |  |
|  | A4 Packets usage per Business Unit                                      | <b>141</b>       | 132       | 124       | 119       | 115       | G4-EN1        |  |
|  | Waste Paper Recycled (kg)   | <b>102,237</b>   | 107,055   | 86,280    | 79,237    | 120,032   | G4-EN23       |  |
|  | <b>Savings From Recycled Papers</b>                                     |                  |           |           |           |           |               |  |
|  | Trees   | <b>1,738</b>     | 1,820     | 1,466     | 1,347     | 2,044     | G4-EN27       |  |
|  | Water (Litres)  | <b>3,249,092</b> | 3,402,208 | 2,741,978 | 2,518,151 | 3,822,497 | G4-EN27       |  |
|  | Electricity (kWh)   | <b>408,948</b>   | 428,220   | 345,421   | 316,948   | 481,120   | G4-EN6        |  |
|  | Oil (Litres)  | <b>179,426</b>   | 187,882   | 151,421   | 139,060   | 211,091   | G4-EN6        |  |
|  | Land Fill (Cubic Meters)  | <b>306</b>       | 321       | 259       | 238       | 361       | G4-EN27       |  |
|  | Carbon Footprint (kg)   | <b>20,447</b>    | 21,411    | 17,256    | 15,847    | 24,006    | G4-EN27       |  |
| <br><b>Government &amp; Government Institutions</b> | Income Tax (Rs. Mn.)  | <b>1,723</b>     | 1,946     | 1,571     | 1,138     | 1,135     | G4-EC1        |  |
|  | Value Added Tax and Nation Building Tax on Financial Services (Rs. Mn.) | <b>1,349</b>     | 1,256     | 1,203     | 749       | 696       | G4-EC1        |  |
|  | Total Tax (VAT/NBT and Income Tax % of PBT)                             | <b>43</b>        | 46        | 47        | 45        | 47        | G4-EC1        |  |

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## Financial Calendar – 2016

| Financial Statements   | Released to the Colombo Stock Exchange (CSE)   | Published in the Newspapers |
|--|--|-----------------------------|
| <b>Interim (Unaudited) Financial Statements</b>                                |  |                             |
| 4th Quarter/Year ended 31st December 2015                                      | 25th February 2016   | 9th March 2016 (Audited)    |
| 1st Quarter/Three months ended 31st March 2016                                 | 26th April 2016  | 4th May 2016                |
| 2nd Quarter/Six months ended 30th June 2016                                    | 29th July 2016   | 5th August 2016             |
| 3rd Quarter/Nine months ended 30th September 2016                              | 28th October 2016  | 3rd November 2016           |
| <b>Final Audited Financial Statements –</b>                                    |  |                             |
| Year ended 31st December 2015 and Annual Report – 2015                         | Issued to the CSE on 3rd March 2016<br>Circulated to the Shareholders – March 2016<br>Circulated to the Debenture Holders – March 2016 |                             |
| <b>29th Annual General Meeting:</b>  | Held on 31st March 2016  |                             |
| <b>First and Final Ordinary Dividend for the year ended 31st December 2015</b> | Paid on 11th April 2016  |                             |

## Proposed Financial Calendar – 2017

|  |  |  |
|--|--|--|
| <b>Audited Interim Financial Statements</b>                      | 4th Quarter/Year ended 31st December 2016 –<br>To be released to the Colombo Stock Exchange (CSE)  | On or Before<br>23rd February 2017                               |
| <b>Final Audited Financial Statements and Annual Report 2016</b> | Year ended 31st December 2016 <ul style="list-style-type: none"> <li>To be released to the CSE and circulated to the Shareholders (including Notice of Annual General Meeting to the Shareholders)</li> <li>To be circulated to the debenture holders</li> </ul> | 15 Working<br>Days Prior to<br>31st March 2017<br>Mid March 2017 |
| <b>30th Annual General Meeting (AGM)</b>                         | Scheduled for  | 31st March 2017  |
| <b>First and Final Ordinary Dividend</b>                         | For the year ended 31st December 2016<br>(subject to approval of the Shareholders at the AGM)  | On or Before<br>12th April 2017                                  |
| <b>Interim (unaudited or audited) Financial Statements</b>       | Statements in respect of the four quarters of 2017 will be released/published as per the Listing Rules of the Colombo Stock Exchange   |  |

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 161 to 262 of this Annual Report in terms of Sections 150 (1), 151 (1), 152 (1) and 153 (1) of the Companies Act, give a true and fair view of the state of affairs of the Bank and the Group and the profit or loss for the year ended 31st December 2016;
- the Financial Statements for the year ended 31st December 2016 presented in this Annual Report are consistent with the underlying books of account of the Bank and are in conformity with the Sri Lanka Accounting Standards (SLFRS/LKAS), Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act No. 30 of 1988 (as amended), Directions and Guidelines of the Central Bank of Sri Lanka, the Listing Rules of the Colombo Stock Exchange, and the Code of Best Practice on Corporate Governance (2013) issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL);

- in preparing the Financial Statements for the year ended 31st December 2016 appropriate accounting policies have been selected and applied on a consistent basis with material departures if any disclosed in the Financial Statements together with the rationale for same;
- proper books of account have been maintained and have also taken reasonable steps to ensure the accuracy and reliability of accounting records.

The Directors further confirm that –

- The financial reporting system was reviewed by the Board through the management accounts submitted monthly at Board Meetings. The Bank's Interim and Audited Financial Statements were also reviewed by the Board Audit Committee and the Board prior to the said statements being released and published.
- The Financial Statements of the Bank and the Group have been certified by the Bank's Chief Financial Officer and the Chief Executive Officer, the persons responsible for their preparation and signed by two Directors of the Bank on 21st February 2017.

### 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 160 of this Annual Report.

### Internal Control Mechanism Over Financial Reporting

The Board is also responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the Bank's assets and ensure continuity of operations. To this end, the Board has identified principal risks and implemented a system to continually assess such risks and established an appropriate control environment for ensuring proper monitoring of effectiveness of internal controls and correction of deficiencies.

The Board's Statement on the effectiveness of Bank's internal control mechanism over financial reporting, prepared in accordance with the Guidelines issued by The Institute of Chartered Accountants of Sri Lanka (ICASL) and in compliance with Section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007 (as amended) is published on pages 55 to 56 and Bank's Independent Auditors' Report on our assessment of Bank's internal controls over financial reporting is published on page 57 of this Annual Report.

### Solvency

The Board of Directors confirm that they have authorised the distribution of the proposed dividend having been satisfied that the Bank would meet the solvency test in terms of the provisions of the Companies Act No. 07 of 2007 immediately after the dividend payment. The Board has obtained a statement of solvency from the External Auditors in relation to the proposed dividend payment.

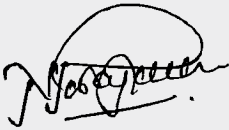
The Directors confirm that to the best of their knowledge and belief, all statutory payments due and payable to all statutory and regulatory authorities as at the Balance Sheet date, have been paid by the Bank and its subsidiary or where relevant provided for.

## 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

21st February 2017  
Colombo



The Financial Statements of Seylan Bank and the Group are prepared in compliance with the requirements of the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by The Institute of Chartered Accountants of Sri Lanka, the requirements of the Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto, the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

The Board of Directors and Management of the Bank accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgements relating to the Financial Statements were made on a prudent and reasonable basis, in order that the Financial Statements reflect in true and fair manner, the form and substance of transactions and reasonably present the Company's state of affairs. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal controls and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which are reviewed, evaluated and updated on an ongoing basis. Our Internal Auditors have conducted periodic audits to

provide reasonable assurance that the established policies and procedures of the Bank were consistently followed. However there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements of the Bank and the Group were audited by Messrs KPMG, Chartered Accountants, and their report on page 160 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.

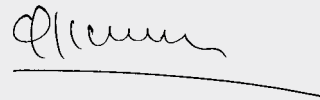
The Audit Committee pre-approves the audit and non-audit services provided by Messrs KPMG in order to ensure that the provision of such services does not impair Messrs KPMG's independence.

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 and regulations and guidelines and there are no material litigations against the Group, other than those disclosed in Note 46 of the Financial Statements in this Annual Report.



**Kapila Ariyaratne**  
Director/Chief Executive Officer



**Ms. Champika Dodanwela**  
Chief Financial Officer

21st February 2017



**KPMG**  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
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## To the Shareholders of Seylan Bank PLC

### Report on the Financial Statements

We have audited the accompanying financial statements of Seylan Bank PLC ('the Company'), and the Consolidated Financial Statements of the Company and its subsidiary ('the Group'), which comprise the statement of financial position as at 31st December 2016, and the statements of income, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information set out on pages 161 to 262.

### Board's Responsibility for the Financial Statements

The Board of Directors ('Board') is responsible for the preparation of these Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as the Board determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards.

Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the Auditors' judgement, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the Auditor considers internal control relevant to the entity's preparation of the Financial Statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the Financial Statements.

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

### Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the consolidated financial position of the Group as at 31st December 2016 and of its consolidated financial performance

and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the followings:

- a. The basis of opinion and scope and limitations of the audit are as stated above
- b. In our opinion:
  - we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company,
  - The Financial Statements of the Company give a true and fair view of its financial position as at 31st December 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
  - The Financial Statements of the Company and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

**Chartered Accountants**  
Colombo

21st February 2017

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

| For the Year ended 31st December                              | Note | BANK              |                  |             | GROUP             |                  |             |
|---|------|-------------------|------------------|-------------|-------------------|------------------|-------------|
|   |      | 2016<br>Rs. '000  | 2015<br>Rs. '000 | Change<br>% | 2016<br>Rs. '000  | 2015<br>Rs. '000 | Change<br>% |
| <b>Income</b>   | 6    | <b>38,092,193</b> | 28,586,081       | 33.25       | <b>38,132,079</b> | 28,628,850       | 33.19       |
| Interest Income   |      | <b>33,457,232</b> | 24,151,349       | 38.53       | <b>33,472,831</b> | 24,166,589       | 38.51       |
| Less: Interest Expenses                                       |      | <b>20,209,785</b> | 12,325,966       | 63.96       | <b>20,193,058</b> | 12,309,274       | 64.05       |
| <b>Net Interest Income</b>                                    | 7    | <b>13,247,447</b> | 11,825,383       | 12.03       | <b>13,279,773</b> | 11,857,315       | 12.00       |
| Fee and Commission Income                                     |      | <b>3,223,231</b>  | 2,811,140        | 14.66       | <b>3,222,864</b>  | 2,810,961        | 14.65       |
| Less: Fee and Commission Expenses                             |      | <b>119,983</b>    | 113,694          | 5.53        | <b>125,626</b>    | 120,450          | 4.30        |
| <b>Net Fee and Commission Income</b>                          | 8    | <b>3,103,248</b>  | 2,697,446        | 15.04       | <b>3,097,238</b>  | 2,690,511        | 15.12       |
| <b>Net Interest, Fee and Commission Income</b>                |      | <b>16,350,695</b> | 14,522,829       | 12.59       | <b>16,377,011</b> | 14,547,826       | 12.57       |
| Net Trading Income  | 9    | <b>863,383</b>    | 1,254,941        | (31.20)     | <b>861,750</b>    | 1,253,941        | (31.28)     |
| Net Gain on Financial Investments                             | 10   | <b>11,895</b>     | 232,469          | (94.88)     | <b>11,895</b>     | 232,469          | (94.88)     |
| Other Operating Income (Net)                                  | 11   | <b>536,452</b>    | 136,182          | 293.92      | <b>562,739</b>    | 164,890          | 241.28      |
| <b>Total Operating Income</b>                                 |      | <b>17,762,425</b> | 16,146,421       | 10.01       | <b>17,813,395</b> | 16,199,126       | 9.97        |
| Net Impairment Loss   | 12   | <b>954,187</b>    | 488,896          | 95.17       | <b>954,371</b>    | 488,896          | 95.21       |
| <b>Net Operating Income</b>                                   |      | <b>16,808,238</b> | 15,657,525       | 7.35        | <b>16,859,024</b> | 15,710,230       | 7.31        |
| <b>Less: Operating Expenses</b>                               | 13   |                   |                  |             |                   |                  |             |
| Personnel Expenses  | 14   | <b>4,610,073</b>  | 4,194,135        | 9.92        | <b>4,642,048</b>  | 4,221,950        | 9.95        |
| Premises, Equipment and Establishment Expenses                |      | <b>2,204,411</b>  | 1,829,888        | 20.47       | <b>2,168,619</b>  | 1,773,493        | 22.28       |
| Other Expenses  |      | <b>2,910,671</b>  | 2,600,551        | 11.93       | <b>2,934,229</b>  | 2,635,936        | 11.32       |
| <b>Operating Expenses</b>                                     |      | <b>9,725,155</b>  | 8,624,574        | 12.76       | <b>9,744,896</b>  | 8,631,379        | 12.90       |
| <b>Operating Profit before Taxes</b>                          |      | <b>7,083,083</b>  | 7,032,951        | 0.71        | <b>7,114,128</b>  | 7,078,851        | 0.50        |
| Value Added Tax and Nation Building Tax on Financial Services |      | <b>1,349,365</b>  | 1,256,240        | 7.41        | <b>1,342,883</b>  | 1,256,240        | 6.90        |
| <b>Operating Profit before Income Tax</b>                     |      | <b>5,733,718</b>  | 5,776,711        | (0.74)      | <b>5,771,245</b>  | 5,822,611        | (0.88)      |
| Income Tax Expense  | 15   | <b>1,723,268</b>  | 1,945,767        | (11.44)     | <b>1,736,355</b>  | 1,936,662        | (10.34)     |
| <b>Profit for the Year</b>                                    |      | <b>4,010,450</b>  | 3,830,944        | 4.69        | <b>4,034,890</b>  | 3,885,949        | 3.83        |
| Profit Attributable to:                                       |      |                   |                  |             |                   |                  |             |
| Equity Holders of the Bank                                    |      | <b>4,010,450</b>  | 3,830,944        | 4.69        | <b>4,013,132</b>  | 3,855,296        | 4.09        |
| Non-Controlling Interest                                      |      | -                 | -                | -           | <b>21,758</b>     | 30,653           | (29.02)     |
| <b>Profit for the Year</b>                                    |      | <b>4,010,450</b>  | 3,830,944        | 4.69        | <b>4,034,890</b>  | 3,885,949        | 3.83        |
| <b>Basic/Diluted Earnings per Share (Rs.)</b>                 | 16   | <b>11.63</b>      | 11.11            | 4.69        | <b>11.63</b>      | 11.18            | 4.09        |

Notes on pages 171 to 262 form an integral part of these Financial Statements.

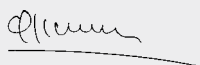
| For the Year ended 31st December                                   | Note   | BANK               |                  |             | GROUP              |                  |             |
|--|--------|--------------------|------------------|-------------|--------------------|------------------|-------------|
|  |        | 2016<br>Rs. '000   | 2015<br>Rs. '000 | Change<br>% | 2016<br>Rs. '000   | 2015<br>Rs. '000 | Change<br>% |
| <b>Profit for the Year</b>   |        | <b>4,010,450</b>   | 3,830,944        | 4.69        | <b>4,034,890</b>   | 3,885,949        | 3.83        |
| <b>Other Comprehensive Income,<br/>Net of Tax</b>                  |        |                    |                  |             |                    |                  |             |
| <b>Items that will never be<br/>Reclassified to Profit or Loss</b> |        |                    |                  |             |                    |                  |             |
| Revaluation of Property,<br>Plant & Equipment                      | 44.2   | <b>822,999</b>     | -                | -           | <b>840,448</b>     | 7,412            | 11,239.02   |
| Actuarial Gain on Defined<br>Benefit Obligations                   | 41.1.7 | <b>54,555</b>      | 66,071           | (17.43)     | <b>55,052</b>      | 65,698           | (16.20)     |
| <b>Items that are or may be<br/>Reclassified to Profit or Loss</b> |        |                    |                  |             |                    |                  |             |
| Net Loss on Re-measuring of<br>Available-for-Sale Financial Assets | 44.4   | <b>(1,222,758)</b> | (1,120,048)      | (9.17)      | <b>(1,223,367)</b> | (1,120,507)      | (9.18)      |
| <b>Other Comprehensive Income<br/>for the Year, Net of Tax</b>     |        | <b>(345,204)</b>   | (1,053,977)      | 67.25       | <b>(327,867)</b>   | (1,047,397)      | 68.70       |
| <b>Total Comprehensive Income<br/>for the Year</b>                 |        | <b>3,665,246</b>   | 2,776,967        | 31.99       | <b>3,707,023</b>   | 2,838,552        | 30.60       |
| Total Comprehensive Income<br>Attributable to:                     |        |                    |                  |             |                    |                  |             |
| Equity Holders of the Bank   |        | <b>3,665,246</b>   | 2,776,967        | 31.99       | <b>3,680,154</b>   | 2,805,940        | 31.16       |
| Non-Controlling Interest   |        | -                  | -                | -           | <b>26,869</b>      | 32,612           | (17.61)     |
| <b>Total Comprehensive Income<br/>for the Year</b>                 |        | <b>3,665,246</b>   | 2,776,967        | 31.99       | <b>3,707,023</b>   | 2,838,552        | 30.60       |

Notes on pages 171 to 262 form an integral part of these Financial Statements.

| As at 31st December  | Note | BANK               |                    |              | GROUP              |                    |              |
|--|------|--------------------|--------------------|--------------|--------------------|--------------------|--------------|
|  |      | 2016<br>Rs. '000   | 2015<br>Rs. '000   | Change<br>%  | 2016<br>Rs. '000   | 2015<br>Rs. '000   | Change<br>%  |
| <b>Assets</b>  |      |                    |                    |              |                    |                    |              |
| Cash and Cash Equivalents                                      | 19   | 8,336,143          | 7,800,488          | 6.87         | 8,336,193          | 7,800,538          | 6.87         |
| Balances with Central Bank of Sri Lanka                        | 20   | 16,211,618         | 8,563,888          | 89.30        | 16,211,618         | 8,563,888          | 89.30        |
| Placements with Banks and Finance Companies                    | 21   | 334,230            | 757,050            | (55.85)      | 334,230            | 757,050            | (55.85)      |
| Derivative Financial Instruments                               | 22   | 115,707            | 130,055            | (11.03)      | 115,707            | 130,055            | (11.03)      |
| Other Financial Assets – Held-for-Trading                      | 23   | 9,060,416          | 6,016,572          | 50.59        | 9,066,980          | 6,024,772          | 50.49        |
| Securities Purchased under Resale Agreements                   |      | 7,317,022          | 2,312,548          | 216.41       | 7,317,022          | 2,312,548          | 216.41       |
| Customer Loans and Receivables                                 | 24   | 236,020,197        | 193,103,942        | 22.22        | 236,020,197        | 193,103,942        | 22.22        |
| Financial Investments – Available-for-Sale                     | 25   | 45,863,945         | 48,038,510         | (4.53)       | 45,900,746         | 48,075,921         | (4.52)       |
| Financial Investments – Held-to-Maturity                       | 26   | 18,412,060         | 18,147,773         | 1.46         | 18,479,155         | 18,229,045         | 1.37         |
| Investment in Subsidiary                                       | 27   | 1,153,602          | 1,151,929          | 0.15         | -                  | -                  | -            |
| Group Balances Receivable                                      | 28   | 30,102             | 30,000             | 0.34         | -                  | -                  | -            |
| Property, Plant & Equipment                                    | 29   | 4,329,522          | 3,227,752          | 34.13        | 5,971,693          | 4,875,266          | 22.49        |
| Leasehold Rights   | 30   | 42,370             | 44,316             | (4.39)       | 590,701            | 600,057            | (1.56)       |
| Investment Properties  | 31   | -                  | -                  | -            | 854,078            | 1,089,920          | (21.64)      |
| Intangible Assets  | 32   | 262,112            | 249,890            | 4.89         | 262,112            | 249,890            | 4.89         |
| Assets Held-for-Sale   | 34   | -                  | -                  | -            | 226,827            | -                  | -            |
| Other Assets   | 35   | 8,523,510          | 6,755,420          | 26.17        | 8,562,182          | 6,772,672          | 26.42        |
| <b>Total Assets</b>  |      | <b>356,012,556</b> | <b>296,330,133</b> | <b>20.14</b> | <b>358,249,441</b> | <b>298,585,564</b> | <b>19.98</b> |
| <b>Liabilities</b>   |      |                    |                    |              |                    |                    |              |
| Due to Banks   | 36   | 17,728,293         | 19,784,171         | (10.39)      | 17,728,293         | 19,784,171         | (10.39)      |
| Derivative Financial Instruments                               | 22   | 86,654             | 50,013             | 73.26        | 86,654             | 50,013             | 73.26        |
| Customer Deposits  | 37   | 273,456,344        | 224,525,455        | 21.79        | 273,456,344        | 224,525,455        | 21.79        |
| Securities Sold under Repurchase Agreements                    |      | 15,976,518         | 11,409,788         | 40.02        | 15,976,518         | 11,409,788         | 40.02        |
| Other Borrowings   | 38   | 21,249             | 15,688             | 35.45        | 21,249             | 15,688             | 35.45        |
| Group Balances Payable   | 39   | 226,351            | 181,266            | 24.87        | -                  | -                  | -            |
| Debentures   | 40   | 12,493,645         | 7,179,853          | 74.01        | 12,493,645         | 7,179,853          | 74.01        |
| Current Tax Liabilities  |      | 750,385            | 506,712            | 48.09        | 757,467            | 505,278            | 49.91        |
| Deferred Tax Liabilities                                       | 33   | 11,874             | 336,102            | (96.47)      | 70,959             | 384,771            | (81.56)      |
| Other Liabilities  | 41   | 7,488,961          | 7,285,408          | 2.79         | 7,572,848          | 7,375,613          | 2.67         |
| <b>Total Liabilities</b>                                       |      | <b>328,240,274</b> | <b>271,274,456</b> | <b>21.00</b> | <b>328,163,977</b> | <b>271,230,630</b> | <b>20.99</b> |
| <b>Equity</b>  |      |                    |                    |              |                    |                    |              |
| Stated Capital   | 42   | 10,529,724         | 10,529,724         | -            | 10,529,724         | 10,529,724         | -            |
| Statutory Reserve Fund   | 43   | 1,387,964          | 1,187,441          | 16.89        | 1,387,964          | 1,187,441          | 16.89        |
| Retained Earnings  |      | 14,050,233         | 11,125,666         | 26.29        | 14,304,925         | 11,376,269         | 25.74        |
| Other Reserves   | 44   | 1,804,361          | 2,212,846          | (18.46)      | 2,797,661          | 3,194,306          | (12.42)      |
| <b>Total Equity Attributable to Equity Holders of the Bank</b> |      | <b>27,772,282</b>  | <b>25,055,677</b>  | <b>10.84</b> | <b>29,020,274</b>  | <b>26,287,740</b>  | <b>10.39</b> |
| <b>Non-Controlling Interest</b>                                | 27.2 | -                  | -                  | -            | 1,065,190          | 1,067,194          | (0.19)       |
| <b>Total Equity</b>  |      | <b>27,772,282</b>  | <b>25,055,677</b>  | <b>10.84</b> | <b>30,085,464</b>  | <b>27,354,934</b>  | <b>9.98</b>  |
| <b>Total Liabilities and Equity</b>                            |      | <b>356,012,556</b> | <b>296,330,133</b> | <b>20.14</b> | <b>358,249,441</b> | <b>298,585,564</b> | <b>19.98</b> |
| <b>Commitments and Contingencies</b>                           | 45   | <b>64,110,695</b>  | <b>57,222,365</b>  | <b>12.04</b> | <b>64,184,994</b>  | <b>57,302,098</b>  | <b>12.01</b> |
| <b>Net Assets Value per Share (Rs.)</b>                        |      | <b>80.51</b>       | <b>72.63</b>       | <b>10.84</b> | <b>84.13</b>       | <b>76.21</b>       | <b>10.39</b> |

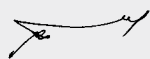
Notes on pages 171 to 262 form an integral part of these Financial Statements.

The Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.



**Ms. Champika Dodanwela**  
Chief Financial Officer

Approved and signed for and on behalf of the Board.



**W.M.R.S. Dias**  
Chairman

21st February 2017  
Colombo



**Kapila Ariyaratne**  
Director/Chief Executive Officer

| For the Year ended 31st December                                       |        | Stated Capital                     |  |
|--|--------|------------------------------------|--|
| BANK   | Note   | Ordinary Shares-Voting<br>Rs. '000 | Ordinary Shares-Non-Voting<br>Rs. '000 |
| <b>(1) Balance as at 1st January 2015</b>                              |        | <b>6,962,722</b>                   | <b>3,567,002</b>                       |
| Super Gain Tax**   |        | -                                  | -                                      |
| <b>Adjusted Balance as at 1st January 2015</b>                         |        | <b>6,962,722</b>                   | <b>3,567,002</b>                       |
| <b>Total Comprehensive Income for the Year</b>                         |        |                                    |  |
| Profit for the Year  |        | -                                  | -                                      |
| Other Comprehensive Income (net of tax)                                |        |                                    |  |
| – Actuarial Gain on Defined Benefit Obligations                        | 41.1.5 | -                                  | -                                      |
| – Net Loss on Re-measuring of Available-for-Sale Financial Assets      | 44.4   | -                                  | -                                      |
| <b>(2) Total Comprehensive Income for the Year</b>                     |        | <b>-</b>                           | <b>-</b>                               |
| <b>Transactions with Equity Holders, Recognised Directly in Equity</b> |        |                                    |  |
| Dividends to Equity Holders  | 17     | -                                  | -                                      |
| Transferred to Statutory Reserve Fund*                                 | 43     | -                                  | -                                      |
| Transferred from Investment Fund Reserve                               | 44.5   | -                                  | -                                      |
| <b>(3) Total Transactions with Equity Holders</b>                      |        | <b>-</b>                           | <b>-</b>                               |
| <b>Balance as at 31st December 2015 (1+2+3)</b>                        |        | <b>6,962,722</b>                   | <b>3,567,002</b>                       |
| <b>(1) Balance as at 1st January 2016</b>                              |        | <b>6,962,722</b>                   | <b>3,567,002</b>                       |
| <b>Total Comprehensive Income for the Year</b>                         |        |                                    |  |
| Profit for the Year  |        | -                                  | -                                      |
| Other Comprehensive Income (net of tax)                                |        |                                    |  |
| – Revaluation of Property, Plant & Equipment                           | 44.2   | -                                  | -                                      |
| – Actuarial Gain on Defined Benefit Obligations                        | 41.1.5 | -                                  | -                                      |
| – Net Loss on Re-measuring of Available-for-Sale Financial Assets      | 44.4   | -                                  | -                                      |
| <b>(2) Total Comprehensive Income for the Year</b>                     |        | <b>-</b>                           | <b>-</b>                               |
| <b>Transactions with Equity Holders, Recognised Directly in Equity</b> |        |                                    |  |
| Dividends to Equity Holders  | 17     | -                                  | -                                      |
| Transferred to Statutory Reserve Fund*                                 | 43     | -                                  | -                                      |
| Transferred from Investment Fund Reserve                               | 44.5   | -                                  | -                                      |
| <b>(3) Total Transactions with Equity Holders</b>                      |        | <b>-</b>                           | <b>-</b>                               |
| <b>Balance as at 31st December 2016 (1+2+3)</b>                        |        | <b>6,962,722</b>                   | <b>3,567,002</b>                       |

| Statutory Reserve Fund* | Retained Earnings | Other Reserves      |                            |                  | Total             |
|-------------------------|-------------------|---------------------|----------------------------|------------------|-------------------|
|                         |                   | Revaluation Reserve | Available-for-Sale Reserve | Other Reserves   |                   |
| Rs. '000                | Rs. '000          | Rs. '000            | Rs. '000                   | Rs. '000         | Rs. '000          |
| 995,894                 | 9,083,743         | 651,483             | 651,222                    | 2,096,473        | 24,008,539        |
| -                       | (867,428)         | -                   | -                          | -                | (867,428)         |
| 995,894                 | 8,216,315         | 651,483             | 651,222                    | 2,096,473        | 23,141,111        |
| -                       | 3,830,944         | -                   | -                          | -                | 3,830,944         |
| -                       | 66,071            | -                   | -                          | -                | 66,071            |
| -                       | -                 | -                   | (1,120,048)                | -                | (1,120,048)       |
| -                       | 3,897,015         | -                   | (1,120,048)                | -                | 2,776,967         |
| -                       | (862,401)         | -                   | -                          | -                | (862,401)         |
| 191,547                 | (191,547)         | -                   | -                          | -                | -                 |
| -                       | 66,284            | -                   | -                          | (66,284)         | -                 |
| 191,547                 | (987,664)         | -                   | -                          | (66,284)         | (862,401)         |
| 1,187,441               | 11,125,666        | 651,483             | (468,826)                  | 2,030,189        | 25,055,677        |
| 1,187,441               | 11,125,666        | 651,483             | (468,826)                  | 2,030,189        | 25,055,677        |
| -                       | 4,010,450         | -                   | -                          | -                | 4,010,450         |
| -                       | -                 | 822,999             | -                          | -                | 822,999           |
| -                       | 54,555            | -                   | -                          | -                | 54,555            |
| -                       | -                 | -                   | (1,222,758)                | -                | (1,222,758)       |
| -                       | 4,065,005         | 822,999             | (1,222,758)                | -                | 3,665,246         |
| -                       | (948,641)         | -                   | -                          | -                | (948,641)         |
| 200,523                 | (200,523)         | -                   | -                          | -                | -                 |
| -                       | 8,726             | -                   | -                          | (8,726)          | -                 |
| 200,523                 | (1,140,438)       | -                   | -                          | (8,726)          | (948,641)         |
| <b>1,387,964</b>        | <b>14,050,233</b> | <b>1,474,482</b>    | <b>(1,691,584)</b>         | <b>2,021,463</b> | <b>27,772,282</b> |

\* 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).

\*\* As per the provisions of Part III of the Finance Act No. 10 of 2015, which was certified on 30th October 2015, the Bank is liable for Super Gain Tax of Rs. 867.4 Mn. According to the Act, the Super Gain Tax shall be deemed to be expenditure in the Financial Statements relating to the year of assessment, which commenced on 1st April 2013. The Act supersedes the requirements of the Sri Lanka Accounting Standards; hence the expense of Super Gain Tax is accounted in accordance with the requirements of the said Act, as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax, issued by The Institute of Chartered Accountants of Sri Lanka, dated 24th November 2015.

Notes on pages 171 to 262 form an integral part of these Financial Statements.

| For the Year ended 31st December   |        | Stated Capital                     |  | Statutory Reserve Fund* | Retained Earnings |
|--|--------|------------------------------------|--|-------------------------|-------------------|
| GROUP  | Note   | Ordinary Shares-Voting<br>Rs. '000 | Ordinary Shares-Non-Voting<br>Rs. '000 | Rs. '000                | Rs. '000          |
| <b>(1) Balance as at 1st January 2015</b>                                    |        | 6,962,722                          | 3,567,002                              | 995,894                 | 9,293,830         |
| Super Gain Tax**   |        | -                                  | -                                      | -                       | (870,371)         |
| <b>Adjusted Balance as at 1st January 2015</b>                               |        | 6,962,722                          | 3,567,002                              | 995,894                 | 8,423,459         |
| <b>Total Comprehensive Income for the Year</b>                               |        |                                    |  |                         |                   |
| Profit for the Year  |        | -                                  | -                                      | -                       | 3,855,296         |
| Other Comprehensive Income (net of tax)                                      |        |                                    |  |                         |                   |
| – Revaluation of Property, Plant & Equipment                                 | 44.2   | -                                  | -                                      | -                       | -                 |
| – Actuarial Gain on Defined Benefit Obligations                              | 41.1.5 | -                                  | -                                      | -                       | 65,810            |
| – Net Loss on Re-measuring of Available-for-Sale Financial Assets            | 44.4   | -                                  | -                                      | -                       | -                 |
| <b>(2) Total Comprehensive Income for the Year</b>                           |        | -                                  | -                                      | -                       | 3,921,106         |
| <b>Transactions with Equity Holders, Recognised Directly in Equity</b>       |        |                                    |  |                         |                   |
| Dividends  | 17     | -                                  | -                                      | -                       | (862,401)         |
| Transferred to Statutory Reserve Fund*                                       | 43     | -                                  | -                                      | 191,547                 | (191,547)         |
| Transferred from Investment Fund Reserve                                     | 44.5   | -                                  | -                                      | -                       | 66,284            |
| <b>Changes in Ownership Interest in Subsidiary</b>                           |        |                                    |  |                         |                   |
| Acquisition of Non-Controlling Interest without Change in Control            |        | -                                  | -                                      | -                       | 19,368            |
| <b>(3) Total Transactions with Equity Holders</b>                            |        | -                                  | -                                      | 191,547                 | (968,296)         |
| <b>Balance as at 31st December 2015 (1+2+3)</b>                              |        | 6,962,722                          | 3,567,002                              | 1,187,441               | 11,376,269        |
| <b>(1) Balance as at 1st January 2016</b>                                    |        | 6,962,722                          | 3,567,002                              | 1,187,441               | 11,376,269        |
| <b>Total Comprehensive Income for the Year</b>                               |        |                                    |  |                         |                   |
| Profit for the Year  |        | -                                  | -                                      | -                       | 4,013,132         |
| Other Comprehensive Income (net of tax)                                      |        |                                    |  |                         |                   |
| – Revaluation of Property, Plant & Equipment                                 | 44.2   | -                                  | -                                      | -                       | -                 |
| – Reversal of Revaluation Surplus on Property, Plant & Equipment Written Off | 44.2   | -                                  | -                                      | -                       | 35                |
| – Actuarial Gain on Defined Benefit Obligations                              | 41.1.5 | -                                  | -                                      | -                       | 54,906            |
| – Net Loss on Re-measuring of Available-for-Sale Financial Assets            | 44.4   | -                                  | -                                      | -                       | -                 |
| <b>(2) Total Comprehensive Income for the Year</b>                           |        | -                                  | -                                      | -                       | 4,068,073         |
| <b>Transactions with Equity Holders, Recognised Directly in Equity</b>       |        |                                    |  |                         |                   |
| Dividends  | 17     | -                                  | -                                      | -                       | (948,641)         |
| Transferred to Statutory Reserve Fund*                                       | 43     | -                                  | -                                      | 200,523                 | (200,523)         |
| Transferred from Investment Fund Reserve                                     | 44.5   | -                                  | -                                      | -                       | 8,726             |
| <b>Changes in Ownership Interest in Subsidiary</b>                           |        |                                    |  |                         |                   |
| Acquisition of Non-Controlling Interest without Change in Control            |        | -                                  | -                                      | -                       | 1,021             |
| <b>(3) Total Transactions with Equity Holders</b>                            |        | -                                  | -                                      | 200,523                 | (1,139,417)       |
| <b>Balance as at 31st December 2016 (1+2+3)</b>                              |        | 6,962,722                          | 3,567,002                              | 1,387,964               | 14,304,925        |



|  | Other Reserves      |                            |                  | Total             | Non-Controlling Interest | Total Equity      |
|--|---------------------|----------------------------|------------------|-------------------|--------------------------|-------------------|
|  | Revaluation Reserve | Available-for-Sale Reserve | Other Reserves   |                   |                          |                   |
|  | Rs. '000            | Rs. '000                   | Rs. '000         |                   |                          |                   |
|  | 1,373,590           | 650,480                    | 2,351,686        | 25,195,204        | 1,124,387                | 26,319,591        |
|  | -                   | -                          | -                | (870,371)         | (1,257)                  | (871,628)         |
|  | 1,373,590           | 650,480                    | 2,351,686        | 24,324,833        | 1,123,130                | 25,447,963        |
|  | -                   | -                          | -                | 3,855,296         | 30,653                   | 3,885,949         |
|  | 5,193               | -                          | -                | 5,193             | 2,219                    | 7,412             |
|  | -                   | -                          | -                | 65,810            | (112)                    | 65,698            |
|  | -                   | (1,120,359)                | -                | (1,120,359)       | (148)                    | (1,120,507)       |
|  | 5,193               | (1,120,359)                | -                | 2,805,940         | 32,612                   | 2,838,552         |
|  | -                   | -                          | -                | (862,401)         | (23,364)                 | (885,765)         |
|  | -                   | -                          | -                | -                 | -                        | -                 |
|  | -                   | -                          | (66,284)         | -                 | -                        | -                 |
|  | -                   | -                          | -                | 19,368            | (65,184)                 | (45,816)          |
|  | -                   | -                          | (66,284)         | (843,033)         | (88,548)                 | (931,581)         |
|  | 1,378,783           | (469,879)                  | 2,285,402        | 26,287,740        | 1,067,194                | 27,354,934        |
|  | 1,378,783           | (469,879)                  | 2,285,402        | 26,287,740        | 1,067,194                | 27,354,934        |
|  | -                   | -                          | -                | 4,013,132         | 21,758                   | 4,034,890         |
|  | 835,317             | -                          | -                | 835,317           | 5,131                    | 840,448           |
|  | (50)                | -                          | -                | (15)              | 15                       | -                 |
|  | -                   | -                          | -                | 54,906            | 146                      | 55,052            |
|  | -                   | (1,223,186)                | -                | (1,223,186)       | (181)                    | (1,223,367)       |
|  | 835,267             | (1,223,186)                | -                | 3,680,154         | 26,869                   | 3,707,023         |
|  | -                   | -                          | -                | (948,641)         | (26,179)                 | (974,820)         |
|  | -                   | -                          | -                | -                 | -                        | -                 |
|  | -                   | -                          | (8,726)          | -                 | -                        | -                 |
|  | -                   | -                          | -                | 1,021             | (2,694)                  | (1,673)           |
|  | -                   | -                          | (8,726)          | (947,620)         | (28,873)                 | (976,493)         |
|  | <b>2,214,050</b>    | <b>(1,693,065)</b>         | <b>2,276,676</b> | <b>29,020,274</b> | <b>1,065,190</b>         | <b>30,085,464</b> |

\* 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).

\*\* As per the provisions of Part III of the Finance Act No. 10 of 2015, which was certified on 30th October 2015, the Group is liable for Super Gain Tax of Rs. 871.6 Mn. According to the Act, the Super Gain Tax shall be deemed to be expenditure in the Financial Statements relating to the year of assessment, which commenced on 1st April 2013. The Act supersedes the requirements of the Sri Lanka Accounting Standards; hence the expense of Super Gain Tax is accounted in accordance with the requirements of the said Act, as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax, issued by The Institute of Chartered Accountants of Sri Lanka, dated 24th November 2015.

Notes on pages 171 to 262 form an integral part of these Financial Statements.

| For the Year ended 31st December   | BANK              |                     | GROUP             |                     |
|--|-------------------|---------------------|-------------------|---------------------|
|  | 2016<br>Rs. '000  | 2015<br>Rs. '000    | 2016<br>Rs. '000  | 2015<br>Rs. '000    |
| <b>Cash Flows from Operating Activities</b>  |                   |                     |                   |                     |
| Interest Receipts  | 31,128,413        | 22,615,496          | 31,142,336        | 22,630,736          |
| Fees and Commission Receipts   | 3,223,231         | 2,811,140           | 3,222,864         | 2,810,961           |
| Interest Payments  | (17,405,026)      | (11,335,122)        | (17,388,299)      | (11,318,430)        |
| Trading Income   | 975,884           | 1,474,212           | 975,847           | 1,473,212           |
| Receipts from Other Operating Activities   | 317,903           | 77,484              | 400,529           | 153,580             |
| Cash Payments to Employees and Suppliers   | (10,463,660)      | (8,907,410)         | (10,448,905)      | (8,876,496)         |
| Cash Payments for Other Operating Activities   | (119,983)         | (113,694)           | (125,626)         | (120,450)           |
| <b>Operating Profit before Changes in Operating Assets and Liabilities<br/>[Note (a)]</b>  | <b>7,656,762</b>  | <b>6,622,106</b>    | <b>7,778,746</b>  | <b>6,753,113</b>    |
| <b>(Increase)/Decrease in Operating Assets:</b>  |                   |                     |                   |                     |
| Loans and Receivables to Customers   | (43,062,023)      | (38,623,971)        | (43,062,023)      | (38,623,971)        |
| Deposits Held for Regulatory or Monetary Control Purposes  | (7,647,730)       | (1,131,682)         | (7,647,730)       | (1,131,682)         |
| <b>Increase/(Decrease) in Operating Liabilities:</b>   |                   |                     |                   |                     |
| Deposits from Customers  | 46,515,044        | 41,395,660          | 46,515,044        | 41,395,660          |
| Certificates of Deposit from Customers   | 180,911           | (2,043,812)         | 180,911           | (2,043,812)         |
| <b>Cash Generated from Operations</b>  | <b>3,642,964</b>  | <b>6,218,301</b>    | <b>3,764,948</b>  | <b>6,349,308</b>    |
| Income Tax Paid  | (976,036)         | (2,371,829)         | (976,036)         | (2,376,470)         |
| Contribution Paid into Employees Retirement Benefit Plan/to Employees  | (138,527)         | (123,033)           | (138,527)         | (123,033)           |
| <b>Net Cash Generated from Operating Activities</b>  | <b>2,528,401</b>  | <b>3,723,439</b>    | <b>2,650,385</b>  | <b>3,849,805</b>    |
| <b>Cash Flows from Investing Activities</b>  |                   |                     |                   |                     |
| Investment in Subsidiary Company   | (1,673)           | (45,816)            | -                 | -                   |
| Dividend Income Received   | 97,715            | 92,751              | 41,376            | 47,195              |
| 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 | 134,783           | (29,407,227)        | 134,783           | (29,407,227)        |
| Net Proceeds from Sale, Maturity and Purchase of Financial Investments of Shares and Debentures  | 756,550           | 1,406,427           | 773,054           | 1,423,676           |
| Purchase of Property, Plant & Equipment and Intangible Assets  | (850,209)         | (714,214)           | (851,674)         | (774,346)           |
| Proceeds from Sale of Property, Plant & Equipment  | 38,066            | 20,510              | 38,066            | 22,678              |
| Proceeds from Sale of Investment Properties  | -                 | 155,000             | -                 | 155,000             |
| Improvements to Investment Properties  | -                 | -                   | (360)             | (30,155)            |
| <b>Net Cash (Used in)/Generated from Investing Activities</b>  | <b>175,232</b>    | <b>(28,492,569)</b> | <b>135,245</b>    | <b>(28,563,179)</b> |
| <b>Cash Flows from Financing Activities</b>  |                   |                     |                   |                     |
| Increase/(Decrease) in Debentures  | 5,000,000         | (465,000)           | 5,000,000         | (465,000)           |
| Securities Sold under Repurchase Agreements  | 4,552,673         | (991,147)           | 4,552,673         | (991,147)           |
| Increase/(Decrease) in Other Borrowings  | (2,728,173)       | 8,823,565           | (2,780,138)       | 8,795,981           |
| Dividends Paid – Ordinary Shares   | (933,132)         | (852,687)           | (963,164)         | (880,849)           |
| <b>Net Cash Generated from Financing Activities</b>  | <b>5,891,368</b>  | <b>6,514,731</b>    | <b>5,809,371</b>  | <b>6,458,985</b>    |
| Net Increase/(Decrease) in Cash and Cash Equivalents   | 8,595,001         | (18,254,399)        | 8,595,001         | (18,254,389)        |
| Cash and Cash Equivalents at beginning of the Year   | 14,682,092        | 32,936,491          | 14,682,142        | 32,936,531          |
| <b>Cash and Cash Equivalents at end of the Year</b>  | <b>23,277,093</b> | <b>14,682,092</b>   | <b>23,277,143</b> | <b>14,682,142</b>   |
| <b>Reconciliation of Cash and Cash Equivalents Assets</b>  |                   |                     |                   |                     |
| Cash and Cash Equivalents (Note 19)  | 8,336,143         | 7,800,488           | 8,336,193         | 7,800,538           |
| Placements with Banks and Finance Companies (Note 21)  | 334,230           | 757,050             | 334,230           | 757,050             |
| Government of Sri Lanka Treasury Bills/Bonds and Development Bonds Maturing within Three Months  | 7,289,698         | 3,812,006           | 7,289,698         | 3,812,006           |
| Securities Purchased under Resale Agreements Maturing within Three Months  | 7,317,022         | 2,312,548           | 7,317,022         | 2,312,548           |
|  | 23,277,093        | 14,682,092          | 23,277,143        | 14,682,142          |

| <b>Note (a) Reconciliation of Operating Profit</b>                                 | BANK               |                  | GROUP              |                  |
|--|--------------------|------------------|--------------------|------------------|
|  | 2016<br>Rs. '000   | 2015<br>Rs. '000 | 2016<br>Rs. '000   | 2015<br>Rs. '000 |
| For the Year ended 31st December   |                    |                  |                    |                  |
| <b>Operating Profit before Income Tax</b>  | <b>5,733,718</b>   | 5,776,711        | <b>5,771,245</b>   | 5,822,611        |
| Accrual for Interest Income  | <b>(1,838,392)</b> | (1,126,442)      | <b>(1,840,068)</b> | (1,126,442)      |
| Notional Tax Credit on Government Securities                                       | <b>(490,427)</b>   | (409,006)        | <b>(490,427)</b>   | (409,006)        |
| Accrual for Interest Expenses  | <b>2,585,459</b>   | 821,483          | <b>2,585,459</b>   | 821,483          |
| Fair Value Adjustment on Derivative Instruments                                    | <b>(1,740)</b>     | 3,406            | <b>(1,740)</b>     | 3,406            |
| Straightlining of Operating Leases   | <b>29,056</b>      | (8,171)          | <b>29,056</b>      | (8,171)          |
| Loss on Revaluation of Foreign Exchange  | <b>127,728</b>     | 262,005          | <b>127,728</b>     | 262,005          |
| Dividend Income  | <b>(97,715)</b>    | (92,751)         | <b>(41,376)</b>    | (47,195)         |
| (Profit)/Loss on Sale of Dealing Securities  | <b>340</b>         | (27,874)         | <b>340</b>         | (27,874)         |
| Loss on Marked to Market Valuation on Government of Sri Lanka Treasury Bills/Bonds | <b>113,921</b>     | 194,651          | <b>113,921</b>     | 194,651          |
| (Gain)/Loss on Marked to Market Valuation on Quoted Equities                       | <b>(20)</b>        | 48,684           | <b>1,576</b>       | 49,684           |
| Profit from Sale of Property, Plant & Equipment                                    | <b>(29,262)</b>    | (18,020)         | <b>(29,262)</b>    | (17,188)         |
| Profit from Sale of Investment Properties  | -                  | (40,571)         | -                  | (40,571)         |
| Depreciation of Freehold Property, Plant & Equipment                               | <b>518,563</b>     | 414,414          | <b>547,194</b>     | 442,711          |
| Depreciation of Leasehold Rights   | <b>1,946</b>       | 1,946            | <b>9,356</b>       | 9,356            |
| Depreciation of Investment Properties  | -                  | -                | <b>9,382</b>       | 9,030            |
| Amortisation of Intangible Assets  | <b>76,234</b>      | 67,088           | <b>76,234</b>      | 67,088           |
| Impairment for Loans and Receivable  | <b>974,433</b>     | 488,896          | <b>974,433</b>     | 488,896          |
| Amortisation of Prepaid Staff Cost   | <b>222,818</b>     | 174,853          | <b>222,957</b>     | 175,051          |
| Accrual for VAT and NBT on Financial Services                                      | <b>(53,224)</b>    | 113,573          | <b>(59,706)</b>    | 113,573          |
| Accrual for Employee Retirement Benefit Liability                                  | <b>48,335</b>      | 63,005           | <b>48,007</b>      | 62,761           |
| Impairment on Financial Investments  | <b>20,420</b>      | -                | <b>20,420</b>      | -                |
| Accrual for Leave Encashment Provision   | <b>(13,441)</b>    | 3,156            | <b>(13,441)</b>    | 3,156            |
| Accrual for Other Expenses   | <b>(219,427)</b>   | 143,539          | <b>(230,165)</b>   | 136,567          |
| Net Reversal of Impairment on Property, Plant & Equipment                          | <b>(40,666)</b>    | -                | <b>(40,482)</b>    | -                |
| Net Gain on Financial Investments – Government Securities and Equities             | <b>(11,895)</b>    | (232,469)        | <b>(11,895)</b>    | (232,469)        |
| <b>Operating Profit before Changes in Operating Assets and Liabilities</b>         | <b>7,656,762</b>   | 6,622,106        | <b>7,778,746</b>   | 6,753,113        |

Notes on pages 171 to 262 form an integral part of these Financial Statements.

## Change in Operating, Investing & Financing Assets and Liabilities Increase/(Decrease)

|   | BANK               |                  | GROUP              |                  |
|---|--------------------|------------------|--------------------|------------------|
|   | 2016<br>Rs. '000   | 2015<br>Rs. '000 | 2016<br>Rs. '000   | 2015<br>Rs. '000 |
| <b>Change in Assets</b>   |                    |                  |                    |                  |
| <b>Operating Assets</b>   |                    |                  |                    |                  |
| Loans and Receivables   | <b>43,062,023</b>  | 38,623,971       | <b>43,062,023</b>  | 38,623,971       |
| Balances with Central Bank  | <b>7,647,730</b>   | 1,131,682        | <b>7,647,730</b>   | 1,131,682        |
| <b>Investing Assets</b>   |                    |                  |                    |                  |
| Sri Lanka Treasury Bills/Bonds and Development Bonds<br>Maturing after Three Months | <b>(134,783)</b>   | 29,407,227       | <b>(134,783)</b>   | 29,407,227       |
| Investments in Equities and Debentures (Net of Disposal)                            | <b>(756,550)</b>   | (1,406,427)      | <b>(773,054)</b>   | (1,423,676)      |
| Other Assets  | <b>1,753,742</b>   | 46,890           | <b>1,775,162</b>   | 51,131           |
| <b>Total</b>  | <b>51,572,162</b>  | 67,803,343       | <b>51,577,078</b>  | 67,790,335       |
| <b>Change in Liabilities</b>  |                    |                  |                    |                  |
| <b>Operating Liabilities</b>  |                    |                  |                    |                  |
| Deposits and Certificates of Deposit  | <b>46,695,955</b>  | 39,351,848       | <b>46,695,955</b>  | 39,351,848       |
| <b>Financing Liabilities</b>  |                    |                  |                    |                  |
| Debentures  | <b>5,000,000</b>   | (465,000)        | <b>5,000,000</b>   | (465,000)        |
| Securities Sold under Repurchase Agreements   | <b>4,552,673</b>   | (991,147)        | <b>4,552,673</b>   | (991,147)        |
| Borrowings  | <b>(2,050,317)</b> | 8,169,764        | <b>(2,050,317)</b> | 8,169,764        |
| Other Liabilities   | <b>240,194</b>     | 1,180,310        | <b>233,876</b>     | 1,176,991        |
| <b>Total</b>  | <b>54,438,505</b>  | 47,245,775       | <b>54,432,187</b>  | 47,242,456       |

Notes on pages 171 to 262 form an integral part of these Financial Statements.

## 1. Reporting Entity

Seylan Bank PLC ('Bank') is a public quoted company incorporated on 28th August 1987 and domiciled in Sri Lanka. The registered office of the Bank is situated at No. 90, Galle Road, Colombo 03. The Financial Statements of the Bank as at and for the year ended 31st December 2016 comprise the Bank and its Subsidiary (together referred as the 'Group'). The shares of the Bank have a primary listing on the Colombo Stock Exchange.

The Bank does not have an identifiable parent. The Bank is the ultimate parent of the Group.

The staff strength of the Bank as at 31st December 2016 is 3,165 (2015 – 3,085).

### 1.1 Principal Activities

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.

The Subsidiary, Seylan Developments PLC, is in the business of development, administration and maintenance of property.

## 2. Presentation of Financial Statements

### 2.1 Statement of Compliance

The Statement of Financial Position, Income Statement, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement 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.

### 2.2 Approval of Financial Statements by Directors

The Financial Statements were authorised for issue by the Board of Directors on 21st February 2017.

### 2.3 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following:

- Derivative financial instruments are measured at fair value.
- Non-derivative financial instruments held-for-trading are measured at fair value.
- Available-for-sale financial assets 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 recognised 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, which is the Bank'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 Group's presentation and functional currency during the year under review.

### 2.5 Use of Estimates and Judgements

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standards (SLFRSs/LKASs) requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements are described in the following notes:

#### (i) Judgements

##### Determination of Control over Employee Share Option Scheme and Share Trusts

The trusts are treated as external entities, due to the uncertainties over formation, beneficial ownership and the legal cases which are disclosed in Note 46 to Financial Statements. The impact of such treatment is not material to the Financial Statements.

#### (ii) Assumptions and Estimation Uncertainties

##### Going Concern

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

##### Fair Value of Financial Instruments

When the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values.

### Impairment Losses on Loans and Advances

The Bank reviews its individually significant loans and advances at each Reporting date to assess whether an impairment loss should be recorded in the Income Statement. The Bank's impairment methodology for assets carried at amortised cost results in the recording of provisions for:

- Specific impairment losses on individually significant exposures;
- Collective impairment of individually not significant exposures

All categories include an element of 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 changes of which can result in different levels of allowances.

### Impairment of Available-for-Sale Investments

The Bank reviews its Investments classified as available-for-sale at each Reporting date to assess whether they are impaired. The interpretation of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Bank evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

### Deferred Tax Assets

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

## 3. 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.

## 4. Significant Accounting Policies

The Accounting Policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements unless otherwise indicated. The Accounting Policies have been applied consistently by Group entities.

### 4.1 Basis of Consolidation

#### 4.1.1 Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee. The Financial Statements of the Subsidiary are included in the Financial Statements from the date that control effectively commences until the date that control effectively ceases.

The accounting policies of the Subsidiary have been changed when necessary to align them with the policies adopted by the Group. The Group Financial Statements comprise a consolidation of the Financial Statements of the Bank and its Subsidiary incorporated in Sri Lanka, Seylan Developments PLC (70.51%). The Subsidiary, Seylan Developments PLC, is in the business of development, administration and maintenance of property.

The total profit/loss of the Subsidiary is included in the Consolidated Income Statement, and the proportion of the profit or loss after taxation applicable to outside shareholders is shown under the heading 'Non-Controlling Interest'. All assets and liabilities of the Bank and its Subsidiary are included in the Consolidated Statement of Financial Position. The interest of the outside shareholders in the net assets of the Group is stated separately in the

Consolidated Statement of Financial Position within Equity under the heading 'Non-Controlling Interest'.

There are no significant restrictions on the ability of the Subsidiary to transfer funds to the Bank in the form of cash dividends or repayment of loans and receivables.

#### 4.1.2 Loss of Control

Upon the loss of control, the Group derecognises the assets and liabilities of the Subsidiary, any non-controlling interest and the other components of equity related to the Subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous Subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments.

#### 4.1.3 Transactions Eliminated on Consolidation

Intra-group balances, and income and expenses arising from intra-group transactions are eliminated in preparing the Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated to the extent of the Group's interest in the investee against the investment. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

#### 4.1.4 Employee Share Option Schemes and Share Trusts

The Trusts are treated as external entities and those have not been consolidated in the Financial Statements as the Bank does not have either beneficial interest or the ability to control the activities of the trust companies.

#### 4.1.5 Non-Controlling Interest

Non-controlling interest is measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a Subsidiary that do not result in a loss of control are accounted for as equity transactions.

#### 4.1.6 Non-Uniform Accounting Policies

The impact of non-uniform accounting policies adopted by the Subsidiary has been adjusted in the Consolidated Financial Statements and disclosed in Note 53.

### 4.2 Foreign Currency

#### 4.2.1 Foreign Currency Translations

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 that 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.

#### 4.2.2 Foreign Operations

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognised in Other Comprehensive Income in the translation.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal.

### Assets and Liabilities and Basis of Valuation

#### 4.3 Statutory Deposit with Central Bank

The Monetary Law Act requires that all commercial banks operating in Sri Lanka maintain reserves against all deposit liabilities denominated in Sri Lankan Rupees.

#### 4.4 Financial Assets and Financial Liabilities

##### 4.4.1 Recognition and Initial Measurement

The Group initially recognises loans and receivables, deposits and debt securities issued on the date at which they are originated.

A financial asset or a financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Changes in fair value in financial assets/liabilities held at fair value through profit or loss are recognised in the Consolidated Income Statement while any changes in fair value for available-for-sale financial assets are recognised in the Statement of Other Comprehensive Income.

##### 4.4.2 Classification Financial Assets

At inception a financial asset is classified in one of the following categories:

- loans and receivables;
- held-to-maturity;
- available-for-sale; or
- at fair value through profit or loss and within the category as:
  - held-for-trading; or
  - designated at fair value through profit or loss.

##### Financial Liabilities

The Group initially recognises all financial liabilities on the date that

they are originated and classifies its financial liabilities as measured at amortised cost or fair value through profit or loss or designated at fair value through profit or loss.

#### Financial Assets and Financial Liabilities at Fair Value through Profit or Loss

A financial asset or a financial liability is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such upon initial recognition. Financial assets and financial liabilities are designated as fair value through profit or loss when:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

The Group has not designated any financial asset/liability upon initial recognition at fair value through profit or loss as at the Reporting date.

Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred. Financial assets and financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

#### Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and receivables to customers include:

- those classified as loans and receivables;
- Finance lease receivables.

Loans and receivables classified as loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently

measured at their amortised cost using the effective interest method.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and receivables.

#### **Held-to-Maturity Financial Assets**

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which were not designated as fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- Sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

#### **Available-for-Sale Financial Assets**

Available-for-sale investments are non-derivative investments that were designated as available-for-sale or are not classified as another category of financial assets. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised in Other Comprehensive Income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in Other Comprehensive Income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

#### **Financial Liabilities Measured at Amortised Cost**

Financial liabilities not classified as fair value through profit or loss are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method. Deposit liabilities including savings deposits, current deposits, fixed/time deposits, call deposits, certificates of deposit and debentures are classified as financial liabilities measured at amortised cost.

#### **4.4.3 Amortised Cost Measurement**

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

#### **4.4.4 Fair Value Measurement**

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly

transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net



exposure to either market risk or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the Reporting period during which the change has occurred.

#### Reclassifications

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurement categories are not permitted following initial recognition.

Held-for-trading non-derivative financial assets are transferred out of the fair value through profit or loss category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or to the loans and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets are transferred out of the available-for-sale category to the loans and receivables category where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets are reclassified to the available-for-sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in shareholders' equity prior to the date of reclassification is amortised to the Income Statement over the remaining life of the financial asset, using the effective interest method.

#### 4.4.5 Derecognition

The Group derecognises financial asset when the contractual rights to the cash flows from the financial asset expires, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the Consolidated Statement of Financial Position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised on its Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

#### 4.4.6 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.

#### 4.4.7 Identification and Measurement of Impairment

At each Reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired

are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in Other Comprehensive Income to profit or loss as a reclassification adjustment. Impairment on available-for-sale portfolio would mean a significant (over 50% loss in value) or a prolonged (more than twelve consecutive months of market price reduction) loss in market value. In such an instance the Other Comprehensive Income loss would be immediately transferred to the Income Statement.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in Other Comprehensive Income.

The Group writes off certain loans and receivables and investment securities when they are determined to be uncollectible.

#### **4.5 Securities Purchased under Resale Agreements**

These are loans collateralised by the purchase of Treasury Bills and/or Guaranteed Commercial Papers from the counterparty to whom the loans are granted. The sale by the counterparty is subject to a commitment by the Bank to sell back the underlying debt securities to the borrower at a predetermined price.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

#### **4.6 Cash and Cash Equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central Bank and highly liquid financial assets with remaining maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

#### **4.7 Derivatives Held for Risk Management Purposes**

Derivatives are categorised as trading unless they are designated as hedging instruments. Bank has not designated any derivatives as hedging instruments and has not followed hedge accounting as at the Reporting date.

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 revaluation gains or losses recognised in profit and loss. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

#### **4.8 Non-Current Assets Held-for-Sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

#### **4.9 Intangible Assets**

##### **4.9.1 Software**

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

##### **4.9.2 Subsequent Expenditure**

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it

relates. All other expenditure is expensed as incurred.

### 4.9.3 Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is as follows:

|                                       | Useful Life<br>(Years) |
|---------------------------------------|------------------------|
| Seylan Bank PLC<br>(Banking Software) | 6                      |
| Seylan Developments PLC               | 5                      |

### 4.10 Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes.

Investment property is recognised if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured.

An investment property is measured initially at its cost. The cost of a purchased investment property comprises 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 31 to the Financial Statements. Seylan Developments PLC, the Subsidiary of the Bank, applies the fair value model in accordance with the above standard. Accordingly, investment properties

are stated at fair value and an external independent valuation company having an appropriate recognised professional qualification values the portfolio annually. Any gain or loss arising from a change in fair value is recognised in profit or loss. Adjustment for non-uniform accounting policy is reported in Note 53.

When an item of Property, Plant & 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 & 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 & Equipment during the redevelopment.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Company holds it to earn rentals or for capital appreciation or both.

#### 4.10.1 Derecognition

Investment properties are derecognised when disposed of, or permanently withdrawn from use because no future economic benefits are expected. Transfers are made to and from investment properties only when there is a change in use.

#### 4.10.2 Investment Property Leased within the Group

Any property leased out to Parent or Subsidiary is considered as owner-occupied from the perspective of the Group and adjustments are made for

consolidation purposes and changes are disclosed in Note 53 to the Financial Statements.

### 4.11 Property, Plant & Equipment

Property, Plant & 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 the accounting period.

#### 4.11.1 Recognition and Measurement

Items of property & 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 & equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognised net within other income in profit or loss.

#### 4.11.2 Cost Model

The Bank applies cost model to Property, Plant & Equipment except for land and buildings and records at cost of purchase or construction together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

### 4.11.3 Revaluation Model

The Bank applies the revaluation model for the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Land and buildings of the Bank are revalued within five years on a roll over basis to ensure that the carrying amounts do not differ materially from the fair values at the Reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in Other Comprehensive Income and accumulated in Equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Statement of Income. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Statement of Income or debited in the Other Comprehensive Income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in Equity, under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

### Reclassification to Investment Property

When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in Other Comprehensive Income and presented in revaluation reserve in equity. Any loss is recognised immediately in profit or loss.

### 4.11.4 Subsequent Costs

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future

economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

### 4.11.5 Derecognition

The carrying amount of an item of Property, Plant & 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 & Equipment is included in Statement of Income when the item is derecognised.

### 4.11.6 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term or their useful lives. Land is not depreciated.

Depreciation is provided on a straight line basis over the estimated life of the class of asset from the date of purchase up to the date of disposal.

Assets in the Statement of Financial Position, as those are neither critical nor a main revenue generating source.

