



**2017**

**PEOPLE'S BANK**  
ANNUAL REPORT

Limitless



A NEW **ERA**...



**PEOPLE'S  
BANK**

**The Bank of the People**

# Limitless

**With over half a century spent in fulfilling the financial needs of its customers, from various walks of life across all demographic and social economic groups, People's Bank has built an unmatched reputation and an unparalleled capability in the local banking and financial services space. Benefiting from having the industry's largest customer access, the largest portfolio of customer accounts, and the largest human resource talent pool, the Bank leads on many fronts be it from a product/service perspective, national contribution or stakeholder value added. Now with an industry revolutionising truly digital effort, the Bank offers its stakeholders limitless opportunities...**

# ABOUT OUR INTEGRATED REPORT

People's Bank is pleased to present its third consecutive Integrated Annual Report.

This Report presents a detailed yet concise account of the Bank's value creation process over the short, medium and long term. It offers a detailed view into the strategy, governance and capital management and a balanced review of its financial, social and environmental performance in the context of the surrounding operating environment in 2017. Finally, the Report addresses all queries pertaining to making sound decisions about the Bank and its activities.

## REPORT STRUCTURE

The Annual Report 2017 discusses the strategy, governance, financial and non-financial performance and future prospects in the context of the value creation process, in a balanced and holistic manner. It covers the 12-month period from 1st January to 31st December 2017, which is consistent with the usual annual reporting cycle for financial and sustainability reporting. The most recent report of the Bank for the year ended 31st December 2016 is available on our website: <http://www.peoplesbank.lk>. There were no significant changes from previous reporting periods in the scope and aspect boundaries, neither were there any restatements as compared to the Annual Report issued in previous reporting years.

## REPORT BOUNDARY

This Report covers the entirety of operations of People's Bank and its three subsidiaries, People's Leasing & Finance PLC, People's Merchant Finance PLC and People's Travels (Pvt) Ltd., are collectively referred to as "Group" in this Annual Report and are included in the Consolidated Group Financial Statements. People's Bank and its subsidiary People's Leasing & Finance PLC collectively account for 99% of Group's profits and assets. The human capital, environmental aspects, customer and infrastructure related aspects are discussed in the context of the Bank.

The materiality determination process is discussed under "Our Model and Ultimate Value Creative Process" that begins on page 123 of this Report.

## EXTERNAL ASSURANCE

The Group obtains internal and external assurance on various aspects of its operations and corporate reporting as stated below:

### Element

Combined Assurance

### Financial Statements

Board of Directors, The Auditor General,  
Messrs Ernst & Young, Chartered Accountants, Sri Lanka

## Sustainability Reporting

Messrs Ernst & Young, Chartered Accountants, Sri Lanka

## Corporate Governance

Auditor General

## Internal Controls

Board of Directors, Auditor General

## PRECAUTIONARY PRINCIPLE

The precautionary principle is applied in relation to our social and environmental sustainability. As a responsible corporate citizen, we have taken necessary measures to mitigate the risks caused to society and environment through our actions. These are detailed under Community Capital and Natural Capital on pages 187-191.

## COMPLIANCE

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

In writing this Integrated Report, we were guided by the principles of the Integrated Reporting Framework of the International Integrated Reporting Council (IIRC).

We have drawn on concepts, principles and guidance, of Global Reporting Initiative (GRI) Sustainability Reporting Guidelines G4 criteria, where we have opted for the "In Accordance – Core" option. We have made reference to the United Nations Sustainable Development Goals (UNSDG) as well.

The section on Corporate Governance, where applicable, we voluntarily comply with 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 and also the Banking Act Direction No. 11 of 2007.



We welcome your comments or inquiries on this Integrated Annual Report 2017 through which we strive to establish an inclusive and meaningful engagement with our stakeholders. Please direct any feedback to:

**QUERIES**

### Management Information Department

People's Bank,  
No. 75, Sir Chittampalam A. Gardiner Mawatha,  
Colombo 02.

☎ Tel: +94 11 232 7841, +94 11 244 6316, +94 11 248 1481

✉ E-mail: [info@peoplesbank.lk](mailto:info@peoplesbank.lk)

🌐 Website: [www.peoplesbank.lk](http://www.peoplesbank.lk)

# CONTENTS

## 04

### → ABOUT US

- 004 — About the Bank
- 005 — About the Group
- 008 — Milestones

## 12

### → HIGHLIGHTS OF THE YEAR

- 012 — Financial Highlights
- 013 — Non-Financial Highlights

## 14

### → MESSAGES

- 014 — Letter from the Chairman
- 018 — Chief Executive Officer/  
General Manager's Review

## 21

### → GOVERNANCE AND LEADERSHIP

- 021 — Board of Directors
- 024 — Corporate Management
- 030 — Executive Management
- 033 — Corporate Governance
- 056 — Board Subcommittee Reports
- 060 — Directors' Statement on  
Internal Controls
- 062 — Auditor General's Assurance  
Report on Internal Control

## 63

### → MANAGING RISK

## 101

### → BUSINESS MODEL

- 102 — Operating Environment
- 110 — Value Creation Model
- 114 — Goals, Strategies and Outlook
- 117 — Our Commitment to the  
Sustainable Development  
Goals (SDGs)
- 120 — Stakeholder Engagement
- 123 — Materiality

## 125

### → VALUE CREATION AND CAPITAL FORMATION

- 126 — Financial Capital
  - Performance of Key  
Business Lines
  - Financial Review
  - Value Created and Distributed
  - Economic Value Added
- 151 — Manufactured Capital
- 153 — Intellectual Capital
- 157 — Human Capital
- 171 — Social and Relationship Capital
  - Investors
  - Customers
  - Business Partners
  - Community
- 189 — Natural Capital

## 192

### → EVENTS OF THE YEAR

## 195

### → FINANCIAL REPORTS

- 197 — Directors' Responsibilities for  
Financial Reporting
- 198 — Auditor General's Report on  
Financial Statements
- 199 — Income Statement
- 200 — Statement of  
Comprehensive Income
- 201 — Statement of Financial Position
- 202 — Statement of Changes in Equity  
– Bank
- 204 — Statement of Changes in Equity  
– Group
- 206 — Statement of Cash Flows
- 207 — Notes to the Financial  
Statements

## 293

### → OTHER INFORMATION

- 294 — Income Statement US \$
- 295 — Statement of Financial  
Position US \$
- 296 — Performance Review  
2008 – 2017
- 298 — Basel III – Market Discipline  
Disclosure Requirement under  
Pillar 3
- 310 — External Assurance on  
Sustainability Report
- 311 — GRI Content Index  
“In Accordance” Option: Core
- 314 — Glossary of Financial/  
Banking Terms

# ABOUT THE BANK

---

People's Bank was established through the People's Bank Act No. 29 of 1961, as a Licensed Commercial Bank, with the aim of channelling banking services into the rural economy. Today, People's Bank is Sri Lanka's second largest bank in terms of assets, with the largest network of branches spread across the nation, serving over 18 million customers from every socio-economic background and demography.

As "The Bank of the People," People's Bank has been an integral partner in our nation's economic development and an icon to the people of Sri Lanka, symbolic of strong and stable leadership.

Demonstrating its leadership status, the Bank initiated digitalisation in alignment with the latest consumer and market trends. The aim is to bring the benefits of digitalised banking to the nation, and its benefits to all stakeholders across its wide customer base – ranging from the rural farmer to the country's leading corporate.

People's Bank is a Government-owned entity and comprises three subsidiaries – People's Leasing & Finance PLC, People's Travels (Pvt) Ltd., and People's Merchant Finance PLC.

## OUR VISION

---

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

## OUR MISSION

---

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

## OUR VALUES

---

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



## ABOUT THE GROUP





People's Bank Group comprising People's Bank and its three subsidiaries, is one of the most socially and economically impactful entities and an integral component of Sri Lanka's financial system.

Serving over 18 million customers across Sri Lanka, with a network of over 850 locations, the Group contributes to the socio-economic development through the provision of financial services, generating employment opportunities and promoting financial inclusion.

The Group has been the recipient of many local and international awards, a testament to its commercial viability and social relevance and remains a catalyst for Sri Lanka's socio-economic progress.

### ORGANISATIONAL STRUCTURE

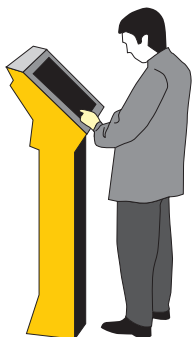
The People's Bank Group comprises the Bank, People's Leasing & Finance PLC, People's Travels (Pvt.) Ltd. and People's Merchant Finance PLC. People's Bank is the largest contributor to Group, accounting for 91% of the assets and 89% of the earnings.

	Clients	Products and Services	Highlights
People's Bank 	Individuals, micro enterprises, small and medium sized businesses, corporates and the Government	<ul style="list-style-type: none"> <li>Consumer Banking</li> <li>Wholesale Banking</li> <li>Enterprise Banking</li> <li>International Banking</li> </ul>	Assets: Rs. 1,467,099 million Deposits: Rs. 1,244,003 million Net Profit: Rs. 18,250 million Headcount: 8,454
People's Leasing & Finance PLC 	Individuals, micro enterprises, small and medium sized businesses	<ul style="list-style-type: none"> <li>Leasing and Hire Purchase</li> <li>Microfinance</li> <li>Deposits</li> <li>Loans</li> </ul>	Assets: Rs. 167,467 million Deposits: Rs. 64,736 million Net Profit: Rs. 4,368 million Headcount: 2,092
People's Travels (Pvt) Ltd. 	Individuals, micro enterprises, small and medium sized businesses	<ul style="list-style-type: none"> <li>Inbound Travel</li> <li>Outbound Travel</li> <li>Destination Management</li> </ul>	Assets: Rs. 131 million Net Profit: Rs. 13.2 million Headcount: 25
People's Merchant Finance PLC 	Individuals, corporates	<ul style="list-style-type: none"> <li>Leasing and Hire Purchase</li> <li>Deposits</li> <li>Trade Finance</li> </ul>	Assets: Rs. 2,959 million Deposits: Rs. 2,544 million Headcount: 128

# Our Profile

– in a nutshell

## Manufactured Capital



- ▶ The **industry's largest** banking network with:
  - 737 branches
  - Over 572 own ATM's and access to 3,000 plus other
  - 1,287 school saving units
- ▶ The **country's first** to roll out a fully digitised branch
- ▶ The **country's first** State Bank to achieve ISO/IEC 27001:2013 Certification for Information Security
- ▶ Rolled out **the industry's first** 24/7 all day banking Self Banking Unit concept



## Human Capital



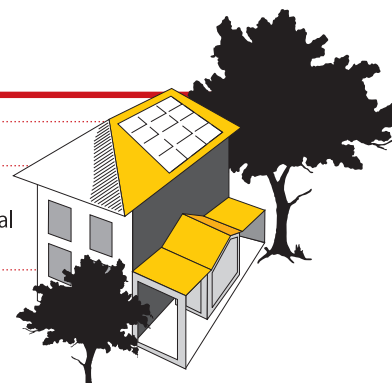
- ▶ The **industry's largest** employer with 8,454 in permanent staff alone
- ▶ 60% female employees. By far **the industry's largest**
- ▶ 1,042 employees with over 25 years of service
- ▶ 3,792 employees professionally qualified
- ▶ Per employee:
  - Revenue: Rs. 19.2 million (18.8% growth over 2016)
  - Profit: Rs. 2.2 million (29.6% growth over 2016)



# PEOPLE'S

## Natural Capital

- ▶ Introduced the green building policy
- ▶ Commenced work in constructing the country's **first** fully environmental friendly branch in Jaffna



## Social and Relationship Capital

### Customers:

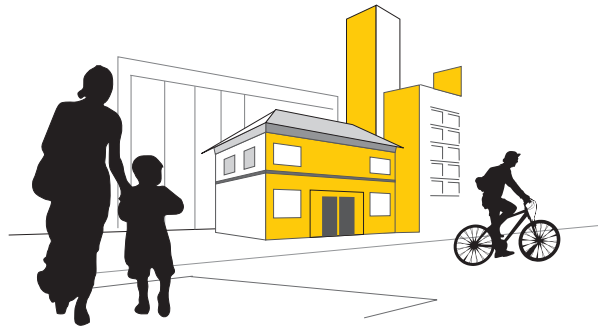
- ▶ The **industry's largest** customer portfolio with
  - **18.6 million** customer accounts
  - Close to **14.4 million** customers
  - 91% customer satisfaction

### Business Partners:

- ▶ **Over 20** years relationship with 26 correspondence banks alone
- ▶ **118** business partners

### Investor:

- ▶ Rs. **23.3 billion** paid in 2017
- ▶ Total group contribution to the Government in the form of taxes/ dividends over the last ten years **crosses** Rs. 150.2 billion



## Financial Capital

### Top line/ bottom line

- ▶ Gross income – **crosses** Rs. 190.0 billion
- ▶ Total operating income reaches an **industry high** of Rs. 79 billion
- ▶ Profit before tax reaches a **group all time high** of Rs. 29.9 billion

### Deposit mobilisation

- ▶ **Crosses** Rs. 1.3 trillion. 16.6% growth
- ▶ CASA: 40%. The **highest** amongst LCBs
- ▶ Leader in savings

### Customer advances:

- ▶ Crosses Rs. 1.1 trillion mark
- ▶ Gross NPLs: 1.9%. **Amongst the lowest** in the industry
- ▶ Provision coverage: 92.7%. **Amongst the highest** in the industry
- ▶ Amongst LCB's:
  - **Amongst the largest** exposure to agriculture
  - **Amongst the largest** SME lenders

### Recognitions

- ▶ Ranked **amongst the World's Top 1000 Banks** by the Banker Magazine (UK) in 2017 on a consolidated Tier I basis as follows:
  - Profit on capital: 43
  - Return on assets: 160
  - Assets size: 785
  - Tier I: 956
- ▶ Asian Banker Magazine 2017: Ranked as the **400th** largest in Asia



# BANK



## Intellectual Capital

- ▶ National Business Excellence Awards 2017: **"The Country's Best Bank"**
- ▶ SLIM Nielson People's Choice Awards 2017: **"People's Service Brand of the Year"** and **"People's Banking Service provider of the Year"**

## MILESTONES

- **1961** People's Bank was inaugurated on 1st July 1961. The first branch was opened at Duke Street, Colombo. During the year, eight more branches were opened in Polonnaruwa, Hingurakgoda, Hambantota, Anuradhapura, Puttalam, Matale and Kandy in addition to the Foreign Branch in Colombo. **The total number of employees stood at 169.**
- **1962** The Head Office was relocated to Ratnam's Building in Union Place, Colombo 2 and 17 more branches were opened.
- **1963** The Bank commenced its pawning services.
- **1964** The Co-operative Rural Banking Scheme was inaugurated.
- **1965** Some departments of the Bank were relocated to the GCSU building in Sir Chittampalam A. Gardiner Mawatha, Colombo 2. The total number of branches increased to 48, this included new branches in Horana, Kekirawa, Padaviya, Mannar, Embilipitiya, Kahatagasdigiliya, Ragala and Talawakelle.
- **1967** **The Bank commenced a new Agriculture Credit Scheme becoming the pioneer lender to the small farm sector.**
- **1970** The "Athamaru" loan scheme was introduced to finance economic activities of the informal sector. The Investment Savings Scheme, a credit linked savings scheme was launched to attract regular savers.
- **1971** **The Bank's hundredth branch was opened at Marandagahamula.**
- **1973** **A comprehensive rural credit scheme was launched to provide both production and consumption credit facilities.** The Bank initiated the "Ganu-Denu" practice, identifying itself with the traditions of the Sinhala and Tamil New Year and encouraging customers to transact with the Bank at the auspicious time.
- **1975** An aggressive branch expansion programme brought our total branch count to 158.
- **1977** **Our 200th branch opened at Kollupitiya.** The Head Office was relocated to a building in Fort. The total number of employees reached 5,000. The first fisheries bank was opened at Korallawella.
- **1981** Our branch network increased to 290. The Extended Minors' Savings Scheme was launched.
- **1982** **The 300th branch of the Bank opened at Ingiriya.** The total number of employees reached 10,000.
- **1984** The People's Merchant Bank, a Subsidiary of the Bank, was established. Our branch at Slave Island was merged with the International Division and the Fort Foreign Branch.
- **1986** The process of computerisation began at our Head Office and selected city branches and a Black Light System was introduced. Customer turnaround time was thereby significantly reduced.
- **1987** Our Headquarters Branch became the Bank's first fully-automated branch. A special loan scheme for rural electrification was implemented in collaboration with the CEB.
- **1989** The Bank participated in a loan scheme sponsored by the Ministry of Labour to provide for housing against EPF balances. A scheme was launched in association with the Sri Lanka Foreign Employment Bureau to provide loans for job seekers abroad. **The Bank participated in a loan scheme launched by REPIA to provide credit to those affected by civil unrest in 1983.** A *Janasaviya* associated loan scheme was introduced during the year. The Bank also commenced issuing Negotiable Savings Certificates during the year.

1960s

1970s

1980s

- **1990** An Endowment Savings Deposit Scheme was introduced. The People's Visa Card was introduced in association with Visa International and 24 branches were fully-computerised.
- **1991** The first ATM was installed at our Headquarters Branch.
- **1992** **The Bank supported the Government's 200 Garment Factory Programme.** "People's Automated Banking System" (PABS) a banking application developed in-house, commenced live operations.
- **1993** Three hundred and thirty bank branches were operating throughout the country and 35 main branches were fully-automated. "Vanitha Vasana", a savings scheme for women was introduced.
- **1994** Eight new ATMs were installed and 160 branches were computerised under the automation programme.
- **1995** "Gurusetha", a new deposit mobilisation and loan scheme catering to Government teachers was launched with the co-operation of the Ministry of Education.
- **1996** "Suwa Sevana", a credit package for Government sector health personnel was launched. "Sisu Udana", a new deposit scheme for school children was introduced. The Bank participated in two ADB-funded credit schemes – the Tea Small Holdings Development Project and the Perennial Crops Development Project. The Bank's fully-owned subsidiaries, People's Leasing Co. (PA) Ltd. and People's Travels (Pvt) Ltd., commenced operations. Zonal offices were opened to strengthen decentralised administration and to facilitate better customer service.
- **1997** **The "Surathura" Loan Scheme was launched to assist self-employment projects.** The Bank extended its credit facilities to small and medium scale enterprises and industries under the NDB-funded Small and Medium Enterprises Assistance Project (SMEAP).
- **1998** The total number of ATMs increased to 36, serving over 125,000 PET cardholders. One hundred and seventy-five branches were fully-automated and the number of pawning centres increased to 188. A special credit cum deposit scheme known as "Videshika" was introduced in collaboration with the Sri Lanka Foreign Employment Bureau to assist migrant workers.
- **1999** The Bank launched "Isuru Udana", a deposit scheme that encourages parents and guardians to save for the benefit of their young charges.
- **2000** The "Jana Jaya", savings cum loan scheme was launched. The newly introduced "Jaya Sri" draw offered attractive prizes for depositors. The ATM network expanded to 74 machines throughout the country. The Central ATM Switch was introduced to connect the PABS branches and the ATM.
- **2001** The Bank's corporate management team was strengthened by the recruitment of certain heads of divisions from the private banking sector. Restructuring of the Bank was initiated through the launch of a Strategic Plan. The total number of ATM machines grew to 90.
- **2002** The number of PABS automated branches increased to 218 and 119 branches were connected to the Central ATM Switch. A Treasury automation package was implemented.
- **2003** The 11th CEO/General Manager of the Bank, Mr. Asoka de Silva assumed duties on 1st February 2003. The Young Executive Saver's (YES) Account was launched. The Bank signed up with Silver Lake System SDV BUD Malaysia to install a state-of-the-art core banking package and trade services solutions which will initially be operational in 60 selected branches including Head Office.
- **2004** The second phase of the restructuring plan for 2004-2008 launched and approved by the Government of Sri Lanka was based on the recapitalisation support of ADB. **The Bank obtained the first ever public rating of BBB+ from Fitch Ratings Lanka.** The Core Banking project was implemented successfully.

1990s

2000s

- **2005** The 15th Chairman of the Bank Dr. P.A. Kiriwandeniya assumed duties at the beginning of December 2005. This was followed immediately thereafter with a receipt of Rs. 2 billion as the first tranche of Equity Capital Investment in the Bank by the Government of Sri Lanka in keeping with the agreement signed between the Government, ADB and People's Bank. The core banking project was further extended across the branch network. The Bank was also a major intermediary in bringing Government-granted financial assistance for rebuilding, after the December 2004 tsunami.
- **2006** **The Bank obtained an A-rating from Fitch Ratings Lanka Ltd.,** indicating progress from its earlier rating level. People's Bank was awarded the POP Award for 2006 in the banking and financial services sector by the Sri Lanka Institute of Marketing. The second tranche of capital of Rs. 1 billion was received from the Government of Sri Lanka.
- **2007** The 16th Chairman of the Bank Mr. W. Karunajeewa assumed duties in May 2007. The rating level of A - from Fitch Ratings was maintained during the year. The Government of Sri Lanka injected the third capital tranche of Rs. 1.5 billion into People's Bank. People's Bank won the People's Award for the Banking and Financial Services Brand of the Year for the second consecutive year. The Bank surpassed the Rs. 300 billion mark in total deposits during the year 2007.
- **2008** Mr. M. Wickremasinghe assumed office as the 12th CEO/General Manager of the Bank. The Government of Sri Lanka released the fourth capital tranche of Rs. 1.5 billion. The Bank reached the Capital Adequacy Level of 10.5% by the end of the year. Further, the Bank's first Debenture issue of Rs. 2.5 billion was made in the year. A notable advancement in the Bank's remittance service with the introduction of "People's e-Remittance", a web-based remittance product supported by latest technology to remit money from overseas within minutes. Two new foreign currency deposit products were launched, viz., "Doo Daru Ethera Isura" a foreign currency deposit product for children and "Special Foreign Investment Deposit Account" [SFIDA].
- **2009** The 13th CEO/General Manager of the Bank, Mr. P.V. Pathirana assumed duties in January 2009. The Bank issued its second Debenture for Rs. 2.5 billion during the year. 214 branches and 236 service centres were connected online. The Bank strategically placed over 300 ATMs islandwide. Total deposits reached Rs. 400 billion. The highest recorded profit before tax of Rs. 6.1 billion was achieved. Received a SAFA (South Asian Federation of Accountants) Award for the 2008 Annual Report for the first time in the Bank's history.
- **2010** Mr. H.S. Dharmasiri assumed office as the 14th CEO/General Manager of the Bank in October 2010. Branch Network and service centres expanded to 679. ATMs increased to 330. People's International VISA Debit Card was launched in July 2010. The Bank obtained AA- from Fitch Ratings Lanka Ltd. and AAA from Ram Ratings. Total deposits surpassed Rs. 462 billion during the year 2010. The highest recorded profit before tax of Rs. 8.7 billion was achieved. The People's Bank Annual Report won two Gold Awards at the ARC Awards held in New York. The Bank received the SAFA (South Asian Federation of Accountants) Award, for the 1st place in the Public Sector Category, for the 2009 Annual Report.
- **2011** Mr. N. Vasantha Kumar assumed office as the 15th CEO/General Manager of the Bank on 22nd February 2011. The Bank celebrated the Golden Jubilee on 1st July 2011. **Total branch network reached 714 whilst ATM locations increased to 382 covering almost all parts of the island. The Bank obtained an upgraded rating of AA (stable) from Fitch Ratings Lanka Ltd.** The Bank's total assets, total deposits and total loans and receivables surpassed Rs. 663 billion, Rs. 539 billion and Rs. 478 billion respectively. The highest recorded profit before tax of Rs. 15.3 billion and a profit after tax of Rs. 10.2 billion were achieved. People's Bank won the SLIM-Nielsen People's Award for the Most Popular Bank in the Sri Lankan Banking and Financial Services Sector, the SLIM-Nielsen People's Awards – Service Brand of the Year, and also won the Bronze Award for the Service Category at the SLIM Brand Excellence Awards 2011.

2010s

- **2012** The total branch network reached 728, whilst ATM locations increased to 420 covering almost all parts of the island. **The Bank obtained an upgraded rating of AA + (stable) from Fitch Ratings Lanka Ltd.** The Bank's total assets, total deposits and total loans and receivables surpassed Rs. 873 billion, Rs. 683 billion and Rs. 660 billion respectively. The Bank's 2011 Annual Report won one Grand Award and three Gold Awards in the National Category at the 2012 International ARC Awards.
- **2013** Mr. Gamini S. Senarath assumed duties as the 17th Chairman of the Bank in February 2013. **Twenty three SME Centres were established across the island. Surpassed one million cards milestone during the year with access to over 30 million Visa accredited merchants globally.** Corporate customers were provided with an on line real time payment facility for EPF, ETF and Customs Duty Payments. People's Bank became the first Bank to be connected to the National Common ATM Switch. ATM locations increased to 460 with the branch network expanding to 735. Rs. 5 billion worth Debentures issued during the year at the Bank's fourth Debenture issue.
- **2014** The Bank's asset base crossed one trillion rupees, as the second largest bank in the industry. **Bank garnered the triple accolades of "Bank of the Year 2014" at the European Global Banking and Finance Award-Sri Lanka 2014 as well as "Best Banking Group Sri Lanka" and "Most Sustainable Bank Sri Lanka" at the World Finance Banking Awards 2014.**
- **2015** **The Bank commenced an ambitious digitisation initiative** with the objective of enhancing its customer value proposition, generating operational efficiencies and strengthening risk management capabilities. Accordingly, the Bank upgraded its ATM network to an enterprise strength hardware platform to increase security and reliability to customers. Investments were also made in upgrading the Core Banking System, data warehousing capabilities and POS infrastructure.
- The Bank launched a Green Banking Concept** in demonstrating its sustainability commitments. Successfully rolled out to the Bank's strategic plan for 2016-2020, which is expected to further fortify the Bank's market position and deliver long-term value to its stakeholders.
- **2016** **The Group achieved the rupees one trillion milestones in both deposits and advances during the year, the only financial services group to achieve two trillion rupee feats in a single year.**
- The Bank was awarded the "Best Banking Group in Sri Lanka" and the "Most Sustainable Bank in Sri Lanka" by World Finance Banking Awards for the third consecutive year. It was also adjudged the 387th largest Bank in Asia.
- In line with its digitisation drive, the Bank launched self-banking centres comprising cash deposit machines (CDM), ATMs and kiosks in seven locations in Colombo, effectively catering to customers' increasing demand for convenient financial solutions and seamless banking.
- The Bank launched a new logo to reflect the Bank's evolution in keeping pace with new global trends and catering to the fast changing aspirations of customers.
- **2017** The Group reached new highs and etched many milestones in 2017. **Total operating income notched at Rs. 79 billion reaching an industry high. The consolidated contribution towards national economic development via taxation, special levies and dividends over the last ten years surpassed the Rs. 150.0 billion mark.** Additionally, the Bank received a new capital infusion of Rs. 5.0 billion for first time in the past eight years.
- The Bank witnessed many firsts in the digital and Information Technology sphere, with the opening of Sri Lanka's first fully-digitalised branch in Colombo and receiving the prestigious ISO/IEC 27001:2013 quality certification for Information Security Management.** This is the world's highest accreditation for information protection and security and the first for any State Bank in the nation.
- The Bank also won multiple awards both locally and globally with a prestigious ranking of being the 400th Largest Bank in Asia as per the Asian Banker Magazine and included in the World's Top 1000 Banks by the Banker Magazine (UK). Locally, People's Bank was crowned "Country's Best Bank in 2017" at the National Business Excellence Awards and was recognised as the second most valuable Sri Lankan brand by the global brand consulting agency, Inter-Brand. For the 11th consecutive year, the Bank was conferred the exclusive "People's Service Brand of the Year" and "People's Banking Service Provider of the Year" Awards at the SLIM-Nielson People's Awards in 2017.

# FINANCIAL HIGHLIGHTS

	Bank			Group		
	2017	2016	Change %	2017	2016	Change %
<b>Operating Performance (Rs. billion)</b>						
Interest Income	149.2	110.0	35.7	173.8	129.7	34.0
Net Interest Income	50.5	43.1	17.0	62.7	53.6	17.1
Gross Income	162.2	122.1	32.9	190.2	144.7	31.4
Operating Profit Before VAT and Tax	32.2	26.2	22.6	37.3	31.6	18.0
Profit Before Tax	25.9	20.8	24.5	29.9	25.4	17.4
Taxation	7.7	5.8	31.7	9.4	7.5	25.1
Profit After Tax	18.2	15.0	21.7	20.5	18.0	14.2
Dividends Paid to GOSL	5.2	8.2	-36.4	5.2	8.2	-36.4
Retained Profit	13.0	6.8	91.8	15.3	9.8	56.8
<b>Financial Position (Rs. billion)</b>						
Total Assets	1,467.1	1,302.0	12.7	1,619.1	1,444.4	12.1
Gross Loans and Advances	1,074.2	950.8	13.0	1,209.1	1,076.4	12.3
Total Deposits	1,244.0	1,077.8	15.4	1,305.6	1,119.8	16.6
Shareholder's Funds	77.5	59.6	29.9	106.4	85.2	24.9
<b>Performance Ratios (%)</b>						
Return on Average Assets (Before Tax)	1.9	1.7	11.8	1.9	1.9	0.0
Return on Equity	26.6	27.5	-3.3	21.4	22.7	-5.7
Cost to Income Ratio	54.8	59.9	-8.5	56.6	60.8	-6.9
Non-Performing Loans Ratio	1.9	1.9	0.0	2.0	1.9	5.3
Provision Coverage	97.5	110.4	-11.7	92.7	110.1	-15.8
Statutory Liquidity Ratio – DBU	24.1	21.7	11.1			
– FCBU	32.4	22.5	44.0			
Loans to Deposit Ratio	86.4	88.2	2.0	92.6	96.1	-3.6
Capital Adequacy Ratio – Tier I	10.8	9.8	10.2	11.5	11.1	3.6
– Total	13.5	12.1	11.6	13.7	13.0	5.4
<b>Shareholder Ratios (Rs.)</b>						
Earnings Per Share	18,250	14,995	21.7	19,296	16,722	15.4
Net Asset Value Per Share	77,457	59,649	29.9	106,443	85,191	24.9



# NON-FINANCIAL HIGHLIGHTS

## CUSTOMER VALUE

	NUMBER OF CUSTOMER ACCOUNTS (million)	INTEREST PAID (Rs. million)	CUSTOMER TOUCHPOINTS	ATMs
<b>2017</b>	<b>18.6</b>	<b>98,719</b>	<b>737</b>	<b>572</b>
<b>2016</b>	<b>17.9</b>	<b>66,846</b>	<b>737</b>	<b>506</b>
CHANGE (%)	↗ 3.9	↗ 47.7	↔ 0.0	↗ 13.0

## EMPLOYEE VALUE

	NUMBER OF EMPLOYEES	PAYMENTS TO EMPLOYEES (Rs. million)	INVESTMENT IN TRAINING (Rs. million)	AVERAGE TRAINING HOURS	PROFIT PER EMPLOYEE (Rs. million)
<b>2017</b>	<b>8,454</b>	<b>15,425</b>	<b>72</b>	<b>23.6</b>	<b>2.2</b>
<b>2016</b>	<b>8,249</b>	<b>13,634</b>	<b>71</b>	<b>22.2</b>	<b>1.8</b>
CHANGE (%)	↗ 2.5	↗ 13.1	↗ 1.4	↗ 6.3	↗ 19.9

## NATIONAL CONTRIBUTION

	TAXES PAID TO GOVERNMENT (Rs. million)	DIVIDEND PAID TO STATE (Rs. million)	ADVANCES TO UNDERSERVED AREAS (Rs. million)
<b>2017</b>	<b>14,804</b>	<b>5,220</b>	<b>94,184</b>
<b>2016</b>	<b>12,296</b>	<b>8,220</b>	<b>92,382</b>
CHANGE (%)	↗ 20.4	↘ -36.5	↗ 2.0

## BUSINESS PARTNERS

	PAYMENTS TO SUPPLIERS (Rs. million)	NUMBER OF REGISTERED SUPPLIERS
<b>2017</b>	<b>10,481</b>	<b>662</b>
<b>2016</b>	<b>8,588</b>	<b>363</b>
CHANGE (%)	↗ 22	↗ 82.4

## COMMUNITY

	INVESTMENT IN CSR (Rs. million)
<b>2017</b>	<b>56.3</b>
<b>2016</b>	<b>40.3</b>
CHANGE (%)	↗ 39.7

## LETTER FROM THE CHAIRMAN



“Building the largest customer base with over 18 million customer accounts, a capacity to mobilise one of the highest amounts of customer deposits year on year and a capability to disburse facilities across the country through the industry’s largest network of branches bear testimony to the success the Bank has achieved over the years.”

Dear Shareholder,

It is my pleasure to present to you the third integrated Annual Report of People's Bank for the financial year ended 31st December 2017.

2017 was yet another phenomenal year for your Bank with all key performance indicators indicating an upward trajectory. This record-breaking performance becomes even more significant considering that these strides were made during a challenging year.

The macroeconomic conditions were challenging yet resilient in 2017. Gross domestic product grew by a moderate 3.7%. Headline inflation remained elevated throughout the year whilst core inflation was on a downward trend reflecting the effectiveness of the tight monetary policy stance adopted by the Central Bank of Sri Lanka over the past two years. Interest rates continued to remain in the higher trajectory since 2016, more so during the first half of the financial year than the latter, thus exerting pressure on margins and overall earnings.

Etching many milestones during the year, your Bank's consolidated operating income reached an industry benchmark of Rs. 79 billion with post-tax profits reaching Rs. 21 billion. Customer deposits crossed Rs. 1.3 trillion whilst customer advances reached Rs. 1.1 trillion reflecting a record performance at a Group level. People's Bank Group is the only institution to consistently deliver a return on equity to shareholders in excess of 20% since 2010. Additionally, maintaining a relatively high portfolio quality whilst achieving a 13% YoY growth in advances during 2017, remains a notable feat amidst a challenging operating environment.

I am proud to mention that your institution successfully met all Basel III requirements during the year under review, including capital adequacy, liquidity coverage and leverage.

With close to Rs. 23 billion in taxes, special levy and dividends paid to the Government of Sri Lanka during 2017 on a consolidated basis, the People's Bank Group continues to be a main revenue contributor to the State. This takes aggregate contribution made over the past ten years to a staggering Rs.150 billion – a feat not many can boast of.

In addition, your Bank received a capital infusion of Rs. 5 billion from the General Treasury, Ministry of Finance in July 2017.

I am pleased to also state that Cabinet approval was received to amend the People's Bank Act in February 2017. Whilst remaining formalities in this connection are yet ongoing, once complete, the Bank will be in a position to issue debentures for regulatory capital purposes with relative ease and, more importantly, be in a position to realise its full growth potential.

2017 also witnessed notable developments in the regulatory landscape with the introduction of Basel III with effect from 1st July 2017; new directives issued by the Central Bank on granting loans; and introduction of SLFRS 9 which came into effect from 1st January 2018. While these developments are designed to strengthen the stability of the overall financial system over the longer-term, pressures of these new regulatory measures on your Bank at the present juncture, like most others in the industry, is inevitable. Therefore, appropriate measures have been taken to ensure compliance, once these requirements come into force and effect.

Significant progress was also made on the Bank's digital transformation journey which first commenced in 2015. In July 2017, we opened Sri Lanka's first Digital Banking Centre and, within a very short time span, established close to 30 express banking centres and 100 plus Self Banking Units (SBUs) by year end. This is a strong demonstration of our digital leadership with Sri Lanka's banking sector. Even as we are pleased with the progress made thus far, we are not complacent as we continue on our digital journey to position the Bank for exponential growth with the objectives of enabling limitless banking possibilities for the benefit of all our stakeholders and the economy at large going ahead.

Being a wholly-owned State bank, with the Government of Sri Lanka as its shareholder, People's Bank's strategic agenda is closely aligned with the national development agenda. This is to proactively contribute towards our nation's development. Additionally, the aspirations of our people remain an overall responsibility constantly in our focus and embedded into the Bank's strategic plan. With sustainability philosophy deeply ingrained in our ethos, the engagement with our stakeholders reaches across all demographics; from rural to urban, minors to senior citizens, micro and SMEs to large corporates, agriculture to infrastructure, national enterprises to multinational corporations, and globally across the diaspora that contributes towards our nation's economic betterment.

Your Bank's commitment to creating value and sustainable growth is evidenced by its solid leadership across the industry's key indicators, consistent shareholder returns and strong customer relationships. Building the largest customer base with over 18 million customer accounts, a capacity to mobilise one of the highest amounts of customer deposits year on year and a capability to disburse facilities across the country through the industry's largest network of branches bear testimony to the success the Bank has achieved over the years. This success would not be possible without the untiring efforts of the management and the 8,000 plus strong workforce who persistently push the boundaries of success and performance even amidst intense challenges enabling us to reach impressive new highs, year on year.

We continued to remain committed to pursuing excellence in corporate governance and risk management oversight whilst enhancing transparency through frequent engagement with regulators and other key stakeholders. The recognitions the Bank received during the year through the many awards and accolades, both locally and internationally, vouch for its strength, stability and the values it has built since its inception. These are detailed under the Intellectual Capital section in this Annual Report.

Looking ahead, we will continue to drive the technological transformation for the benefit of all our stakeholders, making digitalised banking accessible to everyone in our nation. We will pave the way for our stakeholders to become a part of the global phenomenon of digitalisation to live and work as global citizens, enabling to hone their inherent strengths on the digital platform and optimise on opportunities they come across, anywhere in the world.

Accordingly, we will continue to offer innovative financial service solutions, by effectively implementing technologies that not only improve customer service, but are also cost-effective and reliable. The solutions which are ahead of their time, would cater to the diverse needs of our customers across every socio-economic and demographic groups.

In closing, I wish to express my sincere appreciation to all our customers, for their continued loyalty and confidence which is undoubtedly our biggest strength. I express my gratitude to Honourable Minister Hashim and Honourable Minister Lakshman Kiriella of the Ministry of Public Enterprise for their unstinted support at all times, and to the Honourable Minister Mangala Samaraweera and Honourable Deputy Minister Eran Wickramaratne of the Ministry of Finance for their expeditious assistance in all related matters. My appreciation is also extended to the Central Bank of Sri Lanka for their valued counsel on matters of a regulatory nature.

I am grateful to my colleagues on the Board for their support and guidance. My deep appreciation is extended to the management and staff members for contributing to the excellent results through their dedication and untiring efforts. In particular, I wish to thank our CEO/GM, Mr. Vasantha Kumar for his exemplary leadership and contribution towards elevating the Bank to its present position.

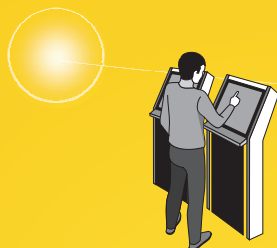
I am extremely proud of the Organisation we have built today. But more than that, I look forward to the future with optimism, as we continue to create and grasp opportunities to better serve our stakeholders, achieve sustainable growth for the benefit of our shareholder and foray uncharted territories in the banking and financial services space. Today, we are a step closer to realising our vision of being Sri Lanka's undisputed market leader for financial services.



**Hemasiri Fernando**  
Chairman

27th March 2018

# LEADING THE DIGITISATION JOURNEY IN THE BANKING AND FINANCIAL SERVICES SPACE IN SRI LANKA



Fully-digitised branches:  
including the country's first

**2**



Express/paperless  
banking centres

**28**



The country's fastest "branch-like" network expansion

**102 Self-Banking Units  
in just 12 months**



ISO/IEC 27001:2013

The first and only state bank to receive an international  
accreditation for its information security

**ISO/IEC 27001:2013 Certification**



Value of internet banking transactions in 2017 alone

**Rs. 127.5 billion**

**Our revolutionary journey continues...**

## CHIEF EXECUTIVE OFFICER/ GENERAL MANAGER'S REVIEW



“In recognition of its leadership status within the overall Banking and Financial Services space in the country, the Bank has been bestowed with numerous awards accolades both locally and internationally. These successes are due to the collective effort of the entire People’s Bank team with every department contributing towards its success.”

We have evolved our strategy and realigned our business model to take advantage of new opportunities, creating greater value for our stakeholders, including our 18 million customer accounts whilst building a more resilient institution. Focusing on an all-round improvement across the Group, we have strengthened internal controls, enhanced customer convenience and expanded our digitalisation strategy to offer limitless possibilities to all our stakeholders. These measures have enabled us to end the year on a solid footing.

### AN IMPRESSIVE YEAR

2017 was an exceptional year for our Group, as consolidated gross income increased to Rs. 190.2 billion, recording a year on year (YoY) growth of 31.4%. Total operating income swelled by 15.2% to reach an industry high of Rs. 78.8 billion. Non-funded income also increased to Rs. 16.4 billion reflecting an YoY growth of 8.8%. Consolidated pre-tax profit expanded by 17.4% to record a Group all time high of Rs. 29.9 billion as compared with Rs. 25.4 billion in 2016. Through effective cost management strategies, growth in operating expenses were contained at 4.9% in 2017.

We had to curtail the growth of assets and deposits to manage our key ratios under BASEL III. Therefore, asset growth was consciously contained in the last quarter of 2017 to be in line with the BASEL III leverage requirement. Accordingly, total assets expanded by a controlled 12.1% to reach Rs. 1.619 trillion in the year under review. This was a significant feat achieved by your Bank in a very short span of time.

Deposits grew by a controlled 16.6% to reach Rs. 1.305 trillion at end 2017. This is a great vote of customer confidence in our Organisation. Achieving a deposit growth on a higher base of Rupees one trillion was a tremendous feat, supported by our wide geographical coverage and effective marketing campaigns.

Despite the challenging economic milieu and having an asset base exceeding one trillion rupees, we successfully maintained the quality of our asset portfolio by containing non-performing ratio at 1.9% levels which is yet amongst the lowest in the banking industry.

The exceptional performance during the year reflects the Group's capacity and drive to consistently achieve a higher standard of performance even amidst challenges, in particular with internal capital constraints and challenging market conditions. In recognition of its leadership status within the overall Banking and Financial Services space in the country, the Bank has been bestowed with numerous awards accolades both locally and

internationally. These successes are due to the collective effort of the entire People's Bank team with every department contributing towards its success.

### OUR DIGITAL LEADERSHIP

We made steady progress on our digitalisation agenda, which represents our persistent effort to grow while shaping the industry's environment. Accordingly, close to 30 express banking centres and over 100 Self-Banking Units were set-up in all 25 districts across the country during the year under review. Thus, we have not only built Sri Lanka's largest branch network but also have expanded the largest self-banking unit network in the country. These Units which provide access to financial services on a 24/7 basis, every day of the year, cater to diverse needs of customers – even across peer banking institutions and financial services providers – with an updated portfolio that depicts world-class standards. The launch of the digital centres marks a quantum leap for our Bank in its dynamic leadership to become the most digitalised bank by the year 2020 and ensure universal access for all. Digitalisation enables us to forge deep, mutually rewarding relationships with customers and achieve total financial inclusion in our nation.

### CONTINUING TO PROMOTE NATIONAL DEVELOPMENT AND FINANCIAL INCLUSION

As Sri Lanka's premier State Bank, People's Bank remains acutely aware of its responsibility towards supporting the development of our national economy and driving financial inclusion. We continued to support our nation's infrastructure development, lending to numerous development projects such as power generation, water and road development. By end 2017, our loan portfolio in this category was in excess of Rs. 100.0 billion. In our efforts to support "Soorya Bala Sangraamaya" – the Government's initiative to promote solar energy in households, we launched a new solar power loan scheme during the year. We also partnered the Road Passenger Transport Authority, Sri Lanka Private Bus Association and Dialog Axiata to launch "People's Travel Pass" – the first-of-its kind Touch Travel Card that enables cashless commuting for the general public. Additionally, special loan facilities were launched for professionals in media and arts as a special recognition of their service to the nation.

Using microfinance as an empowering tool, concessionary loans facilities were disbursed to underserved segments in our nation.

We also empowered 525 Small and Medium Enterprise (SME) customers through "Entrepreneurial Glory" – the ongoing customer training and education seminars conducted across the island. Additionally, we partnered 11 refinance schemes to channel

Government funds to specific industry sectors through our extensive branch network. I am happy to state that we disbursed Rs. 867 million through this channel during the year under review.

## CUSTOMER CENTRICITY

The core of our strategic agenda continues to be our focus on our 18 million customer accounts. This is because building customer loyalty remains a key priority as we understand that their success continues to drive our own. Hence, we remain uniquely positioned to provide our customers with an exceptional customer experience. Through digital banking we continued to improve our service standards, enhance access and extend greater convenience, elevate our service delivery and provide greater customer privacy whilst introducing cutting-edge products. Additionally, our employees were trained on delivering an exceptional customer service.

## OUR COMMITMENT TO CORPORATE RESPONSIBILITY AND SUSTAINABILITY

We are an integral part of the communities in which we operate. Even as our commitment to corporate responsibility supports the sustainability of our Bank well into the future, we have integrated sustainability into our daily operations through industry leadership, stakeholder engagement and community investment activity. Our employees are at the heart of this commitment. Their dedication and commitment has enabled the Bank to successfully manage financial, social and environmental factors.

We continued to host community initiatives, such as developing school infrastructure in disadvantaged areas, supporting projects that appreciate cultural heritage and historic value, and providing assistance in the wake of natural disasters. These are detailed under Community Capital on pages 187-188 of this Annual Report.

Our concern for environment prevails in all our business decisions and banking operations, embedding environmental concerns into credit evaluation proposals and promoting sustainable banking practices through digital banking platform. We continued to add value to our employee capital through effective training and development programmes and nurturing a conducive work environment. Increased value was generated to our shareholder by delivering sustainable, healthy returns and growing our business. We also maintain a high level of integrity and transparency in our operations through compliance.

## OUR FOCUSED FUTURE

Our corporate strategic plan, combined with the digitalisation drive and an exceptional workforce, has formed the blueprint for success. Even as digitalisation will undoubtedly be the facilitator for us to

achieve a competitive advantage in product and service offerings, we will remain committed to driving sustainability through continuous improvements in all our operations, active engagement with stakeholders and delivering increased value to them.

We will continue to open up self-banking units and set-up digital centres in every district of our nation. Our focus on environmental sustainability will be strengthened through the promotion of paperless banking and implementing green initiatives.

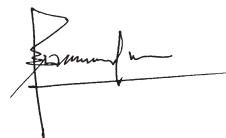
More focus will be given to the Development Banking and SME sector in the ensuing year as per Government's economic agenda. We will also focus on improving the Current Accounts and Savings Accounts ratio of the Bank and embark on the Group's new strategic plan for 2020-2024 which would chart the course of the Group for its next growth phase.

## APPRECIATION

People's Bank Group is on a solid foundation, poised for sustainable growth. Our strategy is sound and the management is focused.

Even as we continue to have great confidence in the long-term success of our Group, I wish to extend my gratitude to our Chairman, Mr. Hemasiri Fernando and the Board of Directors for their invaluable contributions and conscientious stewardship. My appreciation is extended to our supervisors, the Ministry of Public Enterprise Development, the Government Treasury and the Central Bank of Sri Lanka for their counsel and guidance. I thank the Management and the staff members for their commitment and untiring efforts and contribution towards these excellent results. I am grateful to our shareholder and customers for their continued trust and confidence in us.

Our deep insights into the changing needs of our customers, along with our investments in technology, our strong relationships with our stakeholders and above all our ability to adapt to and embrace change, has enabled us to persistently push ourselves forward, providing limitless opportunities that create increased value for all our stakeholders. We look forward to the future with great sense of optimism.



**N. Vasantha Kumar**

Chief Executive Officer/General Manager

27th March 2018



## BOARD OF DIRECTORS



*Standing left to right:*

**Mr. Felician Perera** – Director, **Mr. K.D.N. Ranjith Asoka** – Director, **Dr. Aminda M. Perera** – Director,  
**Mr. T.D. Anton S. Hemantha** – Director, **Mr. K. Rajendran** – Director

*Seated left to right:*

**Mr. Jehan P. Amaratunga** – Director, **Mr. Hemasiri Fernando** – Chairman, **Ms. G.D. Chandra Ekanayake** – Director



### MR. HEMASIRI FERNANDO

Chairman

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

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

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

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

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



### MR. JEHAN P. AMARATUNGA

Director

Mr. Jehan Prasanna Amaratunga is the Executive Deputy Chairman of MTD Walkers PLC, Sri Lanka. He is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka and a Fellow Member of the Chartered Institute of Management Accountants, UK. Mr. Amaratunga was awarded First in Order of Merit Prize at the final examination of The Institute of Chartered Accountants of Sri Lanka. Mr. Amaratunga currently serves as a Director of People's Bank, People's Leasing & Finance PLC, Sri Lanka Institute of Information Technology (SLIIT) and JAT Holdings (Private) Limited. He is also the Chairman of People's Insurance PLC. He counts over 26 years of experience in the fields of finance and management. Mr. Amaratunga has served as a

consultant and Director to number of corporations and private business entities. At the National Conference of The Institute of Chartered Accountants of Sri Lanka, he presented a paper titled "Value for Money Accounting" which is one of the many notable achievements that stand out in his career. He was also a member of The Governing Council of The Institute of Chartered Accountants of Sri Lanka.



### MS. G.D. CHANDRA EKANAYAKE

Director

Ms. Ekanayake is a member of the Sri Lanka Administrative Service and joined the Service in 1984. She was appointed as a Deputy Secretary to the Treasury on 9th March 2015. Prior to this appointment, she had held senior positions in the Treasury as Director of Economic Affairs, Controller of Insurance, Additional Director General, Department of External Resources, Director General, Department of Trade, Tariff and Investment Policy and the Director General, Department of National Budget.

Ms. Ekanayake holds a Science Special Degree from the University of Kelaniya, an MBA from the Postgraduate Institute of Management, Sri Lanka and Postgraduate Diploma in the fields of Development Planning Techniques (ISS, The Hague), International Relations (BCIS, Colombo) and Economic Development (University of Colombo). She represented the Treasury in the Council of the Asian Reinsurance Corporation from 2002 to 2013 and functioned as its Vice-Chairperson during the period from 2008 to 2013. She also represented the Treasury previously on the Boards of NDB Bank and Sri Lanka Telecom. As at now she represents the Treasury on the Board of the People's Bank and the Board of Management of the Superior Courts Complex.



### MR. FELICIAN PERERA

Director

Mr. Felician Perera was appointed to the directorate of People's Bank in March 2015. He holds a MA in Criminology. He is an Unofficial Magistrate/Attorney-at-Law/Notary Public/Justice of the Peace/Commissioner for Oaths and Registered Company Secretary. He has served the Mahaweli Venture Capital Co., as the Chairman and Chamber of Commerce (N.W.P.) as a Director.



### MR. K. RAJENDRAN

Director

Mr. Rajendran was appointed to the directorate of the People's Bank in April 2015. He counts 37 years of experience in accounting, financial management, taxation and auditing.

Mr. Rajendran is a Fellow Member of the Chartered Institute of Management Accountants, UK, Chartered Institute of Management Accountants of Sri Lanka, and a Chartered Global Management Accountant. Presently he is the Group Finance Director of DMS Group of Companies.

Mr. Rajendran was the Rotary District Governor in the year 2000/01, and a Council Member of CIMA.



### MR. T.D. ANTON S. HEMANTHA

Director

Mr. Anton Hemantha is an entrepreneur with an agriculture educational background and served in the agriculture chemical industry for a considerable period of time before entering in to the field of agriculture produce packaging. He is the founder and Chairman of Selmo Private Limited, a plastics film extruding, printing and laminate manufacturing company, since 1983. Currently he is also president of Association of Laminated Flexible Packaging Association in Sri Lanka. He was the Chairman of the Packaging Cluster of the Export Development Board of Sri Lanka and was an advisor to Minister of the Industry of Commerce in packaging. He was also a member of the Board of Directors of International Christian Chamber of Commerce (ICCC) based in Orebro, Sweden and the Regional Director of ICCC for Asia.



### DR. AMINDA M. PERERA

Director

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

Dr. Perera has obtained his first Master's Degree in Business Administration in the field of International Finance from IGNOU India and a second Master's Degree in Business Administration

in the field of marketing from the Wayamba University of Sri Lanka. He completed his PhD on consumer behaviour at the same university. He has also followed a Diploma Programme in NGO Staff Management, conducted by the Klasnoff Academy, Germany in 1998. He has also completed a PhD in Business Administration at KESEI University of Korea.

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

Dr. Perera was appointed to the Board of Directors of People's Bank in November 2015.



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

Director

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

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

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

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

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

## CORPORATE MANAGEMENT

---



*Seated left to right:*

**Mr. M.A. Bonniface Silva** – Senior Deputy General Manager – Banking Operations, **Mr. N. Vasantha Kumar** – Chief Executive Officer/General Manager, **Mr. K.B. Rajapakse** – Senior Deputy General Manager – Retail Banking, **Mr. G.B.R.P. Gunawardana** – Senior Deputy General Manager – Business Banking



*Standing left to right:*

**Ms. Chandani Werapitiya** – Deputy General Manager – Strategic Planning and Performance Management,  
**Mr. S.A.R.S. Samaraweera** – Deputy General Manager – Human Resources, **Mr. Rohan Pathirage** – Deputy General Manager-Secretary to the Board of Directors,  
**Ms. G.P.R. Jayasinghe** – Deputy General Manager – Process Management and Quality Assurance, **Mr. Clive Fonseka** – Head of Treasury and Investment Banking,  
**Mr. B.M. Premanath** – Deputy General Manager – Banking Support Services, **Mr. Lionel Galagedara** – Deputy General Manager-Retail Banking,  
**Mr. P.S.A. Edirisinghe** – Head of Information Technology, **Mr. Sunil Wanniarachchi** – Deputy General Manager – Recoveries,  
**Mr. W.K.S.B. Nandana** – Chief Law Officer, **Ms. S. Prathapasinghe** – Deputy General Manager – International Banking,  
**Mr. R. Kodituwakku** – Deputy General Manager – Digitalisation, **Ms. Aruni Goonetilleke** – Head of Corporate Banking,  
**Mr. Azzam A. Ahamat** – Head of Finance, **Mr. E.A.D.J. Priyashantha** – Chief Internal Auditor, **Ms. M.A.D.M. Karunaratne** – Addl. Chief Law Officer



### Mr. N. Vasantha Kumar

Chief Executive Officer/General Manager

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

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

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



### Mr. G.B.R.P. Gunawardana

Senior Deputy General Manager – Business Banking

Mr. Rasitha Gunawardana counts over 30 years of service at People's Bank. He joined the Bank as a Senior Finance Officer in 1987.

He has gained extensive experience in Finance, Performance Management, Corporate and Commercial Credit, Treasury Operations, Credit Control and Risk Management.

Prior to joining People's Bank, he had gained experience in both private and public sectors in industries covering travel and hotels, plantation management and construction.

He is an Associate Member of the Chartered Institute of Management Accountants (UK).



### Mr. K.B. Rajapakse

Senior Deputy General Manager – Retail Banking

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

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

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

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



### Mr. M.A. Boniface Silva

Senior Deputy General Manager – Banking Operations

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

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

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

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



### Ms. Chandani Werapitiya

Deputy General Manager – Strategic Planning and Performance Management

Ms. Chandani Werapitiya Deputy General Manager – Strategic Planning and Performance Management, oversee the performance of the entire Bank

functions for the outshined contribution. Professionally qualified dynamic, results-orientated senior banker who has been contributed to the Bank industry in difficult tasks over a period of 31 years as the author/publisher of peer review journal articles, presenter/panelist in the international banking forums and a lecturer. She has been contributed to the Bank in different functions including Corporate and Institutional Banking, International Banking, Project Lending, SMI, Special Legal Assignments, large scale loan recovery, Leasing, Branch Operations and Channel Management.

She joined as a Management Trainee in June, 1987, after completing her first Degree in BSc Business Administration with a Second Class Upper Division in 1985, completed her Masters in Management in 2000. She joined the Bank after completing her successful career in the Private Sector as the Area Sales Manager and Audit/Tax Supervisor. She is currently reading for the PhD in Management.

She was the Deputy Chairperson of International Chamber of Commerce, Director RDB, and the committee member of Sri Lanka Handicraft Board over three consecutive years and currently holds the position as a member of the governing body at Institute of Bankers Sri Lanka and as a member of Women's Chamber of Commerce.



### **Mr. S.A.R.S. Samaraweera**

Deputy General Manager – Human Resources

Mr. Samaraweera is the Head of Human Resources. He joined the Bank as a Management Trainee and possesses over 30 years of experience in the banking service. During this period, he has served in the areas of Branch Banking, Corporate Banking, Development Banking and Credit Recoveries.

He holds a BSc Second Class Upper Degree in Management from the University of Sri Jayewardenepura and also he is an Associate Member of the Institute of Bankers of Sri Lanka.

His overseas and local exposure includes Management Development, Small and Medium Entrepreneur Management, Rehabilitation of Projects and Strategic Human Resources Management.



### **Mr. Rohan Pathirage**

Deputy General Manager – Secretary to the Board of Directors

Mr. Pathirage counts over 23 years of service at the Bank. He holds a Law Degree (LLB) from the University of Colombo and Master's Degree in Bank Management from Massey University, New Zealand. He also holds a Postgraduate Diploma in Banking. He is an Attorney-at-Law.

He is also the Company Secretary of People's Leasing & Finance PLC, People's Insurance Ltd., People's Fleet Management Ltd., People's Property Development Ltd., and People's Travel's (Pvt) Ltd.



### **Ms. G.P.R. Jayasinghe**

Deputy General Manager – Process Management and Quality Assurance

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

During her career, she has covered the Branch Banking Area at the levels of Branch Manager, Zonal Senior Manager, Regional Manager and Asst. General Manager, Deputy General Manager (Co-operative and Development) and Deputy General Manager (Retail Banking). Presently, she is working as the Deputy General Manager

(Process Management and Quality Assurance).

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



### **Mr. Clive Fonseka**

Head of Treasury and Investment Banking

Mr. Fonseka is a Fellow of the Institute of Bankers of Sri Lanka and holds a Master's Degree in Business Administration from Postgraduate Institute of Management of University of Sri Jayewardenepura. He has received a Distinction for the ACI Dealing Certificate and counts more than 24 years experience in Treasury Management. Furthermore he is a Certified Member (CMA) of the Institute of Certified Management Accountants of Australia.

He joined People's Bank in 2002, prior to which he served at American Express Bank and Standard Chartered Bank. He has been a member of People's Bank's Senior Corporate Management Team from November 2011.



### **Mr. B.M. Premanath**

Deputy General Manager – Banking Support Services

Mr. B.M. Premanath joined People's Bank in 1987 as a Management Trainee and has served over 30 years in several areas in Branch Banking as a Branch Manager, Regional Manager and Assistant General Manager.

Presently serves as the Deputy General Manager (Banking Support Services) which heads six units including Supplies,

Transport, Security, Maintenance Engineering, Building Engineering and Desk Top Publishing which gave vast experience in Procurement, Supplies, Stores and Inventory Control, transport and security procedure together with fields of construction and maintenance.

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



### Mr. Lionel Galagedara

Deputy General Manager – Retail Banking

Mr. Lionel Galagedara is in-charge of Retail Banking Division of the Bank. He joined the Bank as a Management Trainee and counts over 30 years of service at the Bank. His variety of experience covers the areas of retail banking, corporate banking, project financing, credit administration and recoveries.

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



### Mr. P.S.A. Edirisinghe

Head of Information Technology

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

Mr. Edirisinghe has been in the field of IT for 20 years spanning various business

sectors including Insurance, Banking and Telecommunication. Prior to joining People's Bank, he has been attached to Citibank Limited Singapore as Project Management Officer. Throughout his professional career, he has held positions from Analyst Programmer to Chief Information Officer in flagship companies such as Citibank (Australia, Singapore), AON Limited Australia, Clarity International Limited Singapore and Sri Lanka Telecom.



### Mr. Sunil Wanniarachchi

Deputy General Manager – Recoveries

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

He holds a BSc (Special) Degree from the University of Sri Jayewardenepura and soon after the graduation, he worked there as a Demonstrator and Assistant Lecturer in Chemistry. He too obtained his Master's Degree in Business Administration from the University of Colombo. He is an Associate of the Institute of Bankers of Sri Lanka. Recently, he held the positions of President and Senior Vice-President in professional bodies such as Association of the Institute of Bankers of Sri Lanka and Trade Finance Association of Bankers respectively. He is also a member of the Governing Board of Institute of Bankers of Sri Lanka for a period of three years effective from 1st February 2017.

He also contributes his knowledge, skills and experience as a member of several internal and external committees such as Technical Evaluation Committee of Ministry of Power and Energy, internal Committees including procurement, disciplinary, price negotiations, Staff Transfer Appeal and Redressing Employee Concerns.



### Mr. W.K.S.B. Nandana

Chief Law Officer

Mr. W.K.S.B. Nandana is an Attorney-at-Law and also holds a LLB Degree from the University of Colombo. He counts over 39 years of service in both the banking and legal fraternity. During the period of his service, he has served in International Division, Galle Region, Western Zone – I, Special Assets Unit and Legal Department.

His experience covers the areas of Company Law, Commercial Law and Labour Law, in addition to his knowledge in Banking and Credit Recoveries. During his service he has undergone several exposure programmes both locally and overseas, especially on Management and Leadership Development and Judiciary System in Asia.



### Ms. S. Prathapasinghe

Deputy General Manager – International Banking

Ms. Shobani Prathapasinghe joined the People's Bank in 1990 and has over 27 years of experience. She is an Associate Member of the Chartered Institute of Management Accountants – UK (ACMA/CGMA) and a Fellow Member of the Institute of Certified Management Accountants – Sri Lanka. She also holds a Master's Degree in Business Administration (MBA) from the University of Western Sydney (Australia) and a Master's Degree in Financial Economics (MAFE) from the University of Colombo.

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



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



### Mr. R. Kodituwakku

Deputy General Manager – Digitalisation

Mr. Ranjith Kodituwakku has over 35 years of banking experience in a wide spectrum of areas covering Branch Banking, Consumer Banking, Commercial Banking, Corporate Banking, Off-Shore Banking and International Banking.

He holds an MBA in Finance from the University of Colombo and is an Associate of the Institute of Bankers of Sri Lanka.



### Ms. Aruni Goonetilleke

Head of Corporate Banking

Ms. Aruni Goonetilleke has over 24 years of global and regional banking experience in Corporate Banking, Commercial Banking, SME, Branch Banking, Risk Management and Audit. Immediately prior to joining People's Bank, she was the Head of Credit for Commercial Banking at Standard Chartered Bank, Singapore and the Chief Risk officer of Standard Chartered Bank, Sri Lanka. She has a Masters in Law from Harvard Law School, USA and a Bachelor of Laws (Honours) from University of Colombo.

Ms. Goonetilleke was a founder member of the Association of Banking Sector Risk Professionals, EXCO member of the Women's Chamber of Industry and Commerce and a member of the Finance Steering Committee of the Ceylon Chamber of Commerce. She is an Associate

Member of the Singapore Institute of Directors, was on the EXCO of the Harvard Club of Singapore and is a Board Director of the Overseas Schools of Colombo. She was also a Lecturer at the Faculty of Law and Department of Graduate Studies, University of Colombo.



### Mr. Azzam A. Ahamat

Head of Finance

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



### Mr. E.A.D.J. Priyashantha

Chief Internal Auditor

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

He has commenced his career at Export Development Board in 1988 and joined the Auditor Generals Department as an Audit Examiner in the same year. In 1991 he

has joined the Government accountant's service as an Accountant prior to joining the Bank in 1994 as a Management Trainee. After serving in the branch network for six years, he has joined the Internal Audit Department in the year 2000. He has gained wide experience in internal auditing with local and overseas exposures.



### Ms. M.A.D.M. Karunaratne

Addl. Chief Law Officer

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

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

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

## EXECUTIVE MANAGEMENT



*Front row left to right:*

**Mrs. S.W.A.D.S. Kalyani** – Assistant General Manager – Retail Banking, **Mr. H.C. Fernando** – Assistant General Manager – Treasury Back Office, **Mrs. P.R. Madurawala** – Assistant General Manager – Audit, **Mrs. N.C. Mudalige** – Assistant General Manager – Human Resource Development, **Mrs. V.K. Narangoda** – Assistant General Manager – Corporate Banking I, **Mrs. A.S. Liyanarachchi** – Assistant General Manager – Credit Control,

*Back row left to right:*

**Mr. D.Y.S. Mendis** – Assistant General Manager – Strategic Planning and Performance Management, **Mr. P.R.S. Jayatissa** – Assistant General Manager – Human Resources – Administration, **Mrs. P.S.J. Kurukulasooriya** – Assistant General Manager – Credit Administration – Branches, **Mrs. K.N. Senaratne** – Assistant General Manager – Credit Unit II-C.B.D, **Mr. T.D. De Z. Gunawardena** – Assistant General Manager – Investigation and Inquiries



*Front row left to right:*

**Mrs. G.M.R.P. Wijerathna** – Assistant General Manager – Risk Management, **Mr. I.D.S.S. Illukkumbura** – Assistant General Manager – Retail Banking, **Mrs. U.S. Gerty** – Assistant General Manager – Credit, **Mr. A.S.M.V. Kumarasiri** – Assistant General Manager – Trade Finance, **Mr. L. Withana** – Assistant General Manager – Enterprise Banking, **Mr. S.N.B.M.W. Narayana** – Assistant General Manager – Small and Medium Enterprises,

*Back row left to right:*

**Mr. N.R. Wijyaratne** – Assistant General Manager – OCS and Financial Institutions, **Mr. U. Alimohamed** – Assistant General Manager – Credit Recoveries, **Mr. M.K. De S. Gunaratne** – Assistant General Manager – Channel Management (ATM Operations), **Mr. K.D. Karunatilake** – Assistant General Manager – Channel Management – Range I, **Mrs. P.A.K. Pathirana** – Assistant General Manager – Finance and Accounting



*Front row left to right:*

**Mr. K.J. Wijewardena** – Assistant General Manager – Cards, **Mrs. R.P.N. Premalal** – Deputy Head of Finance, **Mrs. H.L.S.S. Senanayake** – Assistant General Manager – Compliance, **Mr. A. Dissanayake** – Head of Infrastructure and Operations, **Mrs. M.B.A.K.B. Mudduwa** – Assistant General Manager – Channel Management, **Mr. A.U.L.A. Anzar** – Assistant General Manager – Marketing and Research

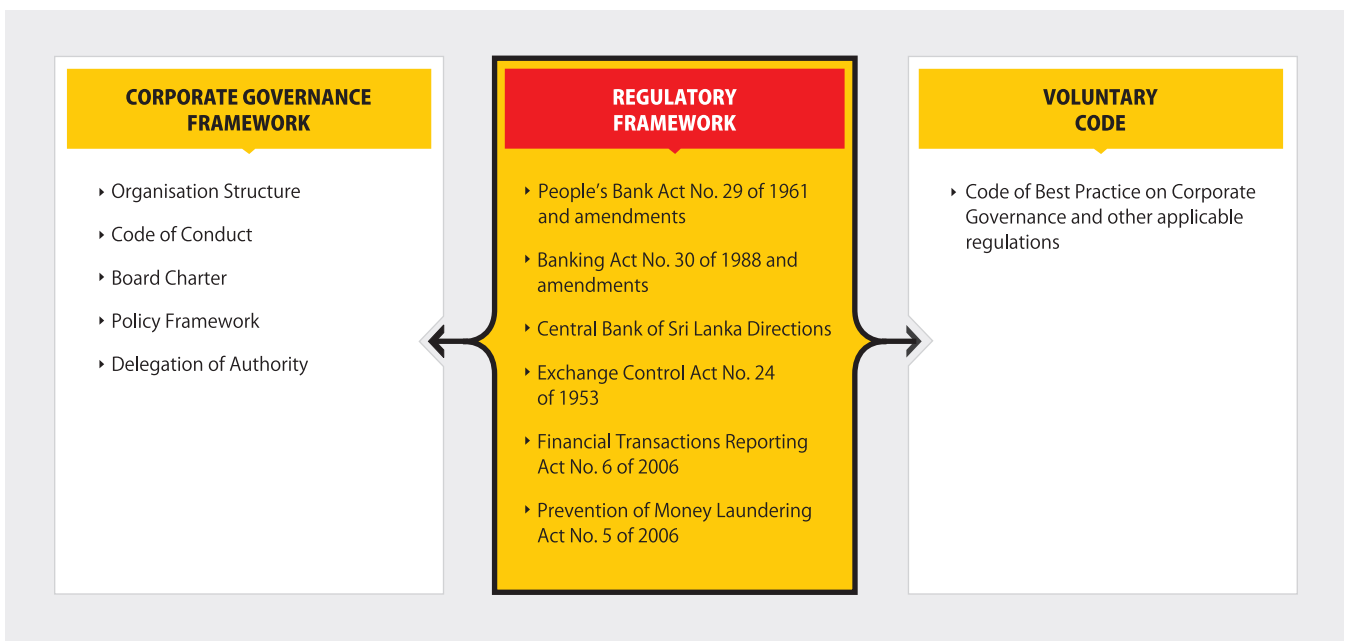
*Back row left to right:*

**Mr. K.A. Nihal** – Acting Assistant General Manager – IT Business Support and Administration, **Mrs. K.W.M.J. Senadeera** – Deputy Chief Law Officer, **Mrs. Y.P.K. Tennakoon** – Deputy Chief Law Officer, **Mr. T.G.S.P. Kumarasiri** – Acting Assistant General Manager – People's Card Centre, **Major General L.B.R. Mark (Retired)** – Head of Security

# CORPORATE GOVERNANCE

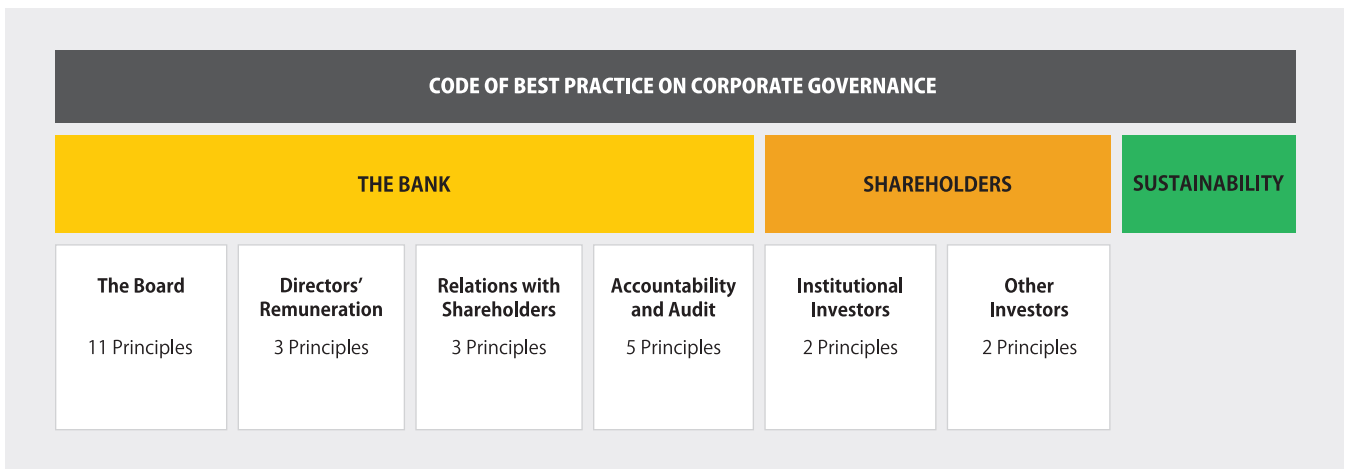
“Corporate Governance is the system by which companies are directed and controlled” (The Cadbury Report, 1992). The Board as the main decision making body is committed to upholding highest standards of corporate governance, a *sine qua non* for delivering long-term value to stakeholders particularly in a regulated industry.

Strong business ethics, sound policies and procedures, effective and efficient monitoring systems are key aspects of a good corporate governance system. Due to the dynamic changes brought about through globalisation, deregulation and technological advances, it is imperative for banking systems to implement robust systems to ensure compliance with applicable laws and regulations whilst maintaining sufficient flexibility to promote innovation and growth to deliver sustainable stakeholder value.



The Auditor General provides assurance on the Financial Statement of the Bank and its subsidiaries and on the Directors' Statement on Internal Control which are published on pages 60 and 61 respectively. He also certifies the level of Compliance with the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka.

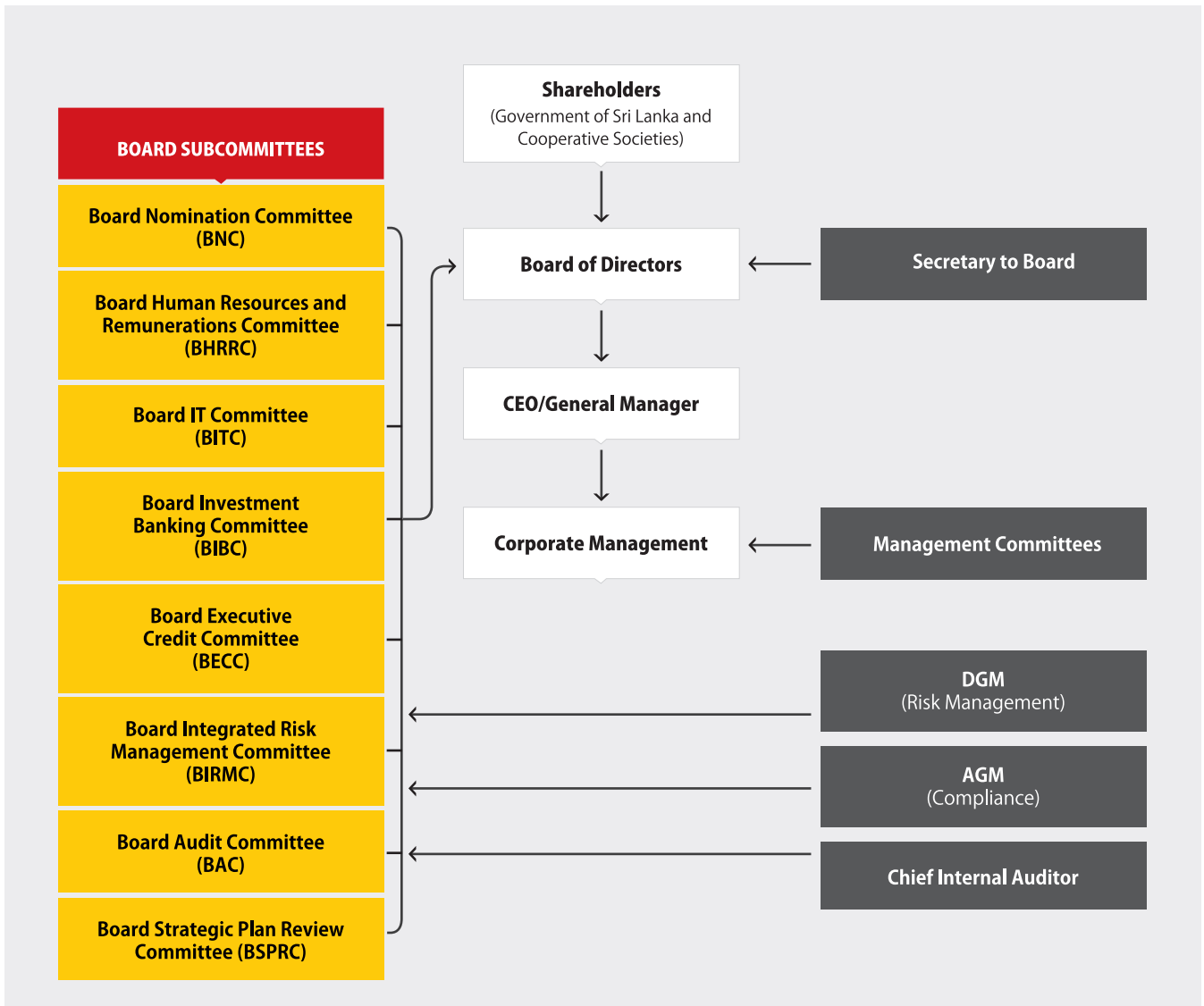
The governance framework of People's Bank is illustrated below.



### An Effective Board (Principle A.1)

Directors are appointed by the Minister of Public Enterprise Development and comprises ten Non-Executive Directors who are eminent public service officials, professionals, academics and entrepreneurs whose profiles are given on pages 22 and 23. They are collectively responsible for setting the strategic direction of the Bank and setting in place a suitable governance structure, policies and processes to facilitate the achievement of strategic goals. The Board is also responsible for monitoring the progress towards strategic goals and has oversight responsibility of the Corporate Management Team responsible for execution of the strategy.

### Governance Structure



The Chief Executive Officer/General Manager heads the executive function and reports to the Board on progress of the strategic goals. He is assisted by an experienced Corporate Management comprising experienced professionals who are experts in their respective fields. Management Committees play a vital role in the organisation structure, facilitating shared responsibility for specific function as listed on page 36.

### Summary of the functions of the Board Subcommittees

Subcommittee	Composition and Other Attendees	Oversight
Board Human Resources and Remuneration Committee (BHRRC)	<ul style="list-style-type: none"> <li>• Three Non-Executive Directors</li> <li>• CEO/General Manager</li> </ul>	<ul style="list-style-type: none"> <li>• Policy formulation</li> <li>• Manpower planning</li> <li>• Approve recruitment, employee benefits, service extensions and Corporate and Executive Management employment contracts</li> </ul>
Board Integrated Risk Management Committee (BIRMC)	<ul style="list-style-type: none"> <li>• Three Non-Executive Directors</li> <li>• CEO/General Manager</li> <li>• DGM (Risk Management)</li> </ul>	<ul style="list-style-type: none"> <li>• Risk Management Policy formulation in line with regulatory requirements and industry best practice</li> <li>• Determining Bank's risk appetite</li> <li>• Monitoring risk indicators and action taken to manage risk</li> </ul>
Board Nomination Committee (BNC)	<ul style="list-style-type: none"> <li>• Three Non-Executive Directors</li> <li>• CEO/General Manager attends on invitation</li> </ul>	<ul style="list-style-type: none"> <li>• Implement procedure to select/appoint CEO/GM and Senior Management Personnel</li> <li>• Set selection criteria for appointments or promotions to the above positions</li> <li>• Review requirements for additional/new expertise</li> </ul>
Board Investment Banking Committee (BIBC)	<ul style="list-style-type: none"> <li>• Two Non-Executive Directors</li> <li>• CEO/General Manager</li> <li>• SDGM (Business Banking)</li> <li>• DGM (Risk Management)</li> <li>• Head of Treasury and Investment Banking</li> </ul>	<ul style="list-style-type: none"> <li>• Provide guidance and review performance of the Investment Banking Unit (IBU)</li> <li>• Regularly review investment banking model, share trading limits, new investment products, approval of stockbrokers, trading platforms and IT system</li> </ul>
Board IT Committee (BITC)	<ul style="list-style-type: none"> <li>• Two Non-Executive Directors</li> </ul>	<ul style="list-style-type: none"> <li>• Formulate strategies to overcome challenges and competition and provide policy directions to drive the Bank's Information Technology strategy</li> </ul>
Board Audit Committee (BAC)	<ul style="list-style-type: none"> <li>• Three Non-Executive Directors</li> <li>• DGM (Risk Management), DGM (Compliance) and Chief Internal Officer attends on invitation</li> </ul>	<ul style="list-style-type: none"> <li>• Review financial reporting processes and policies</li> <li>• Identify operational risks</li> <li>• Communicate and encourage best practices and positive quality assurance throughout the branch network</li> </ul>
Board Executive Credit Committee (BECC)	<ul style="list-style-type: none"> <li>• Three Non-Executive Directors</li> <li>• CEO/General Manager</li> </ul>	<ul style="list-style-type: none"> <li>• Formulate and periodically review the credit policy</li> <li>• Authorise credit facilities over and above the delegated limits of specified categories</li> </ul>
Board Strategic Plan Review Committee (BSPRC)	<ul style="list-style-type: none"> <li>• Three Non-Executive Directors</li> <li>• CEO/General Manager</li> <li>• DGM (Strategic Planning and Performance Management)</li> </ul>	<ul style="list-style-type: none"> <li>• Formulate and periodically review the strategic plan.</li> <li>• Monitoring the implementation of the strategic plan by the project champions</li> </ul>

Secretary to Board, functions as the Secretary to all subcommittees.

Further, the Board has established Executive Committees, consisting of Key Management Personnel to facilitate better understanding, engage in healthy discussion and debate and make informed decisions on matters considered significant for the operations of the Bank.

Management Committees	Composition	Purpose and Tasks
Operational Risk Management Committee (ORMC)	CEO/General Manager and key members of the Risk Management, Personal Banking, Corporate Banking, Treasury, Inspection/Audit, Compliance and Finance Departments	Monitors and reviews all risk exposures and risk related policies and procedures affecting credit, market and operational areas in line with the directives from the BIRMC
Asset Liability Management Committee (ALCO)	CEO/General Manager and key members of the Treasury, Corporate Banking, Personal Banking, Risk Management and Finance Departments	Optimises the Bank's economic goals whilst maintaining liquidity and managing exposure to market risk within the Bank's predetermined risk appetite
Executive Credit Committee (ECC)	CEO/General Manager and key members of the Corporate Banking, Personal Banking, Risk Management, Inspection, Recoveries, and Branch Credit Monitoring Departments	Reviews and approves credit policies and procedures pertaining to the effective management of all credit portfolios within the lending strategy of the Bank
Executive Committee on Monitoring NPAs	CEO/General Manager and key members of the Corporate Banking, Personal Banking, Recoveries and Risk Management Departments	Review and monitor the Bank's Non-Performing Advances (NPAs) to initiate timely corrective action to prevent/reduce credit losses to the Bank.
Human Resources Steering Committee	CEO/General Manager and key member of the HR, Corporate Banking, Personal Banking and Finance Departments	Make recommendations to BHRRC on policy matters covering formulation of compensation packages, changes to organisation structure, developing a talent pipeline and staff promotions

## REGULAR MEETINGS (PRINCIPLE A.1.1)

### Number of Board meetings and Board Subcommittee meetings held during the Year 2017

Name of Meeting	Numbers of Meetings
Board Meetings	13
Board Audit Committee (BAC)	4
Board Executive Credit Committee (BECC)	19
Board Human Resources and Remuneration Committee (BHRRC)	9
Board Integrated Risk Management Committee (BIRMC)	5
Board Nomination Committee (BNC)	6
Board Investment Banking Committee (BIBC)	3
Board IT Committee (BITC)	1
Board Strategic Plan Review Committee (BSPRC)	1



The Board and Board Subcommittees met regularly as reflected below:

	Board	Board Executive Credit Committee	Board Integrated Risk Management Committee	Board Nomination Committee	Board Audit Committee	Board Human Resources and Remuneration Committee	Board IT Committee	Board Investment Banking Committee	Board Strategic Plan Review Committee
Total number of meetings	13	19	5	6	4	9	1	3	1
<b>Directors</b>									
Mr. Hemasiri Fernando									
Chairman	13	N/M	N/M	4	N/M	9	N/M	N/M	0
Mr. Jehan P. Amaratunga									
Director	11	N/M	5	5	4	N/M	1	3	1
Mr. G.D.C. Ekanayaka									
Director	12	N/M	5	5	4	N/M	N/M	3	1
Mr. Felician Perera									
Director	12	N/M	4	1/1	N/M	7	N/M	N/M	N/M
Mr. Krish Rajendran									
Director	13	18	N/M	1/1	N/M	N/M	N/M	N/M	N/M
Mr. Anton Hemantha									
Director	9	13	N/M	1/1	N/M	6	N/M	N/M	N/M
Dr. Aminda Perera									
Director	13	19	N/M	N/M	N/M	N/M	N/M	N/M	N/M
Mr. K.D.N. Ranjith Asoka									
Director	2/2	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M
Mr. M.H. Jamaldeen	5/7	N/M	N/M	N/M	0/1	N/M	N/M	N/M	N/M
Mr. Chinthaka Lokuhetti	6/9	N/M	0/3	N/M	1/2	N/M	N/M	N/M	N/M
Mr. Mohan Wijesinghe	6/8	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M
Mr. N. Vasantha Kumar									
CEO/GM	13	17	4	5/5	N/M	9	1	2	0

\*N/M – Not a Member

## 2017 BOARD SELECT HIGHLIGHTS

Board Responsibilities (Principle A.1.2) The Directors' responsibilities include:

- Digitalisation in line with the Bank's Strategic Plan 2016-2020
- Establish/roll out the industry revolutionary Self Banking Unit concept (SBU) to further expand customer reach and facilitate 24/7, all day Banking for the benefit of all customers
- Re-branding
- Review and approve the Bank's policies, procedures, key metrics and realign them as and where necessary in line with the Bank's Strategic Plan
- Undertake measures reasonably necessary to facilitate:
  - Receipt of Rs. 5.0 billion new capital in July 2017
  - Cabinet approval for the proposed amendments to the People's Bank Act No. 29 of 1961

## Board Responsibilities (Principle A.1.2)

The Directors' responsibilities include

- Providing strategic direction to create long-term value for stakeholders
- Setting up a robust governance structure and an appropriate policy framework to guide the management in implementing business strategy
- Setting a sound system of internal controls facilitating compliance with regulatory requirements, safeguarding of assets and sound financial reporting processes
- Setting in place a sound risk management framework
- Balancing stakeholder interests

- Monitoring performance against strategic goals
- Appointment and removal of Key Management Personnel including the CEO/General Manager
- Evaluating the performance of the CEO/General Manager

### **Act in Accordance with Laws (Principle A.1.3)**

The Board has approved policies and procedures to ensure compliance with relevant laws, CBSL Directions and guidelines and codes of conduct. This includes a provision for individual Directors to seek independent professional advice, coordinated through the Board secretary, if the need arises. The Board also obtains independent professional advice collectively to ensure statutory compliance.

### **Access to Advice and Services of Board Secretary (Principle A.1.4)**

All Directors have access to the advice and services of the Board Secretary who is an Attorney-at-law. The Board Secretary ensures that Board procedures are adhered to and facilitates compliance with regulations. Secretary to the Board functions as the secretary for all Board and Subcommittee meetings and the minutes of meetings are available in his custody.

The Board Secretary's responsibilities are summarised below:

- Coordinate matters pertaining to the conduct of Board meetings and Subcommittee meetings
- Conduct of proceedings in accordance with the People's Bank Act and relevant legislations
- Facilitate the adoption of best practices on corporate governance including assisting Directors with respect to their duties and responsibilities to comply with relevant legislations and best practices
- Being a channel of communication and information for Non-Executive Directors and management
- Ensure appropriate disclosures on related parties and related party transactions in line with regulatory requirements
- Obtaining legal advice in consultation with the Board on the People's Bank Act and other relevant legislations in ensuring that the Bank complies with all applicable laws and regulations.

### **Independent Judgement (Principle A.1.5)**

The Board comprises professionals, academics, public servants and entrepreneurs who are leaders in their respective fields. They contribute diverse skills, experience and perceptions to Board

discussions, enriching debate on matters raised before them. They exercise independent judgement on issues of strategy, performance, resources and standards of business conduct, minimising the ability for one of few members of the Board to dominate Board decisions.

### **Dedicate Adequate Time and Effort to Matters of the Board and the Company (Principle A.1.6)**

Directors are informed well in advance of Board meetings and Board Subcommittee meetings. Relevant papers are circulated a week prior to the meeting allowing sufficient time for review and requesting for additional information or clarifications, if required. Provision is available to circulate Board papers closer to the meeting on exceptional circumstances; although this is discouraged.

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

The Directors are conscious of the need to keep abreast of current developments affecting the sector both globally and locally with particular reference to regulatory changes and the country's economy. During the year under review they attended training sessions on regulations, financial reporting and internal controls. They also attended the seminars conducted by Sri Lanka Institute of Directors and Director Forums organised by the Central Bank of Sri Lanka (CBSL). Further, Corporate Management makes regular presentations with regard to the business environment in relation to the operations of the Bank.

### **Division of Responsibilities Between the Chairman and CEO (Principle A.2)**

The roles of the Chairman and the Chief Executive Officer/General Manager are separate and their roles are clearly defined in the People's Bank Act and Code of Best Practice in Corporate Governance. The Chairman is Non-Independent Non-Executive Director who leads the Board ensuring that it works effectively and acts in the best interest of the Bank.

The General Manager who is not a member of the Board is free to take decisions and actions to achieve the Bank's objectives. He is accountable to the Board for the exercise of authorities delegated by the Board and for the performance of the Bank.

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

The Chairman provides leadership to the Board, preserving order and facilitating the effective discharge of Board functions, thereby promoting good corporate governance. He is also responsible for

ensuring the effective participation of all Directors and ensuring the views of Directors on issues under consideration are ascertained whilst maintaining balance of power amongst Directors. The Chairman, in consultation with the Board Secretary determines the agenda for the Board meetings.

### Financial Acumen (Principle A.4)

There is sufficient financial acumen within the Board on matters of finance. The Chairman of the Board Audit Committee Mr. Jehan Amaratunga is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka. He and Mr. Rajendran are both Fellow Members of the Chartered Institute of Management Accountants, UK whilst Mr. M.H. Jamaldeen is a Fellow of the Association of Certified Chartered Accountants, UK. Dr. Aminda Methsila Perera is a Senior Lecturer in Financial Management at the Department of Accountancy, Wayamba University of Sri Lanka. Additionally, other Directors are leaders in their respective fields, holding positions as Directors in companies and having adequate financial acumen.

### Board Balance (Principle A.5)

The Board comprises solely of Non-Executive Directors of whom three are Independent Directors. The Non-Executive Directors are professionals, public servants, academics and entrepreneurs holding senior positions in their respective fields. The independence of the Directors are determined based on the criteria specified in the Banking Act Direction No. 11 of 2007. Concerns raised by the Directors, which cannot be unanimously resolved, are documented in the Board minutes.

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

Board papers and other documents required for the Board meetings are circulated to Directors seven days prior to the meeting. The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings and that relevant members of the Corporate Management are present when the matter is being taken up, if further clarification is deemed necessary. Additionally, Directors have access to management to make further inquiries if required.

Further, the Corporate Management regularly makes presentations to the Board and Subcommittees on matters including progress of implementation of the strategic plan; changes and trends in the external environment; financial, social and environmental performance and recommendations for changes to policy frameworks to facilitate enhancing the knowledge of the Board on matters relevant to the Bank's operations.

### Appointments to the Board and Re-Election (Principles A.7 and A.8)

A maximum of 10 Directors are appointed in accordance with the People's Bank Act by the Minister in charge of the subject of which two Directors should be nominated by the Minister in charge of Cooperatives. For the year under review, the Bank was under the purview of the Minister of Public Enterprise Development.

All appointments for directorships are submitted to the Central Bank of Sri Lanka for assessment under the Fit and Proper Criteria for Directors. Appointments are made for a period of three years subject to a maximum term of nine years and an age limit of up to 70 years, whichever comes first in line with the provisions of the Banking Act Direction No. 11 of 2007.

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

The Board annually appraises their own performance to ensure that Board responsibilities are satisfactorily discharged. Each Director completes a standard performance evaluation questionnaire, which incorporates criteria specified in the Board Performance Evaluation Checklist of the Code. The responses are collated by the Board Secretary and discussed at a Board meeting.

Board remuneration is decided according to guidelines set by the Ministry of Finance.

### Disclosure of Information in Respect of Directors (Principle A.10)

Information specified in the Code pertaining to Directors are disclosed within this Annual Report as follows:

- Name, qualifications, expertise, material business interests, key appointments and brief profiles on pages 22 and 23.
- Membership of Subcommittees on page 35.
- Attendance at Board meetings and Subcommittee meetings on page 37.
- Related party transactions on pages 262 to 265.

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

The Board assesses the performance of the CEO/General Manager annually. Assessment criteria including financial and non-financial targets, is set during the year, in consultation with the CEO/General Manager, and in line with the short, medium and long-term objectives of the Bank. Performance against targets is evaluated at the year end, taking into account the operating environment. Explanation is sought where performance is below expectations. The BHRRC assists in this process.

## Directors' and Executive Remuneration (Principles B.1, B.2, B.3)

Board remuneration is decided according to guidelines set by the Ministry of Finance. No Director is involved in determining his/her own remuneration.

The BHRRC makes recommendations to the Board pertaining to the remuneration and benefits of the CEO/General Manager and Key Management Personnel within agreed Terms of Reference and in accordance with the remuneration policies of the Bank and the Collective Agreement. Remuneration is designed to attract, retain and motivate high performing, qualified and experienced employees in the Bank. The Board in turn makes recommendations to the Minister of Finance who is the final authority for approval of their remuneration under The Collective Agreement.

The BHRRC seeks professional advice from outside the Bank, when deemed necessary, in discharging their responsibilities. The report of the BHRRC, disclosing the Statement of Remuneration Policy and the names of the Chairman and members of the BHRRC is given on page 57. The aggregate remuneration paid to the (Non-Executive) Directors is given on page 230.

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

The Government of Sri Lanka is the main shareholder of People's Bank. The Bank comes under the purview of the Ministry of State Enterprise Development. The Board liaises with the Ministry to ensure alignment with the socio-economic development goals of the country.

The annual report is printed in English, Sinhala and Tamil and is circulated through the Ministry of Finance to the Parliament. The Bank liaises with the Ministry of Finance for matters concerning the Ministry.

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

There were no transactions which would materially alter the Bank's or Group's net asset base, other than those disclosed in Note 45 to the Financial Statements, and Related Party Disclosures on page 268.

## Financial Reporting (Principles D.1)

The annual report presents a balanced review of the Bank's financial position, performance and prospects. Both narrative and visual elements have been used in presenting the information, to

increase comprehension and clarity. We have provided a balanced view on our performance in this report and other communications presented to relevant authorities including the Ministry of Finance and regulators. The Bank takes every effort to ensure compliance with statutory requirement in the annual report and in the issue of interim communications on financial performance.

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

- Statement of Directors' Responsibility on page 197 includes a statement setting out the responsibilities of the Board for the preparation and presentation of financial statements
- Independent Auditors' Report on page 198 includes a statement of their responsibilities
- Directors' Statement on Internal Control on pages 60 and 61.
- Management Discussion and Analysis on pages 102 to 194.
- Statement of going concern of the company is set out in item 197 in the Statement of Directors' Responsibility.
- Related Party Transactions are disclosed on pages 268 to 271 of the Directors' Report and in Note 45 in the Financial Statements

## Internal Control and Board Audit Committee (BAC) (Principles D.2 and D.3)

The Board is cognisant of its responsibility for formulating and implementing appropriate and adequate processes for risk management and sound internal control systems to safeguard shareholder interests and assets of the Bank. BAC assists the Board in relation to risk managements while BIRMC assists the Board in discharge of its duties with regard to risk management. Their roles and responsibilities are provided in the committee reports given on pages 56 and 57, respectively.

BIRMC is supported by the Risk Management Department of the Bank. A comprehensive report of how the Bank manages risk is included on pages 63 and 100. BAC is supported by the internal audit function of the Bank. The Internal Audit Department reviews the adequacy and effectiveness of the internal control systems and reports to the BAC on a regular basis. Duties of the BAC include keeping under review the scope and results of such audits and its effectiveness. BAC also plays a primary role in liaising with the Auditor General, who conducts the external audit of the Bank.

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

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

This Corporate Governance Report from pages 33 to 62, complies with the requirement to disclose the extent of compliance with the Code of Best Practice on Corporate Governance as specified in Principle D.5.

## **Shareholder Relations (Principles E and F)**

Since the main shareholder of People's Bank is the Government of Sri Lanka, the relevant provisions of the Code are not applicable.

## **Sustainability Reporting (Principle G)**

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

- Principle 1** – Economic Sustainability – Financial Review on pages 126 to 150.
- Principle 2** – Environment – Impact on Environment on pages 189 to 191.
- Principle 3** – Labour Practices – Human Capital on pages 157 to 170.
- Principle 4** – Society – Social Capital on page 171.
- Principle 5** – Product Responsibility – Customer Capital on pages 175 to 184.
- Principle 6** – Stakeholder identification, engagement and effective communication – Stakeholder Engagement on pages 120 to 122.
- Principle 7** – Sustainable reporting to be formalised as part of the reporting process and to take place regularly – About this Report on page 2.

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

Section	Principle	Compliance and Implementation	Complied
<b>3.1</b>	<b>Responsibilities of the Board</b>		
3.1 (i)	The Board has strengthened the safety and the soundness of the Bank in the following manner:		
a.	Setting strategic objectives and corporate values	<p>The Bank's strategic objectives and corporate values are determined by the Board and are given on page 4. These have been incorporated in the Strategic Plan for the period 2016-2020, prepared in collaboration with MTI Consultants and approved by the Board in September 2015. Goals and objectives have been communicated to all levels of staff through budgets, structured meetings and quarterly performance review meetings.</p> <p>Budget 2017 has been presented by the Head of Finance and approved by the Board.</p> <p>Corporate values are included in the Code of Business Conduct and Ethics which is provided in print form to all employees.</p>	✓
b.	Approval of overall Business Strategy including Risk Policy and Management	<p>The Board provided direction and guidance for preparation of the five year Corporate Strategic Plan from 2016-2020.</p> <p>"Risk Management Policy Manual and Risk Management Policy for Exposure to Equity Market" is in place recommended by BIRMC and approved by the Board.</p> <p>The Corporate Strategic Plan has been aligned to the overall risk strategy of the Bank through the involvement of BIRMC. The risk appetite, policy, management framework and mechanisms have also been approved by the Board in line with the Strategic Plan.</p> <p>Governance and Compliance which are embedded in the Risk Management Policy framework have also been included in this Plan. Measurable goals have been set against time-lines and performance measured against these goals.</p>	✓
c.	Risk management	<p>The Board appointed BIRMC, is tasked with approving the Bank's Risk Policy, defining the risk appetite, identifying principal risks, setting governance structures and implementing systems to measure, monitor and manage the principal risks. The following reports provide further insights in this regard:</p> <ul style="list-style-type: none"> <li>• Risk Management Report on pages 63 to 100.</li> <li>• Integrated Risk Management Committee Report on page 57.</li> </ul> <p>Bank will initiate a process where the Board members discuss new strategies of the bank, the risks arising out of new strategies and further the ways and means to mitigate such risks.</p>	✓
d.	Communication with all stakeholders	<p>The Board has approved and implemented a Communication Policy covering all stakeholders.</p> <ul style="list-style-type: none"> <li>• <b>Shareholders</b> – The Government of Sri Lanka is the main shareholder of People's Bank. The Bank communicates with the subject Ministry regarding the social economic objectives of the Bank and communicates with the Ministry of Finance regarding financial performance, through periodic reports and the annual report. The annual report provides a comprehensive and balanced review of the Bank's performance for the year.</li> <li>• <b>Customers</b> – We communicate with customers through newspaper, website and leaflets apart from specific correspondence. Accordingly, we communicate interest rates, exchange rates and information regarding our products on a regular basis. Financial Statements are published in newspapers of all three languages on a quarterly basis. The Bank's Customer Complaint Policy is communicated in all three languages at our branches.</li> <li>• <b>Staff</b> – Employees have regular access to management to discuss their concerns. A regular dialogue takes place between representatives of employee trade unions and the management</li> </ul>	✓

Section	Principle	Compliance and Implementation	Complied
e.	Internal Control System and Management Information Systems	The Board Audit Committee, reviews the adequacy and integrity of the Bank's Internal Control Systems and Management Information Systems (MIS). BAC reviewed reports of the Internal Audit Department and the External Auditors in carrying out this function. The BAC has subsequently reviewed management responses to findings raised in these reports, during the year.	✓
f.	Key Management Personnel (KMPs)	Board has defined CEO, DGMs and AGMs of the Bank as KMPs as defined in Banking Act Determination No. 3 of 2010 and Bank Supervision Department Guideline No. 02/17/550/0002/003 issued on 02.12.2015.	✓
g.	Define areas of authority and key responsibilities for Directors and KMPs	The People's Bank Act clearly defines matters specifically reserved for the Board, including areas of authority and key responsibilities. Authority and key responsibilities for members of the Corporate Management are stated in their respective job descriptions.	✓
h.	Oversight of affairs of the Bank by KMPs	The Board reviews the progress of the Bank in relation to its strategic goals, financial reporting, internal control, risk managements, human resources and any other matters delegated to them. The Subcommittees assist the Board in reviewing areas defined for their oversight.	✓
i.	Assess effectiveness of own governance practices	Board members assess the effectiveness of the Board and its subcommittees through a self-evaluation form annually. The self-evaluation for 2017 was carried out in February 2018 and the Chairman discussed the responses with the Board at the Board meeting held on 21st February 2018. Matters of concern are noted and followed up for improvement during the year by the Board to continuously improve the governance practices of the Bank.	✓
j.	Succession plan for KMPs	A new succession plan for Key Management Personnel with named successors including development plans to ensure their readiness, was approved by Board paper 09/2015 under the Strategic Plan initiatives. The succession plan is designed for the CEO/GM, DGMS and AGMS.	✓
k.	Regular meetings with KMPs	KMPs are regularly involved in Board level discussions on performance, strategy, policy, and other matters pertaining to their subject areas set before the Board. Additionally, they make presentations on a regular basis on changes in operating environment or regulations. These regular meetings serve to establish direct lines of communication between the Board members and KMPs.	✓
l.	Regulatory environment and maintaining an effective relationship with regulator	<p>On appointment, the Directors and Board is furnished with all applicable regulatory requirements. They are also briefed on developments in the regulatory environment at Board meetings by the KMPs to ensure that their knowledge is updated regularly to facilitate effective discharge of their responsibilities. Members of BAC and BIRMC are also briefed on regulatory developments at their meetings by the Heads of Internal Audit, Risk and Compliance.</p> <p>Going forward, the Compliance Officer will submit a set of current and new CBSL guidelines including regulations on Corporate Governance to enable them to understand and update their knowledge.</p>	✓
m.	Hiring External Auditors	<p>As provided for in the Constitution of the country, the Auditor General is the External Auditor for the Bank, being a State-owned enterprise.</p> <p>As per the Code of Best Practice in Corporate Governance (CBPCG) section 6.1 (2) Terms of Reference, the Board Audit Committee (BAC), recommends the appointment and oversee the work of the external auditors.</p>	✓

Section	Principle	Compliance and Implementation	Complied
3.1 (ii)	Appointment of Chairman and CEO and defining and approving their functions and responsibilities	<p>The People's Bank Act separates the positions of the Chairman and the CEO/GM to maintain a balance of power. Functions and responsibilities of the Chairman and the CEO/GM are clearly defined and approved in line with Direction 3 (5) of these Directions.</p> <p>The Chairman has been appointed by the Minister in charge of the subject, whilst the CEO/GM has been appointed by the Board.</p>	✓
3.1 (iii)	Regular Board meetings	<p>Board meetings are held monthly while special meetings are scheduled on a needs basis. Directors present actively participate in deliberating matters set before the Board. Attendance at Board and its committee meetings is given on page 37. Obtaining Board approval via circular resolutions is discouraged and done only on an exceptional basis. There were no circular resolutions passed during the year 2017.</p>	✓
3.1 (iv)	Arrangements for Directors to include proposals in the agenda	<p>Dates for meetings are scheduled and informed to the Board at the beginning of each calendar year to enable submission of proposals to the agenda for regular meetings.</p>	✓
3.1 (v)	Notice of Meetings	<p>Notice of Meetings, agenda and Board papers for the Board meetings are circulated to the Directors, seven days prior to the meeting giving Directors time to attend and submit any urgent proposals.</p>	✓
3.1 (vi)	Directors Attendance	<p>As per the Board attendance schedule all the Directors have attended the required number of meetings held during the year 2017.</p>	✓
3.1 (vii)	Appointment and setting responsibilities of the Company Secretary	<p>An Attorney-at-Law, Mr. Rohan Pathirage was appointed as the Secretary to the Board (Board paper No. 406/2010 meeting No. 13/2010) in compliance with the provisions of Section 43 of the Banking Act No. 30 of 1988 and its amendment.</p> <p>He is responsible for the secretariat services to the Board and to carry out functions specified in the statutes and other regulations.</p>	✓
3.1 (viii)	Directors access to advice and services of Company Secretary	<p>Board members have full access to the advice and services of the Board Secretary to ensure that Board procedures are followed and applicable rules and regulations are complied with.</p>	✓
3.1 (ix)	Maintenance of Board minutes	<p>Board minutes are maintained by the Board Secretary and the Directors have access to the past Board papers and minutes.</p>	✓
3.1 (x)	Minutes to be of sufficient detail and serve as a reference for regulators and supervisory authorities	<p>The minutes of the meetings include:</p> <ul style="list-style-type: none"> <li>(a) a summary of data and information used by the Board in its deliberations;</li> <li>(b) the matters considered by the Board;</li> <li>(c) the fact-finding discussions and the issues of contention or dissent;</li> <li>(d) the testimonies and confirmations of relevant executives with regard to the Board's strategies and policies and adherence to relevant laws and regulations;</li> <li>(e) matters regarding the risks to which the Bank is exposed and an overview of the risk management measures including reports of the BIRMC;</li> <li>(f) the decisions and Board resolutions; and</li> <li>(g) reports of all Board Subcommittees.</li> </ul>	✓
3.1 (xi)	Directors ability to seek independent professional advice	<p>There is provision for Directors to obtain independent professional advice in discharging their responsibilities when necessary, according to a procedure approved by the Board. This function is coordinated by the Board Secretary.</p>	✓



Section	Principle	Compliance and Implementation	Complied
3.1 (xii)	Dealing with conflicts of Interest	Written declarations of Director's interests are obtained at appointment and annually. Directors abstain from voting, approving or participating in discussions in situations where there is a conflict of interest. Additionally such Director's presence is disregarded in counting the quorum in such instances. Key appointments of the Directors are included in their profiles on pages 22 and 23.	✓
3.1 (xiii)	Formal schedule of matters reserved for Board decision	The Board has a formal schedule of matters reserved for their attention and a Delegation of Authority ensures that the direction and control of the Bank is firmly under Board's control and authority.	✓
3.1 (xiv)	Inform Central Bank if there are solvency issues	There have been no situations where the Bank's solvency has been in doubt. The Board has an approved procedures in place to inform the Director of Banking Supervision prior to taking any decision or action, if the Bank is close to becoming insolvent or suspending payments to its depositors and other creditors.	✓
3.1 (xv)	Capital adequacy	Capital adequacy and other prudential measures are monitored by the Board to ensure compliance with regulatory requirements, and the Bank's defined risk appetite. The Bank is compliant with the minimum capital requirements.	✓
3.1 (xvi)	Publish Corporate Governance Report in Annual Report	This report forms part of the Corporate Governance Report of the Bank which is set out from pages 33 to 62.	✓
3.1 (xvii)	Self-assessment of Directors	The Directors complete a self-assessment annually in February 2018. These records are maintained with the Secretary to the Board.	✓
<b>3.2</b>	<b>The Boards Composition</b>		
3.2 (i)	Number of Directors	The Bank's Board comprises eight Directors in compliance with the People's Bank Act, which stipulates a maximum number of 10 Directors. CBSL Governance Direction requirement is the number of Directors to be between 7 and 13.	✓
3.2 (ii)	Period of service of a Director	Details of the tenures of service and appointments of Directors are given on page 39. No Director has exceeded nine years of service as per CBSL requirement.	✓
3.2 (iii)	Board Balance	There are no Executive Directors on the People's Bank Board.	✓
3.2 (iv)	Independent Non-Executive Directors	All the Directors are Non-Executive. There are three Independent Directors and five Non-Independent Directors. They are appointed by the Minister in charge of the subject, under the Section eight of People's Bank Act No. 29 of 1961.	✓
3.2 (v)	Alternate Independent Directors	There is no provision in the People's Bank Act to appoint alternative Directors.	N/A
3.2 (vi)	Criteria for Non-Executive Directors	The appointments to the Board are made by the Minister in Charge of the subject, under Section 8 of the People's Bank Act No. 29 of 1961.	✓
3.2 (vii)	More than half the quorum to comprise Non-Executive Directors	All Directors are Non-Executive. According to the People's Bank Act the stipulated quorum for Board meeting is five.	✓