### Seylan Developments PLC

Property, Plant & 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                    |
| Motor Cars                 | 05                  | 20                    |
| Motorcycles                | 04                  | 25                    |
| Tools                      | 03                  | 33.3                  |
| Apartment Assets           | 05                  | 20                    |

|  | Useful Life (Years)                                     | Depreciation Rate (%) |
|--|---|-----------------------|
| Freehold Buildings                                 | 40  | 2.5                   |
| Motor Vehicles                                     | 5   | 20                    |
| Computer Equipment                                 | 6   | 16.67                 |
| Office Machines, Equipment, Furniture and Fittings | 3 – 10  | 33 1/3 – 10           |
| Freehold Buildings on Leasehold Lands              | Remaining lease 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 The Institute of Chartered Accountants of Sri Lanka on Reinstatement of Fully Depreciated

#### 4.11.7 Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation.

#### 4.11.8 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard (LKAS) 23 – 'Borrowing Costs'. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed.

Other borrowing costs are recognised as an expense.

#### 4.11.9 Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the Sri Lanka Accounting Standard (LKAS) 17 – 'Leases'.

Other leases are operating leases and are not recognised in the Group's Statement of Financial Position.

#### 4.12 Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each Reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or Cash Generating Unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows

are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU, subject to an operating segment ceiling test.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

#### 4.13 Inventories

Inventory mainly consists of stationery and *Tikiri* gifts. The Bank's policy for the accounting of inventory is as follows:

|                          |                                   |
|--------------------------|-----------------------------------|
| Stationery               | : At weighted average cost method |
| <i>Tikiri</i> Gift Items | : At cost                         |

#### 4.14 Liabilities and Provisions

##### 4.14.1 Deposits, Debt Securities Issued and Subordinated Liabilities

Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ('Securities Sold under Repurchase Agreements'), the arrangement is accounted for as a liability, and the underlying asset

continues to be recognised in the Group's Financial Statements.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group chooses to carry the liabilities at fair value through profit or loss.

##### 4.14.2 Dividend Payable

Provision for final dividend is recognised at the time the dividend is recommended and declared by the Board of Directors and is approved by the shareholders. Interim dividend payable is recognised when the Board approves such dividend in accordance with the Companies Act No. 07 of 2007.

#### 4.15 Employee Retirement Benefits

##### 4.15.1 Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank operates an approved Gratuity Fund to facilitate the payments for permanent staff of the Bank.

The Bank's net obligation in respect of defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the Reporting date on Government Bonds that have maturity dates approximating to the terms of the Bank's obligations. The calculation is performed by a qualified actuary using the Projected Unit Credit Method recommended by the 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 (55 years), early withdrawals from service and retirement on medical grounds, death before and after retirement, etc.

However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

#### **Changes to Gratuity Policy**

Board of Directors of the Bank at its meeting held on 24th March 2009 decided to change the previous policy of gratuity payments of paying one month's salary (last drawn) to resigned staff members who have completed ten years of service in the Bank with effect from 5th March 2009.

The policy of paying half a month salary (last drawn) to resigned staff members who have completed five years of service in the Bank remains unchanged to be in line with the Government regulations.

Based on the Sri Lanka Accounting Standard (LKAS) 19 – 'Employee Benefits' the Subsidiary has adopted the Actuarial Valuation Method. Accordingly, provisions have been made based on the above method.

The gratuity liabilities are externally funded through plan assets of the Gratuity Trust Fund.

#### **Other Long-Term Employee Benefits – (Termination Benefit – Leave Encashment)**

The Bank's net obligation in respect of long-term employee benefits other than gratuity funds is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the Reporting date on Government Bonds that have maturity dates approximating to the terms of the Bank's obligations. The calculation is performed using the Projected Unit Credit Method.

Any actuarial gains and losses are recognised in profit or loss in the period in which they arise. The Bank's liability towards the portion of the accumulated leave which is expected to be utilised beyond one year from the end of the Reporting period is treated as other long-term employee benefits.

#### **Termination Benefits**

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

#### **Short-Term Employee Benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### **4.15.2 Defined Contribution Plans**

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to defined contribution plans are recognised as expense in the Statement of Income as and when they are due.

##### **4.15.2 (a) Employees' Provident Fund**

The Bank and employees contribute 12% and 8% respectively on the salary of each employee to the approved private Provident Fund while the Subsidiary and their employees contribute the same percentages to the Employees' Provident Fund.

##### **4.15.2 (b) Employees' Trust Fund**

The Bank contributes 3% of the salary of each employee to the Employees' Trust Fund (ETF). The total amount recognised as an expense to the Bank for contribution to ETF is disclosed in the Note 14 to Financial Statements.

#### **4.16 Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

#### 4.17 Financial Guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

#### 4.18 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. The Bank's share of any contingencies and capital commitments of a Subsidiary, for which the Bank is also liable severally or otherwise are also included with appropriate disclosures.

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

### Income Statement

#### 4.19 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective

interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the Income Statement include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

Fair value changes on other derivatives held for risk management purposes and all other financial assets and liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the Income Statement.

Interest income on available-for-sale investment securities calculated on an effective interest basis is also included in interest income.

#### 4.20 Fee, Commission and Other Income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services

are received. Fee and commission expenses are recognised on a cash basis.

#### Net Trading Income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

#### Dividend Income

Dividend income is recognised in the Statement of Income on an accrual basis when the Bank's right to receive the dividend is established.

Usually this is the ex-dividend date for equity securities. Dividends are presented in net trading income or net income from other financial instruments at fair value through profit or loss based on the underlying classification of the equity investment. Dividends on equity instruments designated as at fair value through Other Comprehensive Income are presented in other revenue in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is presented in Other Comprehensive Income. Further dividends on available-for-sale equity securities are also presented in other revenue.

#### Accounting for Finance Lease Income

Assets leased to customers to whom the Bank transfers substantially all the risks and rewards associated with ownership other than the legal title are classified as finance leases. Amounts receivable under finance leases are included under 'Lease Rental Receivable'. Leasing balances are stated in the Statement of Financial Position after deduction of initial rentals received.

The excess of aggregate rentals receivable over the cost of the leased assets constitutes the total unearned income. The unearned income is taken into revenue over the term of the lease, commencing from the month in which the lease is executed in proportion to the remaining receivable balance of the lease.

### **Profit/Loss from Sale of Property, Plant & Equipment**

Profit/loss from sale of Property, Plant & Equipment is recognised in the period in which the sale occurs and is classified as other income.

### **Profit/Loss from Sale of Investment Properties**

Any gains or losses on retirement or disposal of investment properties are recognised in the month of retirement or disposal.

### **Rental Income**

Rental income is recognised on an accrual basis.

## **4.21 Lease Payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

## **4.22 Income Tax Expense**

Income tax expense comprises of current and deferred tax. Income tax expense is recognised in the Income Statement except to the extent that it relates to items recognised directly in Equity or in Other Comprehensive Income.

### **4.22.1 Current Tax**

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the Reporting date, and any adjustment to tax payable in respect of previous years.

### **4.22.2 Deferred Tax**

Deferred taxation is provided using the liability method, providing for temporary

differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the Reporting date.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in Subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the Reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each Reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Details of the deferred tax assets and liabilities as at the Reporting date are given in Note 33 to the Financial Statements.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis.

### **4.22.3 Withholding Tax on Dividends**

Dividend distributed out of taxable profit of the Subsidiary attracts a 10% deduction at source and is not available for set off

against the tax liability of the Bank. Thus, the withholding tax deducted at source is added to the tax expense of the Subsidiary in the Consolidated Financial Statements as a consolidation adjustment.

Withholding tax that arises from the distribution of dividends by the Bank is recognised at the same time as the liability to pay the related dividend is recognised.

### **4.22.4 Value Added Tax and Nation Building Tax on Financial Services**

The value base for Value Added Tax and Nation Building Tax for the Bank is the adjusted accounting profit before tax and emoluments of employees. The adjustment to the accounting profit before tax is for economic depreciation computed on prescribed rates instead of the rates adopted in the Financial Statements.

### **4.22.5 Economic Service Charge (ESC)**

As per the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from 1st April 2004. Currently, the ESC is payable at 0.5% on 'Liable Turnover' and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the three subsequent years.

### **4.22.6 Crop Insurance Levy**

Section 14 of the Finance Act No. 12 of 2013 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 1st April 2013.

## **4.23 Earnings Per Share**

The Group presents Basic and Diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by



the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by dividing the profit or loss attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding for the effects of all potentially dilutive ordinary shares, which comprise share options granted to employees (if any).

#### 4.24 Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

The Group comprises the following major operating segments – Banking, Consumer Financing (Leasing), Treasury and Property/Investments.

#### 4.25 Cash Flow Statement

The Cash Flow Statement has been prepared using the 'Direct Method' of preparing cash flows in accordance with the LKAS 7 – 'Statement of Cash Flows'.

For the purpose of the Cash Flow Statement, cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central Bank and highly liquid financial assets with remaining maturities of less than three months, which are subject to insignificant risk of changes in their value, and are used by the Bank in the management of its short-term commitments.

#### 4.26 Deposit Insurance Scheme

In terms of the Banking Act Direction No. 5 of 2010 – 'Insurance of Deposit Liabilities' issued on 27th September 2010 and subsequent amendments thereto all licensed commercial banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No. 1 of 2010 issued under Sections 32 A to 32 E of the Monetary Law Act with effect from 1st October 2010. Deposits to be insured include

demand, time and savings deposit liabilities and exclude the following:

- Deposit liabilities to member institutions
- Deposit liabilities to 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% per annum on eligible deposit liabilities if the Bank maintains a capital adequacy ratio of 14% or above as at the end of the immediately preceding financial year or otherwise a premium of 0.125% per annum on eligible deposit liabilities on a quarterly basis within a period of 15 days from the end of the quarter.

#### 4.27 Investment Fund Account

Operations of the Investment Fund Account ceased with effect from 1st October 2014.

#### 4.28 Reserves

##### 4.28.1 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 to not less than 5% out of net profit after taxation but before any dividend is declared to the Statutory Reserve Fund until the Statutory Reserve Fund is equal to 50% of the paid-up capital.

##### 4.28.2 Capital Reserve

This reserve has been created in 1991 and the Debenture Redemption Reserve Fund was transferred to Capital Reserve in 2004.

##### 4.28.3 Revaluation Reserve

This reserve has been created on revaluation of land and building of the Bank.

##### 4.28.4 General Reserve

Consist of Rs. 25 Mn. transferred in 1995 to General Reserve, Rs. 2.7 Mn. transferred from Bad Debts Reserve and Rs. 6 Mn. transferred from Contingency Reserve in 2002 to General Reserve.

##### 4.28.5 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 1st January 2011.

Operations of the investment fund account ceased with effect from 1st October 2014. With effect from 1st 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 1st July 2014.

##### 4.28.6 Available-for-Sale Reserve

This has been created in 2012 to account for the fair value changes on account of Available-for-Sale Investments.

#### 4.29 Events Occurring after the Reporting Date

Events occurring after the Reporting date are those events, favourable and unfavourable, that occur between the Reporting date and the date the Financial Statements are authorised for issue.

All material and important events which occur after the Reporting date have been considered and disclosed in Note 49 to the Financial Statements or adjusted as applicable.

### 4.30 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 1st January 2018. Accordingly, the Group has not applied the following new Standards in preparing these Consolidated Financial Statements:

- a. SLFRS 9 – ‘Financial Instruments’ replaces the existing guidance in LKAS 39 – Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets.

SLFRS 9 is effective for the annual period beginning on or after 1st January 2018 with early adoption permitted.

Given the nature of the Group’s operations, this standard is expected to have a pervasive impact on the classification and measurement of its financial instruments. SLFRS 9 Implementation Programme (‘the Programme’) has been set up to prepare for implementation of SLFRS 9. Bank’s Steering Committee comprising senior management from Risk, Finance, Operations, Services and Technology has been established. To date, the Programme has been directed towards preliminary impact analysis and the following activities have been completed.

#### Gap Assessment

##### Governance and Reporting Framework

- Review current ownership and oversight structure and assess the new governance structure in Sri Lanka
- Review the current reporting framework and assess the additional elements needed for SLFRS 9 reporting
- Capability and knowledge gaps in risk and finance

#### Classification and Measurement

- Review business model location wise
- Review the business rules around classification of financial assets
- Review key contracts and arrangements to understand the underlying substance and related accounting

#### Disclosures

- Review the current disclosures made by management in the Consolidated Financial Statements and provide level gap analysis as per SLFRS 9

#### Impairment

- Identify the changes needed to Asset classification, initial recognition, Stage Allocation
- Identify the changes needed to probability of default (point in time i.e. pit), loss given default, loss rate, 12-Month, life-time expected credit loss

#### Data

- Assessment of systems and reporting capabilities
- Prepare data dictionary and data gaps based on assessment dovetailing from classification, measurement and Impairments
- Assessment of macroeconomic data and forecast data for different geographies

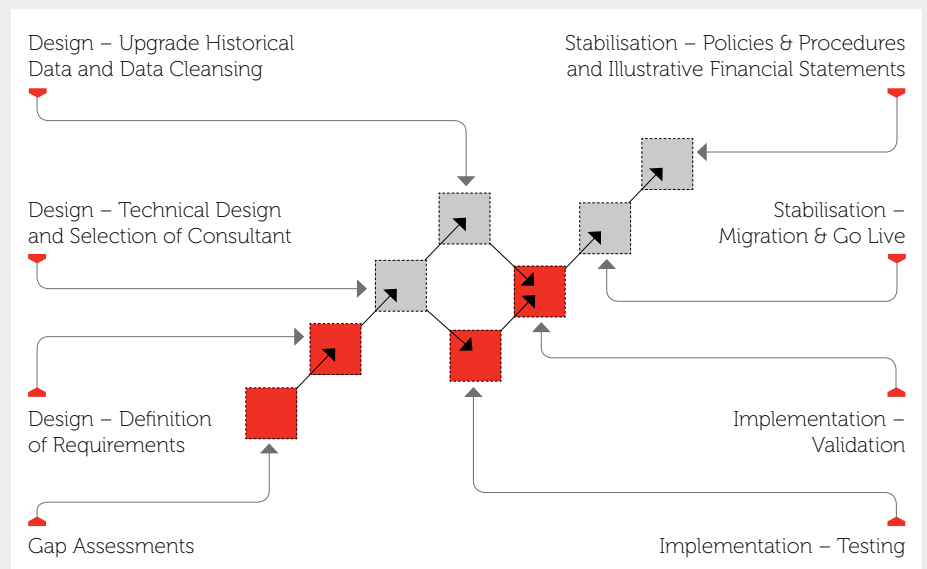
#### Hedge Accounting

- The Bank currently does not apply hedge accounting policy. Therefore, no significant impact is expected.



The Programme’s focus is now on the impairment models and processes which need to be developed by end of 2017 as the Bank intends to perform a parallel run during 2017 to gain a better understanding of the potential effect of the new standard. The implementation plan is depicted below:

#### Road Map to SLFRS 9 Implementation



**b. SLFRS 15 – ‘Revenue from Contracts with Customers’** establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance LKAS 18 – ‘Revenue’ and LKAS 11 – ‘Construction Contracts’.

SLFRS 15 is effective for Annual Reporting period beginning on or after 1st January 2018, with early adoption permitted.

The Group is assessing the potential impact on fee and commission income on its Consolidated Financial Statements resulting from the application of SLFRS 15.

**c. SLFRS 16 – Leases**

SLFRS 16 requires lessees to recognise all leases on their Statement of Financial Position as lease liabilities, with the corresponding right-of-use assets.

The profit or loss recognition pattern for recognised leases will be similar to existing finance lease accounting, with interest and depreciation expense recognised separately in Profit or Loss.

SLFRS 16 is effective for annual periods beginning on or after 1st January 2019.

The Bank is currently evaluating the impact of SLFRS 16 adoption in 2019 except for short-term and low value leases.

### 4.31 Comparative Information

The comparative information is reclassified whenever necessary to conform with the current year’s presentation in order to provide a better presentation.

## 5. Financial Risk Management

### Introduction and Overview

The Bank has exposure to the following risks from financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

### Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Banks’ risk management framework. The Board discharges its governance responsibility through the Board Integrated Risk Management Committee,

the Audit Committee and the Board Credit Committee. Board Integrated Risk Management Committee consists of non-executive members who report regularly to the Board of Directors on their activities. There are several executive management Subcommittees such as the Executive Market and Operational Committee, Asset and Liability Committee (ALCO), Executive Credit Management Committee and IT Steering Committee, which focus on specialised risk areas that support the Board Integrated Risk Management Committee.

The Bank’s risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank and the Group, through its training and management standards and procedures, aim to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the Bank’s risk management policies and procedures. The Audit Committee is assisted in these functions by internal audit. Internal audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

### Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank’s loans and receivables to customers and other banks and investment debt securities. For risk management reporting purposes the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading assets is managed independently and information thereon is disclosed below. The market risk in respect of changes in value in trading assets arising from changes in market credit spreads applied to debt securities and derivatives included in trading assets is managed as a component of market risk. Further details are provided in market risk section.

### Management of Credit Risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Board Credit Committee. Bank Credit Risk Monitoring Unit reporting to the Executive Credit Management Committee through the Chief Risk Officer is responsible for Management of the Bank’s credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Heads of Credit, Board Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Heads of Credit assess all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and receivables), and by issuer. Refer Concentration of Credit Risk in the Risk Report.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Heads of Credit who may require appropriate corrective action to be taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.
- Regular audits of business units and Bank credit processes are undertaken by internal audit.

## Exposure to Credit Risk

The table below sets out information about credit quality of financial assets and allowance for impairment held by the Bank against those assets.

| Carrying Amount   | 2016   |  | 2015   |  |
|---|--|--|--|--|
|   | Loans and Receivables to Customers<br>Rs. '000 | Investment Debt Securities AFS, HTM and Securities Purchased under Resale Agreements<br>Rs. '000 | Loans and Receivables to Customers<br>Rs. '000 | Investment Debt Securities AFS, HTM and Securities Purchased under Resale Agreements<br>Rs. '000 |
| <b>Assets at Amortised Cost</b>   |  |  |  |  |
| Individually Impaired:  |  |  |  |  |
| Grade 3: Impaired   | 1,613,124                                      |  | 157,724  |  |
| Grade 4: Impaired   | 503,138  |  | 189,856  |  |
| Grade 5: Impaired   | 150,370  |  | 654,182  |  |
| Grade 6: Impaired   | 4,599,263                                      |  | 4,320,766                                      |  |
| <b>Gross Amount (a)</b>   | <b>6,865,895</b>                               |  | <b>5,322,528</b>                               |  |
| Allowance for Impairment (b)  | 2,325,683                                      |  | 1,912,726                                      |  |
| <b>Carrying Amount (a)-(b)</b>  | <b>4,540,212</b>                               |  | <b>3,409,802</b>                               |  |
| Collectively Impaired:  |  |  |  |  |
| Grade 3: Impaired   | 908,730  |  | 825,951  |  |
| Grade 4: Impaired   | 642,894  |  | 643,159  |  |
| Grade 5: Impaired   | 414,629  |  | 514,204  |  |
| Grade 6: Impaired   | 3,725,938                                      |  | 3,894,552                                      |  |
| <b>Gross Amount (c)</b>   | <b>5,692,191</b>                               |  | <b>5,877,866</b>                               |  |
| Allowance for Impairment (d)  | 3,190,758                                      |  | 3,329,402                                      |  |
| <b>Carrying Amount (c)-(d)</b>  | <b>2,501,433</b>                               |  | <b>2,548,464</b>                               |  |
| Past Due but not Impaired (Watch List)  |  |  |  |  |
| Grade 1: 1-59 Days  | 12,622,554                                     |  | 12,307,205                                     |  |
| Grade 2: 60-89 Days   | 5,926,846                                      |  | 4,087,518                                      |  |
| <b>Gross Amount (e)</b>   | <b>18,549,400</b>                              |  | <b>16,394,723</b>                              |  |
| Allowance for Impairment (f)  | 212,775  |  | 201,588  |  |
| <b>Carrying Amount (e)-(f)</b>  | <b>18,336,625</b>                              |  | <b>16,193,135</b>                              |  |
| Neither Past Due nor Impaired:  |  |  |  |  |
| Grade 0:  | 210,965,696                                    |  | 171,246,854                                    |  |
| <b>Gross Amount (g)</b>   | <b>210,965,696</b>                             |  | <b>171,246,854</b>                             |  |
| Allowance for Impairment (h)  | 323,769  |  | 294,313  |  |
| <b>Carrying Amount (g)-(h)</b>  | <b>210,641,927</b>                             |  | <b>170,952,541</b>                             |  |
| Loans and Receivables (Gross) (a+c+e+g)   | 242,073,182                                    |  | 198,841,971                                    |  |
| Allowance for Impairment (b)+(d)+(f)+(h)  | 6,052,985                                      |  | 5,738,029                                      |  |
| Loans and Receivables (Net)   | 236,020,197                                    |  | 193,103,942                                    |  |
| <b>Available-for-Sale Investment Securities</b>                                 |  |  |  |  |
| Quoted Debentures   |  | 843,938  |  | 847,835  |
| <b>Gross Amount</b>   |  | <b>843,938</b>   |  | <b>847,835</b>   |
| Fair Value Gain/(Loss)  |  | (28,019)   |  | (67,432)   |
| <b>Carrying Amount (i)</b>  |  | <b>815,919</b>   |  | <b>780,403</b>   |
| Treasury Bills and Bonds  |  | 47,095,397   |  | 47,522,747   |
| <b>Gross Amount</b>   |  | <b>47,095,397</b>  |  | <b>47,522,747</b>  |
| Fair Value Gain/(Loss)  |  | (3,381,662)  |  | (1,597,668)  |
| <b>Carrying Amount (j)</b>  |  | <b>43,713,735</b>  |  | <b>45,925,079</b>  |
| <b>Carrying Amount – Available-for-Sale Investment Securities (k) = (i + j)</b> |  | <b>44,529,654</b>  |  | <b>46,705,482</b>  |
| <b>Held-to-Maturity Investment Securities (l)</b>                               |  | <b>18,412,060</b>  |  | <b>18,147,773</b>  |
| <b>Securities Purchased under Resale Agreements (m)</b>                         |  | <b>7,317,022</b>   |  | <b>2,312,548</b>   |
| <b>Total Carrying Amount (a-b+c-d+e-f+g-h) and (k+l+m)</b>                      | <b>236,020,197</b>                             | <b>70,258,736</b>  | <b>193,103,942</b>                             | <b>67,165,803</b>  |

## Impaired Loans and Investment Debt Securities

Individually impaired loans and securities are loans and receivables and investment in debt securities HTM and AFS (other than those carried at fair value through profit or loss) for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan/investment security agreement(s). These loans are graded 3 to 6 in the Bank's internal credit risk grading system. Loans and receivables and investment debt securities carried at fair value through profit or loss are not assessed for impairment but are subject to the same internal grading system.

## Past Due but not Impaired Loans and Investment Debt Securities

Past due but not impaired loans and investment debt securities, other than those carried at fair value through profit or loss, are those for which contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank. These loans are graded as grade 1 and 2 in the Bank's credit grading system.

## Allowances for Impairment

The Bank establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan and investment debt security portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures and for assets measured at amortised cost, a collective loan loss allowance established for banks of homogeneous assets as well as for individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired. Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually significant and collectively impaired loans:

|                                | Impaired Loans and Receivables |                       |                   |                       |                       |                  |
|--------------------------------|--------------------------------|-----------------------|-------------------|-----------------------|-----------------------|------------------|
|                                | Individually Impaired          | Collectively Impaired | Total             | Individually Impaired | Collectively Impaired | Total            |
|                                | 2016<br>Rs. '000               | 2016<br>Rs. '000      | 2016<br>Rs. '000  | 2015<br>Rs. '000      | 2015<br>Rs. '000      | 2015<br>Rs. '000 |
| Gross Amount                   | <b>6,865,895</b>               | <b>5,692,191</b>      | <b>12,558,086</b> | 5,322,528             | 5,877,866             | 11,200,394       |
| Less: Allowance for Impairment | <b>2,325,683</b>               | <b>3,190,758</b>      | <b>5,516,441</b>  | 1,912,726             | 3,329,402             | 5,242,128        |
| Carrying Amount                | <b>4,540,212</b>               | <b>2,501,433</b>      | <b>7,041,645</b>  | 3,409,802             | 2,548,464             | 5,958,266        |

## Write-off Policy

The Bank writes off a loan or an investment debt security, and any related allowances for impairment losses, when Bank determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

The Bank holds collateral against loans and receivables to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated regularly. Collateral generally is not held over loans and receivables to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities.

An estimate made at the time of borrowing of the fair value of collateral and other security enhancements held against loans and receivables to customers is given below and the value of collateral has been restricted to the value of the loans outstanding balances.

Loans and receivables are covered by the following collateral types. Where collateral values exceed the loan balance, collateral values have been restricted to the value of the loan outstanding balances:

| Collateral Type   | 2016<br>Rs. '000   | 2015<br>Rs. '000 |
|---|--------------------|------------------|
| Documentary Bills (Excluding Export Bills Purchased at Current Exchange Rate) | <b>394,540</b>     | 460,584          |
| Government Securities   | <b>13,607</b>      | 11,627           |
| Stocks, Bonds, Debentures, Sundries Including Life Policies                   | <b>6,663,769</b>   | 6,919,419        |
| Fixed, Savings, other Deposits and Pawning                                    | <b>39,139,427</b>  | 36,944,733       |
| Stock in Trade  | <b>6,526,730</b>   | 4,949,413        |
| Immovable Property, Plant & Machinery   | <b>131,378,568</b> | 95,891,636       |
| Personal Guarantees and Promissory Notes                                      | <b>11,105,097</b>  | 10,308,347       |
| Trust Receipts  | <b>1,949,259</b>   | 2,509,974        |
| Leasing Agreements and Motor Vehicles   | <b>17,699,113</b>  | 17,574,181       |
| Other Securities  | <b>19,380,803</b>  | 15,562,086       |
|   | <b>234,250,913</b> | 191,132,000      |
| On Clean Basis  | <b>7,822,269</b>   | 7,709,971        |
| <b>Total</b>  | <b>242,073,182</b> | 198,841,971      |

## Collateral Held and Other Credit Enhancement and the Financial Effect

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The table below sets out principal types of collateral and their approximate collateral percentages that are held against different types of financial assets:

| Type of Credit Exposure                          | Principal Type of Collateral Held for Secured Lending                  | Percentage of Exposure that is Subject to an Arrangement that Requires Collateralisation<br>2016<br>% |
|--|--|---|
| Derivative Financial Instruments                 | None   | -   |
| <b>Loans and Receivables to Banks</b>            |  |   |
| Securities Purchased under Resale Agreements     | Marketable Securities  | 100   |
| Placements with Banks and Finance Companies      | None   | -   |
| <b>Loans and Receivables to Retail Customers</b> |  |   |
| Mortgage Lending                                 | Residential Property   | 100   |
| Credit Cards                                     | None   | -   |
| Personal Loans                                   | None/Guarantors  | -   |
| <b>Loans and Receivables to Other Customers</b>  |  |   |
| Finance Leases                                   | Motor Vehicles and Equipment   | 100   |
| Other Lending to Other Customers                 | Commercial Property, Floating Charges Over Other Loans and Receivables | 97  |
| Securities Purchased under Resale Agreements     | Marketable Securities  | 100   |

Details of financial and non-financial assets obtained by the Bank as at 31st December 2016 by taking possession of collateral held as security (foreclosed) against loans and receivables as well as calls made on credit enhancements and held as at the year end are shown below:

| Foreclosed Properties                   | Loans & Receivables | Forced Sale Value of Foreclosed Collateral | Loans & Receivables | Forced Sale Value of Foreclosed Collateral |
|---|---------------------|--|---------------------|--|
|   | 2016<br>Rs. '000    | 2016<br>Rs. '000                           | 2015<br>Rs. '000    | 2015<br>Rs. '000                           |
| Balance as at 1st January               | <b>533,430</b>      | <b>1,566,383</b>                           | <b>810,971</b>      | <b>1,839,468</b>                           |
| Additions During the Year               | <b>33,227</b>       | <b>97,510</b>                              | <b>63,276</b>       | <b>149,250</b>                             |
| Disposal During the Year                | <b>(84,888)</b>     | <b>(456,750)</b>                           | <b>(340,655)</b>    | <b>(422,335)</b>                           |
| Write-Down against Available Provisions | <b>-</b>            | <b>-</b>                                   | <b>(162)</b>        | <b>-</b>                                   |
| Balance as at 31st December             | <b>481,769</b>      | <b>1,207,143</b>                           | <b>533,430</b>      | <b>1,566,383</b>                           |

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank generally does not use the non-cash collateral for its own operations.

### Concentrations of Credit Risk

The Bank monitors concentrations of credit risk by industry and by geographic location.

- An analysis of concentrations of credit risk of loans and receivables by industry, at the Reporting date is shown in Note 24.1.4 to the Financial Statements.
- An analysis of concentrations of credit risk of loans and receivables by geographic location at the Reporting date is shown below:

| Concentration by Location | Gross Loans and Receivables to Customers |                    |
|---------------------------|--|--------------------|
|                           | 2016<br>Rs. '000                         | 2015<br>Rs. '000   |
| Province                  |  |                    |
| Central                   | <b>12,215,773</b>                        | <b>8,885,702</b>   |
| Eastern                   | <b>6,803,151</b>                         | <b>5,573,392</b>   |
| Northern                  | <b>5,254,395</b>                         | <b>4,391,528</b>   |
| North Central             | <b>3,943,130</b>                         | <b>3,249,413</b>   |
| North Western             | <b>9,917,968</b>                         | <b>8,877,357</b>   |
| Sabaragamuwa              | <b>9,578,477</b>                         | <b>8,155,147</b>   |
| Southern                  | <b>12,238,582</b>                        | <b>9,835,827</b>   |
| Uva                       | <b>2,434,138</b>                         | <b>2,000,426</b>   |
| Western                   | <b>179,687,568</b>                       | <b>147,873,179</b> |
| <b>Total</b>              | <b>242,073,182</b>                       | <b>198,841,971</b> |

Concentration by location for loans and receivables is measured based on the location of the Branch entity holding the asset, which has a high correlation with the location of the borrower.

The table below shows the carrying amounts of the Bank's exposures to other financial instruments:

|  | 2016<br>Rs. '000  | 2015<br>Rs. '000  |
|--|-------------------|-------------------|
| Other Financial Assets – Held-for-Trading  | <b>9,060,416</b>  | <b>6,016,572</b>  |
| Derivative Financial Instruments (Assets)  | <b>115,707</b>    | <b>130,055</b>    |
| <b>Investment Securities:</b>              |                   |                   |
| Financial Investments – Available-for-Sale | <b>45,863,945</b> | <b>48,038,510</b> |
| Financial Investments – Held-to-Maturity   | <b>18,412,060</b> | <b>18,147,773</b> |

### 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 or risking damage to the Bank's reputation.

Bank Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Bank Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and receivables to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business units and subsidiary are met through short-term loans from Bank and Treasury to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Bank relies on deposits from customers and banks, and issues debt securities and subordinated liabilities as its primary sources of funding. While the Bank's debt securities and subordinated liabilities have maturities of five years, deposits from customers and banks generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

## Exposure to Liquidity Risk

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to deposits from customers and other liabilities. For this purpose liquid assets are considered as including cash and cash equivalents and investment for which there is an active and liquid market. A similar calculation is used to measure the Bank's compliance with the liquidity limit established by the Central Bank of Sri Lanka. Details of the reported Bank ratio of net liquid assets to liabilities from customers at the Reporting date and during the year were as follows:

|                      | 2016         |              | 2015  |        |
|----------------------|--------------|--------------|-------|--------|
|                      | DBU %        | FCBU %       | DBU % | FCBU % |
| At 31st December     | <b>22.68</b> | <b>26.24</b> | 27.56 | 21.51  |
| Average for the Year | <b>23.34</b> | <b>23.00</b> | 27.86 | 23.85  |
| Maximum for the Year | <b>26.40</b> | <b>27.32</b> | 30.75 | 28.10  |
| Minimum for the Year | <b>20.88</b> | <b>21.10</b> | 24.87 | 21.51  |

Maturity analysis for the financial liabilities is shown below with their undiscounted impact over the future periods to explain the contractual liability:

## Financial Liabilities – 2016

|   | Less Than<br>3 Months<br>Rs. '000 | 3 Months to<br>1 Year<br>Rs. '000 | 1-5 Years<br>Rs. '000 | More than<br>5 Years<br>Rs. '000 | Total<br>Rs. '000  |
|---|-----------------------------------|-----------------------------------|-----------------------|----------------------------------|--------------------|
| <b>Non-Derivative Liabilities</b>           |                                   |                                   |                       |                                  |                    |
| Due to Banks and Other Borrowings           | <b>11,154,787</b>                 | <b>6,713,054</b>                  | <b>866,703</b>        | –                                | <b>18,734,544</b>  |
| Customer Deposits                           | <b>141,120,304</b>                | <b>123,276,905</b>                | <b>15,869,912</b>     | <b>8,130,063</b>                 | <b>288,397,184</b> |
| Debentures                                  | <b>508,775</b>                    | –                                 | <b>11,552,313</b>     | <b>6,217,220</b>                 | <b>18,278,308</b>  |
| Securities Sold under Repurchase Agreements | <b>15,689,836</b>                 | <b>689,281</b>                    | –                     | –                                | <b>16,379,117</b>  |
| <b>Derivative Liabilities</b>               |                                   |                                   |                       |                                  |                    |
| Derivative Financial Instruments            | <b>86,654</b>                     | –                                 | –                     | –                                | <b>86,654</b>      |

## Financial Liabilities – 2015

|   | Less Than<br>3 Months<br>Rs. '000 | 3 Months to<br>1 Year<br>Rs. '000 | 1-5 Years<br>Rs. '000 | More than<br>5 Years<br>Rs. '000 | Total<br>Rs. '000  |
|---|-----------------------------------|-----------------------------------|-----------------------|----------------------------------|--------------------|
| <b>Non-Derivative Liabilities</b>           |                                   |                                   |                       |                                  |                    |
| Due to Banks and Other Borrowings           | <b>9,881,575</b>                  | <b>10,164,904</b>                 | <b>630,931</b>        | –                                | <b>20,677,410</b>  |
| Customer Deposits                           | <b>111,000,070</b>                | <b>104,739,721</b>                | <b>12,958,783</b>     | <b>8,027,057</b>                 | <b>236,725,631</b> |
| Debentures                                  | <b>205,091</b>                    | –                                 | <b>2,872,332</b>      | <b>6,051,823</b>                 | <b>9,129,246</b>   |
| Securities Sold under Repurchase Agreements | <b>10,159,074</b>                 | <b>1,503,805</b>                  | –                     | –                                | <b>11,662,879</b>  |
| <b>Derivative Liabilities</b>               |                                   |                                   |                       |                                  |                    |
| Derivative Financial Instruments            | <b>50,013</b>                     | –                                 | –                     | –                                | <b>50,013</b>      |

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and investment grade investment 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:

|   | Carrying Amount<br>2016<br>Rs. '000 | Fair Value<br>2016<br>Rs. '000 |
|---|-------------------------------------|--------------------------------|
| Cash and Short-Term Funds*  | <b>8,336,143</b>                    | <b>8,336,143</b>               |
| Placements with Banks and Finance Companies*                              | <b>334,230</b>                      | <b>334,230</b>                 |
| Balances with Central Bank of Sri Lanka*                                  | <b>16,211,618</b>                   | <b>16,211,618</b>              |
| Securities Purchased under Resale Agreements*                             | <b>7,317,022</b>                    | <b>7,317,022</b>               |
| Treasury Bills/Bonds (Net of Securities Sold under Repurchase Agreements) | <b>53,971,793</b>                   | <b>53,625,766</b>              |
| Bills Purchased*  | <b>2,225,119</b>                    | <b>2,225,119</b>               |
| <b>Total Liquidity Reserve</b>  | <b>88,395,925</b>                   | <b>88,049,898</b>              |

\*The carrying amounts approximate their fair values as they are short-term in nature (less than 12 months).

The tables below set out the availability of financial and non-financial assets held by the Bank on the basis of being encumbered or unencumbered as of 31st December 2016 and 31st December 2015:

|   | 2016                                 |                   |                    | Total<br>Rs. '000  |
|---|--------------------------------------|-------------------|--------------------|--------------------|
|   | Encumbered                           |                   | Unencumbered       |                    |
|   | Pledged as<br>Collateral<br>Rs. '000 | Other<br>Rs. '000 | Other<br>Rs. '000  |                    |
| Cash and Cash Equivalentents                | -                                    | -                 | <b>8,336,143</b>   | <b>8,336,143</b>   |
| Placements with Banks and Finance Companies | -                                    | -                 | <b>334,230</b>     | <b>334,230</b>     |
| Other Financial Assets – Held-for-Trading   | -                                    | -                 | <b>9,060,416</b>   | <b>9,060,416</b>   |
| Customer Loans and Receivables              | -                                    | -                 | <b>236,020,197</b> | <b>236,020,197</b> |
| Investment Securities                       | <b>15,976,518</b>                    | -                 | <b>48,299,487</b>  | <b>64,276,005</b>  |
| Other Assets                                | -                                    | -                 | <b>37,985,565</b>  | <b>37,985,565</b>  |
| <b>Total Assets</b>                         | <b>15,976,518</b>                    | -                 | <b>340,036,038</b> | <b>356,012,556</b> |

|   | 2015                                 |                   |                    | Total<br>Rs. '000  |
|---|--------------------------------------|-------------------|--------------------|--------------------|
|   | Encumbered                           |                   | Unencumbered       |                    |
|   | Pledged as<br>Collateral<br>Rs. '000 | Other<br>Rs. '000 | Other<br>Rs. '000  |                    |
| Cash and Cash Equivalentents                | -                                    | -                 | <b>7,800,488</b>   | <b>7,800,488</b>   |
| Placements with Banks and Finance Companies | -                                    | -                 | <b>757,050</b>     | <b>757,050</b>     |
| Other Financial Assets – Held-for-Trading   | -                                    | -                 | <b>6,016,572</b>   | <b>6,016,572</b>   |
| Customer Loans and Receivables              | -                                    | -                 | <b>193,103,942</b> | <b>193,103,942</b> |
| Investment Securities                       | <b>11,409,788</b>                    | -                 | <b>54,776,495</b>  | <b>66,186,283</b>  |
| Other Assets                                | -                                    | -                 | <b>22,465,798</b>  | <b>22,465,798</b>  |
| <b>Total Assets</b>                         | <b>11,409,788</b>                    | -                 | <b>284,920,345</b> | <b>296,330,133</b> |



## Market Risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

|  | 2016                        |                                |                                    |
|--|-----------------------------|--------------------------------|------------------------------------|
|  | Carrying Amount<br>Rs. '000 | Trading Portfolios<br>Rs. '000 | Non-Trading Portfolios<br>Rs. '000 |
| <b>Assets Subject to Market Risk</b>         |                             |                                |                                    |
| Other Financial Assets – Held-for-Trading    | 9,060,416                   | 9,060,416                      | –                                  |
| Derivative Financial Instruments             | 115,707                     | 115,707                        | –                                  |
| Placements with Banks and Finance Companies  | 334,230                     | –                              | 334,230                            |
| Customer Loans and Receivables               | 236,020,197                 | –                              | 236,020,197                        |
| Financial Investments – Available-for-Sale   | 45,863,945                  | –                              | 45,863,945                         |
| Securities Purchased under Resale Agreements | 7,317,022                   | –                              | 7,317,022                          |
|  | <b>298,711,517</b>          | <b>9,176,123</b>               | <b>289,535,394</b>                 |
| <b>Liabilities Subject to Market Risk</b>    |                             |                                |                                    |
| Derivative Financial Instruments             | 86,654                      | 86,654                         | –                                  |
| Customer Deposits                            | 273,456,344                 | –                              | 273,456,344                        |
| Debentures                                   | 12,493,645                  | –                              | 12,493,645                         |
| Due to Banks and Other Borrowings            | 17,749,542                  | –                              | 17,749,542                         |
| Securities Sold under Repurchase Agreements  | 15,976,518                  | –                              | 15,976,518                         |
|  | <b>319,762,703</b>          | <b>86,654</b>                  | <b>319,676,049</b>                 |
|  |                             |                                |                                    |
|  | 2015                        |                                |                                    |
|  | Carrying Amount<br>Rs. '000 | Trading Portfolios<br>Rs. '000 | Non-Trading Portfolios<br>Rs. '000 |
| <b>Assets Subject to Market Risk</b>         |                             |                                |                                    |
| Other Financial Assets – Held-for-Trading    | 6,016,572                   | 6,016,572                      | –                                  |
| Derivative Financial Instruments             | 130,055                     | 130,055                        | –                                  |
| Placements with Banks and Finance Companies  | 757,050                     | –                              | 757,050                            |
| Customer Loans and Receivables               | 193,103,942                 | –                              | 193,103,942                        |
| Financial Investments – Available-for-Sale   | 48,038,510                  | –                              | 48,038,510                         |
| Securities Purchased under Resale Agreements | 2,312,548                   | –                              | 2,312,548                          |
|  | <b>250,358,677</b>          | <b>6,146,627</b>               | <b>244,212,050</b>                 |
| <b>Liabilities Subject to Market Risk</b>    |                             |                                |                                    |
| Derivative Financial Instruments             | 50,013                      | 50,013                         | –                                  |
| Customer Deposits                            | 224,525,455                 | –                              | 224,525,455                        |
| Debentures                                   | 7,179,853                   | –                              | 7,179,853                          |
| Due to Banks and Other Borrowings            | 19,799,859                  | –                              | 19,799,859                         |
| Securities Sold under Repurchase Agreements  | 11,409,788                  | –                              | 11,409,788                         |
|  | <b>262,964,968</b>          | <b>50,013</b>                  | <b>262,914,955</b>                 |

## Management of Market Risk

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the Bank's Treasury Department, and include positions arising from market making and also held with a view to earn a profit of financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in ALCO. The Bank's Market Risk Management Unit under the Chief Risk Officer is responsible for the development of detailed risk management policies which is overseen by the Executive Market and Operation Risk Management Committee (EMORC), (subject to review and approval by ALCO) and for the day-to-day review of their implementation. The Bank employs a range of tools to monitor and limit market risk exposures.

### Value at Risk (VaR)

VaR is a measure of risk; based on a probability of loss and a specific time horizon in which this loss can be expected to occur. VaR is an important tool in risk management and is used for measuring quantifiable risks from our trading portfolios exposed to market risk on a daily basis.

The Bank calculates VaR daily using a 99% confidence level, and a one-day holding period for its trading portfolios.

Our VaR model is predominantly based on historical simulation which derives plausible future trading losses from the analysis of historic market prices and the model is responsive to changes in volatility.

A summary of the VaR position as at 31st December 2016 and 2015 is presented below:

| The Monthly Average, Maximum and Minimum Values of VaR (Rs. Mn.) |              |               |              |         |        |      |
|--|--------------|---------------|--------------|---------|--------|------|
| For the year ended 31st December                                 | 2016         |               |              | 2015    |        |      |
|  | Average      | High          | Low          | Average | High   | Low  |
| VaR (99%)  |              |               |              |         |        |      |
| Interest Rate Risk   | <b>65.65</b> | <b>102.68</b> | <b>10.83</b> | 28.01   | 98.93  | 2.22 |
| Equity Risk  | <b>0.14</b>  | <b>0.19</b>   | <b>0.09</b>  | 0.46    | 2.56   | 0.12 |
| Foreign Exchange Risk  | <b>1.45</b>  | <b>4.34</b>   | <b>0.11</b>  | 1.99    | 11.01  | 0.08 |
| Sum of Above   | <b>67.24</b> | <b>107.21</b> | <b>11.03</b> | 30.46   | 112.50 | 2.42 |

The Changes in VaR between Reporting periods are generally due to changes in positions, volatilities and/or correlations between asset classes.

### Exposure to Interest Rate Risk on the Banking Book (IRRBB)

During 2016, we saw a continued increase in interest rates. At two junctures in February and July 2016, The Monetary Board decided to increase the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank by 50 basis points each.

Effectively from the close of business on 19th February and 28th July 2016 the Standing Lending Facility Rate (SLFR) of the Central Bank was increased by 50 basis points each, to 6.50 percent and 8.00 percent, and to 7.00 percent and 8.50 percent, respectively.

The maturity profile of assets and liabilities of the Bank is that the duration of the liabilities to some extent is lesser than the duration of the assets. 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 Bank uses detailed assessments of the potential effects of interest rate changes on both Earnings at Risk (EAR) and Economic Value of Equity (EVE) using simulations. The simulation of changes in the level of interest rates allows for an approximation to the magnitude of the variation in net worth and earnings, assessed at market values.

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 points (bp), a 200 bp, and a 250 bp parallel fall or rise in all yield curves and are used to measure EAR.

Projected Impact Analysis on EAR as at 31st December 2016 is depicted in the table below:

|   | 100 bp<br>Parallel<br>Increase<br>Rs. Mn. | 100 bp<br>Parallel<br>Decrease<br>Rs. Mn. | 200 bp<br>Parallel<br>Increase<br>Rs. Mn. | 200 bp<br>Parallel<br>Decrease<br>Rs. Mn. | 250 bp<br>Parallel<br>Increase<br>Rs. Mn. | 250 bp<br>Parallel<br>Decrease<br>Rs. Mn. |
|---|---|---|---|---|---|---|
| Sensitivity of Projected Net Interest Income 2017 (EAR) |   |   |   |   |   |   |
| <b>As at 31st December 2016</b>                         | <b>(265.42)</b>                           | <b>265.42</b>                             | <b>(530.84)</b>                           | <b>530.84</b>                             | <b>(680.27)</b>                           | <b>680.27</b>                             |
| As at 31st December 2015                                | (214.66)                                  | 214.66                                    | (429.33)                                  | 429.33                                    | (499.90)                                  | 499.90                                    |

## Maturity Gaps

A summary of the Bank's total assets and liabilities as at 31st December 2016, based on the remaining period at the Reporting date to the respective cash flow/maturity dates together with the maturity gaps is given below:

|  | Carrying Amount<br>Rs. '000 | Less than<br>3 Months<br>Rs. '000 | 3 Months to<br>1 Year<br>Rs. '000 | 1 – 5<br>Years<br>Rs. '000 | More than<br>5 Years<br>Rs. '000 |
|--|-----------------------------|-----------------------------------|-----------------------------------|----------------------------|----------------------------------|
| <b>31st December 2016</b>                    |                             |                                   |                                   |                            |                                  |
| <b>Interest Earning Assets</b>               |                             |                                   |                                   |                            |                                  |
| Placements with Banks and Finance Companies  | 334,230                     | 334,230                           | -                                 | -                          | -                                |
| Customer Loans and Receivables               | 236,020,197                 | 110,438,183                       | 48,209,320                        | 66,098,057                 | 11,274,637                       |
| Investments Excluding Equities               | 71,994,640                  | 7,289,698                         | 6,243,675                         | 37,390,207                 | 21,071,060                       |
| Securities Purchased under Resale Agreements | 7,317,022                   | 7,317,022                         | -                                 | -                          | -                                |
| <b>Non-Interest Earning Assets</b>           | <b>40,346,467</b>           | <b>32,294,383</b>                 | <b>50,749</b>                     | <b>69,618</b>              | <b>7,931,717</b>                 |
| <b>Total Assets</b>                          | <b>356,012,556</b>          | <b>157,673,516</b>                | <b>54,503,744</b>                 | <b>103,557,882</b>         | <b>40,277,414</b>                |
| <b>Interest Bearing Liabilities</b>          |                             |                                   |                                   |                            |                                  |
| Customer Deposits                            | 251,809,783                 | 117,234,609                       | 114,750,513                       | 13,050,861                 | 6,773,800                        |
| Due to Banks and Other Borrowings            | 17,749,542                  | 10,909,060                        | 6,158,200                         | 682,282                    | -                                |
| Securities Sold under Repurchase Agreements  | 15,976,518                  | 15,344,208                        | 632,310                           | -                          | -                                |
| Debentures                                   | 12,493,645                  | 508,775                           | -                                 | 8,712,590                  | 3,272,280                        |
| Group Balances Payable                       | 219,745                     | 7,082                             | 62,663                            | 150,000                    | -                                |
| <b>Non-Interest Bearing Liabilities</b>      | <b>57,763,323</b>           | <b>29,991,041</b>                 | <b>-</b>                          | <b>-</b>                   | <b>27,772,282</b>                |
| <b>Total Liabilities and Equity</b>          | <b>356,012,556</b>          | <b>173,994,775</b>                | <b>121,603,686</b>                | <b>22,595,733</b>          | <b>37,818,362</b>                |
| <b>Gaps</b>                                  | <b>-</b>                    | <b>(16,321,259)</b>               | <b>(67,099,942)</b>               | <b>80,962,149</b>          | <b>2,459,052</b>                 |

|  | Carrying Amount<br>Rs. '000 | Less than<br>3 Months<br>Rs. '000 | 3 Months to<br>1 Year<br>Rs. '000 | 1 – 5<br>Years<br>Rs. '000 | More than<br>5 Years<br>Rs. '000 |
|--|-----------------------------|-----------------------------------|-----------------------------------|----------------------------|----------------------------------|
| <b>31st December 2015</b>                    |                             |                                   |                                   |                            |                                  |
| <b>Interest Earning Assets</b>               |                             |                                   |                                   |                            |                                  |
| Placements with Banks and Finance Companies  | 757,050                     | 757,050                           | -                                 | -                          | -                                |
| Customer Loans and Receivables               | 193,103,942                 | 96,670,943                        | 38,179,097                        | 49,251,289                 | 9,002,613                        |
| Investments Excluding Equities               | 70,860,527                  | 3,812,006                         | 10,159,495                        | 35,406,885                 | 21,482,141                       |
| Securities Purchased under Resale Agreements | 2,312,548                   | 2,312,548                         | -                                 | -                          | -                                |
| <b>Non-Interest Earning Assets</b>           | <b>29,296,066</b>           | <b>22,409,148</b>                 | <b>4,956</b>                      | <b>119,227</b>             | <b>6,762,735</b>                 |
| <b>Total Assets</b>                          | <b>296,330,133</b>          | <b>125,961,695</b>                | <b>48,343,548</b>                 | <b>84,777,401</b>          | <b>37,247,489</b>                |
| <b>Interest Bearing Liabilities</b>          |                             |                                   |                                   |                            |                                  |
| Customer Deposits                            | 206,780,908                 | 91,488,676                        | 98,374,867                        | 10,852,343                 | 6,065,022                        |
| Due to Banks and Other Borrowings            | 19,799,859                  | 9,724,285                         | 9,547,200                         | 528,374                    | -                                |
| Securities Sold under Repurchase Agreements  | 11,409,788                  | 9,997,367                         | 1,412,421                         | -                          | -                                |
| Debentures                                   | 7,179,853                   | 201,826                           | -                                 | 6,978,027                  | -                                |
| Group Balances Payable                       | 171,394                     | 6,882                             | 14,512                            | 150,000                    | -                                |
| <b>Non-Interest Bearing Liabilities</b>      | <b>50,988,331</b>           | <b>25,932,654</b>                 | <b>-</b>                          | <b>-</b>                   | <b>25,055,677</b>                |
| <b>Total Liabilities and Equity</b>          | <b>296,330,133</b>          | <b>137,351,690</b>                | <b>109,349,000</b>                | <b>18,508,744</b>          | <b>31,120,699</b>                |
| <b>Gaps</b>                                  | <b>-</b>                    | <b>(11,389,995)</b>               | <b>(61,005,452)</b>               | <b>66,268,657</b>          | <b>6,126,790</b>                 |

## Exposure to Other Market Risk

### Equity Price Risk

Market risk limit measures for share investments are typically based on marking-to-market and stop-loss measures. These limits are binding and monitored on a daily basis and are generally set to ensure that any increase in risk exposures is promptly escalated to the senior levels of management.

The sensitivity analysis of our share investments helps the Bank to understand and mitigate the risk the Bank is exposed due to the vulnerability of price risk.

A sensitivity analysis of the Share Trading Portfolios is shown below at shock levels of 10%, 20% and 30%, as at 31st December 2016 and 2015:

| 2016                     |  |                               | 2015                     |  |                               |
|--------------------------|--|-------------------------------|--------------------------|--|-------------------------------|
| Equity Trading Portfolio |  |                               | Equity Trading Portfolio |  |                               |
|                          | Investment<br>Rs. Mn.  | Market Value<br>Rs. Mn.       |                          | Investment<br>Rs. Mn.  | Market Value<br>Rs. Mn.       |
| As at 31st December      | <b>7.59</b>  | <b>7.49</b>                   |                          | <b>9.42</b>  | <b>9.30</b>                   |
| At Shock Levels of<br>%  | Impact on Income Statement<br>Due to Fall in Market Value<br>Rs. Mn. | Portfolio<br>Value<br>Rs. Mn. | At Shock Levels of<br>%  | Impact on Income Statement<br>Due to Fall in Market Value<br>Rs. Mn. | Portfolio<br>Value<br>Rs. Mn. |
| <b>-10.00</b>            | <b>-0.75</b>   | <b>6.74</b>                   | <b>-10.00</b>            | <b>-0.93</b>   | <b>8.37</b>                   |
| <b>-20.00</b>            | <b>-1.50</b>   | <b>5.99</b>                   | <b>-20.00</b>            | <b>-1.86</b>   | <b>7.44</b>                   |
| <b>-30.00</b>            | <b>-2.25</b>   | <b>5.24</b>                   | <b>-30.00</b>            | <b>-2.79</b>   | <b>6.51</b>                   |

### Foreign Currency Risk

The Bank's Treasury manages the foreign exchange risk in the forefront and the middle office does a daily monitoring and measuring of the risk stemmed through the foreign exchange exposure.

The foreign currency trading risk is mainly managed through the Net Open Position (NOP) which is regulated through a limit imposed by the Central Bank of Sri Lanka (CBSL). In addition, the management has implemented trading limits, dealer limits and stop loss limits to minimise the risk which triggers due to the volatility and uncertainty of the exchange rate movements.

The Bank though at certain instances maintained a short foreign exchange open position due to market conditions which prevailed at certain junctures have more often maintained a long position having a strategic view of the exchange rate movements during the year.

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 |                   |
|--------------------------------------|------------------------------|------------------|---------------------------------|-------------------|
|                                      | 2016<br>'000                 | 2015<br>'000     | 2016<br>Rs. '000                | 2015<br>Rs. '000  |
| <b>Net Foreign Currency Exposure</b> |                              |                  |                                 |                   |
| Great Britain Pound                  | <b>1.20</b>                  | <b>2.98</b>      | <b>221.97</b>                   | <b>635.99</b>     |
| United States Dollar                 | <b>2,154.90</b>              | <b>1,733.75</b>  | <b>323,665.72</b>               | <b>249,659.72</b> |
| Euro                                 | <b>-0.32</b>                 | <b>-68.68</b>    | <b>-51.22</b>                   | <b>-10,808.71</b> |
| Japanese Yen                         | <b>322.28</b>                | <b>-7,821.26</b> | <b>415.65</b>                   | <b>-9,347.35</b>  |
| Australian Dollar                    | <b>93.94</b>                 | <b>14.45</b>     | <b>10,213.68</b>                | <b>1,537.43</b>   |

### Foreign Exchange Risk

An impact analysis of the foreign currency Net Open Position (NOP) was carried out applying shock levels of increases of 5%, 10% and 15% levels 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 31st December 2016 |                                       |   | NOP as on 31st December 2015 |                                       |   |
|------------------------------|---------------------------------------|---|------------------------------|---------------------------------------|---|
|                              | USD '000                              | Rs. '000                                  |                              | USD '000                              | Rs. '000                                  |
| NOP                          | <b>2,406</b>                          | <b>361,454</b>                            | NOP                          | <b>1,898</b>                          | <b>273,343</b>                            |
| At Shock Levels<br>of %      | Revised<br>Rupee Position<br>Rs. '000 | Effect on Income<br>Statement<br>Rs. '000 | At Shock Levels<br>of %      | Revised<br>Rupee Position<br>Rs. '000 | Effect on Income<br>Statement<br>Rs. '000 |
| <b>5</b>                     | <b>343,381</b>                        | <b>-18,073</b>                            | <b>5</b>                     | <b>259,675</b>                        | <b>-13,668</b>                            |
| <b>10</b>                    | <b>325,308</b>                        | <b>-36,146</b>                            | <b>10</b>                    | <b>246,008</b>                        | <b>-27,335</b>                            |
| <b>15</b>                    | <b>307,236</b>                        | <b>-54,218</b>                            | <b>15</b>                    | <b>232,341</b>                        | <b>-41,002</b>                            |

## Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions; or
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;

- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee.

## Capital Management

Capital Adequacy is a measure of a commercial bank's ability to withstand the associated risks of its business. Regulators find it necessary that every bank holds adequate capital to absorb unexpected losses as a going concern, while they price their products and services to take care of expected risks. Capital Adequacy Ratio (CAR) is measured under Basel II 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 II CAR calculation from January 2008 after conducting parallel calculations in 2007.

## Available Capital

Basel I and Basel II accords recognise three capital elements, namely Tier I, Tier II and Tier III capital. Tier I capital includes paid-up ordinary share capital, paid-up non cumulative, non-redeemable preference shares, share premium, statutory reserve fund, published retained earnings, general and other reserves less goodwill.

Tier II capital includes 50% of asset revaluation reserves (created by revaluation carried out every seven years) general provision for advances, hybrid debt/equity instruments and approved subordinated term debts. Tier II capital cannot exceed Tier I capital and subordinated debt cannot exceed 50% of the Tier I capital.

Tier III capital will consist only of short-term debt instrument and will be used for calculation of Market risk only. Tier III is subject to a maximum of 250% of Tier I capital after meeting the credit and operational risk.

Equity investments in unconsolidated banking and financial subsidiaries and investments in capital of other banks/ financial associates are deducted from capital in arriving at the capital base. The Bank is required to maintain a minimum total risk weighted capital ratio of 10% in respect of Domestic Banking Unit (DBU) and Foreign Currency Banking Unit (FCBU) operations.

## Capital Base has been adjusted based on SLFRSs/LKASs

### Capital Adequacy Details as at 31st December

|                                | BANK            |                 | GROUP           |                 |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                | 2016<br>Rs. Mn. | 2015<br>Rs. Mn. | 2016<br>Rs. Mn. | 2015<br>Rs. Mn. |
| Total Tier I Capital           | <b>25,806</b>   | 23,881          | <b>26,542</b>   | 24,643          |
| Total Tier I & Tier II Capital | <b>31,661</b>   | 25,098          | <b>32,345</b>   | 25,829          |
| Total Risk Weighted Assets     | <b>240,297</b>  | 195,034         | <b>242,584</b>  | 197,395         |
| Off-Balance Sheet Exposure     | <b>13,610</b>   | 11,749          | <b>13,677</b>   | 11,816          |
| <b>Capital Adequacy Ratios</b> |                 |                 |                 |                 |
| Tier I (%)                     | <b>10.74</b>    | 12.24           | <b>10.94</b>    | 12.48           |
| Tier I & Tier II (%)           | <b>13.18</b>    | 12.87           | <b>13.33</b>    | 13.08           |

## Use of Estimates and Judgements

Management discusses with the Bank Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and their application and assumptions made relating to major estimation uncertainties.

### Key Sources of Estimation Uncertainty Allowances for Credit Losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy Note No. 4.4.7.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and receivables measured at amortised cost with similarly credit risk characteristics when there is objective evidence to suggest that they contain impaired financial assets, but the individually impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

## Fair Value of Financial Instruments

### Determining Fair Values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy Note No. 4.4.4. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The fair value hierarchy of financial instruments is given below:

- **Level 1** – fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2** – fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- **Level 3** – fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

### Valuation Models

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates and equity.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognised valuation models for determining the fair value of common and simple financial instruments, such as foreign exchange forward contracts that use only

observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the entity and the counterparty risk.

### Valuation Framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes an oversight by the Market Risk function, which is independent of front office management. Market Risk has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- Verification of observable pricing;
- Reperformance of model valuations;
- A review and approval process for new models and changes to models involving both product control and group market risk;
- Quarterly calibration and back-testing of models against observed market transactions;
- Analysis and investigation of significant daily valuation movements; and
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of level 3 instruments compared with the previous month.

When third party information, such as broker quotes or pricing services, is used to measure fair value, market risk assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRSs/LKASs. This includes:

- Verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at, the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- If a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

Significant valuation issues are reported to the Bank's Audit Committee.

#### Financial Instruments Measured at Fair Value – Fair Value Hierarchy

The following table analyses financial instruments measured at fair value at the Reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs.