Section	Principle	Compliance and Implementation	Complied
3.2 (viii)	Identify Independent Non-Executive Directors in communications and disclose categories of Directors in Annual Report	At present there are eight Directors.  However, the composition of the Board including the names of the Chairman and Non-Executive Directors are given on page 37 of the Corporate Governance Report.	✓
3.2 (ix)	Formal and transparent procedure for appointments to the Board	Appointments to the Board are made by the Minister in charge of the subject, under the Section 8 of the People's Bank Act No. 29 of 1961.  In 2016 and 2017, the Minister in charge of the subject was the Minister of Public Sector Enterprise Development.	✓
3.2 (x)	Re-election of Directors filling casual vacancies	This does not arise since the Minister in charge of the subject appoints them.	N/A
3.2 (xi)	Communication of reasons for removal or resignation of Director	The People's Bank Act, Section eight, provides for a Director to resign by writing a letter to the Minister in charge of the subject. The Minister can also remove a Director by publishing a Gazette notification. Resignation/removal of Directors is promptly informed to the regulatory authorities.	✓
3.2 (xii)	Prohibition of Directors or Employees of a bank becoming a Director at another bank	The Minister takes into account this requirement when considering appointments of Directors. The Bank has a process to identify whether a director of a bank is appointed, elected or nominated as a director of another bank based on the Declaration (Section 4.1) obtained and submitted to CBSL annually.	✓
<b>3.3</b>	<b>Criteria to Assess Fitness and Propriety of Directors</b>		
3.3 (i)	Age of Director should not exceed 70	All Directors are under 70 years of age.	✓
3.3 (ii)	Directors should not be directors of more than 20 companies and not more than 10 companies classified as Specified Business Entities	No Director holds directorships of more than 20 companies inclusive of subsidiaries of the Bank.	✓
<b>3.4</b>	<b>Management Functions Delegated by the Board</b>		
3.4 (i)	Understand and study delegation arrangements		
3.4 (ii)	Extent of delegation should not hinder Board ability to discharge its functions	The Board is empowered by the Section 32 of the People's Bank Act to delegate its powers to any officer of the bank and may revoke either wholly or in part as the case may be.	✓
3.4 (iii)	Review delegation arrangements periodically to ensure relevance to operations of the Bank	The delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Bank.	✓

Section	Principle	Compliance and Implementation	Complied
<b>3.5</b>	<b>The Chairman and Chief Executive Officer</b>		
3.5 (i)	Separation of roles	The People's Bank Act provides for a clear separation of duties between the roles of the Chairman and the CEO, preventing unfettered powers for decision making being vested with one person.	✓
3.5 (ii)	Non-Executive Chairman	The Chairman is a Non-Executive Director.	✓
	Appointment of a Senior Independent Director	Chairman is not deemed independent since he serves as a Chairman of the subsidiary. The Bank will take steps to appoint a Senior Independent Director.	✗
3.5 (iii)	Disclosure of identity of Chairman and CEO and any relationships with the Board members	The identities of the Chairman and CEO/General Manager are disclosed in the Annual Report on pages 22 and 23.  The Board receives declarations of interest annually and relies on these to identify any relationships between Board members and the CEO.	✓
3.5 (iv)	Board has a self-evaluation process	Board has a scheme of self-evaluation for the Board of Directors which complies with the requirement.	✓
3.5 (v)	Responsibility for agenda lies with Chairman but may be delegated to Company Secretary	Agenda for Board meetings is drawn up by the Board Secretary in consultation with the Chairman.	✓
3.5 (vi)	Ensure that Directors are properly briefed and provided adequate information	Chairman ensures that the Board is adequately briefed and informed regarding the matters arising in the Board. The following procedures are in place to ensure this: <ul style="list-style-type: none"> <li>• Board papers are circulated seven days prior to the Board meetings</li> <li>• Relevant members of the Management Team are on hand for explanations and clarifications</li> <li>• Management information is provided in agreed formats on a regular basis to enable Directors to assess the performance and stability of the Bank</li> <li>• Directors are able to seek independent professional advice on a need basis at the Bank's expense</li> </ul>	✓
3.5 (vii)	Encourage active participation by all Directors and lead in acting in the interests of the Bank	This requirement is addressed in the self-assessment process raising awareness and promoting compliance.	✓
3.5 (viii)	Self-evaluation process that assesses the contribution of Non-Executive Directors.	Self-evaluation process covers the contribution of Non-Executive Directors.	✓
3.5 (ix)	Refrain from direct supervision of KMPs and executive duties	The Chairman does not get involved in the supervision of KMPs or any other executive duties.	✓
3.5 (x)	Ensure effective communication with shareholders	Effective communication is maintained with the Government of Sri Lanka who is the main shareholder.	✓
3.5 (xi)	CEO functions as the apex executive in charge of the day-to-day operations	Day-to-day operations of the Bank are delegated to the CEO/General Manager.	✓

Section	Principle	Compliance and Implementation	Complied
<b>3.6</b>	<b>Board Appointed Committees</b>		
3.6 (i)	Establishing Board Committees, their functions and reporting	<p>Eight Board Subcommittees have been established with written Terms of Reference to meet the business needs of the Bank of which four are mandatory. The Secretary to the Board serves as the Secretary for all Subcommittees and maintains minutes and records under the supervision of the Chairman of the Committee. The reports of these Committees, on their duties and roles are included in the annual report.</p> <ul style="list-style-type: none"> <li>• Board Audit Committee on page 56.</li> <li>• Board Nomination Committee on page 58.</li> <li>• Board Integrated Risk Management Committee on page 57.</li> <li>• Board Human Resources and Remuneration Committee on page 57.</li> <li>• Board Executive Credit Committee on page 58.</li> <li>• Board Investment Banking Committee page 59.</li> <li>• Board IT Committee on page 59.</li> <li>• Board Strategic Plan Review Committee on page 59.</li> </ul>	✓
3.6 (ii)	<b>Audit Committee</b>		
a.	Chairman to be an Non-Executive Director with qualifications and experience in accountancy and/or audit	<p>Chairman of the Committee Mr. Jehan P. Amaratunga is a Non-Executive Director. Mr. Amaratunga is a Non-Independent Director since he serves as Director of subsidiary with the Chairman. Fellow of The Institute of Chartered Accountants of Sri Lanka and a Fellow of the Chartered Institute of Management Accountants, UK. A former Council Member of The Institute of Chartered Accountants of Sri Lanka, he counts over 26 years of experience in the fields of finance and management and the requisite skills and experience to function effectively.</p>	✓
	BAC Chairman to be an Independent Director	The Bank will appoint an Independent Director as the Chairman of BAC.	✗
b.	Committee to comprise solely of Non-Executive Directors	All other members of the committee are Non-Executive Directors.	✓
c.	Audit Committee functions	<p>The Audit Committee makes recommendations with regard to the following:</p> <p>(i) implementation of the CBSL guidelines issued to Auditors from time to time;</p> <p>(ii) the application of the relevant accounting standards;</p> <p>The Auditor General is the External Auditor of the Bank, appointed as per the provisions contained in the Section 34 of People's Bank Act No. 29 of 1961. He can appoint any other qualified Auditor as the External Auditor.</p> <p>As such, the Committee has no role to play in the engagement of the External Auditor.</p>	✓
d.	Review and monitor External Auditor's independence and objectivity and the effectiveness of the audit processes	<p>The Bank's Auditor being the Auditor General, his independence and effectiveness is guaranteed under the Constitution of Sri Lanka.</p> <p>Auditor General (AG) has appointed Messrs Ernst &amp; Young as the External Auditors to carry out the External Audit for the year end 2017, after obtaining representations on their independence and that the audit is carried out in accordance with Sri Lanka Auditing Standards.</p>	✓
e.	Provision of non-audit services by an External Auditor	This does not arise since the Auditor General is the Auditor of the Bank.	✓

Section	Principle	Compliance and Implementation	Complied
f.	Determines scope of audit	The scope and extent of audit have been determined by the Auditor General.	✓
g.	Review financial information of the Bank	<p>The Committee reviews the financial information of the Bank to monitor the integrity of the financial statements, annual report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgements contained therein. In reviewing the Bank's annual report and accounts and quarterly reports before submission to the Board, the Committee focuses on:</p> <ul style="list-style-type: none"> <li>(i) major judgemental areas;</li> <li>(ii) any changes in accounting policies and practices;</li> <li>(iii) significant adjustments arising from the audit;</li> <li>(iv) the going concern assumption; and</li> <li>(v) compliance with relevant accounting standards and other legal requirements.</li> </ul> <p>The Audit Committee makes their recommendations to the Board on the above.</p>	✓
h.	Discussions with External Auditor on interim and final audits	Auditor General's representative is resident at the Bank and Committee meets them regularly and she is always a representative at the BAC meetings by invitation.	✓
i.	Review of Management Letter and Bank's response	The Management Letter issued by the External Auditors and management's response thereto has been reviewed by the Board Audit Committee.	✓
j.	Review of Internal audit function	<p>BAC has oversight responsibility of the internal audit function and carries out the following duties with regard to the same:</p> <ul style="list-style-type: none"> <li>• Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the Department has the necessary authority to carry out its work;</li> <li>• Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;</li> <li>• Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;</li> <li>• Recommends any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</li> <li>• Ensures that the Committee is appraised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor;</li> <li>• Provides an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;</li> <li>• Ensures that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;</li> </ul> <p>There were no outsourced functions of internal audit during 2017 and provisions in this regard were not applicable.</p>	✓
k.	Internal Investigations	Such an incident has not occurred during the current year 2017.	✓
l.	Attendees at Audit Committee meetings	This is not relevant since there are no Executive Directors in the Board of People's Bank.	✓

Section	Principle	Compliance and Implementation	Complied
m.	Explicit authority, resources and access to information	<p>Terms of Reference for BAC is set out in the Report of the Audit Committee on page 56. It includes:</p> <ul style="list-style-type: none"> <li>(i) explicit authority to investigate into any matter within its Terms of Reference;</li> <li>(ii) the resources which it needs to do so;</li> <li>(iii) full access to information; and</li> <li>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</li> </ul>	✓
n.	Regular meetings	BAC meets regularly on a quarterly basis. Four meetings were held during the year. Members of the Audit Committee are served with due notice of issues to be discussed and the conclusions in discharging its duties and responsibilities are recorded in the minutes of the meetings maintained by the Board Secretary.	✓
o.	Disclosure in Annual Report	<p>The Report of the Audit Committee on page 56 includes the following:</p> <ul style="list-style-type: none"> <li>(i) details of the activities of the Audit Committee;</li> <li>(ii) the number of Audit Committee meetings held in the year; and</li> </ul> <p>Details of attendance of each individual Director at such meetings are given on page 37.</p>	✓
p.	Maintain minutes of meetings	The Board Secretary, who is also the Secretary to the Subcommittees, records and keeps detailed minutes of the Committee meetings.	✓
q.	Whistle blowing policy and relationship with External Auditor	<p>The whistle Blower Policy of the People's Bank was approved by Board Paper No. 138/2013. An employee of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters.</p> <p>Proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action. Significant findings are reported to the BAC for follow-up action.</p> <p>BAC also acts as the key representative body for overseeing the Bank's relations with the Auditor General.</p>	✓
<b>3.6 (iii)</b>	<b>Human Resources and Remuneration Committee</b>		
a.	Remuneration Policy relating to Directors, CEO/GM and key Management personnel of the Bank.	<p>The remuneration of the Board is decided according to guidelines set by the Ministry of Finance.</p> <p>The remuneration of CEO/General Manager and DGMs is determined by the BHRRC/Board on the basis of the Collective Agreement.</p> <p>The CEO/General Manager attends all meetings of the Committee, except when matters relating to him are being discussed.</p> <p>Also refer the BHRRC Report on page 57.</p>	✓
b.	Set goals and targets for the Directors, CEO/ General Manager and the Key Management Personnel	<p>All Directors are Non-Executive, hence this doesn't apply.</p> <p>Goals and targets for the CEO/GM and KMPs are set based on the Strategic Plan and linked to Key Performance Indicators.</p>	✓
c.	Evaluating the performance of the CEO and Key Management Personnel	Committee will carry out the performance evaluations of the CEO and Key Management Personnel against the set goals and targets for the year 2017 during the 2nd quarter of 2018.	✓

Section	Principle	Compliance and Implementation	Complied
d.	The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	Terms of Reference of BHRRRC provides that CEO/General Manager should be present at all meetings of the Committee, except when matters relating to the CEO/General Manager are discussed.	✓
3.6 (iv)	<b>Nominations Committee</b>		
	Appointment of Directors, CEO and KMP	Directors are appointed by the Minister in charge of the subject as per provisions of the People's Bank Act.  The CEO/General Manager is appointed by the Board of Directors.  There is a Board approved procedure/scheme for the appointment of Key Management Personnel.	✓
b.	Re-election of Directors	Does not arise since the Minister in charge of the subject appoints them.	✓
c.	Eligibility criteria for appointments to key managerial positions including CEO	The General Manager is appointed based on the Bank's accepted procedure with the approval of the Board. The Board approved promotion schemes stipulate the attributes required to be eligible to be selected or promoted to the other key management positions.	✓
d.	Fit and proper persons	Declarations are obtained from Directors, to ensure that they are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the statutes is sent to CBSL.	✓
e.	Succession Plan and new expertise	The need for additional/new expertise may be identified by the Board or its committees and brought to the attention of the BNC who will take appropriate action.  The Bank has developed a Succession Plan for the CEO/General Manager and KMP.	✓
f.	Committee Chairman and preferably majority of Directors be Independent. The CEO may be present at meetings by invitation.	Chairman and members are Non-Executive Directors.  Based on the Terms of Reference, the CEO/General Manager is a member of the Committee. The Bank will initiate action to appoint majority of independent Directors to the Committee.	✗
3.6 (v)	<b>Integrated Risk Management Committee/Board Risk Management Committee</b>		
a.	Composition of BIRMC	The Committee comprises three Non-Executive Directors, the CEO/General Manager and DGM – Risk and Compliance.  Other KMPs who supervises credit, market, liquidity, operational, reputational and strategic risks are invited to attend the meeting on a regular basis.  The Committee works closely with KMPs within the framework of authority and responsibility assigned to the Committee.	✓
b.	Risk Assessment	Policies on Credit Risk Management, Market Risk Management and Operational Risk Management have been approved by the Committee, which provides a framework for management and assessment of risks. Accordingly, information on pre-established risk indicators (stress test report) are reviewed by the Risk Management Department on a monthly basis and a summary is submitted for review by the Committee on a quarterly basis, discharging its responsibilities as per the Terms of Reference.	✓

Section	Principle	Compliance and Implementation	Complied
c.	Review of management level committees on risk	The Committee reviews reports of ALCO and Operational Risk Management Committee (ORMC) which are management level committees to assess their adequacy and effectiveness in addressing specific risks and managing the same within the quantitative and qualitative risk limits set in the Risk Appetite Statement approved by the Board. Committee has evaluated the adequacy and effectiveness of all managerial level committees against their current Terms of References (TOR).	✓
d.	Corrective action to mitigate risks exceeding prudential levels	Exposure levels under each risk category are monitored against tolerance levels on a monthly basis by the Risk Management Department and discussed in detail at quarterly meetings of the BIRMC.  The Committee takes prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.	✓
e.	Frequency of meetings	The Committee meets on a quarterly basis and schedules additional meetings, if necessary. The agenda covers all aspects of risk management including updated business continuity plans. The Committee met five times during 2017.	✓
f.	Actions against officers responsible for failure to identify specific risks or implement corrective action	Terms of Reference of BIRMC include committee members' responsibility to take disciplinary action for failure to identify specific risks. Formal documented disciplinary action procedures are in place for the purpose.	✓
g.	Risk assessment report to Board	Risk assessment reports submitted to the BIRMC are submitted to the Board meeting immediately following the committee meeting.	✓
h.	Compliance function	A compliance function has been established to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. This function is headed by the DGM (Compliance) (a Key Management Personnel) who reports to the Integrated Risk Management Committee. The Board and the Committee review the Compliance Officer's Report on statutory and mandatory reporting requirements indicating the status of compliance every other month.	✓
<b>3.7 Related Party Transactions</b>			
3.7 (i)	Related parties as per the direction	A Board approved process is in place to ensure Identification of Related Parties as per the CBSL Direction.  All members of the Board are required to make declarations to the Board Secretary of the positions held with related parties at the time of appointment and annually thereafter. This information is provided to the Finance Division enabling them to capture relevant transactions. In the event of any change during the year, the Directors are required to make a further declaration to the Board Secretary.  Directors refrain from participating at meetings where lending to related parties are discussed and approved, in order to avoid conflict of interest.	✓



Section	Principle	Compliance and Implementation	Complied
3.7 (ii)	Related party transactions covered by direction	<p>Definitions of related party transactions for the Bank's purposes include:</p> <p>(a) Granting of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation,</p> <p>(b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments,</p> <p>(c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank,</p> <p>(d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.</p>	✓
3.7 (iii)	Process to monitor favourable treatment	<p>As per the Board approved Code of Best Practice of the Bank Section 2.14 there is a documented policy which identifies types of related party transactions and to ensure that the Bank does not engage in such transactions in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the Bank carrying on the same transaction with the Bank.</p> <p>A prevention or detective process will be implemented at the Bank for monitoring of favorable treatment going forward.</p>	✗
3.7 (iv)	Granting accommodation to a Director or close relation to a Director	<p>A procedure is in place for granting accommodation to Directors or to close relations of Directors. Such accommodation must be sanctioned at a Board meeting, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. This accommodation is secured by such security as may from time to time be determined by the Monetary Board as well.</p>	✓
3.7 (v)	Accommodations granted to persons, or concerns of persons, or close relations of persons, who subsequently are appointed as Directors of the Bank	<p>This situation has not arisen in the Bank to date.</p> <p>Processes for compliance with this regulation is in place. The Board Secretary obtains declarations/affidavits from all Directors on appointment.</p> <p>Employees of the Bank are aware of the requirement to obtain necessary security within one year from the date of appointment, as defined by the Monetary Board, if the need arises.</p>	✓
3.7 (vi)	Favourable treatment or accommodation to Bank employees or their close relations	<p>No favourable treatment/accommodation is provided to</p> <ol style="list-style-type: none"> <li>1. Bank employees other than staff benefits,</li> <li>2. their close relations or</li> <li>3. any concern in which the employee or close relation has a substantial interest</li> </ol> <p>Circular instructions have been issued in this regard.</p>	✓
3.7 (vii)	Remittance of accommodations subject to Monetary Board approval	<p>As per the Board approved Code of Best Practice Section 2.14.G there is a process in place at the Bank in this regard.</p>	✓

Section	Principle	Compliance and Implementation	Complied																																						
<b>3.8</b>	<b>Disclosures</b>																																								
3.8 (i)	Publish annual and quarterly financial statements	Annual Audited Financial Statements and quarterly accounts are prepared and published in accordance with the formats prescribed by CBSL and applicable accounting standards in Sinhala, Tamil and English languages.	✓																																						
3.8 (ii)	Disclosures in annual report		✓																																						
a.	A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with. A statement to this effect is included in the Directors' Responsibility to Financial Reporting on page 197.	✓																																						
b.	The report by the Board on the Bank's internal control mechanism	The following reports of the Board confirm 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 relevant accounting principles and regulatory requirements: <ul style="list-style-type: none"> <li>• Directors' Statement on Internal Control on pages 60 and 61.</li> <li>• Statement of Directors' Responsibility on page 197.</li> </ul>	✓																																						
c.	External Auditor's certification on the effectiveness of the internal control mechanism	The Bank has obtained a certificate on the effectiveness of Internal Controls over Financial Reporting from the Auditor General, published on pages 60 and 61.	✓																																						
d.	Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank	Profiles of Directors are given on pages 22 and 23.  Directors' interests in contracts with the Bank are given below: <table border="1" data-bbox="495 1418 1367 1640"> <thead> <tr> <th rowspan="3">Summary of Directors' Transactions</th> <th colspan="2">Loans</th> <th colspan="2">Deposits</th> <th colspan="5">Compensation</th> </tr> <tr> <th>Out-standing as at 31.12.2017</th> <th>Interest for the Year</th> <th>Out-standing as at 31.12.2017</th> <th>Interest for the Year</th> <th>Short-Term Benefit</th> <th>Post Employee Benefits</th> <th>Other Long Term Benefits</th> <th>Termination Benefits</th> <th>Shared based Payments</th> </tr> <tr> <th>Rs. '000</th> <th>Rs. '000</th> <th>Rs. '000</th> <th>Rs. '000</th> <th>Rs. '000</th> <th>Rs. '000</th> <th>Rs. '000</th> <th>Rs. '000</th> <th>Rs. '000</th> </tr> </thead> <tbody> <tr> <td>Total</td> <td>2,251</td> <td>290</td> <td>4,163</td> <td>152</td> <td>4,640</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> </tr> </tbody> </table>	Summary of Directors' Transactions	Loans		Deposits		Compensation					Out-standing as at 31.12.2017	Interest for the Year	Out-standing as at 31.12.2017	Interest for the Year	Short-Term Benefit	Post Employee Benefits	Other Long Term Benefits	Termination Benefits	Shared based Payments	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Total	2,251	290	4,163	152	4,640	-	-	-	-	✓
Summary of Directors' Transactions	Loans			Deposits		Compensation																																			
	Out-standing as at 31.12.2017	Interest for the Year		Out-standing as at 31.12.2017	Interest for the Year	Short-Term Benefit	Post Employee Benefits	Other Long Term Benefits	Termination Benefits	Shared based Payments																															
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000																																
Total	2,251	290	4,163	152	4,640	-	-	-	-																																
Remunerations paid by the Bank are given in Note 12 to the Financial Statements on page 230.																																									

Section	Principle	Compliance and Implementation	Complied																						
e.	Total accommodations granted to each category of related parties and as a percentage of the Bank's regulatory capital	<p>Total net accommodation granted to each category of related party during the year 2017 as a percentage of the Bank's regulatory capital is given below:</p> <table border="1"> <thead> <tr> <th></th> <th>Rs. '000</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Key Management Personnel (KMPs) and their Close Family Members (CFMs)</td> <td>15,354</td> <td>0</td> </tr> <tr> <td>Subsidiaries</td> <td>11,966,796</td> <td>15</td> </tr> <tr> <td>Associates</td> <td>–</td> <td>–</td> </tr> <tr> <td>Government and Government related entities</td> <td>765,679,038</td> <td>987</td> </tr> </tbody> </table>		Rs. '000	%	Key Management Personnel (KMPs) and their Close Family Members (CFMs)	15,354	0	Subsidiaries	11,966,796	15	Associates	–	–	Government and Government related entities	765,679,038	987	✓							
	Rs. '000	%																							
Key Management Personnel (KMPs) and their Close Family Members (CFMs)	15,354	0																							
Subsidiaries	11,966,796	15																							
Associates	–	–																							
Government and Government related entities	765,679,038	987																							
f.	Aggregate values of remuneration to, and transactions with KMP	<p>The aggregate amount of remuneration paid by the Bank and transactions with KMPs (including their CFMs) for the year 2017 are stated below –</p> <table border="1"> <thead> <tr> <th></th> <th>Rs. '000</th> </tr> </thead> <tbody> <tr> <td>Short-term employment benefits</td> <td>151,965</td> </tr> <tr> <td>Post employment benefits</td> <td>–</td> </tr> <tr> <td>Total</td> <td>151,965</td> </tr> </tbody> </table> <p>In addition to the above, non-cash benefits including use of vehicles to KMPs in line with the approved benefit plan of the Bank, have been paid.</p> <table border="1"> <thead> <tr> <th></th> <th>Rs. '000</th> </tr> </thead> <tbody> <tr> <td>Loans</td> <td>13,855</td> </tr> <tr> <td>Overdrafts</td> <td>–</td> </tr> <tr> <td>Credit cards</td> <td>1,499</td> </tr> <tr> <td>Deposits</td> <td>99,888</td> </tr> <tr> <td>Debentures</td> <td>–</td> </tr> <tr> <td>Undrawn facilities</td> <td>–</td> </tr> </tbody> </table>		Rs. '000	Short-term employment benefits	151,965	Post employment benefits	–	Total	151,965		Rs. '000	Loans	13,855	Overdrafts	–	Credit cards	1,499	Deposits	99,888	Debentures	–	Undrawn facilities	–	✓
	Rs. '000																								
Short-term employment benefits	151,965																								
Post employment benefits	–																								
Total	151,965																								
	Rs. '000																								
Loans	13,855																								
Overdrafts	–																								
Credit cards	1,499																								
Deposits	99,888																								
Debentures	–																								
Undrawn facilities	–																								
g.	External Auditors certification of compliance	The Bank has obtained the factual finding report from the Auditor General in compliance with Corporate Governance Direction. All findings of the Auditors have been incorporated in this Corporate Governance Report and any recommendations will be dealt with in 2018	✓																						
h.	Report confirming compliance with prudential requirements, regulations, laws and internal controls	The Statement of Directors' Responsibility on page 197 clearly sets out details regarding compliance with prudential requirements, regulations, laws and internal controls. There were no instances of non-compliance during the year.	✓																						
i.	Non-compliance Report	There were no supervisory concern lapses in the Bank's Risk Management Systems or non-compliance with these directions that have been pointed out by the Director of Banks Supervision of the CBSL.	✓																						

Note:

✓ Complied

\* Not complied

## BOARD SUBCOMMITTEE REPORTS

### BOARD AUDIT COMMITTEE (BAC) REPORT

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

The Committee comprises three Non-Executive Independent Directors as at the end of the year.

- Mr. Jehan P. Amaratunga – Chairman
- Ms. G.D. Chandra Ekanayake
- Mr. K.D.N. Ranjith Asoka

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

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

The BAC in particular

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

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

- a. Approved the Annual Audit plan prepared based on risk profiles of the areas of the Bank for the year 2017.
- b. Reviewed and discussed the Management Letter and the Report of the Auditor General issued in terms of Section 13 (7) (a) of the Finance Act No. 38 of 1971 for the year 2016 and the management responses thereon.
- c. Reviewed quarterly financial performance of the Bank for the year 2017 and recommended to submit the same to the Board.

- d. Reviewed and discussed issues raised at CBSL Statutory Examinations and follow-up examinations in 2015/16 and monitored the progress of rectification.
- e. Periodic review of internal audit reports and the performance of the Internal Audit Department.
- f. Reviewed Information System Procedures and recommended appropriate changes and monitored the progress of their implementation.

Four (04) meetings were held during the financial year ended 31st December 2017. The BAC considered the internal audit reports, the deficiencies observed therein, responses given by the respective DGMM/Heads of the Departments and monitored corrective actions taken to rectify deficiencies observed. The minutes of the BAC meetings are reported to the Board for information.

The BAC also followed up on corrective measures taken by the management during the year 2017 on matters raised by CBSL Statutory Examination Reports and by the Auditor General in the report for the year ended 31st December 2016.

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



**Jehan P. Amaratunga**  
Chairman  
Board Audit Committee (BAC)

27th March 2018

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

### Scope

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

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

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

### Composition

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

The current members of BHRR are:

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

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

### Committee Meetings

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



**Hemasiri Fernando**

Chairman

Board Human Resources and Remuneration Committee (BHRR)

27th March 2018

## BOARD INTEGRATED RISK MANAGEMENT COMMITTEE (BIRMC) REPORT

### Scope

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

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

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

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

### Composition

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

The current members of BIRMC are:

- Mr. Jehan P. Amaratunga – Chairman
- Ms. G.D. Chandra Ekanayake
- Mr. K.D.N. Ranjith Asoka
- Mr. N. Vasantha Kumar – CEO/GM

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

### Committee Meetings

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



**Jehan P. Amaratunga**

Chairman

Board Integrated Risk Management Committee (BIRMC)

27th March 2018

## BOARD EXECUTIVE CREDIT COMMITTEE (BECC) REPORT

### Scope

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

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

### Composition

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

The current members of BECC are:

- Dr. Aminda M. Perera – Chairman
- Mr. T.D. Anton S. Hemantha
- Mr. K. Rajendran
- Mr. N. Vasantha Kumar – CEO/GM

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

### Committee Meetings

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



**Dr. Aminda M. Perera**

Chairman

Board Executive Credit Committee (BECC)

27th March 2018

## BOARD NOMINATION COMMITTEE (BNC) REPORT

### Scope

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

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

### Composition

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

- Mr. Hemasiri Fernando – Chairman
- Mr. Jehan P. Amaratunga
- Ms. G.D. Chandra Ekanayake

The CEO/GM attends the meeting on invitation.

### Committee Meetings

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



**Hemasiri Fernando**

Chairman

Board Nomination Committee (BNC)

27th March 2018

## BOARD INVESTMENT BANKING COMMITTEE (BIBC) REPORT

### Scope

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

### Composition

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

The current members of BIBC are:

- Mr. Jehan P. Amaratunga – Director/Chairman
- Ms. G.D. Chandra Ekanayake
- Mr. K.D.N. Ranjith Asoka
- Mr. N. Vasantha Kumar – CEO/GM
- Mr. G.B.R.P. Gunawardana – SDGM (Business Banking)
- Mr. Clive Fonseka – Head of Treasury and Investment Banking

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

### Committee Meetings

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



**Jehan P. Amaratunga**

Chairman  
Board Investment Banking Committee (BIBC)

27th March 2018

## BOARD INFORMATION TECHNOLOGY COMMITTEE (BITC) REPORT

### Scope

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

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

### Composition

The Committee consists of two Directors of the Board.

The current members of BITC are:

- Mr. Hemasiri Fernando – Chairman
- Mr. Jehan P. Amaratunga
- Mr. K.D.N. Ranjith Asoka

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

The quorum for the meeting of BITC is two members.



**Hemasiri Fernando**

Chairman  
Board Information Technology Committee (BITC)

27th March 2018

## BOARD STRATEGIC PLAN REVIEW COMMITTEE (BSPRC) REPORT

### Scope

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

### Composition

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

The current members of BSPRC are:

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

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

### Committee Meetings

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



**Hemasiri Fernando**

Chairman  
Board Strategic Plan Review Committee (BSPRC)

27th March 2018

# DIRECTORS' STATEMENT ON INTERNAL CONTROLS

## RESPONSIBILITY

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

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at the Bank. In considering such adequacy and effectiveness, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or frauds.

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

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

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

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

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

- Various committees are established by the Board to assist the Board in ensuring the effectiveness of the Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non compliance. Internal audit assignments are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Board Audit Committee. Findings of the Internal Audit Department are submitted to the Board Audit Committee (BAC) for review at their periodic meetings.
- The BAC of the Bank reviews internal control issues identified by the Internal Audit Department, regulatory authorities and management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of same. The minutes of the BAC meetings are tabled at the meetings of the Board of Directors of the Bank on a periodic basis. Details of the activities undertaken by the BAC of the Bank are set out in the Board Audit Committee Report (Refer page 56).
  - In assessing the internal control system, identified officers of the Bank continued to review and update all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. The Internal Audit Department of the Bank continued to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis.



- In adopting Sri Lanka Accounting Standards comprising LKAS and SLFRS progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosure are being made whilst further strengthening of processes will take place pertaining to impairment of loans and advances, credit card operations, management information system and financial statement disclosures related to risk management and related parties. The assessment did not include subsidiaries of Bank.
- Board has given due consideration for the adoption of SLFRS 9 "Financial Instruments" which will be applicable for financial reporting periods beginning on or after 1st January 2018. Bank is in the process of finalising the assessment of the day 1 impact of the application of the standard SLFRS 9 poses a significant impact on impairment assessment as it shifts the accounting for provisioning for credit risk on the basis of expected loss from an incurred credit loss model based on LKAS 39.
- The comments made by the External Auditors in connection with the internal control system during the financial year 2017 were taken into consideration and steps have been taken to incorporate them where appropriate. Further appropriate measures have been initiated to develop procedures to improve the controls documentation on identification of related party transactions in the ensuing year.

## CONFIRMATION

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

## REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed the above Directors' Statement on internal control included in the Annual Report of the Bank for the year ended 31st December 2017 and reported to the Board that nothing has come to their attention that causes them to believe that the Statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Bank.

The Assurance Report of the External Auditors in connection with internal control over financial reporting is appearing on page 62 of the Annual Report.

For and on behalf of the Board.



**Jehan P. Amaratunga**

Director  
Chairman of the Board Audit Committee

26th March 2018

# AUDITOR GENERAL'S ASSURANCE REPORT ON INTERNAL CONTROL



## විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය  
எனது இல.  
My No.

BAF/D/PB/IC/2017

මගේ අංකය  
உமது இல.  
Your No.

දිනය  
திகதி  
Date

26 April 2018

### ASSURANCE REPORT OF THE AUDITOR GENERAL TO THE BOARD OF DIRECTORS ON THE DIRECTORS' STATEMENT ON INTERNAL CONTROL OF PEOPLE'S BANK

#### Introduction

This report is to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") of People's Bank included in the Annual Report for the year ended 31 December 2017. In carrying out this assurance engagement I was assisted by a firm of Chartered Accountants in public practice.

#### Management's Responsibility

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

#### My Responsibility and Compliance with SLSAE 3050

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

### Summary of Work Performed

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

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

SLSAE 3050 does not require me to consider whether the Statement covers all 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 me to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.

### Conclusion

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

H.M. Gamini Wijesinghe  
Auditor General



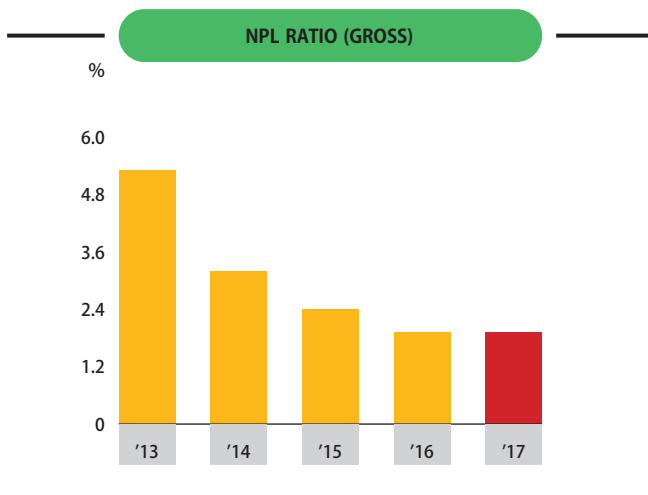
# MANAGING RISK

Risk exists when the outcome of a particular decision or cause of action is uncertain and could potentially impact the manner in which a bank delivers its objectives.

People's Bank, as one of the largest State Banks in Sri Lanka faces numerous risks in its business operations. Hence, the Bank has in place a robust risk management framework to identify, assess, mitigate, monitor and report such risks enabling the Bank to deliver sustainable value to its stakeholders. The integrated risk management approach adopted by People's Bank aptly balances its risk and growth considerations effectively.

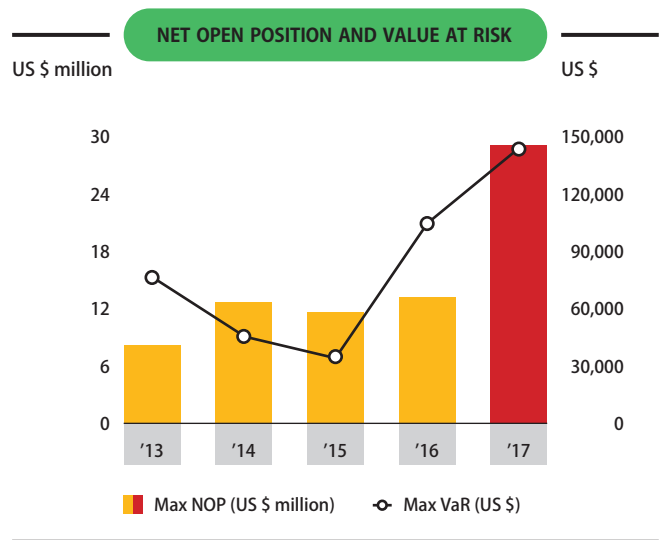
## RISK HIGHLIGHTS

### Credit Risk



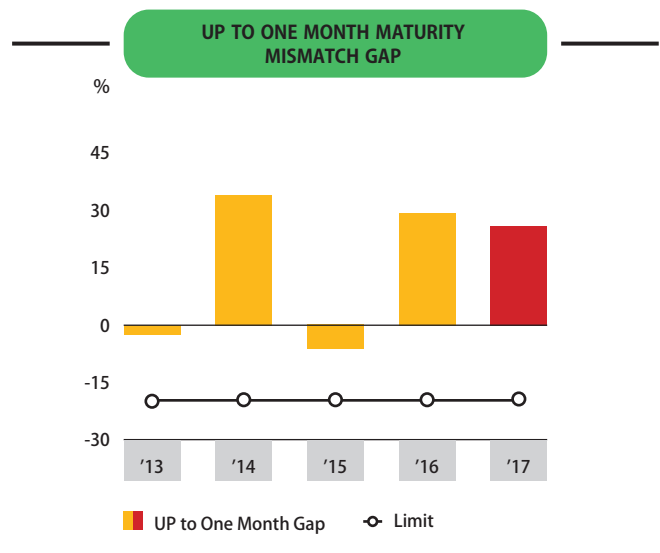
### Market Risk

Volatile interest rates and impact on Net Interest Margin Maximum NOP, Max VaR.



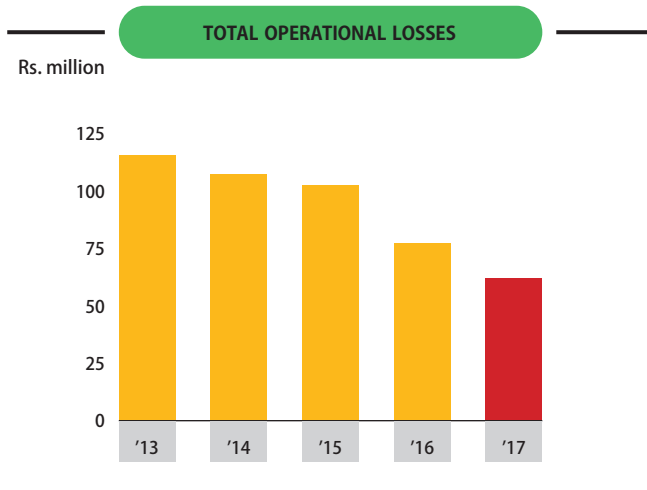
### Liquidity Risk

Met the liquid asset requirement Effectively managed the asset liability mismatch.

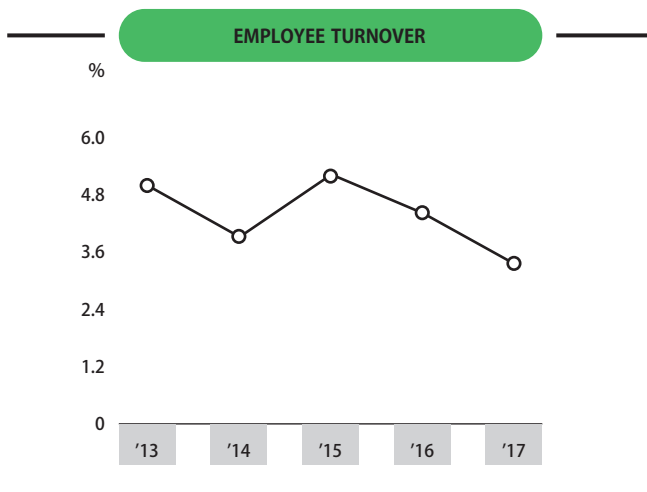


### Operational Risk

Operational losses minimised through strong internal controls



Staff turnover was 3.3%

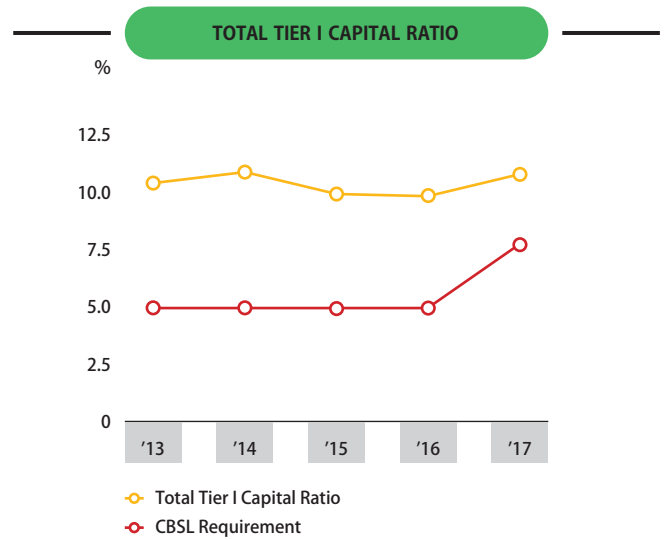


### Compliance Risk

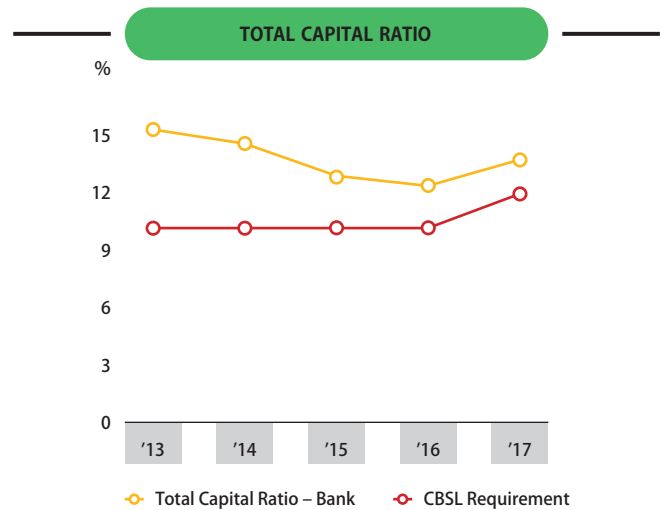
Complied with the directions issued by regulator

### Regulatory Risk

The Bank embraced the Basel III minimum capital requirement and the leverage ratio framework



2013-2016 – Basel II  
 2017 – Basel III



2013-2016 – Basel II  
 2017 – Basel III

## INTEGRATED RISK MANAGEMENT FRAMEWORK OF PEOPLE'S BANK

People's Bank follows a comprehensive risk management framework to manage its risks. Bank's Board of Directors is vested with the responsibility of understanding the risks assumed by the Bank and ensuring the risks are appropriately managed. The framework which is applied across People's Bank, spells out the process of identifying, measuring, monitoring and controlling the different types of risks and the governance structure in place.

### Objectives

Given below are the objectives of the Bank's integrated risk management framework.

- Assess and appropriately manage various risk exposures of the Bank
- Develop an effective system to monitor the Bank's risk exposures and relate them to the Bank's capital

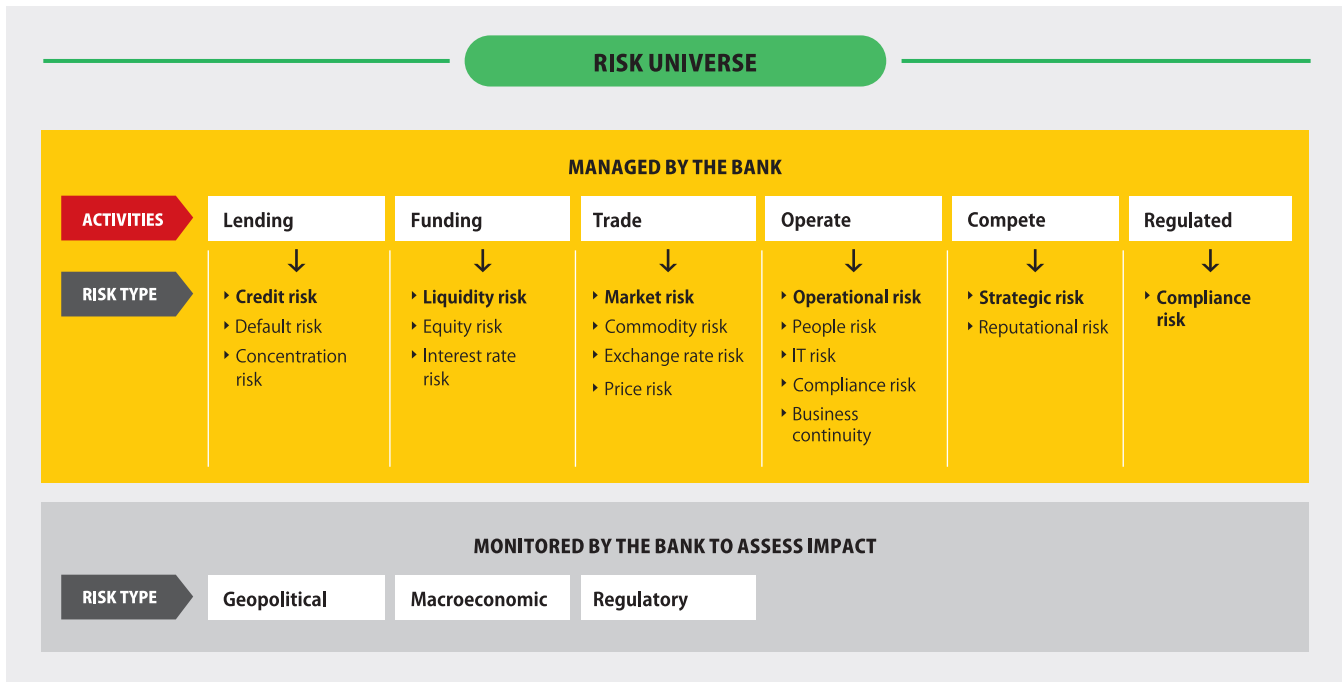
- Establish a method to monitor Bank's compliance with internal policies, particularly with regard to risk management
- Effectively communicate all relevant policies and procedures throughout the Bank
- Adopt and support strong internal controls
- Report relevant risk information to stakeholders, regulators, and invested parties.

### RISK CATEGORIES

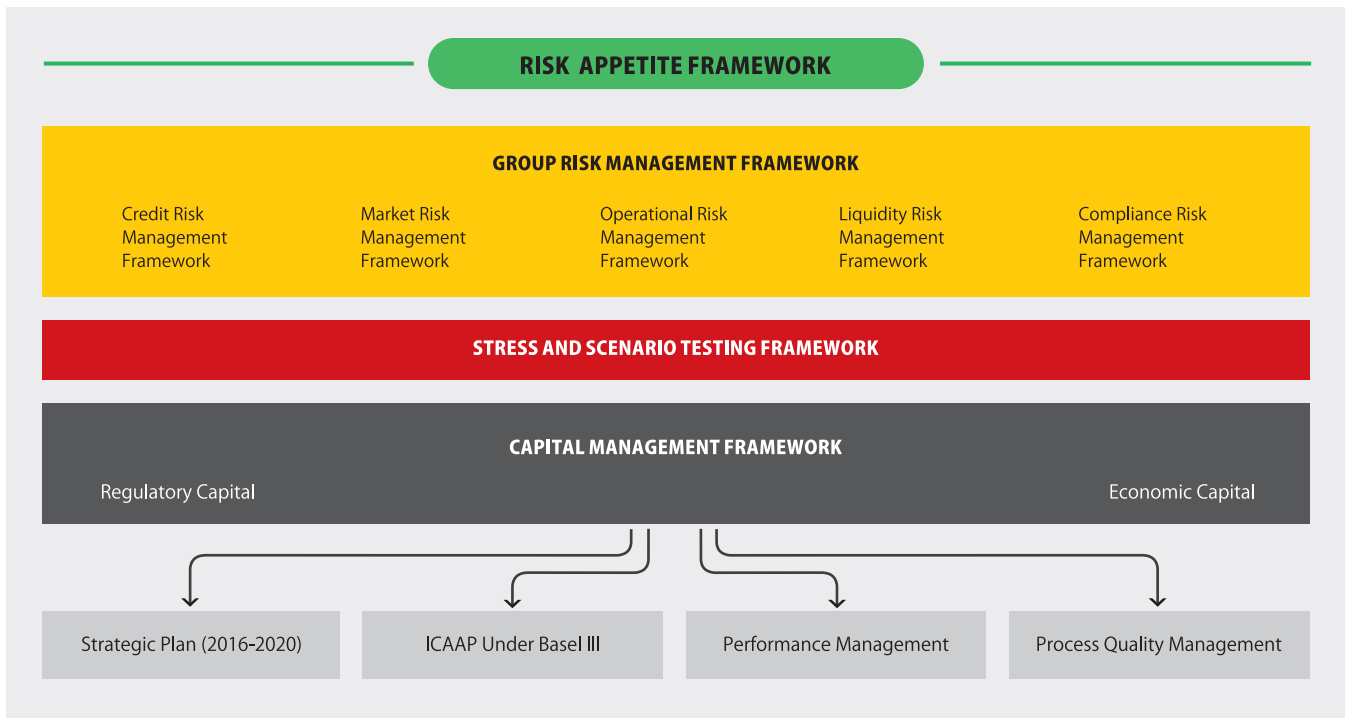
People's Bank's main risk categories are Credit risk, Market risk and Operational risk. In addition, the material risk categories are Liquidity risk, Funding risk, Compliance risk, Reputational risk, Legal risk and Strategic risk.

### RISK UNIVERSE FOR PEOPLE'S BANK

The risk universe for People's Bank is composed of interconnected groups of risks as illustrated in the diagram below:



The risk appetite framework of the Bank ensures that only appropriate risks within the risk tolerance framework are taken by the Bank. Bank's risk tolerance levels are set by the Bank's Board of Directors. Bank's risk appetite is influenced by several factors such as regulatory changes, macroeconomic environment, Bank's vision, mission and values, stakeholder expectations and the Bank's business model.



## RISK APPETITE

Risk appetite expresses the aggregate level of risk the Bank is willing to assume within its risk tolerance level in order to achieve its business objectives. These objectives are defined by a set of minimum quantitative metrics and qualitative statements.

Risk tolerance level is defined as the maximum level of risk the Bank can assume before breaching regulatory constraints and its obligations to stakeholders. People's Bank has assumed a prudent risk appetite, facilitating sustainable growth and profitability. Risk appetites have been formulated for each Group entity where People's Bank's exposure exceeds Rs. 500 million. The risk appetite of the Bank is reviewed annually and apt actions are taken to address any adverse variances.

The risk tolerance levels of People's Bank are given below:

Credit risk	Credit Risk Appetite			Position as at 31st December 2017	Position as at 31st December 2016
	High Risk	Medium Risk	Low Risk		
NPL/Total Advances	>10%	5%-10%	<5%	<b>1.91%</b>	1.92%
Provision Coverage	<75%	75%-90%	>90%	<b>97.5%</b>	110.4%
P&L Charge	>15%	5%-15%	<5%	<b>10.62%</b>	9.06%
Concentrations (HHI Method)	>0.25	0.25-0.15	<0.15	<b>0.19</b>	0.20
Recoveries	>2%	2%-4%	>4%	<b>30.76%</b>	22.85%
Overdraft Excess	>20%	10%-20%	<10%	<b>14.98%</b>	10.92%
Overseas Exposure (OBU)	>15%	10%-15%	<10%	<b>0.62%</b>	0.30%

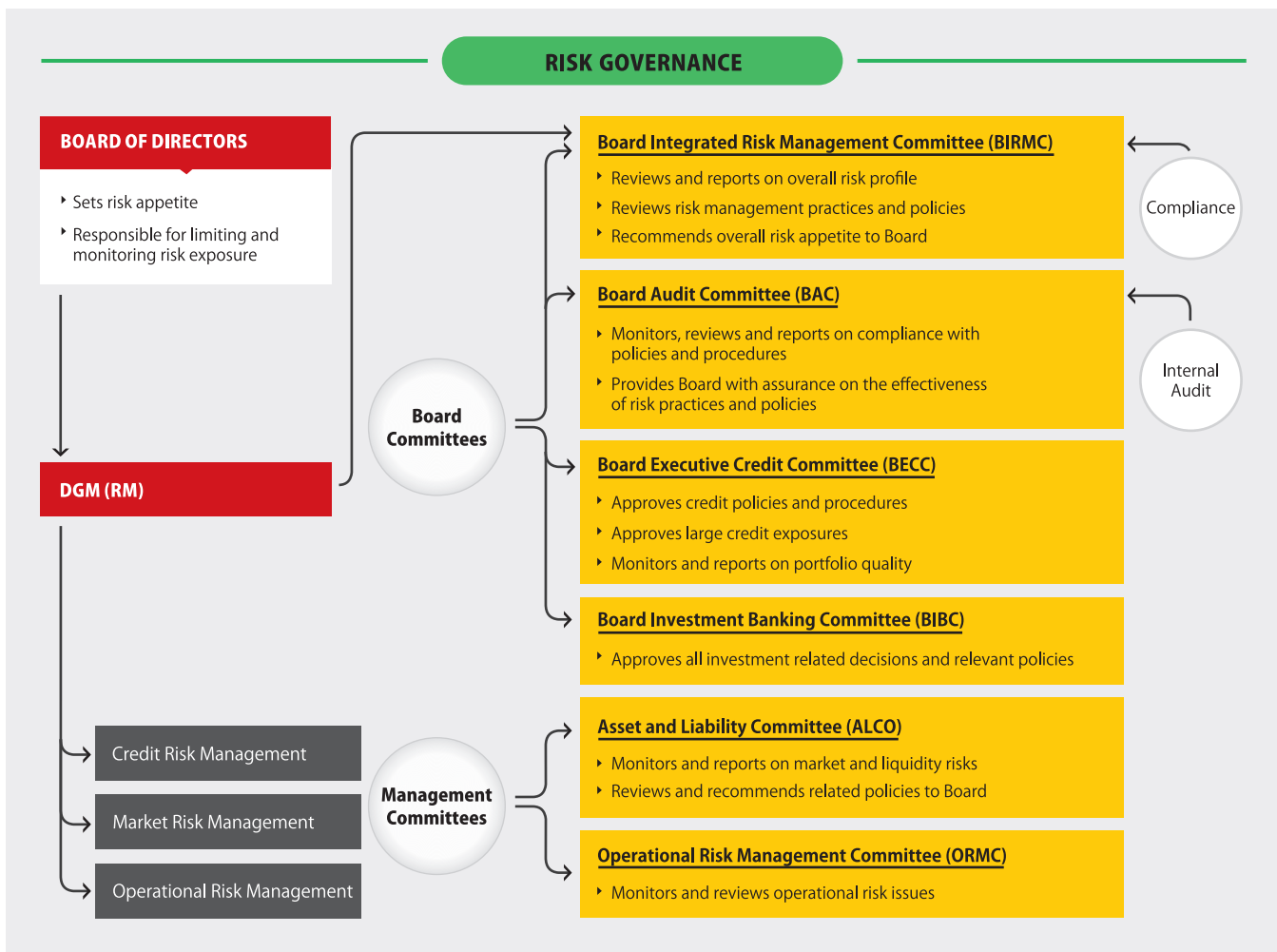
Market Risk	Approved Limit	Year Ended 31st December 2017	Year Ended 31st December 2016
Fx Net Open Position	US \$ +/- 16 million	<b>Complied</b>	Complied
Value at Risk (VaR) (Conf. Level 99%, 1 day)	US \$ 250,000	<b>Complied</b>	Complied
<b>Cumulative losses</b>			
– Forex Trading	US \$ 175,000	<b>Complied</b>	Complied
– FIS Trading (Realised)	Rs. 25 million	<b>Complied</b>	Complied
(Unrealised)	Rs. 500 million	<b>Complied</b>	Complied
Forward Fx Gap Limit	US \$ 300 months millions	<b>Complied</b>	Complied
<b>GOSL Securities</b>			
– Trading	Rs. 150 billion	<b>Complied</b>	Complied
– Investment	Rs. 155 billion	<b>Complied</b>	Complied
– AFS	Rs. 10 billion	<b>Complied</b>	Complied
Sri Lanka Development Bonds (SLDB)	US \$ 750 million	<b>Complied</b>	Complied
Inter Bank Borrowings	Rs. 170 billion	<b>Complied</b>	Complied
DBU Foreign Currency Borrowings	US \$ 50 million	<b>Complied</b>	Complied
Investment Value of Share Trading Portfolio	Rs. 1,000 million	<b>Complied</b>	Complied
Percentage of Shares on the S&P SL 20 Index	Min: 25%	<b>Complied</b>	Complied
Gilt Unit Trust limit	Rs. 2.5 billion	<b>Complied</b>	Complied
Debentures	Rs. 5 billion	<b>Complied</b>	Complied
Interest Rate Risk (DGap+VaR on FwdFx)	Rs. 7.5 billion	<b>Complied</b>	Complied

Operational risk	Operational Risk Appetite			Position as at 31st December 2017	Position as at 31st December 2016
	High Risk	Medium Risk	Low Risk		
Operational Losses – Internal	>25	25-10	<10	<b>0</b>	12
Operational Losses – External	>1,000	400-1,000	<400	<b>321</b>	236
Total Operational Losses to Total Operational Expenses	>1.0%	0.5%-1.0%	<0.5%	<b>0.02%</b>	0.29%
System Availability	<97.5%	97.5%-99.8%	>99.9%	<b>99.61%</b>	99.50%
Percentage of Branch Audits Rated Less than Satisfactory	>15%	15%	Nil	<b>12%</b>	9%

## RISK GOVERNANCE

The diversity of the Group's business operations necessitates identification, assessing, measuring, aggregating and managing risks, and allocating capital among its businesses. The Group's Board of Directors holds apex responsibility for risk oversight, determining risk appetite levels, formulating risk policies and ensuring the effectiveness of the risk management processes and procedures in place. The Board is assisted by several subcommittees and executive committees in the discharge of its duties related to risk management. This ensures Board level oversight and clear segregation of duties between risk origination and approval of risk exposures. The Board and the Risk Committees operates under the directions of their respective charters.

The risk governance framework of People's Bank is illustrated below:

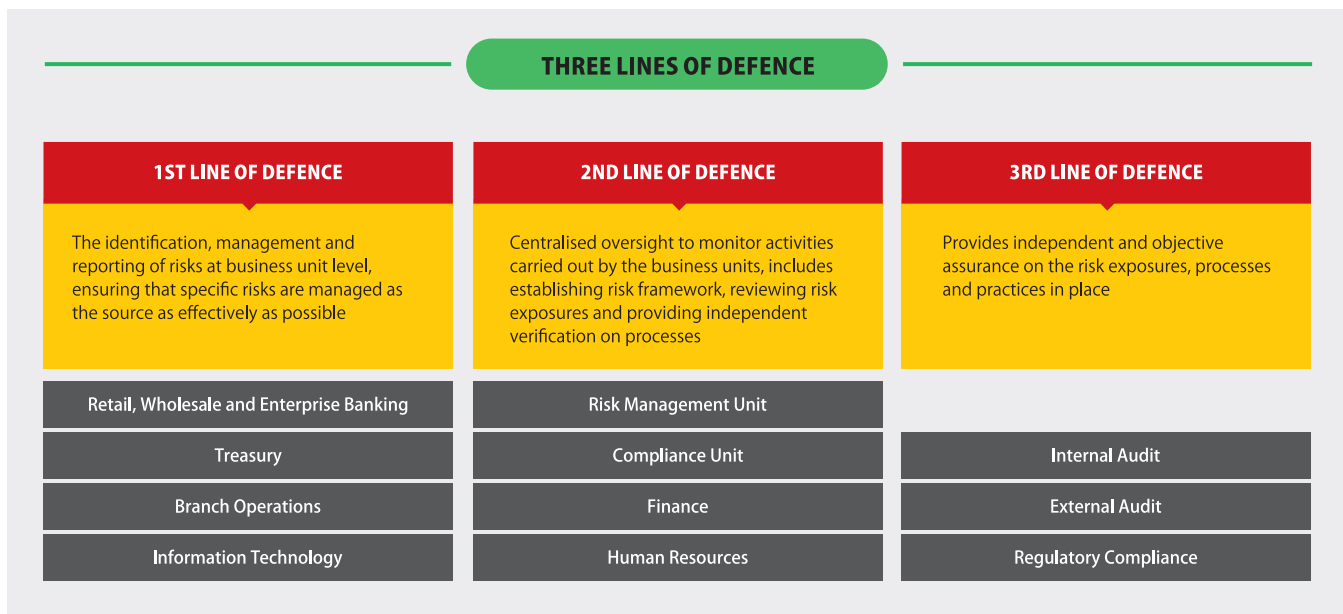




Committee	Objectives	Representation
<b>Board Committees</b>		
<b>Board Integrated Risk Management Committee (BIRMC)</b>	<ul style="list-style-type: none"> <li>• Provide independent oversight of all risk-related aspects across the Group</li> <li>• Recommend risk appetite limits to the Board</li> <li>• Ensure adequacy and effectiveness of risk governance, policies and standards across the Group</li> </ul>	<p><b>Committee Chairman</b> Director</p> <p><b>Members</b> Two Directors CEO/GM DGM (RM)</p>
<b>Board Audit Committee (BAC)</b>	<ul style="list-style-type: none"> <li>• Assess the internal financial controls and risk management measures of the Group</li> <li>• Provide oversight for the Group's financial position</li> <li>• Assess the internal audit function of the Group</li> </ul>	<p><b>Committee Chairman</b> Director</p> <p><b>Members</b> Two Directors DGM (RM) on invitation AGM (Compliance) on invitation CIA on invitation</p>
<b>Board Executive Credit Committee (BECC)</b>	<ul style="list-style-type: none"> <li>• Assist the Board to formulate credit policies and procedures</li> <li>• Monitor portfolio quality</li> <li>• Provide direction on lending exposures</li> </ul>	<p><b>Committee Chairman</b> Director</p> <p><b>Members</b> Two Directors CEO/GM SDGM (Business Banking) on invitation SDGM (EB) – on invitation DGM (RM) – on invitation DGM (Recoveries) – on invitation DGM (RB) – on invitation</p>
<b>Board Investment Banking Committee (BIBC)</b>	<ul style="list-style-type: none"> <li>• Oversee Bank's investment strategy</li> <li>• Monitor Bank's investment portfolio</li> </ul>	<p><b>Committee Chairman</b> Director</p> <p><b>Members</b> Director CEO/GM HOT &amp; IB DGM (RM) on invitation</p>
<b>Executive Committees</b>		
<b>Asset and Liability Committee (ALCO)</b>	<ul style="list-style-type: none"> <li>• Review and manage the Bank's balance sheet</li> <li>• Assist the Board to formulate policies to manage liquidity and funding risks</li> <li>• Take policy decisions on pricing of asset/liability products</li> </ul>	<p><b>Committee Chairman</b> CEO/GM</p> <p><b>Members</b> SDGM (Retail Banking) SDGM (Banking Operations) SDGM (Business Banking) HOT and IB DGM (RB) DGM (Recoveries) DGM (IB) DGM (Digitalisation) Head of Corporate Banking Head of Finance DGM (RM)</p>
<b>Operational Risk Management Committee (ORMC)</b>	<ul style="list-style-type: none"> <li>• Monitor and review matters pertaining to managing operational risk</li> </ul>	<p><b>Committee Chairman</b> CEO/GM</p> <p><b>Members</b> SDGM (Banking operations) CIA Head of Finance AGM (Risk Management)</p>

### Three Lines of Defence Model ("3 LoD")

People's Bank operates a Three Lines of Defence risk management model. The 1st Line of Defence ("1st LoD") includes risk ownership. This includes all business divisions and service providing infrastructure areas who are the "owners" of the risks. The 2nd Line of Defence ("2nd LoD") are all the independent risk and control infrastructure functions involved in risk review and control. The 3rd Line of Defence ("3rd LoD") is Group Audit, which assures the effectiveness of the controls, ensuring risk assurance. The 3 LoD model and the underlying design principles apply to all levels of the Group and are independent of one another and accountable for maintaining structures that ensure adherence to the design principles at all levels.



### RISK CULTURE

People's Bank seeks to promote a strong risk culture throughout the organisation to reinforce resilience by encouraging a holistic approach to the management of risk and return throughout the Bank. This includes effective management of risk, capital and reputational profile. Employees at all levels are responsible for the management and escalation of risks and they are expected to exhibit behaviours that support a strong risk culture.

These are principles that underpin risk culture within the Group:

- There are defined risk appetites for risks taken by the Group
- Every risk taken by the Group should be approved within the risk management framework and should be adequately compensated
- Risk should be continuously monitored and managed

### PRECAUTIONARY PRINCIPLE

The precautionary principle is applied across the Group pertaining to environmental and social sustainability. The Bank takes cognisance of the environmental and social impact of its business operations and takes apt steps to assess any such impacts through its risk management process, before embarking on new initiatives and ventures.

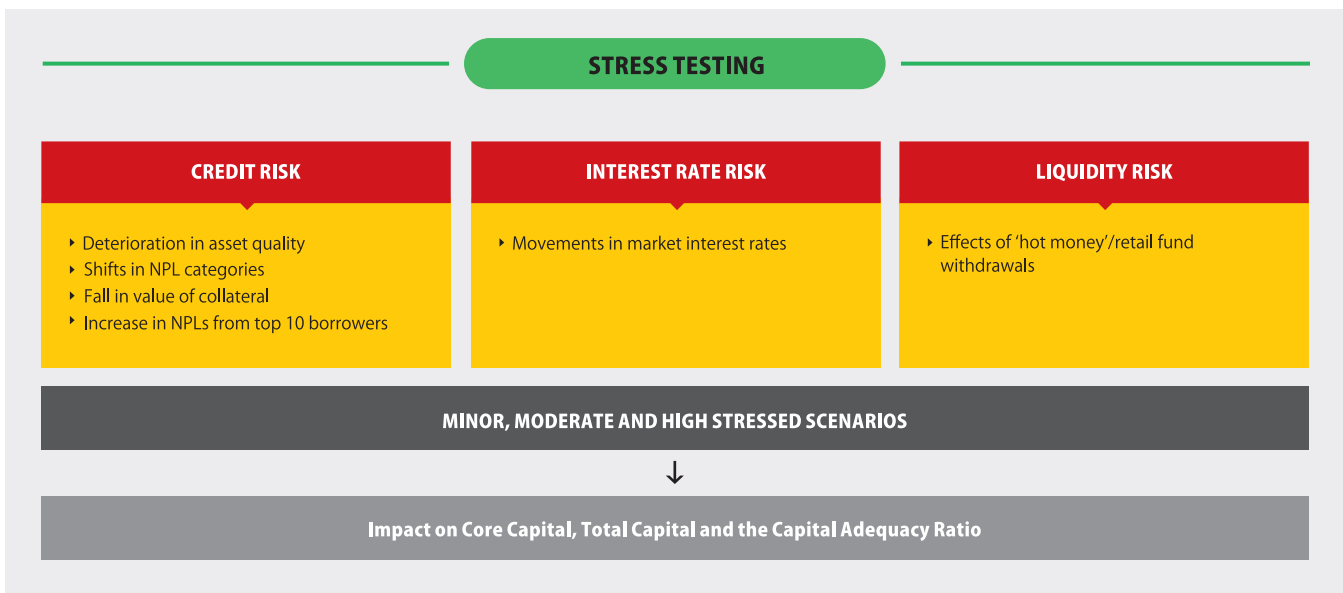
### STRESS TESTING

Stress testing is a simulation technique used to determine the reaction of asset and liability portfolios to different financial situations.

Stress testing is an integral aspect of the Group's Internal Capital Adequacy Assessment Process (ICAAP). The Bank has a strong commitment to stress testing to assess the impact of macroeconomic and market variables on its risk profile and financial position including the potential impacts on earnings, capital and liquidity. All material risk types are included in the stress testing exercise.

Regular reviews are conducted by the BIRMC on Group's stress testing outcomes and the major assumptions that underpin them. The outcomes of the stress testing process is a vital input for capital planning for ICAAP, strategic planning, defining risk appetites, communicating with internal and external stakeholders and managing risk within defined parameters.

Given below is the stress testing process of the Group.



**RISK MANAGEMENT PROCESS AT PEOPLE'S BANK**

People's Bank follow a comprehensive risk management framework to ensure all risks are identified, assessed against accepted criteria and apt measures are implemented to mitigate risks. Through an effective monitoring mechanism all risks are monitored to assess the ongoing risk treatment mechanism and is presented to the BIRMC.

Following is a graphical illustration of the Bank's risk management process



**Identify**

This includes the identification of major risks faced by the Group that require investigation. These risks are identified through monthly and quarterly risk meetings. Key Risk indicators (KRIs) and relevant thresholds broadly defined the Group's risk appetite.

Given below are the major risks faced by each of the Group companies:

Group/Company	Major Risk Categories									
	Credit Risk	Market Risk	Interest Rate Risk	Liquidity Risk	Compliance Risk	Strategic Risk	Reputation Risk	Concentration Risk	Insurance Risk	
People's Bank	✓	✓	✓	✓	✓	✓	✓	✓	✓	
People's Leasing & Finance PLC	✓	✓	✓	✓	✓	✓	✓	✓	✓	
People's Merchant Finance PLC	✓	✓	✓	✓	✓	✓	✓	✓	✓	
People's Insurance PLC	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

### Assess

The significance of each identified risk category is assessed using tools and techniques of evaluation. The Board Audit Committee (BAC) in conjunction with the Bank's Internal Audit Department periodically examines the adequacy and efficacy of risk controls in each of the Group's entities. This is to ensure the controls are aligned to Group risk standards. The assessment of the potential impacts of risks is integrated into the group-wide stress tests. This assesses the Bank's ability to absorb these events should they occur. The results of these tests indicate the ability to absorb the impact of these risks if they were to materialise in line with the tests' parameters in relation to the currently available capital, liquidity reserves and available mitigation measures.

### Mitigate

Risk mitigation is the systematic reduction in the extent of exposure to a risk and the likelihood of its occurrence. Mitigation involves developing options and actions to enhance opportunities and reduce threats. The BIRMC of the Bank reviews the risk reports and takes apt measures to prevent, safeguard and correct exceptional trends and reduce the probability of occurrence of such risks. Additionally, the Bank takes further measures to limit and reduce identified potential risks.

### Monitor

Risk monitoring and control involves keeping track of identified risks, residual risks and new risks. It also involves monitoring the execution of planned strategies for risk identification and evaluating its assessment. Bank's BIRMC closely monitors risk management measures implemented and adjusts to new risks when necessary. This is done on an ongoing basis in consultation with the Chief Executive Officers and Risk Management Divisions of each respective entity. BIRMC keeps the main Board of People's Bank and the BAC informed of any unforeseen significant changes that could arise for certain risk categories and any existing or potential risks that exceed or could exceed the risk appetite of the Group.

### Report

Each Group entity is required to manage and report risks on a quarterly basis to the Bank's BIRMC in accordance to the formulated KRIs.

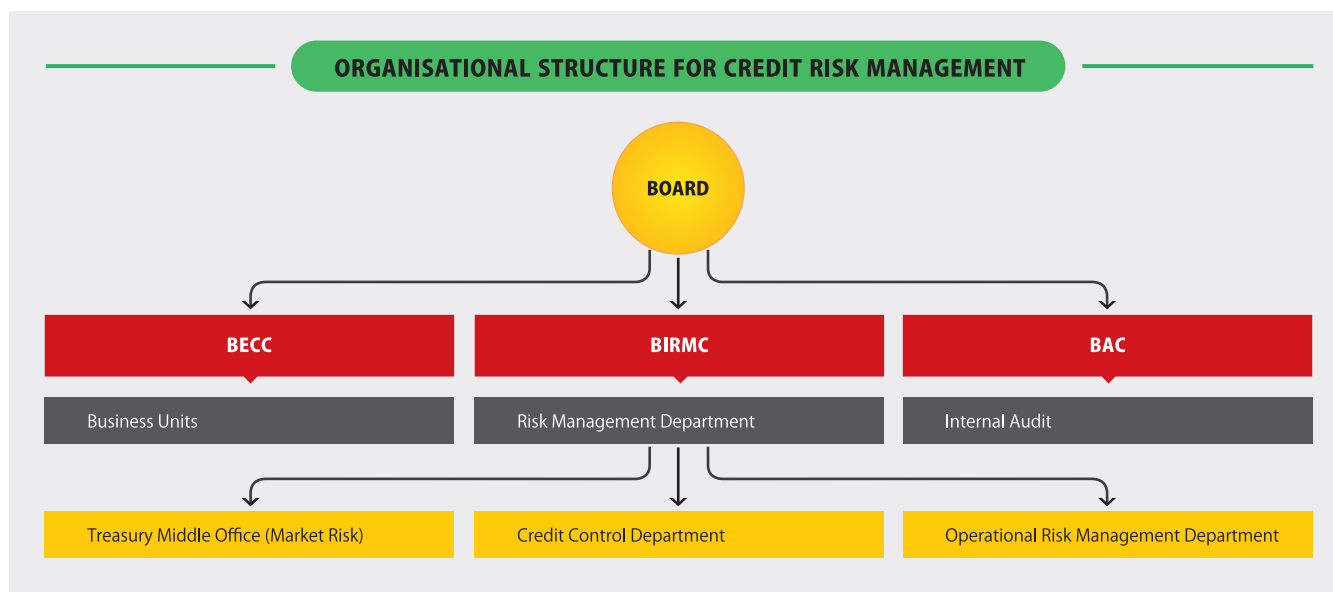
### CREDIT RISK Overview

Credit risk is the potential loss that arise from customers and counterparties failing to meet their contractual obligations. As a financial institution this is one of the Group's key risk exposures, stemming from the loans and advances portfolio, financial guarantees, letters of credit and acceptances issued and made on behalf of the customers. Credit risk can take the form of default risk, concentration of counterparties, business sectors or geographical regions.

### Objectives

- Maintain a well diversified portfolio through prudent management of the risk asset portfolio. This enables to minimise excessive exposure to any industry, sector or individual customer.
- Maximise returns and achieve an optimal risk-reward pay-off.
- Minimise non-performing loans and maintain a portfolio of good quality.
- Ensure exposures to any industry, sector or individual customer, based on regulatory guidelines, internal policies and other relevant internal guidelines.

## Approach to Credit Risk Management



The Board has delegated the responsibility for credit risk management and oversight to the Board Executive Credit Committee (BECC). The responsibilities of the BECC include:

- Formulating and updating credit policies in consultation with the BIRMC and Business Units.
- Establishing credit approval structures to ensure larger and higher risk exposures are reviewed and approved at the appropriate levels of seniority.
- Conduct periodic review of individual credit exposures and overall portfolio to ensure there are no undue risk concentrations.
- Ensure adequacy of provisions and management of higher risk exposures.
- Developing and maintaining risk rating systems as a means of quantification of credit risk, differentiate the different degree of risk and application of control and supervision required.
- Sanctioning or declining credit proposals above a predefined limit.

### Management of Credit Risk

#### Robust Risk Policies and Control Framework

The credit risk framework is formulated by the BECC and is reviewed and updated regularly based on evolving best practices and emerging risks and opportunities. The Bank has a well-defined credit policy approved by the Board which defines the credit culture of the Bank, prudential limits in line with the defined risk appetites and remedial and recovery actions.

#### Culture of Responsible Lending

The Group strives to nurture a culture of risk awareness and responsible lending through a high level of internal communications and by adopting comprehensive training programmes. As a responsible lender, the Bank provide standardised explanations about the credit on offer to the consumer and thoroughly checks the creditworthiness before offering or increasing credit.

The internal credit rating models represent diverse risk factors and are able to predict the probability of default and loss. This will facilitate the Bank's transactions from the current Basel II standardised approach to advanced approach in computing the capital charge for credit risk in time to come.

### Segregation of Authority

The Board of Directors has the final authority and responsibility for all activities that exposes the Bank to credit risk. The Board has delegated approval authority to the CEO to re-delegate approval limits to credit committees and business lines. Each business line has clearly articulated and approved risk acceptance criteria and credit approval authority at multiple levels. Any post-disbursement material changes to a credit facility (such as revision in tenor, covenants or collateral structure) require approval. Responsibility for pre-sanction risk assessment and post-sanction monitoring is clearly segregated facilitating effective implementation of credit appraisal guidelines and specialisation of skills.

The Bank assigns credit approval authorities to individuals according to their respective grade, and conducts periodic reviews.

### Risk Rating of Obligors and Prudential Limits

The Bank measures and consolidates its overall credit exposures to each obligor across the entire network, in line with regulatory requirements. A basic and key element of the credit approval process is a detailed risk rating of each borrower above a certain level of exposure. Risk ratings help to set prudential exposure limits and appropriate risk based pricing.

The Bank applies in-house assessment methodologies, scorecards and the Bank's nine points rating scale to evaluate the credit-worthiness and rate the borrowers. Different risk rating scorecards have been developed for different categories of borrowers, namely, large wholesale borrowers, corporate and SME borrowers. These rating scorecards are periodically reviewed and validated by the BIRMC.

### Credit Risk Mitigating and Collateral Management

The Bank adopts different methods to mitigate potential credit losses from any given account, customer or portfolio. A range of tools, such as restructuring, collateral, netting agreements through credit insurance, credit derivatives and guarantees. Collaterals are obtained as per the Bank's collateral policy. The main types of collaterals obtained by the Bank includes, movable and immovable property mortgages, cash deposits, plant and machinery, mortgages on stocks, book debts, corporate and personal guarantees.

### Credit Monitoring and Review

Ongoing active monitoring and management of credit risk positions is an integral aspect of the Bank's credit risk management activities. Monitoring is primarily performed by the business units in close cooperation with the Credit Control Department. The individual credit officers within the Business units have the relevant expertise and experience to manage the credit risks associated with their borrowers. It is the responsibility of each credit officer to continuously conduct credit monitoring of their allocated portfolio of borrowers.

All borrowers' exposures over Rs. 500,000.00 are subject to internal borrower risk rating and review annually by BIRMC. Any deteriorating credits are identified and monitored closely with quarterly reports submitted to the credit committees. Non-performing assets are identified at an early stage enabling the management take apt action.

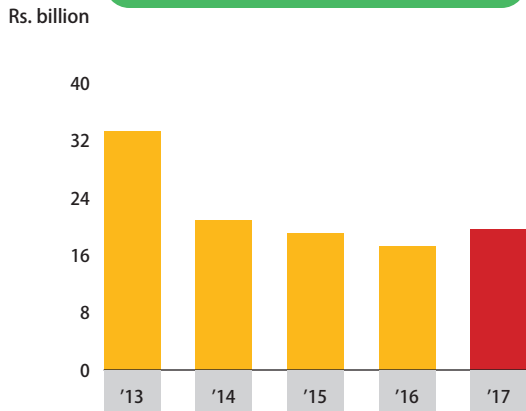
### Impairment

The Bank has in place a comprehensive impairment policy that is applied when there is objective evidence that the Bank will be unable to collect dues on a loan from the borrower according to original contract terms. A provision for loan impairment is reported as the reduction of the carrying amount of the loan on the balance sheet. Provisions are made for loan impairment in the Income Statement as well. Impairment assessments are carried out for all exposures of the Group.

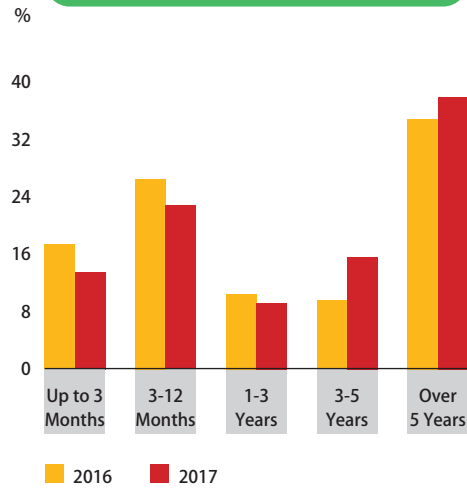
#### Non-Performing Loans (NPL) and provision coverage ratio

	2017	2016	2015	2014	2013
NP Loans (Rs. million)	19,573	17,337	19,144	20,942	33,435
Provision Coverage Ratio (%)	97.5	110.4	98.3	84.3	61.8

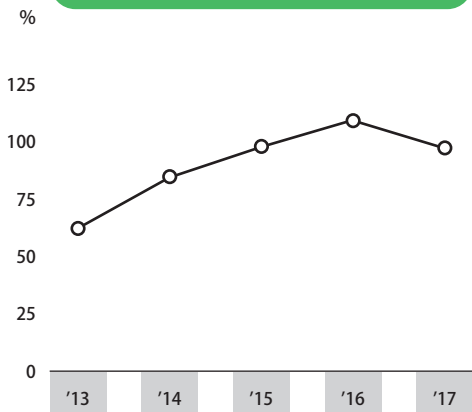
**NPL VALUE**



**AGE ANALYSIS OF LOANS AND RECEIVABLES**



**PROVISION COVERAGE RATIO**

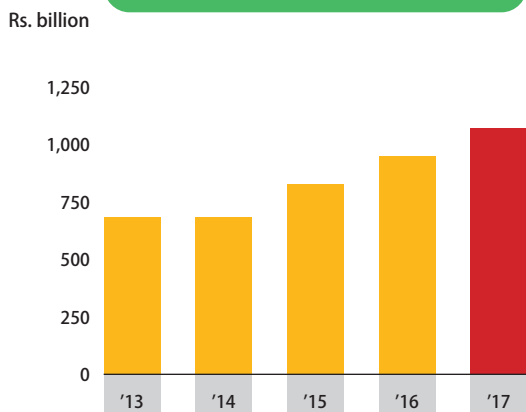


**Credit Risk Performance – 2017**

The Bank's net loans and advances swelled by 13.7% YoY to Rs. 1,013 billion as at the end December 2017. Net loans and advances accounted for 69% of the Bank's balance sheet. Portfolio growth was largely driven by the increase in Bank's long-term loans, overdrafts and pawning.

Asset quality remained at an improved level in 2017 as well, with the gross NPL ratio maintained at the same level of 1.9 % as in 2016, an improvement compared to 2.4% in 2015 amidst the growth in advances portfolio. Gross loans and advances reached Rs. 1,074.2 billion in 2017 compared to Rs. 950.9 billion in 2016.

**GROSS LOANS AND RECEIVABLES**





### DEFAULT RISK

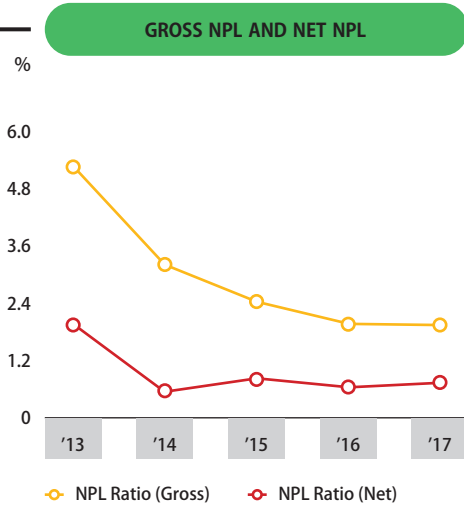
Default risk is the potential losses arising due to the borrower or counterparty being unable to meet the contractual obligations on a loan agreement.

The Bank maintained a healthy portfolio quality through stringent credit evaluations, post-disbursement monitoring and by achieving a strong collection ratio. Compared to the industry, People's Bank's Non-Performing Loan (NPL) ratio was 1.9%.

### Managing Default Risk

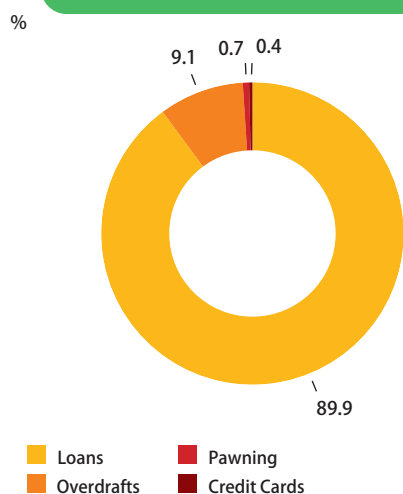
The Bank closely monitors all its credit exposures on a continuous basis using risk management tools. There are processes to identify at an early stage, credit exposures which have increased risk of loss. Such exposures are generally placed on a watch list and are managed effectively to maximise recovery.

### Default Risk Analytics





## PRODUCT WISE IMPAIRMENT – 2017



## CONCENTRATION RISK

These are risks materialising due to uneven distribution of Bank's loans and advances to individual counterparties, industry sectors or geographic regions. As a result of being a State-owned Bank, People's Bank has acquired exposures to State-owned Enterprises (SOEs), pawning and housing financing, aligned to Government's development agenda.

Bank's exposure to pawning and housing sectors is spread across a large customer base. Hence, the risk of concentration is minimal and the capital losses have been negligible to date. Nevertheless, the Bank continues to refine the risk control procedures in tandem with the changing macroeconomic conditions.

The Bank's exposure to SOEs which includes the Ceylon Petroleum Corporation, Ceylon Electricity Board and two fertilizer import companies is underpinned by explicit support from the Government of Sri Lanka. Therefore, exposures to SOEs are not considered a material risk.

**Concentration of Large Exposures  
(Over Rs. 100 million as at 31st December 2017)**

	Number of Industry sectors	Number of Individual Customers	Direct Exposure Rs. million	Indirect Exposure Rs. million	Total Rs. million	Direct Exposure as a Percentage of Balance Sheet
With SOE	18	264	456,997	194,447	651,444	45
Without SOE	17	232	133,781	69,399	203,180	13

**Position of Bank's Top 20 Customers as at 31st December**

	Top 3 (%)	Top 5 (%)	Top 10 (%)	Top 20 (%)
<b>Including SOE</b>				
2016	46	54	68	82
2017	39	47	63	76
<b>Excluding SOE</b>				
2016	29	40	57	69
2017	16	25	42	57

### Managing Concentration Risk

Bank uses the single borrower limit and the Herfindahl-Hirschman Index (HHI) to monitor and control concentrations. HHI index is calculated for all exposures (the greater of limit or outstanding) above Rs. 100 million (direct and contingent) and is calculated on both name and sector basis. In terms of sector, the Bank has further segmented its portfolio into 16 easily identifiable industry sectors. Given below are the tolerance levels for each degree of concentration

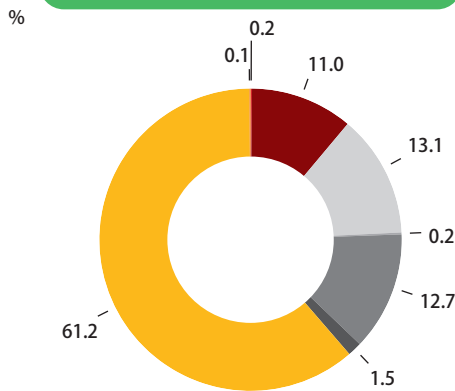
Metric	Low Concentration	Moderate Concentration	High Concentration
HHI	< 0.15	0.15 – 0.25	> 0.25

### People's Bank's Quarterly Position for the Financial Year 2017

	31st March 2017	30th June 2017	30th September 2017	31st December 2017
Name Concentration (with SOE)	0.12	0.11	0.09	0.07
Name Concentration (without SOE)	0.04	0.03	0.02	0.02
Sector Concentration (with SOE)	0.21	0.21	0.20	0.19
Sector Concentration (without SOE)	0.12	0.14	0.14	0.12

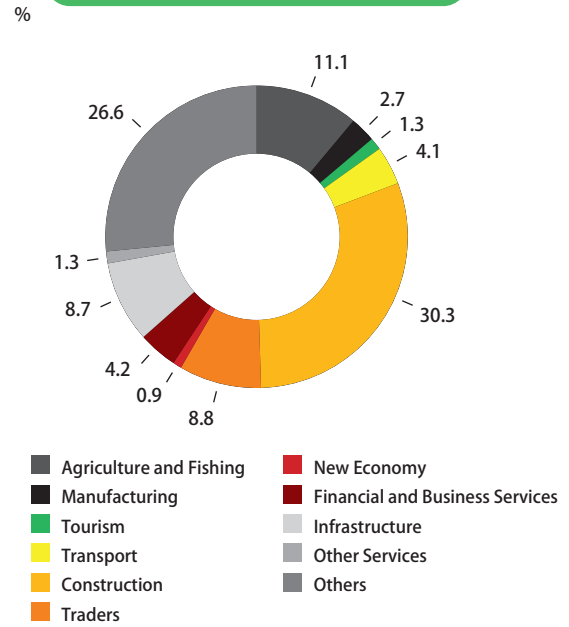
### Concentration Risk Analytics

#### PRODUCT WISE PORTFOLIO CONCENTRATION – 2017



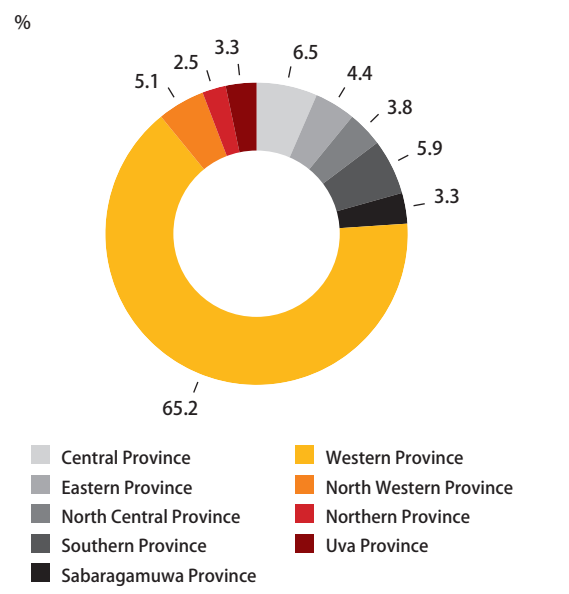
- Bills of Exchange
- Overdrafts
- Trade Finance
- Credit Cards
- Pawning
- Staff Loans
- Term Loans
- Others

#### SECTOR WISE PORTFOLIO CONCENTRATION – 2017

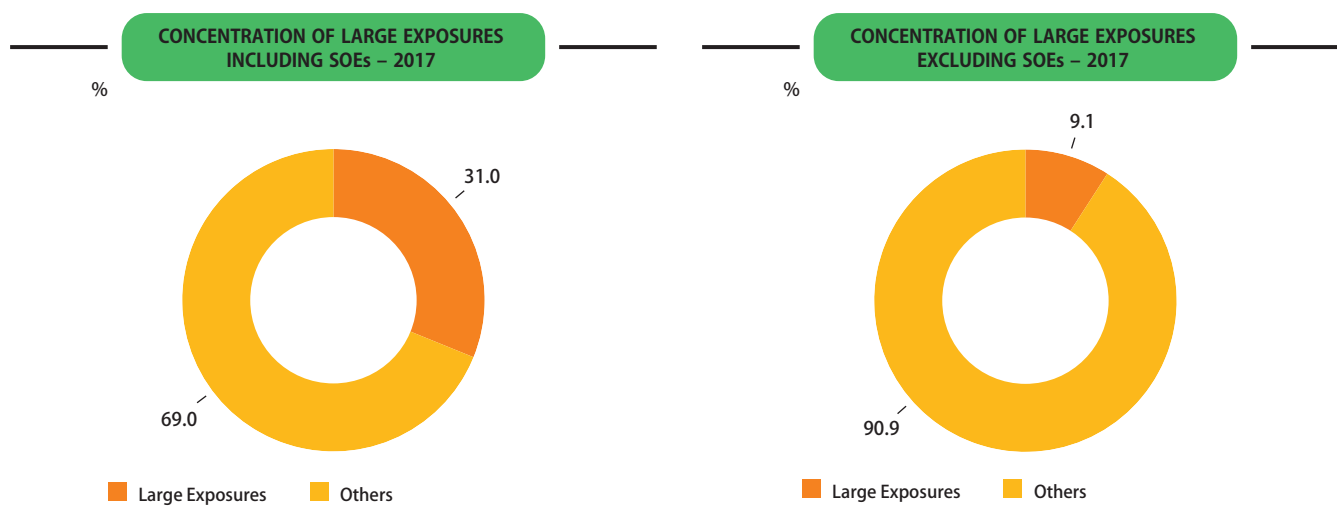


- Agriculture and Fishing
- Manufacturing
- Tourism
- Transport
- Construction
- Traders
- New Economy
- Financial and Business Services
- Infrastructure
- Other Services
- Others

#### GEOGRAPHIC CONCENTRATION – 2017



- Central Province
- Eastern Province
- North Central Province
- Southern Province
- Sabaragamuwa Province
- Western Province
- North Western Province
- Northern Province
- Uva Province



### CREDIT RISK STRESS TESTING

Credit risk stress testing is performed and reported to BIRMC to ascertain the impact on Bank's capital adequacy levels in response to certain factors as reported in the table below:

<b>Increase in NPLs</b>	Magnitude of Shock – 5%	Magnitude of Shock – 10%	Magnitude of Shock – 20%
Revised Core Capital Ratio	10.45%	10.37%	10.23%
Revised Total Capital Ratio	13.12%	13.05%	12.90%
<b>Adverse Movements within NPL Categories</b>	Magnitude of Shock – 50%	Magnitude of Shock – 80%	Magnitude of Shock – 100%
Revised Core Capital Ratio	10.43%	10.37%	10.34%
Revised Total Capital Ratio	13.10%	13.04%	13.01%
<b>Fall in the FSV of Collateral Held by the Bank</b>	Magnitude of Shock – 5%	Magnitude of Shock – 10%	Magnitude of Shock – 15%
Revised Core Capital Ratio	10.48%	10.44%	10.40%
Revised Total Capital Ratio	13.15%	13.11%	13.08%
<b>Slippage of Performing Loans to NPLs</b>	Magnitude of Shock – 1%	Magnitude of Shock – 2%	Magnitude of Shock – 3%
Revised Core Capital Ratio	9.96%	9.39%	8.83%
Revised Total Capital Ratio	12.63%	12.07%	11.50%
<b>Defaults by Large Borrowers</b>	Magnitude of Shock – 5%	Magnitude of Shock – 7.5%	Magnitude of Shock – 10%
Revised Core Capital Ratio	10.08%	9.85%	9.63%
Revised Total Capital Ratio	12.75%	12.53%	12.31%

## MARKET RISK

### Overview

Market risk is the potential loss arising due to movement in market prices such as changes in interest rates, exchange rates, and equity and commodity prices. The key market risks of the Bank are interest rate risk, foreign exchange risk, equity risk and commodity risk, primarily through exposure to pawning.

Bank's market risk arises largely from the interest rate risk of its trading and non-trading books and exposure to gold prices stemming from its pawning portfolio. The moderate exposure to foreign exchange risk arises on account of the Bank's proprietary trading and foreign currency denoted transactions. Bank's exposure to equity risk is limited as its trading portfolio is a mere 0.1% of the Balance sheet.

### Objectives

- The main objective of market risk management is to optimise the risk-reward relationship of the Bank's business units within the predefined risk appetite.
- Prevent the Bank being exposed to unacceptable losses.
- Ensure the Bank operates within the defined risk appetites.

### Approach to Managing Market Risk

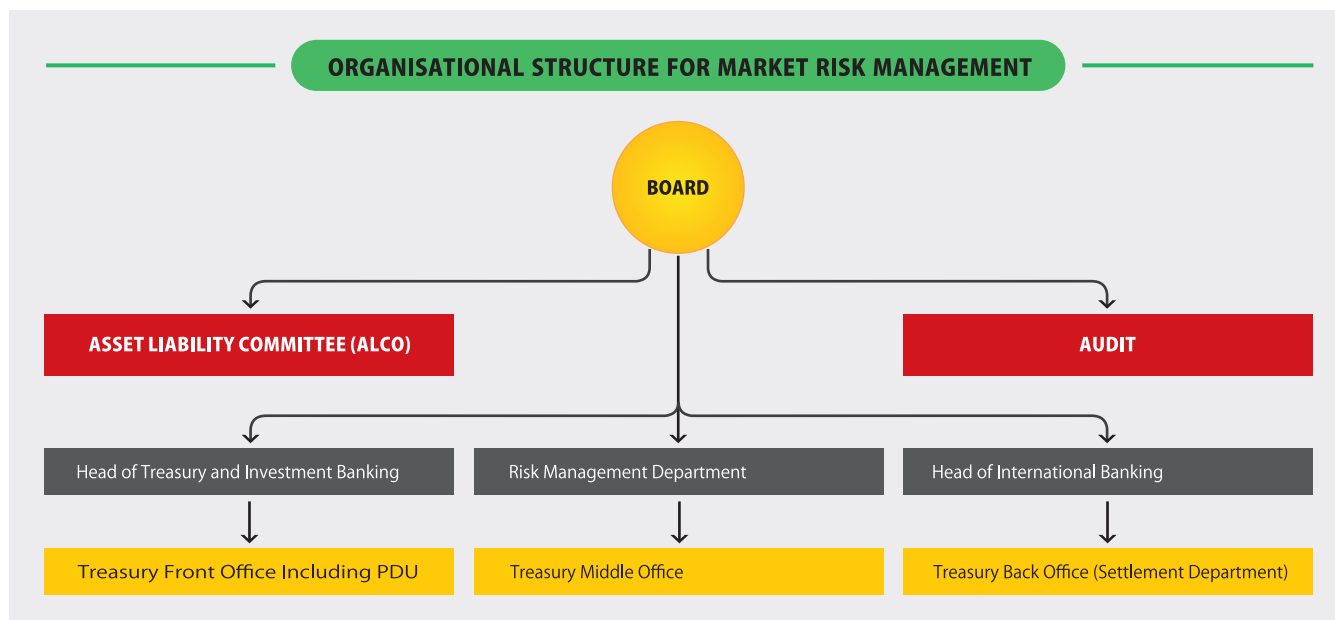
At Board level, the BIRMC is responsible for monitoring Bank's market risk exposure, providing recommendations to the Board on market risk management and formulating policies and risk appetite limits.

At executive level, the Asset Liability Committee (ALCO) is responsible for implementing the market risk management framework and ensuring the market risk exposures are within the defined risk appetite. The Risk Management Department is responsible for the daily risk management activities of the Bank, including market risk assessment, monitoring and reporting.

The Treasury Middle Office (TMO) was set up to measure and monitor Treasury transactions of the Bank, independently from the Treasury Front Office and Back Office functions. The TMO ensures compliance to risk limits set by the Board.

### Market Risk Exposure of People's Bank

	2017		2016	
	Trading Book	Non-Trading Book	Trading Book	Non-Trading Book
	Rs. million	Rs. million	Rs. million	Rs. million
<b>Assets</b>	<b>HFT</b>	<b>HTM</b>	<b>HFT</b>	<b>HTM</b>
T/Bills	45,991	–	35,696	–
T/Bonds	4,143	112,351	8,487	96,172
SLDB	–	40,201	–	41,416
GOSL Bonds	–	7,689	–	7,689
Other Investments	860	8,807	851	6,749
<b>Liabilities</b>				
Debentures	–	12,532	–	12,532



## Managing Market Risk

### Policies

Bank's market risk management policy framework covers, Asset and Liability Management Policy, Treasury Management Policy, Foreign Exchange Risk Policy and Policy on Stress Testing. Collectively, these policies provide guidelines on the procedure and techniques for identification, assessment, mitigation, monitoring, reporting of all market-related risks. The policy framework takes into account best industry practices and includes roles, responsibilities, procedures and risk measurement, monitoring, reporting and control functions.

### Risk Assessment

A range of tools are used to assess market risk, including Value at Risk (VaR), Duration Gap, Sensitivity Analysis and Stress Testing. The valuation rates and methodologies used are subject to independent verification.

### Market Risk Limits

Limits are assessed and recommended to ALCO after Board approval. Accordingly, open position limits, counterparty limits, and dealer limits are defined. The TMO monitors the actual performance against the limits and brings it to the notice of the ALCO fortnightly. The limits are monitored based on product, sector, credit rating and geography. These limits which are regularly reviewed by ALCO are revised to narrower bands if required based on potential market dynamics.

### Action Trigger Points

To ensure Bank's market risk exposures are within the levels defined by the Risk Appetite Statement, the risk thresholds that trigger specific management action are specified.

### Interest Rate Risk (IRR)

Interest rate risk arises when an organisation's financial position is adversely affected by fluctuations in market interest rates. Such changes affect Bank's net interest income and assets and liabilities. The Bank gets exposed to interest rate risk through its lending portfolio, trading securities and deposit liabilities. This risk should be managed by setting limits and monitoring interest gaps and matching the reprising profile of various interest sensitive asset and liability classes.

The sub categories of interest rate risk are:

- Repricing risk – arises from repricing timing differences of Bank's assets and liabilities with varying maturities.
- Basis risk – arises from the differences between the actual interest margin and expected interest margin on the banking book and the implied cost of funds.
- Yield curve risk – arises from shifts in the yield curve which has a negative impact on the Bank's earnings/asset values.

**Earnings at risk over one-year horizon (net impact of 1%)**

	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months
Net Assets (Rs. million)	(66,426)	(93,759)	(49,448)	(409,538)
Loss for Change in 1% (Rs. million)	(27)	(156)	(185)	(3,072)

**Interest Rate Risk Management**

The Board approves the risk appetite for interest rate risk, and sets the overall limits for VaR and Earnings at Risk (EAR).

The key elements of the IRR management framework include, the Policy that defines compliance and management framework to ensure all interest rate risk positions in the banking and trading books are identified, measured, managed and reported. The Treasury Department is responsible for managing the Bank's interest rate risk in line with the approved risk appetite. The Middle Office which is an independent unit, is responsible for IRR monitoring.

Techniques adopted to measure Interest Rate Risk include Duration Gap Analysis, VaR and Earnings at Risk (EAR). Rate sensitive assets and liabilities are grouped based on their maturity period, to ascertain the duration gap and overall exposure to interest rate risk.

The ALCO is responsible for making decisions pertaining to the repricing of Bank's asset and liability portfolio and continuously monitoring the maturity mismatches as well as trends in market interest rates. The Bank also conducts regular stress testing on the IRR exposures of the banking and trading book to gauge the potential impact of changing economic indicators on the Bank's earnings and capital.

Exposures are measured in Sri Lankan Rupees for each currency on an individual basis and the totals of all currencies are aggregated after calculating the net total of each maturity band for each currency. Currencies that constitute in excess of 25% of total deposit liabilities are reported separately.

Interest rate risk is measured and monitored monthly and discussed at the ALCO.

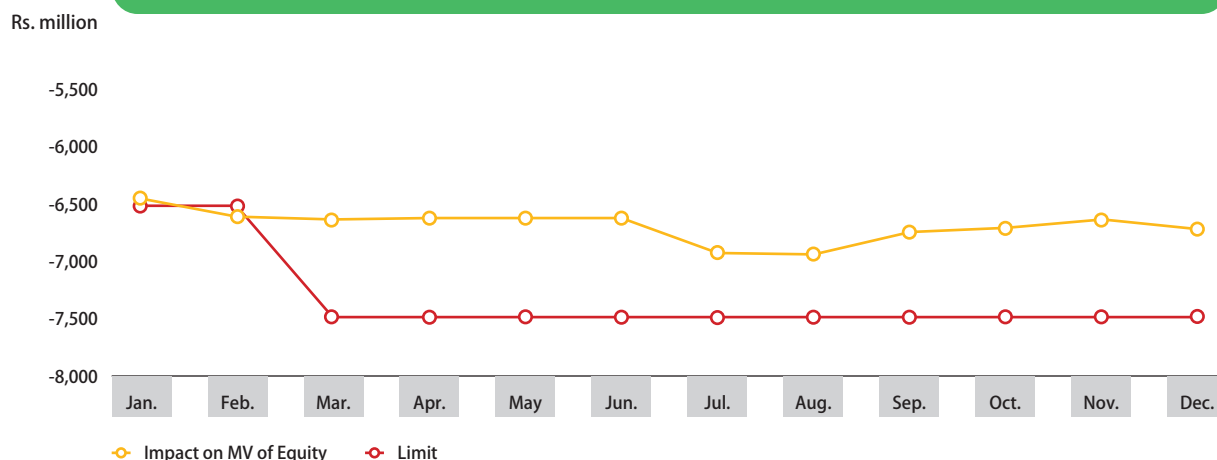
**ALM Mismatches**

2017	Up to 1 Month Rs. million	1-3 Months Rs. million	3-6 Months Rs. million	6-12 Months Rs. million	1-3 Years Rs. million	3-5 Years Rs. million	Above 5 Years Rs. million
Rate Sensitive Assets	200,122	115,808	131,423	209,181	130,426	171,780	323,791
Rate Sensitive Liabilities	266,548	209,568	180,871	618,718	12,357	4,868	-
Period Gap	(66,426)	(93,760)	(49,448)	(409,537)	118,069	166,912	323,791
Cumulative Gap	(66,426)	(160,186)	(209,634)	(619,171)	(501,102)	(334,190)	(10,399)

2016	Up to 1 Month Rs. million	1-3 Months Rs. million	3-6 Months Rs. million	6-12 Months Rs. million	1-3 Years Rs. million	3-5 Years Rs. million	Above 5 Years Rs. million
Rate Sensitive Assets	177,686	104,958	133,126	183,837	134,510	141,138	271,949
Rate Sensitive Liabilities	240,390	229,975	127,125	560,707	11,328	2,084	-
Period Gap	(62,704)	(125,017)	6,001	(376,870)	123,182	139,054	271,949
Cumulative Gap	(62,704)	(187,721)	(181,720)	(558,590)	(435,408)	(296,354)	(24,405)

### IMPACT ON MV OF EQUITY DUE TO 1% ADVERSE INTEREST RATE CHANGE USING DURATION GAP ANALYSIS



## IRR Stress Testing

	Magnitude of Shock – 0.25%	Magnitude of Shock – 0.50%	Magnitude of Shock – 1.00%
<b>2017</b>			
Impact on Earnings (Rs. million)	1,680	3,359	6,718
Revised Overall CAR (%)	12.90	12.61	12.04
<b>2016</b>			
Impact on Earnings (Rs. million)	1,541	3,082	6,164
Revised Overall CAR (%)	11.79	11.49	10.89

## Foreign Exchange Risk

Foreign Exchange (FOREX) risk is the potential impact to earnings and/or capital arising from adverse fluctuations in exchange rates. The Bank's exposure to FOREX risk stems from proprietary trading and through undertaking transactions denoted in foreign currency such as import/export transactions and remittances.

### Foreign Exchange Risk Management

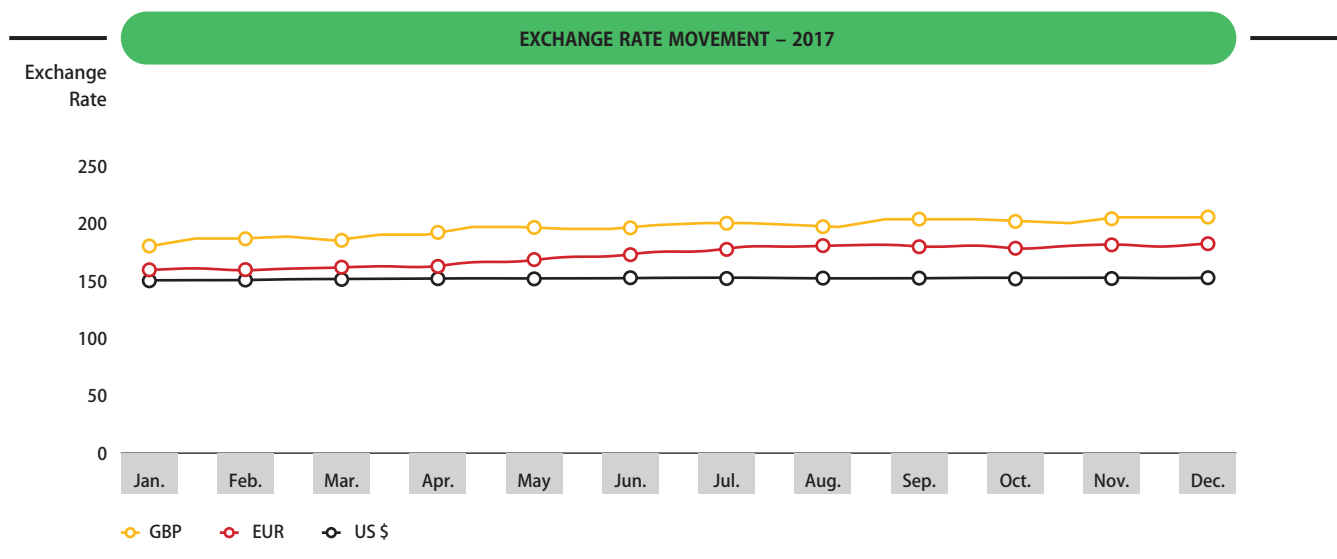
Foreign exchange transactions are governed by a stringent regulatory framework. The approval mechanism and limits are set by the Central Bank of Sri Lanka (CBSL). Internally, the Bank has set stringent volume limits, within the regulatory confines and limits defined by ALCO on open positions for individual currency exposures as well for aggregate exposures. Additionally, forward maturity gap limits are in place to manage risks arising from

FOREX maturity gaps within the Bank's risk appetite. The Treasury Department holds overall responsibility for managing the FOREX risk of the Bank. There is clear segregation of duties between the front, middle and back office functions to ensure adequacy and effectiveness of internal controls. The Middle Office independently monitors open position, asset liability maturities, currency exposures and the aggregate exposure.

The Bank also conducts VaR calculations and stress testing on the portfolios exposed to FOREX risk. Parallel VaR calculations are performed by the Bank's Treasury Management System (based on Finacle) and the internationally accepted Bloomberg system. Stress testing is performed by applying rate shocks in order to gauge the potential impact on the Bank's profitability and capital adequacy levels.