#### i. Level 3 Fair Value Measurements – Reconciliation

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

|   | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
|---|------------------|------------------|
| <b>Financial Investments – Available-for-Sale (Level 3)</b> |                  |                  |
| Balance as at 1st January                                   | <b>386,911</b>   | 223,618          |
| Total Fair Value Gain in Other Comprehensive Income         | <b>106,915</b>   | 163,293          |
| Balance as at 31st December                                 | <b>493,826</b>   | 386,911          |

#### ii. Unobservable Inputs Used in Measuring Fair Value

The table below sets out information about significant unobservable inputs used as at 31st December 2016 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

| Type of Financial Instrument           | Fair Values as at<br>31st December 2016<br>Rs. '000 | Valuation<br>Technique      | Significant<br>Unobservable<br>Input | Fair Value Measurement<br>Sensitivity to<br>Unobservable Inputs |
|--|---|-----------------------------|--------------------------------------|---|
| <b>Investment in Unquoted Equities</b> | <b>493,826</b>                                      | <b>Net Assets Per Share</b> | <b>None</b>                          | <b>None</b>   |

#### iii. The Effect of Unobservable Inputs on Fair Value Measurement

In the absence of any other appropriate valuation technique, the unquoted investments have been valued using net assets per share basis. Accordingly, no assumptions have been used in the valuation of unquoted securities.

| 31st December 2016 | Effect on<br>Other Comprehensive Income |                          | Effect on<br>Statement of Financial Position |                          |
|--------------------|---|--------------------------|--|--------------------------|
|                    | Favourable<br>Rs. '000                  | Unfavourable<br>Rs. '000 | Favourable<br>Rs. '000                       | Unfavourable<br>Rs. '000 |
|                    | <b>Investment in Unquoted Equities</b>  | <b>106,915</b>           | <b>(106,915)</b>                             | <b>106,915</b>           |
| <b>Total</b>       | <b>106,915</b>                          | <b>(106,915)</b>         | <b>106,915</b>                               | <b>(106,915)</b>         |

|  | 2016                |                     |                     | 2015                |                     |                     |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|  | Level 1<br>Rs. '000 | Level 2<br>Rs. '000 | Level 3<br>Rs. '000 | Level 1<br>Rs. '000 | Level 2<br>Rs. '000 | Level 3<br>Rs. '000 |
| <b>Trading and AFS Assets</b>              |                     |                     |                     |                     |                     |                     |
| Other Financial Assets – Held-for-Trading  | <b>8,907,940</b>    | <b>152,476</b>      | –                   | 5,578,985           | 437,587             | –                   |
| Derivative Financial Instruments           | –                   | <b>115,707</b>      | –                   | –                   | 130,055             | –                   |
| Financial Investments – Available-for-Sale | <b>39,980,199</b>   | <b>5,389,920</b>    | <b>493,826</b>      | 42,169,270          | 5,482,329           | 386,911             |
| <b>Trading Liabilities</b>                 |                     |                     |                     |                     |                     |                     |
| Derivative Financial Instruments           | –                   | <b>86,654</b>       | –                   | –                   | 50,013              | –                   |

## Financial Instruments not Measured at Fair Value

The table below shows 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:

|  | 31st December 2016         |                        | 31st December 2015         |                        |
|--|----------------------------|------------------------|----------------------------|------------------------|
|  | Carrying Value<br>Rs. '000 | Fair Value<br>Rs. '000 | Carrying Value<br>Rs. '000 | Fair Value<br>Rs. '000 |
| <b>Financial Assets</b>                      |                            |                        |                            |                        |
| Cash and Cash Equivalents                    | <b>8,336,143</b>           | <b>8,336,143</b>       | 7,800,488                  | 7,800,488              |
| Securities Purchased under Resale Agreements | <b>7,317,022</b>           | <b>7,317,022</b>       | 2,312,548                  | 2,312,548              |
| Customer Loans and Receivables               | <b>236,020,197</b>         | <b>234,781,470</b>     | 193,103,942                | 193,435,580            |
| Financial Investments – Held-to-Maturity     | <b>18,412,060</b>          | <b>18,041,629</b>      | 18,147,773                 | 18,144,122             |
| Other Assets                                 | <b>5,712,285</b>           | <b>5,712,285</b>       | 3,854,350                  | 3,854,350              |
| <b>Financial Liabilities</b>                 |                            |                        |                            |                        |
| Due to Banks and Other Borrowings            | <b>17,749,542</b>          | <b>17,749,542</b>      | 19,799,859                 | 19,799,859             |
| Customer Deposits                            | <b>273,456,344</b>         | <b>273,456,344</b>     | 224,525,455                | 224,525,455            |
| Securities Sold under Repurchase Agreements  | <b>15,976,518</b>          | <b>15,976,518</b>      | 11,409,788                 | 11,409,788             |
| Debentures                                   | <b>12,493,645</b>          | <b>11,447,502</b>      | 7,179,853                  | 7,637,795              |
| Other Liabilities                            | <b>5,959,234</b>           | <b>5,959,234</b>       | 5,580,398                  | 5,580,398              |

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.

| 31st December 2016                           | Level I<br>Rs. '000 | Level II<br>Rs. '000 | Level III<br>Rs. '000 | Total<br>Rs. '000  |
|--|---------------------|----------------------|-----------------------|--------------------|
| <b>Financial Assets</b>                      |                     |                      |                       |                    |
| Cash and Cash Equivalents                    | –                   | <b>8,336,143</b>     | –                     | <b>8,336,143</b>   |
| Securities Purchased under Resale Agreements | –                   | <b>7,317,022</b>     | –                     | <b>7,317,022</b>   |
| Customer Loans and Receivables               | –                   | –                    | <b>234,781,470</b>    | <b>234,781,470</b> |
| Financial Investments – Held-to-Maturity     | <b>13,785,010</b>   | <b>3,615,925</b>     | <b>640,694</b>        | <b>18,041,629</b>  |
| Other Assets                                 | –                   | –                    | <b>5,712,285</b>      | <b>5,712,285</b>   |
| <b>Financial Liabilities</b>                 |                     |                      |                       |                    |
| Due to Banks and Other Borrowings            | –                   | –                    | <b>17,749,542</b>     | <b>17,749,542</b>  |
| Customer Deposits                            | –                   | –                    | <b>273,456,344</b>    | <b>273,456,344</b> |
| Securities Sold under Repurchase Agreements  | –                   | <b>15,976,518</b>    | –                     | <b>15,976,518</b>  |
| Debentures                                   | –                   | <b>11,447,502</b>    | –                     | <b>11,447,502</b>  |
| Other Liabilities                            | –                   | –                    | <b>5,959,234</b>      | <b>5,959,234</b>   |



Given below are the methodologies and assumptions used in fair value estimates:

#### **Cash and Cash Equivalents**

The carrying amounts of cash and cash equivalents, approximate their fair value as those are short-term in nature and are receivable on demand.

#### **Securities Purchased under Resale Agreements**

These are short-term reverse repurchase contracts which will be matured within twelve months from the Reporting date and thus the carrying amounts of such contracts approximate to their fair values.

#### **Loans and Receivables**

Approximately 67% of the total portfolio of loans and receivables to customers has a remaining contractual maturity of less than one year.

The fair value of loans and receivables with a maturity of more than one year is the present value of future cash flows expected to be received from such loans and receivables calculated based on interest rates at the Reporting date for similar types of loans and receivables. Such loans include both fixed and floating rate loans. The majority of the floating rate loans can be repriced while for fixed rate loans, the loan contract allows the Bank to change the contracted rate if there is a material difference between the contracted rate and the market interest rate.

The Bank calculated the fair value of the housing loan portfolio and leasing advances with a fixed interest rate and that will have a maturity of more than 12 months from the Reporting date. Fair value of such loans as at 31st December 2016 was Rs. 11,858 Mn. and Rs. 14,105 Mn. as against the carrying value which amounted to Rs. 12,516 Mn. and Rs. 14,686 Mn. respectively.

#### **Held-to-Maturity Financial Assets**

For the disclosure purpose, the Bank has calculated the fair value of held-to-maturity financial assets based on price formula applicable to such instruments at the Reporting date. For the debentures held under HTM portfolio fair value has been calculated using the market rate applicable for each instrument based on the remaining maturity period.

#### **Liabilities**

##### **Bank and Other Borrowings**

Approximately 96% of the amounts due to banks and others as at the Reporting date have a remaining contractual maturity of less than one year. The majority of the balance amount comprised floating rate instruments. Therefore, fair value of amounts due to banks approximates to the carrying value as at the Reporting date.

##### **Deposits**

More than 92% of the customer deposits are either repayable on demand or have a remaining contractual maturity of less than one year. Customer deposits with a contractual maturity of more than one year are subject to premature upliftment. Amounts paid to customers in the event of premature upliftment would not be materially different to its carrying value as at date. Therefore, fair value of customer deposits approximates to their carrying value as at the Reporting date.

##### **Securities Sold under Repurchase Agreements**

Securities sold under repurchase agreements have a remaining contractual maturity of less than 12 months. Accordingly, the 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 Rs. 11,448 Mn. as at 31st December 2016 as against its carrying value which amounted to Rs. 12,494 Mn.

|   | BANK              |                  | GROUP             |                  |
|---|-------------------|------------------|-------------------|------------------|
|   | 2016<br>Rs. '000  | 2015<br>Rs. '000 | 2016<br>Rs. '000  | 2015<br>Rs. '000 |
| <b>6. Income</b>                            |                   |                  |                   |                  |
| Interest Income (Note 7.1)                  | <b>33,457,232</b> | 24,151,349       | <b>33,472,831</b> | 24,166,589       |
| Fee and Commission Income (Note 8.1)        | <b>3,223,231</b>  | 2,811,140        | <b>3,222,864</b>  | 2,810,961        |
| Net Trading Income (Note 9)                 | <b>863,383</b>    | 1,254,941        | <b>861,750</b>    | 1,253,941        |
| Net Gain on Financial Investments (Note 10) | <b>11,895</b>     | 232,469          | <b>11,895</b>     | 232,469          |
| Other Operating Income – Net (Note 11)      | <b>536,452</b>    | 136,182          | <b>562,739</b>    | 164,890          |
| <b>Total Income</b>                         | <b>38,092,193</b> | 28,586,081       | <b>38,132,079</b> | 28,628,850       |

|   | BANK              |                  | GROUP             |                  |
|---|-------------------|------------------|-------------------|------------------|
|   | 2016<br>Rs. '000  | 2015<br>Rs. '000 | 2016<br>Rs. '000  | 2015<br>Rs. '000 |
| <b>7. Net Interest Income</b>               |                   |                  |                   |                  |
| <b>7.1 Interest Income</b>                  |                   |                  |                   |                  |
| Placements with Banks                       | <b>4,000</b>      | 49,706           | <b>4,000</b>      | 49,706           |
| Customer Loans and Receivables*             | <b>25,494,842</b> | 18,044,049       | <b>25,494,320</b> | 18,043,127       |
| Sri Lanka Government Securities**           | <b>7,086,614</b>  | 5,273,511        | <b>7,086,795</b>  | 5,273,666        |
| Debentures – Available-for-Sale             | <b>89,180</b>     | 66,933           | <b>92,367</b>     | 70,888           |
| Debentures – Held-to-Maturity               | <b>213,986</b>    | 247,121          | <b>225,543</b>    | 258,746          |
| Other***                                    | <b>568,610</b>    | 470,029          | <b>569,806</b>    | 470,456          |
| <b>Total Interest Income</b>                | <b>33,457,232</b> | 24,151,349       | <b>33,472,831</b> | 24,166,589       |
| <b>7.2 Interest Expenses</b>                |                   |                  |                   |                  |
| Due to Banks and Other Borrowings           | <b>1,280,260</b>  | 511,622          | <b>1,281,154</b>  | 511,806          |
| Customer Deposits                           | <b>16,034,269</b> | 10,195,782       | <b>16,034,005</b> | 10,195,751       |
| Securities Sold under Repurchase Agreements | <b>1,836,500</b>  | 833,874          | <b>1,834,936</b>  | 832,779          |
| Debentures                                  | <b>1,058,756</b>  | 784,688          | <b>1,042,963</b>  | 768,938          |
| <b>Total Interest Expenses</b>              | <b>20,209,785</b> | 12,325,966       | <b>20,193,058</b> | 12,309,274       |
| <b>Net Interest Income</b>                  | <b>13,247,447</b> | 11,825,383       | <b>13,279,773</b> | 11,857,315       |

\* Interest Income on Customer Loans and Receivables includes interest accrued on impaired loans of Rs. 290,819,459/- in 2016 (Rs. 352,708,753/- for 2015).

\*\* Includes Interest Income from Sri Lanka Government Securities of Held-for-Trading, Available-for-Sale and Held-to-Maturity portfolios.

According to Section 137 of the Inland Revenue Act No. 10 of 2006, any person who derives income from secondary market transactions in Government Securities is entitled to a notional tax credit in relation to the tax payable by such person. Notional tax credit would be determined by grossing up the income from the secondary market transactions to an amount equal to 1/9 of same and credit to be afforded for a like sum. Accordingly, the Bank has accounted for Rs. 490,427,261/- as notional tax credit for the year 2016 (Rs. 409,005,873/- for 2015).

\*\*\* Comprises interest subsidy on the Special Deposit Scheme for citizens over 60 years, introduced by the Government of Sri Lanka (CBSL Circular No. 02/17/600/0016/003 dated 13th March 2015).

|   | BANK             |                  | GROUP            |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>7.3 Net Interest Income from Sri Lanka Government Securities</b> |                  |                  |                  |                  |
| Interest Income   | <b>7,086,614</b> | 5,273,511        | <b>7,086,795</b> | 5,273,666        |
| Less: Interest Expenses   | <b>1,836,500</b> | 833,874          | <b>1,834,936</b> | 832,779          |
| <b>Net Interest Income from Sri Lanka Government Securities</b>     | <b>5,250,114</b> | 4,439,637        | <b>5,251,859</b> | 4,440,887        |

|  | BANK             |                  | GROUP            |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>8. Net Fee and Commission Income</b>    |                  |                  |                  |                  |
| <b>8.1 Fee and Commission Income</b>       |                  |                  |                  |                  |
| Fee Income                                 | <b>928,879</b>   | 875,732          | <b>928,512</b>   | 875,553          |
| Commission Income                          | <b>2,294,352</b> | 1,935,408        | <b>2,294,352</b> | 1,935,408        |
| <b>Total Fee and Commission Income</b>     | <b>3,223,231</b> | 2,811,140        | <b>3,222,864</b> | 2,810,961        |
| <b>Comprising</b>                          |                  |                  |                  |                  |
| Loans                                      | <b>856,763</b>   | 668,519          | <b>856,763</b>   | 668,519          |
| Cards                                      | <b>764,314</b>   | 649,680          | <b>764,314</b>   | 649,680          |
| Trade and Remittances                      | <b>668,818</b>   | 677,119          | <b>668,818</b>   | 677,119          |
| Deposits                                   | <b>98,115</b>    | 100,929          | <b>97,748</b>    | 100,750          |
| Guarantees                                 | <b>342,069</b>   | 276,204          | <b>342,069</b>   | 276,204          |
| Other Financial Services                   | <b>493,152</b>   | 438,689          | <b>493,152</b>   | 438,689          |
| <b>Total Fee and Commission Income</b>     | <b>3,223,231</b> | 2,811,140        | <b>3,222,864</b> | 2,810,961        |
| <b>8.2 Fee and Commission Expenses</b>     |                  |                  |                  |                  |
| Commission Expenses                        | <b>119,983</b>   | 113,694          | <b>125,626</b>   | 120,450          |
| <b>Total Fee and Commission Expenses</b>   | <b>119,983</b>   | 113,694          | <b>125,626</b>   | 120,450          |
| <b>Comprising</b>                          |                  |                  |                  |                  |
| Brokerage Fees                             | <b>16,629</b>    | 27,856           | <b>16,629</b>    | 27,856           |
| Cards                                      | <b>57,696</b>    | 39,345           | <b>57,696</b>    | 39,345           |
| Other Financial Services                   | <b>45,658</b>    | 46,493           | <b>51,301</b>    | 53,249           |
| <b>Total Fee and Commission Expenses</b>   | <b>119,983</b>   | 113,694          | <b>125,626</b>   | 120,450          |
| <b>Total Net Fee and Commission Income</b> | <b>3,103,248</b> | 2,697,446        | <b>3,097,238</b> | 2,690,511        |

|  | BANK             |                  | GROUP            |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>9. Net Trading Income</b>                     |                  |                  |                  |                  |
| <b>Foreign Exchange</b>                          |                  |                  |                  |                  |
| From Banks                                       | <b>722,679</b>   | 814,427          | <b>722,679</b>   | 814,427          |
| From Other Customers*                            | <b>368,474</b>   | 232,790          | <b>368,437</b>   | 232,790          |
| <b>Derivative Financial Instruments**</b>        | <b>(50,988)</b>  | 99,166           | <b>(50,988)</b>  | 99,166           |
| <b>Other Financial Assets – Held-for-Trading</b> |                  |                  |                  |                  |
| Equities   | <b>(320)</b>     | (20,809)         | <b>(1,916)</b>   | (21,809)         |
| Government Securities                            | <b>(176,462)</b> | 129,367          | <b>(176,462)</b> | 129,367          |
| <b>Total Net Trading Income</b>                  | <b>863,383</b>   | 1,254,941        | <b>861,750</b>   | 1,253,941        |

\* Includes Exchange Gain/(Loss) on Gold Trading.

\*\* Includes Gain/(Loss) on Foreign Exchange Forward Contracts entered with Banks and Other Customers.

|  | BANK             |                  | GROUP            |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>10. Net Gain on Financial Investments</b>   |                  |                  |                  |                  |
| Available-for-Sale                             |                  |                  |                  |                  |
| Equities                                       | <b>4,223</b>     | 43,914           | <b>4,223</b>     | 43,914           |
| Government Securities                          | <b>7,672</b>     | 188,555          | <b>7,672</b>     | 188,555          |
| <b>Total Net Gain on Financial Investments</b> | <b>11,895</b>    | 232,469          | <b>11,895</b>    | 232,469          |

|   | BANK             |                  | GROUP            |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>11. Other Operating Income – Net</b>       |                  |                  |                  |                  |
| Dividend Income                               |                  |                  |                  |                  |
| Held-for-Trading Investment                   | <b>237</b>       | 29,841           | <b>237</b>       | 29,841           |
| Available-for-Sale Investment – Quoted        | <b>9,245</b>     | 11,713           | <b>9,245</b>     | 11,713           |
| Available-for-Sale Investment – Unquoted      | <b>31,894</b>    | 5,641            | <b>31,894</b>    | 5,641            |
| Investment in Subsidiary                      | <b>56,339</b>    | 45,556           | –                | –                |
| Profit on Sale of Property, Plant & Equipment | <b>29,262</b>    | 18,020           | <b>29,262</b>    | 17,188           |
| Profit on Sale of Investment Properties       | –                | 40,571           | –                | 40,571           |
| Loss on Revaluation of Foreign Exchange       | <b>(127,728)</b> | (262,005)        | <b>(127,728)</b> | (262,005)        |
| Recovery of Loans Written Off                 | <b>317,903</b>   | 77,484           | <b>317,903</b>   | 77,484           |
| Others  | <b>219,300</b>   | 169,361          | <b>301,926</b>   | 244,457          |
| <b>Total Other Operating Income – Net</b>     | <b>536,452</b>   | 136,182          | <b>562,739</b>   | 164,890          |

|  | BANK             |                  | GROUP            |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>12. Net Impairment Loss</b>             |                  |                  |                  |                  |
| Loans and Receivables (Note 12.1)          | <b>974,433</b>   | 488,896          | <b>974,433</b>   | 488,896          |
| Financial Investments*                     | <b>20,420</b>    | –                | <b>20,420</b>    | –                |
| Property, Plant & Equipment (Net Reversal) | <b>(40,666)</b>  | –                | <b>(40,482)</b>  | –                |
| <b>Total Net Impairment Loss</b>           | <b>954,187</b>   | 488,896          | <b>954,371</b>   | 488,896          |

\* Impairment was made on Available-for-Sale quoted equities.

### 12.1 Loans and Receivables

|   |                |           |                |           |
|---|----------------|-----------|----------------|-----------|
| Net Impairment Loss – Individual (Note 24.3.1)            | <b>931,597</b> | 841,302   | <b>931,597</b> | 841,302   |
| Net Impairment Loss – Collective (Note 24.3.2)            | <b>38,005</b>  | (370,141) | <b>38,005</b>  | (370,141) |
| Loans Written Off**                                       | <b>4,831</b>   | 17,735    | <b>4,831</b>   | 17,735    |
| <b>Total Net Impairment Loss on Loans and Receivables</b> | <b>974,433</b> | 488,896   | <b>974,433</b> | 488,896   |

\*\* Includes pawning auction losses amounting to Rs. 380,552/- for 2016 (Rs. 3,054,382/- for 2015).

|  | BANK             |                  | GROUP            |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>13. Operating Expenses</b>                        |                  |                  |                  |                  |
| Operating Expenses include the following:            |                  |                  |                  |                  |
| Directors' Emoluments                                | <b>53,365</b>    | 32,058           | <b>55,531</b>    | 32,920           |
| Auditors' Remunerations                              |                  |                  |                  |                  |
| Audit Fees and Expenses                              | <b>8,843</b>     | 8,381            | <b>9,856</b>     | 9,303            |
| Audit-Related Fees and Expenses                      | <b>5,522</b>     | 4,477            | <b>5,522</b>     | 4,477            |
| Non-Audit Services                                   | <b>1,080</b>     | 366              | <b>1,175</b>     | 463              |
| Depreciation – Property, Plant & Equipment (Note 29) | <b>518,563</b>   | 414,414          | <b>547,194</b>   | 442,711          |
| Depreciation – Leasehold Rights (Note 30)            | <b>1,946</b>     | 1,946            | <b>9,356</b>     | 9,356            |
| Depreciation – Investment Properties (Note 31)       | –                | –                | <b>9,382</b>     | 9,030            |
| Amortisation of Intangible Assets (Note 32)          | <b>76,234</b>    | 67,088           | <b>76,234</b>    | 67,088           |
| Donations  | <b>12,700</b>    | 436              | <b>13,136</b>    | 858              |
| Legal Expenses                                       | <b>82,760</b>    | 81,262           | <b>83,877</b>    | 81,362           |
| Sri Lanka Deposit Insurance Fund Contribution        | <b>238,147</b>   | 161,350          | <b>238,147</b>   | 161,350          |
| Operating Lease Expenses                             | <b>590,270</b>   | 480,812          | <b>590,270</b>   | 480,812          |
| Crop Insurance Levy                                  | <b>35,052</b>    | 38,307           | <b>35,052</b>    | 38,307           |

|   | BANK             |                  | GROUP            |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>14. Personnel Expenses</b>                           |                  |                  |                  |                  |
| Personnel Expenses include the following:               |                  |                  |                  |                  |
| Salaries and Wages                                      | <b>2,634,154</b> | 2,355,912        | <b>2,651,168</b> | 2,372,144        |
| Contribution to Employees' Provident Fund               | <b>316,171</b>   | 282,259          | <b>318,315</b>   | 284,305          |
| Contribution to Employees' Trust Fund                   | <b>79,067</b>    | 70,572           | <b>79,603</b>    | 71,083           |
| Provision for Defined Benefit Obligations (Note 41.1.6) | <b>48,335</b>    | 63,005           | <b>48,007</b>    | 62,761           |
| Amortisation of Prepaid Staff Cost                      | <b>222,818</b>   | 174,853          | <b>222,957</b>   | 175,051          |
| Other   | <b>1,309,528</b> | 1,247,534        | <b>1,321,998</b> | 1,256,606        |
| <b>Total Personnel Expenses</b>                         | <b>4,610,073</b> | 4,194,135        | <b>4,642,048</b> | 4,221,950        |

|   | BANK             |                  | GROUP            |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>15. Income Tax Expense</b>   |                  |                  |                  |                  |
| The components of income tax expense for the years ended 31st December 2016 and 2015 are: |                  |                  |                  |                  |
| <b>15.1 Current Tax Expense</b>   |                  |                  |                  |                  |
| Income Tax on Current Year's Profits (Note 15.2)  | <b>1,663,748</b> | 1,401,425        | <b>1,673,216</b> | 1,401,653        |
| Over Provision in Respect of Previous Years   | <b>(69,654)</b>  | (227,940)        | <b>(69,687)</b>  | (228,523)        |
| <b>Deferred Taxation</b>  |                  |                  |                  |                  |
| Transfer to Deferred Taxation (Note 33)   | <b>129,174</b>   | 772,282          | <b>132,826</b>   | 763,532          |
| <b>Total Income Tax Expense</b>   | <b>1,723,268</b> | 1,945,767        | <b>1,736,355</b> | 1,936,662        |

- i. Current tax on profits has been computed at the rate of 28% on the taxable income arising from Banking and Leasing Activities.
- ii. The Group Company has computed taxation based on the rate applicable for such company.

|   | BANK             |                  | GROUP            |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>15.2 Reconciliation of the Accounting Profit to Income Tax Expense</b> |                  |                  |                  |                  |
| <b>Profit Before Income Tax</b>   | <b>5,733,718</b> | 5,776,711        | <b>5,771,245</b> | 5,822,611        |
| Less: Profit from Leasing Activities                                      | <b>336,320</b>   | 414,345          | <b>336,320</b>   | 414,345          |
| Profit from Banking Activities  | <b>5,397,398</b> | 5,362,366        | <b>5,434,925</b> | 5,408,266        |
| Add: Disallowable Expenses  | <b>2,160,394</b> | 2,176,110        | <b>2,530,456</b> | 2,368,440        |
| Less: Allowable Expenses  | <b>970,748</b>   | 2,170,839        | <b>1,020,999</b> | 2,294,369        |
| Exempt/Allowable Income   | <b>833,910</b>   | 362,551          | <b>1,141,934</b> | 500,131          |
| Add: Tax Losses from Subsidiary   | -                | -                | -                | 22,884           |
| Business Income   | <b>5,753,134</b> | 5,005,086        | <b>5,802,448</b> | 5,005,090        |
| Income from Other Sources   | -                | -                | <b>2,713</b>     | 1,250            |
| <b>Business Income from Banking Activities</b>                            | <b>5,753,134</b> | 5,005,086        | <b>5,805,161</b> | 5,006,340        |
| <b>Business Income/(Loss) from Leasing Activities</b>                     | <b>395,158</b>   | 211,125          | <b>395,158</b>   | 211,125          |
| <b>Total Statutory Income</b>   | <b>6,148,292</b> | 5,216,211        | <b>6,200,319</b> | 5,217,465        |
| Less: Tax Losses Set-Off (Note 15.3)                                      | <b>206,335</b>   | 211,125          | <b>224,548</b>   | 211,562          |
| Assessable Income   | <b>5,941,957</b> | 5,005,086        | <b>5,975,771</b> | 5,005,903        |
| Qualifying Payments   | -                | -                | -                | -                |
| <b>Taxable Income</b>   | <b>5,941,957</b> | 5,005,086        | <b>5,975,771</b> | 5,005,903        |
| Income Tax on Current Year's Profit                                       | <b>1,663,748</b> | 1,401,425        | <b>1,673,216</b> | 1,401,653        |
| Over Provision in Respect of Previous Years                               | <b>(69,654)</b>  | (227,940)        | <b>(69,687)</b>  | (228,523)        |
| Transfer to Deferred Taxation (Note 15.4)                                 | <b>129,174</b>   | 772,282          | <b>132,826</b>   | 763,532          |
| <b>Total Income Tax Expense</b>   | <b>1,723,268</b> | 1,945,767        | <b>1,736,355</b> | 1,936,662        |
| Effective Tax Rate (Note 15.5)  | <b>30%</b>       | 34%              | <b>30%</b>       | 33%              |
| Effective Tax Rate (Excluding Deferred Tax)                               | <b>28%</b>       | 20%              | <b>28%</b>       | 20%              |

|   | 2016<br>% |
|---|-----------|
| Income Tax Rates on   |           |
| a. Domestic Operations of the Bank  | <b>28</b> |
| b. Foreign Currency Banking Unit of the Bank (On-Shore Operations and Off-Shore Operations) | <b>28</b> |
| c. Seylan Developments PLC  | <b>28</b> |

|   | BANK                          |                            |                               |                            | GROUP                         |                            |                               |                            |
|---|-------------------------------|----------------------------|-------------------------------|----------------------------|-------------------------------|----------------------------|-------------------------------|----------------------------|
|   | 2016                          |                            | 2015                          |                            | 2016                          |                            | 2015                          |                            |
|   | Taxable<br>Income<br>Rs. '000 | Tax<br>Expense<br>Rs. '000 | Taxable<br>Income<br>Rs. '000 | Tax<br>Expense<br>Rs. '000 | Taxable<br>Income<br>Rs. '000 | Tax<br>Expense<br>Rs. '000 | Taxable<br>Income<br>Rs. '000 | Tax<br>Expense<br>Rs. '000 |
| Bank – Domestic Banking Unit and On-Shore Profits – 28% | <b>5,937,754</b>              | <b>1,662,571</b>           | 4,995,640                     | 1,398,780                  | <b>5,971,568</b>              | <b>1,672,039</b>           | 4,996,457                     | 1,399,008                  |
| Off-Shore Profits – 28%                                 | <b>4,203</b>                  | <b>1,177</b>               | 9,446                         | 2,645                      | <b>4,203</b>                  | <b>1,177</b>               | 9,446                         | 2,645                      |
|   | <b>5,941,957</b>              | <b>1,663,748</b>           | 5,005,086                     | 1,401,425                  | <b>5,975,771</b>              | <b>1,673,216</b>           | 5,005,903                     | 1,401,653                  |

|   | BANK             |                  | GROUP            |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>15.3 Tax Losses Brought Forward</b>            |                  |                  |                  |                  |
| Tax Losses Brought Forward                        | <b>320,677</b>   | 633,849          | <b>1,153,319</b> | 1,435,405        |
| Add: Tax Losses Incurred during the Year          | -                | -                | -                | 22,884           |
| Less: Tax Losses Utilised during the Year         | <b>206,335</b>   | 211,125          | <b>224,548</b>   | 211,562          |
| Less: Tax Losses Disallowed to be Carried Forward | <b>114,342</b>   | 102,047          | <b>85,542</b>    | 93,408           |
| <b>Unutilised Tax Losses Carried Forward</b>      | -                | 320,677          | <b>843,229</b>   | 1,153,319        |

### 15.4 Deferred Tax Expense/(Income)

#### Deferred Tax – Liability

|                             |                 |         |                 |         |
|-----------------------------|-----------------|---------|-----------------|---------|
| Property, Plant & Equipment | <b>55,199</b>   | 52,058  | <b>61,815</b>   | 52,014  |
| Lease Rentals               | <b>(32,078)</b> | 56,259  | <b>(32,078)</b> | 56,259  |
|                             | <b>23,121</b>   | 108,317 | <b>29,737</b>   | 108,273 |

#### Deferred Tax – Assets

|   |                |          |                |          |
|---|----------------|----------|----------------|----------|
| Leave Encashment Provision                                  | <b>3,764</b>   | (884)    | <b>3,764</b>   | (884)    |
| Collective and Individually Significant Impairment          | -              | 590,145  | -              | 590,145  |
| Other Provisions  | <b>1,113</b>   | (12,984) | <b>1,113</b>   | (12,984) |
| Tax Losses Carried Forward                                  | <b>89,790</b>  | 87,688   | <b>86,826</b>  | 78,982   |
| Reversal of Revaluation Loss on Property, Plant & Equipment | <b>11,386</b>  | -        | <b>11,386</b>  | -        |
|   | <b>106,053</b> | 663,965  | <b>103,089</b> | 655,259  |
| <b>Transfer to Deferred Taxation</b>                        | <b>129,174</b> | 772,282  | <b>132,826</b> | 763,532  |

|  | BANK       |                  |      |           | GROUP      |                  |      |           |
|--|------------|------------------|------|-----------|------------|------------------|------|-----------|
|  | 2016       |                  | 2015 |           | 2016       |                  | 2015 |           |
|  | %          | Rs. '000         | %    | Rs. '000  | %          | Rs. '000         | %    | Rs. '000  |
| <b>15.5 Reconciliation of Effective Tax Rate</b> |            |                  |      |           |            |                  |      |           |
| Profit before Income Tax                         | -          | <b>5,733,718</b> | -    | 5,776,711 | -          | <b>5,771,245</b> | -    | 5,822,611 |
| Less: Profit from Leasing Business               | -          | <b>336,320</b>   | -    | 414,345   | -          | <b>336,320</b>   | -    | 414,345   |
| Profit from Banking Activities                   | -          | <b>5,397,398</b> | -    | 5,362,366 | -          | <b>5,434,925</b> | -    | 5,408,266 |
| Income Tax using Domestic Tax Rate               | <b>26</b>  | <b>1,511,271</b> | 26   | 1,501,463 | <b>26</b>  | <b>1,521,779</b> | 26   | 1,514,314 |
| Disallowable Expenses                            | <b>11</b>  | <b>604,910</b>   | 11   | 609,311   | <b>12</b>  | <b>708,527</b>   | 11   | 663,163   |
| Allowable Expenses                               | <b>(5)</b> | <b>(271,809)</b> | (11) | (607,835) | <b>(5)</b> | <b>(285,880)</b> | (11) | (642,423) |
| Exempt Income                                    | <b>(4)</b> | <b>(233,495)</b> | (2)  | (101,514) | <b>(5)</b> | <b>(319,742)</b> | (2)  | (140,037) |
| Tax Losses from Subsidiary                       | -          | -                | -    | -         | -          | -                | -    | 6,408     |
| Income from Other Sources                        | -          | -                | -    | -         | -          | <b>760</b>       | -    | 350       |
| Business Income from Leasing Activities          | <b>2</b>   | <b>110,645</b>   | 1    | 59,115    | <b>2</b>   | <b>110,645</b>   | 1    | 59,115    |
| Tax Losses Set-Off                               | <b>(1)</b> | <b>(57,774)</b>  | (1)  | (59,115)  | <b>(1)</b> | <b>(62,873)</b>  | (1)  | (59,237)  |
| Qualifying Payments                              | -          | -                | -    | -         | -          | -                | -    | -         |
| Over Provision in respect of Previous Years      | <b>(1)</b> | <b>(69,654)</b>  | (4)  | (227,940) | <b>(1)</b> | <b>(69,687)</b>  | (4)  | (228,523) |
| Other Temporary Differences                      | <b>2</b>   | <b>129,174</b>   | 14   | 772,282   | <b>2</b>   | <b>132,826</b>   | 13   | 763,532   |
| <b>Total Income Tax Expense (Note 15.2)</b>      | <b>30</b>  | <b>1,723,268</b> | 34   | 1,945,767 | <b>30</b>  | <b>1,736,355</b> | 33   | 1,936,662 |



## 16. Basic/Diluted Earnings Per Share

Basic Earnings per Share has been calculated by dividing profit after tax attributable to Equity Holders of the Bank by the weighted average number of Ordinary Shares in issue (Both Voting and Non-Voting) during the year ended 31st December 2016 and 2015.

Diluted Earnings per Share and the Basic Earnings per Share is the same due to non-availability of potentially dilutive Ordinary Shares.

|  | BANK             |           | GROUP            |           |
|--|------------------|-----------|------------------|-----------|
|  | 2016             | 2015      | 2016             | 2015      |
| Total Profit after Tax Attributable to Equity Holders of the Bank (Rs. '000) | <b>4,010,450</b> | 3,830,944 | <b>4,013,132</b> | 3,855,296 |
| Weighted Average Number of Ordinary Shares as at 31st December – Bank ('000) | <b>344,960</b>   | 344,960   | <b>344,960</b>   | 344,960   |
| <b>Basic/Diluted Earnings per Share (Rs.)</b>                                | <b>11.63</b>     | 11.11     | <b>11.63</b>     | 11.18     |

|                                 | BANK             |                  | GROUP            |                  |
|---------------------------------|------------------|------------------|------------------|------------------|
|                                 | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>17. Dividends</b>            |                  |                  |                  |                  |
| <b>Ordinary Share Dividends</b> |                  |                  |                  |                  |
| Net Dividend Paid               | <b>864,387</b>   | 781,622          | <b>864,387</b>   | 781,622          |
| Tax Deducted at Source          | <b>84,254</b>    | 80,779           | <b>84,254</b>    | 80,779           |
| <b>Gross Dividend (Note 49)</b> | <b>948,641</b>   | 862,401          | <b>948,641</b>   | 862,401          |

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs. 3.25 per share for both voting and non-voting ordinary shareholders of the Bank to be paid by way of Rs. 1.00 cash dividend per share and Rs. 2.25 scrip dividend per share for the year ended 31st December 2016 (Bank declared a final dividend of Rs. 2.75 per share in 2015).

The total dividend recommended by the Board of Directors is to be approved at the forthcoming Annual General Meeting to be held on 31st March 2017. Final dividend proposed for the year 2016 amounts to Rs. 1,121,121,332.50 (Rs. 948,641,127.50 for 2015).

In accordance with provisions of the Sri Lanka Accounting Standard No. 10 – 'Events after the Reporting Period', the proposed final dividend has not been recognised as a liability as at year end.

As required by Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Bank satisfied the solvency test in accordance with the Section 57, prior to recommending the final dividend.

## 18. Measurement of Assets and Liabilities

### 18.1 Bank

|  | 2016                   |                        |                             |                          |                  |                    |
|--|------------------------|------------------------|-----------------------------|--------------------------|------------------|--------------------|
|  | Held-for-Trading (HFT) | Held-to-Maturity (HTM) | Loans and Receivables (L&R) | Available-for-Sale (AFS) | Others           | Total              |
|  | Rs. '000               | Rs. '000               | Rs. '000                    | Rs. '000                 | Rs. '000         | Rs. '000           |
| <b>Assets</b>                                |                        |                        |                             |                          |                  |                    |
| Cash and Cash Equivalents                    | -                      | -                      | 8,336,143                   | -                        | -                | 8,336,143          |
| Balances with Central Bank of Sri Lanka      | -                      | -                      | 16,211,618                  | -                        | -                | 16,211,618         |
| Placements with Banks and Finance Companies  | -                      | -                      | 334,230                     | -                        | -                | 334,230            |
| Derivative Financial Instruments             | 115,707                | -                      | -                           | -                        | -                | 115,707            |
| Other Financial Assets – Held-for-Trading    | 9,060,416              | -                      | -                           | -                        | -                | 9,060,416          |
| Securities Purchased under Resale Agreements | -                      | -                      | 7,317,022                   | -                        | -                | 7,317,022          |
| Customer Loans and Receivables               | -                      | -                      | 236,020,197                 | -                        | -                | 236,020,197        |
| Financial Investments – Available-for-Sale   | -                      | -                      | -                           | 45,863,945               | -                | 45,863,945         |
| Financial Investments – Held-to-Maturity     | -                      | 18,412,060             | -                           | -                        | -                | 18,412,060         |
| Group Balances Receivable                    | -                      | -                      | 30,102                      | -                        | -                | 30,102             |
| Other Financial Assets                       | -                      | -                      | 5,712,285                   | -                        | -                | 5,712,285          |
| <b>Total Financial Assets</b>                | <b>9,176,123</b>       | <b>18,412,060</b>      | <b>273,961,597</b>          | <b>45,863,945</b>        | <b>-</b>         | <b>347,413,725</b> |
| Investment in Subsidiary                     | -                      | -                      | -                           | -                        | 1,153,602        | 1,153,602          |
| Property, Plant & Equipment                  | -                      | -                      | -                           | -                        | 4,329,522        | 4,329,522          |
| Leasehold Rights                             | -                      | -                      | -                           | -                        | 42,370           | 42,370             |
| Intangible Assets                            | -                      | -                      | -                           | -                        | 262,112          | 262,112            |
| Other Assets                                 | -                      | -                      | -                           | -                        | 2,811,225        | 2,811,225          |
| <b>Total Non-Financial Assets</b>            | <b>-</b>               | <b>-</b>               | <b>-</b>                    | <b>-</b>                 | <b>8,598,831</b> | <b>8,598,831</b>   |
| <b>Total Assets</b>                          | <b>9,176,123</b>       | <b>18,412,060</b>      | <b>273,961,597</b>          | <b>45,863,945</b>        | <b>8,598,831</b> | <b>356,012,556</b> |

|   | 2016                   |                    |                   |                    |
|---|------------------------|--------------------|-------------------|--------------------|
|   | Held-for-Trading (HFT) | Amortised Cost     | Others            | Total              |
|   | Rs. '000               | Rs. '000           | Rs. '000          | Rs. '000           |
| <b>Liabilities</b>                          |                        |                    |                   |                    |
| Due to Banks                                | -                      | 17,728,293         | -                 | 17,728,293         |
| Derivative Financial Instruments            | 86,654                 | -                  | -                 | 86,654             |
| Customer Deposits                           | -                      | 273,456,344        | -                 | 273,456,344        |
| Securities Sold under Repurchase Agreements | -                      | 15,976,518         | -                 | 15,976,518         |
| Other Borrowings                            | -                      | 21,249             | -                 | 21,249             |
| Group Balances Payable                      | -                      | 226,351            | -                 | 226,351            |
| Debentures                                  | -                      | 12,493,645         | -                 | 12,493,645         |
| Current Tax Liabilities                     | -                      | 750,385            | -                 | 750,385            |
| Other Financial Liabilities                 | -                      | 5,959,234          | -                 | 5,959,234          |
| <b>Total Financial Liabilities</b>          | <b>86,654</b>          | <b>326,612,019</b> | <b>-</b>          | <b>326,698,673</b> |
| Deferred Tax Liabilities                    | -                      | -                  | 11,874            | 11,874             |
| Other Liabilities                           | -                      | -                  | 1,529,727         | 1,529,727          |
| <b>Total Non-Financial Liabilities</b>      | <b>-</b>               | <b>-</b>           | <b>1,541,601</b>  | <b>1,541,601</b>   |
| <b>Total Liabilities</b>                    | <b>86,654</b>          | <b>326,612,019</b> | <b>1,541,601</b>  | <b>328,240,274</b> |
| Equity                                      | -                      | -                  | 27,772,282        | 27,772,282         |
| <b>Total Equity and Liabilities</b>         | <b>86,654</b>          | <b>326,612,019</b> | <b>29,313,883</b> | <b>356,012,556</b> |

| 2015 |                                    |                                    |   |                                      |                    |                   |
|------|------------------------------------|------------------------------------|---|--------------------------------------|--------------------|-------------------|
|      | Held-for-Trading (HFT)<br>Rs. '000 | Held-to-Maturity (HTM)<br>Rs. '000 | Loans and Receivables (L&R)<br>Rs. '000 | Available-for-Sale (AFS)<br>Rs. '000 | Others<br>Rs. '000 | Total<br>Rs. '000 |
|      | -                                  | -                                  | 7,800,488                               | -                                    | -                  | 7,800,488         |
|      | -                                  | -                                  | 8,563,888                               | -                                    | -                  | 8,563,888         |
|      | -                                  | -                                  | 757,050                                 | -                                    | -                  | 757,050           |
|      | 130,055                            | -                                  | -                                       | -                                    | -                  | 130,055           |
|      | 6,016,572                          | -                                  | -                                       | -                                    | -                  | 6,016,572         |
|      | -                                  | -                                  | 2,312,548                               | -                                    | -                  | 2,312,548         |
|      | -                                  | -                                  | 193,103,942                             | -                                    | -                  | 193,103,942       |
|      | -                                  | -                                  | -                                       | 48,038,510                           | -                  | 48,038,510        |
|      | -                                  | 18,147,773                         | -                                       | -                                    | -                  | 18,147,773        |
|      | -                                  | -                                  | 30,000                                  | -                                    | -                  | 30,000            |
|      | -                                  | -                                  | 3,854,350                               | -                                    | -                  | 3,854,350         |
|      | 6,146,627                          | 18,147,773                         | 216,422,266                             | 48,038,510                           | -                  | 288,755,176       |
|      | -                                  | -                                  | -                                       | -                                    | 1,151,929          | 1,151,929         |
|      | -                                  | -                                  | -                                       | -                                    | 3,227,752          | 3,227,752         |
|      | -                                  | -                                  | -                                       | -                                    | 44,316             | 44,316            |
|      | -                                  | -                                  | -                                       | -                                    | 249,890            | 249,890           |
|      | -                                  | -                                  | -                                       | -                                    | 2,901,070          | 2,901,070         |
|      | -                                  | -                                  | -                                       | -                                    | 7,574,957          | 7,574,957         |
|      | 6,146,627                          | 18,147,773                         | 216,422,266                             | 48,038,510                           | 7,574,957          | 296,330,133       |

| 2015 |                                    |                            |                    |                   |
|------|------------------------------------|----------------------------|--------------------|-------------------|
|      | Held-for-Trading (HFT)<br>Rs. '000 | Amortised Cost<br>Rs. '000 | Others<br>Rs. '000 | Total<br>Rs. '000 |
|      | -                                  | 19,784,171                 | -                  | 19,784,171        |
|      | 50,013                             | -                          | -                  | 50,013            |
|      | -                                  | 224,525,455                | -                  | 224,525,455       |
|      | -                                  | 11,409,788                 | -                  | 11,409,788        |
|      | -                                  | 15,688                     | -                  | 15,688            |
|      | -                                  | 181,266                    | -                  | 181,266           |
|      | -                                  | 7,179,853                  | -                  | 7,179,853         |
|      | -                                  | 506,712                    | -                  | 506,712           |
|      | -                                  | 5,580,398                  | -                  | 5,580,398         |
|      | 50,013                             | 269,183,331                | -                  | 269,233,344       |
|      | -                                  | -                          | 336,102            | 336,102           |
|      | -                                  | -                          | 1,705,010          | 1,705,010         |
|      | -                                  | -                          | 2,041,112          | 2,041,112         |
|      | 50,013                             | 269,183,331                | 2,041,112          | 271,274,456       |
|      | -                                  | -                          | 25,055,677         | 25,055,677        |
|      | 50,013                             | 269,183,331                | 27,096,789         | 296,330,133       |

## 18.2 Group

|  | 2016                               |                                    |   |                                      |                    |                    |
|--|------------------------------------|------------------------------------|---|--------------------------------------|--------------------|--------------------|
|  | Held-for-Trading (HFT)<br>Rs. '000 | Held-to-Maturity (HTM)<br>Rs. '000 | Loans and Receivables (L&R)<br>Rs. '000 | Available-for-Sale (AFS)<br>Rs. '000 | Others<br>Rs. '000 | Total<br>Rs. '000  |
| <b>Assets</b>                                |                                    |                                    |   |                                      |                    |                    |
| Cash and Cash Equivalents                    | -                                  | -                                  | 8,336,193                               | -                                    | -                  | 8,336,193          |
| Balances with Central Bank of Sri Lanka      | -                                  | -                                  | 16,211,618                              | -                                    | -                  | 16,211,618         |
| Placements with Banks and Finance Companies  | -                                  | -                                  | 334,230                                 | -                                    | -                  | 334,230            |
| Derivative Financial Instruments             | 115,707                            | -                                  | -                                       | -                                    | -                  | 115,707            |
| Other Financial Assets – Held-for-Trading    | 9,066,980                          | -                                  | -                                       | -                                    | -                  | 9,066,980          |
| Securities Purchased under Resale Agreements | -                                  | -                                  | 7,317,022                               | -                                    | -                  | 7,317,022          |
| Customer Loans and Receivables               | -                                  | -                                  | 236,020,197                             | -                                    | -                  | 236,020,197        |
| Financial Investments – Available-for-Sale   | -                                  | -                                  | -                                       | 45,900,746                           | -                  | 45,900,746         |
| Financial Investments – Held-to-Maturity     | -                                  | 18,479,155                         | -                                       | -                                    | -                  | 18,479,155         |
| Other Financial Assets                       | -                                  | -                                  | 5,747,360                               | -                                    | -                  | 5,747,360          |
| <b>Total Financial Assets</b>                | <b>9,182,687</b>                   | <b>18,479,155</b>                  | <b>273,966,620</b>                      | <b>45,900,746</b>                    | <b>-</b>           | <b>347,529,208</b> |
| Property, Plant & Equipment                  | -                                  | -                                  | -                                       | -                                    | 5,971,693          | 5,971,693          |
| Leasehold Rights                             | -                                  | -                                  | -                                       | -                                    | 590,701            | 590,701            |
| Investment Properties                        | -                                  | -                                  | -                                       | -                                    | 854,078            | 854,078            |
| Intangible Assets                            | -                                  | -                                  | -                                       | -                                    | 262,112            | 262,112            |
| Assets Held-for-Sale                         | -                                  | -                                  | -                                       | -                                    | 226,827            | 226,827            |
| Other Assets                                 | -                                  | -                                  | -                                       | -                                    | 2,814,822          | 2,814,822          |
| <b>Total Non-Financial Assets</b>            | <b>-</b>                           | <b>-</b>                           | <b>-</b>                                | <b>-</b>                             | <b>10,720,233</b>  | <b>10,720,233</b>  |
| <b>Total Assets</b>                          | <b>9,182,687</b>                   | <b>18,479,155</b>                  | <b>273,966,620</b>                      | <b>45,900,746</b>                    | <b>10,720,233</b>  | <b>358,249,441</b> |

|   | 2016                               |                            |                    |                    |
|---|------------------------------------|----------------------------|--------------------|--------------------|
|   | Held-for-Trading (HFT)<br>Rs. '000 | Amortised Cost<br>Rs. '000 | Others<br>Rs. '000 | Total<br>Rs. '000  |
| <b>Liabilities</b>                          |                                    |                            |                    |                    |
| Due to Banks                                | -                                  | 17,728,293                 | -                  | 17,728,293         |
| Derivative Financial Instruments            | 86,654                             | -                          | -                  | 86,654             |
| Customer Deposits                           | -                                  | 273,456,344                | -                  | 273,456,344        |
| Securities Sold under Repurchase Agreements | -                                  | 15,976,518                 | -                  | 15,976,518         |
| Other Borrowings                            | -                                  | 21,249                     | -                  | 21,249             |
| Debentures                                  | -                                  | 12,493,645                 | -                  | 12,493,645         |
| Current Tax Liabilities                     | -                                  | 757,467                    | -                  | 757,467            |
| Other Financial Liabilities                 | -                                  | 5,975,172                  | -                  | 5,975,172          |
| <b>Total Financial Liabilities</b>          | <b>86,654</b>                      | <b>326,408,688</b>         | <b>-</b>           | <b>326,495,342</b> |
| Deferred Tax Liabilities                    | -                                  | -                          | 70,959             | 70,959             |
| Other Liabilities                           | -                                  | -                          | 1,597,676          | 1,597,676          |
| <b>Total Non-Financial Liabilities</b>      | <b>-</b>                           | <b>-</b>                   | <b>1,668,635</b>   | <b>1,668,635</b>   |
| <b>Total Liabilities</b>                    | <b>86,654</b>                      | <b>326,408,688</b>         | <b>1,668,635</b>   | <b>328,163,977</b> |
| Equity                                      | -                                  | -                          | 30,085,464         | 30,085,464         |
| <b>Total Equity and Liabilities</b>         | <b>86,654</b>                      | <b>326,408,688</b>         | <b>31,754,099</b>  | <b>358,249,441</b> |

| 2015 |   |   |   |   |                    |                   |
|------|---|---|---|---|--------------------|-------------------|
|      | Held-for-<br>Trading<br>(HFT)<br>Rs. '000 | Held-to-<br>Maturity<br>(HTM)<br>Rs. '000 | Loans and<br>Receivables<br>(L&R)<br>Rs. '000 | Available-<br>for-Sale<br>(AFS)<br>Rs. '000 | Others<br>Rs. '000 | Total<br>Rs. '000 |
|      | -   | -   | 7,800,538                                     | -   | -                  | 7,800,538         |
|      | -   | -   | 8,563,888                                     | -   | -                  | 8,563,888         |
|      | -   | -   | 757,050                                       | -   | -                  | 757,050           |
|      | 130,055                                   | -   | -   | -   | -                  | 130,055           |
|      | 6,024,772                                 | -   | -   | -   | -                  | 6,024,772         |
|      | -   | -   | 2,312,548                                     | -   | -                  | 2,312,548         |
|      | -   | -   | 193,103,942                                   | -   | -                  | 193,103,942       |
|      | -   | -   | -   | 48,075,921                                  | -                  | 48,075,921        |
|      | -   | 18,229,045                                | -   | -   | -                  | 18,229,045        |
|      | -   | -   | 3,867,454                                     | -   | -                  | 3,867,454         |
|      | 6,154,827                                 | 18,229,045                                | 216,405,420                                   | 48,075,921                                  | -                  | 288,865,213       |
|      | -   | -   | -   | -   | 4,875,266          | 4,875,266         |
|      | -   | -   | -   | -   | 600,057            | 600,057           |
|      | -   | -   | -   | -   | 1,089,920          | 1,089,920         |
|      | -   | -   | -   | -   | 249,890            | 249,890           |
|      | -   | -   | -   | -   | -                  | -                 |
|      | -   | -   | -   | -   | 2,905,218          | 2,905,218         |
|      | -   | -   | -   | -   | 9,720,351          | 9,720,351         |
|      | 6,154,827                                 | 18,229,045                                | 216,405,420                                   | 48,075,921                                  | 9,720,351          | 298,585,564       |

| 2015 |  |                               |                    |                   |
|------|--|-------------------------------|--------------------|-------------------|
|      | Held-for-<br>Trading (HFT)<br>Rs. '000 | Amortised<br>Cost<br>Rs. '000 | Others<br>Rs. '000 | Total<br>Rs. '000 |
|      | -                                      | 19,784,171                    | -                  | 19,784,171        |
|      | 50,013                                 | -                             | -                  | 50,013            |
|      | -                                      | 224,525,455                   | -                  | 224,525,455       |
|      | -                                      | 11,409,788                    | -                  | 11,409,788        |
|      | -                                      | 15,688                        | -                  | 15,688            |
|      | -                                      | 7,179,853                     | -                  | 7,179,853         |
|      | -                                      | 505,278                       | -                  | 505,278           |
|      | -                                      | 5,590,898                     | -                  | 5,590,898         |
|      | 50,013                                 | 269,011,131                   | -                  | 269,061,144       |
|      | -                                      | -                             | 384,771            | 384,771           |
|      | -                                      | -                             | 1,784,715          | 1,784,715         |
|      | -                                      | -                             | 2,169,486          | 2,169,486         |
|      | 50,013                                 | 269,011,131                   | 2,169,486          | 271,230,630       |
|      | -                                      | -                             | 27,354,934         | 27,354,934        |
|      | 50,013                                 | 269,011,131                   | 29,524,420         | 298,585,564       |

|  | BANK             |                  | GROUP            |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>19. Cash and Cash Equivalents</b>   |                  |                  |                  |                  |
| Cash in Hand – Local Currency          | <b>7,537,751</b> | 6,896,270        | <b>7,537,801</b> | 6,896,320        |
| Cash in Hand – Foreign Currency        | <b>177,579</b>   | 169,870          | <b>177,579</b>   | 169,870          |
| Balances with Local Banks              | <b>22,327</b>    | 62,113           | <b>22,327</b>    | 62,113           |
| Balances with Foreign Banks            | <b>598,486</b>   | 672,235          | <b>598,486</b>   | 672,235          |
| <b>Total Cash and Cash Equivalents</b> | <b>8,336,143</b> | 7,800,488        | <b>8,336,193</b> | 7,800,538        |

## 20. Balances with Central Bank of Sri Lanka

A cash balance is required to be maintained with the Central Bank of Sri Lanka according to statutory requirements. The minimum cash reserve requirement as at 31st December 2016 is 7.5% of the Rupee Deposit Liabilities.

|  | BANK /GROUP        |                  |
|--|--------------------|------------------|
|  | 2016<br>Rs. '000   | 2015<br>Rs. '000 |
| Average Rupee Deposit Liabilities for 2nd Half of November   | <b>232,083,530</b> | 185,155,736      |
| Statutory Reserve Requirement  | <b>17,406,265</b>  | 11,109,344       |
| Less: Average Sri Lanka Currency Notes and Coins Held Over and Above 2% of Average Rupee Deposit Liabilities, but not Exceeding 4% | <b>1,542,686</b>   | 1,539,080        |
| <b>Total Reserve Required to be Held with the Central Bank</b>   | <b>15,863,579</b>  | 9,570,264        |
| <b>Average Balance Held by the Bank for the 2nd Half of December</b>   | <b>15,863,790</b>  | 9,570,371        |
| Statutory Balances with Central Bank as at 31st December   | <b>16,211,618</b>  | 8,563,888        |
| <b>Balances with Central Bank of Sri Lanka</b>   | <b>16,211,618</b>  | 8,563,888        |

|  | BANK             |                  | GROUP            |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>21. Placements with Banks and Finance Companies</b>   |                  |                  |                  |                  |
| Term Deposits with Banks                                 | <b>334,230</b>   | 757,050          | <b>334,230</b>   | 757,050          |
| Term Deposits with Finance Companies                     | -                | -                | <b>498</b>       | 5,943            |
| Impairment Provision                                     | -                | -                | <b>(498)</b>     | (5,943)          |
| <b>Total Placements with Banks and Finance Companies</b> | <b>334,230</b>   | 757,050          | <b>334,230</b>   | 757,050          |

|   | BANK             |                  | GROUP            |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>22. Derivative Financial Instruments</b> |                  |                  |                  |                  |
| <b>22.1 Derivative Assets</b>               |                  |                  |                  |                  |
| <b>Foreign Currency Derivatives</b>         |                  |                  |                  |                  |
| Forward Foreign Exchange Contracts          | <b>115,707</b>   | 130,055          | <b>115,707</b>   | 130,055          |
|   | <b>115,707</b>   | 130,055          | <b>115,707</b>   | 130,055          |

|                                     | BANK             |                  | GROUP            |                  |
|-------------------------------------|------------------|------------------|------------------|------------------|
|                                     | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>22.2 Derivative Liabilities</b>  |                  |                  |                  |                  |
| <b>Foreign Currency Derivatives</b> |                  |                  |                  |                  |
| Forward Foreign Exchange Contracts  | <b>86,654</b>    | 50,013           | <b>86,654</b>    | 50,013           |
|                                     | <b>86,654</b>    | 50,013           | <b>86,654</b>    | 50,013           |

The Bank uses derivatives not designated in a qualifying hedge relationship such as forward foreign exchange contracts to manage its exposure to foreign currency.

|  | 2016                               |                        | 2015                               |                        |
|--|------------------------------------|------------------------|------------------------------------|------------------------|
|  | Amortised<br>Cost/Cost<br>Rs. '000 | Fair Value<br>Rs. '000 | Amortised<br>Cost/Cost<br>Rs. '000 | Fair Value<br>Rs. '000 |
| <b>23. Other Financial Assets – Held-for-Trading</b>           |                                    |                        |                                    |                        |
| Held by the Bank (Note 23.1)                                   | <b>9,333,860</b>                   | <b>9,060,416</b>       | 6,175,690                          | 6,016,572              |
| Held by the Subsidiary (Note 23.2)                             | <b>9,946</b>                       | <b>6,564</b>           | 10,000                             | 8,200                  |
| <b>Total Other Financial Assets – Held-for-Trading – Group</b> | <b>9,343,806</b>                   | <b>9,066,980</b>       | 6,185,690                          | 6,024,772              |

### 23.1 Held by the Bank

|   |                  |                  |           |           |
|---|------------------|------------------|-----------|-----------|
| Quoted Equities (Note 23.1.1)                                 | <b>7,592</b>     | <b>7,490</b>     | 9,423     | 9,300     |
| Government of Sri Lanka Treasury Bills (Note 23.1.2)          | <b>265,730</b>   | <b>264,618</b>   | 700,384   | 699,293   |
| Government of Sri Lanka Treasury Bonds (Note 23.1.3)          | <b>8,908,037</b> | <b>8,635,832</b> | 5,022,497 | 4,870,392 |
| Sri Lanka Development Bonds (Note 23.1.4)                     | <b>152,501</b>   | <b>152,476</b>   | 443,386   | 437,587   |
| <b>Total Other Financial Assets – Held-for-Trading – Bank</b> | <b>9,333,860</b> | <b>9,060,416</b> | 6,175,690 | 6,016,572 |

|   | 2016                           |                  |                    |                           | 2015                           |                  |                           |
|---|--------------------------------|------------------|--------------------|---------------------------|--------------------------------|------------------|---------------------------|
|   | No. of<br>Ordinary<br>Equities | Cost<br>Rs. '000 | % of Total<br>Cost | Fair<br>Value<br>Rs. '000 | No. of<br>Ordinary<br>Equities | Cost<br>Rs. '000 | Fair<br>Value<br>Rs. '000 |
| <b>23.1.1 Quoted Equities – Bank</b>                  |                                |                  |                    |                           |                                |                  |                           |
| <b>Banks, Finance and Insurance</b>                   |                                |                  |                    |                           |                                |                  |                           |
| People's Leasing PLC                                  | -                              | -                | -                  | -                         | 60,000                         | 1,395            | 1,320                     |
|   |                                |                  |                    |                           | -                              | 1,395            | 1,320                     |
| <b>Diversified Holdings</b>                           |                                |                  |                    |                           |                                |                  |                           |
| Aitken Spence PLC                                     | -                              | -                | -                  | -                         | 36,021                         | 4,039            | 3,530                     |
|   |                                |                  |                    |                           | -                              | 4,039            | 3,530                     |
| <b>Manufacturing</b>                                  |                                |                  |                    |                           |                                |                  |                           |
| Piramal Glass Ceylon PLC                              | <b>1,413,130</b>               | <b>7,592</b>     |                    | <b>7,490</b>              | -                              | -                | -                         |
| Textured Jersey Lanka PLC                             | -                              | -                |                    | -                         | 125,000                        | 3,989            | 4,450                     |
|   |                                | <b>7,592</b>     | <b>100.00</b>      | <b>7,490</b>              |                                | 3,989            | 4,450                     |
| <b>Total Held-for-Trading Quoted Equities – Bank</b>  |                                | <b>7,592</b>     | <b>100.00</b>      | <b>7,490</b>              |                                | 9,423            | 9,300                     |
| Marked to Market Valuation Loss from Quoted Equities* |                                | <b>(102)</b>     |                    |                           |                                | (123)            |                           |

\* Marked to Market Valuation Loss from Quoted Equities is included in Net Trading Income (Note 9).

|  | Year of Maturity | 2016                    |                             |                         | 2015                       |                            |                         |                             |                         |                            |                        |
|--|------------------|-------------------------|-----------------------------|-------------------------|----------------------------|----------------------------|-------------------------|-----------------------------|-------------------------|----------------------------|------------------------|
|  |                  | Face Value<br>Rs. '000  | Amortised Cost<br>Rs. '000  | Fair Value<br>Rs. '000  | Face Value<br>Rs. '000     | Amortised Cost<br>Rs. '000 | Fair Value<br>Rs. '000  |                             |                         |                            |                        |
| <b>23.1.2 Government of Sri Lanka Treasury Bills – Bank</b>  | 2016             | -                       | -                           | -                       | 721,012                    | 700,384                    | 699,293                 |                             |                         |                            |                        |
|  | 2017             | <b>272,786</b>          | <b>265,730</b>              | <b>264,618</b>          | -                          | -                          | -                       |                             |                         |                            |                        |
| <b>Total Held-for-Trading Government of Sri Lanka Treasury Bills – Bank</b>                              |                  |                         | <b>265,730</b>              | <b>264,618</b>          |                            | 700,384                    | 699,293                 |                             |                         |                            |                        |
| Marked to Market Valuation Loss from Treasury Bills*   |                  |                         | <b>(1,112)</b>              |                         |                            | <b>(1,091)</b>             |                         |                             |                         |                            |                        |
| <b>23.1.3 Government of Sri Lanka Treasury Bonds – Bank</b>  | 2016             | -                       | -                           | -                       | 21,841                     | 22,294                     | 22,338                  |                             |                         |                            |                        |
|  | 2017             | <b>139,000</b>          | <b>141,457</b>              | <b>140,635</b>          | 489,000                    | 498,582                    | 494,335                 |                             |                         |                            |                        |
|  | 2018             | <b>997,428</b>          | <b>1,009,098</b>            | <b>976,881</b>          | 1,512,410                  | 1,552,391                  | 1,519,293               |                             |                         |                            |                        |
|  | 2019             | <b>1,462,430</b>        | <b>1,497,630</b>            | <b>1,483,515</b>        | 500,000                    | 553,711                    | 539,887                 |                             |                         |                            |                        |
|  | 2020             | <b>488,000</b>          | <b>462,668</b>              | <b>460,496</b>          | 250,000                    | 254,222                    | 249,652                 |                             |                         |                            |                        |
|  | 2021             | <b>725,000</b>          | <b>724,766</b>              | <b>701,900</b>          | 575,000                    | 617,547                    | 598,547                 |                             |                         |                            |                        |
|  | 2022             | <b>1,110,000</b>        | <b>1,214,844</b>            | <b>1,121,757</b>        | 960,000                    | 1,092,094                  | 1,046,781               |                             |                         |                            |                        |
|  | 2023             | <b>339,000</b>          | <b>341,427</b>              | <b>334,172</b>          | 29,000                     | 31,993                     | 31,347                  |                             |                         |                            |                        |
|  | 2024             | <b>917,192</b>          | <b>922,938</b>              | <b>902,888</b>          | 150,000                    | 180,146                    | 164,752                 |                             |                         |                            |                        |
|  | 2025             | <b>900,000</b>          | <b>861,686</b>              | <b>841,658</b>          | 200,000                    | 219,517                    | 203,460                 |                             |                         |                            |                        |
|  | 2026             | <b>1,480,000</b>        | <b>1,522,719</b>            | <b>1,465,550</b>        | -                          | -                          | -                       |                             |                         |                            |                        |
|  | 2030             | <b>230,000</b>          | <b>208,804</b>              | <b>206,380</b>          | -                          | -                          | -                       |                             |                         |                            |                        |
| <b>Total Held-for-Trading Government of Sri Lanka Treasury Bonds – Bank</b>                              |                  |                         | <b>8,908,037</b>            | <b>8,635,832</b>        |                            | 5,022,497                  | 4,870,392               |                             |                         |                            |                        |
| Marked to Market Valuation Loss from Treasury Bonds*   |                  |                         | <b>(272,205)</b>            |                         |                            | <b>(152,105)</b>           |                         |                             |                         |                            |                        |
|  |                  |                         |                             |                         |                            |                            |                         |                             |                         |                            |                        |
|  | Year of Maturity | 2016                    |                             |                         | 2015                       |                            |                         |                             |                         |                            |                        |
|  |                  | Face Value<br>US\$ '000 | Amortised Cost<br>US\$ '000 | Fair Value<br>US\$ '000 | Amortised Cost<br>Rs. '000 | Fair Value<br>Rs. '000     | Face Value<br>US\$ '000 | Amortised Cost<br>US\$ '000 | Fair Value<br>US\$ '000 | Amortised Cost<br>Rs. '000 | Fair Value<br>Rs. '000 |
| <b>23.1.4 Sri Lanka Development Bonds – Bank</b>   | 2016             | -                       | -                           | -                       | -                          | -                          | 1,000                   | 1,017                       | 1,012                   | 146,400                    | 145,657                |
|  | 2017             | <b>1,000</b>            | <b>1,015</b>                | <b>1,000</b>            | <b>152,501</b>             | <b>152,476</b>             | -                       | -                           | -                       | -                          | -                      |
|  | 2018             | -                       | -                           | -                       | -                          | -                          | 2,000                   | 2,062                       | 2,027                   | 296,986                    | 291,930                |
| <b>Total Held-for-Trading Sri Lanka Development Bonds – Bank</b>   |                  |                         | <b>1,015</b>                | <b>1,000</b>            | <b>152,501</b>             | <b>152,476</b>             |                         | 3,079                       | 3,039                   | 443,386                    | 437,587                |
| Marked to Market Valuation Loss from Sri Lanka Development Bonds*  |                  |                         |                             |                         | <b>(25)</b>                |                            |                         |                             |                         | <b>(5,799)</b>             |                        |
| <b>Total Other Financial Assets – Held-for-Trading – Bank (Note Nos. 23.1.1, 23.1.2, 23.1.3, 23.1.4)</b> |                  |                         |                             |                         | <b>9,333,860</b>           | <b>9,060,416</b>           |                         |                             |                         | <b>6,175,690</b>           | <b>6,016,572</b>       |

\* Marked to Market Valuation Loss from Treasury Bills, Treasury Bonds and Sri Lanka Development Bonds is included in Net Trading Income (Note 9).