## Position as at 31st December 2017

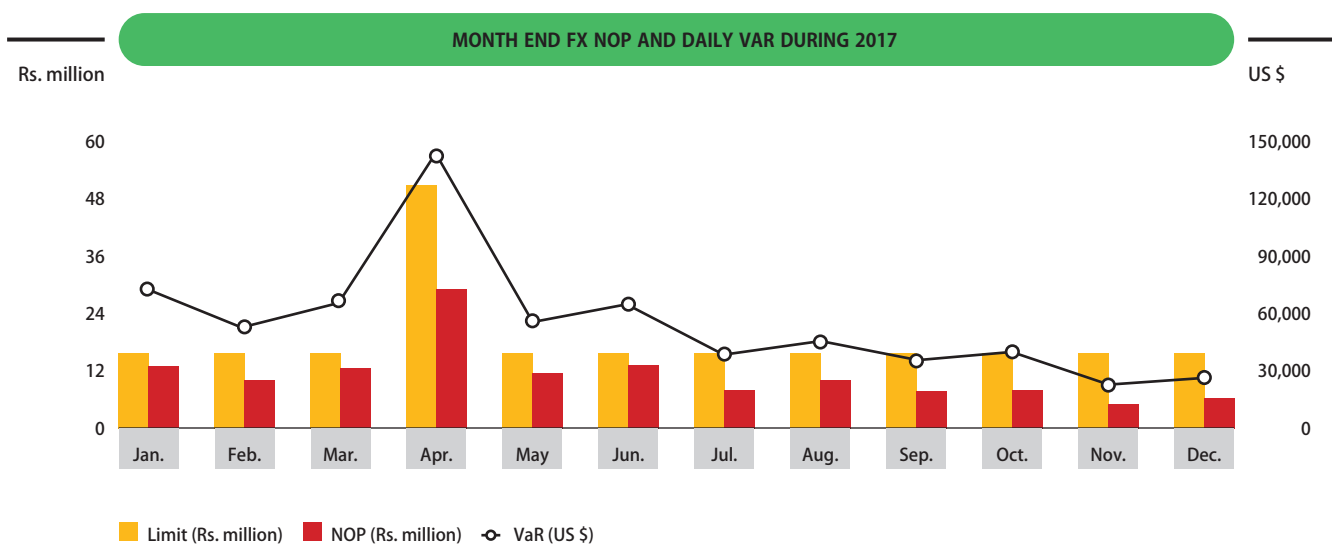
	Net Open Position	Overall Exposure Million
<b>Currency</b>		
US Dollar	944	121,924
Euro	14	5,143
GB Pound	-24	2,962
Japanese Yen	-14	70
Singapore Dollar	17	45
Other	8	2,108
<b>Total Exposure as a percentage of Shareholders' Funds</b>		<b>1.2%</b>



## Exchange Rate Risk Stress Testing

	Magnitude of Shock – 5%	Magnitude of Shock – 10%	Magnitude of Shock – 15%
<b>2017</b>			
Impact on Earnings (Rs. million)	74	147	221
Revised Overall CAR (%)	13.18	13.17	13.15
<b>2016</b>			
Impact on Earnings (Rs. million)	72	144	216
Revised Overall CAR (%)	12.07	12.06	12.04





### Equity Price Risk

Equity risk arises due to decline in fair value of equities caused by adverse fluctuations in equity prices. Bank's equity price risk exposure stems primarily from its available-for-sale investment portfolio excluding the Bank's strategic investments in subsidiaries. Bank's investments in equity shares amounted to merely 0.1% (or Rs. 1,474 million) of total Balance Sheet assets as at 31st December 2017. Therefore, its equity risk exposure is relatively limited.

### Equity Risk Management

The Board Investment Committee formulates investment related policies and ensures the Bank's investment risks are managed within the defined risk appetite. The Investment Banking Policy Manual, approved by the Board, clearly articulates the procedures, tools and techniques for managing equity risk including volume and stop loss limits. The maximum exposure approved for trading equities is Rs. 1.0 billion. However, the actual exposure remains well below this limit.

The market risk function which operates under the Bank's Risk Management Department independently reviews proposed equity transactions, impairment assessments and exposures against limits. The Unit also maintains independent oversight over the non-traded equity risk framework. In addition, movements in share market prices, performance of the entities and the broader macroeconomic conditions are monitored by the Investment Committee on a regular basis.

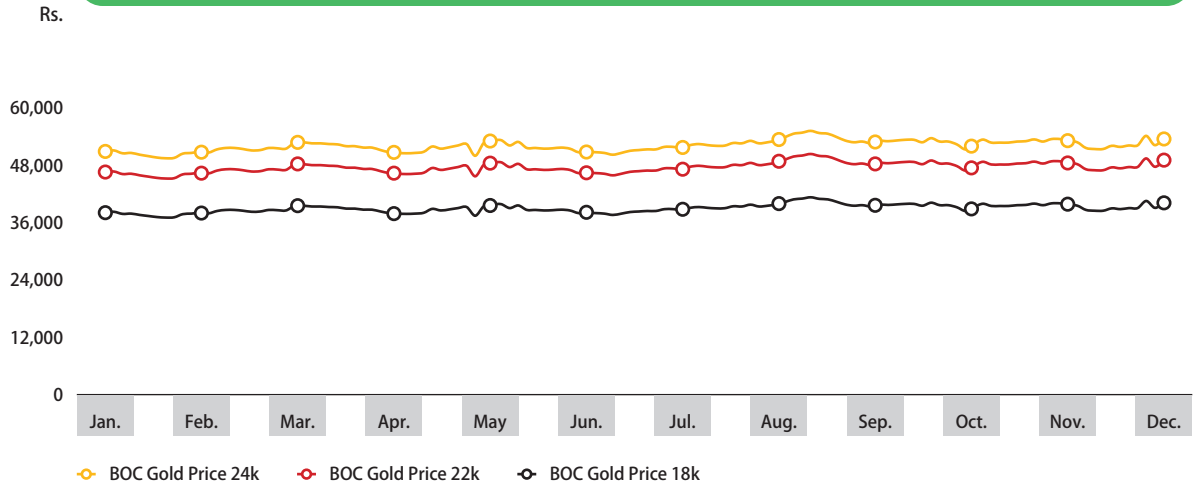
### Stress Testing of Equity Risk

	Magnitude of Shock – 5% Rs. million	Magnitude of Shock – 10% Rs. million	Magnitude of Shock – 20% Rs. million
Held for Trading on IS	17	34	68
AFS – Impact on OCC	40	81	161
<b>Total Impact</b>	<b>57</b>	<b>115</b>	<b>229</b>

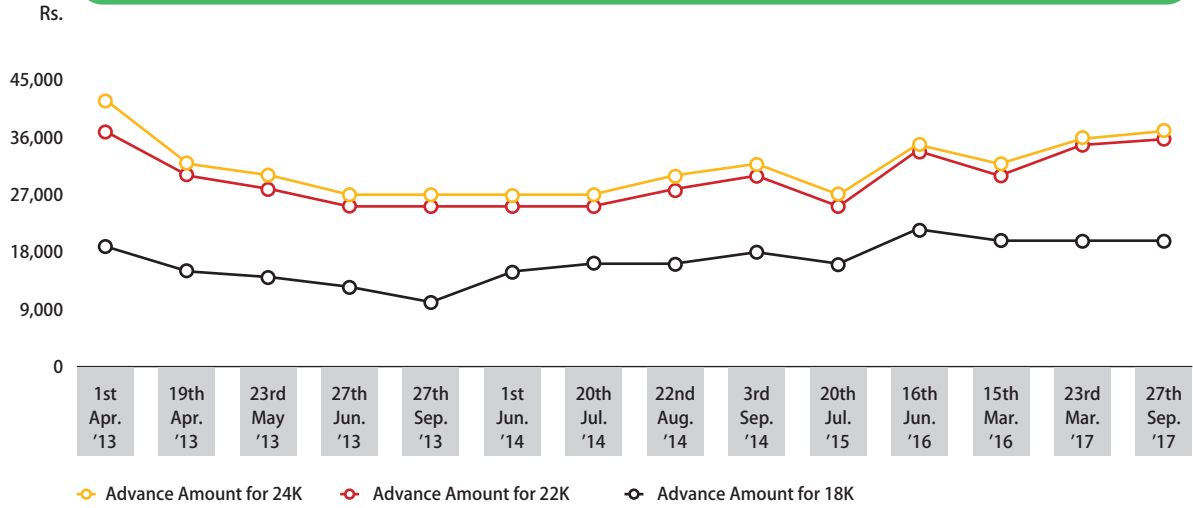
### Commodity Risk

Although People's Bank does not have a direct exposure to commodities, its pawning portfolio has gold collateral which is impacted by fluctuations in gold prices. This exposes the Bank to commodity risk. Being a pioneer in pawning, the Bank holds a strong market position in the pawning market. However, through conscious efforts, the Bank has tapered down its exposure to pawning to 13% of total loans in 2017, compared to 12.0% the previous year.

**GOLD PRICE MOVEMENT – 2017**



**ADVANCE AMOUNT OF PAWNING PER SOVEREIGN**



## Management of Commodity Risk

The Bank follows a meticulous process to manage its commodity risk. The pre-disbursement measures include, determining the gold content of the pawned articles, conducting due diligence of customers, maintaining prudent loan to value ratios, continuous assessment of gold prices and competitor offerings and obtaining an insurance cover against losses arising from stolen articles.

Post disbursement measures include, conducting independent valuation of pawned items regularly, daily verification of a sample of 5% and regular auctioning unredeemed articles.

## Market Risk Review for 2017

Ensuring stringent policies and procedures are in place to manage various aspects that contribute to market risk has enabled the Bank to manage and mitigate its market risk properly. Bank's treasury has complied with approved limits in place throughout 2017, managing the overall market risk in a professional manner.

## LIQUIDITY RISK

Liquidity Risk is the risk that the Bank will not be able to meet its contractual obligations as and when they arise without incurring unacceptable losses. This generally occurs due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process.

## Objectives of Liquidity Risk Management

The objective of liquidity risk management is to ensure the Bank is able to meet its funding commitments when due, withstand liquidity stresses and manage liquidity and funding risks within its risk appetite.

## Approach to Managing Liquidity Risk

The Bank's well articulated liquidity risk management framework is geared to ensure sufficient liquidity is maintained to meet its contractual obligations on time. The ALCO is the main governance committee overseeing the management of liquidity risks and continuously monitors the Bank's liquidity position to ensure compliance to internal liquidity targets as well as regulatory liquidity requirements. The Head of Treasury is responsible for the daily management of the Bank's funding and liquidity positions within the stipulated risk limits. The Middle Office independently monitors the Bank's liquidity continually and reports any breaches. The Board, BIRMC and the ALCO regularly review the performance of key liquidity indicators to ensure they are within the defined parameters.

## Key Aspects of the Liquidity Risk Management framework

### Measuring Liquidity

The Bank measures liquidity through the dual flow approach and the stock approach. The flow method measures liquidity by analysing the mismatches of inflows and outflows in different time bands based on the maturity of assets and liabilities. Under the stock approach, liquidity is measured in terms of key ratios which portray the liquidity stored in the Balance Sheet. These ratios include the Loans to Deposit ratio, Commitments ratio (Unutilised portion of overdrafts/Unutilised Inter-bank lines), Statutory Liquid asset ratio and cumulative mismatches.

### Diversified Funding Base

The Bank adopts a diversified funding strategy by sourcing liquidity from multiple sources. This depends on market conditions, regulatory considerations and trends in interest rate movements. Deposits are the largest funding source amounting to 84.9% of the Bank's total funding base, followed by other borrowings (8.0%) and shareholders' funds (5.2%). Deposit concentration is relatively low, given the diversity of the deposit base. The Bank also benefits from a relatively high proportion of savings, which is considered a quasi-stable source of funds.

### Contingency Fund Plan

The Bank has a comprehensive Contingency Funding Plan (CFP) that provides guidance on managing liquidity requirements in stressed conditions. The plan is aimed to protect stakeholder interests and maintain market confidence in the event of a liquidity crisis. It articulates specific trigger points for activation and the responsibilities of the CFP team, comprising the Asset and Liability Committee team and the Head of Marketing and Research. The CFP will be activated in the following scenarios:

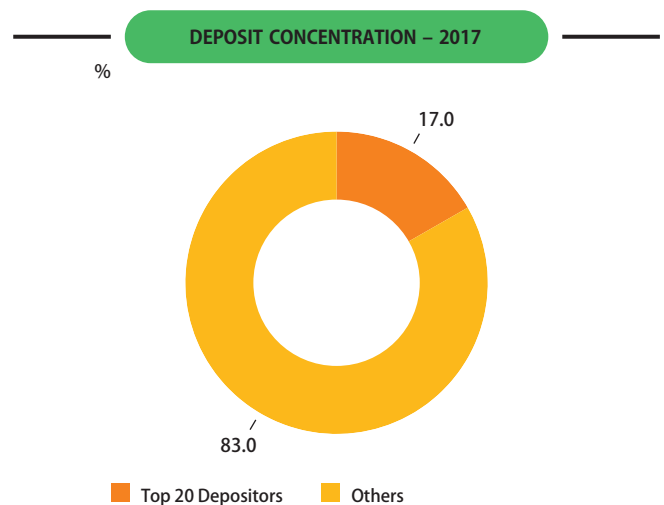
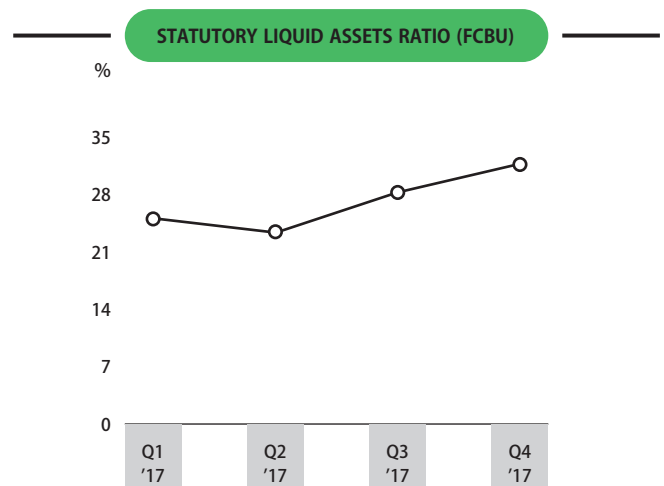
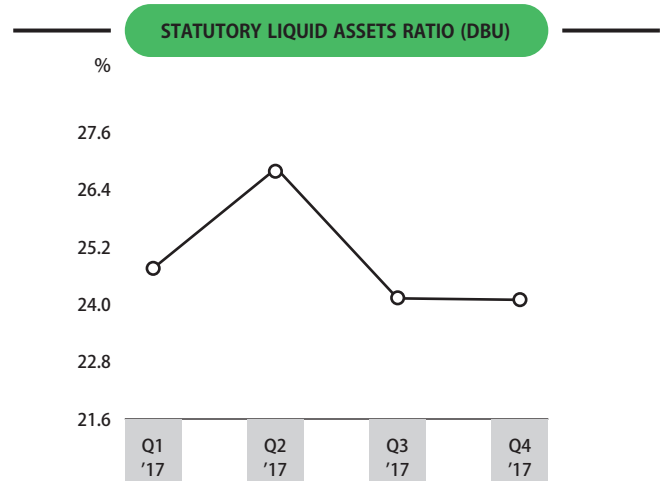
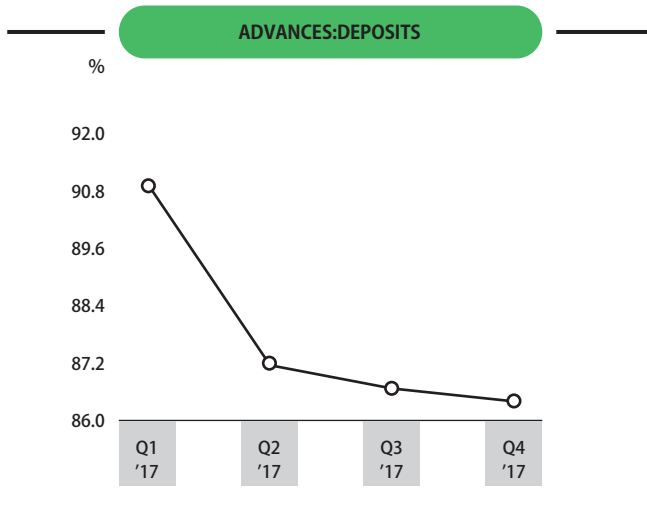
- Statutory liquid asset ratio falling below 20% for over a month
- Interbank call money rates increasing by 25% for over seven consecutive days
- NPL ratio increasing by more than 50%
- Larger than expected deposit withdrawals
- Consolidated AD ratio exceeding 105% for more than 15 days
- Call facilities being withdrawn by market participants or imposing a premium over the market rate for our borrowings
- Credit rating downgraded by more than two notches

Key Indicators	Limit	Position as at 31st December 2017
Loans to Deposit Ratio – Rs. (Net)	<83	81.4%
Loans to Deposit Ratio – Foreign Currency	<90%	131.7%
Commitment Ratio	<100%	14.6%
Statutory Liquid Asset Ratio – DBU	20%	24.1%
Statutory Liquid Asset Ratio – Offshore	20%	32.0%

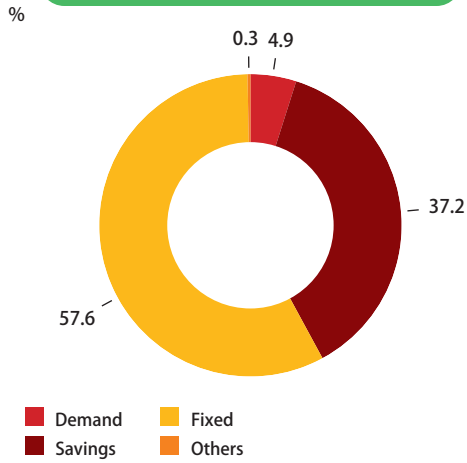
### Liquidity Risk Performance in 2017

During the year, the liquidity indicators were maintained well within the limits defined by the Risk Appetite statement and in compliance with all relevant regulatory requirements. The maturity analysis of assets and liabilities indicated a healthy liquidity position. Details of the Bank's maturity profile of assets and liabilities are given on page 283.

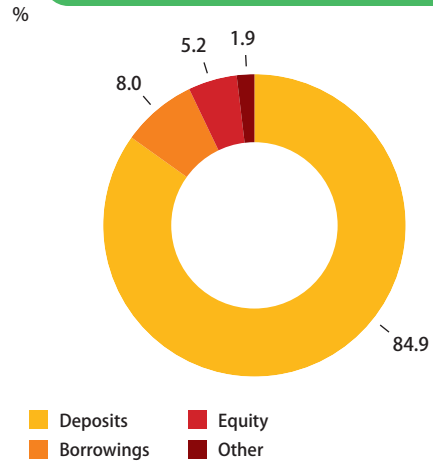
### Analytics



DEPOSIT BREAKDOWN – 2017



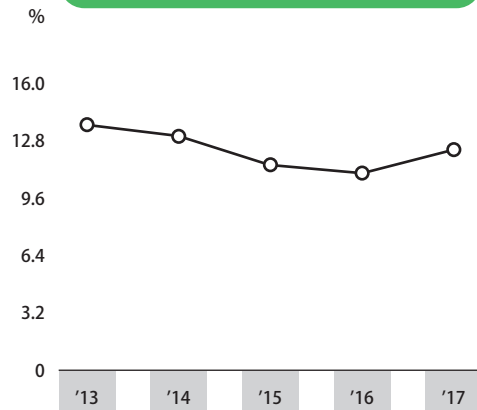
FUNDING DIVERSIFICATION – 2017



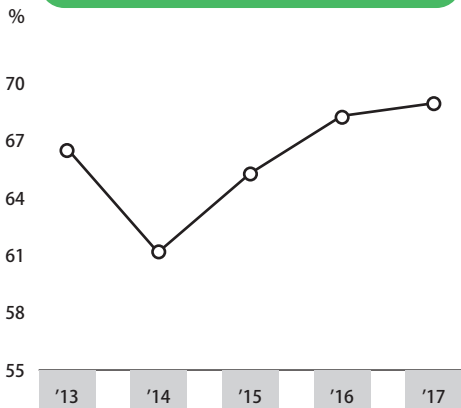
ADVANCES:DEPOSITS



TOTAL CAPITAL ADEQUACY RATIO



NET LOANS/TOTAL ASSETS



## Liquid Asset Stress Test

DBU	Balance as at 31st December 2017	Scenario 1	Scenario 2	Scenario 3
<b>Magnitude of Shock (%)</b>		5	10	15
Liquid Assets (Rs. million)	<b>298,497</b>	298,497	298,497	298,497
Total Liabilities (Rs. million)	<b>1,240,226</b>	1,240,226	1,240,226	1,240,226
Fall in the Liabilities (Rs. million)	–	62,011	124,023	186,034
Revised Liquid Liabilities (Rs. million)	–	1,178,215	1,116,204	1,054,192
Revised Liquid Assets (Rs. million)	–	236,486	174,475	112,463
Liquid Asset Ratio After Shock (%)	<b>24.07</b>	20.07	15.63	10.67

OSBU	Balance as at 31st December 2017	Scenario 1	Scenario 2	Scenario 3
<b>Magnitude of shock (%)</b>		5	10	15
Liquid Assets (US \$ '000)	<b>242,692</b>	242,692	242,692	242,692
Total Liabilities (US \$ '000)	<b>750,197</b>	750,197	750,197	750,197
Fall in the Liabilities (US \$ '000)	–	37,510	75,020	112,530
Revised Liquid Liabilities (US \$ '000)	–	712,687	675,178	637,668
Revised Liquid Assets (US \$ '000)	–	205,182	167,672	130,162
Liquid Asset Ratio After Shock (%)	<b>32.35</b>	28.79	24.83	20.41

## Liquidity Risk Review for 2017

Statutory Liquid Asset Ratio of Domestic Banking Unit ( DBU ) and Offshore Banking Unit ( OBU ) stood at 24.1% and 32.0% respectively as at 31st December 2017, comfortably above required ratio of 20% for both Units. The Bank has maintained all required regulatory liquidity ratios throughout the past years.

Fixed deposits represented 57.6% of the Bank's deposit base whereas savings deposits contributed 37.2% to the deposit base. 17% of the deposits were from top twenty depositors.

## OPERATIONAL RISK

Operational risk is the direct or indirect loss stemming from inadequate or failed internal processes, people and systems or from external events. According to Basel II definition, operational risk includes Legal risk but excludes Strategic and Reputation risk. Operational risks exist in the natural course of business activities, products and processes.

The types of operational risks the Bank is exposed to are Technology Risk, People Risk and Legal Risk.

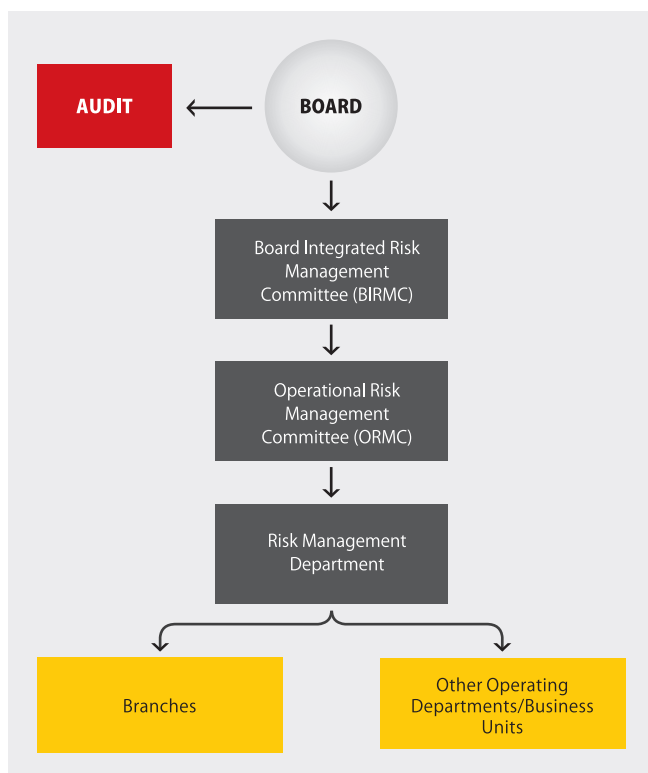
## Objectives of Operational Risk Management

- To minimise losses from operational failure and avoid potentially large risk losses.
- Develop a common understanding of operational risk across multiple functions and business units in order to manage risk, cost-effectively on an enterprise-wide basis.
- Build and improve internal capabilities to respond effectively to critical and catastrophic risks.
- Achieve cost savings through better management of internal resources and effective controls over operations.

## Approach to Operational Risk Management

The Bank's operational risk management framework clearly articulates the policies, structures and processes in place to manage its operational risk exposure. The Board of Directors, supported by the BIRMC is responsible for formulating policy and ensuring a robust operational risk management framework. The Bank branches and business units, that make up the "First Line of Defence" are responsible for identification of operational risks at the point of origination and periodically report operational loss events to the Risk Management Division which maintains a database

of loss events. Structured mechanisms have been implemented to measure, assess and report operational risks within the Bank. The Internal Audit periodically reviews the entire operational risk management process across the network to provide an assurance to the Board and Senior Management.



### Identification and Assessment of Operational Risk

The Risk Management Department works with business units to map business processes and identify potential areas of operational risk. Further, all staff members in branches and business units are trained on operational risk exposures and are engaged proactively to identify and assess these risks.

Risk and Control Self-Assessments (RCSA) are administered to key business units to evaluate exposures according to defined operational risk parameters. The key findings are used to identify and devise action plans for potential gaps in risk management. Risks are also identified through loss events and near misses which are collated and reported periodically by business units to the Risk Management Department. The Bank also evaluates the potential impact of operational risk on all products, processes and activities on an ongoing basis.

### Limits and Tolerance Levels

The Board has defined specific limits and tolerance levels for operational risk indicators in the Bank’s Risk Appetite Statement. These include the number of internal and external loss events, the total value of operational losses as a percentage of operational expenses and the percentage of branch audits rated less than satisfactory. Regular reporting to the BIRMC and Board ensures that corrective action is initiated when needed.

### Thresholds for Operational Risk Management

	Operational Risk Appetite			Position as at 31st December 2017	Position as at 31st December 2016
	High Risk	Medium Risk	Low Risk		
Operational Losses – Internal	>25	25 – 10	<10	0	12
Operational Losses – External	>1,000	400 – 1,000	<400	321	236
Total Operational Losses to Total Operational Expenses	>1.0%	0.5% – 1.0%	<0.5%	0.02	0.29%
System Availability	<97.5%	97.5% – 99.8%	>99.9%	99.61%	99.50%
Percentage of Branch Audits Rated Less than Satisfactory	>15%	15%	Nil	12%	9%

### Operational Risk Mitigation

The Bank has adopted risk mitigation policies and programmes to maintain a sound operating environment within the Bank. These include the following:

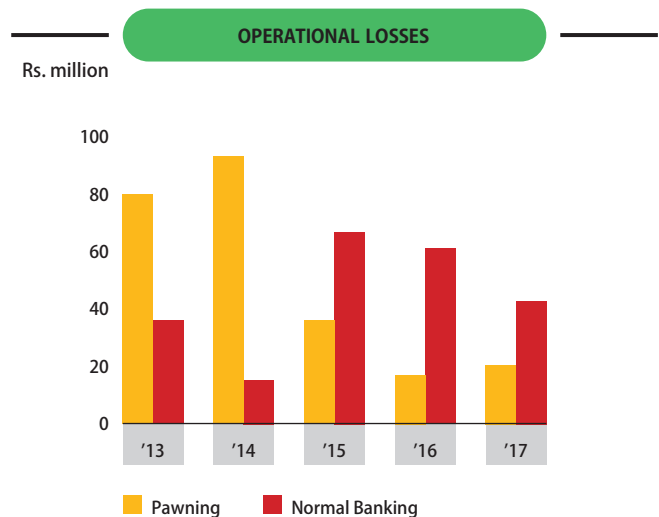
- Comprehensive framework of operational risk policies and procedures.
- Disaster recovery plans and crisis management procedures to ensure business continuity.
- Segregation of duties.
- Transfer of risk through insurance such as for damage to physical assets due to natural disasters, or fire and theft of pawned gold articles.
- Adopting stringent criteria to select and monitor outsourced partners.
- Creating a culture of risk awareness by providing continuous training to staff.
- Conducting a thorough analysis of the potential impact of operational risk of new products and services prior to launch.
- In addition, the Bank introduced a new Operational Risk Management system in compliance to Basel II guidelines. This is a user-friendly, web-based application that automates the existing loss data management system and some of the operational risk management functionalities of the Bank. The system comprises five modules which facilitate effective operational risk management. These include incident management, issue and action plan, key risk indicators, risk control and self-assessment and reporting.

### Risk Reporting

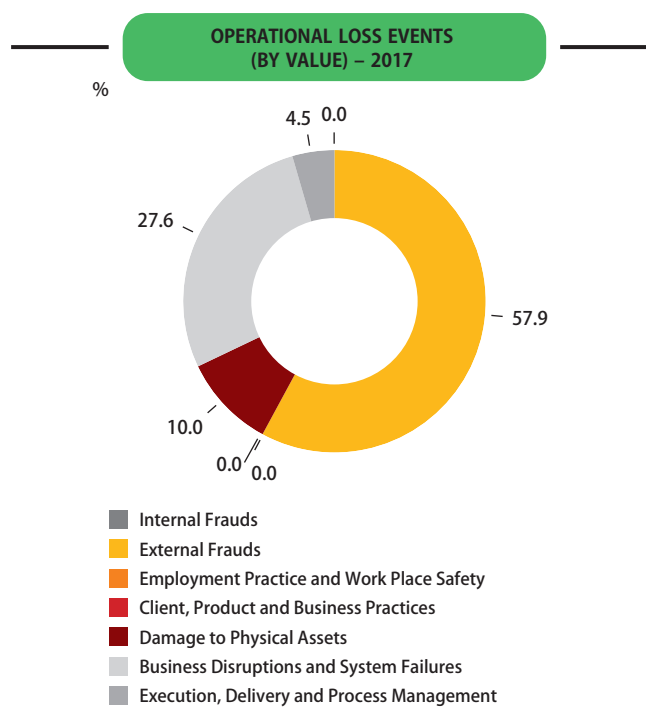
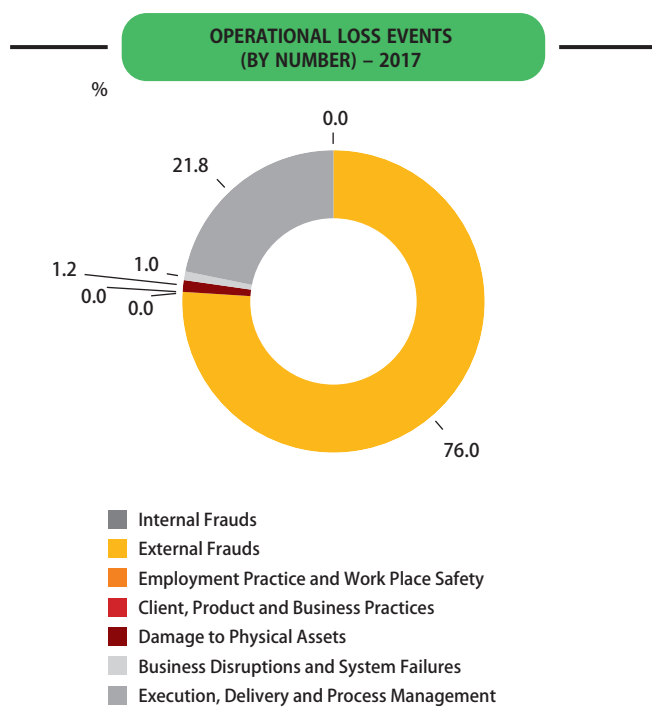
The Risk Management Department maintains a database of operational risk events, losses and near misses which facilitates systematic identification of root cause, trends and risk frequency. The Risk Management Department also provides quarterly reports on significant loss events, emerging issues, oversight and monitoring and review activity. This information is included in the Risk Committee Report which is presented to the BIRMC. Control failures are reported to the Operational Risk Committee and escalated to the BIRMC based on its potential impact and frequency.

### Operational Losses – Trends 2013-2017

Year	Pawning Rs. million	Normal Banking Rs. million	Total Rs. million
2013	80	36	116
2014	93	15	108
2015	36	67	103
2016	17	61	78
<b>2017</b>	<b>20</b>	<b>43</b>	<b>63</b>
<b>Total</b>	<b>246</b>	<b>222</b>	<b>468</b>
Average	49	44	94





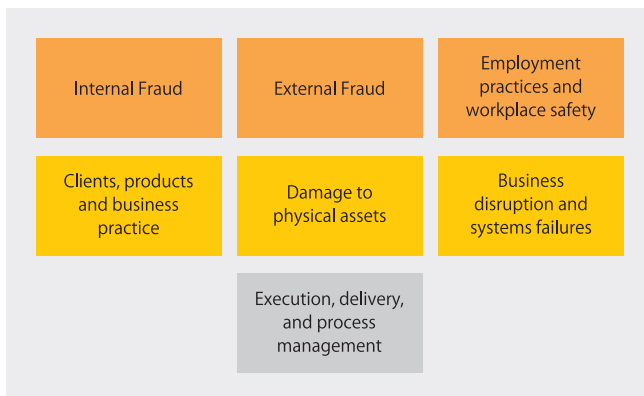


### Operational Loss Events

	2017				2016			
	Number	%	Value Rs. million	%	Number	%	Value Rs. million	%
Internal Frauds	0	0	-	0	12	3	10.3	13
External Frauds	244	76	36.4	58	236	68	52.3	67
Employment Practice and Workplace Safety	0	0	-	0	0	0	-	0
Client, Product and Business Practices	0	0	-	0	6	2	0.4	0
Damage to Physical Assets	4	1	6.3	10	9	3	1.1	1
Business Disruptions and System Failures	3	1	17.3	28	4	1	0.6	1
Execution, Delivery and Process Management	70	22	2.8	4	78	23	13.1	17
<b>Total</b>	<b>321</b>	<b>100</b>	<b>62.8</b>	<b>100</b>	<b>345</b>	<b>100</b>	<b>77.8</b>	<b>100</b>

## Categorisation of Operational Losses

There are seven types of operational risks projected by Basel II that banks and financial institutions should bring into focus.



**Internal fraud** – These are acts of fraud committed internally in an organisation that goes against its interest. Losses can arise from intent to defraud, tax non-compliance, misappropriation of assets, forgery, bribes, deliberate mismarking of positions and theft.

**External fraud** – External frauds are activities committed by a third party. These include, theft, system hacks, acquisition of unauthorised information etc.

**Employment practices and workplace safety** – Losses arising due to non-compliance of employment and health and safety laws and regulations, poor maintenance of employee relations, unethical termination and discrimination. These expose the Organisation to serious financial and reputational risks.

**Clients, products and business practices** – Losses arising due to unintentional failure of meeting clients professional obligations and negligent practices. Privacy and fiduciary breaches, misuse of confidential information, market manipulation, money laundering, unlicensed activities and product defects are very common practices that lead companies to face legal proceedings.

**Damage to physical assets** – Losses incurred by damages caused to physical assets due to natural disasters, terrorism and vandalism.

**Business disruption and systems failures** – Losses arising due to systems failure (hardware and software), disruption in telecommunication and power failure which result in business interruption and financial loss.

**Execution, delivery and process management** – Losses arising from failure in delivery, transaction or process management including errors in data entry, miscommunication, not meeting

timelines, accounting errors, inaccurate reports, incorrect client records, negligent loss of client assets and vendor disputes. These can expose the Organisation to legal threats.

## Operational Risk Review for 2017

The Bank's operational risk performance has been commendable in recent years with risk indicators well below the defined limits set by the Board. Actual operational losses over the past five years have averaged around Rs. 94 million. In 2017, operational loss events declined 6.9% in volume and 19% in value compared to the previous years.

The following chart depicts the comparison of operational losses in the past two years under the Basel II loss event type, both in terms of number of events and value. Loss events stemming from external frauds are the most significant source of operational losses and comprise primarily of pawning, spurious and stolen articles. As discussed in this Report we have strengthened the mechanism in place to ensure the quality of gold being pawned and continue to obtain insurance coverage of such items.

Employee turnover has declined to 3.3% in 2017 compared to 4.4% in 2016 and 5.3% in 2015, which is a good indicator.

## Technology Risk

The Bank inherently faces a technology risk as its operations are highly dependent on information technology. This includes cyber risks such as hacking and theft of information, systems breakdowns and failures, technological obsolescence and inadequate infrastructure to support business volumes.

Technology is a key source of competitive advantage for the banking sector due to its strong dependence on technology to facilitate complex processes and handle large amounts of information. This underscores the vital importance of adopting an effective Information Technology (IT) risk management process. The Board IT Committee oversees the Bank's IT management framework and recommends IT strategies, policies and procedures. The Committee determines the need for system integrations within the Bank and the use of new software and hardware as well.

The Risk Department together with the IT Unit carries out regular monitoring of key IT risk indicators which helps to gauge the robustness of the key information systems within the Bank. Corresponding risk thresholds have been defined to direct management attention for apt corrective measures.

Given below are the IT risk indicators of the Bank:

Importance	Systems	Availability as a Percentage of Total Working Hours and Thresholds – 2017		Actual Availability
High critical (Online Real-time Systems)	Central ATM Switch	≥ 99.9%	Green – Low Risk	100%
	Core Banking System	Between 99.8%-97.5%	Amber – Moderate Risk	
	SWIFT			
	Credit/Debit Card Management System	Below 97.5%	Red – High Risk	
Medium Critical	Image Capturing and Presentment System	≥ 97.5%	Green – Low Risk	100%
		Between 97.4%-95.0%	Amber – Moderate Risk	
		Risk Below 95.0%	Red – High Risk	
	SMS Banking System			
	Web Remittance System			
	Internet Banking System			
	Finacle (Treasury)			
ATM (individual)			99.61%	
Low Critical	IHRM System	≥ 90.0%	Green – Low Risk	100%

### Mitigating IT Risk

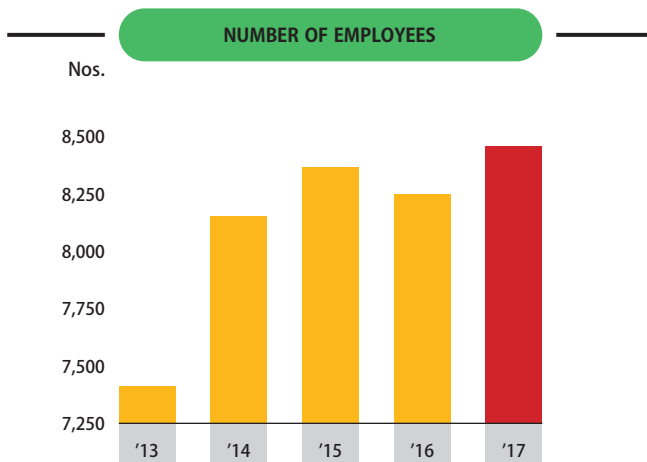
The Bank maintains a well-established IT governance structure to avoid risk of data loss. A separate back-up is maintained at an off-site location as well.

- Password and access controls to authenticate user access and activation of necessary validation and verification at information entry level.
- Fire protection and smoke detectors to detect heat at the server rooms and UPS rooms.
- Disaster recovery plan to continue operations in the event if the primary site becomes unavailable
- The Information Securities Officer position was separated from the IT Department to report directly to the Risk Management Committee based on Baseline Securities Standard. The Information Securities Officer will take steps to mitigate, monitor and conduct staff training to minimise IT risk.
- People's Bank obtained the ISO/IEC 27001:2013 certification, the world's highest accreditation for information protection and security, from the International Organisation for Standardisation (ISO) for the Bank's entire Information Technology System. This was awarded in recognition of the Bank's stringent information security management and its compliance with the highest international information security standards. People's Bank is the first State bank in Sri Lanka to obtain this accreditation.

### People Risk

People risk is the potential losses arising due to inadequacy of human resources, inappropriate employee activity and the Bank's failure to comply with employee related requirements. The Bank's HR related risks are managed through comprehensive human resource policies and processes which ensures uniformity in employee practices, effective recruitment practices and continuous focus on enhancing employee value propositions.

Turnover of trained skilled staff leads to deterioration in competency and productivity which affects the competitiveness of the Bank. It is imperative to hire qualified and competent candidates and retain high performing staff within the Bank. Therefore, retaining staff with high level of employee engagement with a rewarding work environment is a challenge for the Bank.



### Legal Risk

Legal risk is the risk of loss due to incurrance of penalties, fines and even loss of reputation at times due to non-compliance with regulations. It also includes potential loss to earnings due to non-enforceability of contracts or documents.

The Bank's legal risk is managed by the Legal Department. Due internal procedures are followed when entering into contracts with clients. The business units are responsible for ensuring all legally binding agreements are duly signed by the Compliance and Legal Divisions of the Bank.

### Reputational Risk

Reputational risk is an indirect loss arising from an event or incident that adversely affects the corporate brand. A negative perception or publicity about the Bank will result in costly litigation, revenue reduction and a decline in customer base as well.

People's Bank has maintained an excellent reputation for over five decades as a premier State Bank in Sri Lanka. Hence, the negative impact of reputation has been low. A sound reputation forms the basis for customer confidence, which reflects the integrity of the Bank, the competence of the staff and the high product quality.

The Bank monitors the reputation risk through early warning indicators. The Bank has set-up a customer complaint handling unit to address any customer complaints efficiently and effectively. Also, several methods have been implemented for customers to forward their grievances. These include the Bank's website, the call center, email and by letters.

### COMPLIANCE RISK

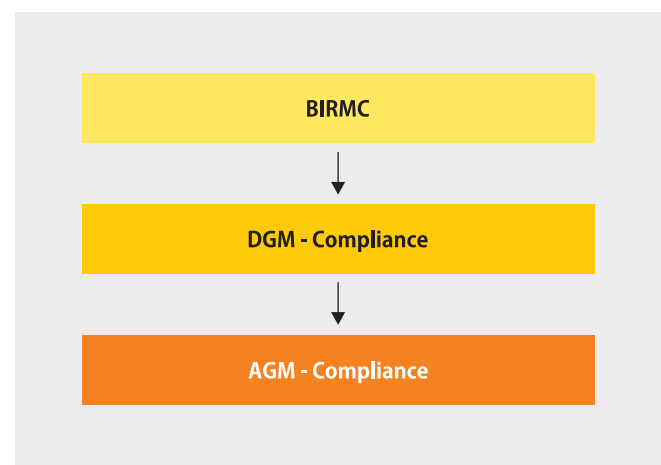
Compliance risk is the risk arising due to non-compliance with applicable laws, regulations, codes of conduct and standards of good practice that results in financial loss and reputational loss. Compliance is aimed at maintaining and improving the reputation of the Bank.

The Bank has established a compliance function and implemented internal policies, procedures and governance frameworks ensuring all employees comply with the applicable laws and regulations and best practices.

### Objectives of Managing Compliance Risk

- Elevate Bank's reputation by enhancing its reputation
- Maintain customer confidence and trust
- Ensure smooth and efficient operations of the Bank
- Ensure employee integrity
- Provide products and services of the highest quality
- Increase the strength and stability of the Bank
- Ensure sustainability of the Bank

### Managing Compliance Risk



The Board of Directors holds ultimate responsibility for ensuring compliance with relevant external regulations and internal guidelines.

The Board is supported by the BAC and BIRMC in its compliance functions. The dedicated Compliance Unit, reporting directly to the BIRMC, ensures that the Bank is fully compliant. In addition to Risk Management Department and Internal Audit function, the Unit provides assurance to the Board on the Bank's overall level of compliance.

Compliance risk is assessed through a scorecard which rates Bank's compliance to internal best practices and external regulations on a 5-point rating scale. This scorecard is submitted to the BIRMC.

A dedicated officer appointed as the Assistant General Manager Compliance oversees the compliance status of the Bank and regularly assesses the Bank's compliance and the status is reported to the BIRMC.

The duties entrusted to the Compliance Department are two-fold; including mandatory compliance functions and ancillary compliance functions.

### **Mandatory Compliance Functions**

- Develop compliance policies and procedures to eliminate or minimise the risk of non-compliance with regulatory requirements and shield the Bank from reputational risk.
- Develop a Code of Conduct/Ethics for all employees clearly articulating the best practices and monitor and ensure compliance at all levels.
- Develop an Anti-Money Laundering Policy aligned to Know Your Customer (KYC) regulations, which should be adhered by all departments of the Bank.
- Maintain regular contact and a good working relationship with regulators based on clear and timely communication and mutual understanding.
- Nurture a culture of compliance within the Bank.
- Keep abreast with new legal and regulatory developments relevant to the Bank and facilitate its effective implementation.
- Provide reports highlighting regulatory developments, changes in laws and any other relevant developments to the management that could give rise to compliance issues.
- Highlight any breaches in compliance and work with the management to address and rectify them within an acceptable time frame.
- Submit monthly compliance reports to the Central Bank of Sri Lanka on compliance with Central Bank Directives and Guidelines and as stipulated by the law.
- Prepare and submit quarterly compliance reports to the Board Integrated Risk Management Committee (BIRMC) and the Board Audit Committee (BAC).
- Submit monthly compliance reports to the Board.
- Establish a Customer Charter based on directions issued by the Central Bank of Sri Lanka.
- Prepare a Code of Best Practice on Corporate Governance based on the Central Bank Directive on Corporate Governance for Licensed Commercial Banks and implement and monitor its compliance.
- Establish systems and controls for monitoring transactions and reporting suspicious transaction to the Financial Intelligence Unit to prevent Anti-Money Laundering.
- Train staff members on compliance including Anti-Money Laundering and develop an e-Learning module to facilitate training across the branch network.
- Prepare policies and implement procedures to minimise compliance risk and reputation risk of the Bank including developing a Code of Conduct, Compliance Manual.
- Liaise with the Credit Information Bureau to maintain updated credit details of customers.
- Act as the Information Officer by the Bank appointed in compliance with Right to Information Act to ensure that the Bank Act in accordance with the provisions of the Right to Information Act.

### **Ancillary Compliance Functions**

- Provide advisory services to management and staff in relation to regulatory, reputational and ethical matters.
- Promote compliance as a success enabler ensuring compliance principles and its importance is understood by all.
- Provide input in designing and structuring of new products and systems to ensure compliance to local regulatory requirements, internal compliance and ethical standards.
- Ensure assessments and reviews are conducted at appropriate frequencies to assess compliance to internal and external regulations.
- Represent the compliance function in relevant internal and external committees.
- Ensure compliance policies and procedures are clearly communicated to management and staff.

- Liaise with the Bank's internal and external audit function, to ensure Auditors are familiar with local regulatory and ethical requirements to ensure any compliance issues are properly addressed.
- Follow up on compliance issues identified through audits.
- Liaise with the Auditors and conduct random compliance audits on risk-based assessment. If there is high risk, frequent audits are conducted.

### Compliance Reporting

The Compliance Department submits monthly compliance reports to the Board of Directors. This includes sign offs from the Heads of Departments and Branches on statutory and mandatory requirements, events of non-compliance, details of employee training and branch assessments. A quarterly report is also submitted to the BIRMC and BAC on any special compliance-related matters within the particular quarter.

### Prevention of Money Laundering and Terrorist Financing

The Bank takes every effort to combat the rising prevalence of money laundering and terrorist financing. Selected employees are trained on anti-money laundering, Know Your Customer and customer due diligence through structured programmes and e-Learning modules. Any unusually large and suspicious transactions are analysed, evaluated and reported to the Financial Intelligence Unit.

### STRATEGIC RISK

Strategic risk is the potential loss to earnings and viability arising due to adverse business decisions, adverse business environment and inadequate response to changes in operating environment.

The Bank manages its strategic risks through its strategic plan approved by the Board and Executive Management. The plan is formulated through extensive stakeholder engagement at multiple levels and discussions with the business units. A set of management actions are developed to prevent or mitigate the impact on earnings in the event a risk materialises. The business performance is also tracked on a monthly basis by the ALCO and the Board. The

actual performance is monitored against the budgeted targets for each business unit and the strategies are tweaked to suit any changes in the business environment.

Accordingly, the Bank continuously monitors the macroeconomic trends and emerging threats and opportunities to ensure the Bank is geared to face dynamics in the operating environment.

Strategic risk is assessed using a scorecard-based approach, taking into consideration a range of factors including the Bank's size, complexity and sophistication of operations, environmental analysis as well as customer profiling. The scorecard is adopted at least annually to highlight areas of potential improvements to mitigate strategic risk.

### GROUP RISK MANAGEMENT

The Bank's main subsidiaries, People's Leasing & Finance PLC, People's Merchant Finance PLC and People's Insurance PLC have structured risk management frameworks to identify, assess and monitor risk exposures. People's Bank maintains oversight on risk management aspects of Group entities through the following structures and mechanisms:

- The Group's risk appetite and strategy is formulated at Bank level and reporting structures, processes and thresholds are determined by the Bank's Board of Directors.
- Key risk indicators, trigger levels and thresholds are defined for each group entity in which the Bank's exposure exceeds Rs. 500 million.
- People's Bank's Audit Committee and Internal Audit Department, periodically reviews and ensures the adequacy of the internal control mechanisms in place within the subsidiaries.
- In certain instances, People's Bank nominates Directors to the Boards of the respective subsidiaries.
- DGM – Risk Management of People's Bank is a Director and Member of the Board Risk Management Committee of People's Leasing PLC.
- People's Bank's BIRMC periodically reviews the risk profiles of the regulated subsidiaries.
- The Bank's Board of Directors have access to the minutes of the Board meetings held in Group companies.

The Group's risk ratings for key categories of risk in 2017 are given below:

	RISK EXPOSURE					
	CREDIT RISK	MARKET RISK	OPERATIONAL RISK	COMPLIANCE RISK	STRATEGIC RISK	REPUTATION RISK
People's Bank	●	●	●	●	●	●
People's Leasing and Finance PLC	●	●	●	●	●	●
People's Merchant finance PLC	●	●	●	●	●	●
People's Insurance PLC	●	●	●	●	●	●

## CAPITAL MANAGEMENT

The Bank's capital management framework has been designed to maintain adequate capital to meet regulatory requirements, business growth requirements and cushion against unexpected events. The Internal Capital Adequacy Assessment Process (ICAAP) in line with the requirements of the Basel III Accord has implemented a framework to assess the Bank's overall capital adequacy in relation to the overall risk profile.

The Bank's approach to evaluating internal capital begins with the capital and risk weighted assets as reported under Pillar I. This facilitates proactive decision-making by measuring the potential impact of vulnerabilities through stress testing and scenario analysis. The Bank's stress testing framework has been formulated to reflect the Pillar-II requirements of Basel III and support the Bank's strategic planning, setting risk appetite, developing contingency plans and liquidity management among others. The results of stress testing are reported to the BIRMC on a regular basis.

## REGULATORY CAPITAL

The Bank embraced the Basel III minimum capital requirement and the leverage ratio framework which came into effect on 1st July 2017. As at end-December 2017, Bank's Tier I and overall CAR were 10.8% and 13.5% respectively, compared to 9.8% and 12.1% in the previous year (according to Basel II).

## CAPITAL AND DIVIDEND MANAGEMENT

As a fully-owned State entity, the Bank has no access to the equity markets and on account of the stipulations of the People's Bank Act, access to the debt market is also limited. Therefore, the Bank is solely reliant on its own capital generation and capital infusion from the Government Treasury to augment its capital base to fund future growth. Accordingly, the Bank has reached an informal agreement with the Government Treasury to limit the Bank's dividend pay out to the extent that the Bank's Tier I CAR does not fall below 6.5% on a regulatory basis and 6% as per the Bank's internal computations. The Bank also strives to maintain a total CAR of not less than 12% (regulatory basis).

Necessary arrangements were made to ensure compliance to Basel III which came into effect on 1st July 2017.

## FUTURE OUTLOOK

- The impact on the Bank's profits will be limited when IFRS 9 Provisioning systems come into effect in 2018. This is because the Bank's provisioning has been adequate and substantial.
- Board approval has been obtained to set-up a "Loan Review Unit" to strengthen the post grant review process under credit risk management. The Head of this Unit will report the Board. Post reviews are conducted on loans granted regionally. In addition, the Unit will review loans which require Board and Executive Committee approval.

- 
- A loan origination system will be implemented separately for retail banking and corporate banking. The retail banking loan origination system is in its final phase of implementation and will be installed in May 2018. Corporate banking system too will be launched in 2018. These would result in better management of loans, speedy approval and increased productivity of the Bank.
  - The Finacle Treasury system will be upgraded in the ensuing year. Also additional phone lines will be installed to expand the operations of the Treasury Department. All phone calls in the Treasury Department are recorded and the monitoring is done by the Treasury Middle Office.
  - A risk dashboard which compares Bank and industry risk parameters will be established in 2018, in addition to defining risk appetite for the Bank and the Group.





# **BUSINESS MODEL**

102 / Operating Environment

110 / Value Creation Model

114 / Goals, Strategies and Outlook

117 / Our Commitment to the Sustainable Development  
Goals (SDGs)

120 / Stakeholder Engagement

123 / Materiality

# OPERATING ENVIRONMENT

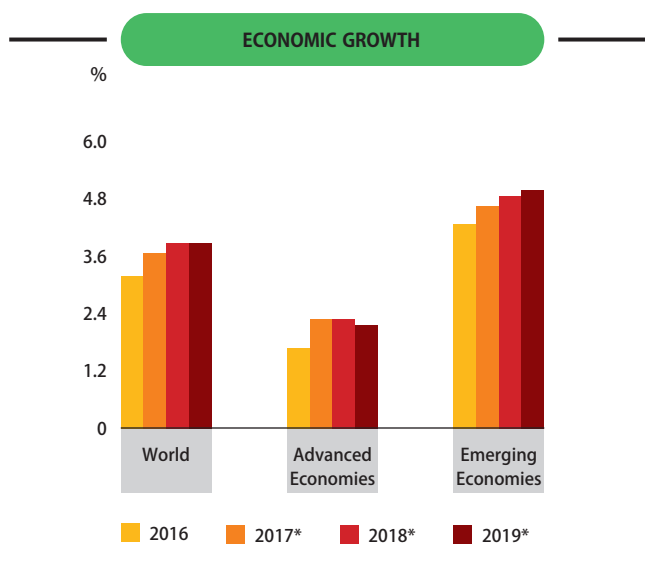
## GLOBAL ECONOMY

Global economic activity continued to firm up in 2017, with 120 economies accounting for three quarters of world Gross Domestic Product (GDP) picking up on year-on-year terms. This was the broadest synchronised global growth upsurge since 2010. The International Monetary Fund (IMF) in its World Economic Outlook Update in January 2018 estimates global economic growth to be 3.7% in 2017; the best global growth in seven years. This was 0.5 percentage point higher than the 3.2% global growth recorded in 2016. Supported by a pickup in investment, particularly among advanced economies and increased manufacturing output in Asia, strong growth was evident in world trade in the last few months of 2017.

## Future Outlook

It is estimated, global growth would be 3.9% for 2018 and 2019, based on the expectation that the favourable and stronger momentum experienced in 2017 will carry into both these years. Emerging economies are projected to grow by 4.9% in 2018 and 5.0% in 2019. Emerging and developing Asia which accounts for half of world growth, is expected to grow at around 6.5% over 2018-19, broadly the same pace as in 2017. Growth is expected to moderate gradually in China, pick up in India, and remain broadly stable in the ASEAN-5 region.

Advanced economies are projected to grow by 2.3% in 2018 and slow down to 2.2% in 2019. Growth forecast for the United States has been revised up from 2.3% to 2.7% in 2018 and from 1.9% to 2.5% in 2019. This based on the stronger than expected activity in 2017, higher projected external demand, and the expected macroeconomic impact of the tax reform. Growth rates for many of the Euro area economies have also been marked up, especially for Germany, Italy, and the Netherlands, reflecting the stronger momentum in domestic demand and higher external demand.



Source: International Monetary Fund

\* Projection

## LOCAL ECONOMY

### 1. GDP Growth

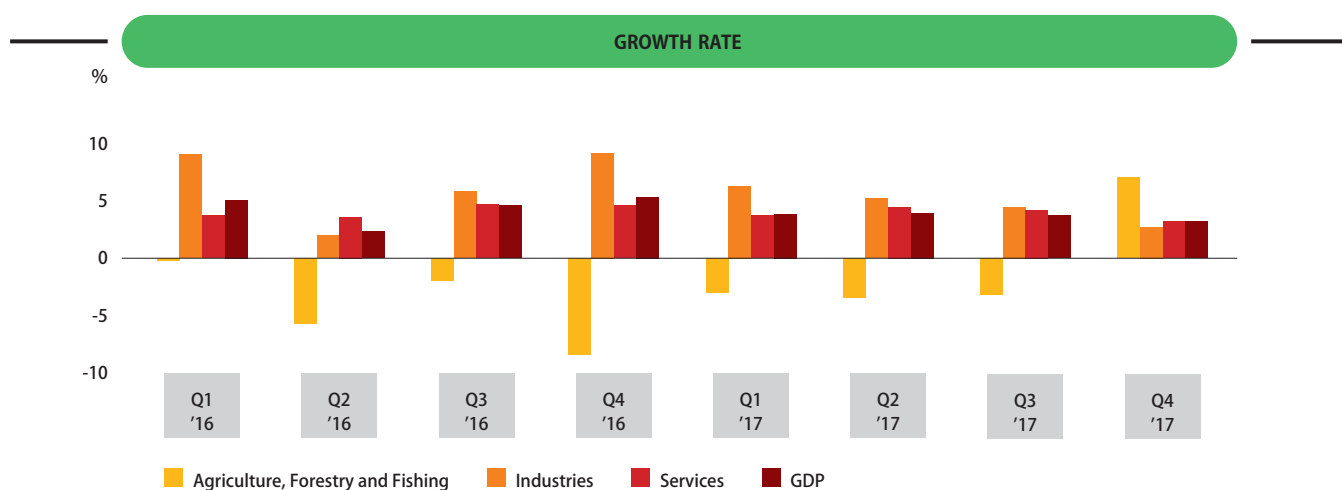
Sri Lanka's economy grew at a higher rate of 3.9% in the first half of 2017 compared to 3.7% in the comparable period in 2016. Agriculture activities which were affected by drought and flood-related disturbances contributed to overall growth negatively and spilled over to the other sectors of the economy as well.

Industry and Services related activities contributed positively to economic expansion. In particular, the expansion in Industry related activities was mainly supported by the continued growth in construction and mining and quarrying activities. The growth in Services related activities was largely sustained by financial services, wholesale and retail trade activities, and transportation.

The performance of the agriculture sector turned around in the fourth quarter of 2017 to record a positive growth of 7.2% compared to the negative quarterly growth rates recorded since 2016. Industrial and the services activities recorded growth rates of 2.7% and 3.2% respectively for the same quarter.

Economic Activity	Growth Rates (%)									
	2016					2017				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Agriculture, Forestry and Fishing	-0.2	-5.7	-2	-8.4	-4.2	-3	-3.4	-3.2	7.1	-0.8
Industries	9.1	2	5.9	9.2	6.7	6.3	5.2	4.5	2.7	3.9
Services	3.7	3.6	4.8	4.6	4.2	3.7	4.5	4.2	3.2	3.2
GDP	5.1	2.4	4.6	5.3	4.4	3.9	4.0	3.7	3.2	3.1

Source: Department of Census and Statistics



## 2. Inflation

Due to combined effects of tax revisions, domestic weather related disturbances and rising international commodity price, consumer price inflation remained high in the first half of 2017.

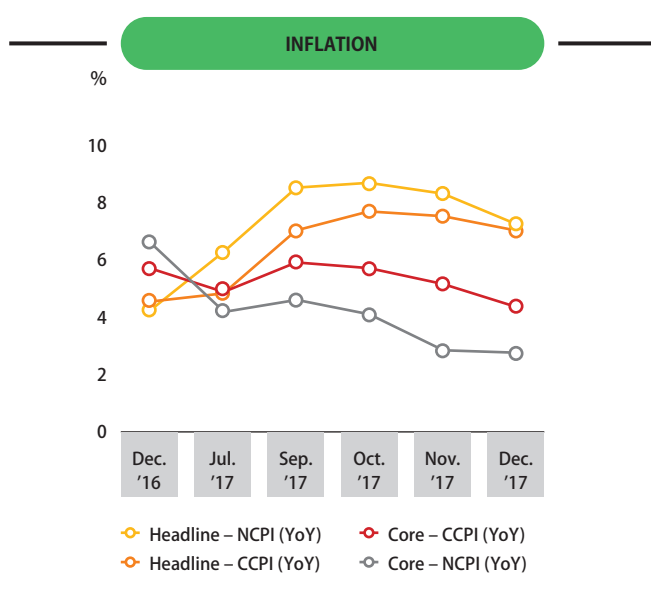
Headline inflation as well as the Colombo Consumer Price Index remained high during the first quarter of 2017 due to supply side disruptions resulting from adverse weather conditions and the effect of upward tax revisions. However, although inflation

moderated in the second quarter of 2017 due to improvements in supply conditions, the trend reversed from August 2017 due to the spillover effects of adverse weather conditions.

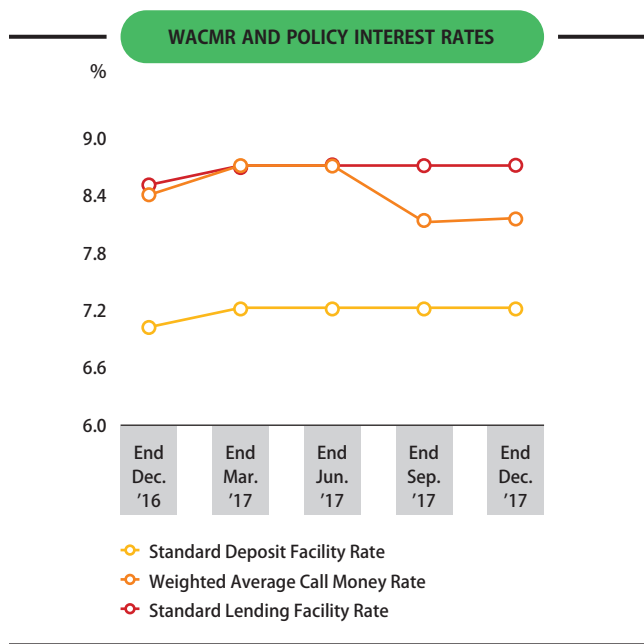
Movements in core inflation were impacted by tax revisions as well. However, on average, core inflation remained low, indicating that demand driven inflationary pressures were broadly contained due to monetary policy measures adopted by the Central Bank. Towards the end of the 2017, both Headline and Core inflations indicated a declining trend.

Month		December 2016	March 2017	June 2017	September 2017	December 2017
Headline Inflation (Year on year % change)	CCPI (2013=100)	4.5	7.3	6.1	7.1	7.1
	NCPI (2013=100)	4.2	8.6	6.3	8.6	7.3
Core Inflation (Year on year % change)	CCPI (2013=100)	5.8	7.3	5.1	6.0	4.3
	NCPI (2013=100)	6.7	7.0	4.1	4.6	2.7

Source : Department of Census and Statistics



In response to this monetary policy stance, adopted by the Central Bank and the high financing requirement of the government budget, most market interest rates moved upwards during the first nine months of 2017.



### 3. Monetary policy

The Central Bank continued to maintain a tight monetary policy stance during 2017 to maintain inflation at mid-single digit levels over the medium term and thereby facilitate a sustainable growth trajectory. Therefore, in order to contain the build-up of adverse inflation expectations and controlling the excessive expansion of money supply, the Central Bank tightened its monetary policy by raising policy interest rates by 25 basis points in March 2017. Accordingly, the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank stood at 7.25% and 8.75%, respectively till the end of 2017.

This policy stance enabled Central Bank to moderate the growth of broad money supply and the growth of credit extended to the private sector by commercial banks to desired levels.

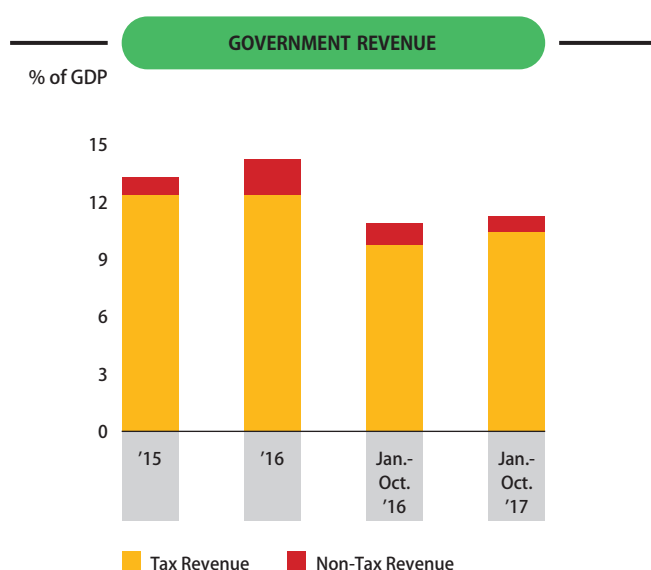
### 4. Fiscal Policy

The Government introduced several policy measures during the year 2017 to further strengthen the fiscal consolidation process and public debt management. A new Inland Revenue Bill was enacted by the Parliament in September 2017 with the aim of simplifying and rationalising the existing income tax structure, broadening the direct tax collection by removing exemptions and strengthening tax administration.

As a result of the initiatives taken to strengthen fiscal consolidation in 2017, the government revenue to GDP ratio recorded a notable improvement, increasing to 11.3% during the eight months

of 2017 compared to 10.8% in the corresponding period of 2016. Additionally, the primary balance recorded a 0.2% of GDP compared to 0.3% the previous comparable period and the current account deficit reduced to 0.8% of GDP from 0.9% of GDP.

Overall, the government was able to record a marginal surplus in the primary fiscal balance in 2017 after several decades. This was due to increased revenue collection.



## 5. External Sector

Export earnings in 2017 reached an all-time high of approximately US dollars 11.4 billion, largely supported by the sustained increase in export earnings stemming from the restoration of the GSP+ facility by the European Union, favourable prices for key commodities in the international market and the flexible exchange rate policy maintained by the Central Bank. However, an expansion in the trade deficit was reported due to drought related imports and increased gold imports. The positive momentum in services exports, including the tourism sector continued and the workers' remittances moderated during the year.

The sustained inflows to the financial account in terms of inflows to government securities market and the Colombo Stock Exchange (CSE) eased the pressure on external accounts to a certain extent. The receipt of the fourth tranche of the Extended Fund Facility (EFF) Programme of the IMF in December 2017 and inflows on account of proceeds from the lease of the Hambantota port helped further strengthen the Balance of Payments (BOP).

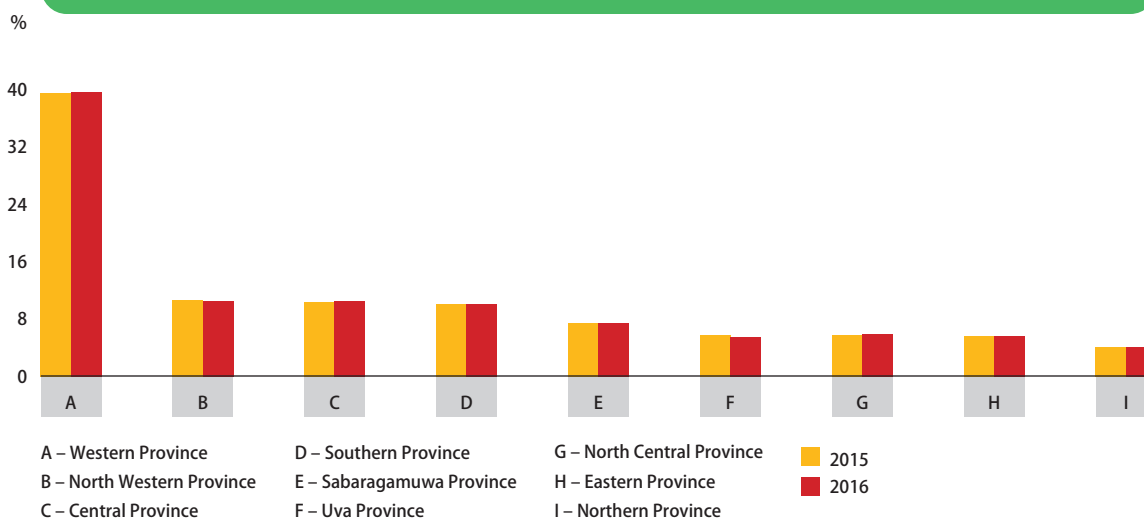
Gross official reserves are estimated to improve to around US dollars 7.8 billion by end December 2017 and the Sri Lankan rupee depreciated against the US dollar by 1.9% as at 27 December 2017. The Central Bank turned around the declining trend of gross official reserves and the BOP deficits during 2015 and 2016 by recording a significantly large BOP surplus, while maintaining a more flexible exchange rate regime under the current enhanced monetary policy framework. This involves transiting towards a Flexible Inflation Targeting (FIT) framework.

## 6. Regional development

In nominal terms the national GDP for 2016 was Rs. 11,839 billion recording a YoY growth of 8.11%. The subdued performance of the agriculture activities contributed to the slower growth in provinces where agriculture remains a main economic activity. Even though the Western province continued to drive overall economic progress contributing to 39.7% of Sri Lanka's GDP, the contributions from other provinces gradually increased with the expansion of regional economic bases. The highest GDP contribution was from the Western Province, followed by North Western and Central provinces.

	2015		2016	
	Rs. billion	Share %	Rs. billion	Share %
Central	1,161	10.6	1,248	10.5
Eastern	625	5.7	681	5.8
North Central	644	5.9	687	5.8
North West	1,163	10.6	1,262	10.7
Northern	452	4.1	495	4.2
Sabaragamuwa	825	7.5	892	7.5
Southern	1,106	10.1	1,190	10.1
Uva	611	5.6	687	5.8
Western	4,365	39.9	4,697	39.7
Sri Lanka	10,952	100.0	11,839	100.0

## SHARE OF PROVINCIAL GROSS DOMESTIC PRODUCT – 2015 AND 2016



### Future outlook

With the support of ongoing structural adjustments, improving macroeconomic stability and consistent policies, Sri Lanka's growth trajectory is expected to improve gradually in the medium term. Sri Lanka needs to make continued efforts to boost reserves, as approximately USD 15 billion of external debt has to be serviced between 2019 and 2022.

Country's foreign exchange reserves are expected to rise further to approximately USD 8.5 billion by end 2018, mainly through issuance of sovereign bonds and proceeds from the lease of Hambantota port. A wider current account deficit is expected in 2018 compared to a deficit of 2.3% recorded in 2017, on account of the slower growth in remittances and tourism income.

As a result of foreign debt service payments, widening trade deficit, tensions in the middle-east, rising oil prices, slowdown in inward remittances and tight global financial conditions, the Sri Lankan Rupee will be under pressure in 2018. However, these adverse conditions will be mitigated to a certain extent due to the full impact of the regained GSP plus benefits in 2018, the receipt of proceeds from the Hambantota port lease and the issuance of sovereign bonds.

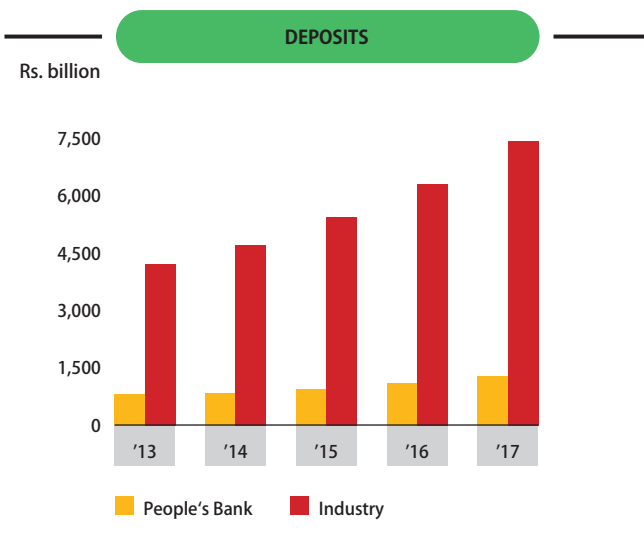
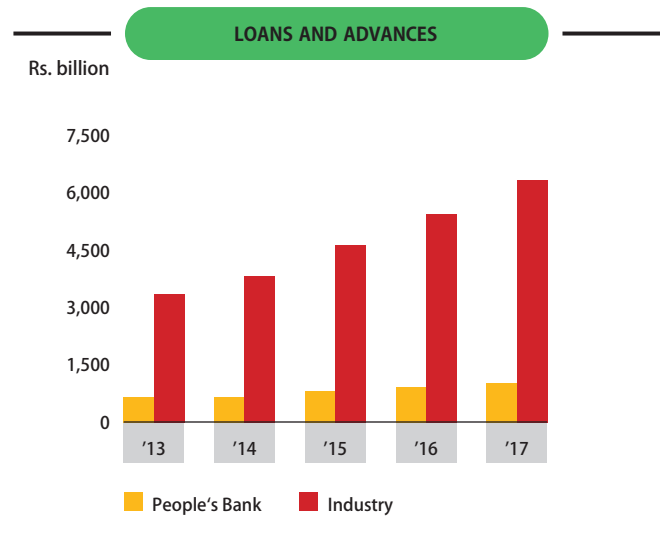
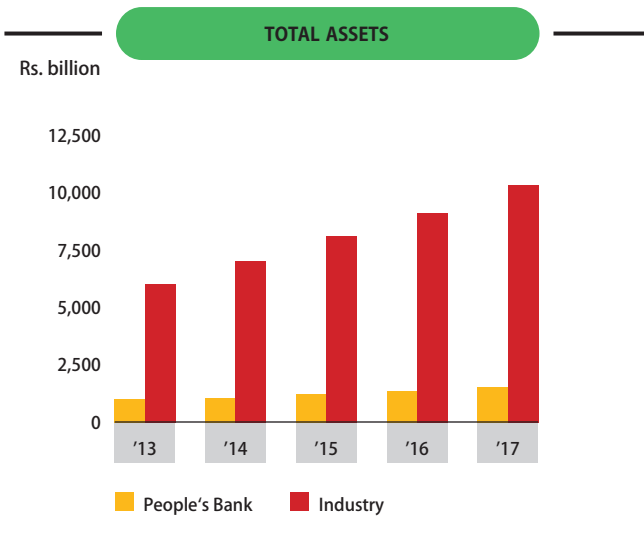
### BANKING SECTOR

The commercial banking sector of Sri Lanka comprises 13 local banks and 12 foreign banks which account for Rs. 8,926 billion asset base as at end 2017. Collectively, 5,739 branches and banking outlets operated across the island in 2017. The Central Bank is responsible for regulation and supervision of Sri Lanka's banking system and the legal framework consists of the Monetary Law Act and the Banking Act.

#### Assets and Liabilities

The assets of the banking sector swelled by 14% YoY to Rs. 10,293 billion in 2017. Deposits were the main source of funding accounting for 72% of the total asset base of the sector and recording a 18% YoY growth to Rs. 7,399 billion in 2017. Loans and advances also swelled by 16% YoY to Rs. 6,319 billion in 2017.

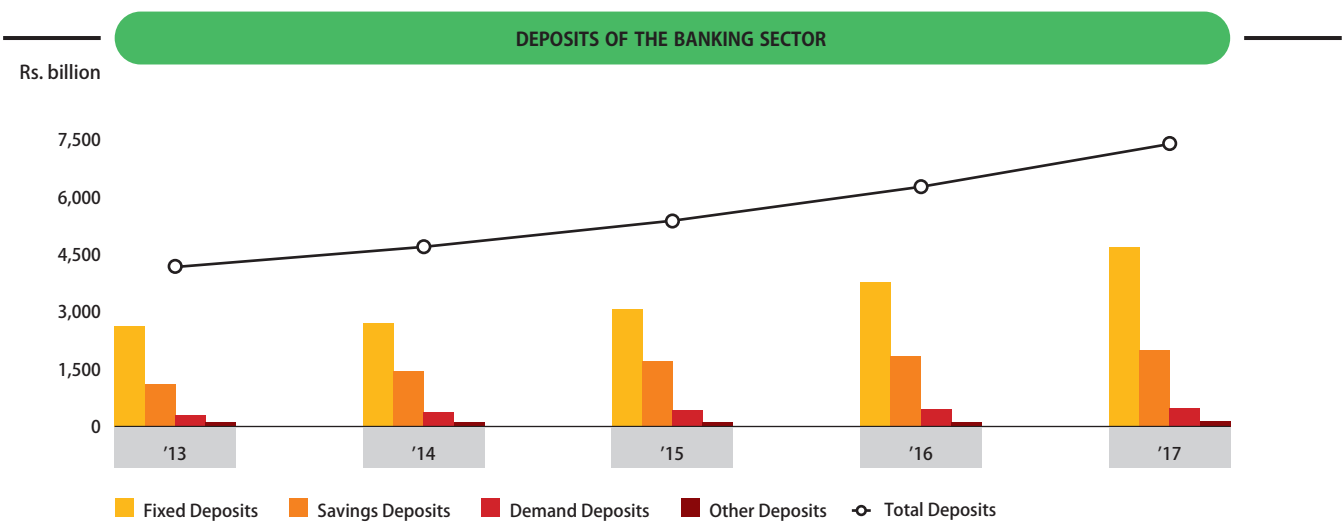
From the overall banking sector, People's Bank held 14% of the market share in terms of assets. Additionally, the Bank also held 17% of the industry deposits and 16% of total loans and advances of the banking sector as well during the year in review. Bank's assets increased by 13%, deposits by 15% and loans and advances by 14% YoY in 2017.



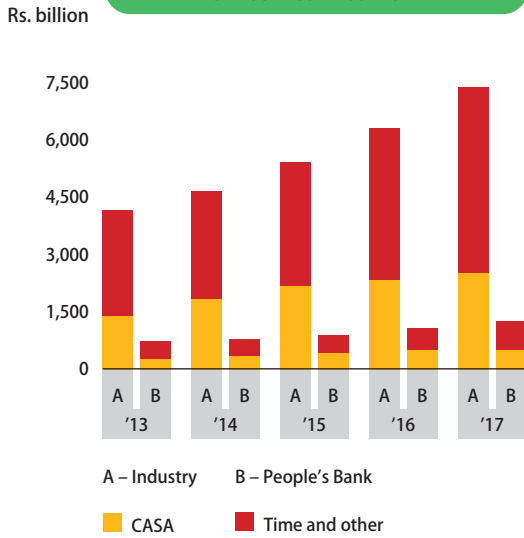
### Deposits

Deposits of the Banking Sector grew by 18% YoY to Rs. 7,399 billion in 2017. The largest constituent was fixed deposits which accounted for 64% of the total, followed by savings deposits which accounted for 27% share. The fastest growing deposit category was fixed deposits which recorded a 23% YoY growth to Rs. 4,704 billion.

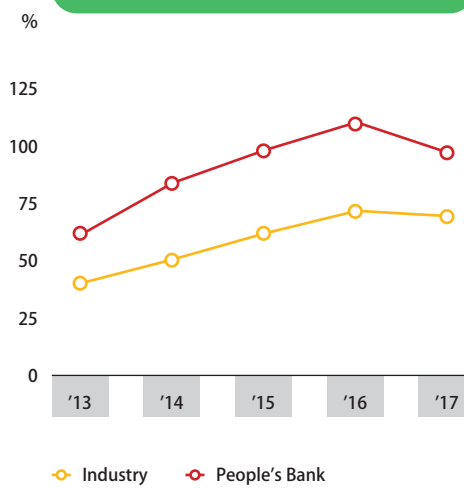
People's Bank accounted for 17% of industry deposit base and recorded 15% YoY deposit growth to Rs. 1,244 billion in 2017. The largest chunk was fixed deposits which accounted for 58% of the Bank's deposit base, and recorded a growth of 21% to Rs. 717 billion.



**INDUSTRY VS PEOPLE'S BANK – DEPOSIT COMPOSITION**



**INDUSTRY VS PEOPLE'S BANK – NPL COVERAGE RATIO**



**Asset Quality**

The asset quality of the Banking sector as determined by the Non-Performing Loan Ratio (NPL Ratio) improved to 2.5% in 2017 compared to 2.6% in 2016. Total provisioning coverage ratio declined to 70% from 72% in 2016.

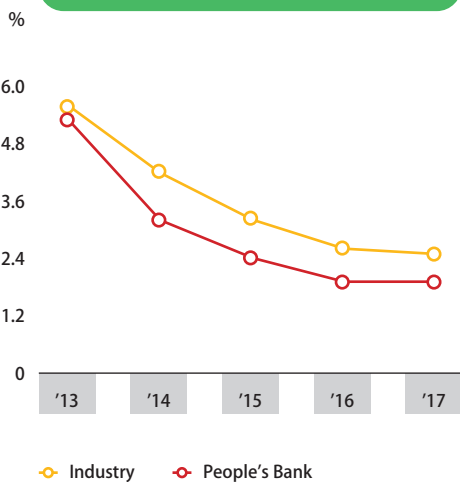
People's Bank maintained a high asset quality with the NPL Ratio maintained at 1.9%, below the industry average. The NPL coverage ratio of People's Bank declined to 98% in 2017 compared to 110% in 2016, though it was above industry average.

**Profitability**

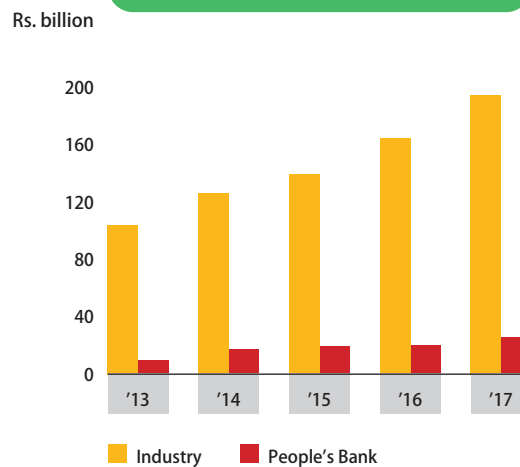
Profitability of the Banking industry improved with Profit Before Tax (PBT) increasing by 18% YoY to Rs. 195 billion in 2017. This was largely due to the 28% increase in interest income and 19% increase in non-interest income in 2017 compared to the previous year. Interest expense also swelled by 39% YoY to Rs. 630 billion on account of increased interest expense.

People's Bank's PBT expanded by 24% YoY to Rs. 26 billion in 2017. Return on Equity (ROE) ratio stood at 26.6% above the industry average of 17.6% in 2017. Bank's Return of Assets (ROA) of 1.9% was marginally below the industry average of 2.0% for the year under review. The interest margin of People's Bank of 3.6% was slightly above the industry interest margin of 3.5% in 2017.

**INDUSTRY VS PEOPLE'S BANK – NPL RATIO**

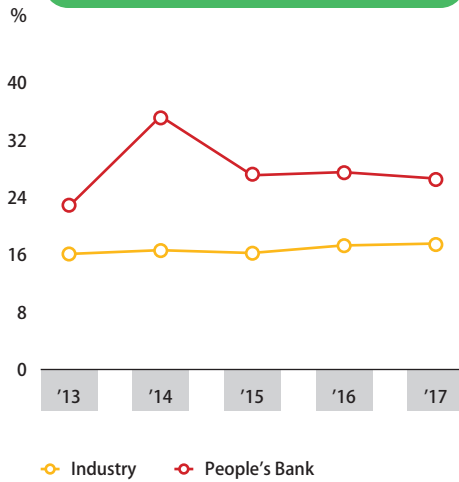


**INDUSTRY VS PEOPLE'S BANK – PROFIT BEFORE TAX**

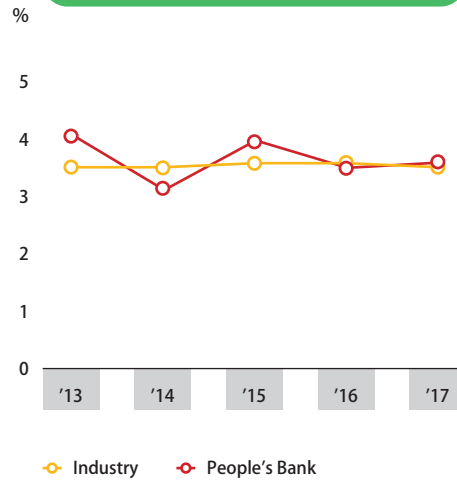




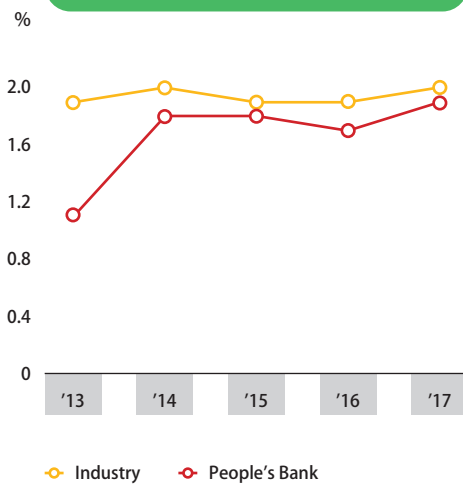
INDUSTRY VS PEOPLE'S BANK – ROE



INDUSTRY VS PEOPLE'S BANK – INTEREST MARGIN



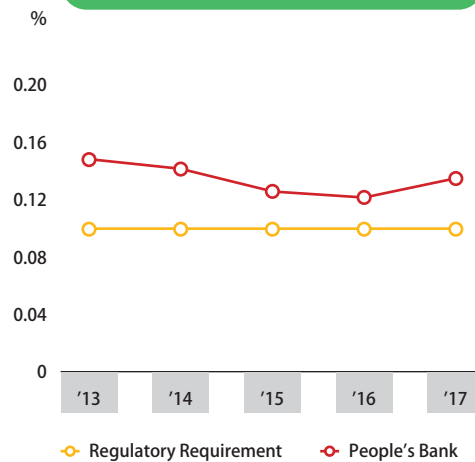
INDUSTRY VS PEOPLE'S BANK – ROA



Capital Adequacy

According to the Basel III framework, the Bank is required to maintain a total capital adequacy ratio of not less than 11.75% with effective from 1st July 2017. People's Bank, complying with the Basel III accord, maintained a total capital adequacy ratio of 13.5% which is above the statutory minimum requirement.

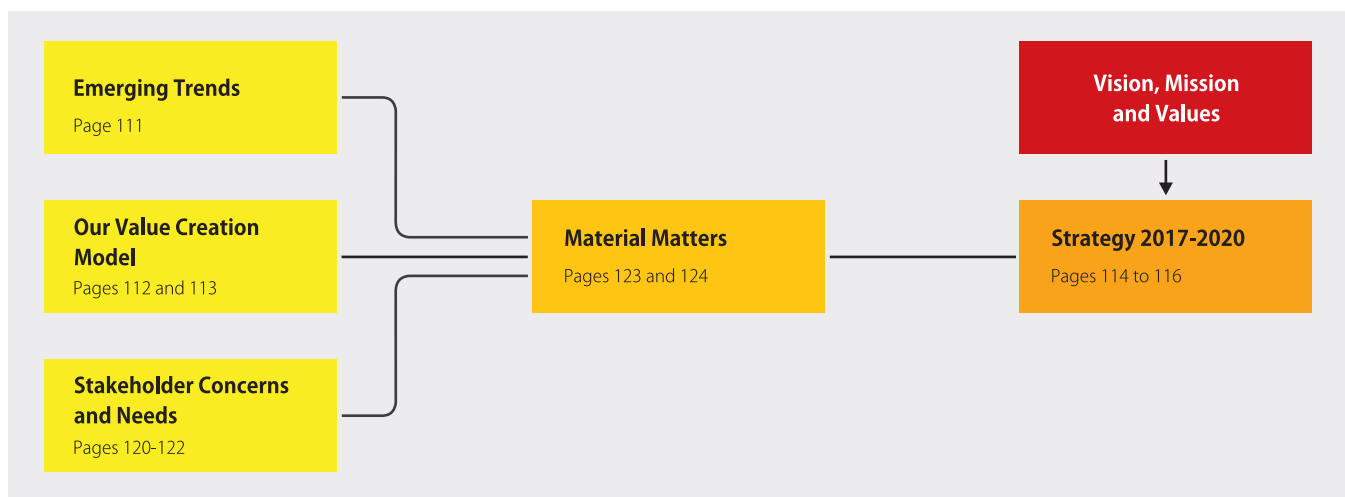
CAPITAL ADEQUACY RATIO



# VALUE CREATION MODEL

## DETERMINING STRATEGY

It is imperative to understand the competitiveness of our business environment to formulate effective strategies for growth and profitability of our Group. Therefore, we closely monitor and assess diverse aspects of the banking and finance industry to ascertain the factors that influence industry attractiveness. Hence, we conduct a thorough evaluation of emerging risks and opportunities in the operating environment in the context of our unique value creation model. Accordingly, the Bank's strategic agenda for 2016-2020 was formulated taking into account the Bank's vision, mission, values and material issues that affect the value creation process. The material topics were ascertained through Stakeholder Engagement discussed on pages 123 and 124.

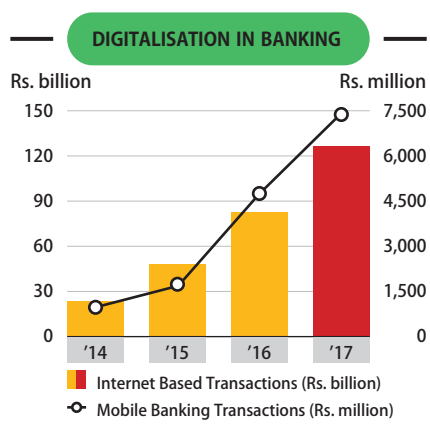


## EMERGING RISKS AND OPPORTUNITIES

At People's Bank, we scan the external environment for risks and opportunities and execute effective strategies to mitigate risks and capitalise on the opportunities. This is an integral aspect of our Group's strategic agenda which enables us to sustain our competitive position and create sustainable value for all our stakeholders.

### Digitisation in Financial Services

Growth of the Internet, has led us towards a progressively multichannel world which has become incessantly entwined in our everyday lives. This digital revolution has filtered down into the financial services industry, triggering the emergence of alternative customer facing services providing cutting edge technology, improved customer service and lower costs. Even as the digital revolution in financial services is rapidly transforming the way banks interact with its customers, the effective deployment of technology can facilitate improved customer service levels, cost effective distribution platforms and more reliable and efficient processes.

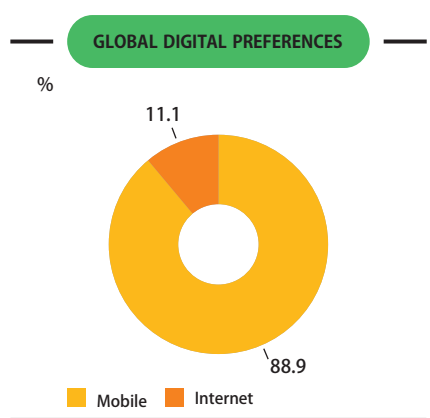


#### Strategic Response:

The Group strives to embrace the opportunities presented by emerging technologies by setting up digital banking centres, self-service channels, engaging with customers via social media platforms, and propagating the use of mobile and Internet banking facilities. In order to facilitate growth opportunities in existing markets and increase penetration in new markets, increased focus is placed on educating rural customers on adopting these technologies, as a means of bridging the digital barrier to financial services.

### Changing Customer Expectations

The digital banking market is growing in rapid pace and the digital transformation is far beyond just moving from traditional banking to a digital world. It is a vital change in how banks interact with and satisfy customers. Hence banks are faced with unprecedented shifts in customer expectations for financial services, including increased emphasis on convenience, demand for digital access and personalised, value added services. Globally, channel preferences have recorded a dramatic shift, with over 75% of customers showing preference for non-traditional channels. Hence, banks are compelled to embrace and offer the convenience of digitalisation to customers.



#### Strategic Response:

In line with the Bank's planned digitisation project, new digital channels allowing seamless integration of platforms are being introduced over the short to medium-term. This will include digital banking centres, self-service kiosks and Cash Deposits Machines. In addition digital centres were launched to bring the benefits of digitalisation banking to the nation and thereby promote financial inclusion.

### Increased Demands on Governance and Risk Management

In line with the broader goals of advancing financial stability and sustainable economic growth, stakeholders are increasingly demanding more transparent and robust corporate governance and risk management frameworks. Hence, in addition to fulfilling their fiduciary responsibilities, Board of Directors and Senior Management are expected to effectively communicate the corporate strategic direction and ensure proactive risk assessment and mitigation with high level of corporate governance practices.

#### Strategic Response:

The Group has strengthened governance and risk management frameworks to enhance transparency and sustainability of the Group.

### Sustainability Considerations

Banks play an important role in promoting sustainable development by integrating environmental and social considerations into core areas of business. These include, integrating environmental criteria into lending decisions, and developing new products that promote environmentally friendly businesses.

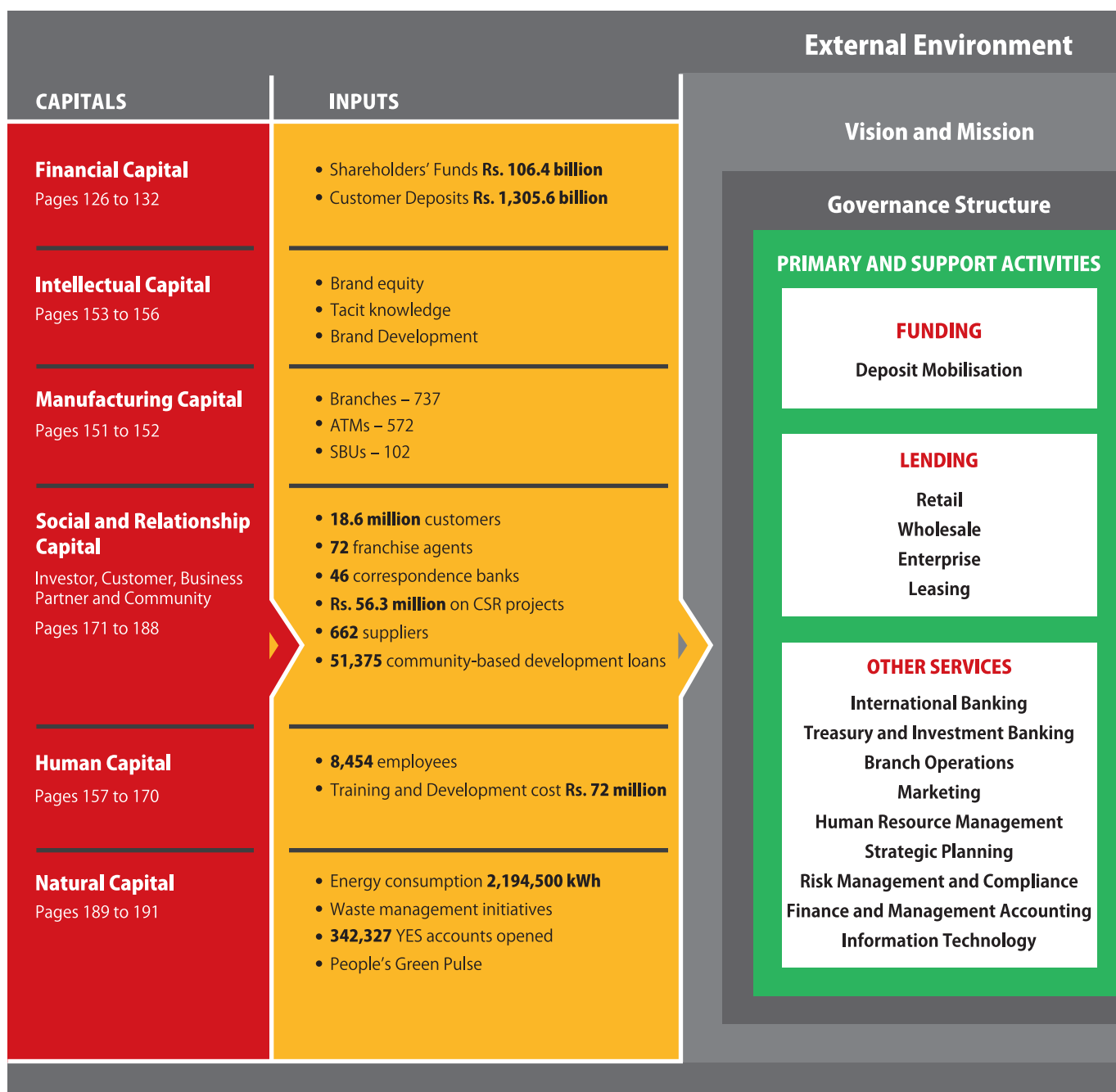
#### Strategic Response:

People's Bank launched Green Banking in 2016, which is a multi-faceted initiative aimed at promoting green practices amongst its employees and customers, offering concessionary lending to environmentally friendly business projects and promoting the digital banking drive. The Bank also relaunched Young Executive Saver Account (YES), which is a paperless banking product, which appeals to millennials who have a strong green consciousness.

## VALUE CREATION AND BUSINESS MODEL

People's Bank Group has made great strides to be positioned as a premier financial institution in Sri Lanka with the largest customer base in Sri Lanka's banking industry and achieve the highest employee retention. The strong and consistent growth is evidenced by our solid leadership across the industry's indicators, consistent shareholder returns, and strong customer relationships.

The value creation model of our Group is based on our strategic aim of becoming the undisputed market leader for financial services. We seek to deliver value to our stakeholders whilst balancing our economic, social, and environmental impacts. The value creation model shows the critical resources we rely on to offer financial solutions and thereby create consistent and sustainable value to our stakeholders. We apply the six forms of capitals which are stocks of value, affected or transformed by our Organisation's activities, to deliver a range of outcomes. Therefore, we continuously manage our capitals and processes efficiently and effectively to ensure consistent value delivery.



OUTPUTS	OUTCOMES
<ul style="list-style-type: none"> <li>Gross income crossed <b>Rs. 190.2 billion</b></li> <li>Profit Before Tax <b>Rs. 29.9 billion</b></li> <li>Total Advances <b>Rs. 1,209.1 billion</b></li> </ul>	<p>Contribute to national development and financial inclusion</p>
<ul style="list-style-type: none"> <li>Average training hours per employee <b>24 hours</b></li> <li><b>91%</b> customer satisfaction</li> <li>Opened Sri Lanka's first Innovation Centre</li> </ul>	<p>Augment our distribution channels and provide innovative products to effectively respond to customer requirements</p>
<ul style="list-style-type: none"> <li>New SBUs <b>99</b></li> <li>New ATMs <b>66</b></li> <li>Digital Centres <b>2</b></li> </ul>	<p>Expand our digital banking network and ensure highly secure and stable IT platform</p>
<ul style="list-style-type: none"> <li>ROE <b>21.4%</b></li> <li>EPS <b>Rs. 19,296</b></li> <li>Payments to suppliers <b>Rs. 10.5 billion</b></li> <li><b>Rs. 10,480 billion</b> community - based development loans</li> <li><b>700,000</b> new customers</li> <li><b>48 million</b> ATM financial transactions</li> </ul>	<p>We offer increased customer experience, value added services, healthy returns and build sustainable communities</p>
<ul style="list-style-type: none"> <li>Employee training <b>hours 199,956</b></li> <li>Return to work after parental leave <b>100%</b></li> <li>Average service period 13 years</li> </ul>	<p>We offer an exceptional customer service through our highly skilled and competent staff</p>
<ul style="list-style-type: none"> <li>Carbon footprint reduced by 620 tCO<sub>2</sub>e</li> <li><b>86%</b> reduction in fugitive emissions</li> </ul>	<p>We minimise our environmental footprint and contribute towards environmental sustainability</p>

# GOALS, STRATEGIES AND OUTLOOK

## OUR STRATEGY

As a bank that has been an integral partner of Sri Lanka's economic development and become an icon to the people of Sri Lanka, symbolic of strong and stable leadership; our commitment is twofold – supporting national economic development and adding consistent value for the benefit of all our stakeholders.

We made steady progress on our Strategic Plan 2016-2020, formulated by an external consulting group with the support and guidance of the Bank's Board of Directors and Senior Management and the fullest cooperation of the entire hierarchy of the Bank. The Plan includes 67 strategic initiatives aligned to the Bank's vision, to be accomplished by 15 functional areas, led by the CEO/General Manager. These strategies have a dotted line relationship to four functions which directly report to the Board, whilst maintaining strong compliance to ethics and corporate governance.

We successfully implemented and met the relevant strategic initiatives during the year, which enabled us to make a sound progress towards our strategic agenda. The Bank's Strategic Planning and Performance Management Department successfully directed the 15 functional areas to achieve 78% of the overall strategic initiatives during the year under review.

We have also established a whistle blowing policy, professional monitoring mechanism and a feedback process to effect necessary changes and improvements to the strategic planning processes. In addition, an effective credit evaluation model, professional and highly skilled employees and the wide geographic coverage enables us to successfully achieve our strategic plan.

Given the constantly transforming environment we operate in, we will formulate our new strategic plan in tandem with the macroeconomic changes. Our aim is to become the most digitalised bank in Sri Lanka by 2020. We will champion the technological change for our stakeholders, making digitalised banking accessible to everyone in our nation. This will truly pave the pathway for our stakeholders to become a part of the global phenomenon of digitalisation to live and work as global citizens, honing their inherent strengths on the empowering digital platform. Digitalisation would also enable us to reach far more people than we could have ever imagined – and thereby augment our axiom of – "being the bank of the people."

## OUR STRATEGIC DRIVERS AND FRAMEWORK

We are responsible for driving the Bank towards the vision of the Bank through portfolio management, project management, investment appraisals, knowledge management, life cycle management and infrastructure management under strategic planning and performance management. We followed a detailed analysis of the performance, business model and operating landscape to formulate Bank's Strategic Plan for 2016-2020. This was to align Bank's internal value drivers to emerging risks and opportunities through strategy, structure, systems, and strategic actions. All 67 strategic initiatives formulated under the plan are aligned to the Bank's Vision and Mission. These are to be achieved by the 15 functional areas of the Bank led by the CEO/General Manager.

## To Become Sri Lanka's Undisputed Market Leader for Financial Services

Compliance and Corporate Governance

Internal Audit

Credit and Risk Control

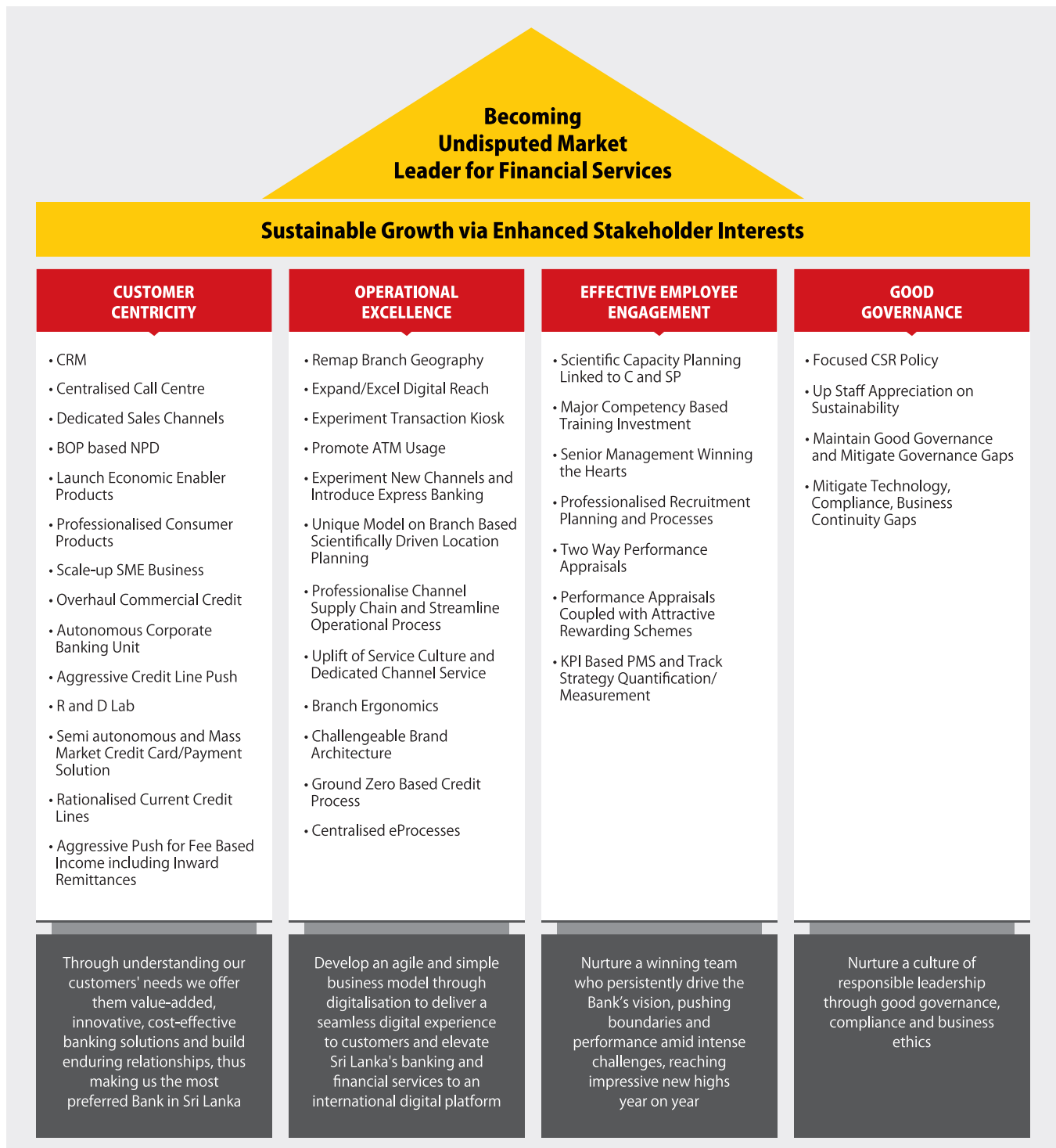
Strategic Planning and Performance Management



**Digitalisation and Digital Reach**

## STRATEGIC PILLARS

To realise the Bank's Vision and generate shared value for all our stakeholders, we have prioritised four strategic pillars, that makes People's Bank the undisputed market leader for financial services in Sri Lanka. These strategic pillars are customer centricity, operational excellence, effective employee engagement, and good governance.





# OUR COMMITMENT TO THE SUSTAINABLE DEVELOPMENT GOALS (SDGs)

The Sustainable Development Goals (SDGs) are a universal set of clear guidelines and targets which United Nations member states are expected to adopt to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.

The Government of Sri Lanka expects to achieve these SDGs by 2030, progressing towards the provision of basic needs of the people, progressive alleviation of poverty, elimination of all forms of discrimination and inequalities, and establishing a society based on social justice and human security. As a responsible and sustainable corporate citizen, People's Bank has embedded SDGs into its integrated thinking to make a strong contributing towards building a sustainable nation.



## GOAL 1

### No Poverty

With the founding objective of delivering banking services to the grassroots of the economy, we have partnered the Co-operative sector to disburse funds through our network of 158 branches situated in economically underprivileged area to disadvantaged communities. These funds are disbursed to multiple sectors including agriculture, animal husbandry, consumer trading, fisheries and special projects mainly in the outstations. Further, we provide refinancing facilities through projects such as Poverty Alleviation Microfinance Project, Self-Employment Promotion Initiative Loan Scheme and The Awakening East RF PHASE II etc.



## GOAL 2

### Zero Hunger

Employing the highest number of employees in the banking sector we contribute to uplift the quality of life through job creation, directly for over 8,000 individuals and indirectly for many more through the finance facilities we provide.



## GOAL 3

### Good Health and Well-Being

We extend our support to develop healthcare in our nation. In particular we contributed Rs. 282,710.00 for dengue prevention in 2017. We also provide medical facilities to our employees and their families across the network to ensure their health and well-being.



## GOAL 4

### Quality Education

Every year, we engage in numerous CSR initiatives targeted towards supporting education of underprivileged children, funded through the Bank's Employees' Associations. Also we provide special loan facilities to enable university students to purchase laptops. Additionally, scholarships are awarded to students who excel at Year-5 Scholarship, GCE (O/L) and (A/L) examinations.



## GOAL 5

### Gender Equality

We value diversity in our workforce. Therefore, we do not discriminate employees based on gender or any other criterion. We are proud to state that our female participation rate of 60% is amongst the highest in the banking industry. Female representation at management level is also relatively high.



## GOAL 6

### Clean Water and Sanitation

As a responsible corporate citizen we have implemented measures to conserve water by reducing wastage of water.