## Other Financial Assets – Held-for-Trading by Subsidiary

|   | 2016                     |                  |                        | 2015                     |                  |                        |
|---|--------------------------|------------------|------------------------|--------------------------|------------------|------------------------|
|   | No. of Ordinary Equities | Cost<br>Rs. '000 | Fair Value<br>Rs. '000 | No. of Ordinary Equities | Cost<br>Rs. '000 | Fair Value<br>Rs. '000 |
| <b>23.2 Held by the Subsidiary</b>  |                          |                  |                        |                          |                  |                        |
| <b>23.2.1 Quoted Equities</b>   |                          |                  |                        |                          |                  |                        |
| <b>Banks, Finance and Insurance</b>   |                          |                  |                        |                          |                  |                        |
| Commercial Leasing & Finance Company PLC  | 1,989,239                | 9,946            | 6,564                  | 2,000,000                | 10,000           | 8,200                  |
| <b>Total Held-for-Trading Quoted Equities – Subsidiary</b>                            |                          | <b>9,946</b>     | <b>6,564</b>           |                          | 10,000           | 8,200                  |
| Marked to Market Valuation Loss from Quoted Equities*                                 |                          | <b>(3,382)</b>   |                        |                          | (1,800)          |                        |
| <b>Total Other Financial Assets – Held-for-Trading – Subsidiary (Note No. 23.2.1)</b> |                          | <b>9,946</b>     | <b>6,564</b>           |                          | 10,000           | 8,200                  |

\* Marked to Market Valuation Loss from Quoted Equities is included in Net Trading Income (Note 9).

|   | BANK               |                  | GROUP              |                  |
|---|--------------------|------------------|--------------------|------------------|
|   | 2016<br>Rs. '000   | 2015<br>Rs. '000 | 2016<br>Rs. '000   | 2015<br>Rs. '000 |
| <b>24. Customer Loans and Receivables</b>                                 |                    |                  |                    |                  |
| <b>Gross Loans and Receivables (Note 24.1)</b>                            | <b>242,073,182</b> | 198,841,971      | <b>242,073,182</b> | 198,841,971      |
| <b>Impairment Allowance for Loans and Receivables</b>                     |                    |                  |                    |                  |
| Individual Impairment (Note 24.3.1)                                       | <b>(2,420,888)</b> | (2,019,537)      | <b>(2,420,888)</b> | (2,019,537)      |
| Collective Impairment (Note 24.3.2)                                       | <b>(3,632,097)</b> | (3,718,492)      | <b>(3,632,097)</b> | (3,718,492)      |
| <b>Total Impairment Allowance for Loans and Receivables (Note 24.3.3)</b> | <b>(6,052,985)</b> | (5,738,029)      | <b>(6,052,985)</b> | (5,738,029)      |
| <b>Total Loans and Receivables – Net</b>                                  | <b>236,020,197</b> | 193,103,942      | <b>236,020,197</b> | 193,103,942      |

## 24.1 Analysis of Gross Loans and Receivables

### 24.1.1 Analysis of Rupee Gross Loans and Receivables by Product

|  |                    |             |                    |             |
|--|--------------------|-------------|--------------------|-------------|
| Export Bills                             | 119,573            | 41,154      | 119,573            | 41,154      |
| Import Bills                             | 147,802            | 216,906     | 147,802            | 216,906     |
| Local Bills                              | 142,892            | 151,680     | 142,892            | 151,680     |
| Lease Rentals Receivable (Note 24.2)     | 14,685,690         | 14,922,249  | 14,685,690         | 14,922,249  |
| Overdrafts                               | 59,276,447         | 49,550,015  | 59,276,447         | 49,550,015  |
| Revolving Import Loans                   | 8,408,394          | 9,522,395   | 8,408,394          | 9,522,395   |
| Trust Receipt Loans                      | 1,949,259          | 2,509,974   | 1,949,259          | 2,509,974   |
| Staff Loans                              | 5,521,128          | 5,149,180   | 5,521,128          | 5,149,180   |
| Housing Loans                            | 12,477,818         | 11,025,655  | 12,477,818         | 11,025,655  |
| Pawning Receivables                      | 9,609,406          | 8,979,333   | 9,609,406          | 8,979,333   |
| Refinance Loans                          | 1,995,107          | 854,911     | 1,995,107          | 854,911     |
| Credit Cards                             | 3,803,627          | 3,189,905   | 3,803,627          | 3,189,905   |
| Margin Trading                           | 2,658,052          | 3,241,982   | 2,658,052          | 3,241,982   |
| Factoring                                | 445,452            | –           | 445,452            | –           |
| Term Loans                               | 101,864,248        | 72,394,970  | 101,864,248        | 72,394,970  |
| <b>Rupee Gross Loans and Receivables</b> | <b>223,104,895</b> | 181,750,309 | <b>223,104,895</b> | 181,750,309 |

|   | BANK               |                    | GROUP              |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | 2016<br>Rs. '000   | 2015<br>Rs. '000   | 2016<br>Rs. '000   | 2015<br>Rs. '000   |
| <b>24.1.2 Analysis of Foreign Currency Gross Loans and Receivables by Product</b> |                    |                    |                    |                    |
| Export Bills  | 1,638,602          | 1,638,044          | 1,638,602          | 1,638,044          |
| Import Bills  | 97,213             | 243,679            | 97,213             | 243,679            |
| Local Bills   | 79,037             | 92,605             | 79,037             | 92,605             |
| Overdrafts  | 799,936            | 1,490,845          | 799,936            | 1,490,845          |
| Revolving Import Loans  | 659,811            | 321,171            | 659,811            | 321,171            |
| Housing Loans   | 37,594             | 33,245             | 37,594             | 33,245             |
| Term Loans  | 15,656,094         | 13,272,073         | 15,656,094         | 13,272,073         |
| <b>Foreign Currency Gross Loans and Receivables</b>                               | <b>18,968,287</b>  | <b>17,091,662</b>  | <b>18,968,287</b>  | <b>17,091,662</b>  |
| <b>Total Gross Loans and Receivables</b>  | <b>242,073,182</b> | <b>198,841,971</b> | <b>242,073,182</b> | <b>198,841,971</b> |
| <b>24.1.3 Analysis of Gross Loans and Receivables by Currency</b>                 |                    |                    |                    |                    |
| Sri Lankan Rupee  | 223,104,895        | 181,750,309        | 223,104,895        | 181,750,309        |
| United States Dollar  | 18,869,415         | 16,671,184         | 18,869,415         | 16,671,184         |
| Japanese Yen  | 38,394             | 294,323            | 38,394             | 294,323            |
| Great Britain Pound   | 34,833             | 25,112             | 34,833             | 25,112             |
| Euro  | 15,750             | 90,847             | 15,750             | 90,847             |
| Australian Dollar   | 9,895              | -                  | 9,895              | -                  |
| Singapore Dollar  | -                  | 10,196             | -                  | 10,196             |
| <b>Total Gross Loans and Receivables</b>  | <b>242,073,182</b> | <b>198,841,971</b> | <b>242,073,182</b> | <b>198,841,971</b> |
| <b>24.1.4 Analysis of Gross Loans and Receivables by Industry-wise</b>            |                    |                    |                    |                    |
| Agriculture and Fishing   | 22,248,480         | 20,428,830         | 22,248,480         | 20,428,830         |
| Manufacturing   | 27,769,604         | 24,351,199         | 27,769,604         | 24,351,199         |
| Tourism   | 12,857,420         | 12,133,427         | 12,857,420         | 12,133,427         |
| Transport   | 14,815,137         | 13,404,195         | 14,815,137         | 13,404,195         |
| Construction  | 25,976,024         | 20,035,613         | 25,976,024         | 20,035,613         |
| Traders   | 52,720,784         | 44,927,045         | 52,720,784         | 44,927,045         |
| New Economy (e-Commerce, IT, etc.)  | 1,779,022          | 1,478,977          | 1,779,022          | 1,478,977          |
| Financial and Business Services   | 32,678,949         | 23,069,741         | 32,678,949         | 23,069,741         |
| Infrastructure  | 2,391,832          | 2,533,766          | 2,391,832          | 2,533,766          |
| Other Services (Education, Health, Media, etc.)                                   | 10,274,482         | 9,517,149          | 10,274,482         | 9,517,149          |
| Credit Cards  | 3,803,627          | 3,189,905          | 3,803,627          | 3,189,905          |
| Pawning   | 9,609,406          | 8,979,333          | 9,609,406          | 8,979,333          |
| Other Customers   | 25,148,415         | 14,792,791         | 25,148,415         | 14,792,791         |
| <b>Total Gross Loans and Receivables</b>  | <b>242,073,182</b> | <b>198,841,971</b> | <b>242,073,182</b> | <b>198,841,971</b> |

Industry-wise analysis of credit portfolio given above, reflects the exposure to credit risk in the various sectors of the economy.

Pawning includes agriculture sector lending.

|  | BANK               |                  | GROUP              |                  |
|--|--------------------|------------------|--------------------|------------------|
|  | 2016<br>Rs. '000   | 2015<br>Rs. '000 | 2016<br>Rs. '000   | 2015<br>Rs. '000 |
| <b>24.2 Lease Rentals Receivable</b>   |                    |                  |                    |                  |
| Lease Rentals Receivable within One Year (Note 24.2.1)                                   | <b>5,435,321</b>   | 5,142,666        | <b>5,435,321</b>   | 5,142,666        |
| Lease Rentals Receivable Later than One Year and Not Later than Five Years (Note 24.2.2) | <b>9,235,712</b>   | 9,775,395        | <b>9,235,712</b>   | 9,775,395        |
| Lease Rentals Receivable Later than Five Years (Note 24.2.3)                             | <b>14,657</b>      | 4,188            | <b>14,657</b>      | 4,188            |
|  | <b>14,685,690</b>  | 14,922,249       | <b>14,685,690</b>  | 14,922,249       |
| <b>24.2.1 Lease Rentals Receivable within One Year</b>                                   |                    |                  |                    |                  |
| From the Reporting Date  | <b>7,037,135</b>   | 6,713,942        | <b>7,037,135</b>   | 6,713,942        |
| Unearned Income  | <b>(1,601,814)</b> | (1,571,276)      | <b>(1,601,814)</b> | (1,571,276)      |
|  | <b>5,435,321</b>   | 5,142,666        | <b>5,435,321</b>   | 5,142,666        |
| <b>24.2.2 Lease Rentals Receivable Later than One Year and Not Later than Five Years</b> |                    |                  |                    |                  |
| From the Reporting Date  | <b>10,747,487</b>  | 11,348,518       | <b>10,747,487</b>  | 11,348,518       |
| Deposits of Rentals  | <b>(47,580)</b>    | (65,238)         | <b>(47,580)</b>    | (65,238)         |
| Unearned Income  | <b>(1,464,195)</b> | (1,507,885)      | <b>(1,464,195)</b> | (1,507,885)      |
|  | <b>9,235,712</b>   | 9,775,395        | <b>9,235,712</b>   | 9,775,395        |
| <b>24.2.3 Lease Rentals Receivable Later than Five Years</b>                             |                    |                  |                    |                  |
| From the Reporting Date  | <b>16,603</b>      | 5,298            | <b>16,603</b>      | 5,298            |
| Unearned Income  | <b>(1,946)</b>     | (1,110)          | <b>(1,946)</b>     | (1,110)          |
|  | <b>14,657</b>      | 4,188            | <b>14,657</b>      | 4,188            |
| <b>24.3 Movement in Impairment Allowance on Loans and Receivables</b>                    |                    |                  |                    |                  |
| <b>24.3.1 Allowance for Individual Impairment</b>  |                    |                  |                    |                  |
| Balance as at 1st January  | <b>2,019,537</b>   | 2,336,572        | <b>2,019,537</b>   | 2,336,572        |
| Net Impairment during the Year   | <b>931,597</b>     | 841,302          | <b>931,597</b>     | 841,302          |
| Reversal for Write-Off during the Year   | <b>(239,426)</b>   | (1,080,953)      | <b>(239,426)</b>   | (1,080,953)      |
| Interest Accrued on Impaired Loans and Receivables                                       | <b>(290,820)</b>   | (352,709)        | <b>(290,820)</b>   | (352,709)        |
| Transfer from Collective Impairment  | -                  | 275,325          | -                  | 275,325          |
| <b>Balance as at 31st December</b>   | <b>2,420,888</b>   | 2,019,537        | <b>2,420,888</b>   | 2,019,537        |
| <b>24.3.2 Allowance for Collective Impairment</b>  |                    |                  |                    |                  |
| Balance as at 1st January  | <b>3,718,492</b>   | 4,675,710        | <b>3,718,492</b>   | 4,675,710        |
| Net Impairment during the Year   | <b>38,005</b>      | (370,141)        | <b>38,005</b>      | (370,141)        |
| Reversal for Write-Off during the Year   | <b>(124,400)</b>   | (311,752)        | <b>(124,400)</b>   | (311,752)        |
| Transfer to Individual Impairment  | -                  | (275,325)        | -                  | (275,325)        |
| <b>Balance as at 31st December</b>   | <b>3,632,097</b>   | 3,718,492        | <b>3,632,097</b>   | 3,718,492        |

|  | BANK             |                  | GROUP            |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>24.3.3 Movement in Impairment Allowance for Loans and Receivables</b> |                  |                  |                  |                  |
| Balance as at 1st January  | <b>5,738,029</b> | 7,012,282        | <b>5,738,029</b> | 7,012,282        |
| Net Impairment during the Year   | <b>969,602</b>   | 471,161          | <b>969,602</b>   | 471,161          |
| Reversal for Write-Off during the Year                                   | <b>(363,826)</b> | (1,392,705)      | <b>(363,826)</b> | (1,392,705)      |
| Interest Accrued on Impaired Loans and Receivables                       | <b>(290,820)</b> | (352,709)        | <b>(290,820)</b> | (352,709)        |
| <b>Balance as at 31st December</b>                                       | <b>6,052,985</b> | 5,738,029        | <b>6,052,985</b> | 5,738,029        |

|   | 2016                                |                        | 2015                                |                        |
|---|-------------------------------------|------------------------|-------------------------------------|------------------------|
|   | Amortised Cost/<br>Cost<br>Rs. '000 | Fair Value<br>Rs. '000 | Amortised Cost/<br>Cost<br>Rs. '000 | Fair Value<br>Rs. '000 |
| <b>25. Financial Investments – Available-for-Sale</b>           |                                     |                        |                                     |                        |
| Held by the Bank (Note 25.1)                                    | <b>50,712,095</b>                   | <b>45,863,945</b>      | 51,207,581                          | 48,038,510             |
| Held by the Subsidiary (Note 25.2)                              | <b>86,866</b>                       | <b>36,801</b>          | 91,350                              | 37,411                 |
| <b>Total Financial Investments – Available-for-Sale – Group</b> | <b>50,798,961</b>                   | <b>45,900,746</b>      | 51,298,931                          | 48,075,921             |

### 25.1 Held by the Bank

|  |                   |                   |            |            |
|--|-------------------|-------------------|------------|------------|
| Quoted Equities (Note 25.1.1)                                  | <b>418,220</b>    | <b>840,465</b>    | 482,459    | 946,117    |
| Unquoted Equities (Note 25.1.2)                                | <b>2,354,540</b>  | <b>493,826</b>    | 2,354,540  | 386,911    |
| Government of Sri Lanka Treasury Bills (Note 25.1.3)           | <b>6,626</b>      | <b>6,642</b>      | 914,873    | 913,004    |
| Government of Sri Lanka Treasury Bonds (Note 25.1.4)           | <b>42,514,275</b> | <b>39,133,092</b> | 41,949,520 | 40,310,149 |
| Sri Lanka Development Bonds (Note 25.1.5)                      | <b>4,574,496</b>  | <b>4,574,001</b>  | 4,658,354  | 4,701,926  |
| Quoted Debentures (Note 25.1.6)                                | <b>843,938</b>    | <b>815,919</b>    | 847,835    | 780,403    |
| <b>Total Financial Investments – Available-for-Sale – Bank</b> | <b>50,712,095</b> | <b>45,863,945</b> | 51,207,581 | 48,038,510 |

|  | 2016                     |                  |                     | 2015                     |                  |                     |
|--|--------------------------|------------------|---------------------|--------------------------|------------------|---------------------|
|  | No. of Ordinary Equities | Cost Rs. '000    | Fair Value Rs. '000 | No. of Ordinary Equities | Cost Rs. '000    | Fair Value Rs. '000 |
| <b>25.1.1 Quoted Equities – Bank</b>                     |                          |                  |                     |                          |                  |                     |
| Chevron Lubricants Lanka PLC                             | 68,374                   | 10,455           | 10,742              | –                        | –                | –                   |
| Expo Lanka Holdings PLC                                  | 803,686                  | 6,741            | 5,063               | 803,686                  | 6,741            | 6,590               |
| Hayleys MGT Knitting Mills PLC                           | 190,000                  | 4,088            | 2,850               | 190,000                  | 4,088            | 4,275               |
| John Keells Holdings PLC                                 | 835,142                  | 150,776          | 121,096             | 783,000                  | 161,947          | 139,766             |
| John Keells Hotels PLC                                   | 3,552,311                | 43,693           | 38,720              | 3,892,462                | 47,877           | 59,944              |
| Lanka IOC PLC  | 395,421                  | 18,037           | 12,535              | 185,000                  | 10,729           | 6,938               |
| Piramal Glass Ceylon PLC                                 | 627,401                  | 3,842            | 3,325               | 577,401                  | 3,550            | 3,522               |
| The Finance Company PLC                                  | 3,241,240                | 94,968           | 21,392              | 3,241,240                | 94,968           | 42,784              |
| Visa Inc.  | 53,312                   | 85,620           | 624,742             | 53,312                   | 82,086           | 595,350             |
| Colombo Dockyard PLC                                     | –                        | –                | –                   | 67,137                   | 13,495           | 10,272              |
| Dialog Axiata PLC  | –                        | –                | –                   | 3,432,387                | 20,594           | 36,727              |
| Sampath Bank PLC   | –                        | –                | –                   | 159,797                  | 36,384           | 39,949              |
| <b>Total Available-for-Sale Quoted Equities – Bank</b>   |                          | <b>418,220</b>   | <b>840,465</b>      |                          | <b>482,459</b>   | <b>946,117</b>      |
| <b>25.1.2 Unquoted Equities – Bank</b>                   |                          |                  |                     |                          |                  |                     |
| Credit Information Bureau of Sri Lanka                   | 2,900                    | 290              | 38,681              | 2,900                    | 290              | 31,010              |
| LankaClear (Pvt) Limited                                 | 1,000,000                | 10,000           | 88,433              | 1,000,000                | 10,000           | 78,750              |
| Lanka Financial Services Bureau Limited                  | 225,000                  | 2,250            | 2,691               | 225,000                  | 2,250            | 2,333               |
| Transnational Lanka Records Solutions (Pvt) Limited      | 1,000,000                | 10,000           | 39,628              | 1,000,000                | 10,000           | 32,290              |
| HNB Grameen Finance Limited*                             | 233,200,000              | 2,332,000        | 324,393             | 233,200,000              | 2,332,000        | 242,528             |
| <b>Total Available-for-Sale Unquoted Equities – Bank</b> |                          | <b>2,354,540</b> | <b>493,826</b>      |                          | <b>2,354,540</b> | <b>386,911</b>      |

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 – 31st December 2015

LankaClear (Pvt) Limited – 31st March 2016

Lanka Financial Services Bureau Limited – 31st March 2016

Transnational Lanka Records Solutions (Pvt) Limited – 30th June 2016

HNB Grameen Finance Limited – 31st March 2016

\* The Bank restructured its loan portfolio to Grameen Micro Credit Company Limited (presently known as HNB Grameen Finance Limited) (Rs. 2.725 Bn.) by obtaining approval from the Monetary Board and converted Rs. 1 Bn. of the outstanding loan to 15% Cumulative/Redeemable/Convertible/Preference Shares. Further, the Bank converted the balance of Rs. 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 25th June 2012, the Central Bank of Sri Lanka has directed to convert the investments in Grameen Micro Credit Company Limited (presently known as HNB Grameen Finance Limited) to Rs. 665 Mn. Debentures which are secured against the mortgaged properties (redeemable from 2020 to 2040) and the balance Rs. 2,060 Mn. together with interest due amounting to Rs. 272 Mn. to 233,200,000 Non-voting Shares of Rs. 10/- each amounting to Rs. 2,332 Bn.

|   | Year of Maturity | 2016                   |                            |                        | 2015                   |                            |                        |
|---|------------------|------------------------|----------------------------|------------------------|------------------------|----------------------------|------------------------|
|   |                  | Face Value<br>Rs. '000 | Amortised Cost<br>Rs. '000 | Fair Value<br>Rs. '000 | Face Value<br>Rs. '000 | Amortised Cost<br>Rs. '000 | Fair Value<br>Rs. '000 |
| <b>25.1.3 Government of Sri Lanka Treasury Bills – Bank</b>                   | 2016             | -                      | -                          | -                      | 950,986                | 914,873                    | 913,004                |
|   | 2017             | 6,883                  | 6,626                      | 6,642                  | -                      | -                          | -                      |
| <b>Total Available-for-Sale Government of Sri Lanka Treasury Bills – Bank</b> |                  |                        | 6,626                      | 6,642                  |                        | 914,873                    | 913,004                |
| <b>25.1.4 Government of Sri Lanka Treasury Bonds – Bank</b>                   | 2016             | -                      | -                          | -                      | 106,457                | 107,432                    | 107,860                |
|   | 2017             | 3,093,183              | 3,155,358                  | 3,126,809              | 3,443,183              | 3,556,755                  | 3,513,793              |
|   | 2018             | 12,958,617             | 13,324,460                 | 12,668,201             | 12,960,794             | 13,385,658                 | 12,938,683             |
|   | 2019             | 4,540,461              | 4,900,758                  | 4,600,159              | 4,550,000              | 4,986,222                  | 4,873,739              |
|   | 2020             | 1,350,000              | 1,369,119                  | 1,269,511              | 1,250,000              | 1,278,219                  | 1,247,396              |
|   | 2021             | 5,242,105              | 5,570,457                  | 5,018,038              | 4,510,000              | 4,880,963                  | 4,687,985              |
|   | 2022             | 3,176,650              | 3,463,390                  | 3,069,265              | 2,920,000              | 3,247,171                  | 3,097,970              |
|   | 2023             | 5,790,000              | 6,504,503                  | 5,693,910              | 5,440,000              | 6,206,577                  | 5,880,197              |
|   | 2024             | 2,100,000              | 2,553,191                  | 2,117,857              | 2,050,000              | 2,545,932                  | 2,251,612              |
|   | 2025             | 476,667                | 490,229                    | 452,936                | 466,667                | 497,795                    | 492,302                |
|   | 2026             | 650,000                | 652,179                    | 617,686                | -                      | -                          | -                      |
|   | 2028             | 30,000                 | 28,657                     | 28,757                 | 30,000                 | 31,952                     | 32,430                 |
|   | 2030             | 525,000                | 501,974                    | 469,963                | 300,000                | 301,525                    | 302,258                |
|   | 2035             | -                      | -                          | -                      | 850,000                | 923,319                    | 883,924                |
| <b>Total Available-for-Sale Government of Sri Lanka Treasury Bonds – Bank</b> |                  |                        | 42,514,275                 | 39,133,092             |                        | 41,949,520                 | 40,310,149             |

|  | Year of Maturity | 2016                    |                             |                         |                            |                        | 2015                    |                             |                         |                            |                        |
|--|------------------|-------------------------|-----------------------------|-------------------------|----------------------------|------------------------|-------------------------|-----------------------------|-------------------------|----------------------------|------------------------|
|  |                  | Face Value<br>US\$ '000 | Amortised Cost<br>US\$ '000 | Fair Value<br>US\$ '000 | Amortised Cost<br>Rs. '000 | Fair Value<br>Rs. '000 | Face Value<br>US\$ '000 | Amortised Cost<br>US\$ '000 | Fair Value<br>US\$ '000 | Amortised Cost<br>Rs. '000 | Fair Value<br>Rs. '000 |
| <b>25.1.5 Sri Lanka Development Bonds – Bank</b>                   | 2016             | -                       | -                           | -                       | -                          | -                      | 14,000                  | 14,209                      | 14,413                  | 2,046,104                  | 2,075,474              |
|  | 2017             | 24,000                  | 24,376                      | 24,373                  | 3,661,224                  | 3,660,809              | 17,000                  | 17,127                      | 17,219                  | 2,466,327                  | 2,479,496              |
|  | 2018             | 6,000                   | 6,080                       | 6,080                   | 913,272                    | 913,192                | 1,000                   | 1,013                       | 1,021                   | 145,923                    | 146,956                |
| <b>Total Available-for-Sale Sri Lanka Development Bonds – Bank</b> |                  |                         | 30,456                      | 30,453                  | 4,574,496                  | 4,574,001              |                         | 32,349                      | 32,653                  | 4,658,354                  | 4,701,926              |

|   | Year of Maturity | 2016                       |                        | 2015                       |                        |
|---|------------------|----------------------------|------------------------|----------------------------|------------------------|
|   |                  | Amortised Cost<br>Rs. '000 | Fair Value<br>Rs. '000 | Amortised Cost<br>Rs. '000 | Fair Value<br>Rs. '000 |
| <b>25.1.6 Quoted Debentures – Bank</b>  |                  |                            |                        |                            |                        |
| Abans PLC (994,410 Debentures of Rs. 100/- each)  | 2017             | 99,576                     | 95,445                 | 103,859                    | 93,461                 |
| DFCC Bank PLC (3,155,900 Debentures of Rs. 100/- each)  | 2017             | 323,370                    | 316,089                | 323,370                    | 299,133                |
| People's Leasing & Finance PLC (1,784,531 Debentures of Rs. 100/- each)   | 2018             | 194,565                    | 203,357                | 194,565                    | 180,832                |
| Pan Asia Banking Corporation (486,112 Debentures of Rs. 100/- each)   | 2019             | 50,192                     | 45,037                 | 49,806                     | 45,742                 |
| Dunamis Capital PLC (1,000,000 Debentures of Rs. 100/- each)  | 2020             | 100,805                    | 93,329                 | 100,805                    | 92,144                 |
| HDFC Bank (745,300 Debentures of Rs. 100/- each)  | 2020             | 75,430                     | 62,662                 | 75,430                     | 69,091                 |
| <b>Total Available-for-Sale Quoted Debentures – Bank</b>  |                  | <b>843,938</b>             | <b>815,919</b>         | <b>847,835</b>             | <b>780,403</b>         |
| <b>Total Financial Investments – Available-for-Sale – Bank<br/>(Note Nos. 25.1.1, 25.1.2, 25.1.3, 25.1.4, 25.1.5, 25.1.6)</b> |                  | <b>50,712,095</b>          | <b>45,863,945</b>      | <b>51,207,581</b>          | <b>48,038,510</b>      |

#### Financial Investments – Available-for-Sale Held by Subsidiary

|   | 2016                     |                  |                        | 2015                     |                  |                        |
|---|--------------------------|------------------|------------------------|--------------------------|------------------|------------------------|
|   | No. of Ordinary Equities | Cost<br>Rs. '000 | Fair Value<br>Rs. '000 | No. of Ordinary Equities | Cost<br>Rs. '000 | Fair Value<br>Rs. '000 |
| <b>25.2 Held by the Subsidiary</b>  |                          |                  |                        |                          |                  |                        |
| <b>25.2.1 Quoted Equities</b>   |                          |                  |                        |                          |                  |                        |
| Merchant Bank of Sri Lanka & Finance PLC  | 90                       | 250              | 1                      | 90                       | 250              | 1                      |
| <b>Total Available-for-Sale Quoted Equities – Subsidiary</b>                      |                          | <b>250</b>       | <b>1</b>               |                          | <b>250</b>       | <b>1</b>               |
| <b>25.2.2 Unquoted Equities</b>   |                          |                  |                        |                          |                  |                        |
| Asian Finance Company Limited   | 75,000                   | 750              | –                      | 75,000                   | 750              | –                      |
| Certis Lanka Home Nursing & Swift Care (Pvt) Limited                              | 75,000                   | 750              | –                      | 75,000                   | 750              | –                      |
| Ceylinco International Realty (Pvt) Limited                                       | 200,000                  | 2,000            | –                      | 200,000                  | 2,000            | –                      |
| International Consultancy & Corporate Services (Pvt) Limited                      | 5,000                    | 50               | –                      | 5,000                    | 50               | –                      |
| Standard Credit Finance Limited (Formerly Known as Standard Credit Lanka Limited) | 8,040,969                | 44,041           | –                      | 4,000,000                | 40,000           | –                      |
| Ceylinco PLC Technology (Pvt) Limited   | –                        | –                | –                      | 177,500                  | 1,775            | –                      |
| Ceylinco Seraka Investments Limited   | –                        | –                | –                      | 460,000                  | 4,600            | –                      |
| Ceylinco Venture Capital Investment Limited                                       | –                        | –                | –                      | 95,000                   | 950              | –                      |
| E.Ceylinco.Com (Pvt) Limited  | –                        | –                | –                      | 60,000                   | 600              | –                      |
| The Sitar (Pvt) Limited   | –                        | –                | –                      | 60,000                   | 600              | –                      |
| <b>Total Available-for-Sale Unquoted Equities – Subsidiary</b>                    |                          | <b>47,591</b>    | <b>–*</b>              |                          | <b>52,075</b>    | <b>–*</b>              |

\* Unquoted Shares have been fully provided due to permanent diminution in value of shares.

|   | Year of Maturity | 2016                       |                        | 2015                       |                        |
|---|------------------|----------------------------|------------------------|----------------------------|------------------------|
|   |                  | Amortised Cost<br>Rs. '000 | Fair Value<br>Rs. '000 | Amortised Cost<br>Rs. '000 | Fair Value<br>Rs. '000 |
| <b>25.2.3 Quoted Debentures</b>   |                  |                            |                        |                            |                        |
| DFCC Bank PLC (382,300 Debentures of Rs. 100/- each)  | 2017             | 39,025                     | 36,800                 | 39,025                     | 37,410                 |
| <b>Total Available-for-Sale Quoted Debentures – Subsidiary</b>  |                  | <b>39,025</b>              | <b>36,800</b>          | <b>39,025</b>              | <b>37,410</b>          |
| <b>Total Financial Investments – Available-for-Sale – Subsidiary (Note Nos. 25.2.1, 25.2.2, 25.2.3)</b> |                  | <b>86,866</b>              | <b>36,801</b>          | <b>91,350</b>              | <b>37,411</b>          |

|  | BANK             |                  | GROUP            |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>25.3 Movement in Impairment During the Year</b> |                  |                  |                  |                  |
| Balance as at 1st January                          | 2,385,156        | 2,385,156        | 2,437,231        | 2,441,485        |
| Impairment made during the Year (Note 12)          | 20,420           | –                | 20,420           | –                |
| Transfer/Reversal for Write-Off                    | –                | –                | (4,484)          | (4,254)          |
| <b>Balance as at 31st December</b>                 | <b>2,405,576</b> | <b>2,385,156</b> | <b>2,453,167</b> | <b>2,437,231</b> |

|   | 2016                       |                        | 2015                       |                        |
|---|----------------------------|------------------------|----------------------------|------------------------|
|   | Amortised Cost<br>Rs. '000 | Fair Value<br>Rs. '000 | Amortised Cost<br>Rs. '000 | Fair Value<br>Rs. '000 |
| <b>26. Financial Investments – Held-to-Maturity</b>           |                            |                        |                            |                        |
| Held by the Bank (Note 26.1)                                  | 18,412,060                 | 18,041,629             | 18,147,773                 | 18,144,122             |
| Held by the Subsidiary (Note 26.2)                            | 67,095                     | 67,554                 | 81,272                     | 81,113                 |
| <b>Total Financial Investments – Held-to-Maturity – Group</b> | <b>18,479,155</b>          | <b>18,109,183</b>      | <b>18,229,045</b>          | <b>18,225,235</b>      |

### 26.1 Held by the Bank

|  |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|
| Government of Sri Lanka Treasury Bills (Note 26.1.1)         | 881,694           | 882,602           | –                 | –                 |
| Government of Sri Lanka Treasury Bonds (Note 26.1.2)         | 13,249,033        | 12,902,408        | 8,655,724         | 8,762,719         |
| Sri Lanka Development Bonds (Note 26.1.3)                    | 3,050,923         | 3,050,613         | 7,273,747         | 7,289,483         |
| Quoted Debentures (Note 26.1.4)                              | 559,694           | 565,312           | 1,246,219         | 1,128,597         |
| Unquoted Debentures (Note 26.1.5)                            | 670,716           | 640,694           | 719,739           | 710,979           |
| Other Bonds (Note 26.1.6)                                    | –                 | –                 | 252,344           | 252,344           |
| <b>Total Financial Investments – Held-to-Maturity – Bank</b> | <b>18,412,060</b> | <b>18,041,629</b> | <b>18,147,773</b> | <b>18,144,122</b> |



|   | Year of Maturity | 2016             |                   |                   | 2015       |                  |                  |
|---|------------------|------------------|-------------------|-------------------|------------|------------------|------------------|
|   |                  | Face Value       | Amortised Cost    | Fair Value        | Face Value | Amortised Cost   | Fair Value       |
|   |                  | Rs. '000         | Rs. '000          | Rs. '000          | Rs. '000   | Rs. '000         | Rs. '000         |
| <b>26.1.1 Government of Sri Lanka Treasury Bills – Bank</b>                 | 2017             | <b>900,000</b>   | <b>881,694</b>    | <b>882,602</b>    | -          | -                | -                |
| <b>Total Held-to-Maturity Government of Sri Lanka Treasury Bills – Bank</b> |                  |                  | <b>881,694</b>    | <b>882,602</b>    |            | -                | -                |
| <b>26.1.2 Government of Sri Lanka Treasury Bonds – Bank</b>                 | 2016             | -                | -                 | -                 | 3,200,000  | 3,235,914        | 3,273,761        |
|   | 2017             | <b>300,000</b>   | <b>299,855</b>    | <b>301,038</b>    | 50,000     | 45,858           | 49,637           |
|   | 2018             | <b>5,000,000</b> | <b>4,970,534</b>  | <b>4,876,688</b>  | 3,100,000  | 3,078,041        | 3,088,170        |
|   | 2019             | <b>920,000</b>   | <b>882,495</b>    | <b>882,333</b>    | 100,000    | 89,649           | 99,516           |
|   | 2020             | <b>1,392,700</b> | <b>1,295,864</b>  | <b>1,281,239</b>  | 392,700    | 335,243          | 355,417          |
|   | 2021             | <b>2,110,800</b> | <b>2,035,395</b>  | <b>1,974,950</b>  | 519,000    | 491,086          | 506,877          |
|   | 2022             | <b>470,000</b>   | <b>449,604</b>    | <b>429,707</b>    | 370,000    | 349,161          | 365,045          |
|   | 2023             | <b>1,100,000</b> | <b>1,183,274</b>  | <b>1,081,745</b>  | 750,000    | 835,079          | 810,689          |
|   | 2024             | <b>850,000</b>   | <b>857,365</b>    | <b>854,570</b>    | -          | -                | -                |
|   | 2025             | <b>850,000</b>   | <b>848,100</b>    | <b>806,086</b>    | -          | -                | -                |
|   | 2026             | <b>50,000</b>    | <b>47,125</b>     | <b>46,300</b>     | -          | -                | -                |
|   | 2028             | <b>230,000</b>   | <b>197,340</b>    | <b>188,719</b>    | 230,000    | 195,693          | 213,607          |
|   | 2030             | <b>200,000</b>   | <b>182,082</b>    | <b>179,033</b>    | -          | -                | -                |
| <b>Total Held-to-Maturity Government of Sri Lanka Treasury Bonds – Bank</b> |                  |                  | <b>13,249,033</b> | <b>12,902,408</b> |            | <b>8,655,724</b> | <b>8,762,719</b> |

|  | Year of Maturity | 2016          |                |               |                  |                  | 2015       |                |               |                  |                  |
|--|------------------|---------------|----------------|---------------|------------------|------------------|------------|----------------|---------------|------------------|------------------|
|  |                  | Face Value    | Amortised Cost | Fair Value    | Amortised Cost   | Fair Value       | Face Value | Amortised Cost | Fair Value    | Amortised Cost   | Fair Value       |
|  |                  | US\$ '000     | US\$ '000      | US\$ '000     | Rs. '000         | Rs. '000         | US\$ '000  | US\$ '000      | US\$ '000     | Rs. '000         | Rs. '000         |
| <b>26.1.3 Sri Lanka Development Bonds – Bank</b>                 | 2016             | -             | -              | -             | -                | -                | 30,000     | 30,332         | 30,367        | 4,367,870        | 4,372,859        |
|  | 2017             | <b>17,000</b> | <b>17,267</b>  | <b>17,265</b> | <b>2,593,486</b> | <b>2,593,213</b> | 17,000     | 17,141         | 17,188        | 2,468,352        | 2,475,126        |
|  | 2018             | <b>3,000</b>  | <b>3,046</b>   | <b>3,045</b>  | <b>457,437</b>   | <b>457,400</b>   | 3,000      | 3,038          | 3,066         | 437,525          | 441,498          |
| <b>Total Held-to-Maturity Sri Lanka Development Bonds – Bank</b> |                  |               | <b>20,313</b>  | <b>20,310</b> | <b>3,050,923</b> | <b>3,050,613</b> |            | <b>50,511</b>  | <b>50,621</b> | <b>7,273,747</b> | <b>7,289,483</b> |

|   | Year of Maturity | 2016                       |                        | 2015                       |                        |
|---|------------------|----------------------------|------------------------|----------------------------|------------------------|
|   |                  | Amortised Cost<br>Rs. '000 | Fair Value<br>Rs. '000 | Amortised Cost<br>Rs. '000 | Fair Value<br>Rs. '000 |
| <b>26.1.4 Quoted Debentures – Bank</b>  |                  |                            |                        |                            |                        |
| Abans PLC (720,700 Debentures of Rs. 100/- each)  | 2016             | –                          | –                      | 77,154                     | 69,483                 |
| Alliance Finance Company PLC (1,000,000 Debentures of Rs. 100/- each)   | 2016             | –                          | –                      | 107,814                    | 99,237                 |
| Central Finance Company PLC (2,284,100 Debentures of Rs. 100/- each)  | 2016             | –                          | –                      | 30,272                     | 27,445                 |
| Hayleys PLC (119,200 Debentures of Rs. 1,000/- each)  | 2016             | –                          | –                      | 123,481                    | 115,193                |
| HDFC Bank of Sri Lanka (655,800 Debentures of Rs. 100/- each)   | 2016             | –                          | –                      | 67,977                     | 63,438                 |
| Merchant Bank of Sri Lanka PLC ( 1,884,200 Debentures of Rs. 100/- each)  | 2016             | –                          | –                      | 213,857                    | 188,633                |
| SMB Leasing PLC (187,240 Debentures of Rs. 100/- each)  | 2016             | –                          | –                      | 18,974                     | 17,952                 |
| Softlogic Finance PLC (250,000 Debentures of Rs. 100/- each)  | 2016             | –                          | –                      | 25,340                     | 23,625                 |
| Senkadagala Finance PLC (208,519 Debentures of Rs. 100/- each)  | 2016             | –                          | –                      | 21,745                     | 20,025                 |
| Abans PLC (720,700 Debentures of Rs. 100/- each)  | 2017             | 77,247                     | 78,164                 | 77,247                     | 69,382                 |
| Central Finance Company PLC (197,000 Debentures of Rs. 100/- each)  | 2017             | 21,016                     | 22,103                 | 21,016                     | 19,047                 |
| Merchant Bank of Sri Lanka PLC ( 1,884,200 Debentures of Rs. 100/- each)  | 2017             | 215,343                    | 222,618                | 215,270                    | 187,543                |
| Senkadagala Finance PLC (208,519 Debentures of Rs. 100/- each)  | 2017             | 21,759                     | 22,974                 | 21,759                     | 20,208                 |
| Richard Pieris and Company PLC (295,800 Debentures of Rs. 100/- each)   | 2017             | 30,382                     | 30,417                 | 30,382                     | 27,945                 |
| Richard Pieris and Company PLC (659,300 Debentures of Rs. 100/- each)   | 2018             | 67,758                     | 63,568                 | 67,758                     | 62,187                 |
| LB Finance PLC (445,200 Debentures of Rs. 100/- each)   | 2018             | 45,049                     | 45,569                 | 45,033                     | 42,543                 |
| Hemas Holdings PLC (274,200 Debentures of Rs. 100/- each)   | 2019             | 28,180                     | 26,834                 | 28,180                     | 26,069                 |
| Richard Pieris and Company PLC (515,000 Debentures of Rs. 100/- each)   | 2019             | 52,960                     | 53,065                 | 52,960                     | 48,642                 |
| <b>Total Held-to-Maturity Quoted Debentures – Bank</b>  |                  | <b>559,694</b>             | <b>565,312</b>         | 1,246,219                  | 1,128,597              |
| <b>26.1.5 Unquoted Debentures – Bank</b>  |                  |                            |                        |                            |                        |
| Bank of Ceylon (500,000 Debentures of Rs. 100/- each)   | 2016             | –                          | –                      | 50,362                     | 47,135                 |
| HNB Grameen Finance Limited   | 2020 – 2040      | 670,716                    | 640,694                | 669,377                    | 663,844                |
| <b>Total Held-to-Maturity Unquoted Debentures – Bank</b>  |                  | <b>670,716</b>             | <b>640,694</b>         | 719,739                    | 710,979                |
| <b>26.1.6 Other Bonds – Bank</b>  |                  |                            |                        |                            |                        |
| CWE Bond  | 2016             | –                          | –                      | 250,000                    | 252,344                |
| <b>Total Held-to-Maturity Other Bonds – Bank</b>  |                  | –                          | –                      | 252,344                    | 252,344                |
| <b>Total Financial Investments –<br/>Held-to-Maturity-Bank (Notes 26.1.1,<br/>26.1.2, 26.1.3, 26.1.4, 26.1.5, 26.1.6)</b> |                  | <b>18,412,060</b>          | <b>18,041,629</b>      | 18,147,773                 | 18,144,122             |

## Financial Investments – Held-to-Maturity Held by Subsidiary

|  | Year of Maturity | 2016                       |                        | 2015                       |                        |
|--|------------------|----------------------------|------------------------|----------------------------|------------------------|
|  |                  | Amortised Cost<br>Rs. '000 | Fair Value<br>Rs. '000 | Amortised Cost<br>Rs. '000 | Fair Value<br>Rs. '000 |
| <b>26.2 Held by the Subsidiary</b>   |                  |                            |                        |                            |                        |
| <b>26.2.1 Quoted Debentures</b>  |                  |                            |                        |                            |                        |
| Merchant Bank of Sri Lanka & Finance PLC (125,000 Debentures of Rs. 100/- each)  | 2016             | -                          | -                      | 14,188                     | 14,188                 |
| Merchant Bank of Sri Lanka & Finance PLC (125,000 Debentures of Rs. 100/- each)  | 2017             | 12,925                     | 12,129                 | 12,925                     | 12,925                 |
| People's Leasing & Finance PLC (500,000 Debentures of Rs. 100/- each)            | 2017             | 54,170                     | 55,425                 | 54,159                     | 54,000                 |
| <b>Total Held-to-Maturity Quoted Debentures – Subsidiary</b>                     |                  | <b>67,095</b>              | <b>67,554</b>          | <b>81,272</b>              | <b>81,113</b>          |
| <b>Total Financial Investments – Held-to-Maturity – Subsidiary (Note 26.2.1)</b> |                  | <b>67,095</b>              | <b>67,554</b>          | <b>81,272</b>              | <b>81,113</b>          |

|  | 2016   |             |                  |                        | 2015                     |             |                  |                        |           |
|--|--|-------------|------------------|------------------------|--------------------------|-------------|------------------|------------------------|-----------|
|  | No. of Ordinary Equities                           | Holding %   | Cost<br>Rs. '000 | Fair Value<br>Rs. '000 | No. of Ordinary Equities | Holding %   | Cost<br>Rs. '000 | Fair Value<br>Rs. '000 |           |
| <b>27. Investment in Subsidiary</b>              |  |             |                  |                        |                          |             |                  |                        |           |
| <b>Held-to-Maturity Quoted – Ordinary Shares</b> |  |             |                  |                        |                          |             |                  |                        |           |
| Seylan Developments PLC                          | Primary Activity – Property Development/Management | 104,332,112 | 70.51            | 1,153,602              | 1,502,382                | 104,201,612 | 70.42            | 1,151,929              | 1,448,402 |
|  |  |             |                  | 1,153,602              | 1,502,382                |             |                  | 1,151,929              | 1,448,402 |

|   | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
|---|------------------|------------------|
| <b>27.1 Non-Controlling Interest (NCI) in Subsidiary, Seylan Developments PLC</b> |                  |                  |
| <b>NCI (%)</b>  | <b>29.49</b>     | 29.58            |
| Total Assets  | 5,315,688        | 5,014,040        |
| Total Liabilities   | 633,624          | 617,159          |
| Net Assets  | 4,682,064        | 4,396,881        |
| <b>Carrying Amount of NCI (Note 27.2)</b>   | <b>1,065,190</b> | 1,067,194        |
| Revenue   | 212,303          | 196,838          |
| Profit  | 374,581          | 201,306          |
| Total Comprehensive Income  | 373,964          | 190,656          |
| <b>Profit Allocated to NCI</b>  | <b>21,758</b>    | 30,653           |
| Cash Flow from Operating Activities   | 91,192           | 105,927          |
| Cash Flow from Investing Activities   | (3,741)          | (35,651)         |
| Cash Flow from Financing Activities – Before Dividend to NCI                      | (62,600)         | (50,618)         |
| Cash Flow from Financing Activities – Cash Dividend to NCI                        | (26,179)         | (23,365)         |
| <b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>                       | <b>(1,328)</b>   | (3,707)          |
| <b>27.2 Carrying Amount of Non-Controlling Interest (NCI)</b>                     |                  |                  |
| Balance as at 1st January   | 1,067,194        | 1,124,387        |
| Super Gain Tax for the Year of Assessment 2013/14                                 | -                | (1,257)          |
| Profit for the Year   | 21,758           | 30,653           |
| Other Comprehensive Income, Net of Tax  | 5,111            | 1,959            |
| Dividends Paid for the Year   | (26,179)         | (23,364)         |
| Bank's Acquisition of Non-Controlling Interest without Change in Control          | (2,694)          | (65,184)         |
| <b>Balance as at 31st December</b>  | <b>1,065,190</b> | 1,067,194        |

|                                      | BANK             |                  | GROUP            |                  |
|--------------------------------------|------------------|------------------|------------------|------------------|
|                                      | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>28. Group Balances Receivable</b> |                  |                  |                  |                  |
| Seylan Developments PLC              | <b>30,102</b>    | 30,000           | -                | -                |
|                                      | <b>30,102</b>    | 30,000           | -                | -                |

## 29. Property, Plant & Equipment

|   | Freehold<br>Land<br>Rs. '000 | Freehold<br>Buildings<br>Rs. '000 | Computer<br>Equipment<br>Rs. '000 | Office<br>Machines &<br>Equipment<br>Rs. '000 | Fixtures,<br>Fittings &<br>Furniture<br>Rs. '000 | Motor<br>Vehicles<br>Rs. '000 | Leased<br>Assets<br>Rs. '000 | Total<br>Rs. '000 |
|---|------------------------------|-----------------------------------|-----------------------------------|---|--|-------------------------------|------------------------------|-------------------|
| <b>29.1 Bank</b>                                      |                              |                                   |                                   |   |  |                               |                              |                   |
| <b>Cost/Valuation</b>                                 |                              |                                   |                                   |   |  |                               |                              |                   |
| Balance as at 1st January 2015                        | 828,542                      | 936,052                           | 3,291,320                         | 1,406,288                                     | 1,519,460  | 155,711                       | 53,891                       | 8,191,264         |
| Additions and Improvements                            | -                            | -                                 | 460,328                           | 68,766  | 117,307  | 30,655                        | -                            | 677,056           |
| Disposals/Write-Offs                                  | -                            | -                                 | (121,442)                         | (134,508)                                     | (89,918)   | (22,979)                      | (4,901)                      | (373,748)         |
| Other Transfers from/(to)                             | -                            | -                                 | 48                                | 21  | (69)   | -                             | -                            | -                 |
| Balance as at<br>31st December 2015                   | 828,542                      | 936,052                           | 3,630,254                         | 1,340,567                                     | 1,546,780  | 163,387                       | 48,990                       | 8,494,572         |
| Balance as at 1st January 2016                        | 828,542                      | 936,052                           | 3,630,254                         | 1,340,567                                     | 1,546,780  | 163,387                       | 48,990                       | 8,494,572         |
| Additions and Improvements                            | -                            | -                                 | 450,016                           | 91,715  | 180,638  | 39,384                        | -                            | 761,753           |
| Surplus/(Impairment)<br>on Revaluation                | 465,575                      | 307,022                           | -                                 | -   | -  | -                             | -                            | 772,597           |
| Disposals/Write-Offs                                  | -                            | -                                 | (362,553)                         | (322,810)                                     | (70,032)   | (45,621)                      | (593)                        | (801,609)         |
| Other Transfers from/(to)                             | -                            | -                                 | (34)                              | 1   | 33   | -                             | -                            | -                 |
| <b>Balance as at<br/>31st December 2016</b>           | <b>1,294,117</b>             | <b>1,243,074</b>                  | <b>3,717,683</b>                  | <b>1,109,473</b>                              | <b>1,657,419</b>                                 | <b>157,150</b>                | <b>48,397</b>                | <b>9,227,313</b>  |
| <b>Accumulated Depreciation</b>                       |                              |                                   |                                   |   |  |                               |                              |                   |
| Balance as at 1st January 2015                        | -                            | 31,566                            | 2,905,034                         | 1,119,136                                     | 996,043  | 117,994                       | 53,891                       | 5,223,664         |
| Charge for the Year                                   | -                            | 31,625                            | 112,408                           | 92,356  | 162,840  | 15,185                        | -                            | 414,414           |
| Disposals/Write-Offs                                  | -                            | -                                 | (121,064)                         | (134,506)                                     | (89,566)   | (21,221)                      | (4,901)                      | (371,258)         |
| Other Transfers from/(to)                             | -                            | -                                 | 48                                | (48)  | -  | -                             | -                            | -                 |
| Balance as at<br>31st December 2015                   | -                            | 63,191                            | 2,896,426                         | 1,076,938                                     | 1,069,317  | 111,958                       | 48,990                       | 5,266,820         |
| Balance as at 1st January 2016                        | -                            | 63,191                            | 2,896,426                         | 1,076,938                                     | 1,069,317  | 111,958                       | 48,990                       | 5,266,820         |
| Charge for the Year                                   | -                            | 31,595                            | 198,832                           | 91,854  | 178,282  | 18,000                        | -                            | 518,563           |
| Revaluation Adjustment on<br>Accumulated Depreciation | -                            | (94,786)                          | -                                 | -   | -  | -                             | -                            | (94,786)          |
| Disposals/Write-Offs                                  | -                            | -                                 | (362,525)                         | (322,747)                                     | (69,440)   | (37,501)                      | (593)                        | (792,806)         |
| Other Transfers from/(to)                             | -                            | -                                 | (21)                              | 17  | 4  | -                             | -                            | -                 |
| <b>Balance as at<br/>31st December 2016</b>           | <b>-</b>                     | <b>-</b>                          | <b>2,732,712</b>                  | <b>846,062</b>                                | <b>1,178,163</b>                                 | <b>92,457</b>                 | <b>48,397</b>                | <b>4,897,791</b>  |
| <b>Carrying Amount</b>                                |                              |                                   |                                   |   |  |                               |                              |                   |
| Balance as at<br>31st December 2015                   | 828,542                      | 872,861                           | 733,828                           | 263,629                                       | 477,463  | 51,429                        | -                            | 3,227,752         |
| <b>Balance as at<br/>31st December 2016</b>           | <b>1,294,117</b>             | <b>1,243,074</b>                  | <b>984,971</b>                    | <b>263,411</b>                                | <b>479,256</b>                                   | <b>64,693</b>                 | <b>-</b>                     | <b>4,329,522</b>  |

|  | Freehold Land<br>Rs. '000 | Freehold Buildings<br>Rs. '000 | Computer Equipment<br>Rs. '000 | Office Machines & Equipment<br>Rs. '000 | Fixtures, Fittings & Furniture<br>Rs. '000 | Motor Vehicles<br>Rs. '000 | Leased Assets<br>Rs. '000 | Total<br>Rs. '000 |
|--|---------------------------|--------------------------------|--------------------------------|---|--|----------------------------|---------------------------|-------------------|
| <b>29.2 Group</b>                                  |                           |                                |                                |   |  |                            |                           |                   |
| <b>Cost/Valuation</b>                              |                           |                                |                                |   |  |                            |                           |                   |
| Balance as at 1st January 2015                     | 828,542                   | 2,519,413                      | 3,297,668                      | 1,482,741                               | 1,528,092                                  | 155,711                    | 54,017                    | 9,866,184         |
| Additions and Improvements                         | -                         | 50,227                         | 460,544                        | 72,395                                  | 120,367                                    | 33,655                     | -                         | 737,188           |
| Surplus/(Impairment) on Revaluation                | -                         | (10,705)                       | -                              | -                                       | -  | -                          | -                         | (10,705)          |
| Disposals/Write-Offs                               | -                         | -                              | (121,575)                      | (134,508)                               | (89,918)                                   | (25,979)                   | (5,028)                   | (377,008)         |
| Transfers from/(to)                                | -                         | -                              | 48                             | 21                                      | (69)                                       | -                          | -                         | -                 |
| Balance as at 31st December 2015                   | 828,542                   | 2,558,935                      | 3,636,685                      | 1,420,649                               | 1,558,472                                  | 163,387                    | 48,989                    | 10,215,659        |
| Balance as at 1st January 2016                     | 828,542                   | 2,558,935                      | 3,636,685                      | 1,420,649                               | 1,558,472                                  | 163,387                    | 48,989                    | 10,215,659        |
| Additions and Improvements                         | -                         | 1,098                          | 450,260                        | 91,838                                  | 180,638                                    | 39,384                     | -                         | 763,218           |
| Surplus/(Impairment) on Revaluation                | 465,575                   | 307,502                        | (481)                          | -                                       | 265  | -                          | -                         | 772,861           |
| Disposals/Write-Offs                               | -                         | -                              | (362,610)                      | (323,201)                               | (73,799)                                   | (45,621)                   | (593)                     | (805,824)         |
| Transfers from/(to)                                | -                         | -                              | (71)                           | 1                                       | 33   | -                          | -                         | (37)*             |
| <b>Balance as at 31st December 2016</b>            | <b>1,294,117</b>          | <b>2,867,535</b>               | <b>3,723,783</b>               | <b>1,189,287</b>                        | <b>1,665,609</b>                           | <b>157,150</b>             | <b>48,396</b>             | <b>10,945,877</b> |
| <b>Accumulated Depreciation</b>                    |                           |                                |                                |   |  |                            |                           |                   |
| Balance as at 1st January 2015                     | -                         | 31,566                         | 2,909,071                      | 1,177,842                               | 999,709                                    | 117,994                    | 54,017                    | 5,290,199         |
| Charge for the Year                                | -                         | 52,624                         | 112,998                        | 97,167                                  | 164,737                                    | 15,185                     | -                         | 442,711           |
| Revaluation Adjustment on Accumulated Depreciation | -                         | (20,999)                       | -                              | -                                       | -  | -                          | -                         | (20,999)          |
| Disposals/Write-Offs                               | -                         | -                              | (121,197)                      | (134,506)                               | (89,566)                                   | (21,221)                   | (5,028)                   | (371,518)         |
| Transfers from/(to)                                | -                         | -                              | 48                             | (48)                                    | -  | -                          | -                         | -                 |
| Balance as at 31st December 2015                   | -                         | 63,191                         | 2,900,920                      | 1,140,455                               | 1,074,880                                  | 111,958                    | 48,989                    | 5,340,393         |
| Balance as at 1st January 2016                     | -                         | 63,191                         | 2,900,920                      | 1,140,455                               | 1,074,880                                  | 111,958                    | 48,989                    | 5,340,393         |
| Charge for the Year                                | -                         | 53,248                         | 199,438                        | 96,931                                  | 179,577                                    | 18,000                     | -                         | 547,194           |
| Revaluation Adjustment on Accumulated Depreciation | -                         | (116,439)                      | (1,476)                        | -                                       | (841)                                      | -                          | -                         | (118,756)         |
| Disposals/Write-Offs                               | -                         | -                              | (362,581)                      | (322,747)                               | (71,195)                                   | (37,501)                   | (593)                     | (794,617)         |
| Transfers from/(to)                                | -                         | -                              | (51)                           | 17                                      | 4  | -                          | -                         | (30)*             |
| <b>Balance as at 31st December 2016</b>            | <b>-</b>                  | <b>-</b>                       | <b>2,736,250</b>               | <b>914,656</b>                          | <b>1,182,425</b>                           | <b>92,457</b>              | <b>48,396</b>             | <b>4,974,184</b>  |
| <b>Carrying Amount</b>                             |                           |                                |                                |   |  |                            |                           |                   |
| Balance as at 31st December 2015                   | 828,542                   | 2,495,744                      | 735,765                        | 280,194                                 | 483,592                                    | 51,429                     | -                         | 4,875,266         |
| <b>Balance as at 31st December 2016</b>            | <b>1,294,117</b>          | <b>2,867,535</b>               | <b>987,533</b>                 | <b>274,631</b>                          | <b>483,184</b>                             | <b>64,693</b>              | <b>-</b>                  | <b>5,971,693</b>  |

\* Comprise a transfer to Investment Property by the subsidiary at its carrying value.

Investment property rented to Seylan Bank PLC by its Subsidiary, Seylan Developments PLC is classified as Property, Plant & Equipment in the Group Financial Statements.

## 29.3 Fully-Depreciated Assets

The initial cost of fully-depreciated Property, Plant & Equipment and Intangible Assets (Software and Software Related) as at 31st December, which are still in use is as follows:

|                                       | BANK             |                  | GROUP            |                  |
|---------------------------------------|------------------|------------------|------------------|------------------|
|                                       | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| Computer Equipment                    | <b>2,320,346</b> | 2,736,229        | <b>2,320,975</b> | 2,736,229        |
| Software and Software Related         | <b>1,751,681</b> | 1,747,093        | <b>1,751,681</b> | 1,747,722        |
| Office Machines and Equipment         | <b>583,619</b>   | 813,975          | <b>583,619</b>   | 814,055          |
| Fixtures, Fittings and Furniture      | <b>711,039</b>   | 662,932          | <b>711,039</b>   | 662,932          |
| Motor Vehicles                        | <b>62,622</b>    | 84,367           | <b>62,622</b>    | 84,367           |
| Leased Assets                         | <b>47,976</b>    | 48,624           | <b>47,976</b>    | 48,624           |
| <b>Total Fully-Depreciated Assets</b> | <b>5,477,283</b> | 6,093,220        | <b>5,477,912</b> | 6,093,929        |

The Bank is currently in the process of replacing the fully depreciated assets and therefore estimation of useful economic life is not reassessed due to replacement.