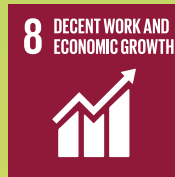


## GOAL 7

### Affordable and Clean Energy

The Government of Sri Lanka has identified the importance of facilitating local households to use solar energy for their daily energy needs, as an alternative for electricity. Accordingly, the General Treasury has proposed a new concessionary loan scheme named "Rivi Bala Savi" with the objective of providing financial assistance for households to purchase solar panels to switch from electricity to solar power.

In support of this objective, we introduced a loan product to provide financial assistance to households to install solar power panels to generate electricity. This is an environmental friendly project.



## GOAL 8

### Decent Work and Economic Growth

We have offered diversified loan schemes to every segment in society. Our most significant business line comprises retail banking, enterprise banking and microfinancing.

As an industry pioneer and one of the largest lenders to the SME sector, we are aligned to the Government's national economic agenda in facilitating economic activity across the island by providing access to finance at affordable rates. This facilitates a sustainable economic growth in our nation.



## GOAL 9

### Industry, Innovation and Infrastructure

Our ambitious digitalisation drive will empower us to deliver a seamless digital experience to customers and elevate Sri Lanka's banking and financial services to an international digital platform. The launch of the Digital Centre marks a quantum leap for our Bank, in its dynamism to become the most digitalised Bank by the year 2020 and thereby unlock the benefits of digitalisation for its customers.

As a key lender to the Government of Sri Lanka and systematically important state institutions, we have been a vital contributor to our nation's infrastructure development.

We disbursed over Rs. 93.6 billion for road development, electrification and irrigation projects which have directly contributed towards infrastructure development in our nation.



## GOAL 10

### Reduced Inequalities

Providing financial services that cater to every segment in our society, we increase the socioeconomic prospects of our customers through our product offering.



## GOAL 11

### Sustainable Cities and Communities

We support the building of sustainable communities through our CSR activities. Investment in CSR Projects in 2017 is detailed in page 187.



## GOAL 12

### Responsible Consumption and Production

We manage the direct environmental impact of our operations, optimal usage of resources by minimising wastage and recycling of paper waste and e-waste.



## GOAL 14

### Life Below Water

By promoting sustainable use of resources and environmental conservation initiatives, we indirectly support the conservation of life below water.



## GOAL 16

### Peace, Justice and Strong Institutions

We ensure good governance by adopting strong business ethics, sound policies and procedures, and implementing effective and efficient monitoring systems. We have a whistle-blowing policy which is a platform to report irregularities that enhances the transparency in business practices.

We aim to introduce a formal mechanism to enable employees to present grievances and concerns to the CEO/GM.



## GOAL 13

### Climate Action

We launched a comprehensive carbon management programme, which is a three-year systematic project, comprising the development and implementation of carbon management plans in all major divisions to facilitate actions towards reducing our carbon footprint.



## GOAL 15

### Life on Land

Through sustainable use on natural resources and environmental conservation initiatives, we contribute to conserve life on land.



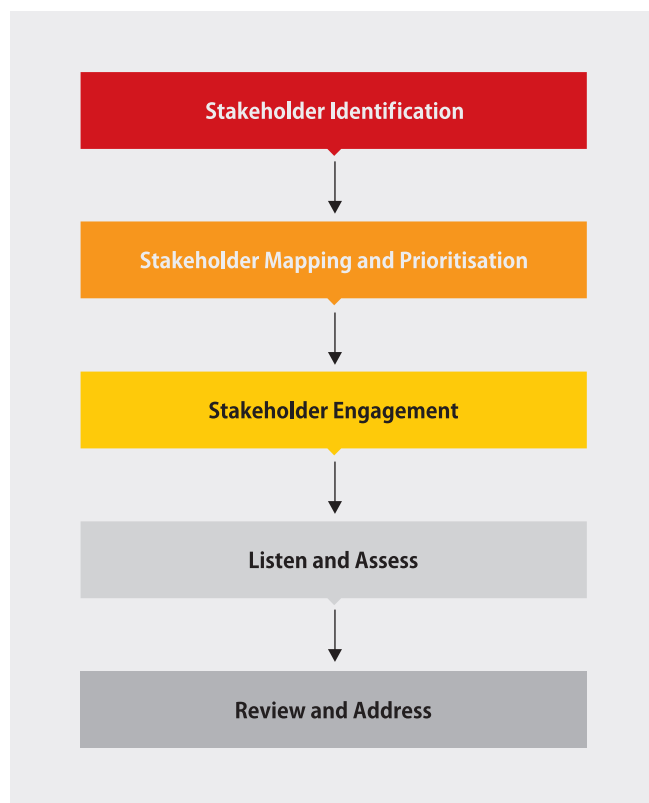
## GOAL 17

### Partnerships for the Goals

We foster cordial relationships with the Government and international organisations, in particular with our correspondent banks across the globe.

# STAKEHOLDER ENGAGEMENT

## OUR STAKEHOLDER ENGAGEMENT PROCESS



We follow a comprehensive process to identify our key stakeholders and connect with them to identify and address their legitimate concerns in order to maintain a desired balance in the distribution of value created. Therefore, we have formal mechanisms for engaging with each group of stakeholders which enables us to identify opportunities to improve our business model, drive innovation and provide key inputs to our strategic planning process.

## STAKEHOLDER IDENTIFICATION

Our stakeholders are entities or individuals who have an interest in our Bank and can either affect or be affected by our operations. Our key stakeholders are customers, employees, employee trade unions, business partners, investors, local communities, the Government and the regulators and the environment in which we operate.

## STAKEHOLDER MAPPING AND PRIORITISATION

Stakeholder mapping and prioritisation helps us to determine the extent of our engagement with our stakeholders. This is based on the relative significance of each stakeholder group to our organisation, based on their power of influence and the degree of interest vested in our Group's value creation process.

## STAKEHOLDER ENGAGEMENT

Once stakeholder mapping and prioritisation is complete, we engage with each stakeholder group by engaging in long-term dialogue to ascertain their needs, concerns and expectations. These are important input for our decision-making process to make steady progress in our strategic objectives. We make important decisions to address aspects which are deemed important as they contribute towards sustainable growth of our Group, optimising the value creation process.

## LISTEN AND ASSESS

We assess the issues and concerns identified through stakeholder engagement to have a clear understanding of their varying concerns and expectations. This facilitates us to achieve sustainable outcomes.

The following table highlights the Group's engagement mechanism with the key stakeholder groups and the topics and concerns that were identified for the year:

Method of Engagement	Frequency of Engagement	Key Topics and Concerns Raised	How the Company Responded to such Topics and Concerns
<b>Shareholders</b>			
Annual General Meeting	Annually	<ul style="list-style-type: none"> <li>Review of the prior financial year's performance</li> </ul>	Timely publication of the Annual Report and Quarterly Financial Statements and making them available to shareholders. Provide detailed and timely disclosures on our performance, risk management, assets quality and sustainability etc.
Annual Report	Annually	<ul style="list-style-type: none"> <li>Financial information and disclosures</li> </ul>	
Quarterly Financial Statements	Quarterly	<ul style="list-style-type: none"> <li>Sustainable growth in earnings</li> </ul>	
Corporate website	Continuous	<ul style="list-style-type: none"> <li>Sound corporate governance practices</li> </ul>	
Media releases and press conferences	Ongoing	<ul style="list-style-type: none"> <li>Risk management</li> <li>Corporate sustainability</li> <li>Future outlook and growth potential</li> <li>Group news and latest information and updates on current affairs</li> </ul>	
<b>Customers</b>			
Relationship management	Ongoing	<ul style="list-style-type: none"> <li>Affordability of services</li> </ul>	We have set-up a customer call centre and our corporate website to provide information. We have also set-up an extensive network to provide easy access. Also set-up digital branches and an innovation centre to provide cutting-edge products to customers.
Satisfaction surveys	Ongoing	<ul style="list-style-type: none"> <li>Quality of service</li> </ul>	
Customer networking	Ongoing	<ul style="list-style-type: none"> <li>Convenience and accessibility</li> </ul>	
Corporate website	Ongoing	<ul style="list-style-type: none"> <li>Innovation</li> <li>Privacy of information</li> </ul>	
<b>Employees/Trade Unions</b>			
Performance appraisals	Annually	<ul style="list-style-type: none"> <li>Transparent, fair and attractive remuneration</li> </ul>	Provide continuous training to employees, provide a dynamic and motivating work environment, attractive remuneration based on industry standards, encourage employees to follow corporate values
Collective bargaining		<ul style="list-style-type: none"> <li>Opportunities for skill development</li> </ul>	
Multi-level staff meetings	Ongoing	<ul style="list-style-type: none"> <li>Career progression</li> </ul>	
Staff orientation	Ongoing	<ul style="list-style-type: none"> <li>Workplace safety</li> </ul>	
Training programmes	Ongoing	<ul style="list-style-type: none"> <li>Dignity of labour</li> </ul>	
Group intranet and email	Ongoing		
<b>Regulators/Legislators</b>			
Onsite surveillance	Ongoing	<ul style="list-style-type: none"> <li>Regulatory compliance</li> </ul>	Timely submission of relevant information and reports, maintain an open dialog with authorities, contribute towards the development of the industry
Regulatory reporting	Annually, quarterly, monthly	<ul style="list-style-type: none"> <li>Corporate governance</li> <li>Risk management</li> </ul>	
Industry forums and meetings	Ongoing	<ul style="list-style-type: none"> <li>Sustainable business practices</li> </ul>	
Press releases	Ongoing		

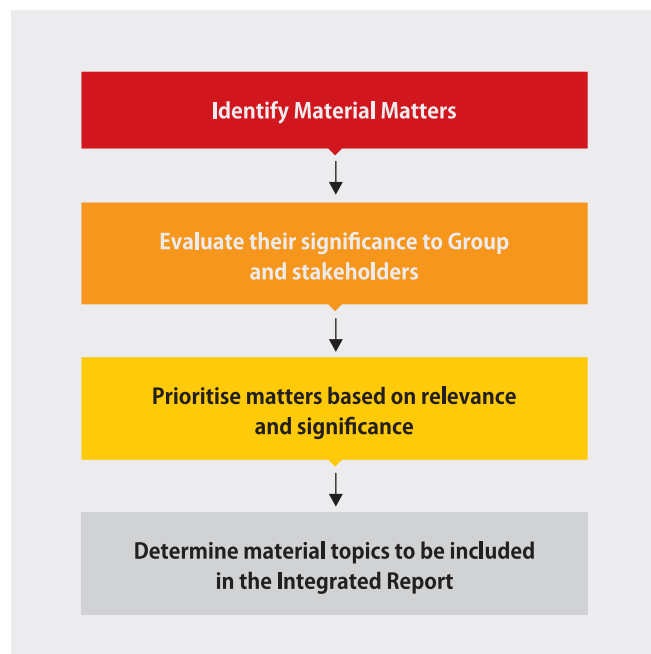
Method of Engagement	Frequency of Engagement	Key Topics and Concerns Raised	How the Company Responded to such Topics and Concerns
<b>Suppliers</b>			
Supplier surveys	Ongoing	<ul style="list-style-type: none"> <li>Ease of transactions</li> </ul>	Establish long-term mutually beneficial relationships, promote sustainable and ethical practices, timely payments, provide supplier feedback, monitor service standards
Supplier relationships	Ongoing	<ul style="list-style-type: none"> <li>Value addition and supplier development</li> </ul>	
Onsite visits and meetings	Ongoing	<ul style="list-style-type: none"> <li>Long-term partnerships</li> <li>Quality of service</li> </ul>	
<b>Communities</b>			
Community engagement		<ul style="list-style-type: none"> <li>Creation of job opportunities</li> </ul>	Empower and uplift the living standards of communities through education, health and infrastructure development
Workshops to cultivate financial discipline		<ul style="list-style-type: none"> <li>Sponsorship and support development initiatives</li> </ul>	
Community surveys		<ul style="list-style-type: none"> <li>Economic and social impacts of the business</li> </ul>	

## REVIEWING AND ADDRESS

The stakeholder engagement process which is an ongoing course of action, enables the Group to evolve and adapt to the developments in the operating environment and effectively respond to stakeholder concerns and expectations. Therefore, reviewing this process regularly and reporting the key developments to the management is essential for the sustainability of our organisation.

# MATERIALITY

## MATERIALITY ASSESSMENT PROCESS



We identify material aspects which impact our Group and our stakeholders. An aspect is considered material if it substantially affects our process of value creation over the short, medium and long term.

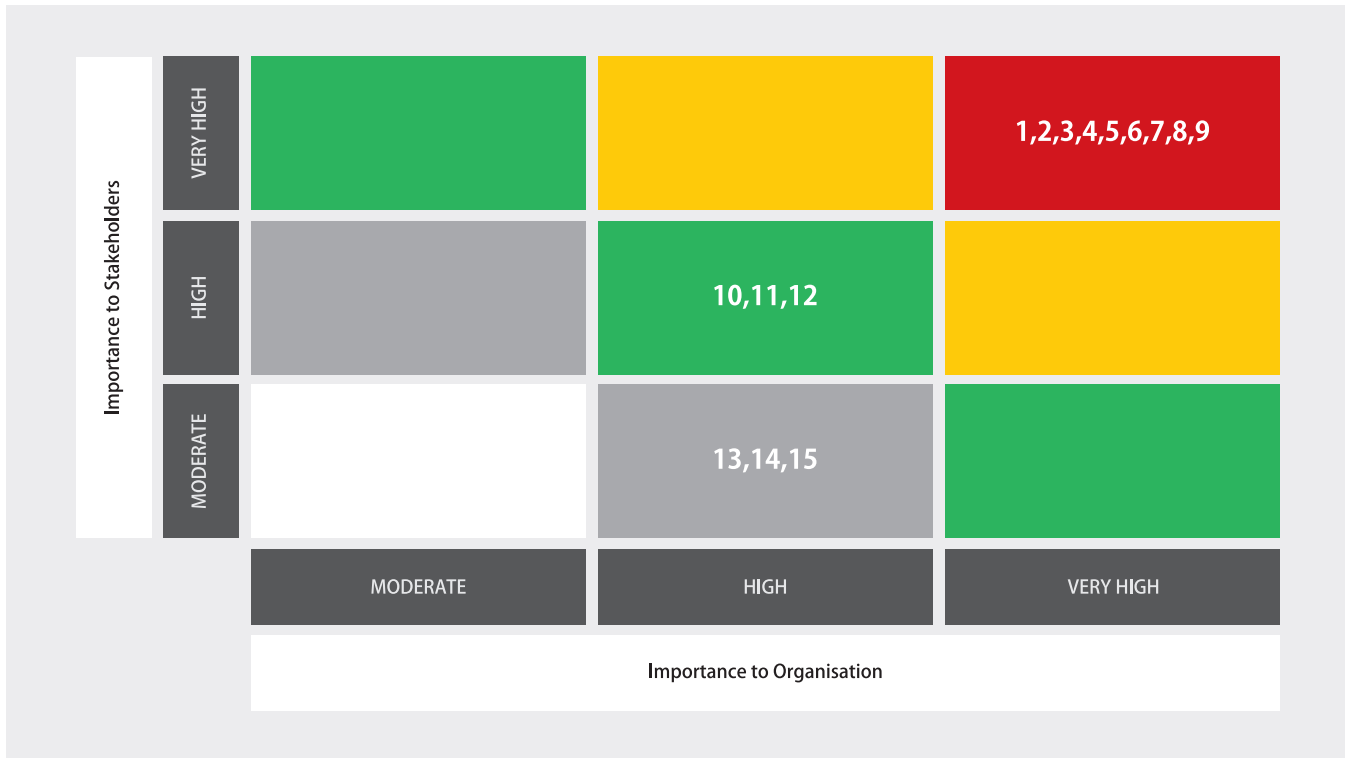
A stringent materiality assessment is carried out to identify material aspects. However, due to the impracticality of addressing all possible issues that may have a bearing on our Group’s value creation process; we address only aspects which are considered material.

Materiality of an aspect is considered based on its effect on the Group’s value creation process and also the probability of its occurrence and the magnitude of impact. Materiality is considered from the perspective of the Group and the stakeholder.

Topics material to our Group are identified through the stakeholder engagement process which is then represented in a two-dimensional materiality matrix based on the GRI guidelines. This materiality list is updated annually to keep abreast of the dynamic operating environment and be up-to-date with the priorities and concerns of our stakeholders.

Material topic identified in the process of determining report content.

	Material Aspect	Corresponding GRI Requirement	Relevant Strategic Pillar	GRI Indicator	Page Reference
Critical	1 Financial performance	Economic performance	Operational excellence	EC – 1	173
	2 Customer experience	Customer privacy	Customer centricity	PR 8	184
	3 Talent management	Employment, labour management/relations, training and development, equal remuneration for men and women, labour practices, grievance mechanism	Effective employee engagement	LA 4 LA 9 LA 13 LA 16	163-167
	4 Employee productivity		Effective employee engagement		158
	5 Operational efficiency		Operational excellence		126-132
	6 Socio-economic impacts	Market presence, indirect economic impacts	Good governance	G4 – 8	179
	7 Risk and corporate governance		Good governance		33-100
	8 Technology		Operational excellence		134
	9 Compliance	Product responsibility-compliance	Good governance	PR 4	178
High Impact	10 Environmental impacts of our operations	Energy, products and services	Good governance	EN 27	190-191
	11 Responsible lending		Good governance		179
	12 Anti-corruption		Good governance	SO 4 SO 5	168
Significant Impact	13 Human rights	Non-discrimination, freedom of association and collective bargaining	Good governance	HR 03 HR 04	165-167
	14 Supplier value creation		Operational excellence	G4 – 12	186
	15 Market communications	Marketing communications, product and service labelling	Customer centricity	PR 3 PR 4	178







# VALUE CREATION AND CAPITAL FORMATION

126 / Financial Capital

151 / Manufactured Capital

153 / Intellectual Capital

157 / Human Capital

171 / Social and Relationship Capital

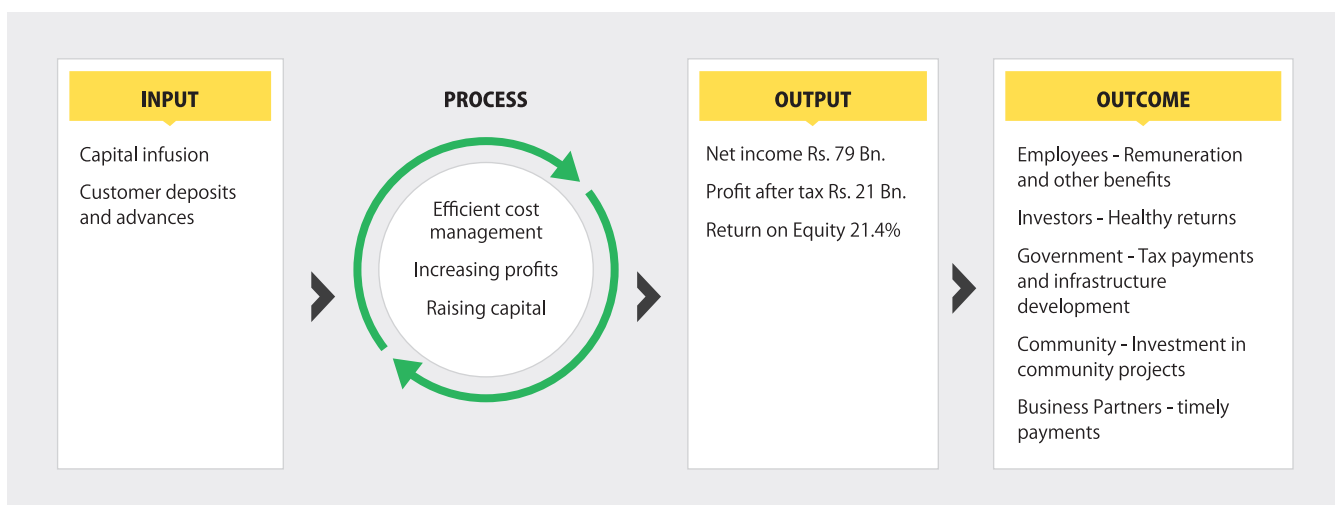
189 / Natural Capital

# FINANCIAL CAPITAL

HIGHLIGHTS FOR 2017

 <b>Gross income crossed</b> <span style="font-size: 1.5em; font-weight: bold; color: #ff0000;">Rs.190</span> billion	 <b>Total operating income reached</b> an industry high	 <b>Profit before tax and after tax reached an all time high,</b> both at Bank and Group levels	 <b>Customer deposits grew</b> by a controlled <span style="font-size: 1.5em; font-weight: bold; color: #ff0000;">16.6%</span>	 <b>Customer advances grew</b> by a controlled <span style="font-size: 1.5em; font-weight: bold; color: #ff0000;">12.8%</span>	 <b>The only financial institution in Sri Lanka</b> to maintained Return on Equity (ROE) over 20% since 2010
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

## OUR FINANCIAL CAPITAL VALUE CREATION PROCESS



## FINANCIAL CAPITAL MANAGEMENT

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

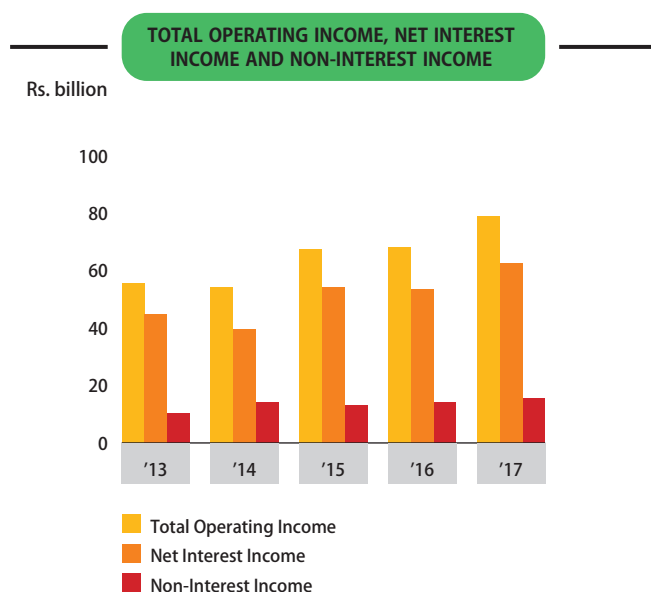
Year 2017 was an exceptional year for our Bank, as gross income reached Rs. 190.2 billion, recording a year-on-year (YoY) increase of 31.4% and total operating income swelled by 15.2% to reach an industry high of Rs. 78.8 billion. Growth of operating expenses was contained at 4.9% YoY.

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

## TOTAL OPERATING INCOME

	2017 Rs. billion	2016 Rs. billion	2015 Rs. billion	2014 Rs. billion	2013 Rs. billion
Total operating income	<b>78.8</b>	68.4	67.6	54.3	55.6
– Net interest income	<b>62.7</b>	53.6	54.3	40.0	45.0
– Non-interest income	<b>16.1</b>	14.8	13.3	14.3	10.6
NIM - %					
– Consolidated	<b>4.1%</b>	3.9%	4.5%	3.7%	4.5%
– Bank	<b>3.6%</b>	3.5%	4.0%	3.1%	4.1%

Bank's total operating income reached an industry high of Rs. 78.8 billion in 2017 recording a YoY growth of 15.2%, compared to Rs. 68.4 billion in 2016. Bank's operating income accounted for 80% of Group operating income.



## NET INTEREST INCOME

Net interest income which represents core banking operations of the Bank, accounted for approximately 80% of total operating income. Net interest income grew by 17.1% YoY to Rs. 62.7 billion in 2017, compared to Rs. 53.6 billion in 2016. Given below is an analysis of the constituents of net interest income.

## INTEREST INCOME

Interest income swelled by 34.0% to Rs. 173.8 billion in 2017. This was largely driven by the 12.8% increase in net customer advances and a higher average yield on interest bearing assets. The average yield on interest bearing assets which rose to 12.1% in the year under review, compared to 10.2% in 2016, reflected a growth of 18.0% YoY. The higher yield is mainly attributed to the high interest rate environment which prevailed during the first half of the financial year 2017.

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

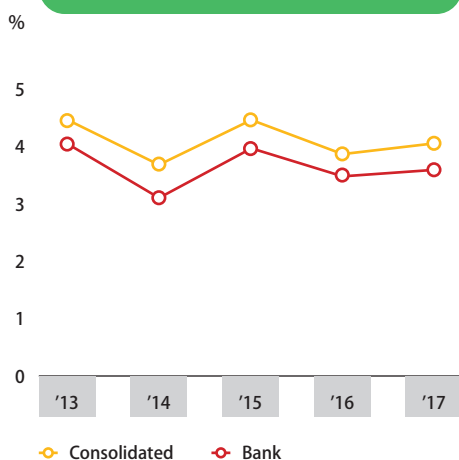
## INTEREST EXPENSES

Interest expense grew at a faster pace of 45.9% primarily due to the "higher cost" term deposit driven funding growth during 2017. This, however, is a natural phenomenon in a rising interest rate environment. Additionally, the faster repricing of term deposits relative to customer advances caused interest expenses to rise. This is because, over 90% of the Group's term deposits have a maturity profile of less than one year.

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

From a funding perspective, deposits accounted for 85% of total, of which fixed deposits accounted for 60%. During 2017, the Group successfully mobilised Rs. 185.8 billion new deposits on a net basis. Fixed deposit grew by Rs. 137.8 billion and accounted for three quarters of the increase in deposits.

The Group successfully improved its net interest margin to 4.1% in 2017 from 3.9% in 2016, during an year in which margins were under pressure. This was on account of the efficient pricing strategy adopted by the Group. At Bank level, the interest margin improved from 3.5% in 2016 to 3.6% in 2017. The relatively higher current account saving account (CASA) ratio at a Bank level cushioned the interest pressures to a great extent.

**NET INTEREST MARGIN****NON-INTEREST INCOME**

Non-interest income comprises fee and commission income, trading income and other operating income. This remains a key area of focus for further improvement across the Bank and Group. Bank's net non-interest income increased by 8.6% to Rs. 16.1 billion in 2017 compared to Rs. 14.8 billion in 2016. Of this, net fee and commission income, which accounted for one third of net non-interest income, increased by 32.5% to Rs. 5.5 billion as compared to Rs. 4.2 billion in 2016. The growth was due to a combination of factors, including, improvement in internal processes resulting in the refinement of deposit related fees across both current and non-current deposits, high trade finance volumes, increased usage of Bank's ATM's and increasing popularity of self-banking channels during 2017.

Net gains, which accounted for 20% of total non-interest income, declined by 3.7% to Rs. 2.7 billion in 2017; from Rs. 2.8 billion the previous financial year. This was primarily due to regulatory limitations imposed on foreign currency trading for at least six months during the financial year under review. Foreign exchange trading, which normally accounts for 90% of total trading income, dipped 18.0% to Rs. 2.1 billion from Rs. 2.6 billion in 2016.

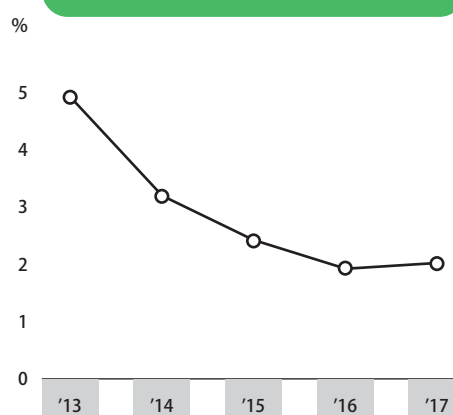
Other operating income increased marginally by 0.3% to Rs. 7.9 billion compared to Rs. 7.8 billion in 2016. Other operating income consists net earned premiums across the Bank's insurance business and bad debt recoveries.

**IMPAIRMENT CHARGES**

Impairment charges swelled by 221% to Rs. 4.4 billion in 2017 compared to Rs. 1.4 billion in the previous year. The impairment charge in 2016 was relatively low due to the conservative provision in prior years and the general improvement in asset quality and loss recovery rates during the year.

The higher charge in 2017 reflects the general industry trend for deteriorating asset quality and rising expected loss rates. Of the increase in total provisions, over 90% stemmed from collective provisions reflecting an increase in default probabilities and losses given defaults. At a bank level, asset quality measured by gross non-performing loans to total loans were maintained at 1.9%, whilst at Group level it increased to 2.0% from 1.9% recorded in 2016.

The provisioning policy of both at Bank and Group levels continued to be conservative, relative to the industry with coverage levels amounting to 97.5% and 92.7%, respectively at the end of the financial year 2017.

**GROSS NON-PERFORMING LOANS RATIO****COST MANAGEMENT**

Total operating costs increased by 4.9% to Rs. 37.2 billion in 2017 from Rs. 35.5 billion in 2016. This reflects the effectiveness of the ongoing efforts to improve cost efficiencies.

## Personnel Costs

Personnel costs accounted for approximately 50% of total operating costs. Bank's staff costs, excluding obligations/ contributions to pension plans, increased by 9.2% to Rs. 12.9 billion compared to Rs. 11.8 billion in 2016. The increase was primarily due to the increase in inflation, which averaged 7.0% in 2017.

## Other Operating Cost

Other operating costs swelled by 18.9% to Rs. 18.1 billion during the year under review from Rs. 15.2 billion in 2016. Approximately, one third of the increases was attributable to the new self banking unit rolled out and the related telecommunication and marketing and promotional costs.

Group cost to income ratio improved to 56.6% from 60.8% in 2016. At Bank level, cost to income ratio improved to 54.8% in 2017 from 59.9% in 2016. Further improvements are expected over the short-to medium-term, with the Bank's digitalisation drive which facilitates substantial process efficiencies and increased employee productivity.

## Value Added Tax/NBT

Increased by 20% to Rs. 7.4 billion in 2017 from Rs. 6.1 billion in 2016.

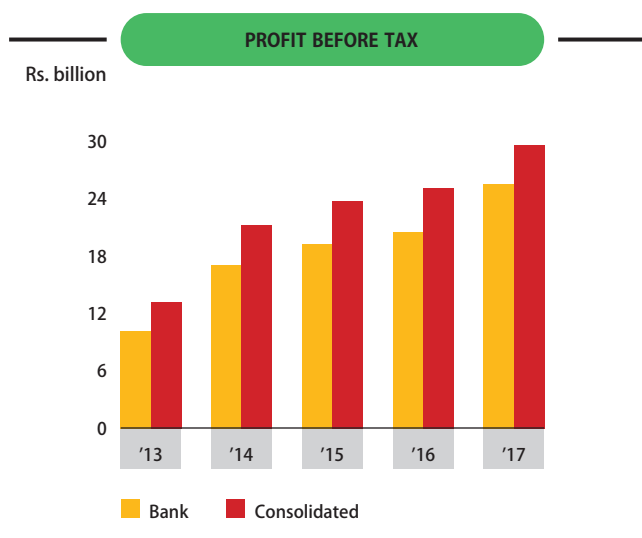
## PROFITABILITY

Supported primarily by growth in core banking operations, Group's pre-tax profit increased by 17.4% to a Group all time high of Rs. 29.9 billion compared to Rs. 25.4 billion in 2016.

Return on equity (ROE) dipped to 21.4% compared to 22.7% in 2016. At Bank level, year 2017 was another industry benchmark at 26.6% compared to 27.5% in the previous year. The Group has consistently maintained ROE in excess of 20% consecutively since 2010, which is a significant feat.

Return on assets (ROA) as measured by pre-tax profits over average assets was maintained at 1.9% in 2017.

Profit after tax increased by 14.2% to Rs. 20.5 billion compared to Rs. 18.0 billion in 2016.



## BALANCE SHEET ANALYSIS

### Deposit Growth

	2017 Rs. billion	2016 Rs. billion	2015 Rs. billion	2014 Rs. billion	2013 Rs. billion
CASA	525	484	432	370	288
– Term deposits	771	633	497	456	498
– Other	9	3	4	3	3
<b>Total</b>	<b>1,306</b>	1,120	933	829	789
CASA %	40.2	43.2	46.3	44.7	36.5
Currency					
– Local %	90.6	88.7	89.0	91.8	92.0
– Foreign %	9.4	11.3	11.0	8.2	8.0
<b>Total %</b>	<b>100.0</b>	100.0	100.0	100.0	100.0

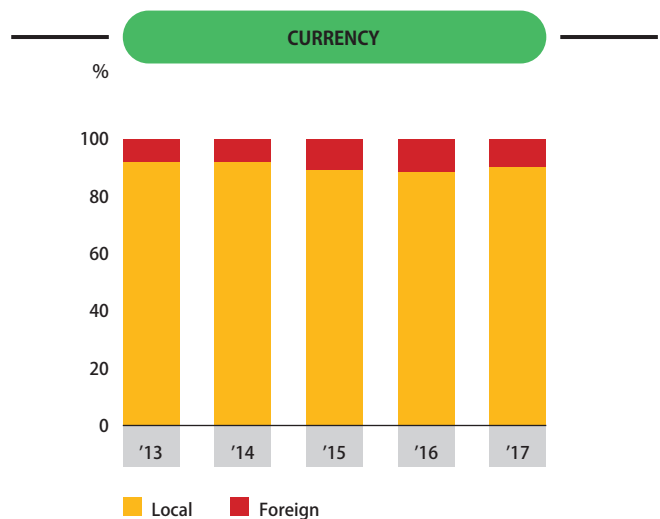
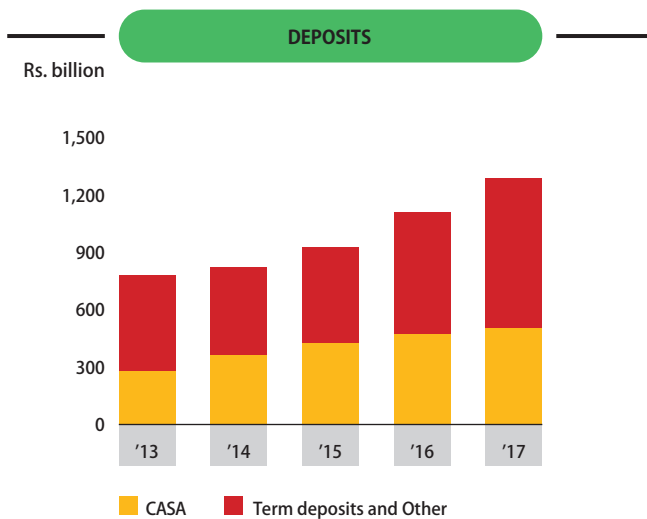
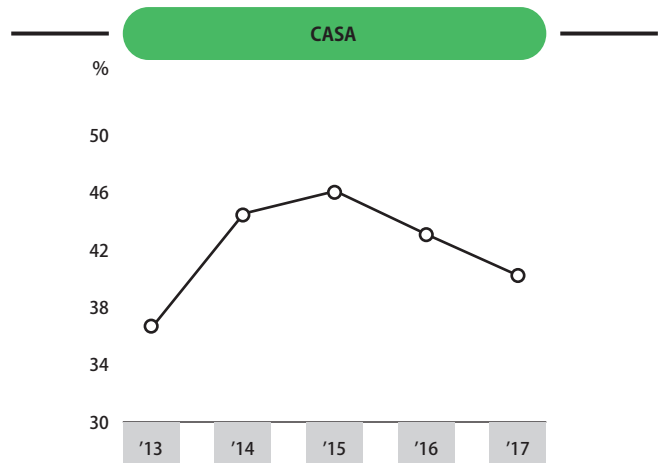
The Group's customer deposits increased by 16.6% to Rs. 1,305 billion as at end 2017 from Rs. 1,120 billion at the end of the previous financial year.

Deposits which account for approximately 85% of total Bank/Group funding, reflects the Bank's strong deposit base supported by the industry's largest network spread across the country.

Deposit base increased by Rs. 185.9 billion during the year under review, of which fixed deposits contributed to three quarters of total deposits amounting to Rs.137.8 billion. This is an expected outcome in a rising interest rate environment.

CASA dropped to 40.2% in 2017 from 43.2% in 2016, reflecting the interest rate environment which prevailed during the year. The Bank is implementing measures to improve its CASA ratio in the upcoming year.

Local current deposits accounted for 90% of total deposits. Improving foreign currency deposits remains a key area of focus in the short to medium-term.



### CUSTOMER ADVANCES GROWTH

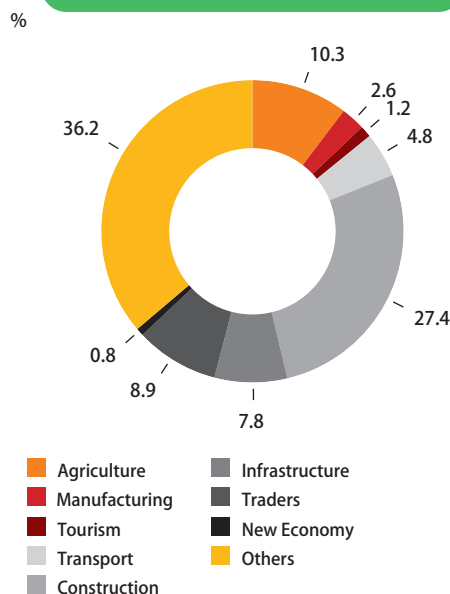
	2017 Rs. billion	2016 Rs. billion	2015 Rs. billion	2014 Rs. billion	2013 Rs. billion
Total advances (gross)	1,209	1,076	933	782	773
<b>By type</b>					
– Overdrafts	116	58	86	72	67
– Trade finance	141	177	191	168	103
– Pawning	137	114	104	114	197
– Term loans	700	618	453	335	299
– Lease rental receivable	89	84	79	77	79
– Others	26	24	20	17	27
<b>Total</b>	<b>1,209</b>	<b>1,076</b>	<b>933</b>	<b>782</b>	<b>773</b>
<b>By sector</b>					
Agriculture	125	119	106	127	182
Manufacturing	31	21	14	11	13
Tourism	15	7	4	5	5
Transport	58	26	15	16	16
Construction	331	278	210	156	132
Infrastructure	94	147	199	167	131
Traders	108	110	102	92	76
New Economy	10	10	–	10	8
Others	438	357	282	198	211
<b>Total</b>	<b>1,209</b>	<b>1,076</b>	<b>933</b>	<b>782</b>	<b>773</b>

Gross loans grew by a controlled 12.3% in 2017 to Rs. 1,209 billion, compared to Rs. 1,076 billion in the previous year. Sovereign backed advances accounted for broadly one third of total customer advances during the year. The pawning composition dipped to 13.0% in 2017 from over 25.0% in 2013.

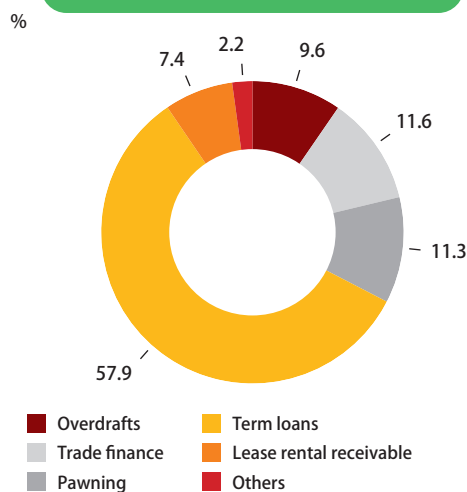
The sector wise exposures were diverse with agriculture accounting for approximately 10.0% of total customer advances in 2017. Approximately, two thirds of construction exposures were housing loans backed by property mortgages.

Despite challenging market conditions, gross non-performing loan ratio was successfully maintained at 1.9% which was the same level as 2016.

### CUSTOMER ADVANCES BY SECTOR – 2017



### CUSTOMER ADVANCES BY TYPE – 2017



## REGULATORY CAPITAL

The Bank received a capital infusion of Rs. 5.0 billion from the General Treasury of the Ministry of Finance in July, 2017. This is shown under Capital Pending Allotment in the Bank's balance sheet. The new capital infusion has increased Bank's total capital, including capital pending allotment to Rs. 12.2 billion as at 31st December 2017.

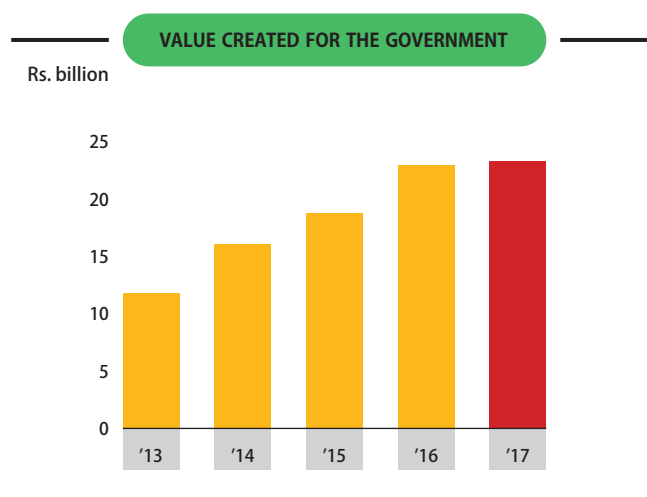
## KEY PERFORMANCE MEASURES

- Basel III Tier I and Total Capital Adequacy Levels were 11.5% and 13.7% respectively as at 31st December 2017. At end 2016, Tier I and Total Capital Adequacy Levels under Basel II were 11.1% and 13.0% respectively. At Bank level, Tier I and Total Capital Adequacy Levels were 10.8% and 13.5%, respectively, whilst year end 2016 Tier I and Total Capital Adequacy Levels were 9.8% and 12.1% under Basel II.
- Other Basel III measures
  - a. Liquidity coverage ratio, measured by total High Quality Liquid Assets over 30 days Net Cash Outflow, was consistently maintained above 90% throughout the year (minimum requirement was 80%).
  - b. Leverage ratio, measured by Tier I over total gross exposures, was over 4.0% as at 31st December 2017, reflecting the extent of controlled asset growth towards the latter part of the year. Minimum requirement was 4.0% from 1st January 2018 onwards.

## SHAREHOLDER VALUE CREATION

The Bank is a significant contributor to the Government revenue through the payment of direct and indirect taxes, dividends and special levies. Over the past 10 years, the Group has created value exceeding Rs. 150.2 billion to the Government.

During the year, the total value created for the Government, amounted to Rs. 23.3 billion compared to Rs. 22.9 billion in 2016. Of this, over 90% of the value was generated by the Bank.





**DELIVERING STRATEGY THROUGH BUSINESS LINES**

The Bank implements its strategic plan primarily through its three main business lines – Branch Banking, Corporate Banking and Treasury, under which there are several sub business lines targeting specific customer segments. These business lines are supported by internal functions such as human resource development, marketing, technology, risk management and others. In order to remain ahead in the wake of unprecedented pace of changes the banking industry and stripped competition. We have positioned the Bank as a technology-based financial services provider under the Bank’s strategic agenda. Hence, the internal organisational structure was further strengthened during the year under review under the three main business lines referred to above. This has enabled the Bank to more effectively align its value proposition to the unique and varying needs and expectations of each customer group, presenting the Bank a more cohesive platform to continue to pursue growth opportunities in the coming years.

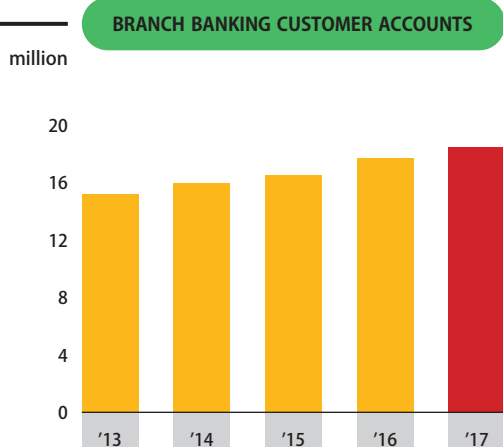
**Business Lines**





## BRANCH BANKING

Branch banking has been the most significant business line of People's Bank comprising retail banking, enterprise banking and microfinancing. Branches make the highest contribution to the Bank's net income, assets and deposits. Our branch network comprises 737 business outlets across the island. This enables us to serve our wide customer base with modern banking services whilst promoting financial inclusion, which is one of our key responsibilities as a State Bank. The growth in the branch banking customer base is shown in the graph below.



### PERFORMANCE HIGHLIGHTS FOR 2017

**26%** Increase in Branch Net Income

**58%** Increase in Branch Profit After Tax

**19%** Increase in Deposits

**27%** Increase in Advances

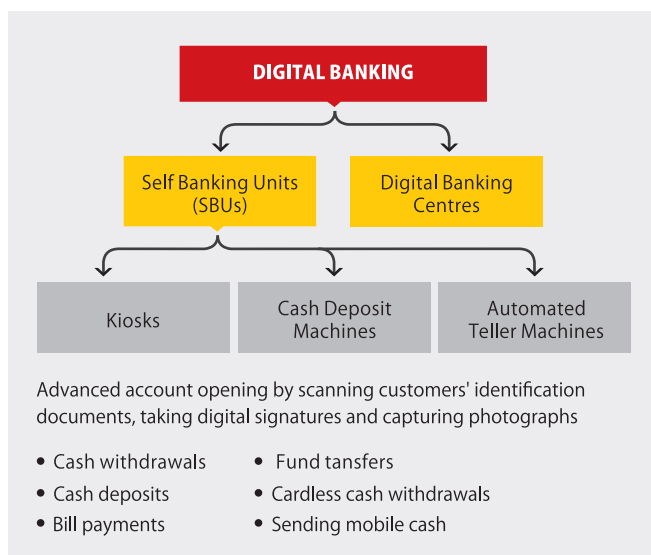
Over one million internet/mobile banking subscribers

### Operating Highlights of 2017

- The facilities of the branches were enhanced to provide an exceptional customer experience during the year. Two exclusive digital centres were opened in York Street, Colombo and Mulgampola, Kandy.

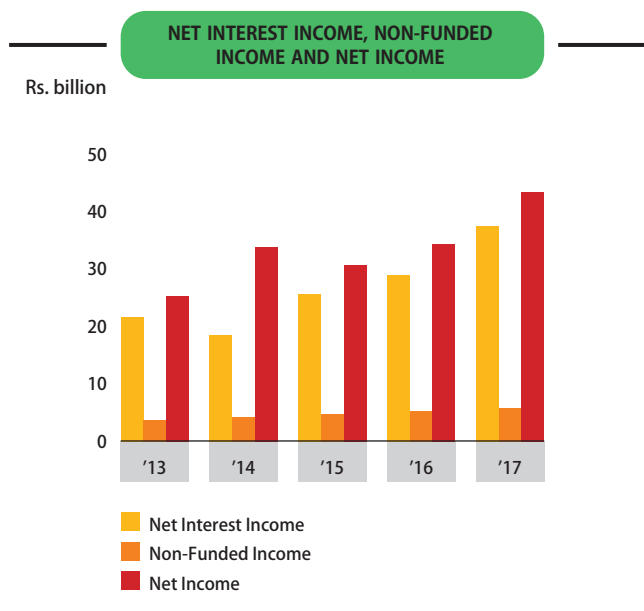
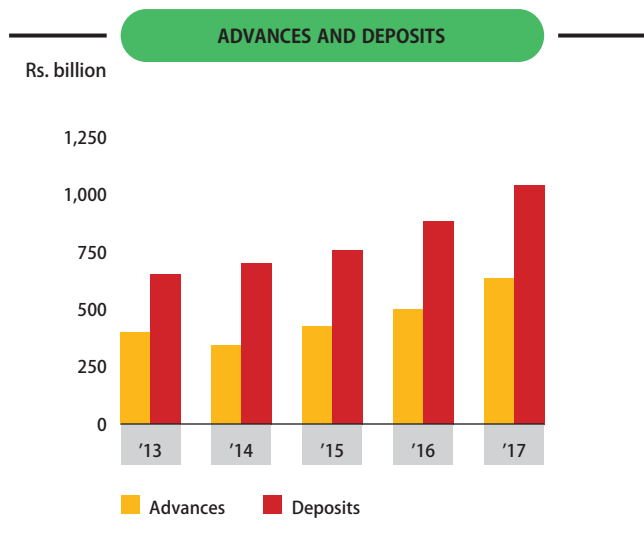


- Moving a step ahead, we introduced the novel concept of "banking in a box" by establishing 102 Self Banking Units (SBU) island wide. Through these units, we facilitate customers to conduct their banking transactions 24x7, effectively extending the banking hours for the customers. Our sophisticated Automated Teller Machines, Cash Deposit Machines and Kiosks available at SBUs facilitate cash withdrawals, cash deposits, bill payments, fund transfers, cardless cash withdrawals, sending mobile cash and many more functions to our customers as well as the general public.



**Performance**

Key Performance Indicator	2017	2016	Growth %
Number of branches	737	737	-
Net income (Rs. million)	43,760	34,730	26.0
Profit after tax (Rs. million)	6,053	3,836	57.8
Assets (Rs. million)	674,353	532,196	26.7
Advances (Rs. million)	637,831	503,756	26.6
Deposits (Rs. million)	1,050,355	885,790	18.6
NPL ratio (%)	1.5	1.4	7.1
Cost income ratio (%)	77.7	79.2	1.9
No. of online/Mobile banking subscribers	1,037,647	774,272	34.0
Lending to economically disadvantaged areas (Rs. million)	94,184	92,382	2.0



## Financial Performance

### BRANCH BANKING CONTRIBUTION TO THE BANK'S OVERALL PERFORMANCE

**71%** Net Income

**33%** Profit After Tax

**45%** Assets

**64%** Advances

**87%** Deposits

Branch banking which is the most significant division of the Bank, made the highest contribution of 71% to Bank's net income during the year under review. Profit after tax (PAT) swelled by 57.8% YoY to Rs.6,053 million and accounted for 33% of Bank's PAT. Assets too expanded by 26.7% to Rs. 674,353 million contributing to 45% of the Bank's total asset base. Total advances swelled to Rs. 637,831 million reflecting a YoY growth of 26.6% and contributing to 64% of Bank's total advances in 2017.

## Operational Review

Creating history in Sri Lanka's banking industry, we expanded our digital initiatives to provide a true digital banking experience to our customers. Since our inception 56 years ago, we have continued to support customers across the nation with practical and convenient financial solutions to uplift their living standards. People's Bank in its strategic decision to embark on a historic digitalisation drive to provide convenience through advanced technology, implemented the digital banking channels.

## Future Outlook

We will implement our strategic agenda of becoming the most digitalised bank in Sri Lanka, to enable our customers to experience the convenience and efficiency of digital banking.

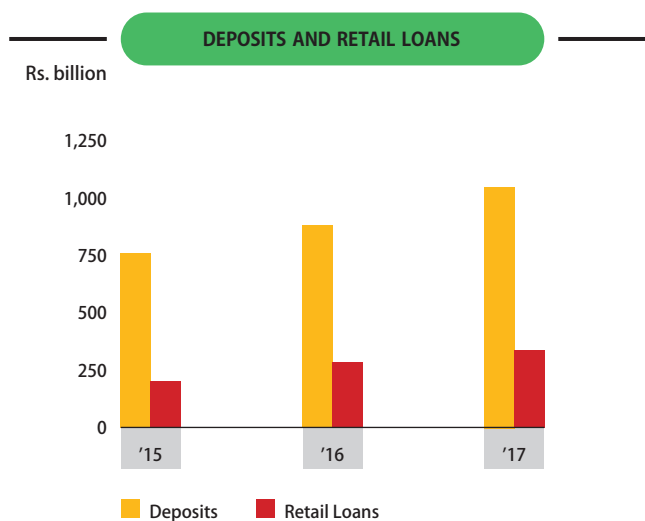
We will also establish more Self Banking Units across Sri Lanka, provide smarter and innovative Digital Banking Products on electronic devices as we move towards becoming the most digitalised banker that unlocked benefits of digitalisation to the nation.

## I. Retail Banking

The Bank's retail banking business reaches nearly 18 million customers across the nation; the largest customer base in Sri Lanka's banking sector. With the largest branch network in the island, we promote financial inclusion and facilitate economic activity. Additionally, we have successfully pioneered several innovative solutions to empower, especially underserved segments such as women, senior citizens and children in Sri Lanka. Our products are designed to cater to every segment in society throughout their life cycles. During the financial year, we launched Sri Lanka's first fully-fledged digital branch and extended the largest self banking network in the country. The number of new online subscribers in 2017 amounted to 26,957.

During the year, Retail Banking performed commendably, growing its deposit base by 18.6% YoY to Rs. 1.1 trillion, retail loans by 17.7%, credit cards by 20.3% and pawning facilities by 19.3%.

Key Performance Indicator	2017	2016	Growth %
Deposits (Rs. million)	<b>1,050,355</b>	885,790	18.6
Retail Loans (Rs. million)	<b>335,603</b>	285,211	17.7
Pawning (Rs. million)	<b>136,475</b>	114,423	19.3
Credit Cards (Rs. million)	<b>2,212</b>	1,839	20.3



## Customer Touch Points

We have multiple channels to reach our customers as detailed under customer capital on page 178. The volume of financial transactions through ATMs exceeded 48 billion for the year under review and the value of these transactions amounted to Rs. 396 billion.