## 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 31st 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   | Revalued Amount  |                       |                   |
|--|--|---|----------|------------------|-----------------------|-------------------|
|  |  |   |          | Land<br>Rs. '000 | Buildings<br>Rs. '000 | Total<br>Rs. '000 |
| <b>29.4.1 Freehold Land and Buildings</b>                      |  |   |          |                  |                       |                   |
| <b>Mt. Lavinia</b><br>198, Galle Road, Ratmalana               | <b>Market Comparable Method</b><br>Price per perch for land<br>Price per square foot for building<br>Depreciation Rate | Rs. 3,250,000 p.p<br>Rs. 4,000 p.sq.ft<br>25%                                   | 36.30P   | <b>117,975</b>   | <b>22,025</b>         | <b>140,000</b>    |
| <b>Badulla</b><br>10, Cocowatte Road, Badulla                  | <b>Market Comparable Method</b><br>Price per perch for land<br>Price per square foot for building<br>Depreciation Rate | Rs. 2,000,000 p.p<br>Rs. 4,500 p.sq.ft<br>10%                                   | 1R 5.50P | <b>92,800</b>    | <b>23,700</b>         | <b>116,500</b>    |
| <b>Kochchikade</b><br>66, Chilaw Road, Kochchikade             | <b>Market Comparable Method</b><br>Price per perch for land<br>Price per square foot for building                      | Rs. 1,850,000 p.p<br>Rs. 2,400 to<br>Rs. 4,250 p.sq.ft                          | 8.00P    | <b>13,875</b>    | <b>15,375</b>         | <b>29,250</b>     |
| <b>Avissawella</b><br>71, Ratnapura Road,<br>Avissawella       | <b>Market Comparable Method</b><br>Price per perch for land<br>Price per square foot for building                      | Rs. 3,250,000 p.p<br>Rs. 3,750 p.sq.ft  | 18.92P   | <b>61,490</b>    | <b>21,010</b>         | <b>82,500</b>     |
| <b>Grandpass</b><br>401, Prince of Wales Avenue,<br>Colombo 14 | <b>Market Comparable Method</b><br>Price per perch for land<br>Price per square foot for building                      | Rs. 3,500,000 p.p<br>Rs. 850 to<br>Rs. 2,200 p.sq.ft                            | 1R 6.00P | <b>161,000</b>   | <b>18,300</b>         | <b>179,300</b>    |
| <b>Bandarawela</b><br>Badulla Road,<br>Bandarawela             | <b>Market Comparable Method</b><br>Price per perch for land<br>Price per square foot for building<br>Depreciation Rate | Rs. 700,000 to<br>Rs. 3,000,000 p.p<br>Rs. 3,800 to<br>Rs. 4,500 p.sq.ft<br>10% | 27.01P   | <b>72,267</b>    | <b>27,733</b>         | <b>100,000</b>    |

| Address  | Method of Valuation and Significant Unobservable Inputs  | Range of Estimates for Unobservable Inputs                           | Extent    | Revalued Amount  |                       |                   |
|--|--|--|-----------|------------------|-----------------------|-------------------|
|  |  |  |           | Land<br>Rs. '000 | Buildings<br>Rs. '000 | Total<br>Rs. '000 |
| <b>Sarikkamulla</b><br>97, Old Galle Road,<br>Sarikkamulla           | <b>Market Comparable Method</b><br>Price per perch for land<br><br>Price per square foot for building<br>Depreciation Rate | Rs. 300,000 to<br>Rs. 800,000 p.p<br>Rs. 3,500 p.sq.ft<br>20%        | 11.56P    | <b>7,468</b>     | <b>6,032</b>          | <b>13,500</b>     |
| <b>Tissamaharama</b><br>547, Debarawewa,<br>Tissamaharama            | <b>Market Comparable Method</b><br>Price per perch for land<br><br>Price per square foot for building<br>Depreciation Rate | Rs. 400,000 to<br>Rs. 650,000 p.p<br>Rs. 3,000 p.sq.ft<br>40%        | 1R 1.50P  | <b>21,600</b>    | <b>3,400</b>          | <b>25,000</b>     |
| <b>Raddolugama</b><br>171, National Housing Scheme,<br>Raddolugama   | <b>Market Comparable Method</b><br>Price per perch for land<br>Price per square foot for building<br>Depreciation Rate     | Rs. 750,000 p.p<br>Rs. 4,000 p.sq.ft<br>15%                          | 12.08P    | <b>9,600</b>     | <b>11,200</b>         | <b>20,800</b>     |
| <b>Nuwara Eliya</b><br>61, Haddon Hill Road,<br>Nuwara Eliya         | <b>Market Comparable Method</b><br>Price per perch for land<br>Price per square foot for building<br><br>Depreciation Rate | Rs. 800,000 p.p<br>Rs. 3,500 to<br>Rs. 6,000 p.sq.ft<br>27.5% to 40% | 1R 36.00P | <b>60,000</b>    | <b>21,000</b>         | <b>81,000</b>     |
| <b>Marandagahamula</b><br>150, Divulapitiya Road,<br>Marandagahamula | <b>Market Comparable Method</b><br>Price per perch for land<br><br>Price per square foot for building                      | Rs. 225,000 to<br>Rs. 325,000 p.p<br>Rs. 500 to<br>Rs. 1,600 p.sq.ft | 35.00P    | <b>9,875</b>     | <b>8,275</b>          | <b>18,150</b>     |
| <b>Anuradhapura</b><br>23-A1, Anuradhapura                           | <b>Market Comparable Method</b><br>Price per perch for land<br>Price per square foot for building                          | Rs. 700,000 p.p<br>Rs. 800 p.sq.ft                                   | 1R 3.65P  | <b>30,555</b>    | <b>2,200</b>          | <b>32,755</b>     |
| <b>Embilipitiya</b><br>73, New Town Road,<br>Embilipitiya            | <b>Market Comparable Method</b><br>Price per perch for land<br>Price per square foot for building<br>Depreciation Rate     | Rs. 1,200,000 p.p<br>Rs. 4,500 p.sq.ft<br>30%                        | 22.10P    | <b>23,520</b>    | <b>29,480</b>         | <b>53,000</b>     |
| <b>Nugegoda</b><br>211, High Level Road,<br>Nugegoda                 | <b>Market Comparable Method</b><br>Price per perch for land<br><br>Price per square foot for building<br>Depreciation Rate | Rs. 1,000,000 to<br>Rs. 5,000,000 p.p<br>Rs. 4,500 p.sq.ft<br>15%    | 14.00P    | <b>72,000</b>    | <b>31,300</b>         | <b>103,300</b>    |
| <b>Ratnapura</b><br>6, Goods Shed Road,<br>Ratnapura                 | <b>Market Comparable Method</b><br>Price per perch for land<br>Price per square foot for building<br>Depreciation Rate     | Rs. 3,000,000 p.p<br>Rs. 5,000 p.sq.ft<br>40%                        | 6.13P     | <b>13,980</b>    | <b>10,520</b>         | <b>24,500</b>     |
| <b>Balangoda</b><br>Pettigala Road,<br>Balangoda                     | <b>Market Comparable Method</b><br>Price per perch for land<br><br>Price per square foot for building<br>Depreciation Rate | Rs. 275,000 to<br>Rs. 325,000 p.p<br>Rs. 2,000 p.sq.ft<br>30%        | 3R 22.04P | <b>42,811</b>    | <b>3,626</b>          | <b>46,437</b>     |
| <b>Deal Place</b><br>2, Deal Place,<br>Colombo 3                     | <b>Market Comparable Method</b><br>Price per perch for land  | Rs. 12,500,000 p.p   | 19.00P    | <b>235,000</b>   | -                     | <b>235,000</b>    |
| <b>Gampola</b><br>44, Kandy Road,<br>Gampola                         | <b>Market Comparable Method</b><br>Price per perch for land<br>Price per square foot for building<br><br>Depreciation Rate | Rs. 3,000,000 p.p<br>Rs. 750 to<br>Rs. 4,000 p.sq.ft<br>15%          | 13.50P    | <b>40,500</b>    | <b>24,500</b>         | <b>65,000</b>     |

| Address  | Method of Valuation and Significant Unobservable Inputs  | Range of Estimates for Unobservable Inputs                    | Extent                        | Revalued Amount     |                       |                     |
|--|--|---|-------------------------------|---------------------|-----------------------|---------------------|
|  |  |   |                               | Land<br>Rs. '000    | Buildings<br>Rs. '000 | Total<br>Rs. '000   |
| <b>Koggala</b><br>9, Export Processing Zone,<br>Koggala        | <b>Depreciated Replacement Cost Method</b><br>Cost of construction per square foot for building<br>Full life of the building<br>Remaining life of the building | Rs. 3,500 p.sq.ft<br><br>60 years<br>45 years                 | <br><br><br>20.00P            | <br><br><br>-       | <br><br><br>2,600     | <br><br><br>2,600   |
| <b>Negombo</b><br>115, Rajapaksa Broadway,<br>Negombo          | <b>Market Comparable Method</b><br>Price per perch for land<br>Price per square foot for building<br><br>Depreciation Rate                                     | Rs. 2,750,000 p.p<br>Rs. 1,900 to<br>Rs. 3,850 p.sq.ft<br>15% | <br><br><br>29.15P            | <br><br><br>67,045  | <br><br><br>18,805    | <br><br><br>85,850  |
| <b>Kandana</b><br>99, Station Road,<br>Kandana                 | <b>Market Comparable Method</b><br>Price per perch for land<br><br>Price per square foot for building  | Rs. 650,000 to<br>Rs. 1,000,000 p.p<br>Rs. 1,250 p.sq.ft      | <br><br><br>1A 1R 9.84P       | <br><br><br>140,756 | <br><br><br>7,993     | <br><br><br>148,749 |
| <b>Head Office</b><br>90, Galle Road,<br>Colombo 3             | <b>Investment Method</b><br>Estimated rent income per month per square foot for building<br>Years purchase   | Rs. 100 to<br>Rs. 275 p.sq.ft<br>18                           | <br><br>37,416<br>Square Feet | <br><br><br>-       | <br><br><br>934,000   | <br><br><br>934,000 |
| <b>Total Freehold Land and Buildings – Bank</b>                |  |   |                               | <b>1,294,117</b>    | <b>1,243,074</b>      | <b>2,537,191</b>    |
| <b>Seylan Towers – East Tower</b><br>90, Galle Road, Colombo 3 | <b>Investment Method</b><br>Estimated rent income per month per square foot for building   | Rs. 200 to<br>Rs. 210 p.sq.ft                                 |                               | <br><br>-           | <br><br>1,624,461     | <br><br>1,624,461   |
| <b>Total Freehold Buildings – Subsidiary</b>                   |  |   |                               | <br><br>-           | <br><br>1,624,461     | <br><br>1,624,461   |
| <b>Total Freehold Land and Buildings – Group</b>               |  |   |                               | <b>1,294,117</b>    | <b>2,867,535</b>      | <b>4,161,652</b>    |

Description of the above valuation techniques together with narrative description on sensitivity of the fair value measurement to changes in significant unobservable inputs are given below:

| Valuation Technique   | Significant Unobservable Valuation Inputs   | Sensitivity of the Fair Value Measurement to Inputs  |
|---|---|--|
| <b>Market Comparable Method</b><br><br>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<br>Price per square foot for building<br>Depreciation rate for building. | Estimated fair value would get increased (decreased) if;<br>Price per perch would get higher (lower)<br>Price per square foot would get higher (lower)<br>Depreciation rate for building would get lower (higher). |
| <b>Investment Method</b><br><br>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<br>Years of purchase   | Estimated fair value would get increased (decreased) if;<br>Gross Annual Rentals would get higher (lower)<br>Years purchase would get higher (lower).  |
| <b>Depreciated Replacement Cost Method</b><br><br>This method involves the capitalisation of the expected cost of construction at an appropriate remaining life of the building.  | Cost of construction<br>Full life of building<br>Remaining life of building                       | Estimated fair value would get increased (decreased) if;<br>Cost of construction would get higher (lower).   |



2016

| Address   | Extent | Cost – Land      | Cost – Buildings | Accumulated Depreciation – Land | Accumulated Depreciation – Buildings | Carrying Value   |
|---|--------|------------------|------------------|---------------------------------|--------------------------------------|------------------|
|   |        | Rs. '000         | Rs. '000         | Rs. '000                        | Rs. '000                             | Rs. '000         |
| <b>29.4.2 Leasehold Land and Buildings</b>        |        |                  |                  |                                 |                                      |                  |
| <b>Nuwara Eliya</b>                               |        |                  |                  |                                 |                                      |                  |
| 48 & 48/1, Park Road, Nuwara Eliya                | 20.28P | 22,603           | 19,580           | 3,060                           | 3,542                                | 35,581           |
| <b>Hingurakgoda</b>                               |        |                  |                  |                                 |                                      |                  |
| 13 & 14, Airport Road, Hingurakgoda               | 15.84P | 4,356            | 8,544            | 2,063                           | 4,048                                | 6,789            |
| <b>Total Leasehold Land and Buildings – Bank</b>  |        | <b>26,959</b>    | <b>28,124</b>    | <b>5,123</b>                    | <b>7,590</b>                         | <b>42,370</b>    |
| <b>Seylan Tower Land – East Tower</b>             |        |                  |                  |                                 |                                      |                  |
| 90, Galle Road, Colombo 3                         |        | 640,549          | –                | 92,218                          | –                                    | 548,331          |
| <b>Total Leasehold Land – Subsidiary</b>          |        | <b>640,549</b>   | <b>–</b>         | <b>92,218</b>                   | <b>–</b>                             | <b>548,331</b>   |
| <b>Total Leasehold Land and Buildings – Group</b> |        | <b>667,508</b>   | <b>28,124</b>    | <b>97,341</b>                   | <b>7,590</b>                         | <b>590,701</b>   |
| <b>Total Land and Buildings – Group</b>           |        | <b>1,961,625</b> | <b>2,895,659</b> | <b>97,341</b>                   | <b>7,590</b>                         | <b>4,752,353</b> |

|  | Cost/<br>Valuation<br>Rs. '000 | Accumulated<br>Depreciation<br>Rs. '000 | Revalued Amount/<br>Carrying Value<br>Rs. '000 |
|--|--------------------------------|---|--|
| <b>29.5 Summary of Freehold/Leasehold Land and Buildings</b> |                                |   |  |
| Freehold Land  | 1,294,117                      | –                                       | 1,294,117                                      |
| Freehold Buildings   | 1,243,074                      | –                                       | 1,243,074                                      |
| <b>Total Freehold Land and Buildings – Bank</b>              | <b>2,537,191</b>               | <b>–</b>                                | <b>2,537,191</b>                               |
| Leasehold Land   | 26,959                         | 5,123                                   | 21,836   |
| Leasehold Buildings  | 28,124                         | 7,590                                   | 20,534   |
| <b>Total Leasehold Land and Buildings – Bank</b>             | <b>55,083</b>                  | <b>12,713</b>                           | <b>42,370</b>                                  |
| <b>Total Land and Buildings – Bank</b>                       | <b>2,592,274</b>               | <b>12,713</b>                           | <b>2,579,561</b>                               |
| Freehold Buildings – Subsidiary                              | 1,624,461                      | –                                       | 1,624,461                                      |
| Leasehold Land – Subsidiary                                  | 640,549                        | 92,218                                  | 548,331  |
| <b>Total Land and Buildings – Subsidiary</b>                 | <b>2,265,010</b>               | <b>92,218</b>                           | <b>2,172,792</b>                               |
| <b>Total Land and Buildings – Group</b>                      | <b>4,857,284</b>               | <b>104,931</b>                          | <b>4,752,353</b>                               |

## 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             |                       |                   |                  |                       |                   |
|--------------------------|------------------|-----------------------|-------------------|------------------|-----------------------|-------------------|
|                          | 2016             |                       |                   | 2015             |                       |                   |
|                          | Land<br>Rs. '000 | Buildings<br>Rs. '000 | Total<br>Rs. '000 | Land<br>Rs. '000 | Buildings<br>Rs. '000 | Total<br>Rs. '000 |
| Cost                     | <b>465,586</b>   | <b>926,383</b>        | <b>1,391,969</b>  | 465,586          | 926,383               | 1,391,969         |
| Accumulated Depreciation | -                | <b>(279,303)</b>      | <b>(279,303)</b>  | -                | (256,166)             | (256,166)         |
| <b>Carrying Value</b>    | <b>465,586</b>   | <b>647,080</b>        | <b>1,112,666</b>  | 465,586          | 670,217               | 1,135,803         |

|                                    | BANK             |                  | GROUP            |                  |
|------------------------------------|------------------|------------------|------------------|------------------|
|                                    | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>30. Leasehold Rights</b>        |                  |                  |                  |                  |
| <b>Cost/Valuation</b>              |                  |                  |                  |                  |
| Balance as at 1st January          | <b>55,083</b>    | 55,083           | <b>695,632</b>   | 695,632          |
| <b>Balance as at 31st December</b> | <b>55,083</b>    | 55,083           | <b>695,632</b>   | 695,632          |
| <b>Accumulated Depreciation</b>    |                  |                  |                  |                  |
| Balance as at 1st January          | <b>10,767</b>    | 8,821            | <b>95,575</b>    | 86,219           |
| Charge for the Year                | <b>1,946</b>     | 1,946            | <b>9,356</b>     | 9,356            |
| <b>Balance as at 31st December</b> | <b>12,713</b>    | 10,767           | <b>104,931</b>   | 95,575           |
| <b>Carrying Amount</b>             | <b>42,370</b>    | 44,316           | <b>590,701</b>   | 600,057          |

Bank – Leasehold Property consists of the property situated at Park Road, Nuwara Eliya acquired in the year 2001 and the property situated at Airport Road, Hingurakgoda, acquired in 2010.

Seylan Developments PLC entered into a 99 year Lease with the view to set up/conduct and operate a business for the construction of an office and apartment complex in the year 1992.

|   | BANK             |                  | GROUP            |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>31. Investment Properties</b>                |                  |                  |                  |                  |
| <b>Cost</b>                                     |                  |                  |                  |                  |
| Balance as at 1st January                       | -                | 114,429          | 1,356,489        | 1,440,763        |
| Additions during the Year                       | -                | -                | 360              | 30,155           |
| Transferred from Property, Plant & Equipment    | -                | -                | 7                | -                |
| Disposals during the Year                       | -                | (114,429)        | -                | (114,429)        |
| Transferred to Assets Held-for-Sale*            | -                | -                | (228,633)        | -                |
| <b>Cost as at 31st December (Note 31.1)</b>     | -                | -                | <b>1,128,223</b> | 1,356,489        |
| Provision for Impairment                        | -                | -                | (71,462)         | (71,462)         |
| <b>Cost Less Impairment as at 31st December</b> | -                | -                | <b>1,056,761</b> | 1,285,027        |
| <b>Accumulated Depreciation</b>                 |                  |                  |                  |                  |
| Balance as at 1st January                       | -                | -                | 195,107          | 186,077          |
| Charge for the Year                             | -                | -                | 9,382            | 9,030            |
| Transferred to Assets Held-for-Sale*            | -                | -                | (1,806)          | -                |
| <b>Balance as at 31st December</b>              | -                | -                | <b>202,683</b>   | 195,107          |
| <b>Carrying Value as at 31st December</b>       | -                | -                | <b>854,078</b>   | 1,089,920        |

\* The properties at Union Place and Katharagama were transferred to Assets Held-for-Sale at the carrying value during the year.

Bank accounts its Investment Properties by using Cost Model and revalues these properties periodically on a systematic basis for disclosure purposes.

### 31.1 Investment Properties (Group) – 2016

|   | GROUP        |                   |                  |                        |
|---|--------------|-------------------|------------------|------------------------|
|   | Extent       | Date of Valuation | Cost<br>Rs. '000 | Fair Value<br>Rs. '000 |
| <b>Address</b>  |              |                   |                  |                        |
| Seylan Towers – West Tower 90, Galle Road, Colombo 3* | 111,191sq.ft | 31.12.2016        | 1,054,511        | 1,581,718              |
| Moratuwa Lake Villas, St. Peter's Road, Moratuwa      | 1R 5.00P     | 31.12.2016        | 3,361            | 2,700                  |
| Ja-Ela Commercial Complex**                           |              |                   | 70,351           | -                      |
|   |              |                   | <b>1,128,223</b> |                        |

\* The rent income from the Seylan Towers – West Tower for the year 2016 is Rs. 72.67 Mn. (2015 Rs. 73.87 Mn.).

\*\* Full provision for impairment has been made.

## Methods and Assumptions used in the Fair Valuation of Investment Properties – Subsidiary

| 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<br>90, Galle Road,<br>Colombo 3 | Sunil Fernando & Associates (Pvt) Limited.<br>Chartered Valuation Surveyors | Investment Basis of Valuation and Depreciated Replacement Value basis of valuation have been adopted. As the subject property is of two mix uses, Commercial and Residential, a prudent investor is expected to make his bid to purchase on two different yields based on two different risks attached to the commercial and residential uses of the property.  | Valuation has used market rental (Rs. 207/- per sq. ft.) based on current market rental of comparable commercial property and has been adjusted to take cognisance of location of a central business district and peripherals. | Estimated fair value would increase if adopted market rental rates get higher.               |
|  |   |   | Rentals of two similar residential apartment buildings have been taken as comparable residential market rents (Rs. 360,000/- and Rs. 415,000/-).   | Reduction of market rents cause negative impact on estimated fair value.                     |
|  |   |   | All risk rates for residential and commercial segment of the subject property have been taken at 4% and 6% respectively.   | There is an inverse relationship between the estimated fair value and all risk rates.        |
|  |   |   | Current replacement cost of construction is estimated as Rs. 19,000/- per sq. ft.  | Estimated fair value would increase if replacement cost gets higher.                         |
|  |   |   | Full life of the building is taken as 99 years and the remaining life is taken as 71 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 Rs. 10,650,000/- per perch.   | Estimated fair value would increase if the market value of the land gets higher.             |
| Moratuwa Lake Villas, St.Peter's Road, Moratuwa            | Sunil Fernando & Associates (Pvt) Limited.<br>Chartered Valuation Surveyors | The valuation based on; <ul style="list-style-type: none"> <li>– quoted prices in an active market.</li> <li>– observable inputs such as ARR (Annual Rate of Return), cost of sales, interest rates and cost of construction.</li> <li>– the interest rate for capitalisation derived from the market sector and the risk yield a third party market participant accepts for such an investment.</li> </ul> | The available evidence of land values in the locality was considered.  | Estimated fair value would increase if the market value of the land gets higher.             |

|                                      | BANK             |                  | GROUP            |                  |
|--------------------------------------|------------------|------------------|------------------|------------------|
|                                      | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>32. Intangible Assets</b>         |                  |                  |                  |                  |
| <b>Software and Software Related</b> |                  |                  |                  |                  |
| <b>Cost</b>                          |                  |                  |                  |                  |
| Balance as at 1st January            | <b>2,149,107</b> | 2,112,866        | <b>2,149,107</b> | 2,112,866        |
| Additions during the Year            | <b>88,456</b>    | 37,158           | <b>88,456</b>    | 37,158           |
| Write-Offs during the Year           | <b>(31)</b>      | (917)            | <b>(31)</b>      | (917)            |
| <b>Balance as at 31st December</b>   | <b>2,237,532</b> | 2,149,107        | <b>2,237,532</b> | 2,149,107        |
| <b>Accumulated Amortisation</b>      |                  |                  |                  |                  |
| Balance as at 1st January            | <b>1,899,217</b> | 1,833,046        | <b>1,899,217</b> | 1,833,046        |
| Amortisation for the Year            | <b>76,234</b>    | 67,088           | <b>76,234</b>    | 67,088           |
| Write-Offs during the Year           | <b>(31)</b>      | (917)            | <b>(31)</b>      | (917)            |
| <b>Balance as at 31st December</b>   | <b>1,975,420</b> | 1,899,217        | <b>1,975,420</b> | 1,899,217        |
| <b>Carrying Amount</b>               | <b>262,112</b>   | 249,890          | <b>262,112</b>   | 249,890          |

|   | BANK             |                  | GROUP            |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>33. Deferred Tax Assets/(Liabilities)</b>  |                  |                  |                  |                  |
| Balance as at 1st January   | <b>(336,102)</b> | 18,030           | <b>(384,771)</b> | (36,507)         |
| <b>Recognised in the Profit or Loss</b>   |                  |                  |                  |                  |
| Charge for the Year (Note 15.1)   | <b>(129,174)</b> | (772,282)        | <b>(132,826)</b> | (763,532)        |
| <b>Recognised in Other Comprehensive Income</b>                                       |                  |                  |                  |                  |
| Effect on Revaluation of Property, Plant & Equipment (Note 44.2)                      | <b>(3,718)</b>   | –                | <b>(10,482)</b>  | (2,882)          |
| Effect on Net Fair Value Losses on Available-for-Sale<br>Financial Assets (Note 44.4) | <b>457,120</b>   | 418,150          | <b>457,120</b>   | 418,150          |
| <b>Balance as at 31st December (Note 33.1 &amp; 33.2)</b>                             | <b>(11,874)</b>  | (336,102)        | <b>(70,959)</b>  | (384,771)        |

The Group has considered tax rate at 28% for deferred taxation.

|   | BANK                             |                 |                                  |                  |
|---|----------------------------------|-----------------|----------------------------------|------------------|
|   | 2016                             |                 | 2015                             |                  |
|   | Temporary Difference<br>Rs. '000 | Tax<br>Rs. '000 | Temporary Difference<br>Rs. '000 | Tax<br>Rs. '000  |
| <b>33.1 Analysis of Deferred Tax Assets and Liabilities</b> |                                  |                 |                                  |                  |
| <b>Deferred Tax – Liabilities</b>                           |                                  |                 |                                  |                  |
| Property, Plant & Equipment                                 | 1,287,386                        | 360,468         | 1,090,247                        | 305,269          |
| Lease Rentals   | 2,115,829                        | 592,432         | 2,230,391                        | 624,510          |
| Revaluation Gain Brought Forward                            | 72,818                           | 20,389          | 59,539                           | 16,671           |
| Gain on Available-for-Sale Reserve                          | -                                | -               | -                                | -                |
|   | <b>3,476,033</b>                 | <b>973,289</b>  | <b>3,380,177</b>                 | <b>946,450</b>   |
| <b>Deferred Tax – Assets</b>                                |                                  |                 |                                  |                  |
| Leave Encashment Provision (Note 41.2)                      | 236,408                          | 66,194          | 249,849                          | 69,958           |
| Collective and Individually Significant Impairment          | -                                | -               | -                                | -                |
| Other Provisions  | 266,425                          | 74,599          | 270,401                          | 75,712           |
| Tax Losses Carried Forward (Note 15.3)                      | -                                | -               | 320,677                          | 89,790           |
| Reversal of Revaluation Loss on Property, Plant & Equipment | 20,911                           | 5,855           | 61,575                           | 17,241           |
| Loss on Available-for-Sale Reserve                          | 2,909,882                        | 814,767         | 1,277,310                        | 357,647          |
|   | <b>3,433,626</b>                 | <b>961,415</b>  | <b>2,179,812</b>                 | <b>610,348</b>   |
| <b>Net Deferred Tax Liabilities (Note 33.1.1)</b>           | <b>(42,407)</b>                  | <b>(11,874)</b> | <b>(1,200,365)</b>               | <b>(336,102)</b> |

|   | BANK                                     |   |  |  |  |   |  |  |
|---|--|---|--|--|--|---|--|--|
|   | 2016                                     |   |  |  | 2015                                     |   |  |  |
|   | Balance as at<br>1st January<br>Rs. '000 | Recognised in Profit<br>or Loss<br>Rs. '000 | Recognised in Other<br>Comprehensive<br>Income<br>Rs. '000 | Balance as at 31st<br>December<br>Rs. '000 | Balance as at<br>1st January<br>Rs. '000 | Recognised in Profit<br>or Loss<br>Rs. '000 | Recognised in Other<br>Comprehensive<br>Income<br>Rs. '000 | Balance as at 31st<br>December<br>Rs. '000 |
| <b>33.1.1 Movement in Temporary Differences</b>             |  |   |  |  |  |   |  |  |
| <b>Deferred Tax – Liabilities</b>                           |  |   |  |  |  |   |  |  |
| Property, Plant & Equipment                                 | 1,090,247                                | 197,139                                     | -  | 1,287,386                                  | 904,325                                  | 185,922                                     | -  | 1,090,247                                  |
| Lease Rentals   | 2,230,391                                | (114,562)                                   | -  | 2,115,829                                  | 2,029,468                                | 200,923                                     | -  | 2,230,391                                  |
| Revaluation Gain Brought Forward                            | 59,539                                   | -   | 13,279   | 72,818                                     | 59,539                                   | -   | -  | 59,539                                     |
| Gain on Available-for-Sale Reserve                          | -  | -   | -  | -  | 216,082                                  | -   | (216,082)  | -  |
|   | <b>3,380,177</b>                         | <b>82,577</b>                               | <b>13,279</b>  | <b>3,476,033</b>                           | <b>3,209,414</b>                         | <b>386,845</b>                              | <b>(216,082)</b>   | <b>3,380,177</b>                           |
| <b>Deferred Tax – Assets</b>                                |  |   |  |  |  |   |  |  |
| Leave Encashment Provision                                  | 249,849                                  | (13,441)                                    | -  | 236,408                                    | 246,693                                  | 3,156                                       | -  | 249,849                                    |
| Collective and Individually Significant Impairment          | -  | -   | -  | -  | 2,107,661                                | (2,107,661)                                 | -  | -  |
| Other Provisions  | 270,401                                  | (3,976)                                     | -  | 266,425                                    | 224,030                                  | 46,371                                      | -  | 270,401                                    |
| Tax Losses Carried Forward                                  | 320,677                                  | (320,677)                                   | -  | -  | 633,849                                  | (313,172)                                   | -  | 320,677                                    |
| Reversal of Revaluation Loss on Property, Plant & Equipment | 61,575                                   | (40,664)                                    | -  | 20,911                                     | 61,575                                   | -   | -  | 61,575                                     |
| Loss on Available-for-Sale Reserve                          | 1,277,310                                | -   | 1,632,572  | 2,909,882                                  | -  | -   | 1,277,310  | 1,277,310                                  |
|   | <b>2,179,812</b>                         | <b>(378,758)</b>                            | <b>1,632,572</b>   | <b>3,433,626</b>                           | <b>3,273,808</b>                         | <b>(2,371,306)</b>                          | <b>1,277,310</b>   | <b>2,179,812</b>                           |
| <b>Net Deferred Tax Assets/ (Liabilities)</b>               | <b>(1,200,365)</b>                       | <b>(461,335)</b>                            | <b>1,619,293</b>   | <b>(42,407)</b>                            | <b>64,394</b>                            | <b>(2,758,151)</b>                          | <b>1,493,392</b>   | <b>(1,200,365)</b>                         |

|   | GROUP                            |                  |                                  |                  |
|---|----------------------------------|------------------|----------------------------------|------------------|
|   | 2016                             |                  | 2015                             |                  |
|   | Temporary Difference<br>Rs. '000 | Tax<br>Rs. '000  | Temporary Difference<br>Rs. '000 | Tax<br>Rs. '000  |
| <b>33.2 Analysis of Deferred Tax Assets and Liabilities</b> |                                  |                  |                                  |                  |
| <b>Deferred Tax – Liabilities</b>                           |                                  |                  |                                  |                  |
| Property, Plant & Equipment                                 | 1,338,839                        | 374,875          | 1,118,073                        | 313,060          |
| Lease Rentals   | 2,115,829                        | 592,432          | 2,230,391                        | 624,510          |
| Revaluation Gain Brought Forward                            | 1,075,611                        | 301,171          | 1,038,176                        | 290,689          |
| Gain on Available-for-Sale Reserve                          | -                                | -                | -                                | -                |
|   | <b>4,530,279</b>                 | <b>1,268,478</b> | <b>4,386,640</b>                 | <b>1,228,259</b> |
| <b>Deferred Tax – Assets</b>                                |                                  |                  |                                  |                  |
| Leave Encashment Provision (Note 41.2)                      | 236,408                          | 66,194           | 249,849                          | 69,958           |
| Collective and Individually Significant Impairment          | -                                | -                | -                                | -                |
| Other Provisions  | 266,425                          | 74,599           | 270,401                          | 75,712           |
| Tax Losses Carried Forward (Note 15.3)                      | 843,229                          | 236,104          | 1,153,319                        | 322,930          |
| Reversal of Revaluation Loss on Property, Plant & Equipment | 20,911                           | 5,855            | 61,575                           | 17,241           |
| Loss on Available-for-Sale Reserve                          | 2,909,882                        | 814,767          | 1,277,310                        | 357,647          |
|   | <b>4,276,855</b>                 | <b>1,197,519</b> | <b>3,012,454</b>                 | <b>843,488</b>   |
| <b>Net Deferred Tax Liabilities (Note 33.2.1)</b>           | <b>(253,424)</b>                 | <b>(70,959)</b>  | <b>(1,374,186)</b>               | <b>(384,771)</b> |

|   | GROUP                                    |   |  |  |  |   |  |  |
|---|--|---|--|--|--|---|--|--|
|   | 2016                                     |   |  | 2015                                       |  |   |  |  |
|   | Balance as at<br>1st January<br>Rs. '000 | Recognised in Profit<br>or Loss<br>Rs. '000 | Recognised in Other<br>Comprehensive<br>Income<br>Rs. '000 | Balance as at 31st<br>December<br>Rs. '000 | Balance as at<br>1st January<br>Rs. '000 | Recognised in Profit<br>or Loss<br>Rs. '000 | Recognised in Other<br>Comprehensive<br>Income<br>Rs. '000 | Balance as at 31st<br>December<br>Rs. '000 |
| <b>33.2.1 Movement in Temporary Differences</b>             |  |   |  |  |  |   |  |  |
| <b>Deferred Tax – Liabilities</b>                           |  |   |  |  |  |   |  |  |
| Property, Plant & Equipment                                 | 1,118,073                                | 220,766                                     | -  | 1,338,839                                  | 932,310                                  | 185,763                                     | -  | 1,118,073                                  |
| Lease Rentals   | 2,230,391                                | (114,562)                                   | -  | 2,115,829                                  | 2,029,468                                | 200,923                                     | -  | 2,230,391                                  |
| Revaluation Gain Brought Forward                            | 1,038,176                                | -   | 37,435   | 1,075,611                                  | 1,027,882                                | -   | 10,294   | 1,038,176                                  |
| Gain on Available-for-Sale Reserve                          | -  | -   | -  | -  | 216,082                                  | -   | (216,082)  | -  |
|   | <b>4,386,640</b>                         | <b>106,204</b>                              | <b>37,435</b>  | <b>4,530,279</b>                           | <b>4,205,742</b>                         | <b>386,686</b>                              | <b>(205,788)</b>   | <b>4,386,640</b>                           |
| <b>Deferred Tax – Assets</b>                                |  |   |  |  |  |   |  |  |
| Leave Encashment Provision                                  | 249,849                                  | (13,441)                                    | -  | 236,408                                    | 246,693                                  | 3,156                                       | -  | 249,849                                    |
| Collective and Individually Significant Impairment          | -  | -   | -  | -  | 2,107,661                                | (2,107,661)                                 | -  | -  |
| Other Provisions  | 270,401                                  | (3,976)                                     | -  | 266,425                                    | 224,030                                  | 46,371                                      | -  | 270,401                                    |
| Tax Losses Carried Forward                                  | 1,153,319                                | (310,090)                                   | -  | 843,229                                    | 1,435,405                                | (282,086)                                   | -  | 1,153,319                                  |
| Reversal of Revaluation Loss on Property, Plant & Equipment | 61,575                                   | (40,664)                                    | -  | 20,911                                     | 61,575                                   | -   | -  | 61,575                                     |
| Loss on Available-for-Sale Reserve                          | 1,277,310                                | -   | 1,632,572  | 2,909,882                                  | -  | -   | 1,277,310  | 1,277,310                                  |
|   | <b>3,012,454</b>                         | <b>(368,171)</b>                            | <b>1,632,572</b>   | <b>4,276,855</b>                           | <b>4,075,364</b>                         | <b>(2,340,220)</b>                          | <b>1,277,310</b>   | <b>3,012,454</b>                           |
| <b>Net Deferred Tax Assets/ (Liabilities)</b>               | <b>(1,374,186)</b>                       | <b>(474,375)</b>                            | <b>1,595,137</b>   | <b>(253,424)</b>                           | <b>(130,378)</b>                         | <b>(2,726,906)</b>                          | <b>1,483,098</b>   | <b>(1,374,186)</b>                         |

### Defined Benefit Obligation (Gratuity Provision)

The Bank has a separate Gratuity Trust Fund, which was approved by the Commissioner General of Inland Revenue. As per the approval, the Bank could transfer gratuity provision of 62.5% of the last month's salary of the year and deduct it from the tax computation. Therefore, no temporary differences arise on the gratuity obligation.

|  | BANK             |                  | GROUP            |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>34. Assets Held-for-Sale</b>                |                  |                  |                  |                  |
| Balance as at 1st January                      | -                | -                | -                | -                |
| Transferred from Investment Properties*        | -                | -                | <b>226,827</b>   | -                |
| <b>Balance as at 31st December (Note 34.1)</b> | -                | -                | <b>226,827</b>   | -                |

\* The properties at Union Place and Katharagama have been transferred from Investment Properties at the carrying value during the year, since the Management of the Subsidiary decided to dispose the said properties within a year.

### 34.1 Assets Held-for-Sale (Group) – 2016

| Address  | Extent    | Date of Valuation | GROUP            |   |                            |                        |
|--|-----------|-------------------|------------------|---|----------------------------|------------------------|
|  |           |                   | Cost<br>Rs. '000 | Accumulated<br>Depreciation<br>Rs. '000 | Carrying Value<br>Rs. '000 | Fair Value<br>Rs. '000 |
| No. 257, Union Place, Colombo – 02             | 1R 12.27P | 31.12.2016        | <b>204,535</b>   | -                                       | <b>204,535</b>             | <b>679,500</b>         |
| Parana Kanda Road,<br>Detagamuwa, Katharagama* | 1A 0.05P  | 31.12.2016        | <b>24,098</b>    | <b>1,806</b>                            | <b>22,292</b>              | <b>26,500</b>          |
|  |           |                   | <b>228,633</b>   | <b>1,806</b>                            | <b>226,827</b>             |                        |

\* Forced Sale Value of the property – Rs. 23 Mn.

The Fair Value Measurement for Assets Held-for-Sale has been categorised as a Level 3 Measurement, based on the inputs to the valuation techniques used.

### Methods and Assumptions used in the Fair Valuation of the Assets Held-for-Sale – Subsidiary

| Property                                   | Name and Qualifications of the Valuer   | Valuation Technique  | Significant Unobservable Inputs  | Inter-Relationship between Key Unobservable Inputs and Fair Value Measurement  |
|--|---|--|--|--|
| No. 257, Union Place, Colombo – 02         | Sunil Fernando & Associates (Pvt) Limited. Chartered Valuation Surveyors                          | The valuation based on:<br>- quoted prices in an active market.<br>- observable inputs such as ARR (Annual Rate of Return), cost of sales, interest rates and cost of construction.<br>- 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 land values in this prime commercial area estimated at Rs. 13,000,000/- per perch.   | Estimated fair value would increase if the market value of the land increases.   |
| Parana Kanda Road, Detagamuwa, Katharagama | M.A.A. Sarath Associate of the Institute of Valuers (Panel Valuer – Banks and State Institutions) | The valuation based on the situation, sales of lands in the vicinity, present trend in property market, condition of the building, improvements made to property etc.  | The General current land values in this locality was considered as Rs. 48,000/- per perch.<br><br>Estimated quantity allowance was considered as 30%.<br><br>The value of the buildings is considered as Rs. 4,300/- and Rs. 6,800/- per sq.ft.<br><br>Over-head water tank, landscaping and site development estimated to Rs. 1.8 Mn. and Rs. 2 Mn. respectively. | Estimated fair value would increase if the market value of the land gets higher.<br><br>Estimated fair value would decrease, if the development cost and profit rate get higher.<br><br>Estimated fair value would increase if the value of the building gets higher.<br><br>Estimated fair value would increase if the value of the infrastructure gets higher. |



|                           | BANK             |                  | GROUP            |                  |
|---------------------------|------------------|------------------|------------------|------------------|
|                           | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>35. Other Assets</b>   |                  |                  |                  |                  |
| Deposits and Prepayments  | <b>1,159,859</b> | 916,851          | <b>1,174,957</b> | 920,980          |
| Clearing House Balance    | <b>3,218,009</b> | 2,207,871        | <b>3,215,445</b> | 2,201,278        |
| Inventories               | <b>175,472</b>   | 221,239          | <b>179,161</b>   | 225,389          |
| Sundry Debtors            | <b>331,816</b>   | 206,363          | <b>331,816</b>   | 206,363          |
| Other Receivables         | <b>854,229</b>   | 373,476          | <b>854,229</b>   | 373,476          |
| Due from Trust Companies  | <b>113,777</b>   | 113,815          | <b>113,777</b>   | 113,815          |
| Prepaid Staff Cost        | <b>2,270,875</b> | 2,217,190        | <b>2,271,179</b> | 2,217,329        |
| Other Debtors             | <b>399,473</b>   | 498,615          | <b>421,618</b>   | 514,042          |
| <b>Total Other Assets</b> | <b>8,523,510</b> | 6,755,420        | <b>8,562,182</b> | 6,772,672        |

|                               | BANK              |                  | GROUP             |                  |
|-------------------------------|-------------------|------------------|-------------------|------------------|
|                               | 2016<br>Rs. '000  | 2015<br>Rs. '000 | 2016<br>Rs. '000  | 2015<br>Rs. '000 |
| <b>36. Due to Banks</b>       |                   |                  |                   |                  |
| Call Money Borrowings         | <b>16,716,298</b> | 19,021,325       | <b>16,716,298</b> | 19,021,325       |
| Refinance Borrowings          | <b>663,121</b>    | 516,478          | <b>663,121</b>    | 516,478          |
| Borrowings from Local Banks   | <b>131,854</b>    | 33,896           | <b>131,854</b>    | 33,896           |
| Borrowings from Foreign Banks | <b>217,020</b>    | 212,472          | <b>217,020</b>    | 212,472          |
| <b>Total Due to Banks</b>     | <b>17,728,293</b> | 19,784,171       | <b>17,728,293</b> | 19,784,171       |

|                                | BANK               |                  | GROUP              |                  |
|--------------------------------|--------------------|------------------|--------------------|------------------|
|                                | 2016<br>Rs. '000   | 2015<br>Rs. '000 | 2016<br>Rs. '000   | 2015<br>Rs. '000 |
| <b>37. Customer Deposits</b>   |                    |                  |                    |                  |
| <b>Total Customer Deposits</b> | <b>273,456,344</b> | 224,525,455      | <b>273,456,344</b> | 224,525,455      |

### 37.1 Analysis of Customer Deposits

#### 37.1.1 By Product

##### Local Currency

|   |                    |             |                    |             |
|---|--------------------|-------------|--------------------|-------------|
| Demand Deposits                                 | <b>18,436,538</b>  | 16,381,633  | <b>18,436,538</b>  | 16,381,633  |
| Savings Deposits                                | <b>57,385,770</b>  | 56,252,291  | <b>57,385,770</b>  | 56,252,291  |
| Time Deposits                                   | <b>166,813,373</b> | 127,704,952 | <b>166,813,373</b> | 127,704,952 |
| Certificates of Deposit                         | <b>4,068,366</b>   | 3,887,455   | <b>4,068,366</b>   | 3,887,455   |
| <b>Total Customer Deposits – Local Currency</b> | <b>246,704,047</b> | 204,226,331 | <b>246,704,047</b> | 204,226,331 |

##### Foreign Currency

|   |                    |             |                    |             |
|---|--------------------|-------------|--------------------|-------------|
| Demand Deposits                                   | <b>3,210,023</b>   | 1,362,914   | <b>3,210,023</b>   | 1,362,914   |
| Savings Deposits                                  | <b>9,894,796</b>   | 7,471,493   | <b>9,894,796</b>   | 7,471,493   |
| Time Deposits                                     | <b>13,647,478</b>  | 11,464,717  | <b>13,647,478</b>  | 11,464,717  |
| <b>Total Customer Deposits – Foreign Currency</b> | <b>26,752,297</b>  | 20,299,124  | <b>26,752,297</b>  | 20,299,124  |
| <b>Total Customer Deposits by Product</b>         | <b>273,456,344</b> | 224,525,455 | <b>273,456,344</b> | 224,525,455 |

|   | BANK               |                  | GROUP              |                  |
|---|--------------------|------------------|--------------------|------------------|
|   | 2016<br>Rs. '000   | 2015<br>Rs. '000 | 2016<br>Rs. '000   | 2015<br>Rs. '000 |
| <b>37.1.2 By Currency</b>                           |                    |                  |                    |                  |
| Sri Lankan Rupee                                    | <b>246,704,047</b> | 204,226,331      | <b>246,704,047</b> | 204,226,331      |
| United States Dollar                                | <b>22,962,278</b>  | 16,628,059       | <b>22,962,278</b>  | 16,628,059       |
| Great Britain Pound                                 | <b>1,585,840</b>   | 1,612,976        | <b>1,585,840</b>   | 1,612,976        |
| Australian Dollar                                   | <b>1,141,027</b>   | 965,942          | <b>1,141,027</b>   | 965,942          |
| Euro  | <b>733,223</b>     | 708,729          | <b>733,223</b>     | 708,729          |
| Canadian Dollar                                     | <b>175,371</b>     | 113,589          | <b>175,371</b>     | 113,589          |
| Japanese Yen  | <b>51,145</b>      | 199,576          | <b>51,145</b>      | 199,576          |
| Singapore Dollar                                    | <b>46,780</b>      | 31,919           | <b>46,780</b>      | 31,919           |
| Swiss Franc   | <b>26,202</b>      | 21,409           | <b>26,202</b>      | 21,409           |
| New Zealand Dollar                                  | <b>16,747</b>      | 12,216           | <b>16,747</b>      | 12,216           |
| Swedish Kroner                                      | <b>7,369</b>       | 56               | <b>7,369</b>       | 56               |
| Danish Krone  | <b>4,674</b>       | 4,465            | <b>4,674</b>       | 4,465            |
| Hong-Kong Dollar                                    | <b>1,196</b>       | 187              | <b>1,196</b>       | 187              |
| Norwegian Krone                                     | <b>438</b>         | –                | <b>438</b>         | –                |
| Chinese Renminbi                                    | <b>7</b>           | 1                | <b>7</b>           | 1                |
| <b>Total Customer Deposits by Currency</b>          | <b>273,456,344</b> | 224,525,455      | <b>273,456,344</b> | 224,525,455      |
| <b>37.1.3 By Customer Category</b>                  |                    |                  |                    |                  |
| Banks   | <b>1,568,665</b>   | 3,095,058        | <b>1,568,665</b>   | 3,095,058        |
| Finance Companies                                   | <b>2,580,392</b>   | 1,963,028        | <b>2,580,392</b>   | 1,963,028        |
| Other Customers                                     | <b>269,307,287</b> | 219,467,369      | <b>269,307,287</b> | 219,467,369      |
| <b>Total Customer Deposits by Customer Category</b> | <b>273,456,344</b> | 224,525,455      | <b>273,456,344</b> | 224,525,455      |
| <b>37.1.4 By Maturity</b>                           |                    |                  |                    |                  |
| Due within One Year                                 | <b>253,631,683</b> | 207,608,090      | <b>253,631,683</b> | 207,608,090      |
| Due after One Year                                  | <b>19,824,661</b>  | 16,917,365       | <b>19,824,661</b>  | 16,917,365       |
| <b>Total Customer Deposits by Maturity</b>          | <b>273,456,344</b> | 224,525,455      | <b>273,456,344</b> | 224,525,455      |

|  | BANK             |                  | GROUP            |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>38. Other Borrowings</b>  |                  |                  |                  |                  |
| Refinance Borrowings – Other Institutions<br>(Coconut Cultivation Board) | <b>21,249</b>    | <b>15,688</b>    | <b>21,249</b>    | <b>15,688</b>    |
|  | <b>21,249</b>    | <b>15,688</b>    | <b>21,249</b>    | <b>15,688</b>    |

|                                   | BANK             |                  | GROUP            |                  |
|-----------------------------------|------------------|------------------|------------------|------------------|
|                                   | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>39. Group Balances Payable</b> |                  |                  |                  |                  |
| Seylan Developments PLC           | <b>226,351</b>   | <b>181,266</b>   | <b>-</b>         | <b>-</b>         |
|                                   | <b>226,351</b>   | <b>181,266</b>   | <b>-</b>         | <b>-</b>         |

## 40. Debentures

| Issue                                 | Interest Rate                                      | Colombo Stock<br>Exchange Listing | Interest Payable<br>Frequency | Allotment Date/<br>Period | Maturity Date | BANK/GROUP        |                  |
|---------------------------------------|--|-----------------------------------|-------------------------------|---------------------------|---------------|-------------------|------------------|
|                                       |  |                                   |                               |                           |               | Amortised Cost    |                  |
|                                       |  |                                   |                               |                           |               | 2016<br>Rs. '000  | 2015<br>Rs. '000 |
| <b>40.1 Fixed Rate Debentures</b>     |  |                                   |                               |                           |               |                   |                  |
| 2013-2018                             | 15.50% p.a.  | Listed                            | Annually                      | 14.02.2013 – 22.02.2013   | 21.02.2018    | <b>1,235,566</b>  | 1,235,913        |
| 2013-2018                             | 15.00% p.a.  | Listed                            | Semi-Annually                 | 14.02.2013 – 22.02.2013   | 21.02.2018    | <b>832,104</b>    | 831,907          |
| 2013-2018                             | 14.50% p.a.  | Listed                            | Monthly                       | 14.02.2013 – 22.02.2013   | 21.02.2018    | <b>66,332</b>     | 66,332           |
| 2014-2018                             | 8.00% p.a.   | Listed                            | Semi-Annually                 | 23.12.2014                | 22.12.2018    | <b>463,189</b>    | 463,192          |
| 2014-2019                             | 8.35% p.a.   | Listed                            | Semi-Annually                 | 23.12.2014                | 22.12.2019    | <b>30</b>         | 30               |
| 2014-2019                             | 8.60% p.a.   | Listed                            | Annually                      | 23.12.2014                | 22.12.2019    | <b>1,870,478</b>  | 1,870,478        |
| 2014-2020                             | 8.60% p.a.   | Listed                            | Semi-Annually                 | 23.12.2014                | 22.12.2020    | <b>2,405,972</b>  | 2,406,168        |
| 2014-2020                             | 8.75% p.a.   | Listed                            | Annually                      | 23.12.2014                | 22.12.2020    | <b>305,833</b>    | 305,833          |
| 2016-2021                             | 13.00% p.a.  | Listed                            | Semi-Annually                 | 15.07.2016                | 14.07.2021    | <b>1,814,678</b>  | -                |
| 2016-2023                             | 13.75% p.a.  | Listed                            | Semi-Annually                 | 15.07.2016                | 14.07.2023    | <b>3,482,063</b>  | -                |
| <b>Total Fixed Rate Debentures</b>    |  |                                   |                               |                           |               | <b>12,476,245</b> | 7,179,853        |
| <b>40.2 Floating Rate Debentures</b>  |  |                                   |                               |                           |               |                   |                  |
| 2016-2021                             | Six months<br>Treasury<br>Bill Rate<br>+1.5 % p.a. | Listed                            | Semi-Annually                 | 15.07.2016                | 14.07.2021    | <b>17,400</b>     | -                |
| <b>Total Floating Rate Debentures</b> |  |                                   |                               |                           |               | <b>17,400</b>     | -                |
| <b>Total Debentures</b>               |  |                                   |                               |                           |               | <b>12,493,645</b> | 7,179,853        |

|   | BANK             |                  | GROUP            |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>41. Other Liabilities</b>                                  |                  |                  |                  |                  |
| Accrued Expenses  | <b>741,103</b>   | 959,298          | <b>771,158</b>   | 996,798          |
| Margin Accounts   | <b>879,037</b>   | 1,155,517        | <b>879,037</b>   | 1,155,517        |
| Deposit Funding Accounts                                      | <b>3,009,095</b> | 2,158,144        | <b>3,009,095</b> | 2,158,144        |
| Dividend Payable  | <b>46,250</b>    | 30,741           | <b>53,904</b>    | 35,987           |
| Provision for Defined Benefit Obligations (Net) (Note 41.1.1) | <b>(344,234)</b> | (199,487)        | <b>(352,564)</b> | (206,992)        |
| Sundry Creditors  | <b>685,372</b>   | 656,228          | <b>685,576</b>   | 656,228          |
| Value Added Tax and Other Statutory Payables                  | <b>723,617</b>   | 670,369          | <b>719,106</b>   | 673,450          |
| Cheques Payable   | <b>643,556</b>   | 839,706          | <b>643,556</b>   | 839,706          |
| Leave Encashment Provision (Note 41.2)                        | <b>236,408</b>   | 249,849          | <b>236,408</b>   | 249,849          |
| Other Creditors   | <b>868,757</b>   | 765,043          | <b>927,572</b>   | 816,926          |
| <b>Total Other Liabilities</b>                                | <b>7,488,961</b> | 7,285,408        | <b>7,572,848</b> | 7,375,613        |

#### 41.1 Defined Benefit Obligations

The Bank pays half a month's salary (last drawn) for each completed year of service as gratuity for employees who have worked for more than five years at the time of retirement/resignation.

|   | BANK               |                  | GROUP              |                  |
|---|--------------------|------------------|--------------------|------------------|
|   | 2016<br>Rs. '000   | 2015<br>Rs. '000 | 2016<br>Rs. '000   | 2015<br>Rs. '000 |
| <b>41.1.1 The Amount Recognised in the Statement of Financial Position</b>          |                    |                  |                    |                  |
| Present Value of Defined Benefit Obligations (Note 41.1.3)                          | <b>1,170,323</b>   | 1,147,186        | <b>1,176,156</b>   | 1,153,028        |
| Fair Value of Plan Assets (Note 41.1.4)   | <b>(1,514,557)</b> | (1,346,673)      | <b>(1,528,720)</b> | (1,360,020)      |
| <b>Provision for Defined Benefit Obligations</b>                                    | <b>(344,234)</b>   | (199,487)        | <b>(352,564)</b>   | (206,992)        |
| <b>41.1.2 Plan Assets</b>   |                    |                  |                    |                  |
| Balance with Banks  | <b>28,989</b>      | 20,064           | <b>42,418</b>      | 28,841           |
| Investment in Treasury Bills and Bonds  | <b>1,485,568</b>   | 1,326,609        | <b>1,486,302</b>   | 1,331,179        |
|   | <b>1,514,557</b>   | 1,346,673        | <b>1,528,720</b>   | 1,360,020        |
| Plan Assets are held by an approved external gratuity fund.                         |                    |                  |                    |                  |
| <b>41.1.3 Movement in the Present Value of Defined Benefit Obligations (PV DBO)</b> |                    |                  |                    |                  |
| Liability for Defined Benefit Obligations as at 1st January                         | <b>1,147,186</b>   | 1,117,804        | <b>1,153,028</b>   | 1,122,890        |
| Current Service Cost  | <b>68,284</b>      | 69,793           | <b>68,706</b>      | 70,255           |
| Interest Cost   | <b>114,718</b>     | 103,397          | <b>115,302</b>     | 103,868          |
| Actuarial Gains on PV DBO   | <b>(66,157)</b>    | (81,009)         | <b>(66,892)</b>    | (80,810)         |
| Benefits Paid by the Plan   | <b>(93,708)</b>    | (62,799)         | <b>(93,988)</b>    | (63,175)         |
| <b>Liability for Defined Benefit Obligations as at 31st December</b>                | <b>1,170,323</b>   | 1,147,186        | <b>1,176,156</b>   | 1,153,028        |

|  | BANK             |                  | GROUP            |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>41.1.4 Movement in Plan Assets</b>                          |                  |                  |                  |                  |
| Fair Value of Plan Assets as at 1st January                    | <b>1,346,673</b> | 1,191,192        | <b>1,360,020</b> | 1,203,912        |
| Expected Return on Plan Assets                                 | <b>134,667</b>   | 110,185          | <b>136,001</b>   | 111,362          |
| Contribution Paid into Plan                                    | <b>138,527</b>   | 123,033          | <b>138,527</b>   | 123,033          |
| Benefits Paid by the Plan                                      | <b>(93,708)</b>  | (62,799)         | <b>(93,988)</b>  | (63,175)         |
| Actuarial Loss on Plan Assets                                  | <b>(11,602)</b>  | (14,938)         | <b>(11,840)</b>  | (15,112)         |
| <b>Fair Value of Plan Assets as at 31st December</b>           | <b>1,514,557</b> | 1,346,673        | <b>1,528,720</b> | 1,360,020        |
| <b>41.1.5 Unrecognised Actuarial (Gain) or Loss</b>            |                  |                  |                  |                  |
| Actuarial Gain for Year – Obligation                           | <b>(66,157)</b>  | (81,009)         | <b>(66,892)</b>  | (80,810)         |
| Actuarial Loss for Year – Plan Assets                          | <b>11,602</b>    | 14,938           | <b>11,840</b>    | 15,112           |
| <b>Actuarial Gain Recognised in Other Comprehensive Income</b> | <b>54,555</b>    | 66,071           | <b>55,052</b>    | 65,698           |
| <b>41.1.6 Amount Recognised in the Income Statement</b>        |                  |                  |                  |                  |
| Current Service Cost   | <b>68,284</b>    | 69,793           | <b>68,706</b>    | 70,255           |
| Interest Cost  | <b>114,718</b>   | 103,397          | <b>115,302</b>   | 103,868          |
| Expected Return on Plan Assets                                 | <b>(134,667)</b> | (110,185)        | <b>(136,001)</b> | (111,362)        |
| <b>Amount Recognised in the Income Statement (Note 14)</b>     | <b>48,335</b>    | 63,005           | <b>48,007</b>    | 62,761           |
| <b>41.1.7 Amount Recognised in Other Comprehensive Income</b>  |                  |                  |                  |                  |
| Actuarial Gain Recognised in the Year                          | <b>54,555</b>    | 66,071           | <b>55,052</b>    | 65,698           |
| <b>Amount Recognised in Other Comprehensive Income</b>         | <b>54,555</b>    | 66,071           | <b>55,052</b>    | 65,698           |

|                                     | BANK  |  |
|-------------------------------------|---|--|
|                                     | 2016  | 2015   |
| <b>41.1.8 Actuarial Assumptions</b> |   |  |
| <b>Demographic Assumptions</b>      |   |  |
| Mortality in service                | <b>A 67/70, Mortality Table issued by the Institute of Actuaries London</b>   | A 67/70 Mortality Table issued by the Institute of Actuaries London  |
| Retirement Age                      | <b>55 Years</b>   | 55 Years   |
| <b>Financial Assumptions</b>        |   |  |
| Discount Rate                       | <b>11.50%</b>   | 10.00%   |
| Salary Increment                    | <b>1st year – 12% (including 2% increment)<br/>2nd year – 10% (including 2% increment)<br/>3rd year – 10% (including 2% increment)<br/>and thereafter 3%, 3%, 10% per annum.<br/>Next increment due on 1st January 2017</b> | 1st year – 11% (including 2% increment)<br>2nd year – 12% (including 2% increment)<br>3rd year – 10% (including 2% increment)<br>and thereafter 3%, 3%, 10% per annum.<br>Next increment due on 1st January 2016 |

Actuarial assumptions of subsidiary are given in Note 41.1.9.

### 41.1.9 Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Income Statement and the 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 % | 2016  |   |
|--|--|---|---|
|  |  | Sensitivity Effect on Income Statement Increase/(Reduction) in Charge for the Year Rs. '000 | Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability Rs. '000 |
| 1                                      | **   | <b>(79,013)</b>   | <b>(79,013)</b>   |
| (1)                                    | **   | <b>88,494</b>   | <b>88,494</b>   |
| *                                      | 1  | <b>97,171</b>   | <b>97,171</b>   |
| *                                      | (1)  | <b>(87,690)</b>   | <b>(87,690)</b>   |

\* Discount Rate is fixed at 11.5%.

\*\* Salary Increment Rates 12%, 10%, 10%, 3%, 3% and 10%.

#### Subsidiary

| Increase/(Decrease) in Discount Rate % | Increase/(Decrease) in Salary Increment Rate % | 2016  |   |
|--|--|---|---|
|  |  | Sensitivity Effect on Income Statement Increase/(Reduction) in Charge for the Year Rs. '000 | Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability Rs. '000 |
| 1                                      | **   | <b>(340)</b>  | <b>(340)</b>  |
| (1)                                    | **   | <b>376</b>  | <b>376</b>  |
| *                                      | 1  | <b>426</b>  | <b>426</b>  |
| *                                      | (1)  | <b>(388)</b>  | <b>(388)</b>  |

\* Discount Rate is fixed at 11.5%.

\*\* Salary Increment Rates 5%, 7% and thereafter 5%.

### 41.1.10 Maturity Profile of the Defined Benefit Obligation

#### Bank

| Future Working Life Time                                | Defined Benefit Obligation Rs. '000 |
|---|-------------------------------------|
| Within Next 12 Months                                   | 85,616                              |
| Between 1-2 Years                                       | 191,626                             |
| Between 2-5 Years                                       | 184,516                             |
| Between 5-10 Years                                      | 391,650                             |
| Beyond 10 Years   | 316,915                             |
| <b>Total</b>  | <b>1,170,323</b>                    |
| Weighted Average Duration of Defined Benefit Obligation | 7.90 Years                          |

## Subsidiary

| Future Working Life Time                                | Defined Benefit Obligation<br>Rs. '000 |
|---|--|
| Within Next 12 Months                                   | 607                                    |
| Between 1-2 Years                                       | 1,070                                  |
| Between 2-5 Years                                       | 979                                    |
| Between 5-10 Years                                      | 1,800                                  |
| Beyond 10 Years   | 1,377                                  |
| <b>Total</b>  | <b>5,833</b>                           |
| Weighted Average Duration of Defined Benefit Obligation | 6.75 Years                             |

|  | BANK             |                  | GROUP            |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>41.2 Leave Encashment Provision</b>             |                  |                  |                  |                  |
| Balance as at 1st January                          | 249,849          | 246,693          | 249,849          | 246,693          |
| Amount Charged to Income Statement during the Year | (13,441)         | 3,156            | (13,441)         | 3,156            |
| <b>Balance as at 31st December</b>                 | <b>236,408</b>   | <b>249,849</b>   | <b>236,408</b>   | <b>249,849</b>   |

|                                     | BANK  |  |
|-------------------------------------|---|--|
|                                     | 2016  | 2015   |
| <b>41.2.1 Actuarial Assumptions</b> |   |  |
| <b>Demographic Assumptions</b>      |   |  |
| Mortality in Service                | A 67/70 Mortality Table issued by<br>The Institute of Actuaries London  | A 67/70 Mortality Table issued by<br>The Institute of Actuaries London   |
| Retirement Age                      | 55 Years  | 55 Years   |
| <b>Financial Assumptions</b>        |   |  |
| Discount Rate                       | 11.50%  | 10.00%   |
| Salary Increment                    | 1st Year – 12% (including 2% increment)<br>2nd Year – 10%, (including 2% increment)<br>3rd Year – 10% (including 2% increment)<br>and thereafter 3%, 3%, 10% per annum.<br>Next increment due on 1st January 2017 | 1st Year – 11% (including 2% increment)<br>2nd Year – 12% (including 2% increment)<br>3rd Year – 10% (including 2% increment)<br>and thereafter 3%, 3%, 10% per annum.<br>Next increment due on 1st January 2016 |

## 41.2.2 Sensitivity of Assumptions Employed in Actuarial Valuation

### Bank

| Increase/(Decrease)<br>in Discount Rate<br>% | Increase/(Decrease)<br>in Salary Increment Rate<br>% | 2016  |   |
|--|--|---|---|
|  |  | Sensitivity Effect on Income Statement<br>Increase/(Reduction) in Charge for the Year<br>Rs. '000 | Sensitivity Effect on Employment Benefit<br>Obligation Increase/(Decrease) in the Liability<br>Rs. '000 |
| 1  | **   | (17,085)  | (17,085)  |
| (1)  | **   | 19,282  | 19,282  |
| *  | 1  | 21,121  | 21,121  |
| *  | (1)  | (18,905)  | (18,905)  |

\* Discount Rate is fixed at 11.5%.

\*\* Salary Increment Rates 12%, 10%, 10%, 3%, 3%, and 10%.

|  | BANK              |                  | GROUP             |                  |
|--|-------------------|------------------|-------------------|------------------|
|  | 2016<br>Rs. '000  | 2015<br>Rs. '000 | 2016<br>Rs. '000  | 2015<br>Rs. '000 |
| <b>42. Stated Capital</b>                |                   |                  |                   |                  |
| Ordinary Shares – Voting (Note 42.1)     | <b>6,962,722</b>  | 6,962,722        | <b>6,962,722</b>  | 6,962,722        |
| Ordinary Shares – Non-Voting (Note 42.2) | <b>3,567,002</b>  | 3,567,002        | <b>3,567,002</b>  | 3,567,002        |
| <b>Total Stated Capital</b>              | <b>10,529,724</b> | 10,529,724       | <b>10,529,724</b> | 10,529,724       |

|   | BANK             |                  | GROUP            |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>42.1 Ordinary Shares – Voting</b>  |                  |                  |                  |                  |
| Balance as at 1st January   | <b>6,962,722</b> | 6,962,722        | <b>6,962,722</b> | 6,962,722        |
| 175,977,401 Ordinary Shares – Voting<br>(33,560,000 shares of Rs. 10/- each, 4,000,000 shares of<br>Rs. 25/- each, 92,440,000 shares of Rs. 35/- each, 2,644,068<br>shares of Rs. 59/- each, 43,333,333 shares of Rs. 75/- each<br>and net of issue expenses Rs. 114,277,753/-) | <b>6,962,722</b> | 6,962,722        | <b>6,962,722</b> | 6,962,722        |
| <b>42.2 Ordinary Shares – Non-Voting</b>  |                  |                  |                  |                  |
| Balance as at 1st January   | <b>3,567,002</b> | 3,567,002        | <b>3,567,002</b> | 3,567,002        |
| 168,983,009 Ordinary Shares – Non-Voting<br>(83,560,000 shares of Rs. 12.50 each, 40,000,000<br>shares of Rs. 25/- each, 45,423,009 shares of Rs. 35/-<br>each and net of issue expenses Rs. 67,302,925/-)  | <b>3,567,002</b> | 3,567,002        | <b>3,567,002</b> | 3,567,002        |

|                                    | BANK             |                  | GROUP            |                  |
|------------------------------------|------------------|------------------|------------------|------------------|
|                                    | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>43. Statutory Reserve Fund</b>  |                  |                  |                  |                  |
| Balance as at 1st January          | <b>1,187,441</b> | 995,894          | <b>1,187,441</b> | 995,894          |
| Transferred during the Year*       | <b>200,523</b>   | 191,547          | <b>200,523</b>   | 191,547          |
| <b>Balance as at 31st December</b> | <b>1,387,964</b> | 1,187,441        | <b>1,387,964</b> | 1,187,441        |

\* 5% of Net Profit after Tax.

Statutory Reserve Fund represents the statutory requirement in terms of the Section 20 (1) and (2) of the Banking Act No. 30 of 1988.



|  | BANK               |                  | GROUP              |                  |
|--|--------------------|------------------|--------------------|------------------|
|  | 2016<br>Rs. '000   | 2015<br>Rs. '000 | 2016<br>Rs. '000   | 2015<br>Rs. '000 |
| <b>44. Other Reserves</b>              |                    |                  |                    |                  |
| Capital Reserve (Note 44.1)            | <b>418,021</b>     | 418,021          | <b>673,234</b>     | 673,234          |
| Revaluation Reserve (Note 44.2)        | <b>1,474,482</b>   | 651,483          | <b>2,214,050</b>   | 1,378,783        |
| General Reserve (Note 44.3)            | <b>33,787</b>      | 33,787           | <b>33,787</b>      | 33,787           |
| Available-for-Sale Reserve (Note 44.4) | <b>(1,691,584)</b> | (468,826)        | <b>(1,693,065)</b> | (469,879)        |
| Investment Fund Reserve (Note 44.5)    | <b>1,569,655</b>   | 1,578,381        | <b>1,569,655</b>   | 1,578,381        |
| <b>Total Other Reserves</b>            | <b>1,804,361</b>   | 2,212,846        | <b>2,797,661</b>   | 3,194,306        |

#### 44.1 Movement in Capital Reserve

|                                    |                |         |                |         |
|------------------------------------|----------------|---------|----------------|---------|
| Balance as at 1st January          | <b>418,021</b> | 418,021 | <b>673,234</b> | 673,234 |
| <b>Balance as at 31st December</b> | <b>418,021</b> | 418,021 | <b>673,234</b> | 673,234 |

**Bank** – Consists of the Debenture Redemption Reserve Fund of Rs. 400 Mn. transferred to Capital Reserve in 2004. Debenture Redemption Reserve Fund was created for the redemption of five year Debentures amounting to Rs. 400 Mn. issued in November 1999. Balance consisting of Rs. 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 year 2011).

|  | BANK             |                  | GROUP            |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>44.2 Movement in Revaluation Reserve</b>          |                  |                  |                  |                  |
| Balance as at 1st January                            | <b>651,483</b>   | 651,483          | <b>1,378,783</b> | 1,373,590        |
| Surplus on Revaluation during the Year               | <b>826,717</b>   | –                | <b>851,052</b>   | 10,294           |
| Transferred to Non-Controlling Interest              | –                | –                | <b>(5,131)</b>   | (2,219)          |
| Deferred Tax Impact on Revaluation Surplus (Note 33) | <b>(3,718)</b>   | –                | <b>(10,482)</b>  | (2,882)          |
| Transferred to Retained Profits                      | –                | –                | <b>(50)</b>      | –                |
| Transferred to Others                                | –                | –                | <b>(122)</b>     | –                |
| <b>Balance as at 31st December</b>                   | <b>1,474,482</b> | 651,483          | <b>2,214,050</b> | 1,378,783        |

In addition to the Bank's Revaluation Reserve, Group includes the surplus on revaluation of Property, Plant & Equipment of the Subsidiary.

|   | BANK             |                  | GROUP            |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>44.3 Movement in General Reserve</b> |                  |                  |                  |                  |
| Balance as at 1st January               | <b>33,787</b>    | 33,787           | <b>33,787</b>    | 33,787           |
| <b>Balance as at 31st December</b>      | <b>33,787</b>    | 33,787           | <b>33,787</b>    | 33,787           |

Consist of Rs. 25 Mn. transferred in 1995 to General Reserve, Rs. 2.7 Mn. transferred from Bad Debts Reserve and Rs. 6 Mn. transferred from Contingency Reserve in 2002 to General Reserve.

|   | BANK               |                  | GROUP              |                  |
|---|--------------------|------------------|--------------------|------------------|
|   | 2016<br>Rs. '000   | 2015<br>Rs. '000 | 2016<br>Rs. '000   | 2015<br>Rs. '000 |
| <b>44.4 Movement in Available-for-Sale Reserve</b>    |                    |                  |                    |                  |
| Balance as at 1st January                             | (468,826)          | 651,222          | (469,879)          | 650,480          |
| Net Fair Value Loss during the Year                   | (1,679,878)        | (1,538,198)      | (1,680,487)        | (1,538,657)      |
| Transferred to Non-Controlling Interest               | -                  | -                | 181                | 148              |
| Deferred Tax Impact on Net Fair Value Loss (Note 33)* | 457,120            | 418,150          | 457,120            | 418,150          |
| <b>Balance as at 31st December</b>                    | <b>(1,691,584)</b> | <b>(468,826)</b> | <b>(1,693,065)</b> | <b>(469,879)</b> |

\* Deferred Tax on Available-for-Sale Financial Assets.

|   |                  |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|
| <b>44.5 Movement in Investment Fund Reserve</b> |                  |                  |                  |                  |
| Balance as at 1st January                       | 1,578,381        | 1,644,665        | 1,578,381        | 1,644,665        |
| Transferred to Retained Earnings                | (8,726)          | (66,284)         | (8,726)          | (66,284)         |
| <b>Balance as at 31st December</b>              | <b>1,569,655</b> | <b>1,578,381</b> | <b>1,569,655</b> | <b>1,578,381</b> |

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 1st January 2011. The requirement of this transfer ceased with effect from 1st October 2014.

|   | Rs. '000         |
|---|------------------|
| Transfers to the Investment Fund Reserve                    |                  |
| 8% on the Value Addition Attributable to Financial Services | 1,257,105        |
| 5% of Taxable Profits                                       | 409,598          |
|   | <b>1,666,703</b> |

#### Utilisation of Investment Fund Reserve Qualifying Investments

| Long-Term Government Securities with Maturity Period over 7 Years | Maturity Value<br>Rs. | Date of Maturity | Interest Rate<br>% |
|---|-----------------------|------------------|--------------------|
| Treasury Bond   | 150,000,000           | 15.08.2018       | 7.50               |
| Treasury Bond   | 100,000,000           | 05.01.2019       | 8.50               |
| Treasury Bond   | 45,100,000            | 06.01.2020       | 8.00               |
| Treasury Bond   | 347,600,000           | 01.08.2020       | 6.20               |
| Treasury Bond   | 519,000,000           | 01.05.2021       | 9.00               |
| Treasury Bond   | 290,000,000           | 01.01.2022       | 8.00               |
| Treasury Bond   | 80,000,000            | 01.07.2022       | 11.20              |
| Treasury Bond   | 230,000,000           | 01.07.2028       | 9.00               |
| <b>Total Investment in Government Securities</b>                  | <b>1,761,700,000</b>  |                  |                    |

#### Qualifying Loans

| Purpose   | No. of Loans<br>Granted | Amount Outstanding<br>Rs. | Tenure of<br>the Loan | Interest Rate                  |
|---|-------------------------|---------------------------|-----------------------|--------------------------------|
| Construction of Hotels and for Related Purpose                            | 1                       | 22,543,266                | 7 Years               | 5 Year Treasury Bond Rate + 2% |
| Construction of Hotels and for Related Purpose                            | 1                       | 55,000,000                | 10 Years              | 5 Year Treasury Bond Rate + 2% |
| <b>Total Qualifying Loans</b>   |                         | <b>77,543,266</b>         |                       |                                |
| <b>Total Investment in Government Securities<br/>and Qualifying Loans</b> |                         | <b>1,839,243,266</b>      |                       |                                |

## 45. Commitments and Contingencies

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

|  | BANK              |                  | GROUP             |                  |
|--|-------------------|------------------|-------------------|------------------|
|  | 2016<br>Rs. '000  | 2015<br>Rs. '000 | 2016<br>Rs. '000  | 2015<br>Rs. '000 |
| <b>45.1 Commitments</b>                    |                   |                  |                   |                  |
| Undrawn Credit Lines                       | <b>24,438,704</b> | 21,149,301       | <b>24,438,704</b> | 21,149,301       |
| Capital Commitments (Note 47.1)            | <b>472,655</b>    | 268,616          | <b>479,954</b>    | 281,349          |
| <b>Total Commitments</b>                   | <b>24,911,359</b> | 21,417,917       | <b>24,918,658</b> | 21,430,650       |
| <b>45.2 Contingencies</b>                  |                   |                  |                   |                  |
| Acceptances                                | <b>9,112,816</b>  | 8,203,554        | <b>9,112,816</b>  | 8,203,554        |
| Standby Letters of Credit                  | <b>70,010</b>     | 38,007           | <b>70,010</b>     | 38,007           |
| Guarantees                                 | <b>22,128,676</b> | 18,125,180       | <b>22,195,676</b> | 18,192,180       |
| Documentary Credit                         | <b>5,660,428</b>  | 6,776,978        | <b>5,660,428</b>  | 6,776,978        |
| Bills for Collection                       | <b>2,470,526</b>  | 2,792,739        | <b>2,470,526</b>  | 2,792,739        |
| Forward Exchange Contracts (Net)           | <b>(243,120)</b>  | (132,010)        | <b>(243,120)</b>  | (132,010)        |
| <b>Total Contingencies</b>                 | <b>39,199,336</b> | 35,804,448       | <b>39,266,336</b> | 35,871,448       |
| <b>Total Commitments and Contingencies</b> | <b>64,110,695</b> | 57,222,365       | <b>64,184,994</b> | 57,302,098       |

## 46. Cases Against the Bank

In the normal course of business, the Bank is involved in various types of litigation with borrowers or others who have asserted or threatened claims/counter claims against the Bank, including the following:

### Civil Cases

#### 1. CHC 157/2001(1) – [SC (CHC) APP 01/10]

Plaintiff filed action against Seylan Bank for dishonouring a Guarantee issued by former BCCI Bank after Seylan Bank took over the local operations of BCCI. Judgement delivered in favour of the plaintiff. Seylan Bank has appealed. (Guarantee value USD 72,730.23 & USD 56,732.25) Appeal is fixed for hearing on 14th June 2017.

#### 2. HC CIVIL 137/99 (1) – (SC CHC 20/2007)

Plaintiffs filed action to invalidate the appropriation of dividends paid by liquidator of BCCI. (Case value Rs. 11,535,525/-) Judgement delivered in favour of the Bank. Plaintiffs have appealed to Supreme Court against the judgement. Argument on 15th June 2017.

#### 3. CHC 14/98(1) – [SC (APP) CHC 26B/2005 & SC (APP) CHC 26A/2005]

Action filed claiming damages of Rs. 111 Mn. for dishonouring cheques and a Letter of Credit. Judgement delivered against the Bank only for Rs. 2.5 Mn. Both the plaintiff and the Bank filed appeals against the said judgement. Both cases to be mentioned on 31st March 2017.

#### 4. DC Ratnapura 23391/MR & HC (Civil) 159/06

Two actions filed claiming Rs. 23,761,000/- as wrongful takeover of property under Parate Action by Bank. Further Trial on 7th September 2017.

#### 5. CHC 744/2010/MR – (SC APPEAL 52/2012)

Plaintiff filed action claiming damages of Rs. 10 Mn. alleging negligence of Bank due to credit card not being activated thereby not being able to make payment.

Plaintiff's action dismissed and court allowed to proceed with the claim in reconvention. In the meantime, Bank received Notice of Appeal against the dismissal. Appeal is listed and case is fixed for argument on 8th August 2017. (Case No. CHC 744/2010 laid by due to the appeal.)

**6. DC Kandy 36780/MR (CP/HC/CA 69/2014)**

Plaintiff filed action against the Bank regarding fraudulent withdrawals totalling Rs. 280,000/- from her savings accounts by her own twin sister. Judgement was delivered against the Bank and the Bank has appealed to Civil Appellate Courts against the judgement. Judgement on 8th May 2017.

**7. DC Colombo DMR/367 – CHC 559/10/MR**

Plaintiff has claimed damages of Rs. 5 Mn. stating that the Bank has wrongfully refused to issue Dollars for travelling purposes. Matter has been fixed for Registrar's report on 3rd April 2017.

**8. DC Colombo DMR/1605/11**

Action has been filed by the plaintiff on the basis of being the landlord of the former Savings and Travel Branch premises of Seylan Bank claiming Rs. 2.5 Mn. for loss of revenue and Rs. 1,814,871/- as damages for delay in vacating the premises and Rs. 75,000/- as costs. Plaintiff deceased and filed papers for substitution. Defendant's objections filed. Written submissions on 3rd March 2017.

**9. DC Colombo DMR 09088/10 – CHC 377 / 12 MR**

Plaintiff filed action for negligence against a cheque fraud claiming Rs. 5 Mn. as damages. Trial on 12th July 2017.

**10. DC Ampara 356/Damages**

The plaintiff who is an ex-staff member of the Bank filed the case claiming damages of Rs. 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 20th June 2016. *Ex-parte* decree was received on 5th October 2016 and filed the necessary papers on 18th October 2016 to vacate the *ex-parte* judgement. Inquiry on 17th July 2017.

**11. CHC 157/2007/MR SC CHC APPEAL 34/12**

Action filed against the Bank for collecting a forged cheque to an account of a client and for unjust enrichment claiming Rs. 9.5 Mn. Judgement delivered in favour of the plaintiff. Bank has appealed to the Supreme Court against the judgement. Appeal is fixed for argument on 14th March 2017.

**12. DC Colombo 17/99/CO – SC (APP) 85A/2009**

Action filed by Hatton National Bank to nullify the Mortgage Bond executed in favour of Seylan Bank on a mortgaged property that has now been acquired by the Government under the provisions of 'Revival of Under performing Enterprises or Underutilised Assets' Act No. 43 of 2011. Argument/hearing on 14th September 2017 (Bond Value Rs. 38,774,635/81).

**13. DC Mount Lavinia Case No. 4246/03/M**

Action filed claiming damages for Rs. 2 Mn. alleging wrongful seizure of goods in execution of a writ by Seylan Bank. Trial on 8th March 2017.

**14. DC Kurunegala 7945/L**

Action filed by a third party who purchased an acquired property sold by the Bank, claiming damages of Rs. 200,000/- per month from March 2013 until final determination of the action alleging that an erroneous entry has been made in Land Registry records. Trial on 23rd May 2017.

**15. DC Colombo DMR 1674/15**

The plaintiff company has filed the case claiming Rs. 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 has been remanded. Trial on 27th June 2017.

**16. DC Colombo DMR 1675/15**

A Director in the plaintiff company in DC Colombo DMR 1674/15 has filed the case claiming Rs. 50 Mn. as damages stating that the Bank has given wrong information to the Magistrate Court under case No. B 2326/13 where the plaintiff has been remanded. Trial on 27th June 2017.

**17. DC Colombo Case No. 26321/M [CA 25/2012 (F)]**

This matter has been filed by a former Deputy Chairman of the Bank claiming Rs. 10 Mn. with interest at 24% p.a. from January 2001, as *ex gratia* payment. Action dismissed. Plaintiff appealed against the judgement. Argument on 16th June 2017.

**18. DC Colombo 0093/15/DMR**

This case has been filed claiming Rs. 505,510/10 alleging a wrongful reduction of savings account balance. Matter has been fixed for Trial on 28th February 2017.

## Cross Claims made against the Bank on Cases Filed by the Bank

### 19. 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. The Bank withdrew the reliefs prayed, and the case is proceeding based on the claim in reconvention. Written Submissions on 8th May 2017. Order on 9th June 2017.

### 20. DC Ratnapura 12734/M

The Bank has filed this case in DC Ratnapura to recover the dues, there is a cross claim of Rs. 2,500,000/- made by the client. Trial on 5th June 2017.

### 21. DC Badulla 8039/M

This case has been filed by a customer claiming Rs. 1,283,872/10, stating that at the time of settlement, the Bank has calculated the settlement amount incorrectly and therefore the Bank has been unjustly enriched. Objections on 31st March 2017.

## Labour Related Cases

### 22. Against Share Owning Trust Companies

There have been six cases DTR 154/2016 to DTR 159/2016 filed by former employees of Seylan Bank PLC against the Bank share owning trust companies Sotse (Private) Limited, Seyshop (Private) Limited, Seyfest (Private) Limited, Esots (Private) Limited, Seybest (Private) Limited and Sesot (Private) Limited and Seylan Bank PLC in the District Court of Colombo. These cases were filed for the purpose of seeking the implementation conditions of Trust Deed relating to the employees of Seylan Bank PLC. These cases are to be called on 3rd March 2017, to file written submissions by the Bank and the Trust Companies.

Another four cases DTR 003/2016 to DTR 006/2016 have been filed by former employees of Seylan Bank PLC against the Bank share owning trust companies Seyshop (Private) Limited, Seyfest (Private) Limited, Seybest (Private) Limited and Sesot (Private) Limited and Seylan Bank PLC in the District Court of Colombo. These cases were filed for the purpose of seeking the implementation conditions of Trust Deed relating to the employees of Seylan Bank PLC. These cases are to be called on 29th May 2017 to deliver order on the Plaintiff's application for an interim injunction.

## Other Matters

Other than the details of cases disclosed above there are cases filed against the Bank relating to Credits, Property and Labour issues which do not have a material impact on the Bank which is under the normal course of business.

The Bank is of the view that the above legal cases against the Bank will not have any material impact on the Financial Statements.

No adjustments have been made with regard to the legal cases mentioned above due to the uncertainty of the outcome.

## Tax Assessments Against the Bank

1. CA/TAX/12/2013 filed by the Bank in the Court of Appeal in 2013 against the determination issued by the Commissioner General of Inland Revenue and confirmed by the Tax Appeals Commission with an additional liability of Rs. 118,733,184/-. The Bank withdrew the above case on 23rd January 2017, based on the settlement reached with the Department of Inland Revenue.
2. CA/TAX/19/2014 filed by the Bank in the Court of Appeal in 2014, against the determination by the Tax Appeals Commission with an additional liability of Rs. 98,741,152/-. The Bank withdrew the above case on 23rd January 2017, based on the settlement reached with the Department of Inland Revenue.

The Department of Inland Revenue also withdrew the case bearing the No CA/TAX/17/2014 on 23rd January 2017 with the withdrawal of 1 and 2 above.

3. CA/TAX/20/2013 filed by the Bank in the Court of Appeal in 2014 against the determination issued by the Commissioner General of Inland Revenue and confirmed by the Tax Appeals Commission with an additional liability of Rs. 102,947,210/- on the application of time bar provision and financial cost for the acquisition of Sri Lanka Development Bonds. The preliminary issue in this case is on the time bar provision for the year of assessment 2007/08, which was held by the Court of Appeal against the Bank. SC 46/16 case is filed in the Supreme Court on the preliminary issue in 2016 by the Bank. Next hearing on 28th March 2017.

The Bank is of the view that the above assessments will not have any material impact on the Financial Statements.

## 47. Capital Commitments

Capital expenditure approved by the Board of Directors for which provision has not been made in these Financial Statements amounted to approximately:

|   | BANK             |                  | GROUP            |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| <b>47.1 Approved and Contracted for</b>     | <b>472,655</b>   | <b>268,616</b>   | <b>479,954</b>   | <b>281,349</b>   |
| <b>47.2 Approved but not Contracted for</b> | <b>88,065</b>    | <b>5,000</b>     | <b>88,065</b>    | <b>5,000</b>     |

## 48. Operating Leases

As per LKAS 17 – ‘a lease is classified as an operating lease if it does not transfer substantially all risks and rewards incidental to ownership’.

### 48.1 Operating Lease Payables – as Lessee

The Group leases a number of branch and office premises under operating leases. The leases generally run for a period of 10 years. Specially Bank’s subsidiary, Seylan Developments PLC, had entered into a 99 year operating lease with the Urban Development Authority (UDA) with the view of set up/conduct and operate a business for the construction of a office and apartment complex on the Year of 1992. The Company pays a nominal rent to UDA for occupying the land.

The future minimum lease payments under non-cancellable operating leases, payable based on the maturity of the lease contracts as at 31st December are as follows:

|                            | BANK             |                  | GROUP            |                  |
|----------------------------|------------------|------------------|------------------|------------------|
|                            | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| Less than One Year         | <b>258,163</b>   | 52,936           | <b>88,852</b>    | 52,936           |
| Between One and Five Years | <b>654,824</b>   | 450,363          | <b>654,825</b>   | 450,364          |
| More than Five Years       | <b>985,574</b>   | 1,053,913        | <b>985,584</b>   | 1,053,923        |
|                            | <b>1,898,561</b> | <b>1,557,212</b> | <b>1,729,261</b> | <b>1,557,223</b> |

### 48.2 Operating Lease Receivables – as Lessor

The Group enters into operating leases to rent its own properties through its subsidiary. Seylan Developments PLC, leases out its investment property held under operating leases to its tenants on contracts less than two years.

The future minimum lease rentals receivable under non-cancellable operating leases, receivable based on the maturity of the lease contracts as at 31st December are as follows:

|                            | BANK             |                  | GROUP            |                  |
|----------------------------|------------------|------------------|------------------|------------------|
|                            | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 |
| Less than One Year         | –                | –                | <b>36,334</b>    | 65,115           |
| Between One and Five Years | –                | –                | <b>1,883</b>     | 79,750           |
|                            | –                | –                | <b>38,217</b>    | <b>144,865</b>   |

The future minimum lease payments are presented above, based on lease agreements with tenants, where the maximum period is two years.

## 49. Events after the Reporting Period

### Proposed Final Dividend

The Board of Directors of the Bank recommended a final dividend of Rs. 3.25 per share on both voting and non-voting shares of the Bank, to be paid by way of Rs. 1.00 cash dividend per share and Rs. 2.25 scrip dividend per share for the financial year ended 31st December 2016.

Further this dividend is to be approved at the Annual General Meeting to be held on 31st March 2017. This proposed final dividend has not been recognised as a liability as at 31st December 2016. Final dividend proposed for the year 2016 amounts to Rs. 1,121,121,332.50.

**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.

### Proposed Debenture Issue

The Board at its meeting held on 29th September 2016, approved that the Bank proceeds with a public issue of Fifty Million Rated Senior Unsecured Redeemable Debentures of the par value of Rs. 100/- each aggregating to the value of Rs. 5 Bn., with an option to issue a further Thirty Million of the said Debentures in the event of an oversubscription.

No Circumstances have arisen since the Reporting date which would require adjustments to or disclosure in the Financial Statements other than above.

## 50. Related Party Transactions

### 50.1 Transactions with Key Management Personnel

According to Sri Lanka Accounting Standard LKAS 24 – 'Related Party Disclosures', Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly, including any Director (whether executive or otherwise) of that entity. Accordingly, the Board of Directors, Director/Chief Executive Officer, Key Employees of the Bank holding directorships in Subsidiary company have been classified as Key Management Personnel (KMP) of the Bank. Close Family Members (CFM) of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMP's domestic partner and children, children of the KMP's domestic partner and dependants of the KMP or the KMP domestic partner. As the Bank is the Ultimate Parent of its Subsidiary mentioned in Note 50.2 and the Board of Directors of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group.

#### 50.1.1 Compensation of KMP

|                                | BANK            |                 | GROUP           |                 |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                | 2016<br>Rs. Mn. | 2015<br>Rs. Mn. | 2016<br>Rs. Mn. | 2015<br>Rs. Mn. |
| Short-Term Employment Benefits | 101.60          | 70.38           | 103.77          | 71.24           |
| Post-Employment Benefits       | 7.79            | 5.23            | 7.79            | 5.23            |
| <b>Total</b>                   | <b>109.39</b>   | <b>75.61</b>    | <b>111.56</b>   | <b>76.47</b>    |
| Other Non-Cash Benefits to KMP | 2.66            | 4.75            | 2.66            | 4.75            |

|   | Year end Balance |                 |
|---|------------------|-----------------|
|   | 2016<br>Rs. Mn.  | 2015<br>Rs. Mn. |
| <b>50.1.2 Transactions, Arrangements and Agreements Involving KMP and their CFM</b>   |                  |                 |
| <b>50.1.2.1 Statement of Financial Position – Bank</b>                                |                  |                 |
| <b>As at 31st December</b>  |                  |                 |
| <b>Assets</b>   |                  |                 |
| Loans and Advances  | 15.23            | 18.05           |
| Credit Cards  | 0.93             | 0.60            |
| Securities Purchased under Resale Agreements  | 144.58           | 4.10            |
| <b>Total</b>  | <b>160.74</b>    | <b>22.75</b>    |
| <b>Liabilities</b>  |                  |                 |
| Deposits  | 70.66            | 59.03           |
| Other Instruments including Debentures  | 240.33           | 48.01           |
| <b>Total</b>  | <b>310.99</b>    | <b>107.04</b>   |
| <b>50.1.2.2 Commitment and Contingencies – Bank</b>                                   |                  |                 |
| <b>As at 31st December</b>  |                  |                 |
| Undrawn Facilities  | 23.63            | 17.04           |
| <b>Total</b>  | <b>23.63</b>     | <b>17.04</b>    |
| <b>50.1.2.3 Accommodation as a percentage of Bank's Regulatory Capital (%) – Bank</b> |                  |                 |
| <b>As at 31st December</b>  |                  |                 |
| Direct and Indirect Accommodation*  | 0.58             | 0.16            |
| <i>*Includes Securities Purchased under Resale Agreements.</i>                        |                  |                 |
| <b>50.1.2.4 Income Statement – Bank</b>   |                  |                 |
| <b>For the Year ended 31st December</b>   |                  |                 |
| Interest Income   | 7.74             | 1.05            |
| Interest Expenses   | 26.30            | 8.89            |
| Other Income  | 0.01             | –               |
| Compensation to KMP   | 112.05           | 80.36           |
| <b>50.1.2.5 Shareholding of KMP and CFM</b>   |                  |                 |
| <b>As at 31st December</b>  |                  |                 |
| Number of Ordinary Shares Held – Voting   | 38,723           | 42,113          |
| Number of Ordinary Shares Held – Non-Voting   | 161,162          | 152,778         |
| Net Dividend Paid (Rs. Mn.)   | 0.53             | 0.43            |

## 50.2 Other Related Party Transactions

The Bank had the following financial dealings during the year 2016 with its related parties and unless otherwise stated, transactions were carried out in the ordinary course of business at commercial rates.

The parties given below are considered related parties mainly due to significant influence arising as a result of common directorships and through shareholdings.



## 50.2.1 Transactions with Other Related Parties

|   | Subsidiary      |                 | Share Trust Companies and Post-Employment Benefit Plans |                 | State Institutions |                 | Shareholders with Significant Influence |                 | Common Directorship Entities |                 |
|---|-----------------|-----------------|---|-----------------|--------------------|-----------------|---|-----------------|------------------------------|-----------------|
|   | 2016<br>Rs. Mn. | 2015<br>Rs. Mn. | 2016<br>Rs. Mn.   | 2015<br>Rs. Mn. | 2016<br>Rs. Mn.    | 2015<br>Rs. Mn. | 2016<br>Rs. Mn.                         | 2015<br>Rs. Mn. | 2016<br>Rs. Mn.              | 2015<br>Rs. Mn. |
| <b>50.2.1.1 Statement of Financial Position – Bank</b>                                |                 |                 |   |                 |                    |                 |   |                 |                              |                 |
| <b>As at 31st December</b>  |                 |                 |   |                 |                    |                 |   |                 |                              |                 |
| <b>Assets</b>   |                 |                 |   |                 |                    |                 |   |                 |                              |                 |
| Loans and Advances  | 0.10            | –               | 97.68   | 107.26          | –                  | –               | 3,707.81                                | 4,187.66        | 478.08                       | 1,423.66        |
| Other Receivable – Rent Deposit   | 30.00           | 30.00           | –   | –               | –                  | –               | –                                       | –               | –                            | –               |
| Securities Purchased under Resale Agreements  | –               | –               | –   | –               | –                  | –               | 1,696.00                                | –               | –                            | –               |
| Debentures  | –               | –               | –   | –               | 315.60             | 315.60          | 74.53                                   | 140.11          | –                            | –               |
| Interest and Other Receivables  | –               | –               | 132.67  | 130.58          | 7.77               | 7.78            | 13.67                                   | 12.82           | 0.56                         | 4.88            |
| <b>Total</b>  | <b>30.10</b>    | <b>30.00</b>    | <b>230.35</b>   | <b>237.84</b>   | <b>323.37</b>      | <b>323.38</b>   | <b>5,492.01</b>                         | <b>4,340.59</b> | <b>478.64</b>                | <b>1,428.54</b> |
| <b>Liabilities</b>  |                 |                 |   |                 |                    |                 |   |                 |                              |                 |
| Deposits  | 57.67           | 10.87           | 2,461.91  | 212.79          | 984.47             | 682.08          | 143.95                                  | 145.90          | 463.52                       | 31.31           |
| Securities Sold under Repurchase Agreements   | 11.60           | 13.51           | 1,000.00  | 2,840.00        | –                  | –               | 362.42                                  | 151.43          | –                            | 10.34           |
| Other Instruments including Debentures  | 150.00          | 150.00          | 3,996.77  | 3,810.86        | 1,073.45           | 949.52          | 2,310.84                                | –               | –                            | –               |
| Interest and Other Payables   | 7.08            | 6.88            | 122.01  | 72.36           | 1.86               | 26.97           | 22.96                                   | 0.34            | 0.04                         | 0.08            |
| <b>Total</b>  | <b>226.35</b>   | <b>181.26</b>   | <b>7,580.69</b>   | <b>6,936.01</b> | <b>2,059.78</b>    | <b>1,658.57</b> | <b>2,840.17</b>                         | <b>297.67</b>   | <b>463.56</b>                | <b>41.73</b>    |
| <b>50.2.1.2 Commitments and Contingencies – Bank</b>                                  |                 |                 |   |                 |                    |                 |   |                 |                              |                 |
| <b>As at 31st December</b>  |                 |                 |   |                 |                    |                 |   |                 |                              |                 |
| Non-Funded Facilities   | –               | –               | –   | –               | –                  | –               | 1,728.97                                | 1,280.06        | 154.41                       | 838.12          |
| Undrawn Facilities  | 74.90           | 40.00           | 103.62  | 94.04           | –                  | –               | 1,159.57                                | 1,856.61        | 4,237.75                     | 1,316.87        |
| <b>Total</b>  | <b>74.90</b>    | <b>40.00</b>    | <b>103.62</b>   | <b>94.04</b>    | <b>–</b>           | <b>–</b>        | <b>2,888.54</b>                         | <b>3,136.67</b> | <b>4,392.16</b>              | <b>2,154.99</b> |
| <b>50.2.1.3 Accommodation as a percentage of Bank's Regulatory Capital (%) – Bank</b> |                 |                 |   |                 |                    |                 |   |                 |                              |                 |
| <b>As at 31st December</b>  |                 |                 |   |                 |                    |                 |   |                 |                              |                 |
| Direct and Indirect Accommodation*  | 0.24            | 0.16            | 0.64  | 0.80            | 1.00               | 1.26            | 26.42                                   | 29.74           | 15.38                        | 14.26           |
| <i>*Includes Securities Purchased under Resale Agreements.</i>                        |                 |                 |   |                 |                    |                 |   |                 |                              |                 |
| <b>50.2.1.4 Income Statement – Bank</b>   |                 |                 |   |                 |                    |                 |   |                 |                              |                 |
| <b>For the Year ended 31st December</b>   |                 |                 |   |                 |                    |                 |   |                 |                              |                 |
| Income  | 57.23           | 46.66           | 27.30   | 26.08           | 34.21              | 33.34           | 661.70                                  | 414.47          | 263.54                       | 79.67           |
| Expenses  | 147.34          | 140.23          | 432.23  | 316.58          | 145.05             | 83.47           | 433.38                                  | 34.54           | 53.96                        | 40.61           |
| <b>50.2.1.5 Other Transactions – Bank</b>   |                 |                 |   |                 |                    |                 |   |                 |                              |                 |
| <b>For the Year ended 31st December</b>   |                 |                 |   |                 |                    |                 |   |                 |                              |                 |
| Other Payments  | –               | –               | 148.11  | 130.04          | –                  | –               | –                                       | –               | –                            | –               |
| <b>50.2.1.6 Shareholding of Other Related Parties</b>                                 |                 |                 |   |                 |                    |                 |   |                 |                              |                 |
| <b>As at 31st December</b>  |                 |                 |   |                 |                    |                 |   |                 |                              |                 |
| Investment in Bank Shares – Voting (No. of Shares)                                    | –               | –               | 12,752,994  | 12,752,994      | 26,396,608         | 26,396,608      | 41,225,341                              | 41,225,341      | 30,000                       | 30,000          |
| Investment in Bank Shares – Non-Voting (No. of Shares)                                | –               | –               | –   | –               | –                  | –               | 74,312,926                              | 74,312,926      | –                            | –               |
| Net Dividend Paid (Rs. Mn.)   | –               | –               | 31.91   | 28.84           | 66.04              | 59.70           | 289.06                                  | 258.39          | 0.08                         | 0.07            |

The Bank paid annual insurance premium of Rs. 836,908.39 to Allianz Insurance Lanka Limited for the Directors' and Officers' Liability Cover 2016/17 obtained through Finlay Insurance Brokers (Pvt) Limited.

## 50.2.2 Transactions with the Government of Sri Lanka/Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka

The Government of Sri Lanka indirectly holds 34.16% of the voting rights of the Bank as at 31st December 2016 through Sri Lanka Insurance Corporation Limited, Employees' Provident Fund, Bank of Ceylon, Employees' Trust Fund and thus has significant influence over the financial and operating policies of the Bank.

Bank has considered the Government of Sri Lanka and other entities which are controlled, jointly controlled or significantly influenced by the Government of Sri Lanka (Government-Related Entities) as related parties according to LKAS 24 – 'Related Party Disclosures'.

However, limited disclosures have been made in accordance with LKAS 24 – 'Related Party Disclosures' for transactions that are individually significant because of their size although these transactions were undertaken on normal terms in the ordinary course of business.

### 50.2.2.1 Percentage of Voting Share Holding by State Institutions in Seylan Bank PLC is 34.16% as at 31st December 2016 and the break up is given below.

|   | No. of Shares –<br>Voting | %            |
|---|---------------------------|--------------|
| Sri Lanka Insurance Corporation Limited     | <b>26,396,608</b>         | <b>15.00</b> |
| Bank of Ceylon                              | <b>13,198,305</b>         | <b>7.50</b>  |
| Employees' Provident Fund                   | <b>17,346,996</b>         | <b>9.86</b>  |
| Employees' Trust Fund Board                 | <b>3,175,139</b>          | <b>1.80</b>  |
| <b>Total Holdings by State Institutions</b> | <b>60,117,048</b>         | <b>34.16</b> |
| <b>Total Ordinary Shares – Voting</b>       | <b>175,977,401</b>        |              |

### 50.2.2.2 Percentage of Non-Voting Share Holding by State Institutions in Seylan Bank PLC is 5.69% as at 31st December 2016 and the break up is given below.

|   | No. of Shares –<br>Non-Voting | %           |
|---|-------------------------------|-------------|
| Employees' Provident Fund                   | <b>9,013,489</b>              | <b>5.33</b> |
| Employees' Trust Fund Board                 | <b>596,222</b>                | <b>0.36</b> |
| <b>Total Holdings by State Institutions</b> | <b>9,609,711</b>              | <b>5.69</b> |
| <b>Total Ordinary Shares – Non-Voting</b>   | <b>168,983,009</b>            |             |

### 50.2.2.3 Central Bank of Sri Lanka

| Relationship with the Bank  | Nature of the Transactions  | Amount<br>Rs. '000 |
|-----------------------------|---|--------------------|
| Government Related Entities | Treasury Bills (Notes 23.1.2, 25.1.3, 26.1.1)   | <b>1,152,954</b>   |
|                             | Treasury Bonds including Sri Lanka Development Bonds (Notes 23.1.3, 23.1.4, 25.1.4, 25.1.5, 26.1.2, 26.1.3) | <b>68,795,357</b>  |
|                             | Interest Income (Note 7.3)  | <b>7,086,614</b>   |
|                             | Interest Expenses (Note 7.3)  | <b>1,836,500</b>   |
|                             | Annual License Fees   | <b>23,000</b>      |
|                             | Sri Lanka Deposit Insurance Fund Contribution (Note 13)   | <b>238,147</b>     |
|                             | Balance with Central Bank of Sri Lanka (Note 20)  | <b>16,211,618</b>  |

Other than above, the Bank made statutory payments, purchases and obtained services in the ordinary course of business with the Government and related entities. There are no other transactions that are collectively significant with Government-related entities.

## 51. Maturity Analysis

### 51.1 Assets – Bank

An analysis of the total assets employed as at 31st December 2016 based on the remaining period at the Reporting date to the respective contractual Cash Flows/Maturity dates is given below:

|   | Up to 3<br>Months<br>Rs. '000 | 3 to 12<br>Months<br>Rs. '000 | 1 to 3<br>Years<br>Rs. '000 | 3 to 5<br>Years<br>Rs. '000 | More Than<br>5 Years<br>Rs. '000 | Total as at<br>31.12.2016<br>Rs. '000 |
|---|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------------|
| <b>Interest Earning Assets</b>  |                               |                               |                             |                             |                                  |                                       |
| Bills of Exchange   | 2,205,454                     | 19,665                        | –                           | –                           | –                                | <b>2,225,119</b>                      |
| Loans and Receivables   | 108,232,729                   | 48,189,655                    | 43,442,948                  | 22,655,109                  | 11,274,637                       | <b>233,795,078</b>                    |
| Placements with Banks and<br>Finance Companies                        | 334,230                       | –                             | –                           | –                           | –                                | <b>334,230</b>                        |
| Government of Sri Lanka Treasury<br>Bills/Bonds and Development Bonds | 7,289,698                     | 5,437,745                     | 26,289,190                  | 10,525,616                  | 20,406,062                       | <b>69,948,311</b>                     |
| Investments in Debentures   | –                             | 805,930                       | 421,116                     | 154,285                     | 664,998                          | <b>2,046,329</b>                      |
| Securities Purchased under<br>Resale Agreements                       | 7,317,022                     | –                             | –                           | –                           | –                                | <b>7,317,022</b>                      |
|   | 125,379,133                   | 54,452,995                    | 70,153,254                  | 33,335,010                  | 32,345,697                       | <b>315,666,089</b>                    |
| <b>Non-Interest Earning Assets</b>                                    |                               |                               |                             |                             |                                  |                                       |
| Cash in Hand  | 7,715,330                     | –                             | –                           | –                           | –                                | <b>7,715,330</b>                      |
| Statutory Deposit with CBSL   | 16,211,618                    | –                             | –                           | –                           | –                                | <b>16,211,618</b>                     |
| Balances with Banks   | 620,813                       | –                             | –                           | –                           | –                                | <b>620,813</b>                        |
| Investments in Equities   | 1,341,781                     | –                             | –                           | –                           | 1,153,602                        | <b>2,495,383</b>                      |
| Group Balances Receivable   | 30,102                        | –                             | –                           | –                           | –                                | <b>30,102</b>                         |
| Property, Plant & Equipment/<br>Leasehold Rights/Intangible Assets    | –                             | –                             | –                           | –                           | 4,634,004                        | <b>4,634,004</b>                      |
| Derivative Financial Instruments                                      | 115,707                       | –                             | –                           | –                           | –                                | <b>115,707</b>                        |
| Other Assets  | 6,259,032                     | 50,749                        | 3,388                       | 66,230                      | 2,144,111                        | <b>8,523,510</b>                      |
|   | 32,294,383                    | 50,749                        | 3,388                       | 66,230                      | 7,931,717                        | <b>40,346,467</b>                     |
| <b>Total Assets</b>   | <b>157,673,516</b>            | <b>54,503,744</b>             | <b>70,156,642</b>           | <b>33,401,240</b>           | <b>40,277,414</b>                | <b>356,012,556</b>                    |

## 51.2 Liabilities and Equity – Bank

An analysis of the total Liabilities and Equity as at 31st December 2016 based on the remaining period at the Reporting date to the respective contractual Cash Flows/Maturity dates is given below:

|   | Up to 3<br>Months<br>Rs. '000 | 3 to 12<br>Months<br>Rs. '000 | 1 to 3<br>Years<br>Rs. '000 | 3 to 5<br>Years<br>Rs. '000 | More Than<br>5 Years<br>Rs. '000 | Total as at<br>31.12.2016<br>Rs. '000 |
|---|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------------|
| <b>Interest Bearing Liabilities</b>                   |                               |                               |                             |                             |                                  |                                       |
| Deposits from Customers<br>other than Demand Deposits | 117,234,609                   | 114,750,513                   | 7,590,834                   | 5,460,027                   | 6,773,800                        | 251,809,783                           |
| Securities Sold under<br>Repurchase Agreements        | 15,344,208                    | 632,310                       | –                           | –                           | –                                | 15,976,518                            |
| Due to Banks and Other Borrowings                     | 10,909,060                    | 6,158,200                     | 682,282                     | –                           | –                                | 17,749,542                            |
| Debentures  | 508,775                       | –                             | 4,278,830                   | 4,433,760                   | 3,272,280                        | 12,493,645                            |
| Group Balances Payable                                | 7,082                         | 62,663                        | –                           | 150,000                     | –                                | 219,745                               |
|   | 144,003,734                   | 121,603,686                   | 12,551,946                  | 10,043,787                  | 10,046,080                       | 298,249,233                           |
| <b>Non-Interest Bearing Liabilities</b>               |                               |                               |                             |                             |                                  |                                       |
| Demand Deposits                                       | 21,646,561                    | –                             | –                           | –                           | –                                | 21,646,561                            |
| Other Liabilities                                     | 7,442,711                     | –                             | –                           | –                           | –                                | 7,442,711                             |
| Derivative Financial Instruments                      | 86,654                        | –                             | –                           | –                           | –                                | 86,654                                |
| Current Tax Liabilities                               | 750,385                       | –                             | –                           | –                           | –                                | 750,385                               |
| Deferred Tax Liabilities                              | 11,874                        | –                             | –                           | –                           | –                                | 11,874                                |
| Dividend Payable                                      | 46,250                        | –                             | –                           | –                           | –                                | 46,250                                |
| Group Balances Payable                                | 6,606                         | –                             | –                           | –                           | –                                | 6,606                                 |
| Equity  | –                             | –                             | –                           | –                           | 27,772,282                       | 27,772,282                            |
|   | 29,991,041                    | –                             | –                           | –                           | 27,772,282                       | 57,763,323                            |
| <b>Total Liabilities and Equity</b>                   | 173,994,775                   | 121,603,686                   | 12,551,946                  | 10,043,787                  | 37,818,362                       | 356,012,556                           |

### 51.3 Assets – Group

An analysis of the total assets employed as at 31st December 2016 based on the remaining period at the Reporting date to the respective contractual Cash Flows/Maturity dates is given below:

|   | Up to 3<br>Months<br>Rs. '000 | 3 to 12<br>Months<br>Rs. '000 | 1 to 3<br>Years<br>Rs. '000 | 3 to 5<br>Years<br>Rs. '000 | More Than<br>5 Years<br>Rs. '000 | Total as at<br>31.12.2016<br>Rs. '000 |
|---|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------------|
| <b>Interest Earning Assets</b>  |                               |                               |                             |                             |                                  |                                       |
| Bills of Exchange   | 2,205,454                     | 19,665                        | –                           | –                           | –                                | <b>2,225,119</b>                      |
| Loans and Receivables   | 108,232,729                   | 48,189,655                    | 43,442,948                  | 22,655,109                  | 11,274,637                       | <b>233,795,078</b>                    |
| Placements with Banks and<br>Finance Companies                        | 334,230                       | –                             | –                           | –                           | –                                | <b>334,230</b>                        |
| Government of Sri Lanka Treasury<br>Bills/Bonds and Development Bonds | 7,289,698                     | 5,437,745                     | 26,289,190                  | 10,525,616                  | 20,406,062                       | <b>69,948,311</b>                     |
| Investments in Debentures   | 54,170                        | 855,655                       | 421,116                     | 154,285                     | 664,998                          | <b>2,150,224</b>                      |
| Securities Purchased under<br>Resale Agreements                       | 7,317,022                     | –                             | –                           | –                           | –                                | <b>7,317,022</b>                      |
|   | 125,433,303                   | 54,502,720                    | 70,153,254                  | 33,335,010                  | 32,345,697                       | <b>315,769,984</b>                    |
| <b>Non-Interest Earning Assets</b>                                    |                               |                               |                             |                             |                                  |                                       |
| Cash In Hand  | 7,715,380                     | –                             | –                           | –                           | –                                | <b>7,715,380</b>                      |
| Statutory Deposit with CBSL   | 16,211,618                    | –                             | –                           | –                           | –                                | <b>16,211,618</b>                     |
| Balances with Banks   | 620,813                       | –                             | –                           | –                           | –                                | <b>620,813</b>                        |
| Investments in Equities   | 1,348,346                     | –                             | –                           | –                           | –                                | <b>1,348,346</b>                      |
| Investment Properties   | –                             | –                             | –                           | –                           | 854,078                          | <b>854,078</b>                        |
| Assets Held-for-Sale  | 226,827                       | –                             | –                           | –                           | –                                | <b>226,827</b>                        |
| Property, Plant & Equipment/<br>Leasehold Rights/Intangible Assets    | –                             | –                             | –                           | –                           | 6,824,506                        | <b>6,824,506</b>                      |
| Derivative Financial Instruments                                      | 115,707                       | –                             | –                           | –                           | –                                | <b>115,707</b>                        |
| Other Assets  | 6,292,955                     | 50,749                        | 3,388                       | 70,979                      | 2,144,111                        | <b>8,562,182</b>                      |
|   | 32,531,646                    | 50,749                        | 3,388                       | 70,979                      | 9,822,695                        | <b>42,479,457</b>                     |
| <b>Total Assets</b>   | <b>157,964,949</b>            | <b>54,553,469</b>             | <b>70,156,642</b>           | <b>33,405,989</b>           | <b>42,168,392</b>                | <b>358,249,441</b>                    |

## 51.4 Liabilities and Equity – Group

An analysis of the total Liabilities and Equity as at 31st December 2016 based on the remaining period at the Reporting date to the respective contractual Cash Flows/Maturity dates is given below:

|   | Up to 3<br>Months<br>Rs. '000 | 3 to 12<br>Months<br>Rs. '000 | 1 to 3<br>Years<br>Rs. '000 | 3 to 5<br>Years<br>Rs. '000 | More Than<br>5 Years<br>Rs. '000 | Total as at<br>31.12.2016<br>Rs. '000 |
|---|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------------|
| <b>Interest Bearing Liabilities</b>                   |                               |                               |                             |                             |                                  |                                       |
| Deposits from Customers other than<br>Demand Deposits | 117,234,609                   | 114,750,513                   | 7,590,834                   | 5,460,027                   | 6,773,800                        | 251,809,783                           |
| Securities Sold under<br>Repurchase Agreements        | 15,344,208                    | 632,310                       | –                           | –                           | –                                | 15,976,518                            |
| Due to Banks and Other Borrowings                     | 10,909,060                    | 6,158,200                     | 682,282                     | –                           | –                                | 17,749,542                            |
| Debentures  | 508,775                       | –                             | 4,278,830                   | 4,433,760                   | 3,272,280                        | 12,493,645                            |
|   | 143,996,652                   | 121,541,023                   | 12,551,946                  | 9,893,787                   | 10,046,080                       | 298,029,488                           |
| <b>Non-Interest Bearing Liabilities</b>               |                               |                               |                             |                             |                                  |                                       |
| Demand Deposits                                       | 21,646,561                    | –                             | –                           | –                           | –                                | 21,646,561                            |
| Other Liabilities                                     | 7,518,944                     | –                             | –                           | –                           | –                                | 7,518,944                             |
| Derivative Financial Instruments                      | 86,654                        | –                             | –                           | –                           | –                                | 86,654                                |
| Current Tax Liabilities                               | 757,467                       | –                             | –                           | –                           | –                                | 757,467                               |
| Deferred Tax Liabilities                              | 70,959                        | –                             | –                           | –                           | –                                | 70,959                                |
| Dividend Payable                                      | 53,904                        | –                             | –                           | –                           | –                                | 53,904                                |
| Equity  | –                             | –                             | –                           | –                           | 29,020,274                       | 29,020,274                            |
| Non-Controlling Interest                              | –                             | –                             | –                           | –                           | 1,065,190                        | 1,065,190                             |
|   | 30,134,489                    | –                             | –                           | –                           | 30,085,464                       | 60,219,953                            |
| <b>Total Liabilities and Equity</b>                   | <b>174,131,141</b>            | <b>121,541,023</b>            | <b>12,551,946</b>           | <b>9,893,787</b>            | <b>40,131,544</b>                | <b>358,249,441</b>                    |

## 52. Segment Reporting

Segment information is presented in respect of the Group's Operating Segments. Operating Segments are based on the Group's management and internal reporting structure.

The Group comprises the following main Operating Segments:

**Banking:** Loans and Receivables (including Leases and Bills), Margin Trading, Insurance, Deposits and other transactions and balances with corporate and retail customers.

**Treasury:** Undertakes the Group's funding and centralised risk management activities through borrowings, issue of debt securities, use of derivatives for risk management purpose and investing in liquid assets such as short-term placements, corporate debt securities and Government debt securities.

**Property/Investments:** The property investment income, expenses, assets and liabilities.

|  | Banking            |                    | Treasury           |                    | Property/Investments |                  | Unallocated/Eliminations |                   | Total              |                    |
|--|--------------------|--------------------|--------------------|--------------------|----------------------|------------------|--------------------------|-------------------|--------------------|--------------------|
|  | 2016<br>Rs. '000   | 2015<br>Rs. '000   | 2016<br>Rs. '000   | 2015<br>Rs. '000   | 2016<br>Rs. '000     | 2015<br>Rs. '000 | 2016<br>Rs. '000         | 2015<br>Rs. '000  | 2016<br>Rs. '000   | 2015<br>Rs. '000   |
| Interest Income                                    | 28,323,342         | 19,892,201         | 3,656,532          | 2,986,170          | 33,742               | 33,038           | 1,459,215                | 1,255,180         | 33,472,831         | 24,166,589         |
| Interest Expense                                   | 18,046,581         | 11,097,483         | 2,161,484          | 1,227,024          | 1,416                | 1,106            | (16,423)                 | (16,339)          | 20,193,058         | 12,309,274         |
| <b>Net Interest Income</b>                         | <b>10,276,761</b>  | <b>8,794,718</b>   | <b>1,495,048</b>   | <b>1,759,146</b>   | <b>32,326</b>        | <b>31,932</b>    | <b>1,475,638</b>         | <b>1,271,519</b>  | <b>13,279,773</b>  | <b>11,857,315</b>  |
| Fee and Commission Income                          | 3,219,458          | 2,806,967          | 1,615              | 1,770              | -                    | -                | 1,791                    | 2,224             | 3,222,864          | 2,810,961          |
| Fee and Commission Expense                         | 89,439             | 71,924             | 30,544             | 41,770             | 5,643                | 6,756            | -                        | -                 | 125,626            | 120,450            |
| <b>Net Fee and Commission Income</b>               | <b>3,130,019</b>   | <b>2,735,043</b>   | <b>(28,929)</b>    | <b>(40,000)</b>    | <b>(5,643)</b>       | <b>(6,756)</b>   | <b>1,791</b>             | <b>2,224</b>      | <b>3,097,238</b>   | <b>2,690,511</b>   |
| <b>Net Interest, Fee and Commission Income</b>     | <b>13,406,780</b>  | <b>11,529,761</b>  | <b>1,466,119</b>   | <b>1,719,146</b>   | <b>26,683</b>        | <b>25,176</b>    | <b>1,477,429</b>         | <b>1,273,743</b>  | <b>16,377,011</b>  | <b>14,547,826</b>  |
| Net Trading Income                                 | -                  | -                  | 800,412            | 1,201,793          | (1,633)              | (1,000)          | 62,971                   | 53,148            | 861,750            | 1,253,941          |
| Net Gain on Financial Investments                  | -                  | -                  | 11,895             | 232,469            | -                    | -                | -                        | -                 | 11,895             | 232,469            |
| Other Operating Income (Net)                       | 328,892            | 8,122              | 101,054            | 47,195             | 212,340              | 197,620          | (79,547)                 | (88,047)          | 562,739            | 164,890            |
| Inter Segment Revenue                              | (273,730)          | (148,671)          | 199,491            | 76,139             | -                    | -                | 74,239                   | 72,532            | -                  | -                  |
| <b>Total Operating Income</b>                      | <b>13,461,942</b>  | <b>11,389,212</b>  | <b>2,578,971</b>   | <b>3,276,742</b>   | <b>237,390</b>       | <b>221,796</b>   | <b>1,535,092</b>         | <b>1,311,376</b>  | <b>17,813,395</b>  | <b>16,199,126</b>  |
| Depreciation and Amortisation Charge for the year  | 327,954            | 266,809            | 1,252              | 1,142              | 808                  | 1,518            | 312,152                  | 258,716           | 642,166            | 528,185            |
| Impairment Losses for the Year                     | 933,768            | 488,896            | -                  | -                  | 184                  | -                | 20,419                   | -                 | 954,371            | 488,896            |
| Operating Expenses, VAT and NBT                    | 8,209,542          | 7,456,167          | 622,808            | 664,683            | 104,959              | 85,601           | 1,508,304                | 1,152,983         | 10,445,613         | 9,359,434          |
| <b>Reportable Segment Profit before Income Tax</b> | <b>3,990,678</b>   | <b>3,177,340</b>   | <b>1,954,911</b>   | <b>2,610,917</b>   | <b>131,439</b>       | <b>134,677</b>   | <b>(305,783)</b>         | <b>(100,323)</b>  | <b>5,771,245</b>   | <b>5,822,611</b>   |
| Income Tax Expense                                 | -                  | -                  | -                  | -                  | -                    | -                | -                        | -                 | 1,736,355          | 1,936,662          |
| <b>Profit for the Year</b>                         |                    |                    |                    |                    |                      |                  |                          |                   | <b>4,034,890</b>   | <b>3,885,949</b>   |
| <b>Profit Attributable To:</b>                     |                    |                    |                    |                    |                      |                  |                          |                   |                    |                    |
| Equity Holders of the Bank                         |                    |                    |                    |                    |                      |                  |                          |                   | 4,013,132          | 3,855,296          |
| Non-Controlling Interest                           |                    |                    |                    |                    |                      |                  |                          |                   | 21,758             | 30,653             |
| <b>Profit for the Year</b>                         |                    |                    |                    |                    |                      |                  |                          |                   | <b>4,034,890</b>   | <b>3,885,949</b>   |
| <b>Other Comprehensive Income, Net of Tax</b>      | <b>54,555</b>      | <b>66,071</b>      | <b>(1,222,758)</b> | <b>(1,120,048)</b> | <b>1,399</b>         | <b>(832)</b>     | <b>838,937</b>           | <b>7,412</b>      | <b>(327,867)</b>   | <b>(1,047,397)</b> |
| <b>Other Information</b>                           |                    |                    |                    |                    |                      |                  |                          |                   |                    |                    |
| Reportable Segment Assets                          | 225,870,556        | 186,479,792        | 106,189,933        | 87,663,546         | 5,316,779            | 5,008,310        | 28,129,391               | 26,964,208        | 365,506,659        | 306,115,856        |
| Segment Accumulated Amortisation                   | (528,204)          | (647,743)          | (40,021)           | (56,825)           | (808)                | (4,440)          | (6,688,185)              | (6,821,284)       | (7,257,218)        | (7,530,292)        |
| <b>Total Assets</b>                                | <b>225,342,352</b> | <b>185,832,049</b> | <b>106,149,912</b> | <b>87,606,721</b>  | <b>5,315,971</b>     | <b>5,003,870</b> | <b>21,441,206</b>        | <b>20,142,924</b> | <b>358,249,441</b> | <b>298,585,564</b> |
| Reportable Segment Liabilities and Equity          | 285,669,401        | 238,232,763        | 34,700,927         | 26,190,102         | 5,315,687            | 5,029,077        | 32,563,426               | 29,133,622        | 358,249,441        | 298,585,564        |
| <b>Total Liabilities and Equity</b>                | <b>285,669,401</b> | <b>238,232,763</b> | <b>34,700,927</b>  | <b>26,190,102</b>  | <b>5,315,687</b>     | <b>5,029,077</b> | <b>32,563,426</b>        | <b>29,133,622</b> | <b>358,249,441</b> | <b>298,585,564</b> |
| Cash Flows from Operating Activities               | 516,572            | 907,429            | 1,956,163          | 2,612,059          | 91,193               | 103,790          | 86,457                   | 226,527           | 2,650,385          | 3,849,805          |
| Cash Flows from Investing Activities               | (542,753)          | (414,207)          | 988,947            | (27,899,125)       | (3,741)              | (33,514)         | (307,208)                | (216,333)         | 135,245            | (28,563,179)       |
| Cash Flows from Financing Activities               | -                  | -                  | 6,824,500          | 7,367,418          | (88,779)             | (73,982)         | (926,350)                | (834,451)         | 5,809,371          | 6,458,985          |
| Capital Expenditure                                | (552,731)          | (470,628)          | (101)              | (1,127)            | (1,441)              | (90,288)         | (297,401)                | (212,303)         | (851,674)          | (774,346)          |

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.

## 53. Non-Uniform Accounting Policies

The impact of non-uniform accounting policies adopted by subsidiary company has been adjusted in the Consolidated Financial Statements as set out below.

### Adjustment Due to Different Accounting Policies of the Parent and the Group Entity, Seylan Developments PLC (SD)

Seylan Bank PLC accounts for investment properties at cost, whereas Seylan Developments PLC accounts for investment properties at fair value.

Seylan Towers (East 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 Leasehold Rights and the building as a Property in the Consolidated Financial Statements and have been depreciated accordingly (LKAS 40).

|   | Adjustment<br>Rs. '000 | Group Impact<br>Rs. '000 | Non-Controlling<br>Interest Impact<br>Rs. '000 |
|---|------------------------|--------------------------|--|
| <b>Adjustments to Revaluation Gain/(Loss) on Investment Properties and Deferred Tax</b>                         |                        |                          |  |
| Reversal of Revaluation Gain Recognised in the Statement of Comprehensive Income by SD in 2016                  | (262,466)              | (185,065)                | (77,401)                                       |
| Reversal of Deferred Tax Recognised in the Statement of Comprehensive Income by SD in 2016                      | 9,888                  | 6,972                    | 2,916  |
| Deferred Tax on Consolidation Accounted for in the Consolidated Financial Statements                            | (3,651)                | (2,574)                  | (1,077)  |
| Gain on Revaluation of East Tower in 2016 adjusted to Revaluation Reserves in Consolidated Financial Statements | 22,133                 | 15,606                   | 6,527  |
| Deferred Tax on Revaluation Gain of East Tower in 2016 Recognised in Consolidated Financial Statements          | (6,197)                | (4,370)                  | (1,827)  |
|   | <b>(240,293)</b>       | <b>(169,431)</b>         | <b>(70,862)</b>                                |
| <b>Charging of Depreciation</b>   |                        |                          |  |
| Charges for Depreciation Adjusted to Consolidated Statement of Comprehensive Income for 2016                    | (44,617)               | (31,450)                 | (13,167)                                       |
|   | <b>(44,617)</b>        | <b>(31,450)</b>          | <b>(13,167)</b>                                |



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| Year ended 31st December               | 2016                          | 2015                  |
|--|-------------------------------|-----------------------|
|  | Rs. '000                      | Rs. '000              |
| <b>Trading Results</b>                 |                               |                       |
| <b>Gross Income</b>                    | <b>38,092,193</b>             | 28,586,081            |
| Profit before Income Tax               | <b>5,733,718</b>              | 5,776,711             |
| Income Tax                             | <b>1,723,268</b>              | 1,945,767             |
| <b>Profit after Taxation</b>           | <b>4,010,450</b>              | 3,830,944             |
| Other Comprehensive Income, Net of Tax | <b>(345,204)</b>              | (1,053,977)           |
| <b>Total Comprehensive Income</b>      | <b>3,665,246</b>              | 2,776,967             |
| Dividends Proposed (Ordinary)          | <b>Rs. 3.25<br/>per Share</b> | Rs. 2.75<br>per Share |

| As at 31st December  | 2016               | 2015        |
|--|--------------------|-------------|
|  | Rs. '000           | Rs. '000    |
| <b>Financial Position</b>  |                    |             |
| <b>Assets</b>  |                    |             |
| Cash and Short-Term Funds (Including Securities Purchased under Resale Agreements)                             | <b>15,653,165</b>  | 10,113,036  |
| Balances with Central Bank of Sri Lanka  | <b>16,211,618</b>  | 8,563,888   |
| Investments (Including Investment Properties)  | <b>73,336,421</b>  | 72,202,855  |
| Loans and Receivables, Placements with Banks and Finance Companies<br>(Including Leases and Bills of Exchange) | <b>236,354,427</b> | 193,860,992 |
| Investment in Subsidiary   | <b>1,153,602</b>   | 1,151,929   |
| Other Assets (Including Taxation)  | <b>8,669,319</b>   | 6,915,475   |
| Property, Plant & Equipment, Leasehold Rights and Intangible Assets  | <b>4,634,004</b>   | 3,521,958   |
| <b>Total Assets</b>  | <b>356,012,556</b> | 296,330,133 |
| <b>Liabilities</b>   |                    |             |
| Customer Deposits and Due to Banks   | <b>291,184,637</b> | 244,309,626 |
| Borrowings and Debentures  | <b>28,491,412</b>  | 18,605,329  |
| Other Liabilities  | <b>7,755,716</b>   | 7,485,946   |
| Taxation   | <b>762,259</b>     | 842,814     |
| Dividends Payable  | <b>46,250</b>      | 30,741      |
| <b>Total Liabilities</b>   | <b>328,240,274</b> | 271,274,456 |
| <b>Equity</b>  |                    |             |
| Stated Capital   | <b>10,529,724</b>  | 10,529,724  |
| Reserve Fund   | <b>1,387,964</b>   | 1,187,441   |
| Reserves   | <b>15,854,594</b>  | 13,338,512  |
| <b>Total Equity</b>  | <b>27,772,282</b>  | 25,055,677  |
| <b>Total Liabilities and Equity</b>  | <b>356,012,556</b> | 296,330,133 |
| <b>Commitments and Contingencies</b>   | <b>64,110,695</b>  | 57,222,365  |

\*Based on SLAS applicable prior to 1st January 2012.

| 2014                  | 2013                  | 2012                 | 2011                 | 2010*                | 2009*                  | 2008*                      | 2007*                      |
|-----------------------|-----------------------|----------------------|----------------------|----------------------|------------------------|----------------------------|----------------------------|
| Rs. '000              | Rs. '000              | Rs. '000             | Rs. '000             | Rs. '000             | (Restated)<br>Rs. '000 | (Reclassified)<br>Rs. '000 | (Reclassified)<br>Rs. '000 |
| 28,564,355            | 28,090,978            | 23,725,992           | 18,824,460           | 20,032,477           | 23,154,529             | 25,246,209                 | 21,079,885                 |
| 4,649,444             | 3,454,035             | 3,199,358            | 1,180,521            | 1,997,634            | 892,572                | 155,241                    | 1,439,069                  |
| 1,570,842             | 1,138,496             | 1,135,160            | 505,089              | 768,653              | 349,271                | –                          | 515,880                    |
| 3,078,602             | 2,315,539             | 2,064,198            | 675,432              | 1,228,981            | 543,301                | 155,241                    | 923,189                    |
| (55,520)              | 913,330               | (139,243)            | (346,147)            | –                    | –                      | –                          | –                          |
| 3,023,082             | 3,228,869             | 1,924,955            | 329,285              | –                    | –                      | –                          | –                          |
| Rs. 2.50<br>per Share | Rs. 2.25<br>per Share | Rs 2.00<br>per Share | Rs 1.00<br>per Share | Rs 1.00<br>per Share | Rs 0.50<br>per Share   | –                          | Rs. 1.50<br>per Share      |

| 2014        | 2013        | 2012        | 2011        | 2010        | 2009*                  | 2008*                      | 2007*                      |
|-------------|-------------|-------------|-------------|-------------|------------------------|----------------------------|----------------------------|
| Rs. '000    | Rs. '000    | Rs. '000    | Rs. '000    | Rs. '000    | (Restated)<br>Rs. '000 | (Reclassified)<br>Rs. '000 | (Reclassified)<br>Rs. '000 |
| 24,435,877  | 10,910,099  | 6,727,822   | 7,863,893   | 5,965,190   | 7,635,665              | 6,176,265                  | 26,824,927                 |
| 7,432,206   | 7,505,185   | 8,028,661   | 7,070,728   | 5,453,833   | 5,084,229              | 6,857,039                  | 7,915,660                  |
| 48,859,050  | 49,351,098  | 33,878,970  | 35,032,952  | 40,341,445  | 30,286,878             | 26,019,989                 | 1,370,762                  |
| 157,297,016 | 137,523,060 | 124,728,371 | 106,390,440 | 89,090,809  | 80,287,805             | 104,154,125                | 97,651,377                 |
| 1,106,113   | 800,624     | 793,254     | 793,254     | 358,916     | 860,166                | 948,529                    | 1,093,407                  |
| 6,886,615   | 5,994,169   | 6,871,112   | 5,977,144   | 6,010,469   | 5,222,510              | 5,752,780                  | 4,954,206                  |
| 3,293,682   | 3,076,624   | 2,633,486   | 2,815,462   | 3,010,495   | 3,387,117              | 4,137,518                  | 3,690,014                  |
| 249,310,559 | 215,160,859 | 183,661,676 | 165,943,873 | 150,231,157 | 132,764,370            | 154,046,245                | 143,500,353                |
| 197,539,589 | 178,915,590 | 152,865,002 | 131,291,751 | 112,879,627 | 104,815,899            | 107,938,801                | 111,299,612                |
| 20,090,220  | 7,829,992   | 4,896,289   | 12,202,565  | 18,183,086  | 9,164,909              | 26,308,876                 | 14,775,780                 |
| 6,327,380   | 5,546,916   | 6,352,349   | 4,906,438   | 6,366,369   | 8,189,922              | 12,762,164                 | 9,901,004                  |
| 1,323,805   | 1,090,584   | 683,040     | 216,996     | 40,580      | –                      | –                          | 472,306                    |
| 21,026      | 16,159      | 13,159      | 23,535      | 22,398      | 22,668                 | 16,393                     | 15,416                     |
| 225,302,020 | 193,399,241 | 164,809,839 | 148,641,285 | 137,492,060 | 122,193,398            | 147,026,234                | 136,464,118                |
| 10,529,724  | 10,529,724  | 10,225,452  | 10,259,353  | 5,567,820   | 5,567,820              | 2,542,420                  | 2,542,420                  |
| 995,894     | 841,964     | 726,187     | 619,095     | 569,295     | 506,919                | 479,754                    | 468,250                    |
| 12,482,921  | 10,389,930  | 7,900,198   | 6,424,140   | 6,601,982   | 4,496,233              | 3,997,837                  | 4,025,565                  |
| 24,008,539  | 21,761,618  | 18,851,837  | 17,302,588  | 12,739,097  | 10,570,972             | 7,020,011                  | 7,036,235                  |
| 249,310,559 | 215,160,859 | 183,661,676 | 165,943,873 | 150,231,157 | 132,764,370            | 154,046,245                | 143,500,353                |
| 45,098,070  | 35,473,070  | 31,286,844  | 36,247,216  | 30,197,078  | 22,262,562             | 26,874,375                 | 24,335,965                 |

|  | Measure  | 2016     | 2015     | 2014    | 2013    | 2012    |
|--|----------|----------|----------|---------|---------|---------|
| <b>Size</b>  |          |          |          |         |         |         |
| Assets Growth  | %        | 20.14    | 18.86    | 15.87   | 17.15   | 10.68   |
| Commitments and Contingencies/<br>(Total Assets + Commitments and Contingencies)           | %        | 15.26    | 16.18    | 15.32   | 14.15   | 14.56   |
| Interest Earning Assets/Total Assets   | %        | 88.67    | 90.11    | 88.76   | 89.06   | 85.83   |
| Cash and Reserves/Total Assets   | %        | 6.90     | 5.52     | 5.66    | 5.90    | 7.94    |
| Risk-Weighted Assets Growth  | %        | 23.21    | 22.72    | 19.38   | 10.18   | 9.33    |
| <b>Profitability</b>   |          |          |          |         |         |         |
| Return on Average Assets   | %        | 1.23     | 1.40     | 1.33    | 1.16    | 1.18    |
| Return on Average Equity   | %        | 15.18    | 15.62    | 13.45   | 11.40   | 11.42   |
| Profit for the Year/(Total Assets + Commitments and Contingencies)                         | %        | 0.95     | 1.08     | 1.05    | 0.92    | 0.96    |
| Net Interest Margin  | %        | 4.19     | 4.42     | 4.92    | 4.89    | 5.16    |
| Net Interest Income/Total Income   | %        | 34.78    | 41.37    | 39.09   | 34.60   | 37.99   |
| Cost to Income Ratio (Including VAT & NBT)   | %        | 62.35    | 61.20    | 57.37   | 62.59   | 67.31   |
| Cost to Income Ratio (Excluding VAT & NBT)   | %        | 54.75    | 53.41    | 49.96   | 56.77   | 61.45   |
| Average Interest Yield   | %        | 11.26    | 9.64     | 10.95   | 13.62   | 13.23   |
| Average Interest Cost  | %        | 7.44     | 5.50     | 6.48    | 9.41    | 8.68    |
| Interest Rate Spread   | %        | 3.82     | 4.14     | 4.47    | 4.21    | 4.55    |
| Interest Yield on Average Customer Advances  | %        | 11.56    | 10.00    | 11.90   | 14.56   | 14.42   |
| Interest Cost on Average Customer Deposits   | %        | 6.44     | 4.97     | 6.14    | 8.58    | 7.64    |
| Spread on Customer Deposits and Advances   | %        | 5.12     | 5.03     | 5.76    | 5.98    | 6.78    |
| Dividend Payout*   | %        | 27.95    | 24.76    | 28.01   | 33.52   | 32.76   |
| Growth Rate of Equity  | %        | 10.84    | 4.36     | 10.33   | 15.43   | 8.95    |
| Earnings per Share   | Rs.      | 11.63    | 11.11    | 8.92    | 6.74    | 6.11    |
| Ordinary Dividends per Share   | Rs.      | 3.25     | 2.75     | 2.50    | 2.25    | 2.00    |
| Net Assets Value per Share   | Rs.      | 80.51    | 72.63    | 69.60   | 63.08   | 55.76   |
| <b>Asset Quality</b>   |          |          |          |         |         |         |
| Impairment Allowances for Loans and Receivables  | Rs. Mn.  | 6,053    | 5,738    | 7,012   | 7,615   | 8,245   |
| Impairment Allowances/Loans and Receivables  | %        | 2.50     | 2.89     | 4.33    | 5.28    | 6.20    |
| Provision Cover  | Rs.      | 43.93    | 46.80    | 47.00   | 41.77   | 40.00   |
| <b>Capital Adequacy</b>  |          |          |          |         |         |         |
| Leverage on Shareholders' Funds  | Times    | 11.82    | 10.83    | 9.38    | 8.89    | 8.74    |
| Leverage on Capital Funds (Including Debentures)   | Times    | 7.84     | 8.19     | 6.87    | 7.60    | 8.15    |
| Percentage Earnings Retained   | %        | 72.05    | 75.24    | 71.99   | 66.48   | 67.24   |
| Equity/Deposits, Borrowings and Securities Sold under Repurchase Agreements                | %        | 9.04     | 9.80     | 11.43   | 11.86   | 12.04   |
| Equity/Total Assets  | %        | 7.80     | 8.46     | 9.63    | 10.11   | 10.26   |
| Equity/Loans and Receivables   | %        | 11.47    | 12.60    | 14.82   | 15.09   | 14.18   |
| <b>Liquidity and Funding</b>   |          |          |          |         |         |         |
| Loans and Receivables/Deposits, Borrowings and Securities Sold under Repurchase Agreements | %        | 78.80    | 77.75    | 77.14   | 78.56   | 84.94   |
| Deposits/Deposits, Borrowings, Debentures and Securities Sold under Repurchase Agreements  | %        | 85.54    | 85.40    | 85.43   | 89.63   | 93.01   |
| Liquid Assets/Total Assets   | %        | 24.83    | 26.50    | 26.70   | 28.65   | 23.80   |
| Liquid Assets/Deposits, Borrowings and Securities Sold under Repurchase Agreements         | %        | 28.78    | 30.70    | 31.71   | 33.60   | 27.92   |
| Net Lending or (Borrowings) in Call Money Market   | Rs. Mn.  | (16,382) | (18,264) | (7,834) | (9,572) | (4,707) |
| <b>Other Data</b>  |          |          |          |         |         |         |
| Number of Banking Centres  |          | 166      | 159      | 157     | 151     | 147     |
| Number of Staff Members  |          | 3,165    | 3,085    | 2,947   | 3,049   | 3,061   |
| Profit per Staff Member  | Rs. '000 | 1,267    | 1,242    | 1,045   | 759     | 674     |
| Number of Ordinary Shares – Voting   | 000      | 175,977  | 175,977  | 175,977 | 175,977 | 173,333 |
| – Non-Voting   | 000      | 168,983  | 168,983  | 168,983 | 168,983 | 164,747 |
| Share Prices as at 31st December – Voting  | Rs.      | 90.00    | 95.00    | 95.00   | 64.20   | 56.00   |
| – Non-Voting   | Rs.      | 59.00    | 73.00    | 57.50   | 31.00   | 35.10   |

\* Dividends for the year 2016 are accounted for according to the Accounting Standards – LKAS 10.

| For the Year ended 31st December                                | BANK              |                   |             | GROUP             |                   |             |
|---|-------------------|-------------------|-------------|-------------------|-------------------|-------------|
|   | 2016<br>US\$ '000 | 2015<br>US\$ '000 | Change<br>% | 2016<br>US\$ '000 | 2015<br>US\$ '000 | Change<br>% |
| <b>Income</b>   | <b>253,610</b>    | 198,514           | 27.75       | <b>253,875</b>    | 198,811           | 27.70       |
| Interest Income   | <b>222,751</b>    | 167,718           | 32.81       | <b>222,855</b>    | 167,823           | 32.79       |
| Less: Interest Expenses   | <b>134,552</b>    | 85,597            | 57.19       | <b>134,441</b>    | 85,481            | 57.28       |
| <b>Net Interest Income</b>                                      | <b>88,199</b>     | 82,121            | 7.40        | <b>88,414</b>     | 82,342            | 7.37        |
| Fee and Commission Income                                       | <b>21,460</b>     | 19,522            | 9.93        | <b>21,457</b>     | 19,521            | 9.92        |
| Less: Fee and Commission Expenses                               | <b>799</b>        | 790               | 1.14        | <b>836</b>        | 836               | -           |
| <b>Net Fee and Commission Income</b>                            | <b>20,661</b>     | 18,732            | 10.30       | <b>20,621</b>     | 18,685            | 10.36       |
| <b>Net Interest, Fee and Commission Income</b>                  | <b>108,860</b>    | 100,853           | 7.94        | <b>109,035</b>    | 101,027           | 7.93        |
| Net Trading Income  | <b>5,748</b>      | 8,715             | (34.04)     | <b>5,737</b>      | 8,708             | (34.12)     |
| Net Gain on Financial Investments                               | <b>79</b>         | 1,614             | (95.11)     | <b>79</b>         | 1,614             | (95.11)     |
| Other Operating Income (Net)                                    | <b>3,571</b>      | 946               | 277.48      | <b>3,747</b>      | 1,145             | 227.25      |
| <b>Total Operating Income</b>                                   | <b>118,258</b>    | 112,128           | 5.47        | <b>118,598</b>    | 112,494           | 5.43        |
| Net Impairment Loss   | <b>6,353</b>      | 3,395             | 87.13       | <b>6,354</b>      | 3,395             | 87.16       |
| <b>Net Operating Income</b>                                     | <b>111,905</b>    | 108,733           | 2.92        | <b>112,244</b>    | 109,099           | 2.88        |
| <b>Less: Operating Expenses</b>                                 |                   |                   |             |                   |                   |             |
| Personnel Expenses  | <b>30,693</b>     | 29,126            | 5.38        | <b>30,906</b>     | 29,319            | 5.41        |
| Premises, Equipment and Establishment Expenses                  | <b>14,677</b>     | 12,708            | 15.49       | <b>14,438</b>     | 12,316            | 17.23       |
| Other Expenses  | <b>19,379</b>     | 18,059            | 7.31        | <b>19,536</b>     | 18,305            | 6.72        |
| <b>Operating Expenses</b>                                       | <b>64,749</b>     | 59,893            | 8.11        | <b>64,880</b>     | 59,940            | 8.24        |
| <b>Operating Profit before Taxes</b>                            | <b>47,156</b>     | 48,840            | (3.45)      | <b>47,364</b>     | 49,159            | (3.65)      |
| Value Added Tax and Nation Building Tax on Financial Services   | <b>8,983</b>      | 8,724             | 2.97        | <b>8,941</b>      | 8,724             | 2.49        |
| <b>Operating Profit before Income Tax</b>                       | <b>38,173</b>     | 40,116            | (4.84)      | <b>38,423</b>     | 40,435            | (4.98)      |
| Income Tax Expense  | <b>11,473</b>     | 13,512            | (15.09)     | <b>11,560</b>     | 13,449            | (14.05)     |
| <b>Profit for the Year</b>                                      | <b>26,700</b>     | 26,604            | 0.36        | <b>26,863</b>     | 26,986            | (0.46)      |
| <b>Profit Attributable to:</b>                                  |                   |                   |             |                   |                   |             |
| Equity Holders of the Bank                                      | <b>26,700</b>     | 26,604            | 0.36        | <b>26,718</b>     | 26,773            | (0.21)      |
| Non-Controlling Interest  | -                 | -                 | -           | <b>145</b>        | 213               | (31.92)     |
| <b>Profit for the Year</b>                                      | <b>26,700</b>     | 26,604            | 0.36        | <b>26,863</b>     | 26,986            | (0.46)      |
| <b>Basic/Diluted Earnings per Share (US\$)</b>                  | <b>0.08</b>       | 0.08              | 0.36        | <b>0.08</b>       | 0.08              | (0.21)      |
| <b>Other Comprehensive Income, Net of Tax</b>                   |                   |                   |             |                   |                   |             |
| <b>Items that will never be Reclassified to Profit or Loss</b>  |                   |                   |             |                   |                   |             |
| Revaluation of Property, Plant & Equipment                      | <b>5,479</b>      | -                 | -           | <b>5,596</b>      | 51                | 10,872.55   |
| Actuarial Gain on Defined Benefit Obligations                   | <b>363</b>        | 459               | (20.92)     | <b>367</b>        | 456               | (19.52)     |
| <b>Items that are or may be Reclassified to Profit or Loss</b>  |                   |                   |             |                   |                   |             |
| Net Loss on Re-measuring of Available-for-Sale Financial Assets | <b>(8,140)</b>    | (7,779)           | (4.64)      | <b>(8,146)</b>    | (7,781)           | (4.69)      |
| <b>Other Comprehensive Income for the Year, Net of Tax</b>      | <b>(2,298)</b>    | (7,320)           | 68.61       | <b>(2,183)</b>    | (7,274)           | 69.99       |
| <b>Total Comprehensive Income for the Year</b>                  | <b>24,402</b>     | 19,284            | 26.54       | <b>24,680</b>     | 19,712            | 25.20       |
| Total Comprehensive Income Attributable to:                     |                   |                   |             |                   |                   |             |
| Equity Holders of the Bank                                      | <b>24,402</b>     | 19,284            | 26.54       | <b>24,501</b>     | 19,486            | 25.74       |
| Non-Controlling Interest  | -                 | -                 | -           | <b>179</b>        | 226               | (20.80)     |
| <b>Total Comprehensive Income for the Year</b>                  | <b>24,402</b>     | 19,284            | 26.54       | <b>24,680</b>     | 19,712            | 25.20       |

Exchange rate of US\$ 1 was Rs. 150.20 as at 31st December 2016 (Rs. 144/- as at 31st December 2015).

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.

| As at 31st December  | BANK              |                   |              | GROUP             |                   |               |
|--|-------------------|-------------------|--------------|-------------------|-------------------|---------------|
|  | 2016<br>US\$ '000 | 2015<br>US\$ '000 | Change<br>%  | 2016<br>US\$ '000 | 2015<br>US\$ '000 | Change<br>%   |
| <b>Assets</b>  |                   |                   |              |                   |                   |               |
| Cash and Cash Equivalents  | 55,500            | 54,170            | 2.46         | 55,501            | 54,170            | 2.46          |
| Balances with Central Bank of Sri Lanka                            | 107,934           | 59,471            | 81.49        | 107,934           | 59,471            | 81.49         |
| Placements with Banks and Finance Companies                        | 2,225             | 5,257             | (57.68)      | 2,225             | 5,257             | (57.68)       |
| Derivative Financial Instruments                                   | 770               | 903               | (14.73)      | 770               | 903               | (14.73)       |
| Other Financial Assets – Held-for-Trading                          | 60,322            | 41,782            | 44.37        | 60,366            | 41,839            | 44.28         |
| Securities Purchased under Resale Agreements                       | 48,715            | 16,059            | 203.35       | 48,715            | 16,059            | 203.35        |
| Customer Loans and Receivables                                     | 1,571,373         | 1,341,000         | 17.18        | 1,571,373         | 1,341,000         | 17.18         |
| Financial Investments – Available-for-Sale                         | 305,352           | 333,601           | (8.47)       | 305,598           | 333,861           | (8.47)        |
| Financial Investments – Held-to-Maturity                           | 122,584           | 126,026           | (2.73)       | 123,030           | 126,591           | (2.81)        |
| Investment in Subsidiary   | 7,680             | 8,000             | (4.00)       | -                 | -                 | -             |
| Group Balances Receivable  | 200               | 208               | (3.85)       | -                 | -                 | -             |
| Property, Plant & Equipment  | 28,825            | 22,415            | 28.60        | 39,758            | 33,856            | 17.43         |
| Leasehold Rights   | 282               | 308               | (8.44)       | 3,933             | 4,167             | (5.62)        |
| Investment Properties  | -                 | -                 | -            | 5,686             | 7,569             | (24.88)       |
| Intangible Assets  | 1,745             | 1,735             | 0.58         | 1,745             | 1,735             | 0.58          |
| Assets Held-for-Sale   | -                 | -                 | -            | 1,510             | -                 | -             |
| Other Assets   | 56,749            | 46,913            | 20.97        | 57,005            | 47,033            | 21.20         |
| <b>Total Assets</b>  | <b>2,370,256</b>  | <b>2,057,848</b>  | <b>15.18</b> | <b>2,385,149</b>  | <b>2,073,511</b>  | <b>15.03</b>  |
| <b>Liabilities</b>   |                   |                   |              |                   |                   |               |
| Due to Banks   | 118,031           | 137,390           | (14.09)      | 118,031           | 137,390           | (14.09)       |
| Derivative Financial Instruments                                   | 577               | 347               | 66.28        | 577               | 347               | 66.28         |
| Customer Deposits  | 1,820,615         | 1,559,205         | 16.77        | 1,820,615         | 1,559,205         | 16.77         |
| Securities Sold under Repurchase Agreements                        | 106,368           | 79,235            | 34.24        | 106,368           | 79,235            | 34.24         |
| Other Borrowings   | 141               | 109               | 29.36        | 141               | 109               | 29.36         |
| Group Balances Payable   | 1,507             | 1,259             | 19.70        | -                 | -                 | -             |
| Debentures   | 83,180            | 49,860            | 66.83        | 83,180            | 49,860            | 66.83         |
| Current Tax Liabilities  | 4,996             | 3,519             | 41.97        | 5,043             | 3,509             | 43.72         |
| Deferred Tax Liabilities   | 79                | 2,334             | (96.62)      | 472               | 2,672             | (82.34)       |
| Other Liabilities  | 49,860            | 50,592            | (1.45)       | 50,419            | 51,219            | (1.56)        |
| <b>Total Liabilities</b>   | <b>2,185,354</b>  | <b>1,883,850</b>  | <b>16.00</b> | <b>2,184,846</b>  | <b>1,883,546</b>  | <b>16.00</b>  |
| <b>Equity</b>  |                   |                   |              |                   |                   |               |
| Stated Capital   | 70,105            | 73,123            | (4.13)       | 70,105            | 73,123            | (4.13)        |
| Statutory Reserve Fund   | 9,241             | 8,246             | 12.07        | 9,241             | 8,246             | 12.07         |
| Retained Earnings  | 93,543            | 77,262            | 21.07        | 95,239            | 79,002            | 20.55         |
| Other Reserves   | 12,013            | 15,367            | (21.83)      | 18,626            | 22,183            | (16.03)       |
| <b>Total Equity Attributable to<br/>Equity Holders of the Bank</b> | <b>184,902</b>    | <b>173,998</b>    | <b>6.27</b>  | <b>193,211</b>    | <b>182,554</b>    | <b>5.84</b>   |
| <b>Non-Controlling Interest</b>                                    | <b>-</b>          | <b>-</b>          | <b>-</b>     | <b>7,092</b>      | <b>7,411</b>      | <b>(4.30)</b> |
| <b>Total Equity</b>  | <b>184,902</b>    | <b>173,998</b>    | <b>6.27</b>  | <b>200,303</b>    | <b>189,965</b>    | <b>5.44</b>   |
| <b>Total Liabilities and Equity</b>                                | <b>2,370,256</b>  | <b>2,057,848</b>  | <b>15.18</b> | <b>2,385,149</b>  | <b>2,073,511</b>  | <b>15.03</b>  |
| <b>Commitments and Contingencies</b>                               | <b>426,836</b>    | <b>397,378</b>    | <b>7.41</b>  | <b>427,330</b>    | <b>397,931</b>    | <b>7.39</b>   |
| <b>Net Assets Value per Share (US\$)</b>                           | <b>0.54</b>       | <b>0.50</b>       | <b>6.27</b>  | <b>0.56</b>       | <b>0.53</b>       | <b>5.84</b>   |

Exchange rate of US\$ 1 was Rs.150.20 as at 31st December 2016 (Rs.144/- as at 31st December 2015).

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.

## Twenty Largest Shareholders as at 31st December 2016

### Ordinary Voting Shares

|   | 2016               |       | Comparative Holdings of the Top 20 Holders in 2015 |       |
|---|--------------------|-------|--|-------|
|   | No. of Shares      | %     | No. of Shares                                      | %     |
| 1. Sri Lanka Insurance Corporation Limited [includes Sri Lanka Insurance Corporation Limited (General Fund) – 17,597,739 and Sri Lanka Insurance Corporation Limited (Life Fund) – 8,798,869] | 26,396,608         | 15.00 | 26,396,608   | 15.00 |
| 2. Brown & Company PLC A/C No. 1*   | 24,416,750         | 13.87 | 24,416,750   | 13.87 |
| 3. Employees' Provident Fund  | 17,346,996         | 9.86  | 17,346,996   | 9.86  |
| 4. LOLC Investments Limited**   | 16,808,502         | 9.55  | 16,808,502   | 9.55  |
| 5. National Development Bank PLC A/C No. 02   | 15,353,784         | 8.72  | 15,353,784   | 8.72  |
| 6. Bank of Ceylon No. 1 Account   | 13,198,305         | 7.50  | 13,198,305   | 7.50  |
| 7. Mr. R.S. Captain   | 7,003,631          | 3.98  | -  | -     |
| 8. BNYM SA/NV-Frontier Market Opportunities Master FD,L.P.  | 4,094,638          | 2.33  | 4,094,638  | 2.33  |
| 9. Employees Trust Fund Board   | 3,175,139          | 1.80  | 3,175,139  | 1.80  |
| 10. Seyfest (Private) Limited   | 3,017,940          | 1.71  | 3,017,940  | 1.71  |
| 11. Sesot (Private) Limited   | 2,279,042          | 1.30  | 2,279,042  | 1.30  |
| 12. Seybest (Private) Limited   | 2,165,435          | 1.23  | 2,165,435  | 1.23  |
| 13. Seyshop (Private) Limited   | 2,165,435          | 1.23  | 2,165,435  | 1.23  |
| 14. Esots (Private) Limited   | 2,148,132          | 1.22  | 2,148,132  | 1.22  |
| 15. Lanka Century Investments PLC   | 2,079,160          | 1.18  | 2,079,160  | 1.18  |
| 16. Capital Development and Investment Company PLC A/C No.02  | 1,782,428          | 1.01  | 1,782,428  | 1.01  |
| 17. HSBC Intl Nom Limited – SSBT-Russell Institutional Funds Public Limited Company   | 1,653,100          | 0.94  | 2,027,100  | 1.15  |
| 18. AIA Insurance Lanka PLC A/C No.07   | 1,618,708          | 0.92  | 1,557,072  | 0.88  |
| 19. Rubber Investment Trust Limited A/C No.01   | 1,073,790          | 0.61  | 469,899  | 0.27  |
| 20. Mr. K.R.B. Fernando   | 1,015,254          | 0.58  | 1,015,254  | 0.58  |
| Total Shares held by the Top 20 Holders – 2016  | 148,792,777        | 84.55 | -  | -     |
| Balance Shares held by other 9,225 Ordinary Voting Shareholders – 2016  | 27,184,624         | 15.45 | -  | -     |
| <b>Total Ordinary Voting Shares</b>   | <b>175,977,401</b> |       | <b>175,977,401</b>                                 |       |
| <b>Total Ordinary Voting Shareholders</b>   | <b>9,245</b>       |       | <b>9,442</b>                                       |       |

#### Notes

Brown & Company PLC\* and LOLC Investments Limited\*\* collectively hold 23.42% of the issued capital of the Bank. This joint shareholding limit has been approved by the Central Bank, vide their letter dated 14th September 2011, subject to the following:

- Shareholding of Brown & Company PLC\* to be reduced from 13.87% to 9.55% within five years from 16th June 2011. The Bank has drawn the Shareholder's attention to this requirement.
- The joint holding of Brown & Company PLC\* and LOLC Investments Limited\*\* to be reduced from 23.42% to 15% within a period of 15 years from 13th October 2009.

## Ordinary Non-Voting Shares

|  | 2016               |       | Comparative Holdings of the Top 20 Holders in 2015 |       |
|--|--------------------|-------|--|-------|
|  | No. of Shares      | %     | No. of Shares                                      | %     |
| 1. Lanka Orix Leasing Company PLC  | 74,238,665         | 43.93 | 74,238,665   | 43.93 |
| 2. Employees' Provident Fund   | 9,013,489          | 5.33  | 9,013,489  | 5.33  |
| 3. Commercial Bank of Ceylon PLC/Dunamis Capital PLC                               | 3,818,755          | 2.26  | 3,818,755  | 2.26  |
| 4. Mr. R.S. Captain  | 3,193,490          | 1.89  | -  | -     |
| 5. Mr. E. Thavagnanasooriyam & Mr. E. Thavagnanasundaram                           | 2,649,968          | 1.57  | 2,649,968  | 1.57  |
| 6. Akbar Brothers (Pvt) Limited A/C No.1   | 2,593,290          | 1.53  | 2,547,832  | 1.51  |
| 7. Pershing LLC S/A Averbach Grauson & Co.   | 2,427,722          | 1.44  | 2,375,012  | 1.41  |
| 8. Deutsche Bank AG as Trustees for JB Vantage Value Equity Fund                   | 2,031,656          | 1.20  | 1,943,307  | 1.15  |
| 9. Merrill J. Fernando & Sons (Pvt) Limited  | 1,877,057          | 1.11  | 1,877,057  | 1.11  |
| 10. Mr. N. Balasingam  | 1,762,693          | 1.04  | 1,762,693  | 1.04  |
| 11. Lanka Orix Information Technology Services Limited                             | 1,471,587          | 0.87  | 1,471,587  | 0.87  |
| 12. Deutsche Bank AG – National Equity Fund  | 1,253,265          | 0.74  | 1,253,265  | 0.74  |
| 13. Commercial Bank of Ceylon PLC/ARC Capital (Pvt) Limited                        | 1,216,280          | 0.72  | 1,216,280  | 0.72  |
| 14. Deutsche Bank AG as Trustees for Namal Acuity Value Fund                       | 1,150,000          | 0.68  | 1,150,000  | 0.68  |
| 15. Dr. S. Yaddehige   | 1,125,000          | 0.67  | 1,369,851  | 0.81  |
| 16. HSBC International Nominees Limited – SSBT – Deutsche Bank AG Singapore A/C 01 | 858,581            | 0.51  | 858,581  | 0.51  |
| 17. Mr. M.J. Fernando  | 850,000            | 0.50  | 850,000  | 0.50  |
| 18. Mr. R. Gautam  | 821,500            | 0.49  | 765,000  | 0.45  |
| 19. Miss. S. Durga   | 770,808            | 0.46  | 770,808  | 0.46  |
| 20. Mr. E. Thavagnanasooriyam  | 734,852            | 0.43  | 783,598  | 0.46  |
| Total Shares held by the Top 20 Holders – 2016                                     | 113,858,658        | 67.38 | -  | -     |
| Balance Shares held by Other 6,846 Ordinary Non-Voting Shareholders                | 55,124,351         | 32.62 | -  | -     |
| <b>Total Ordinary Non-Voting Shares</b>  | <b>168,983,009</b> |       | 168,983,009  |       |
| <b>Total Ordinary Non-Voting Shareholders</b>                                      | <b>6,866</b>       |       | 7,035  |       |

## Shareholdings of Directors as at 31st December 2016

Directors' shareholdings including the Director/Chief Executive Officer's holding as at 31st December 2016, are given on page 62 of the Report of the Board of Directors.



## Ordinary Shares (Quoted)

|                                  | Voting (SEYB-N)       |             | Non-Voting (SEYB-X)   |             |
|----------------------------------|-----------------------|-------------|-----------------------|-------------|
|                                  | 2016                  | 2015        | 2016                  | 2015        |
| No. of Shares Issued             | <b>175,977,401</b>    | 175,977,401 | <b>168,983,009</b>    | 168,983,009 |
| Dividend (Rs. per Share)         | <b>Proposed: 3.25</b> | Paid: 2.75  | <b>Proposed: 3.25</b> | Paid: 2.75  |
| <b>Share Prices</b>              |                       |             |                       |             |
| Highest (Rs.)                    | <b>101.00</b>         | 120.50      | <b>73.00</b>          | 81.50       |
| Lowest (Rs.)                     | <b>77.00</b>          | 89.90       | <b>57.80</b>          | 57.90       |
| Last Traded (Rs.)                | <b>90.00</b>          | 95.00       | <b>59.00</b>          | 73.00       |
| Percentage of Public Holding (%) | <b>54.27</b>          | 54.28       | <b>55.97</b>          | 55.96       |

## Analysis of the Distribution of Shareholders as at 31st December 2016

| Range of Shareholding           | Ordinary (Voting) Shares |                    |                                | Ordinary (Non-Voting) Shares |                    |                                |
|---------------------------------|--------------------------|--------------------|--------------------------------|------------------------------|--------------------|--------------------------------|
|                                 | No. of Shareholders      | No. of Shares      | Percentage of Shareholding (%) | No. of Shareholders          | No. of Shares      | Percentage of Shareholding (%) |
| 1 - 1,000                       | <b>6,934</b>             | <b>1,508,235</b>   | <b>0.86</b>                    | <b>3,510</b>                 | <b>1,104,116</b>   | <b>0.65</b>                    |
| 1,001 - 10,000                  | <b>2,007</b>             | <b>5,367,972</b>   | <b>3.05</b>                    | <b>2,574</b>                 | <b>7,901,932</b>   | <b>4.68</b>                    |
| 10,001 - 100,000                | <b>238</b>               | <b>6,219,128</b>   | <b>3.53</b>                    | <b>653</b>                   | <b>18,297,308</b>  | <b>10.83</b>                   |
| 100,001 - 1,000,000             | <b>46</b>                | <b>14,089,289</b>  | <b>8.01</b>                    | <b>114</b>                   | <b>31,856,736</b>  | <b>18.852</b>                  |
| 1,000,001 & Above               | <b>20</b>                | <b>148,792,777</b> | <b>84.55</b>                   | <b>15</b>                    | <b>109,822,917</b> | <b>64.99</b>                   |
| <b>Total</b>                    | <b>9,245</b>             | <b>175,977,401</b> | <b>100.00</b>                  | <b>6,866</b>                 | <b>168,983,009</b> | <b>100.00</b>                  |
| <b>Resident/Non-Resident</b>    |                          |                    |                                |                              |                    |                                |
| Resident                        | <b>9,091</b>             | <b>165,812,247</b> | <b>94.22</b>                   | <b>6,779</b>                 | <b>159,172,839</b> | <b>94.19</b>                   |
| Non-Resident                    | <b>154</b>               | <b>10,165,154</b>  | <b>5.78</b>                    | <b>87</b>                    | <b>9,810,170</b>   | <b>5.81</b>                    |
| <b>Individuals/Institutions</b> |                          |                    |                                |                              |                    |                                |
| Individuals                     | <b>8,930</b>             | <b>23,240,848</b>  | <b>13.21</b>                   | <b>6,539</b>                 | <b>48,383,264</b>  | <b>28.63</b>                   |
| Companies/Institutions          | <b>315</b>               | <b>152,736,553</b> | <b>86.79</b>                   | <b>327</b>                   | <b>120,599,745</b> | <b>71.37</b>                   |

## Debentures

### Debentures 2013/2018

(Listed on CSE in February 2013)

| (SEYB D180, D179, D178)  | Monthly Interest (14.50%) |      | Semi-Annual Interest (15.0%) |      | Annual Interest (15.5%) |        |
|--------------------------|---------------------------|------|------------------------------|------|-------------------------|--------|
|                          | 2016                      | 2015 | 2016                         | 2015 | 2016                    | 2015   |
| No. of Debentures Issued | <b>660,700</b>            |      | <b>8,430,200</b>             |      | <b>10,909,100</b>       |        |
| <b>Debenture Prices:</b> |                           |      |                              |      |                         |        |
| Highest (Rs.)            | Not traded in 2015 & 2016 |      | Not traded in 2016           |      | 106.00                  | 118.26 |
| Lowest (Rs.)             | Not traded in 2015 & 2016 |      | Not traded in 2016           |      | 100.00                  | 118.25 |
| Last Traded (Rs.)        | Not traded in 2015 & 2016 |      | Not traded in 2016           |      | 106.00                  | 118.26 |

### Debentures 2014

(Listed on CSE on 31st 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 |                           |
|---------------------------------------|--|------|---|------|--|------|---|--------|--|---------------------------|
|                                       | 2016   | 2015 | 2016  | 2015 | 2016   | 2015 | 2016  | 2015   | 2016   | 2015                      |
| No. of Debentures Issued              | <b>4,622,800</b>                                 |      | <b>300</b>  |      | <b>18,665,200</b>                            |      | <b>25,055,200</b>                                 |        | <b>3,005,200</b>                             |                           |
| <b>Debenture Prices:</b>              |  |      |   |      |  |      |   |        |  |                           |
| Highest (Rs.)                         | Not traded in 2015 & 2016                        |      | Not traded in 2015 & 2016                         |      | Not traded in 2016                           |      | 100.00  | 100.00 |  | Not traded in 2015 & 2016 |
| Lowest (Rs.)                          | Not traded in 2015 & 2016                        |      | Not traded in 2015 & 2016                         |      | Not traded in 2016                           |      | 99.99   | 94.31  |  | Not traded in 2015 & 2016 |
| Last Traded (Rs.)                     | Not traded in 2015 & 2016                        |      | Not traded in 2015 & 2016                         |      | Not traded in 2016                           |      | 99.99   | 94.31  |  | Not traded in 2015 & 2016 |

### 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 |      |
|--------------------------|---|------|--|------|--|------|
|                          | 2016  | 2015 | 2016   | 2015 | 2016   | 2015 |
| No. of Debentures Issued | <b>17,103,200</b>                                 |      | <b>174,000</b>   |      | <b>32,722,800</b>                                  |      |
| <b>Debenture Prices:</b> |   |      |  |      |  |      |
| Highest (Rs.)            | 101.00  | N/A  | Not traded in 2016   |      | N/A  | N/A  |
| Lowest (Rs.)             | 101.00  | N/A  | Not traded in 2016   |      | N/A  | N/A  |
| Last Traded (Rs.)        | 101.00  | N/A  | Not traded in 2016   |      | N/A  | N/A  |

|  | 2016          | 2015   |
|--|---------------|--------|
| <b>Debt/Equity Ratio (Times)</b>                                     | <b>0.45</b>   | 0.29   |
| <b>Interest Cover (Times)</b>  | <b>6.42</b>   | 8.36   |
| <b>Quick Asset Ratio (Times)</b>                                     | <b>0.72</b>   | 0.71   |
| <b>2013/2018 Issue</b>   |               |        |
| <b>Interest Yield as at Date of Last Trade</b>                       |               |        |
| Annual Interest – 15.5% p.a. (07th October 2016)/(21st January 2015) | <b>14.46%</b> | 13.11% |
| Semi-Annual Interest – 15% p.a. */(08th July 2015)                   | *             | 14.68% |
| Monthly Interest – 14.5% p.a.  | *             | *      |
| <b>Yield to Maturity of Trade Done on</b>                            |               |        |
| Annual Interest – 15.5% p.a. (07th October 2016)/(21st January 2015) | <b>9.52%</b>  | 8.51%  |
| Semi-Annual Interest – 15% p.a. */(08th July 2015)                   | *             | 12.24% |
| Monthly Interest – 14.5% p.a.  | *             | *      |
| <b>Interest Rate of Comparable Government Security</b>               | <b>11.08%</b> | 8.89%  |
| <b>2014 Issue</b>  |               |        |
| <b>Interest Yield as at Date of Last Trade</b>                       |               |        |
| 4 Years Fixed Semi-Annual – 8.00% p.a.                               | *             | *      |
| 5 Years Fixed Semi-Annual – 8.35% p.a.                               | *             | *      |
| 5 Years Fixed Annual – 8.60% p.a. */(07th January 2015)              | *             | 8.60%  |
| 6 Years Fixed Semi-Annual – 8.60% p.a. */(30th March 2015)           | *             | 9.31%  |
| 6 Years Fixed Annual – 8.75% p.a.                                    | *             | *      |
| <b>Yield to Maturity of Trade Done on</b>                            |               |        |
| 4 Years Fixed Semi-Annual – 8.00% p.a.                               | *             | *      |
| 5 Years Fixed Semi-Annual – 8.35% p.a.                               | *             | *      |
| 5 Years Fixed Annual – 8.60% p.a.*/(07th January 2015)               | *             | 8.60%  |
| 6 Years Fixed Semi-Annual – 8.60% p.a.*/(30th March 2015)            | *             | 9.92%  |
| 6 Years Fixed Annual – 8.75% p.a.                                    | *             | *      |
| <b>Interest Rate of Comparable Government Security</b>               |               |        |
| 4 Years  | <b>11.43%</b> | 8.89%  |
| 5 Years  | <b>11.77%</b> | 9.20%  |
| 6 Years  | <b>12.09%</b> | 9.45%  |
| <b>2016 Issue</b>  |               |        |
| <b>Interest Yield as at Date of Last Trade</b>                       |               |        |
| 5 Years Fixed Semi-Annual – 13.00% p.a. (24th August 2016)           | <b>13.29%</b> |        |
| 5 Years Floating Semi-Annual - 11.93% p.a.                           | *             |        |
| 7 Years Fixed Semi-Annual - 13.75% p.a.                              | *             |        |
| <b>Yield to Maturity of Trade Done on</b>                            |               |        |
| 5 Years Fixed Semi-Annual – 13.00% p.a. (24th August 2016)           | <b>12.71%</b> |        |
| 5 Years Floating Semi-Annual - 11.93% p.a.                           | *             |        |
| 7 Years Fixed Semi-Annual - 13.75% p.a.                              | *             |        |
| <b>Interest Rate of Comparable Government Security</b>               |               |        |
| 5 Years  | <b>12.09%</b> |        |
| 7 Years  | <b>12.41%</b> |        |

\* No trading during the period.

## A

**Akkaraipattu** 📍

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**Ambalangoda** 📍

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**Ambalantota** 📍

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**Anuradapura** 📍

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**Aralaganwila** 📍

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## B

**Badulla** 📍

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**Balangoda** 📍

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**Bambalapitiya** 📍

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**Bowatta** 📍

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## C

**Chankanai** 📍

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**Chavakachcheri** 📍

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**Chenkalady** 📍

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**Chilaw** 📍

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**Chunnakam** 📍

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Chunnakam  
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021-2242903  
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E-mail : chunnakam.bmg@seylan.lk

**Cinnamon Gardens** 📍

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**Colombo Fort Branch** 📍

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Colombo 01  
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011-2445842/011-2327200  
Fax : 011-2447990  
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**Colombo Gold Centre** 📍

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Centre, Central Super Market, Pettah  
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E-mail : colombogoldcentre.bmg@seylan.lk

## D

**Dambulla** 📍

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**Dam Street** 📍

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**Dankotuwa** 📍

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031-2265537  
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E-mail : dankotuwa.bmg@seylan.lk

**Deal Place** 📍

No. 2, Deal Place, Colombo 3  
Branch : 011-2575746/011-2575761/  
011-2575729  
Fax : 011-2575719  
E-mail : dealplace.bmg@seylan.lk

**Dehiattakandiya** 📍

No. 83/84, Main Street,  
Dehiattakandiya  
Branch : 027-2250034/027-2250035/  
027-2250267  
Fax : 027-2250268  
E-mail : dehiattakandiya.bmg@seylan.lk

**Dehiwala** 📍

No. 166D, Galle Road, Dehiwala  
Branch : 011-2738843/011-2726395  
Fax : 011-2739128  
E-mail : dehiwala.bmg@seylan.lk

**Dummalasuriya** 📍

No. 128, Main Street, Dummalasuriya  
Branch : 032-2242221/032-2242223  
Fax : 032-2242224  
E-mail : dummalasooriya.bmg@seylan.lk

## E

**Embilipitiya** 📍

New Town Road, Embilipitiya  
Branch : 047-2230340/047-2230341  
Fax : 047-2230342  
E-mail : embilipitiya.bmg@seylan.lk

**Eppawala** 📍

114/B, Thalawa Road, Eppawala  
Branch : 025-2249923/025-2249924  
Fax : 025-2249922  
E-mail : eppawala.bmg@seylan.lk

## G

**Galenbindunuwewa** 📍

Kahatagasdigiliya Road,  
Galenbindunuwewa  
Branch : 025-2258778/025-2258779  
Fax : 025-2258777  
E-mail : galenbindunuwewa.bmg@seylan.lk

**Galle** 🚗 🚗

No. 34, 1st Cross Street,  
Talbot Town, Galle  
Branch : 091-2223514/091-2234542/  
091-2232242  
Fax : 091-2234642  
E-mail : galle.bmg@seylan.lk

**Gampaha** 🚗

No. 1 J, Bauddhaloka Mawatha,  
Gampaha  
Branch : 033-2226511/033-2222618/  
033-2230717  
Fax : 033-2222934  
E-mail : gampaha.bmg@seylan.lk

**Gampola** 🚗 🚗

No. 44, Kandy Road, Gampola  
Branch : 081-2352741/081-2352742/  
081-2354242  
Fax : 081-2352740  
E-mail : gampola.bmg@seylan.lk

**Ganemulla** 🚗

No. 4/2, Kirindiwita Road, Ganemulla  
Branch : 033-2260738/033-2260230  
Fax : 033-2260737  
E-mail : ganemulla.bmg@seylan.lk

**Godagama** 🚗

No. 157/A, High Level Road,  
Godagama  
Branch : 011-2895741/011-2895742  
Fax : 011-2895743  
E-mail : godagama.bmg@seylan.lk

**Gothatuwa** 🚗

No. 31, Gothatuwa New Town, Angoda  
Branch : 011-2411256/011-2410985  
Fax : 011-2410986  
E-mail : gothatuwa.bmg@seylan.lk

**Grandpass** 🚗

No. 401, Prince of Wales Avenue,  
Colombo 14  
Branch : 011-2331726/011-2331727/  
011-2451061  
Fax : 011-2440117  
E-mail : grandpass.bmg@seylan.lk

**H****Hambantota** 🚗

No. 57 A, Tissa Road, Hambantota  
Branch : 047-2220507/ 047-2220518  
Fax : 047-2220519  
E-mail : hambantota.bmg@seylan.lk

**Hasalaka** 🚗

No. 6, Kandy Road, Hasalaka  
Branch : 055-2258325/055-2258755  
Fax : 055-2258324  
E-mail : hasalaka.bmg@seylan.lk

**Hatton** 🚗

No. 42, Dunbar Road, Hatton  
Branch : 051-2222347/051-2222234  
Fax : 051-2222682  
E-mail : hatton.bmg@seylan.lk

**Havelock Town** 🚗

No. 164, 166, Havelock Road,  
Colombo 05  
Branch : 011-2596550/011-2596553/  
011-2597497  
Fax : 011-2597498  
E-mail : havelocktown.bmg@seylan.lk

**Hikkaduwa** 🚗

No. 271, Galle Road, Hikkaduwa  
Branch : 091-2276964/091-2276965  
Fax : 091-2276966  
E-mail : hikkaduwa.bmg@seylan.lk

**Hingurakgoda** 🚗

No. 13,14, Airport Road, Hingurakgoda  
Branch : 027-2246242/027-2246087  
Fax : 027-2246043  
E-mail : hingurakgoda.bmg@seylan.lk

**Homagama** 🚗 🚗

No. 94, High Level Road, Homagama  
Branch : 011-2894846/011-2855065  
Fax : 011-2855066  
E-mail : homagama.bmg@seylan.lk

**Horana** 🚗 🚗

No. 160/1/1, Ratnapura Road, Horana  
Branch : 034-2261176/034-2262963/  
034-2261018  
Fax : 034-2263518  
E-mail : horana.bmg@seylan.lk

**I****Ingiriya** 🚗

No. 23/1, Central Building, Padukka  
Road, Ingiriya  
Branch : 034-2269754/034-2268390  
Fax : 034-2269900  
E-mail : ingiriya.bmg@seylan.lk

**J****Ja-ela** 🚗 🚗

No. 165 & 165 2/1, Colombo Road,  
Ja-Ela  
Branch : 011-2232328/011-2237421  
Fax : 011-2237416  
E-mail : jaela.bmg@seylan.lk

**Jaffna** 🚗

No. 560-562, Hospital Road, Jaffna  
Branch : 021-2223047/021-2223755/  
021-2228224  
Fax : 021-2223047/021-2223755  
E-mail : jaffna.bmg@seylan.lk

**K****Kadawatha** 🚗

No. 28 B, Ganemulla Road, Kadawatha  
Branch : 011-2925594/011-2925595/  
011-2925914  
Fax : 011-2925596  
E-mail : kadawatha.bmg@seylan.lk

**Kaduruwela** 🚗

No. 824 A, Main Street, Kaduruwela  
Branch : 027-2225319/027-2225320  
Fax : 027-22235321  
E-mail : kaduruwela.bmg@seylan.lk

**Kalavanchikudy** 🚗

No. 225, Main Street, Kalavanchikudy  
Branch : 065-2251536/065-2251823  
Fax : 065-2251535  
E-mail : kalavanchikudy.bmg@seylan.lk

**Kalmunai** 🚗

No. 159, Batticaloa Road, Kalmunai  
Branch : 067-2225842/ 067-2225841  
Fax : 067-2225843  
E-mail : kalmunai.bmg@seylan.lk

**Kalpitiya** 🚗

No. 73, Main Street, Kalpitiya  
Branch : 032-2260012/032-2260804/  
032-2260803  
Fax : 032-2260805  
E-mail : kalpitiya.bmg@seylan.lk

**Kalubowila** 🚗

No. 32, S. De S. Jayasinghe Mawatha,  
Kalubowila, Dehiwala  
Branch : 011-2822944/011-2822945/  
011-2822871  
Fax : 011-2822870  
E-mail : kalubowila.bmg@seylan.lk

**Kalutara** 🚗

No. 338, Main Street, Kalutara  
Branch : 034-2225035/034-2225036  
Fax : 034-2223033  
E-mail : kalutara.bmg@seylan.lk

**Kamburupitiya** 🚗

No. 5, Akuressa Road, Kamburupitiya  
Branch : 041-2292555/041-2292515  
Fax : 041-2293555  
E-mail : kamburupitiya.bmg@seylan.lk

**Kandy** 🚗 🚗

No. 63, Kings Street, Kandy  
Branch : 081-2232767/081-2233833  
081-2233834/081-2233763  
Fax : 081-2232322/081-2234805  
E-mail : kandy.bmg@seylan.lk

**Kantale** 🚗

No. 189, Agrabodhi Mawatha, Kantale  
Branch : 026-2234478  
Fax : 026-2234479  
E-mail : kantale.bmg@seylan.lk

**Karapitiya** 🚗

No. 108A, Karapitiya, Galle.  
Branch : 091-2222537/091-2222538/  
091-2222539  
Fax : 091-2222540  
E-mail : karapitiya.bmg@seylan.lk

**Katharagama** 🚗

No. 1, New Town, Katharagama  
Branch : 047-2236247/047-2236248  
Fax : 047-2236248  
E-mail : katharagama.bmg@seylan.lk

**Kattankudy** 🚗

No. 230, Main Street, Kattankudy  
Branch : 065-2247456/065-2246625  
Fax : 065-2246696  
E-mail : kattankudy.bmg@seylan.lk

**Katugastota** 🚗

No. 81, Kurunegala Road, Katugastota  
Branch : 081-2498778/081-2212870/  
081-2498765  
Fax : 081-2212871  
E-mail : katugastota.bmg@seylan.lk

**Katunayake** 🚗 🚗

No. 32, Dhammaloka Mawatha,  
Averyawatte, Katunayake  
Branch : 011-2252566/011-2251462  
Fax : 011-2252567  
E-mail : katunayake.bmg@seylan.lk

**Katuneriya** 🚗

No. 99/1, Chilaw Road, Katuneriya  
Branch : 031-2255209/031-2257765/  
031-2257764  
Fax : 031-2253149  
E-mail : katuneriya.bmg@seylan.lk

**Kegalle** 🚗 🚗

No. 112, Colombo Road, Kegalle  
Branch : 035-2222007/035-2223538/  
035-2222100  
Fax : 035-2222006  
E-mail : kegalle.bmg@seylan.lk

**Kekirawa** 🚗

No. 6, Yakalla Road, Kekirawa  
Branch : 025-2264590/025-2264591/  
025-2263215  
Fax : 025-2264592  
E-mail : kekirawa.bmg@seylan.lk

**Kelaniya** 🚗

No. 32, Kandy Road, Dalugama,  
Kelaniya  
Branch : 011-2987321/011-2987322  
Fax : 011-2987323  
E-mail : kelaniya.bmg@seylan.lk

**Kilinochchi** 🚗

No. 77, 79, Kandy Road, Kilinochchi  
Branch : 021-2285310  
Fax : 021-2285311  
E-mail : kilinochchi.bmg@seylan.lk

**Kiribathgoda** 🚗 🚗

No. 173, Kandy Road, Kiribathgoda  
Branch : 011-2910581/011-2912378/  
011-2908113/011-2936902  
Fax : 011-2912379  
E-mail : kiribathgoda.bmg@seylan.lk

**Kirindiwela** 🚗

No. 89, Gampaha Road, Kirindiwela  
Branch : 033-2269709  
Fax : 033-2269709  
E-mail : kirindiwela.bmg@seylan.lk

**Kirulapone** 🚗

No. 280 B, High Level Road,  
Colombo 06  
Branch : 011-2829054/011-2829055  
Fax : 011-2768432  
E-mail : kirulapone.bmg@seylan.lk

**Kochchikade** 🚗

No. 66, Chilaw Road, Kochchikade  
Branch : 031-2277661/031-2277580  
Fax : 031-2277341  
E-mail : kochchikade.bmg@seylan.lk

**Koggala** 🚗

No. 9, Export Processing Zone,  
Koggala, Habaraduwa  
Branch : 091-2283389/091-2283390  
Fax : 091-2283390  
E-mail : koggala.bmg@seylan.lk

**Kollupitiya** 🚗

No. 428, R.A. De Mel Mawatha,  
Colombo 03  
Branch : 011-2576911/011-2576912  
011-2564080/011-2564084  
Fax : 011-2576914  
E-mail : kollupitiya.bmg@seylan.lk

**Kotahena** 🚗

No. 310, George R. De Silva Mawatha,  
Colombo 13  
Branch : 011-2447041/011-2337911  
Fax : 011-2399660  
E-mail : kotahena.bmg@seylan.lk

**Kotiyakumbura**

No. 5, Main Street, Kotiyakumbura  
Branch : 035-2289035/035-2289350  
Fax : 035-2289067  
E-mail : kotiyakumbura.bmg@seylan.lk

**Kottawa**

No. 34, Nawasiri Building, High Level Road, Kottawa  
Branch : 011-2842682/011-2842683/  
011-2846720  
Fax : 011-2851292  
E-mail : kottawa.bmg@seylan.lk

**Kuliyapitiya**

No. 137, Hettipola Road, Kuliyapitiya  
Branch : 037-2281450/037-2281510  
Fax : 037-2281451  
E-mail : kuliyapitiya.bmg@seylan.lk

**Kurunegala**

No. 64, Colombo Road, Kurunegala  
Branch : 037-2223581/037-2223582/  
037-2224276  
Fax : 037-2224277  
E-mail : kurunegala.bmg@seylan.lk

**M****Maharagama**

No. 134B, High Level Road, Maharagama  
Branch : 011-2841997/011-2850648/  
011-2841999  
Fax : 011-2850649  
E-mail : maharagama.bmg@seylan.lk

**Mahiyanganaya**

No. 13, Kandy Road, South Mahiyanganaya  
Branch : 055-2268112/055-2258113  
Fax : 055-2258114  
E-mail : mahiyanganaya.bmg@seylan.lk

**Malabe**

No. 11, Athurugiriya Road, Malabe  
Branch : 011-2561415/ 011-2560403/  
011-2560515  
Fax : 011-2561414  
E-mail : malabe.bmg@seylan.lk

**Manampitiya**

No. 9/B, Main Street, Manampitiya  
Branch : 027-3279171  
Fax : 027-2224455  
E-mail : manampitiya.bmg@seylan.lk

**Manipay**

No. 103, Jaffna Road, Manipay  
Branch : 021-2255526/021-2256245  
Fax : 021-2255527  
E-mail : manipay.bmg@seylan.lk

**Mannar**

No. 54, Main Street, Ward No. 5, Mannar  
Branch : 023-2223241/023-2223242  
Fax : 023-2223243  
E-mail : mannar.bmg@seylan.lk

**Marandagahamulla**

No. 150, Divulapitiya Road, Marandagahamulla  
Branch : 031-2246377/ 031-2246096  
Fax : 031-2246378  
E-mail : marandagahamulla.bmg@seylan.lk

**Maradana**

No. 250, Sri Sangaraja Mawatha, Colombo 10  
Branch : 011-2473281/ 011-2334185/  
011-2473773  
Fax : 011-2473280  
E-mail : maradana.bmg@seylan.lk

**Matale**

No. 166-168, Main Street, Matale  
Branch : 066-2232936/066-2232934  
066-223241/066-223242  
Fax : 066-2232935  
E-mail : matale.bmg@seylan.lk

**Matara**

No. 58, Esplanade Road, Matara  
Branch : 041-2221181/041-2222393/  
041-2227167  
Fax : 041-2223064  
E-mail : matara.bmg@seylan.lk

**Matara Bazaar**

No. 167/A, New Tangalle Road, Kotuwegoda, Matara  
Branch : 041-2238395/041-2238396  
041-2238397  
Fax : 041-2238398  
E-mail : matarabazaar.bmg@seylan.lk

**Matugama**

No. 121, Agalawatta Road, Matugama  
Branch : 034-2247544/034-2247545  
Fax : 034-2247091  
E-mail : mathugama.bmg@seylan.lk

**Mawanella**

No. 1/3, New Kandy Road, Mawanella  
Branch : 035-2246007/035-2247899  
035-2246988  
Fax : 035-2246989  
E-mail : mawanella.bmg@seylan.lk

**Mawathagama**

No. 69/A, Kurunegala Road, Mawathagama  
Branch : 037-2298666/037-2296366  
Fax : 037-2296336  
E-mail : mawathagama.bmg@seylan.lk

**Medawachchiya**

No. 82/C, Jaffna Road, Medawachchiya  
Branch : 025-2245383  
Fax : 025-2245384  
E-mail : medawachchiya.bmg@seylan.lk

**Meegoda**

Meegoda Economic Centre Complex, Old Road, Meegoda  
Branch : 011-2830820/ 011-2830817  
Fax : 011-2830820  
E-mail : meegoda.bmg@seylan.lk

**Millennium Branch**

No. 90, Seylan Towers, Galle Road, Colombo 03  
Branch : 011-2456145  
Fax : 011-2452506  
E-mail : millennium.bmg@seylan.lk

**Minuwangoda**

No. 40, Cargills Building, Colombo Road, Minuwangoda  
Branch : 011-2299004/011-2294199  
Fax : 011-2299005  
E-mail : minuwangoda.bmg@seylan.lk

**Mirigama**

No. 70/1, Giriulla Road, Mirigama  
Branch : 033-2273001/033-2273002  
Fax : 033-2273000  
E-mail : mirigama.bmg@seylan.lk

**Monaragala**

No. 94/3, New Bus Stand, Monaragala  
Branch : 055-2276212/055-2276221  
Fax : 055-2276164  
E-mail : monaragala.bmg@seylan.lk

**Moratumulla**

No. 242, (330 & 330/1), De Soysa Road, Moratumulla, Moratuwa  
Branch : 011-2652084/011-2652094  
Fax : 011-2652085  
E-mail : moratumulla.bmg@seylan.lk

**Moratuwa**

No. 433, Galle Road, Rawathawatta, Moratuwa  
Branch : 011-2656902/011-2656903/  
011-2655555  
Fax : 011-2656901  
E-mail : moratuwa.bmg@seylan.lk

**Mount Lavinia**

No. 198, Galle Road, Ratmalana  
Branch : 011-2731266/011-273272  
Fax : 011-2723271  
E-mail : mountlavinia.bmg@seylan.lk

**Mullaitivu**

P.W.D. Road, Mullaitivu  
Branch : 021-2290065/021-2290066  
Fax : 021-2290067  
E-mail : mullaitivu.bmg@seylan.lk

**Mutwal**

No. 677, Aluth Mawatha, Colombo 15.  
Branch : 011-2524138/ 011-2524148/  
011-2524178  
Fax : 011-2524248  
E-mail : mutwal.bmg@seylan.lk

**N****Narammala**

No. 150, Kurunegala Road, Narammala  
Branch : 037-2248764/037-2248765  
Fax : 037-2248745  
E-mail : narammala.bmg@seylan.lk

**Nawala**

No. 48/A, Narahenpita Road, Nawala  
Branch : 011-2806727/011-2507329  
Fax : 011-2805779  
E-mail : nawala.bmg@seylan.lk

**Nawalapitiya**

No. 2, Baily Road, Nawalapitiya  
Branch : 054-2222056/054-2222057  
054-2222018  
Fax : 054-2223832  
E-mail : nawalapitiya.bmg@seylan.lk

**Negombo**

No. 141, Rajapakse Broadway, Negombo  
Branch : 031-2224334/031-2224336  
031-2224302  
Fax : 031-2224335  
E-mail : negambo.bmg@seylan.lk

**Nelliady**

No. 157/1, Jaffna Road, Nelliady  
Branch : 021-2262953/021-2262954  
Fax : 021-2264966  
E-mail : nelliady.bmg@seylan.lk

**Nittambuwa**

No. 195/1, Colombo Road, Nittambuwa  
Branch : 033-2295270/033-2295271  
033-2295272  
Fax : 033-2296650  
E-mail : nittambuwa.bmg@seylan.lk

**Nochchiyagama**

No. 411, Puttalam Road, Nochchiyagama  
Branch : 025-2257220  
Fax : 025-2257324  
E-mail : nochchiyagama.bmg@seylan.lk

**Nugegoda**

No. 211, High Level Road, Nugegoda  
Branch : 011-2811180/011-2811181  
011-2809955  
Fax : 011-2811182  
E-mail : nugegoda.bmg@seylan.lk

**Nuwara Eliya**

No. 48, Park Road, Nuwara Eliya  
Branch : 052-2223026/052-2223593  
Fax : 052-2223002  
E-mail : nuwaraeliya.bmg@seylan.lk

**O****Old Moor Street**

Nos. 315-317, Old Moor Street, Colombo 12  
Branch : 011-2447537/011-2447539  
011-2446046  
Fax : 011-2331774  
E-mail : oldmoorstreet.bmg@seylan.lk

**P****Padaviya**

'Vidushi Building', Bandaranayake Junction, Padaviya  
Branch : 025-2253003/025-2253033  
Fax : 025-2253016  
E-mail : padaviya.bmg@seylan.lk

**Pallekele**

Kandy Industrial Park, BOI, Pallekele  
Branch : 081-2423958/081-2052135  
Fax : 081-2423135  
E-mail : pallekele.bmg@seylan.lk

**Panadura**

No. 372, Galle Road, Panadura  
Branch : 038-2299172/038-2233173  
Fax : 038-2235304  
E-mail : panadura.bmg@seylan.lk

**Pannala**

No. 22, Negombo Road, Pannala  
Branch : 037-2245532/037-2245534  
037-2245535  
Fax : 037-2245536  
E-mail : pannala.bmg@seylan.lk

**Pelmadulla**

No. 17, Galwatta Road, Pelmadulla  
Branch : 045-2275037/045-2275625  
Fax : 045-2275527  
E-mail : pelmadulla.bmg@seylan.lk

**Peradeniya**

No. 670, Peradeniya Road, Kandy  
Branch : 081-2068041/081-2068042  
081-2068043  
Fax : 081-2068044  
E-mail : peradeniya.bmg@seylan.lk

 Indicates No. of ATMS

**Pettah** 

No. 96, Main Street, Colombo 11  
 Branch : 011-2337823/011-2337825  
 011-2441471  
 Fax : 011-2337826/011-2384493  
 E-mail : pettah.bmg@seylan.lk

**Pilimathalawa** 

No. 225, Colombo Road,  
 Pilimathalawa  
 Branch : 081-2069706/081-2069707  
 081-2069708  
 Fax : 081-2069709  
 E-mail : pilimathalawa.bmg@seylan.lk

**Piliyandala**  

No. 7, Old Road, Piliyandala  
 Branch : 011-2604982/011-2604983  
 Fax : 011-2604983  
 E-mail : piliyandala.bmg@seylan.lk

**Pitakotte** 


No. 143A, Pagoda Road, Pitakotte  
 Branch : 011-2827871/011-2827872  
 Fax : 011-2827873  
 E-mail : pitakotte.bmg@seylan.lk

**Polonnaruwa** 

Lake View Building, Polonnaruwa  
 Branch : 027-2223168/027-2223169  
 Fax : 027-2223168/027-2223169  
 E-mail : polonnaruwa.bmg@seylan.lk

**Pothuvil** 

Main Street, Pothuvil  
 Branch : 063-2248515/063-2248516  
 Fax : 063-2050846  
 E-mail : pothuvil.bmg@seylan.lk

**Pussellawa** 

No. 429, Nuwara Eliya Road,  
 Pussellawa  
 Branch : 081-2478131/081-2478132  
 Fax : 081-2478135  
 E-mail : pussellawa.bmg@seylan.lk

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 067-2058002  
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**Weliweriya** 

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**Foreign Employment Bureau (ECG)**

No. 109, Main Street, Battaramulla  
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 E-mail : ebc@seylan.lk

**Off-site ATMs**

- Arpico Super Centre, Kandy
- Arugam Bay Travel & Tours, Arugam Bay, Potuvil
- Bloomfield Grounds, Colombo 07
- EAM Maliban Textiles (Pvt) Limited, Mahiyanganaya
- Free Trade Zone, Katunayake
- Hikkaduwa Tourist Zone, Hikkaduwa
- Industrial Estate, Wennappuwa
- K.D.U. Fuel Station & Fuel Mart, Kuruwita
- MDK Health Care Centre, Horana
- Mobile ATM
- Negombo, Ethukala, Negombo
- Welikada Plaza, Rajagiriya
- Yoshida, Makola

## Deposits, Loans and Receivables

As at 31st December 2016

| Province   | No. of Banking Centres | Deposits       |       | Loans and Receivables |       |
|--|------------------------|----------------|-------|-----------------------|-------|
|  |                        | Rs. Mn.        | %     | Rs. Mn.               | %     |
| Western  | 72                     | 192,490        | 70.4  | 179,688               | 74.2  |
| Southern   | 13                     | 12,794         | 4.7   | 12,239                | 5.1   |
| Uva  | 7                      | 4,924          | 1.8   | 2,434                 | 1.0   |
| North-Central  | 12                     | 6,259          | 2.3   | 3,943                 | 1.6   |
| North-Western  | 15                     | 13,422         | 4.9   | 9,918                 | 4.1   |
| Eastern  | 12                     | 8,000          | 2.9   | 6,803                 | 2.8   |
| Northern   | 10                     | 6,399          | 2.3   | 5,254                 | 2.2   |
| Sabaragamuwa   | 10                     | 12,787         | 4.7   | 9,578                 | 4.0   |
| Central  | 15                     | 16,381         | 6.0   | 12,216                | 5.0   |
|  | 166                    | 273,456        | 100.0 | 242,073               | 100.0 |
| Impairment Allowance for Loans and Receivables – Individual Impairment |                        | -              |       | (2,421)               |       |
| Impairment Allowance for Loans and Receivables – Collective Impairment |                        | -              |       | (3,632)               |       |
| <b>Total</b>   | <b>166</b>             | <b>273,456</b> |       | <b>236,020*</b>       |       |

\* Loans and Receivables net of impairment.

## Commitments and Contingencies

As at 31st December 2016

| Province                                     | No. of Banking Centres | Acceptances  | Standby Letters of Credit | Guarantees    | Documentary Credit | Bills for Collection | Forward Exchange Contracts (Net) | Total         |
|--|------------------------|--------------|---------------------------|---------------|--------------------|----------------------|----------------------------------|---------------|
|  |                        | Rs. Mn.      | Rs. Mn.                   | Rs. Mn.       | Rs. Mn.            | Rs. Mn.              | Rs. Mn.                          | Rs. Mn.       |
| Western                                      | 72                     | 8,470        | 70                        | 16,580        | 5,100              | 2,248                | (243)                            | 32,225        |
| Southern                                     | 13                     | 111          | -                         | 1,109         | 73                 | 29                   | -                                | 1,322         |
| Uva  | 7                      | -            | -                         | 199           | -                  | -                    | -                                | 199           |
| North-Central                                | 12                     | 77           | -                         | 777           | -                  | -                    | -                                | 854           |
| North-Western                                | 15                     | 249          | -                         | 784           | 214                | 65                   | -                                | 1,312         |
| Eastern                                      | 12                     | 3            | -                         | 756           | 2                  | -                    | -                                | 761           |
| Northern                                     | 10                     | 1            | -                         | 565           | 9                  | 1                    | -                                | 576           |
| Sabaragamuwa                                 | 10                     | 52           | -                         | 531           | 42                 | 15                   | -                                | 640           |
| Central                                      | 15                     | 150          | -                         | 828           | 220                | 113                  | -                                | 1,311         |
| <b>Contingencies</b>                         | <b>166</b>             | <b>9,113</b> | <b>70</b>                 | <b>22,129</b> | <b>5,660</b>       | <b>2,471</b>         | <b>(243)</b>                     | <b>39,200</b> |
| <b>Commitments –</b>                         |                        |              |                           |               |                    |                      |                                  |               |
| Undrawn Credit Lines and Capital Commitments |                        |              |                           |               |                    |                      |                                  | 24,911        |
| <b>Total</b>                                 | <b>166</b>             | <b>9,113</b> | <b>70</b>                 | <b>22,129</b> | <b>5,660</b>       | <b>2,471</b>         | <b>(243)</b>                     | <b>64,111</b> |



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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 31st December 2016. The Sustainability Indicators are included in the Seylan Bank PLC's Integrated Annual Report for the year ended 31st December 2016 ('the Report').

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

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

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## 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 31st December 2016 are, in all material respects, prepared and presented in accordance with the Global Reporting Initiative (GRI) G4 Content Index Guidelines.

### Limited Assurance Sustainability Indicators

Based on the limited assurance procedures performed and the 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 31st December 2016, have not in all material respects, been prepared and presented in accordance with the GRI G4 Content Index Guidelines.

### Management's Responsibility

Management is responsible for the preparation and presentation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators in accordance with the GRI G4 Content Index Guidelines.

These responsibilities includes establishing such internal controls as management determines are necessary to enable the preparation of the Reasonable Assurance Sustainability

Indicators and the Limited Assurance Sustainability Indicators that are free from material misstatement whether due to fraud or error.

Management is responsible for preventing and detecting fraud and for identifying and ensuring that the Company complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Report are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

### Our Responsibility

Our responsibility is to express a reasonable assurance conclusion on the Company's preparation and presentation of the Reasonable Assurance Sustainability Indicators and a limited assurance conclusion on the preparation and presentation of the Limited Assurance Sustainability Indicators included in the Report, as defined above.

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by The Institute of Chartered Accountants of Sri Lanka.

We have complied with the independence and other ethical requirements of the Code of Ethics issued by The Institute of Chartered Accountants of Sri Lanka.

SLSAE 3000 requires that we plan and perform the engagement to obtain reasonable assurance about whether

the Reasonable Assurance Sustainability Indicators are free from material misstatement and limited assurance about whether the Limited Assurance Sustainability Indicators are free from material misstatement.

### Reasonable Assurance Over Reasonable Assurance Sustainability Indicators

The procedures selected in our reasonable assurance engagement depend on our judgment, including the assessment of the risks of material misstatement of the Reasonable Assurance Sustainability Indicators whether due to fraud or error.

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

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Indicators, the suitability of the criteria, being the GRI G4 Content Index Guidelines, used by the Company in preparing and presenting the Reasonable Assurance Sustainability Indicators within the Report, obtaining an understanding of the compilation of the financial and non-financial information to the sources from which it was obtained, evaluating the reasonableness of estimates made by the Company, and re-computation of the calculations of the Reasonable Assurance Sustainability Indicators.

### Limited Assurance on the Assured Sustainability Indicators

Our limited assurance engagement on the Limited Assurance Sustainability Indicators consisted of making enquiries, primarily of persons responsible for the

preparation of the Limited Assurance Sustainability Indicators, and applying analytical and other procedures, as appropriate. These procedures included:

- interviews with senior management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- enquiries of management to gain an understanding of the Company's processes for determining material issues for the Company's key stakeholder groups;
- enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Indicators;
- enquiries about the design and implementation of the systems and methods used to collect and report the Limited Assurance Sustainability Indicators, including the aggregation of the reported information;
- comparing the Limited Assurance Sustainability Indicators to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report;
- reading the Limited Assurance Sustainability Indicators presented in the Report to determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of the Company;
- reading the remainder of the Report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than

the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Limited Assurance Sustainability Indicators.

### Purpose of Our Report

In accordance with the terms of our engagement, this assurance report has been prepared for the Company for the purpose of assisting the Directors in determining whether the Company's Reasonable and Limited Assurance Sustainability Indicators are prepared and presented in accordance with the GRI G4 Content Index Guidelines and for no other purpose or in any other context.

### Restriction of Use of Our Report

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company, for any purpose or in any other context. Any party other than the Company who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Company for our work, for this independent assurance report, or for the conclusions we have reached.



**CHARTERED ACCOUNTANTS**  
Colombo

21st February 2017

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne FCA  
R.H. Rajan ACA

P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyrathne FCA  
R.M.D.B. Rajapakse FCA

C.P. Jayatilake FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA  
Ms. B.K.D.T.N. Rodrigo FCA

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

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## 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.

### Associate Company

An associate is an entity in which the investor has significant influence and which is neither a subsidiary nor an interest in a joint venture.

### Available-for-Sale Investments

All assets not in any of the three categories namely Held-to-Maturity, Fair Value Through Profit or Loss, and Loans and Receivables.

## B

### Bills of Collection

A Bill of Exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his Bank with a request to collect the proceeds.

### BIS Surplus

The total Capital Adequacy in excess of the minimum stipulated by Basel International Standards and as modified to suit local requirements by the Central Bank of Sri Lanka.

## C

### Capital Adequacy

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlement (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

### Capital Gain (Capital Profit)

The gain on the disposal of an asset calculated by deducting the cost of the asset from the proceeds received on its disposal.

### Capital Reserves

Capital reserves consist of revaluation reserves arising from revaluation of properties owned by the Bank and Reserve Fund set aside for specific purposes defined under the Banking Act

No. 30 of 1988 and shall not be reduced or impaired without the approval of the Monetary Board.

### Cash Equivalents

Short-term highly liquid investments those are readily convertible to known amounts of cash and which subject to an insignificant risk of changes in value.

### Commitments (Undrawn Credit Lines)

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

### Contingencies

A condition or situation, the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

### Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

### Correspondent Bank

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

### 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.

### 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 loans and advances to customers and other banks and investment debt securities.

## D

### Held-for-Trading Investments

These are marketable securities acquired and held with the intention to resale over a short period of time.

### Deferred Tax

Sum set aside in the Financial Statements that may become payable/receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rules and accounting conventions.

### Derivatives

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g., an interest rate), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

### Dividend Cover

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by the current year's distributable profits.

### Dividend Yield

Dividend earned per share as a percentage of its market value.

### Documentary Credits (L/Cs)

Written undertakings by a Bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

## E

### Earnings Per Share (EPS)

The profit attributable to each ordinary share in the Bank, based on the profit for the period after tax and after deducting minority interest and preference share dividends.

### Economic Value Added (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

### Effective Tax Rate

Provision for taxation excluding deferred tax divided by the profit before taxation.

### Equity Method

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

**ESOP (Employee Share Ownership Plan)**

A method of giving employees shares in the business for which they work.

**F****Fair Value**

Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

**Finance Lease**

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of whatever is being leased.

**Foreign Exchange Contract**

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

**Foreign Exchange Income**

The realised gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan Rupees on the Balance Sheet date at prevailing rates which differ from those rates in force at inception or on the previous Balance Sheet date. Foreign exchange income also arises from trading in foreign currencies.

**G****General Provisions**

General provisions are established for loans and advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

**Gross Dividend**

The portion of profits distributed to the shareholders including the tax withheld.

**Group**

A group is a parent and all its Subsidiaries.

**Guarantees**

A promise made by a third party (Guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfil the contractual obligations.

**H****Hedging**

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rate, foreign exchange rate, commodity prices, etc.).

**HTM (Held-to-Maturity) Investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold to maturity.

**I****Impairment**

This occurs when recoverable amount of an asset is less than its carrying amount.

**Impairment Allowance**

Impairment allowance is a provision held as a result of a charge against profit for the incurred loss. An impairment Allowance may either be identified or unidentified as individual (specific) or collective (portfolio).

**Intangible Asset**

An identifiable non-monetary asset without physical substance held for use in the production/supply of goods/services or for rental to others or for administrative purposes.

**Interest Cover**

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

**Interest Rate SWAP**

Arrangement whereby one party exchanges one set of interest payments for another.

**Interest Spread**

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

**Interest in Suspense**

Interest suspended on non-performing loans and receivables.

**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.

**Investment Securities**

Securities acquired and held for yield or capital growth purposes and are usually held to maturity.

**J****Joint Control**

Joint control is the contractually agreed sharing of the control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

**Joint Venture**

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

**K****Key Management Personnel (KMP)**

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity.

**L****Liquid Assets**

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange and Treasury Bills and Bonds.

**Loan Losses and Provisions**

Amounts set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

**M****Market Capitalisation**

The value of a company obtained by multiplying the number of issued shares by its market value as at a date.

**Market Risks**

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments.

**Materiality**

The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of Financial Statements.

**N****Net Asset Value Per Share**

Shareholders' funds divided by the number of ordinary shares in issue.

**Net Interest Income (NII)**

The difference between the amount a Bank earns on assets such as loans and securities and what it pays on liabilities such as deposits refinance funds and inter-bank borrowings.



### Net Interest Margin

The margin is expected as net interest income divided by average interest earning assets.

### Non-Controlling Interest

Non-Controlling Interest is the equity in a subsidiary not attributable directly or indirectly to a parent.

### Non-Performing Advances (NPA)

All loans are classified as non-performing when a payment is 90 days in arrears.

### Non-Performing Advances Cover (NPA Cover)

Cumulative loan loss provision as a percentage of total non-performing advances (net of interest in suspense).

### NPA Ratio (Net of IIS)

Total non-performing advances (net of interest in suspense) divided by total advances portfolio (net of interest in suspense).

## O

### Off-Balance Sheet Transactions

Transactions that are not recognised as assets or liabilities in the Balance Sheet, 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.

### Operational Risk

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

## P

### Parent

A parent is an entity that has one or more subsidiaries.

### Price-Earnings Ratio (P/E Ratio)

The current market price of the share is divided by the earnings per share of the Bank.

### Prudence

Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

## R

### Related Parties

Parties where one party has ability to control the other party or exercise

significant influence over the other party in making financial and operating decisions, directly or indirectly.

### Return on Average Assets (ROA)

Net income expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

### Return on Equity (ROE)

Net income, less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

### Revenue Reserves

Reserves set aside for future distribution and investment.

### Rights Issue

Issue of shares to the existing shareholders at an agreed price, generally lower than market 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 Balance Sheet (or credit) equivalents and then by applying appropriate risk weighting factors.

## S

### Securities [Sold under Repurchase Agreement (REPO)]

This relates to Treasury Bills and Bonds sold subject to a commitment to repurchase them at a predetermined price on a specified future date. Securities purchased under resale agreement (reverse REPO). These are loans collateralised by the purchase of Treasury Bills and/or guaranteed commercial papers from the counterparty to which the loans are granted. The sale by the counterparty is subject to a commitment by the Bank to sell back the underlying debt securities to the borrower at a predetermined price on a specific future date.

### Segmental Analysis

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

### Shareholders' Funds/Equity

Total of issued and fully paid share capital and capital and revenue reserves.

### Single Borrower Limit

30% of Total Regulatory Capital.

### Statutory Reserve Fund

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

### Subsidiary Company

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

### Substance Over Form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

### SWAPS (Currency)

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement. Alternatively a simultaneous spot sale and forward purchase of a currency.

## T

### Tier I Capital (Core Capital)

Core capital includes selected items of capital funds. Major core capital items are share capital, share premium, statutory reserve funds, retained profits, general reserves, surpluses/losses after tax arising from the sale of fixed and long-term investments.

### Tier II Capital (Supplementary Capital)

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

### Total Capital

Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

## V

### Value Added

Wealth created by providing banking and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to Government by way of taxes and retained for expansion and growth.

## Y

### Yield to Maturity

Discount rate at which the present value of future payments would equal the security's current price.

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සමාලෝචනයට භාජනය වන වසර තුළ දී සමස්ත කාර්ය සාධනය දිගින් දිගට ම තිරසාර ලෙස පවත්වා ගැනීමට සෙලාත් බැංකුවට හැකි වී තිබීම ගැන මම සතුටට පත් වෙමි. අභියෝගයන් රැසකට මුහුණ දීමට අපට සිදු ව තිබිය දීත්, ගත වූ වසර කිහිපය තුළ සාධනීය උපාය මාර්ග සමුදායක් ප්‍රඥවන්ත ලෙස ක්‍රියාත්මක කිරීම නිසා එසේ කිරීමට අපට හැකිවිය. එහි ප්‍රතිඵලයක් වශයෙන්, මෙරට අතිශය තරගකාරී බැංකු ක්ෂේත්‍රය තුළ සැලකිල්ලට ගත යුතු බලවේගයක් ලෙස බැංකුව පෙරමුණ ගෙන ඇති අතර, බැංකු පද්ධතියට වැදගත් ආයතනයක් ලෙස එම ස්ථාවරත්වය තහවුරු කර ගැනීමට අප බැංකුව සමත් ව තිබේ.

**ගෝලීය හා ශ්‍රී ලාංකීය ආර්ථිකය**

බ්‍රෙක්සිට් (එක්සත් රාජධානිය යුරෝපා සමුදායෙන් ඉවත්වීම), චීන ආර්ථිකය මන්දගාමී වීම සහ ඇමරිකානු ප්‍රතිපත්තිවල වෙනස් වීම් ආදී කරුණු රැසක් හේතුවෙන්, ගෝලීය ආර්ථිකය දුර්වල තත්ත්වයට පත් වූ තවත් වසරක් ලෙස 2016 හැඳින්විය හැකිය. එහි ප්‍රතිඵලයක් වශයෙන්, ගෝලීය දළ දේශීය නිෂ්පාදනය පහත වැටුණු අතර, 2017 දී එය මධ්‍යස්ථ වශයෙන් වර්ධනය වනු ඇතැයි අපේක්ෂා කෙරේ.

ගෝලීය පසුබෑම් සහ ලෝකයේ විවිධ දේශයන්හි භූදේශපාලනීය අවදානම් තත්ත්වයන් වර්ධනය වෙමින් පැවැතිය ද, 2016 මුල් මාස ත්‍රය තුළ මධ්‍යම වර්ධන අනුපාතිකයක් පවත්වා ගැනීමට ශ්‍රී ලාංකීය ආර්ථිකයට හැකි විය. පැවැති සාර්ව ආර්ථික පරිසරය පිළිබිඹු කරමින්, ණය සහ තැන්පතු වර්ධනය මධ්‍යස්ථ මට්ටමින් ද, වසර පුරාම පොළී අනුපාතිකය ඉහළ මට්ටමින් ද පැවැතිණි.

**අපගේ කාර්යසාධනය**

2016 වසරේ දී 20% ඉක්මවූ වර්ධනයක් වාර්තා කරමින්, බැංකුවේ මුද්‍ර වත්කම් ප්‍රමාණය රුපියල් බිලියන 356 දක්වා ඉහළ නංවා ගැනීමට හැකිවීමෙන්, බැංකුව ස්වකීය වර්ධනය අඛණ්ඩව පවත්වා ගත්තේය. වත්කම්හි ඵලදායකත්වය අපේක්ෂාවෙන්, අපගේ මූල්‍ය සම්පත් උපරිම ලෙස යොදා ගනිමින්, ණය සහ තැන්පතු යන ද්වි අංශයන්ම සැලකිය යුතු ලෙස වර්ධනය විය. 2016 වසරේ දී රුපියල් බිලියන හතරක සංයුක්තය ඉක්ම වූ අපගේ බදු වලට පසු ලාභය මගින්, අප විසින් ගනු ලැබූ විවිධ පියවර පිළිබිඹු වෙයි.

අපගේ මූල්‍ය කාර්ය සාධනයන් ශක්තිමත් කර ගනු ලබන අතර, වෙසෙසින් ම අධ්‍යාපනය මූලික කර ගනිමින්,

තිරසාරභාවය පිළිබඳ වැඩ කටයුතු කෙරෙහි අවධානය යොමු කිරීම ද අප විසින් නොකඩවා සිදු කරන ලදී. 2016 වසර තුළ අප විසින් පාසැල් පුස්තකාල 40ක් ආරම්භ කරන ලද අතර, අපගේ තිරසාරත්ව වාර්තාවෙහි සඳහන් වන පරිදි, ඒ සමගම අප විසින් ඉදිකරන කරන ලද මුළු පුස්තකාල සංඛ්‍යාව 120ක් බවට පත් විය.

**අපගේ ගමන් මඟ**

ගෙවුණු වසර හා සංසන්දනය කරන විට, මෙම වසරේ දී අපගේ ශාඛාවන් වැඩි සංඛ්‍යාවක් විසින් ස්වකීය මූලික කාර්යසාධන දර්ශකයන් සාක්ෂාත් කර ගැනීම ඔස්සේ ශාඛා ජාලය විසින් අපගේ කාර්යසාධනයට ධනාත්මක දායකත්වයක් අඛණ්ඩව සිදු කරනු ලැබූ අතර, අප එම ශාඛා වෙනුවෙන් දිගින් දිගටම සිදු කරන ලද ආයෝජනයන් එමගින් තහවුරු විය. පිරිවැය සංයුතිය අවම වන පරිදි ද එහෙත් ඵලදායකත්වය වර්ධනය වන අයුරින්ද, පවත්නා යටිතල පහසුකම් යොදාගැනීම අප ක්‍රියාත්මක කරනු ලබන සෑම උපාය මාර්ගික සාර්ථකත්වයටම අත්‍යවශ්‍ය සාධකයක් වනු ඇත.

අප රටේ සුළු හා මධ්‍ය පරිමාණ ව්‍යවසායකත්ව අංශය වෙනුවෙන් අපගේ පුළුල් ශාඛා ජාලය විසින් සේවා සම්පාදනය උපරිමයෙන් සිදු කරනු ලැබීම ඔස්සේ, එම අංශය ප්‍රවර්ධනය කරනු පිණිස බැංකුව විසින් ලබා දෙන කාර්යයලී දායකත්වය පිළිබඳව ද මෙහිලා විශේෂ සඳහනක් කිරීමට මම කැමැත්තෙමි.

**නියාමනය හා අධීක්ෂණය**

අපගේ ව්‍යවස්ථාපිත අනුපාතයන්හි දක්වෙන පරිදි, අපගේ මූල්‍ය ස්ථාවරත්ව දර්ශකයන් ඉතා සුබදායකව පැවැතිය ද, අපට එයින් තෘප්තිමත් විය නොහැකි අතර, දිගු කාලීන වශයෙන් අප මනා ස්ථාවර තත්ත්වයකට පත් විය යුතු බැව් තහවුරු කර ගත යුතුය. මෙම මූල්‍ය ස්ථාවරත්ව දර්ශකයන්ට බලපෑම් සිදු කළ හැකි අභ්‍යන්තර සහ බාහිර කම්පනයන්ට ඔරොත්තු දිය හැකි වන සේ, ශක්තිමත් සහ අවිනිශ්චිතතාවයන්ට මුහුණදීමේ අත්දුටු සැලසුම් සුදානම්ව තිබීම අවශ්‍යය. බැංකු ක්ෂේත්‍රයට අදාළ ව ශ්‍රී ලංකා මහ බැංකුවේ අපේක්ෂා ඔවුන්ගේ මාර්ගෝපදේශ සිතියමින් අපට දන්වා ඇති අතර, බාසල් III (Basel III) රාමුව ද දන් ක්‍රියාත්මක කරනු ලැබ ඇත. අපගේ අනාගත ක්‍රමෝපායයන් සැලසුම් කිරීමේ දී මෙම සාධක සියල්ල අපගේ අවධානයට ගත යුතු වෙයි.

මූල්‍ය මැදිහත්කරුවෙකු වශයෙන් මෙන්ම මෙහෙයවුම් පරිසරයේ වැඩිවෙමින් පවත්නා අවදානම් අනුව ද, මනා ආයතනික පාලනය සහ අවදානම් කළමනාකරණ රාමු කෙරෙහි අප දක්විය යුතු සැලකිල්ල අති විශාල ය. යහ පාලනය සහ විවික්ෂණශීලී අවදානම් කළමනාකරණ පරිච්ඡේද අපගේ සංස්කෘතියෙහි ගැබ් ව ඇත්තේ, ඒවා පූර්ණ වශයෙන් පිළිපැදීමට මෙන් ම, අවදානම් සහ ඒවායේ ප්‍රතිලබ්ධීන් අතර ප්‍රශස්ථ මට්ටමක් තහවුරු කරනු ද පිණිස ය.

**අපගේ අනාගත ක්‍රමෝපාය**

අප විසින් වර්තමානයේ අපගෙන්ම ඇසිය යුතු ප්‍රශ්නය නම් අප අනාගතයට සුදානම් ද යන්නය. එහෙයින් අප අප දෙසටම බාහිර පුද්ගලයකුගේ මානසෙන් බැලිය යුතුය. අපගේ ශක්‍යතා සහ දුර්වලතා ද, බැංකුවේ වඩාත් ඵලදායක අවස්ථාවන් වශයෙන් ඒවා උපරිමයෙන් පරිවර්තනය කර ගත හැකිවන්නේ කෙසේ ද යන බව ද, එම අවස්ථාවන් සහ වෙළඳපොළ යථාර්ථයන් අතර නිවැරදි තුලනයක් පවත්වා ගන්නේ කෙසේ ද යන කරුණ පිළිබඳව ස්වාධීන වූත්, බාහිර වූත් අවබෝධයක් අපට එමගින් ලැබෙනු ඇත.

**ඇගයීම**

මේ දක්වා බැංකුව ගමන් කර ඇති දුෂ්කර ගමන් මග අපි දුටුවෙමු. එසේ තරණය කළ ගමන් මග අතරතුර හමුවූ ගිරි දුර්ග උත්සාහයෙන් ජයගෙන යථාර්ථවාදී සහ වැඩදායක ප්‍රයත්නයක් බවට එය පත්කර ගත හැකි වූයේ, අධ්‍යක්ෂ මණ්ඩලයේ ද, ප්‍රධාන විධායක නිලධාරී කපිල ආර්යරත්න මහතාගේ ද, බැංකුවේ සියලු නිලධාරීන්ගේ ද අවංක කැපවීම නිසා බව මට සහතික ය. මම ඒ සෑම දෙනාට ම මගේ ප්‍රශංසාව පිරි නමන අතර, බැංකුවේ සාර්ථකත්වය පිළිබඳ අපගේ පොදු අරමුණ සාක්ෂාත් කර ගැනීමෙහිලා මම ඒ සෑම දෙනාට ම සුඛ පතමි. පසුගිය තුන් වසරට වැඩි කාලයක් තුළ බැංකුවට නායකත්වය දුන් ජනාධිපති නීතිඥ නිහාල් ජයමාන්න මහතාගේ නොසැලුණු කැපවීම වෙනුවෙන් එතුමාට ද මගේ ස්තූතිය පිළිගන්වනු කැමැත්තෙමි. මෙම වසරේ දී නව අධ්‍යක්ෂවරුන් දෙදෙනෙකුට අප විසින් ආරාධනය කරන ලදී. 2016 දෙසැම්බර් 01 දින සිට බැංකුවට එක් වූ අනුෂ්ක විජේසිංහ මහතාගේ සහ සන්ධ්‍යා සල්ගාදු මහත්මියගේ පුළුල් අත්දැකීම් බැංකුවට මහත් සේ ඵලදායක වනු ඇතැයි මම විශ්වාස කරමි.

අප පිළිබඳ විශ්වාසය තැබූ අපගේ ගනුදෙනු කරුවන් අපගේ ඉදිරි ගමනේ දී වඩාත් උසස් තත්ත්වයක් සහ ඵලදායකත්වයක් කරා රැගෙන යාමට අප බලාපොරොත්තුවන අතර, අපගේ සාර්ථකත්වයට පාදක වූ ඔවුන්ගේ විශ්වාසය සහ අනුග්‍රාහකත්වය වෙනුවෙන් මගේ ස්තූතිය ඔවුන්ට පුද කර සිටිමි. අපගේ ආයෝජකයින් සහ සෙසු පාර්ශවකරුවන් අප කෙරෙහි තැබූ විශ්වාසය අප දැඩි සේ අගය කරන අතර, අප ආ ගිය ගමනේ දී අපට අනුපමේය ශක්තියක් වූ අපගේ නියාමකයින් අපට දැක්වූ සහාය වෙනුවෙන් ද කෘතඥතාව පළ කරනු කැමැත්තෙමි.

ඔබ සෑම දෙනාටම මගේ අවංක ස්තූතිය මෙහිලා පුද කෙරේ.



ඩබ්ලිව්. එම්. ආර්. එස්. ඩයස්  
සභාපති

2017 පෙබරවාරි 21

அன்பான பங்குதாரர்களே,

மீளாய்வின் கீழ் இந்த வருடத்தில் செலான் வங்கியானது அதன் ஒட்டுமொத்தச் செயல்நிறைவேற்றுகையினைத் தக்க வைப்பதில் தொடர்ந்து ஒத்திசைவான தன்மையினைப் பேணி வந்தமை எனக்கு மகிழ்ச்சியினைத் தருகின்றது. நாங்கள் பல சவால்களுக்கு முகங்கொடுத்த போதிலும் கடந்த பல வருடங்களாக பல ஒத்திசைவான உபாயமார்க்கங்களைச் சாதாரணமாக நிறைவேற்றியமையே இதனைச் சாத்தியமாக்கியுள்ளது. இதன் காரணமாக நாட்டிலே மிகுந்த போட்டிமிடு வங்கிச் சேவைப் பரப்பிலே செலான் வங்கியானது கவனத்தினைப் பெற்றுள்ள ஒரு சக்தியாகப் பரிணமித்துத் தன்னை முறைமை ரீதியாக முக்கியமான ஒரு வங்கியாக நிலைநிறுத்தியுள்ளது.

**உலகப் பொருளாதாரமும் இலங்கைப் பொருளாதாரமும்**

ஐரோப்பிய யூனியனிலிருந்து பிரித்தானியா வெளியேறியமை, சீனப் பொருளாதார மந்தநிலை மற்றும் அமெரிக்காவின் கொள்கை மாற்றங்கள் போன்ற பல காரணங்களினால் 2016 ஆம் ஆண்டானது உலகப் பொருளாதாரத்திற்கு மற்றுமொரு மந்தமான வருடமாக அமைந்தது. இதன் காரணமாக, உலகளாவிய மொத்த உள்நாட்டு உற்பத்தி வளர்ச்சியானது வீழ்ச்சியடைந்தது. 2017 ஆம் ஆண்டிலேயே இது சற்று முன்னேற்றமடையும் என எதிர்பார்க்கப்படுகின்றது. உலகளாவிய பின்னடைவுகளையும் உலகின் பல்வேறு பகுதிகளில் அதிகரித்த அளவில் காணப்படும் பூகோள அரசியல் அபாயநேர்வுகளையும் தாண்டி 2016 ஆம் ஆண்டின் முதல் ஒன்பது மாதங்களின் போது இலங்கைப் பொருளாதாரம் நடுத்தர வளர்ச்சியிணைய எட்டியது. கடன் மற்றும் வைப்பு வளர்ச்சி ஓரளவிற்கு வளர்ச்சியடைந்தமை மற்றும் வட்டி வீதமானது வருடம் முழுவதும் தொடர்ந்தும் உயர்வாகக் காணப்பட்டமை நிலவிய பேரண்டப் பொருளாதாரச் சூழலினைப் பிரதிபலித்தது.

**எமது செயலாற்றுகை**

2016 ஆம் ஆண்டின் போது வங்கியானது ரூபா. 356 பில்லியன் மொத்தச் சொத்துக்களை அடைந்து, 20% ற்கும் மேலான வளர்ச்சியினைப் பதிவுசெய்து அதன் வளர்ச்சி உந்தத்தினைத் தொடர்ந்து பேணியது. கடன் மற்றும் வைப்புக்கள் ஆகிய இரண்டும் விகிதாசாரமான முறையில் வளர்ச்சியடைந்து ஆக்கபூர்வமான சொத்துக்களை நாடிச்செல்லும் முயற்சியில் எமது நிதியிடல் மூலங்கள் உச்சபட்சமாகப் பயன்படுத்தப்படுவதைப் பிரதிபலித்தன. இதனால் நாங்கள் அடைந்த முன்னேற்றம் எமது இலாபத்தின் இறுதி மொத்தத் தொகையைப் பிரதிபலித்தது. இது 2016 ஆம் ஆண்டிலே ரூபா. 4 பில்லியன் எனும் மைல்கல்லினைத் தாண்டியது.

நாம் எமது நிதிச் செயலாற்றுகையினை வலுப்படுத்துகின்ற அதேவேளை, குறிப்பாகக் கல்வி போன்ற நீடுநிதி மிக்க முன்னெடுப்புக்களில் நாம் தொடர்ந்தும் கவனத்தினைச் செலுத்தி வந்தோம். இந்த வருடத்தின் போது நாம் 40 பாடசாலை நூலகங்களை நிர்மானித்து நீடுநிதித்தன்மை அறிக்கையில் விபரிக்கப்பட்டுள்ளவாறு அவற்றின் மொத்த எண்ணிக்கையினை 120 ஆக அதிகரித்துள்ளோம்.

**எமது காலடித்தடம்**

எமது இலாபத்திற்கு கிளை வலையமைப்புக்கள் தொடர்ந்தும் சாதகமான பங்களிப்புக்களை வழங்கி வருகின்றன. கடந்த வருடத்துடன் ஒப்பிடுகையில் கிளைகள் அவற்றின் பிரதான செயலாற்றுகைக் குறிக்காட்டிகளை அடைந்து நாம் அவற்றில் தொடர்ந்தும் மேற்கொள்ளும் முதலீடுகளைத் திட்டப்படுத்தியுள்ளன. எனவே எமது செலவுக் கட்டமைப்பினைக் குறைந்த அளவில் பேணுவதற்கான திட்டமான முயற்சியுடன் எம்மிடமுள்ள உட்கட்டமைப்பிலிருந்து தொடர்ந்தும் நாம் கட்டமைத்துச் செல்வது முக்கியமானதாகும். இதுவே நாம் எடுக்கும் எந்தவொரு உபாயமார்க்கத்திற்கும் பிரதானமான உற்பத்தித்திறனை முன்னேற்றக்கூடியதாக இருக்கின்றது.

சிறிய மற்றும் நடுத்தரத் தொழில் முயற்சித் துறைக்கு எமது பரந்து விரிந்துள்ள கிளை வலையமைப்பின் விநியோக மார்க்கங்கள் உச்சப் பயனிலை வழங்கியதன் மூலம் எமது நாட்டின் இத்துறைக்கு வங்கி வழங்கும் முனைப்பான பங்களிப்பினைப் பற்றியும் நான் இங்கே விசேடமாகக் குறிப்பிட விரும்புகின்றேன்.

**ஒழுங்குபடுத்தலும் மேற்பார்வையும்**

எமது சட்ட விகிதாசாரங்களில் பிரதிபலிக்கப்பட்டவாறாக எமது நிதி உறுதித்தன்மைக் குறிகாட்டிகள் (FSI) ஆரோக்கியமான மட்டங்களில் காணப்படுகின்றன. ஆனால் இதையிட்டு நாம் திருப்தியடைய முடியாது. நாம் நீண்ட காலத்திற்காக நன்கு நிலைபெறுவோம் என்பதை உறுதிப்படுத்த வேண்டும். இந்த நிதி உறுதித்தன்மைக் குறிகாட்டிகளில் தாக்கத்தினை ஏற்படுத்தக்கூடிய உள்வாரியான மற்றும் வெளிவாரியான அதிர்ச்சிகளை எதிர்நோக்குவதற்கு உறுதியானதும் பரீட்சிக்கப்பட்டதுமான நிச்சயமற்ற தன்மைக்கான திட்டங்கள் அமுலில் இருக்க வேண்டும். தொழிற்துறை பற்றிய மத்திய வங்கியின் எதிர்பார்க்கப்படுகின்ற அதன் விரிவான திட்டத்தில் ஏற்கனவே குறிப்பிடப்பட்டதுடன் Basel III அமுல்படுத்தப்பட்டுள்ளது. எதிர்காலத்திற்கான எமது உபாயமார்க்கங்களில் நாம் கவனத்திற் கொள்ள வேண்டிய காரணிகள் இவையே ஆகும்.

நாம் நிதி ரீதியாக ஓர் இடைநிலை அமைப்பாக இருக்கின்ற காரணத்தினாலும் இயங்கு சூழலில் காணப்படும் அதிகரித்து வரும் அபாய நேர்வுகள் காரணமாகவும் சிறந்த கூட்டுநிறுவன ஆளுகை மற்றும் அபாயநேர்வு முகாமைத்துவச் சட்டகங்கள் ஆகியவற்றிற்கான கட்டப்பாட்டினைப் பற்றி அதிகம் வலியுறுத்த வேண்டிய அவசியமில்லை. பூரண இணக்கப்பாட்டை உறுதிப்படுத்துவதற்கும் அபாயநேர்வுகள் மற்றும் பிரதிபலன்களுக்கு இடையிலான உயர்ந்த மட்ட ஈடுசெய்தலை உறுதிப்படுத்துவதற்கும் ஆளுகையின் சிறந்த தராதரங்கள் மற்றும் சாதாரணமான அபாயநேர்வு முகாமைத்துவ நடைமுறைகள் ஆகியவை எமது கவாச்சாரத்தில் ஆழப்பதிந்துள்ளன.

**எமது எதிர்கால உபாயமார்க்கங்கள்**

நாம் எதிர்காலத்திற்குத் தயாராக இருக்கின்றோமா என்பதே நாம் இப்போது எம்மைக் கேட்க வேண்டிய கேள்வியாகும். எனவே தொலைவிலிருந்து எம்மை நாம் நோக்க வேண்டிய தருணம் இதுவேயாகும். எமது பலங்கள் மற்றும் பலவீனங்கள் பற்றிய சுயாதீனமான, வெளிப்புறமான

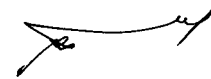
கண்ணோட்டத்தினை இது வழங்கும். வங்கிக்காக இவற்றினை மிகுந்த ஆக்கத்திறன் மிக்க வாய்ப்புக்களாக உச்சப்படுத்தி நிலைமாற்றுவதோடு வாய்ப்புக்களுக்கும் சந்தையதார்த்தங்களுக்கும் இடையில் சரியான சமநிலையிணையும் எம்மால் ஏற்படுத்த முடியும்.

**பாராட்டுதல்**

இதுவரையில் தனது கடினமான பாதையில் வங்கி அடைந்துள்ள முன்னேற்றத்தினை நாம் கண்கூடாகக் கண்டுள்ளோம். வங்கியின் பணிப்பாளர் சபை உறுப்பினர்கள், பிரதம நிறைவேற்று அதிகாரி திரு. கபில ஆரியரத்தன் மற்றும் ஒட்டுமொத்த வங்கிப் பணியாளர்கள் காட்டிய அத்தீத கட்டப்பாடு மற்றும் விசுவாசம் ஆகியவையே கடினமான இந்தப் பாதையினை திடசங்கற்பத்துடன் கடந்து பயணத்தினை யதார்த்தமாக்க உதவியது என்பதை நான்கு அறிவேன். நான் அவர்களைப் பாராட்டுவதுடன் வங்கியின் வெற்றி எனும் எமது பொது நோக்கத்தினை அடைய நான் அவர்களுக்கு வாழ்த்துக்களைத் தெரிவிக்கின்றேன். கடந்த மூன்று வருடங்களுக்கு மேலாக வங்கிக்குத் தலைமை தாங்கிச் செல்வதில் முன்னாள் தலைவர் திரு. நிஹால் ஜயமானன் PC காட்டிய அயராத கட்டப்பாட்டிற்கு நான் நன்றி தெரிவிக்க விரும்புகின்றேன். உங்களது சபைக்கு இரண்டு புதிய சுயாதீனமான பணிப்பாளர்களையும் நாம் அழைத்துள்ளோம்: திரு. அனுஸ்க விஜேசிங்க மற்றும் திருமதி. சந்யா சல்காடோ ஆகியோர் 2016 டிசம்பர் 1ம் திகதியிலிருந்து சபையின் பணிப்பாளர்களாக நியமிக்கப்பட்டார்கள். இவர்களின் விரிவான அனுபவம் வங்கிக்கு அளப்பெரிய பெறுமதியினைச் சேர்க்கும் என்பதில் நான் உறுதியாக இருக்கின்றேன்.

எமக்குத் தொடர்ந்தும் விசுவாசமாக இருந்து வரும் எமது பெறுமதியிக்க வாடிக்கையாளர்களாகிய உங்களை சிகரங்களைத் தொடும் இந்தப் பயணத்தில் எம்முடன் சேர்த்து அழைத்துச் செல்ல நாம் எதிர்பார்க்கின்றோம். எமது வெற்றிக்கு ஆதார பலமாக இருக்கின்ற உங்களின் விசுவாசம் மற்றும் அனுசரணைக்கு நாம் நன்றி தெரிவிக்க விரும்புகின்றோம். முதலீட்டாளர்களும் ஏனைய சகல அக்கறையுடைய தரப்பினர்களும் எம்மில் வைத்துள்ள நம்பிக்கைக்கும் நாம் எமது ஆழமான பாராட்டுதலைத் தெரிவிக்க விரும்புகின்றோம். மேலும் எமது பயணத்தில் எமக்கு மிகப் பெரும் பலமாக இருக்கின்ற எமது ஒழுங்குபடுத்துனர்களின் உதவிக்கும் நாம் நன்றி தெரிவிக்க விரும்புகின்றோம்.

எனது விசுவாசமான நன்றிகள் உங்கள் அனைவருக்கும் உரித்தாகட்டும்.



**W.M.R.S. டயன்**  
தலைவர்  
21 பெப்ரவரி 2017

**Name of Company**

Seylan Bank PLC

**Company Registration Number**

PQ 9

**Registered Office and Head Office**

Seylan Towers,  
No. 90, Galle Road, Colombo 03  
Tel : (94)-(11) - 2 456 000  
Fax : (94)-(11) - 2 456 456  
Swift : SEYBLKLX  
E-mail : info@seylan.lk  
Website : www.seylan.lk

**Legal Form**

A public limited liability company incorporated in Sri Lanka on 28th August 1987 under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007 on 30th May 2007. Commenced business operations as a Licensed Commercial Bank regulated under the Banking Act No. 30 of 1988 (as amended) on 24th March 1988. Company was listed in the Colombo Stock Exchange on 5th January 1989.

**Colombo Stock Exchange Listing**

The Ordinary Shares and the Rated, Unsecured, Redeemable Debentures are listed on the Colombo Stock Exchange.

**Accounting Year End**

31st December

**Credit Rating**

The Bank has been assigned a A-(Ika) National long-term Rating by Fitch Ratings Lanka Limited.

**Board of Directors**

- Mr. W.M.R.S. Dias**  
Chairman/Non-Executive Director
- Mr. Ishara C. Nanayakkara**  
Deputy Chairman/  
Non-Executive Director
- Ms. M. Coralie Pietersz**  
Independent Director/Senior Director
- Mr. Kapila P. Ariyaratne**  
Director/Chief Executive Officer
- Rear Admiral B. Ananda J.G. Peiris**  
Independent Director
- Mr. Samantha P.S. Ranatunga**  
Independent Director
- Mr. W.D. Kapila Jayawardena**  
Non-Executive Director
- Mr. P.L.S. Kumar Perera**  
Independent Director
- Mr. S. Viran Corea**  
Non-Executive Director
- Mr. Anushka S. Wijesinha**  
Independent Director  
(Appointed on 1st December 2016)
- Mrs. Sandya K. Salgado**  
Independent Director  
(Appointed on 1st December 2016)

**Company Secretary**

(Mrs.) N.N. Najumudeen  
ACIS (UK), ACCS (SL)

**Auditors**

Messrs KPMG,  
Chartered Accountants

**Subsidiary**

Seylan Developments PLC  
(Company Registration No. PQ 151)  
Level 15, Seylan Towers  
90, Galle Road, Colombo 03

**For any Clarifications on this Report, Please Contact:**

The Finance Department  
Seylan Bank PLC  
Seylan Towers,  
90, Galle Road,  
Colombo 03  
Email: pmu@seylan.lk  
Tel : 011-2456371,  
011-2456384  
Fax : 011-2452612

Dear Shareholder/s

**First and Final Dividend for the year ended 31st December 2016 to be Satisfied Partly by the Payment of Cash and Partly by the Allotment and Issue of New Ordinary Shares**

**Recommendation of a First and Final Dividend**

The Board of Directors of Seylan Bank PLC ('the Company'), is pleased to inform the shareholders of the Company that at the Meeting of the Board of Directors held on 21st February 2017, it recommended a first and final dividend of Rupees Three and Cents Twenty Five (Rs. 3.25) on each Ordinary (voting) share and Ordinary (non-voting) share for the financial year ended 31st December 2016. The dividend is subject to due declaration by the shareholders at the Company's Annual General Meeting ('AGM') to be held on Friday, 31st March 2017. The dividend so declared will be satisfied:

- i partly by way of a payment in cash for a value of One Rupee (Re. 1/-) (net of withholding tax applicable) for each Ordinary (voting) and Ordinary (non-voting) share; and
- ii. partly by the allotment and issue of Ordinary (voting) and Ordinary (non-voting) share/s for a value of Rupees Two and Cents Twenty Five (Rs. 2.25) (net of withholding tax applicable) for each Ordinary (voting) and Ordinary (non-voting) share.

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.

The total amount of the dividend that is proposed to be so declared is Rupees One Billion One Hundred and Twenty One Million One Hundred and Twenty One Thousand Three Hundred and Thirty Two and Cents Fifty only (Rs. 1,121,121,332.50). The dividend to be satisfied in the following manner:

| Method of Satisfaction   | Total Amount (Rs.)      |
|--|-------------------------|
| i. By way of a payment in cash   | 344,960,410.00          |
| ii. By the allotment and issue of new Ordinary (voting) and Ordinary (non-voting) shares | 776,160,922.50          |
| <b>Total</b>   | <b>1,121,121,332.50</b> |

The aforementioned dividend declared will be made from and out of the profits of the Company for the financial year ended 31st December 2016.

**Issue of New Ordinary Shares**

The Company proposes to satisfy the said dividend, partly by the issue of new Ordinary (voting) and Ordinary (non-voting) shares. The Company accordingly intends to allot and issue new Ordinary (voting) and new Ordinary (non-voting) shares to those shareholders who are registered in the Company's Share Register as well as those shareholders whose names appear on the Central Depository System (Pvt) Limited ('CDS') as at the end of trading on the date of the AGM (entitlement date) at which the resolution of the shareholders declaring the dividend is duly passed (hereinafter referred to as the 'entitled shareholders'). In view of there been a deduction for applicable dividend withholding tax the monetary amount for which Ordinary (voting) and Ordinary (non-voting) shares would be issued is Rs. 698,544,830.25. Accordingly the shares to be allotted would be as follows:

- a. One new fully-paid Ordinary (voting) share for every 48.3950580650 existing Ordinary (voting) shares; and
- b. One new fully-paid Ordinary (non-voting) share for every 28.8395060063 existing Ordinary (non-voting) shares.

Consequently, a maximum of Three Million Six Hundred and Thirty-Six Thousand Two Hundred and Sixty-Eight (3,636,268) new Ordinary (voting) shares and a maximum of Five Million Eight Hundred and Fifty-Nine Thousand Four Hundred and Twenty-Eight (5,859,428) new Ordinary (non-voting) shares will be issued.

Accordingly, the Ordinary (voting) shares in issue will increase from 175,977,401 to 179,613,669 and the Ordinary (non-voting)

shares in issue will increase from 168,983,009 to 174,842,437.

The above mentioned share ratio is based on a value of Rupees Ninety Eight (Rs. 98.00) per Ordinary (voting) share and Rupees Fifty Eight and Cents Forty (Rs. 58.40) per Ordinary (non-voting) share respectively, which was the market price as at the end of trading on 20th February 2017 (being the date prior to the date on which the Board formally resolved to recommend the dividend to the shareholders). The Board is satisfied that the consideration for which the new shares are to be issued is fair and reasonable to the Company and to all its existing shareholders.

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 Rs. 10,529,724,017/- to Rs. 11,228,268,876/20.

The difference of Rs. 32.16 arising due to rounding off of the number of shares to be issued will be considered together with the residual share fractions.

**Fractions Arising on Allotment and Issue of New Shares**

The residual share fractions arising from the aforementioned issue and allotment of new Ordinary (voting) shares and Ordinary (non-voting) shares will be aggregated and the Ordinary (voting) shares and Ordinary (non-voting) shares arising consequent to such aggregation will be allotted to a trustee to be nominated and appointed by the Board of Directors. The trustee so nominated and appointed will

hold the said shares in trust and dispose such shares on the trading floor of the Colombo Stock Exchange ('CSE') within a reasonable period of time. The sales proceeds arising therefrom shall be distributed to a charity or charities as shall be determined and approved by the Board of Directors.

## Listing/Exchange Control Approval

An application has been made to the CSE for listing the new Ordinary (voting) and Ordinary (non-voting) shares on the official list of the CSE upon allotment. This application has been 'approved in principle' by the CSE. The Company will obtain approval of the Controller of Exchange 'in principle' for the allotment and issue of new Ordinary (voting) and (non-voting) shares to the Company's non-resident shareholders, where applicable.

## The Allotment and Issue of New Shares

In the event that the shareholders pass the requisite resolution declaring the aforementioned dividend and its satisfaction partly by way of the allotment and issue of new Ordinary (voting) shares and Ordinary (non-voting) shares, the accounts of the shareholders whose shares are deposited in the CDS would be directly uploaded with the new shares within 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.

## Dematerialisation of Listed Securities

In view of the Direction issued by the Securities and Exchange Commission of Sri Lanka pertaining to the dematerialisation of listed securities, shareholders who hold shares in scrip form (i.e. in the form of a share certificate) as per the Shareholders' Register maintained by the Company will not be issued Share Certificates for the new shares allotted in their favour. Such shareholders are requested to open an account with the CDS and to deposit the share certificates in their possession in the CDS, prior to the date of the AGM, to enable the Company to directly deposit the new shares into such CDS account of the shareholder.

The Company will however, register in the respective shareholder's account in the Share Register maintained by the Company, the new Ordinary (voting) share and/or Ordinary (non-voting) share entitlements allotted to those shareholders who fail to open an account with the CDS prior to the date of the AGM. When such shareholder has opened a CDS account after the AGM and informs the Company Secretary in writing of the CDS account number, the Company will directly upload such entitlement to the respective CDS account. The Company, upon receiving such written requests from shareholders to directly upload their respective CDS accounts with their new share entitlements, will do so at periodical intervals.

## Statement of Compliance

The Board of Directors hereby confirms that the allotment and issue of the new Ordinary (voting) shares and Ordinary (non-voting) shares is in compliance with the Articles of Association of the Company, the Listing Rules of the CSE and the provisions of the Companies Act No. 07 of 2007.

The Board of Directors emphasises that the aforementioned allotment and issue of new Ordinary (voting) shares and Ordinary (non-voting) shares is in part

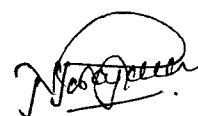
satisfaction of the first and final dividend for the year ended 31st December 2016 and shall be dependent and subject to the shareholders passing the resolution declaring the said dividend.

## Notice of Annual General Meeting

The Annual Report of the Company and the Notice of the AGM scheduled to be held on Friday, 31st March 2017 setting out in item 2 thereof, the relevant resolution to be passed by the shareholders in relation to the declaration of the stated dividend are circulated with this Circular to Shareholders.

Shareholders who are unable to attend the meeting in person are entitled to appoint a proxy to attend and speak and also vote on their behalf, depending on their voting rights. If you wish to appoint such proxy, please complete and return the enclosed Form of Proxy (in accordance with instructions specified therein) to the Registered Office of the Company not less than forty-eight (48) Hours before the time scheduled for the holding of the AGM.

Yours faithfully,  
By Order of the Board of Seylan Bank PLC



(Mrs.) N.N. Najumudeen  
Company Secretary

1st March 2017  
Colombo

**NOTICE IS HEREBY GIVEN THAT the Thirtieth Annual General Meeting of Seylan Bank PLC ('the Bank' or 'the Company') will be held on Friday, 31st March 2017 at 10.00 a.m. at the Kings Court, Cinnamon Lakeside, No. 115, Sir Chittampalam A Gardiner Mawatha, Colombo 02 for the following purposes:**

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Audited Financial Statements for the year ended 31st December 2016 together with the Report of the Auditors thereon.
2. To declare a first and final ordinary dividend for the financial year ended 31st December 2016 as recommended by the Board of Directors which said declaration is further explained in the Circular to Shareholders dated 1st March 2017 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 One Hundred and Twenty One Million One Hundred and Twenty One Thousand Three Hundred and Thirty Two and Cents Fifty only (Rs. 1,121,121,332.50) which constitutes a dividend of Rupees Three and Cents Twenty Five Only (Rs. 3.25) per share be distributed to the holders of Ordinary (voting) and Ordinary (non-voting) shares as follows:

  - i. A sum of One Rupee (Re. 1/-) to be declared in cash on each Ordinary (voting) and Ordinary (non-voting) share (net of withholding tax applicable); and
  - ii. A sum of Rupees Two and Cents Twenty Five (Rs. 2.25) (net of withholding tax applicable) 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 48.3950580650 existing Ordinary (voting) shares held and One new fully paid Ordinary (non-voting) share for every 28.8395060063 existing Ordinary (non-voting) shares;

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) Limited 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 Three Million Six Hundred and Thirty Six Thousand Two Hundred and Sixty Eight (3,636,268) and the total number of Ordinary (non-voting) shares to be issued would be a maximum of Five Million Eight Hundred and Fifty Nine Thousand Four Hundred and Twenty Eight (5,859,428):

It is further resolved 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 together with the difference of Rs. 32.16 arising due to rounding off of the number of shares to be issued, shall be distributed to a charity or charities as shall be determined and approved by the Board of Directors;

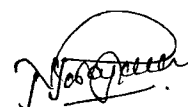
THAT the new Ordinary (voting) shares and Ordinary (non-voting) shares to be so allotted and issued shall not be eligible for the payment of the cash dividend declared hereby."

3. To re-elect as a Director, Mr. 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 a Non-Executive Director of the Bank appointed to the Board on 1st August 2013. His profile, Board Sub-committee memberships and other directorships held are published on pages 17 and 67 respectively in this Annual Report.
4. To re-elect as a Director, Ms. M.C. Pietersz, who retires by rotation at the Annual General Meeting in terms of Article 82 of the Articles of Association of the Company. Ms. M.C. Pietersz is an Independent Director and Senior Director of the Bank appointed to the Board on 23rd September 2013. Her profile, Board Sub-committee memberships and other directorships held are published on pages 16 and 66 respectively in this Annual Report.
5. To elect as a Director, Mr. A.S. Wijesinha, who retires at the Annual General Meeting in terms of Article 89 of the Articles of Association of the Company. Mr. A.S. Wijesinha was

appointed as an Independent Director of the Bank on 1st December 2016. His profile and other directorships held are published on pages 18 and 67 respectively in this Annual Report.

6. To elect as a Director, Mrs. S.K. Salgado, who retires at the Annual General Meeting in terms of Article 89 of the Articles of Association of the Company. Mrs. S.K. Salgado was appointed as an Independent Director of the Bank on 1st December 2016. Her profile and other directorships held are published on pages 18 and 67 respectively of this Annual Report.
7. To re-appoint Messrs KPMG, Chartered Accountants as the Auditors of the Company for the ensuing year and to authorise the Directors to determine their remuneration.
8. To authorise the Board of Directors to determine donations for 2017.
9. To consider any other business of which due notice has been given.

By Order of the Board of Seylan Bank PLC,



**(Mrs.) N.N. Najumudeen**  
Company Secretary

1st March 2017  
Colombo

**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 only to attend and speak on his/her behalf.
- (c) A proxy holder need not be a shareholder of the Company. A Form of Proxy is enclosed for this purpose.
- (d) The completed Form of Proxy should be deposited at the Office of the Company Secretary at Level 13, Seylan Towers, No. 90, Galle Road, Colombo 03 not less than 48 hours before the time appointed for the holding of the Annual General Meeting. 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 when attending the Annual General Meeting.







## Instructions for the Completion of Form of Proxy

1. In terms of Article 63 of the Articles of Association of the Company the instrument appointing a proxy shall be in writing and
  - (a) in the case of an individual be under the hand of the appointor or his attorney or
  - (b) if such appointor is a company or corporation either under its common seal or under the hand of an officer or attorney authorised in that behalf in accordance with its Articles of Association or constitution.

In terms of Article 69, a company or corporation being a member of the Company may appoint any of its officers or any other person to be its representative or proxy at any meeting or meetings of the Company and any person so appointed shall be entitled to be present and vote and exercise all other powers in regard to any such meeting on behalf of the company or corporation which he represents as if he were a member holding the shares of such company or corporation.

(The Company may, but shall not be bound to require evidence of the authority of any such attorney or representative officer).

2. The full name and address of the shareholder should be filled in legibly on the Form of Proxy together with the National Identity Card Number/Passport/Company Registration Number (as applicable).

Please indicate with an 'X' in the space provided as to how your proxy is to vote on each Resolution. If no indication is given, the proxy shall exercise his/her discretion and vote as he/she thinks fit.

3. The completed Form of Proxy should be deposited at the Office of the Company Secretary at Level 13, Seylan Towers, No. 90, Galle Road, Colombo 03 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 notarially certified copy of the Power of Attorney 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.

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 : .....

E-mail : .....

Present Occupation : .....

**Queries/Comments**

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| Signature of Shareholder | Date  |





### **This Annual Report is Carbon Neutral**

This Seylan Bank PLC annual report has been produced by Smart Media The Annual Report Company, a certified carbon neutral organisation. Additionally, the greenhouse gas emissions resulting from activities outsourced by Smart Media in the production of this annual report, including the usage of paper and printing, are offset through verified sources.

### **This is an Integrated Annual Report**

This Seylan Bank PLC annual report has been prepared using the Smart Integrated Reporting Methodology™ of Smart Media The Annual Report Company.





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