## Internet Banking Transactions

Key Performance Indicator	2017	2016	2015	2014
No. of financial transactions	1,891,925	1,129,914	358,982	254,030
Value of financial transactions (Rs. million)	127,528	83,453	48,798	24,640
No. of non-financial transactions	3,689,524	2,920,895	2,368,429	1,973,816

## Product Portfolio

Loan Products	Savings Products	Channel Products
<ul style="list-style-type: none"> <li>Loans for professionals</li> <li>Vehicle loans – People's Auto</li> <li>Educational loans – People's Wisdom</li> <li>Loan scheme for teachers – <i>Gurusettha</i></li> <li>Loan scheme for nurses – <i>Suwa Sevena</i></li> <li>Consumption loans – <i>Pahasu</i></li> <li>Government servant housing loans</li> <li>Loan schemes for forces – <i>DeyaviruPranama</i></li> <li>Pawning</li> </ul>	<ul style="list-style-type: none"> <li>Minor savings – <i>Isuru Udana, Sisu Udana</i></li> <li>Youth savings – <i>Yes</i></li> <li>Women's savings – <i>Vanitha Vasana</i></li> <li>Other savings – <i>Janajaya, ISA, Parinatha, Mudarabah</i></li> <li>Fixed deposits</li> <li>Demand deposits</li> <li>Foreign currency deposits</li> </ul>	<ul style="list-style-type: none"> <li>Debit and Credit Cards</li> <li>Cash deposit machines, self service Kiosks, People's Net and People's Mobile Banking</li> </ul>

## Strategic Delivery

Objective	Strategy	Achievement for 2017
Sustainable earnings growth	Ongoing product development by addressing changing customer needs while being competitive in the market place	Launched Sri Lanka's first ever digital branch and innovation centre to offer innovative products to customers. Bank's Profit Before Tax increased by 24.5% YoY
Deposit growth	Develop product management and marketing strategy based on achieving overall deposit target mainly from long term, low cost deposits	Achieved a 18.6% deposit growth
Credit growth	Increase personal loans volume with higher returns and low weight on Capital Adequacy Ratio, whilst assuring high loan quality and a speedy and efficient customer service	Achieved a personal loan growth of 17.7% and a 19.3% growth in pawning advances
Healthy portfolio quality	Develop business plans for each product category with risk mitigation initiatives, whilst promoting a profitable and healthy business growth	NPL ratio of personal loans reduced to 0.7%
Achieving operational excellence	Continuous development of product knowledge of the staff and training on service quality improvement	Regional training programmes were conducted for over 1,700 staff members
Nurturing financial discipline	Promoting saving habit and nurturing financial discipline amongst underserved customer segments	Loans granted to underserved customer segments increased to Rs. 94.2 billion
Customer focused innovation	Continuous monitoring and value additions to loan schemes	New loans schemes launched in 2017 include – <ul style="list-style-type: none"> <li>• A special loan scheme for Government nurses/ nursing students</li> <li>• A special loan scheme for Sri Lankan Navy</li> <li>• Strategic alliance for auto loans with United Motors PLC</li> </ul>

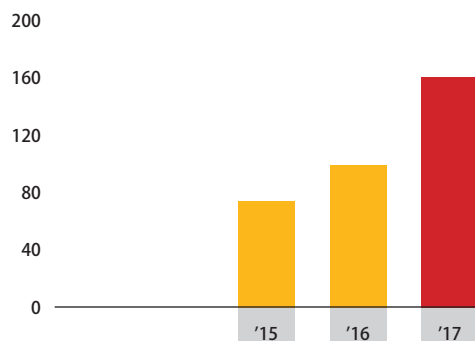
## II. Enterprise Banking

People's Bank's Enterprise Banking arm serves the small and medium enterprise (SME), commercial enterprises and selected state-owned enterprises. As one of Sri Lanka's largest state banks, we facilitate economic activities across the nation, aligned to Government's economic development agenda through the provision of financial facilities.

Key Performance Indicator	2017	2016	Growth %
Advances (Rs. million)	<b>161,343</b>	100,454	60.6
Non-performing loans (Rs. million)	<b>5,567</b>	4,134	34.7
Interest income (Rs. million)	<b>14,032</b>	11,784	19.1
No. of SME education seminars	<b>3</b>	4	
No. of beneficiaries of SME education seminars	<b>525</b>	780	

### ENTERPRISE BANKING ADVANCES

Rs. billion



### Product Portfolio

SME Banking	Commercial/SOEs	Other
<ul style="list-style-type: none"> <li>• Business start-up loans</li> <li>• Working capital loans</li> <li>• Expansion loans (Jaya Isuru, SME LOC, SME development, CSDDLs, E-Friends)</li> </ul>	<ul style="list-style-type: none"> <li>• Business loans (TOD, POD, Term loans, Cash margin loans)</li> <li>• Trade finance loans</li> </ul>	<ul style="list-style-type: none"> <li>• Micro financing</li> <li>• CBSL refinance schemes</li> <li>• Lending to cooperative sector at concessionary rates</li> </ul>

### Strategic Delivery

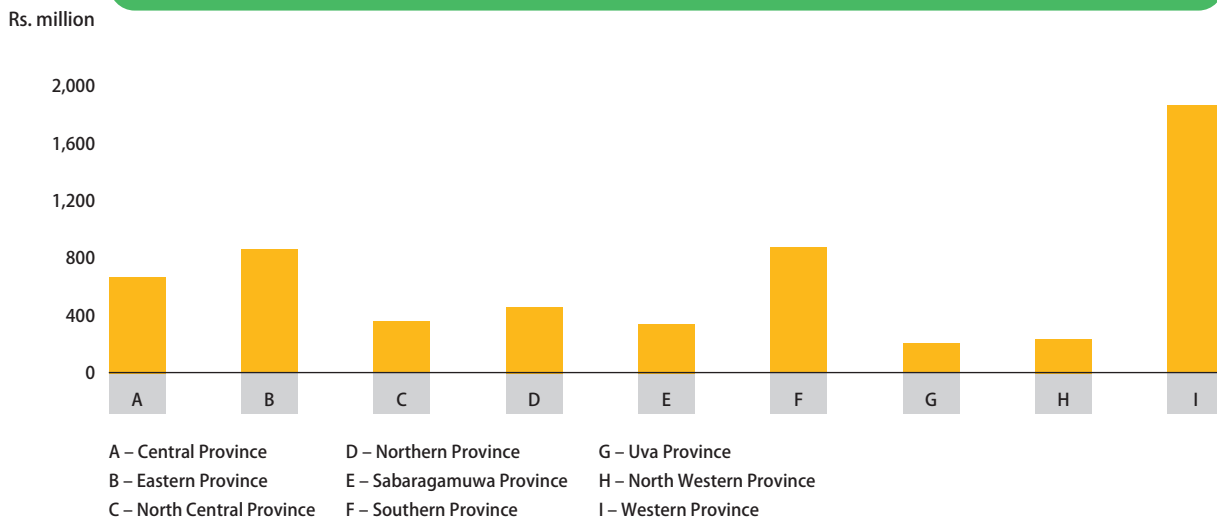
Objective	Strategy	Achievement for 2017
Sustainable loan growth	Providing continuous training to employees to enhance their skills in customer relationship marketing whilst adopting a customer centric approach throughout the Bank. Strengthening customer relationships, enhancing process efficiency and customer service levels across the Bank. Also continuous monitoring and review of loan portfolio and maintaining an efficient recovery process with proper follow up.	Achieved an advances growth of 61% YoY.
Support the cooperative sector	Creating awareness and enhancing entrepreneurial skills, financial discipline and financial management of cooperative sector whilst maintaining strong relationships.	Rs. 1.8 billion was disbursed to the cooperative sector.
Customer centric product offering	Engage with customers to ascertain their requirements and provide tailor-made solutions and financial guidance.	Actions implemented to digitalise the credit process through Retail Loan Originating System (RLOS) and Corporate Loan Originating System (CLOS).
Educating customers	Conducting seminars to educate SME customers across the island.	Three seminars were conducted during the year.
Adopting responsible practices	Assessing all facilities for their social and environmental impact to ensure responsible lending. Key areas of assessments include compliance to relevant environmental and labour regulations, employment creation, substitution of raw materials and alignment with national policies on export substitution. We also strive to minimise the financial burden on customers on account of the facilities provided by us.	All disbursements were assessed.

### III. SME Banking

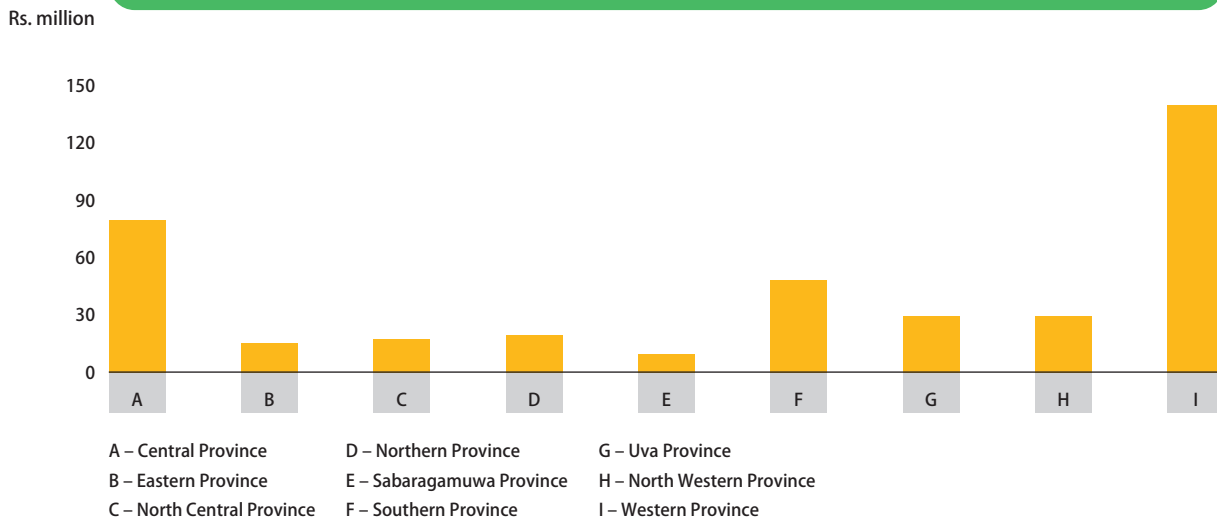
The SME banking Unit operates 23 SME Centres in key strategic locations to extend dedicated financial services to SME customers. These SME Centres offer specialised products and services and adopt specialised guidelines and risk factors which are applicable to the SME sector. Our SME segment includes businesses with an annual turnover between Rs. 15 million and Rs. 750 million. As at

the end of 2017, the SME portfolio increased to Rs. 11.8 billion, reflecting a YoY increase of 16.2%. Through the SME Centres, we disbursed Rs. 5,774 million SME loans in the year under review, and the number of SME customers amounted to 6,699. Approximately 69% of the loans were disbursed in outstation regions.

SME LOAN DISBURSEMENTS BY PROVINCE



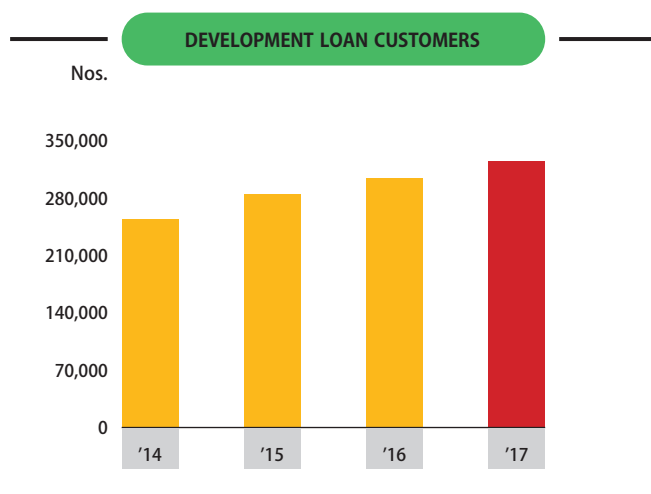
NON-PERFORMING LOANS BY PROVINCE





#### IV. Development Banking/Microfinance

Development finance/microcredit is one of the main channels which supports rural development in Sri Lanka. The development banking and microfinance portfolio was Rs. 10,681 million as at the end of 2017 and the value of loans disbursed amounted to Rs. 7,230 million.



#### Development Banking/Microfinance Disbursements in 2017

98% of Development and Microfinance loans disbursements were made to outstation regions as at end of the year 2017.

District	No. of Loans	Value (Rs. million)
Ampara	2,663	388
Anuradhapura	1,606	745
Badulla	1,705	860
Batticaloa	2,044	507
Colombo North	109	26
Colombo Outer	201	71
Colombo South	40	12
Galle	257	81
Gampaha	683	205
Hambantota	868	308
Jaffna	1,793	486
Kalutara	424	100
Kandy	598	150
Kegalle	289	90
Kurunegala	447	167
Matale	602	154
Matara	666	268
Monaragala	1,010	197
Nuwara Eliya	205	64
Polonnaruwa	843	1,533
Puttalam	184	59
Ratnapura	476	94
Trincomalee	1,038	358
Wanni	1,277	307
<b>Total</b>	<b>20,028</b>	<b>7,230</b>

#### Conduit for Channeling Government Funds

Our extensive reach enables us to be a conduit for governmental and non-governmental organisations to channel their funds to specific industry sectors and for specific purposes. We are key partners of the following loan schemes that directly contribute towards empowering underserved communities.

## Loans Granted under Refinance Schemes

Scheme/ Loan	Sector	Purpose	Disbursement in 2017 (Rs. million)
Poverty Alleviation Microfinance Project (PAMP 11 RF)	Agriculture, agro-based industries, cottage industries, trade and services	For business start-ups and expansion of existing businesses	9.76
<i>Saubhagya</i> (Prosperity) Loan Scheme	Micro and small medium entrepreneurs	For business start-ups and expansion of existing businesses	325.73
Self-Employment Development Loan Scheme II (SEPI-II)	To train youth who passed out from recognised vocational training institutions to startup self-employment projects.	For business start-ups and expansion of existing businesses	15.65
<i>Kapruka Ayojana</i> Loan Scheme	Coconut cultivation and development	New planting and replanting coconut trees with inter-crops	69.63
<i>Swashakthi</i> Loan Scheme	Provide financial support for new entrants to MSMEs and existing MSMEs who are already engaged in income generating activities	For business start-ups and expansion of existing businesses	443.20
<i>Kapruka Nipeyum Diriya</i>	Upgrade micro , small and medium scale entrepreneurs engaged in coconut-related industries	For business start-ups and expansion of existing businesses	2.96

## Future Outlook

Aligned to Government's national economic agenda, we will pursue opportunities in the growing sectors of the economy. We will also place high emphasis to responsible lending and developing the SME sector whilst capturing emerging growth opportunities.

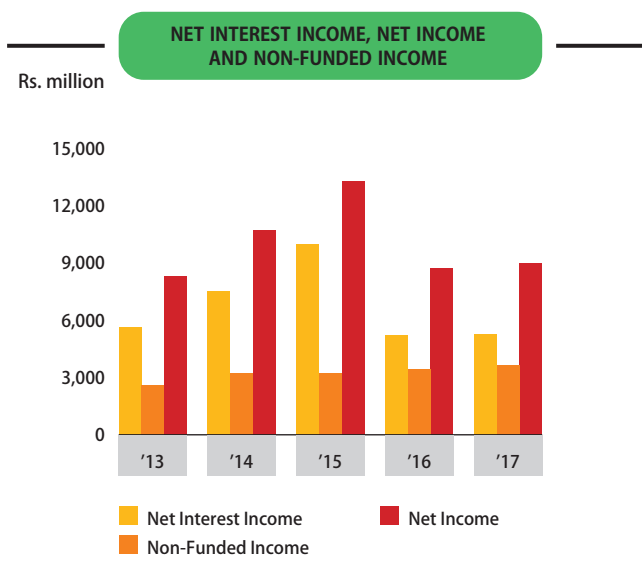
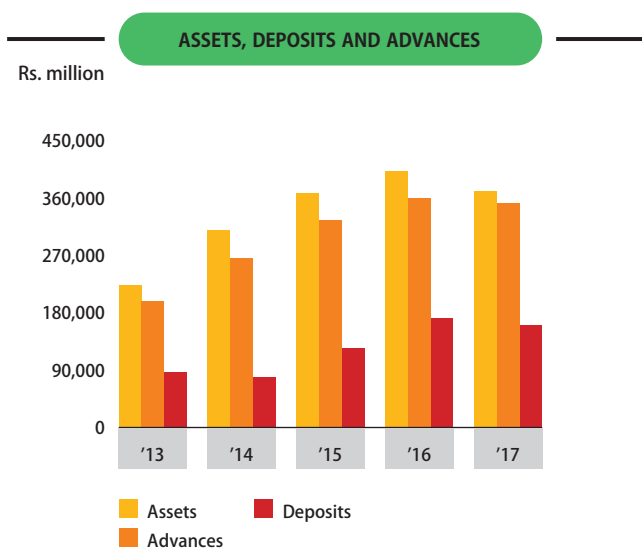


## CORPORATE BANKING

Corporate Banking continues to be at the forefront of Sri Lanka’s socio-economic and infrastructure development, supporting gross domestic product (GDP) growth in key industry segments. Corporate Banking offers financial solution to mid to large scale corporates including local corporates, international and off-shore companies, BOI entities and state owned enterprises (SOEs). Our deep local knowledge, relationship management capabilities, full suite of products and extensive experience in diverse industries has continuously enabled us to drive a well-balanced credit growth. Our full suite of products includes export and import financing, bonds and guarantees, loans, structured trade financing, project and infrastructure financing, acquisition financing and syndicated loans. Our prudent risk management practices have helped to achieve a NPL of 1.5%, which is well below industry average.

### Performance

Key Performance Indicator	2017	2016	Growth %
Net Income (Rs. million)	9,022	8,752	3.1
Profit After Tax (Rs. million)	4,013	4,367	-8.1
Assets (Rs. million)	372,251	402,397	-7.5
Advances (Rs. million)	354,524	359,879	-1.5
Deposits (Rs. million)	162,130	172,925	-6.2
NPL Ratio (%)	1.5	1.4	-6.6
Cost to Income Ratio (%)	36.7	26.6	-27.5
Lending to SOEs (Rs. million)	247,493	296,567	-16.5



## Financial Performance

### CORPORATE BANKING CONTRIBUTION TO THE BANK'S OVERALL PERFORMANCE

**15%** Net Income

**22%** Profit After Tax

**25%** Assets

**36%** Advances

Corporate banking is a significant contributor to the Bank's performance, accounting for 25% of total assets and 30% of operating profits for the year under review. Despite a very competitive environment, net interest income increased by 5.7% to Rs. 9,022 million and non-fund based income recorded an 8.7% growth in 2017.

## Operational Review

Whilst growth continued to be driven by the demand from SOEs and public projects, there was a notable increase in lending to the private sector. We successfully established ourselves as a competitive lender to blue chip companies through syndicated loans, project financing, structured trade financing and export and import financing. The private sector loan portfolio recorded a notable 50% growth from Rs. 70 billion in 2016 to Rs. 107 billion in 2017, thus accounting for 30% of Bank's total loan portfolio, compared to 20% the previous year.

Our strategic focus is to establish ourselves as the preferred banker to both the Government and the private sector. We continued to support Sri Lanka's infrastructure development by lending to several development projects, to the extent of Rs. 24 billion in the financial year under review.

As our people remain at the forefront of our business, we implemented a comprehensive training programme for our Corporate Banking staff on identifying client needs, service quality, credit assessment and structuring of facilities.

## Enhancing Client Experience

Clients are at the centre of our business and we are committed to enhancing their experience. Therefore, we take every effort to ascertain the unique financing needs of our clients and support them through different stages of their business life cycle. The ongoing automation of banking systems will enable us to offer an online banking platform to corporate clients. The consequent streamlining and simplification of processes and documentation would result in improved operating efficiencies, faster turnaround times and increased convenience for clients. In addition, through the implementation of a comprehensive Management Information System, Relationship Managers will have a single view of the client in order to assess relationship returns and make improved pricing decisions. The next step is to implement a comprehensive cash management platform which would enable our clients to reduce transaction costs and optimise their cash usage. With the largest and automated banking network in the country, we are well positioned to provide competitive solutions to our corporate clients with value added features.

## Strategic Delivery

Objective	Strategy	Achievement for 2017
Sustainable Loan Growth	Prudent credit assessment processes and continuous credit monitoring and risk assessment.	Achieved a gross NPL ratio of 1.5% as at end 2017 from a total Corporate loan portfolio of Rs. 355 billion
Balanced Loan portfolio	Improve and align market offering to attract private sector corporate clients	Exposure of loan portfolio to private sector increased to 30% in 2017
Customer centric product offering	Improve customer retention by identifying credit and capital needs of clients and offering them customised products and services	100% customer retention
Improving non-funded income	Focus on value added services to clients	Non-funded income increased by 9%, contributing to 23% of the Bank's non-fund based income

## Future Outlook

We will continue to establish ourselves as the preferred banker to both the Government and the private sector and support Sri Lanka's economic and infrastructure development. The automation and digitalisation initiatives coupled with our extensive branch network and full range of products will enable us to provide an unmatched solution to corporate clients and enable us to capture the entire eco-system of the client's business.

### 1. Wholesale Banking

Wholesale Banking Division serves all listed companies, multinationals, offshore banking, State owned enterprises and limited liability companies with turnover exceeding Rs.1,500 million and net worth in excess of Rs. 100 million. Being a State-owned bank, the State sector accounts for the major share of the corporate portfolio. Nevertheless, we continue to expand our private sector footprint by actively promoting banking facilities to the private sector during the year.

### Product Portfolio

Product	Description
Import Financing	Provision of import financing facilities such as settlement of sight bills under documentary credit, settlement of acceptance bills under usance documentary credit facilities, settlement of collection bills facilities and advance payment facilities.
Export Financing	Provision of pre-shipment credit facilities including letters of credit, short-term loans, export trust receipts, and overdraft facilities in local and foreign currencies. Post shipment credit facilities such as negotiation of export documents under Letters of Credit (LC), purchase and discount of export documents under confirmed orders and export contracts and advances against export bills sent on collection basis.
Working Capital Financing	Provision of credit facilities such as overdrafts, bill discounting/negotiation and revolving loan facilities to ensure smooth functioning of clients' daily operations.
Cash Management Facilities	Structuring and managing cash collections of customers by capitalising on our competitive advantage of island wide branch network and providing the best investment solutions through our Treasury products.
Project Financing	Handling domestic and global large-scale commercial and infrastructure projects undertaken by our clients.
Equity Financing	Capital structure financing through debenture financing, financing to purchase shares of other companies, commercial papers and issuance of bank guarantees for initial public offerings.
Structured Term Financing	Provision of term finance solutions to expand businesses and to diversify into other prospective business ventures.
Syndicated Finance Facilities	Provision of syndicated term loan financing and project financing with local and international banks for high value business proposals including off shore ventures.
Guarantee Facilities	Issuance of local and international guarantees including bid bonds, performance bonds, advance payment guarantees, custom guarantees, money retention guarantees, and credit guarantees.
Corporate Financial Advisory	Guide and direct clients to the highest level of performance in their respective businesses.

### 2. Offshore Banking Unit

The Offshore Banking Unit provides services including designated foreign currency denominated trade financing facilities and credit and deposit facilities to Board of Investment (BOI) registered companies, Monetary Board approved State sector institutions and offshore business ventures. There was a positive demand for offshore banking facilities during the year under review on account of the apparel and industrial exports, large-scale foreign investment projects and tourism projects outside Sri Lanka. During the year under review, the Unit granted facilities to the tune of USD 1,008 million compared to USD 754 million granted in 2016, reflecting a YoY increase of 34%. The number of loans granted also expanded to 3,097 facilities compared to 2,684 facilities in 2016.

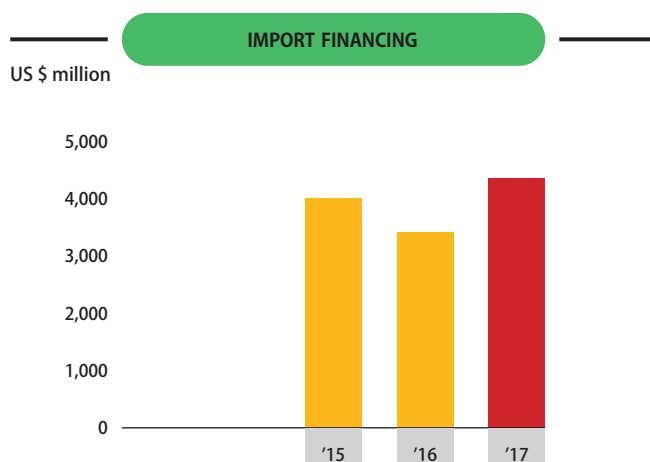
### 3. International Division and Overseas

#### Customer Services

The International Division performed commendably by recording 28% YoY increase in import financing and a phenomenal 22% growth in export financing in 2017. Import turnover also swelled by 66% to USD 53 million in the year under review.

#### Performance

Key Performance Indicator	2017	2016	Growth %
Import Financing (USD million)	4,392	3,440	28
Export Financing (USD million)	596	487	22
Import Turnover (USD million)	53	32	6
Fee and Commission Income (USD million)	16	15	7
Average LC Processing Time (Hours)	04	04	–



The Overseas Customer Services Unit promotes inward remittances through the Bank's network of exchange company partnerships and representatives. The Bank has connections with over 75 exchange companies around the globe, some of which are staffed by the Bank's representatives. People's Bank is the principal banker for Western Union money transfers in Sri Lanka.

#### Promotions Conducted by the Overseas Unit

The following promotions were conducted during the year:

- Sponsorship of "Ethera Isura" Radio Programme connecting Sri Lankan diaspora in the Middle East.
- "Ethera Methera Vasana Rewards" scheme for recipients of remittances through Western Union.
- Sponsorship for "Canada 2017 Community Outreach Trade Fair" through the Canadian Coordinator
- Sponsorship for Account Opening Campaign 2016/17 conducted by Al Ahalia Money Exchange Bureau, UAE

#### 4. Trade Services

Trade Services, which is one of the key businesses of the Bank, serves over 103 nations with over 900 correspondent relationships. The Unit continues to offer an effective and efficient service to its clients across the globe. In recognition of its service to the export sector, the Unit was conferred a special award by The National Chamber of Exporters of Sri Lanka in 2016. Import financing grew by 37% while export financing swelled by 95% as a result of the GSP+ facility.

#### Future Outlook

We will continue to grow our market share by providing greater convenience and access to customers through our digitalisation drive. We will also leverage on our extensive correspondent banking network to increase import turnover and remittances.

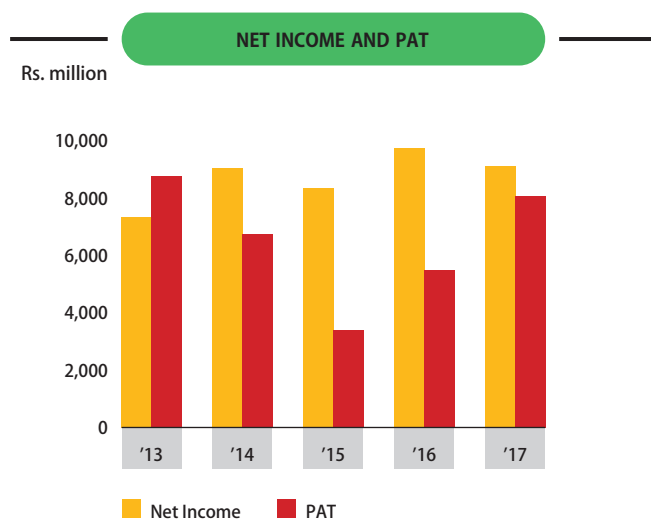


## TREASURY

Treasury Unit is a key player in FOREX trading, money market and fixed income securities. The Unit is responsible for managing the Bank's balance sheet, funding and liquidity requirements. It also plays a vital role in managing market risk (interest rate and exchange rate risks in particular), and underlying margins and mismatches in assets and liabilities. Additionally, the Unit also maintains financial security and stability of the Bank whilst supporting other business units to access and deploy the required funds.

### Performance

Key Performance Indicator	2017	2016	Growth %
Net Income (Rs. million)	<b>9,100</b>	9,752	-6.7
Profit After Tax (Rs. million)	<b>8,089</b>	5,492	47.2
Assets (Rs. million)	<b>446,219</b>	388,746	14.8
FOREX Profit (Rs. million)	<b>746</b>	896	-16.7



### Financial Performance

#### BRANCH CONTRIBUTION TO BANK

**15%** Net Income

**45%** Profit After Tax

**30%** Assets

Treasury Unit is a key contributor to Bank's performance, accounting for 15% of Bank's net income, 45% of Profit after tax and 30% of assets. During the year under review, Treasury Unit's Profit after tax swelled by 47.2% to Rs. 8,089 million, despite the 6.7% dip in net income. The assets increased to Rs. 446,219 million, reflecting a 14.8% YoY growth.

### Operational Review

The key focus for FOREX operations which comprises client transactions and proprietary trading was driving volume growth by maintaining a high level of engagement with existing and potential clients. In addition, the foreign currency funding and the SLDB portfolio were managed by the FOREX Desk.

The Asset and Liability Management (ALM) plays a vital role ensuring that the Bank has adequate Sri Lankan Rupee funding to meet its growth agenda.

Primary Dealer Unit (PDU) continued to effectively engage in trading and investments of Sri Lankan Rupee Government Securities. This resulted in enhanced realised and unrealised gains.

The Investment Banking Unit (IBU) initiated the facility agent function in 2017 which resulted in increased fee income. Furthermore, the Trustee function was enhanced as well during the year under review. IBU successfully managed the Bank's equity portfolio which helped to realise above average returns in 2017.

## Strategic Delivery

Objective	Strategy	Achievement
Sustainable growth	Maintaining and building new customer relationships	YoY improvement of Treasury performance
Customer centric product offering	Offering tailor-made products and services to retain and attract clients	Launched new products such as provision of facility agent service

## Future Outlook

It is expected that continued efforts towards fiscal consolidation, improving international relations and favourable macroeconomic fundamentals would provide opportunities for growth. In particular, international trade, tourism, exports, and foreign direct investments are expected to grow, which is a positive factor. The liberalisation of the exchange control will also provide opportunities to market new treasury products which would expand the scope of treasury operations in the future. Additionally, global markets (FX and interest rates) are expected to remain volatile. Hence, the Treasury Unit would focus on improving market responsiveness.

The Treasury System will be upgraded and we intend to venture into fund management services and provide custodian services for equity and fixed income portfolios in the ensuing year.





## PEOPLE'S LEASING AND FINANCE PLC

People's Leasing and Finance PLC (PLC) is the largest and highest rated non-bank financial institution in Sri Lanka. The Company was incorporated on 22 August 1995 as a private limited liability company and a fully-owned subsidiary of People's Bank. Owing to the second largest IPO in Sri Lanka, the Company was listed on the Main Board of the Colombo Stock Exchange (CSE) in November 2011. PLC obtained the Finance Business License in 2012 and thereby changed its status from a leasing company to a finance company which engendered more opportunities for PLC to reinforce its presence in the financial services industry. In December 2014 the Company was included in the S&P Sri Lanka 20 Index of the Colombo Stock Exchange which comprises the top 20 blue chip companies listed on Colombo Stock Exchange.

Continuing as the market leader in the leasing sector for 16 consecutive years, PLC reaches its customers through 103 branches and 101 window offices across the island.

### Performance

Key Performance Indicator	2017	2016	Growth %
Net Income (Rs. million)	<b>17,937</b>	15,190	18.1
Profit After Tax (Rs. million)	<b>4,368</b>	4,507	-3.1
Assets (Rs. million)	<b>167,467</b>	159,104	5.3
Advances (Rs. million)	<b>139,107</b>	134,273	3.6
Deposits (Rs. million)	<b>64,736</b>	42,414	52.6
NPL Ratio (%)	<b>2.6</b>	1.5	1.1
Cost Income Ratio (%)	<b>41.7</b>	43.6	-1.9
Total Risk Weighted Capital Adequacy Ratio (RWCAR) (%)	<b>14.7</b>	13.7	1.0
Return on Equity (%)	<b>15.2</b>	17.5	-2.3
Number of Customers	<b>326,408</b>	284,049	14.9
Number of Branches	<b>103</b>	103	-
Dividends per Share (Rs.)	<b>1.25</b>	1.25	-

### Financial Performance

#### COMPANY'S CONTRIBUTION TO THE GROUP'S OVERALL PERFORMANCE

**17%** Net Income

**16%** Profit After Tax

**10%** Assets

**12%** Advances

**5%** Deposits

- PLC made a significant contribution to Group performance, accounting for 17% of consolidated net income, 16% of consolidated Profit after tax, 9% of consolidated assets and 10% of Group Advances portfolio. During the year under review, PLC's net income expanded by 18.1% to Rs. 17,937 million and deposits swelled by a staggering 52.6% to Rs. 64,736 million. Asset base surpassed Rs. 156 billion at Company level and Rs. 167 billion at PLC Group level.

### Operational Review and Recognitions for 2017

- For the first time, PLC set its footprint overseas by acquiring 51% of the total issued capital equivalent to 51,000,000 ordinary shares of Lanka Alliance Finance Limited; a company incorporated in Bangladesh to carry on the finance business under the Financial Institution Act, 1993 of Bangladesh.
- Launched gold loans and Musharakah products.
- PLC developed and launched its App; PLC Online, to facilitate customers to conduct online transactions.
- SelfeCash, the new product developed by PLC won a Gold award at APICTA 2017 in the Financial Industry Category, among 19 countries. The Product was also awarded a Gold Medal at the National Best Quality ICT Awards.

- PLC Annual Report for the financial year 2016/17 bagged several awards at Excellence in Integrated Reporting Awards 2017 organised by Certified Management Accountants of Sri Lanka (CMA), 31st ARC Awards International, and Annual Report Awards 2017 organised by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).
- PLC was ranked 15th in the Business Today Top 30 list for 2016/17.
- The Company also became one of the ten best corporate citizens of the country at Best Corporate Citizens awards organised by Ceylon Chamber of Commerce of Sri Lanka.
- PLC was recognised as one of Sri Lanka's Best Employer Brands by the World HRD Congress and Employer Branding Institute at the Sri Lanka Best Employer Brand Awards – 2017. PLC also won Asia's Best Employer Brand Award by the World HRD Congress and Employer Branding Institute at the Asia's Best Employer Brand Awards – 2017. The HR Department of PLC also won a Gold Award at the SLITAD People Development Awards 2016/17.

### Key Initiatives of 2017

- Expanding the product bundle – Introduce Gold loans and Islamic product – Musharakah
- Increase margins/ interest spread
- Maintain optimal mix of funding
- Maintain market leadership position

### Commitment to Sustainability

PLC remains committed to sustainability and creating increased value for its stakeholders. The Company focuses on five areas namely building entrepreneurship and financial literacy, uplifting education, environmental stewardship, road safety and empowering local communities.

PLC is committed to safeguarding the environment by ensuring minimum negative environmental impact through its operations. The Company also contributes to the UN Sustainable Development Goals (SDGs) and is open to public-private collaborations in support of the SDGs. In recognition of the Company's commitment to the environment, PLC was certified as a carbon neutral entity in 2016 by CarbonNeutral.com

PLC also plays a key role in facilitating socio economic progress in the informal sector. In particular, the Company engages in promoting financial literacy amongst customers in disadvantaged communities through structured training programmes.

### Strategic Delivery


Objective	Strategy	Achievement
Sustainable growth	Maintaining margins, improving portfolio quality and developing new products	<ul style="list-style-type: none"> <li>• Increased margins</li> <li>• NP maintained below 3% – well below the industry average</li> <li>• Market leader for 16 consecutive years</li> </ul>
Maintain a healthy portfolio	Balancing product mix	<ul style="list-style-type: none"> <li>• Introduced new short-term loan products such as gold loans</li> </ul>
Customer centric product offering	Expanding the product portfolio and enhancing Company's IT infrastructure	<ul style="list-style-type: none"> <li>• Introduced new products such as gold loans, Musharakah, Wakalah</li> <li>• Launched PLC online and revamped the corporate website</li> <li>• Enhanced IT systems to facilitate smooth daily operations</li> </ul>

### Future Outlook


PLC aims to achieve 15% profit growth, 12% increase in asset base, maintain credit quality (with NPL below 3%), strengthen its credit evaluation process, conduct credit and recovery oriented training and introduce new products based on the market requirements. PLC will continue to maintain its leadership position in Sri Lanka and enhance its ICT infrastructure to improve service efficiency. Further, new products will be launched to diversify its product portfolio and to minimise risk. The Company will also develop the Bangladesh operations in the ensuing year.

# MANUFACTURED CAPITAL


**HIGHLIGHTS FOR 2017**




**Opened first ever Innovation Centre**  
in Sri Lanka's Banking Sector



Invested  
**Rs. 2.3 billion**  
in property, plant and equipment

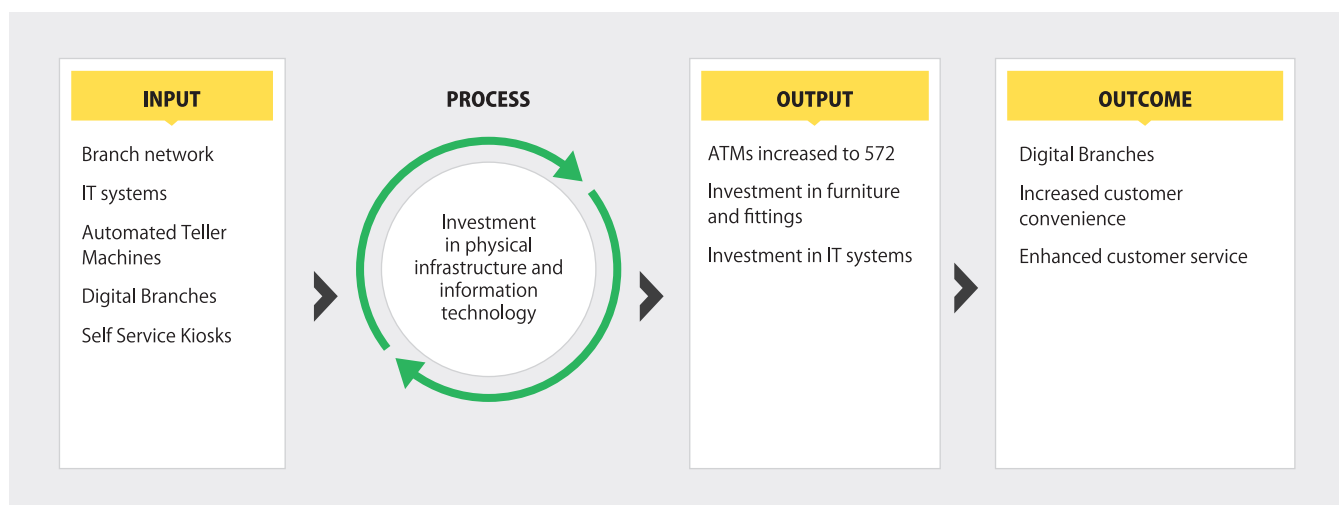


Investment in Automated Teller Machines (ATMs) increased by  
**149% YoY**



Investment in IT systems increased by  
**111% YoY**

## OUR MANUFACTURED CAPITAL VALUE CREATION PROCESS

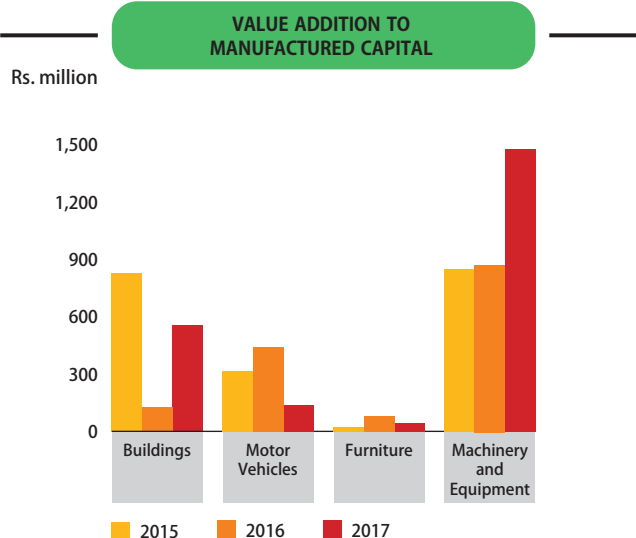
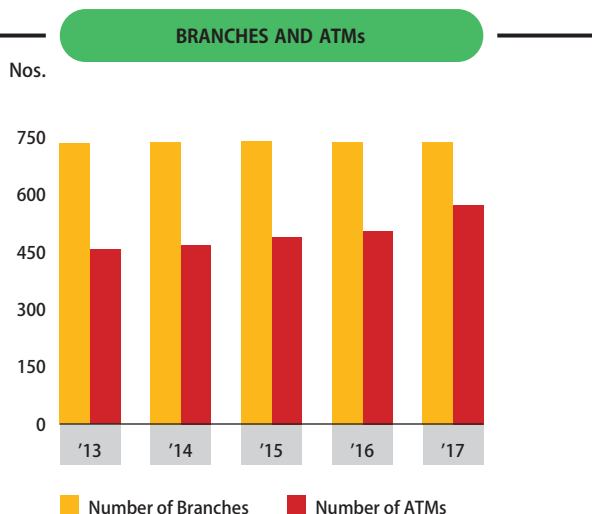


## MANUFACTURED CAPITAL STATISTICS

	2017	2016	2015	2014	2013
No. of Branches	<b>737</b>	737	740	739	735
No. of ATMs	<b>572</b>	506	492	469	460
Investment in Branch Development (Rs. million)	<b>1,091</b>	1,176	1,128	216	593
Investment in ATMs (Rs. million)	<b>396</b>	21	3	2	5
Investment in IT Systems (Rs. million)	<b>987</b>	397	692	133	162

## MANUFACTURED CAPITAL MANAGEMENT

Manufactured Capital comprises our Bank's physical infrastructure and information technology (IT) systems which support the value creation process of our Bank. Efficient manufactured capital increases the productivity of our operations enabling us to be more responsive to the requirements of our customers. It also helps us to reduce our carbon footprint. Therefore, we continually invest in developing our physical infrastructure to offer an inclusive and convenient service to customers across the island. We also upgrade and maintain our IT systems to ensure smooth operations.



### OUR BRANCH NETWORK

Our physical infrastructure comprises 737 branches and 572 ATMs across Sri Lanka. Our investment in branch infrastructure declined by 7% year on year (YoY) to Rs. 1,091 million in 2017, whilst investments in IT and ATMs increased by 111% and 1786% YoY respectively. This is keeping with our strategy of digitalising our branch network to offer a convenient service to all our customers in par with international digital platform. Our branch refurbishment drive continued with full vigor during the year, in order to improve the branch ambience and enhance customer experience. The external appearance of branches was also given a new makeover to reflect our new corporate branding. In tandem with our digitalisation drive, we established 2 digital branches, 96 self-service kiosks, 572 ATMs and 121 CDMs in over 300 strategic locations. Approximately 40% of cash transactions were carried out through the self service channels during 2017.

### INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT

We invested Rs. 2.3 billion, to acquire property, plant and equipment in 2017, which includes freehold land, buildings, motor vehicles, furniture, machinery and equipments and computers.

Significant investments were also made to develop and upgrade our IT infrastructure in tandem with the rapid digitalisation drive of our Bank.

### INFORMATION TECHNOLOGY

In conjunction with the digitalisation process, we launched the first ever Innovation Centre in Sri Lanka’s banking industry, to strengthen the operations of our IT Department. Incorporating the world’s most advanced technologies for digital banking, we offer a fully-fledged digital initiative covering our entire operational model including all levels of our Bank’s hierarchy. This facilitates us to offer services of highest standard in par with the evolving dynamics of international banking, thus placing us in the forefront of Sri Lanka’s banking sector.

We offer a host of modern banking facilities with added convenience such as Mobile Banking, People’s Net and People’s Palm-top. Additionally, partnering with Dialog, Mobitel and Etisalat mobile networks, People’s Mobile Banking Service allows customers to perform banking transactions and bill payment through a mobile phone without having to visit the Bank.

In addition to launching the first Digital Centre in Sri Lanka’s banking sector, we are steadily progressing towards achieving our goal for a “green future”, in conjunction with the implementation of our environmental sustainability policy called “People’s Green Pulse”.

### FUTURE OUTLOOK

We will continue to expand our digitalisation drive to bring the benefits of digital banking to our nation. Our ambitious digitalisation drive will empower us to deliver a seamless digital experience to customers and elevate Sri Lanka’s banking and financial services to an international digital platform. Our aim is to become the most digitalised bank in Sri Lanka.

# INTELLECTUAL CAPITAL

HIGHLIGHTS FOR 2017



91%

**Customer satisfaction**



Strong Brand Index of

3.5



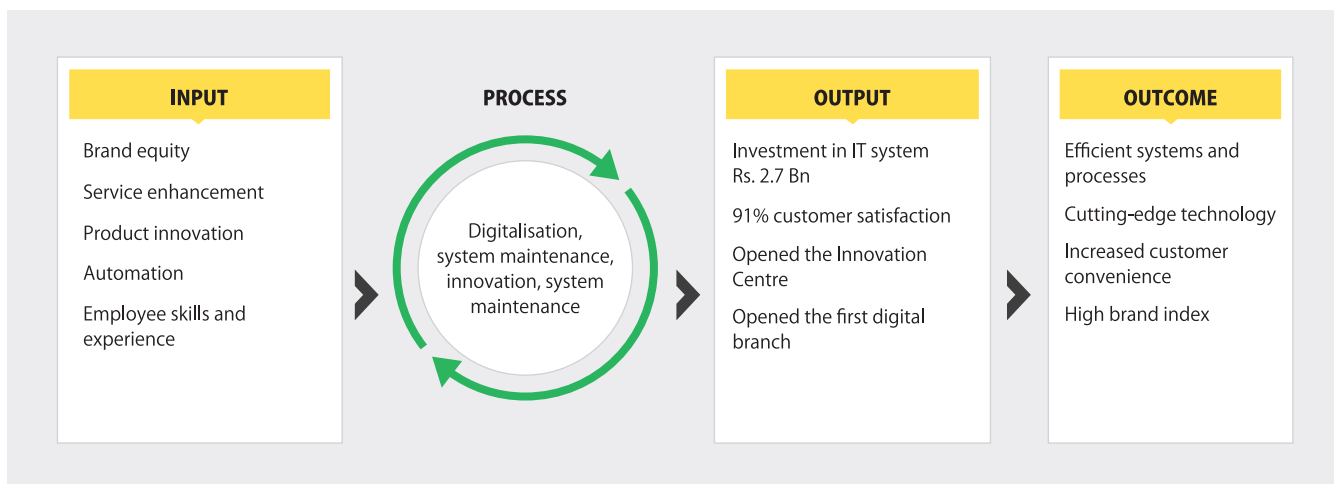
1,042

employees with **over**  
25 years of services



Launched Sri Lanka's  
first digital branch

## OUR INTELLECTUAL CAPITAL VALUE CREATION PROCESS



## INTELLECTUAL CAPITAL MANAGEMENT

The intellectual capital of our Company comprises our brand, product innovations, industry knowledge, IT systems, awards and accolades, compliance, corporate culture and business ethics. We strive to increase the value of intellectual capital by nurturing a strong culture of compliance, developing our corporate brand, adopting information technology to offer cutting-edge financial solutions to customers, enhancing our organisational knowledge and innovating new products.

## BRAND EQUITY

Brand equity is the value of a brand determined by consumer perception through their experiences with the brand. High brand equity is a positive factor that drives customer loyalty leading to increased market share. Serving our nation with banking and financial services for 56 long years, we are one of Sri Lanka's largest financial institutions with an asset base exceeding Rs. one trillion and the largest customer base held by any commercial bank in the country. Our score of 3.5 in the Brand Equity Index in 2017 reflects a strong brand equity according to banking norms. We have

maintained the brand equity of over 3.5 for two years consecutively. This is a reflection of strong customer loyalty, customer awareness, consideration, brand association and perceived quality of the People's Bank brand. The fact that we have scored above 3.0 across age categories and gender indicates that we have established strong ties with our 19 million customer base.

Banking Norms			A +/- 0.3 difference over the previous wave is considered to be significant
Strong (>3)	Moderate (1-3)	Weak (<1)	
Top 23%	Next 44%	Bottom 32%	

Additionally, the many awards and recognitions we have garnered over the years is a testament of our strong brand value. In particular, we were awarded the "People's Service Brand of the Year" and "People's Banking Service Provider of the Year" awards for the 11th consecutive year at SLIM Nielson People's Awards 2017, thus reflecting the strong brand equity we have earned amongst Sri Lankans. We were also conferred the coveted title "Bank of the Year – Sri Lanka" at the world renowned "The European Global Banking and Finance Awards 2016".

## Awards and Accolades



## BRAND DEVELOPMENT

Bank's customer satisfaction levels in 2017 have improved to 91% (extremely satisfied) compared to 78% in 2016. This was largely due to a host of new initiatives we've implemented to offer an exceptional service to our customers. In particular, our digitalisation drive and innovations have enhanced customer convenience significantly facilitating customers to conduct hassle free transactions 24 hours of the day, every day of the week. We also introduced a host of branded accounts and loan facilities to cater to the needs of our customers from different age groups engaged in various sectors. We also serve our corporate clients engaged in international trade with financial and consultation services via 900 agents deployed in 103 countries across the globe. The use of our products on average has increased substantially, from 1.8 products in 2016 to 3.0 in 2017. The improved numbers indicate that customers have well accepted and embraced the enhancements effected to our product and services.

We believe that trust, service, convenience and technology play an important role in developing a strong brand. That's why we offer all these aspects through our digital banking products. Also we are backed by the Government of Sri Lanka, which elevates the trust of our Bank. As the "Bank of the people," we have risen from humble beginnings to be a premiere bank in our nation, elevating the living standards of Sri Lankans from all walks of life whilst supporting Sri Lanka's social economic development.

We also relaunched our corporate logo to reflect our renewed identity as a customer-centric bank that meets people's aspirations in line with the global trends. This re-emphasises our ethos which stands for convenience, reliability and confidence to improve the quality of life of our customers.

## CORPORATE CULTURE

As the “Bank of the people” and the second largest state bank in Sri Lanka, we are rooted in a value-based culture focused on creating consistent and sustainable value to our stakeholders. We nurture a culture of innovation, integrity, excellence and trust, steeped in our corporate values.

The values which shape our corporate identity include being the Pulse of the Nation, customer focus and agility, integrity and accountability, continuous learning culture and team spirit and empowerment and diversity. These values are embedded in our employees from inception and refined through training and development programmes.

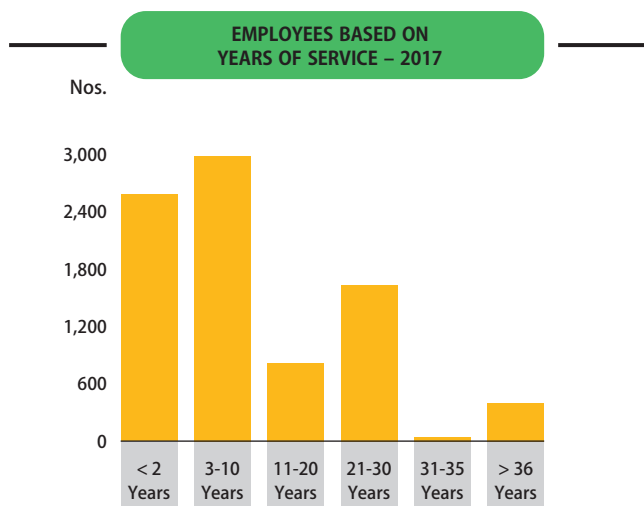
Our corporate culture is also influenced by the Governance practices that ensure good governance, adopting strong business ethics, sound policies and procedures with an effective and efficient monitoring system.

We also nurture a culture of open communication, encouraging formal and informal employee engagement through recreational and cultural events.

## ORGANISATIONAL KNOWLEDGE

We have over 56 years of experience in the banking sphere and acquired a vast, specialised knowledge of the industry. The knowledge we have gained has enabled us, not only to excel, but also to be a leading financial institution in Sri Lanka. Our digitalisation initiatives have opened up many vistas and changed the perception about our Bank in the market.

We also have tacit knowledge, which is the knowledge that has not been documented, not easily revealed and tend to be subjective. This includes knowledge gained through experience on work techniques, work methods and certain consequences that occurred in facing challenges etc. With 1,042 employees serving the Bank for over 25 years, we have acquired a vast amount of tacit knowledge which is essential for the continued success of our Bank.



Additionally, our employees are from diverse backgrounds and qualifications. The diversity of their knowledge is an important asset for our Bank’s success. A total of 3,792 employees have numerous qualifications as shown in the table below:

Level of Qualification	No. of Employees
M.Sc./MBA/Postgraduate	279
BA/B.sc.	1,301
CIMA/CFA/CMA/ICASL/Banking	1,860
Qualifications in Law	76
Qualifications in IT	195
Diplomas and Other	81
<b>Total</b>	<b>3,792</b>

## OUR DIGITALISATION DRIVE

In 2015, People’s Bank took a strategic decision to embark on a historic digitalisation drive to become the most digitalised bank in Sri Lanka. Accordingly, we selected the most advanced technology platform to implement the digitalisation process, easy to upscale and capable of meeting future expansion capacity requirements. This technology which is the first-of-its kind in Sri Lanka, has given us an unprecedented advantage in the banking sector. The digitalisation process facilitates a quick and easy digital banking experience in account opening, loan origination, mobile banking and internet banking, thereby transforming the entire banking operations to a higher level.

This digitalisation drive was inspired by our commitment to deliver customer convenience to empower our customers through advanced services. As the Bank with one of the largest customer bases in Sri Lanka's banking industry, we demonstrate our leadership status by launching the digitalisation initiatives aligned with the latest global consumer and market trends. The People's Bank Voice App, which empowers customers to check their account balance via their mobile phones by a simple voice command, is the first of many apps that we are rolling out, to enable a seamless banking experience on their Android and Windows smartphones.

In addition to introducing green banking to youth, we have established Self-Banking Centres equipped with the most modern Automated Teller Machines (ATMs), Cash Deposit Machines (CDMs) and Kiosks, which are accessible 24-hours a day, 365-days-a-year, enhance customer convenience further. The CDM facilitates utility bill payments by cash in addition to facilitating cash deposits and balance enquiries. The ATMs, offers cardless cash withdrawals and cash advances on credit cards in addition to standard features. Bill payments are facilitated directly through the account via CDMs and Kiosks, with real-time updates. This facility is extended to Bank's customers as well as non-customers. The Self-Banking Units are established at many strategic locations, with the vision to reach 100 Self-Banking Centres across the nation.

By becoming the most digitalised bank in Sri Lanka, we will have the bandwidth to ensure universal access for all, thereby achieving total financial inclusion. Our ambitious digitalisation drive will empower us to deliver a seamless digital experience to customers and elevate Sri Lanka's banking and financial services to an international digital platform.

The digitalisation process involved extensive staff training on digital omni-channels and digital marketing. Although digital banking is mainly for the tech-savvy Generation Y and Millennials, we are retaining hybrid branches to educate technology-shy customers on the benefits of online banking.

## **BUSINESS ETHICS**

We espouse the highest standards of business ethics and integrity. Business ethics are integrated into every level of our organisation. We also have a comprehensive governance framework as detailed in the Corporate Governance Report on page 34.

## **INNOVATION**

Spearheading the digital drive in Sri Lanka's banking sector, we launched Sri Lanka's first ever Innovation Centre, aiming to further strengthen the operations of our IT department. The Innovation Centre will provide centralised support to efficiently connect with our island-wide branch network and position us in the forefront of the banking sector.

## **FUTURE OUTLOOK**

We will strengthen our corporate brand by offering innovative and convenient banking solutions that add value to our customers. We will continue with our digitalisation journey to position our Bank and customers for exponential growth. As the premier state bank, we are confident that a digitalised state bank will deliver increased value to our economy and all our stakeholders.



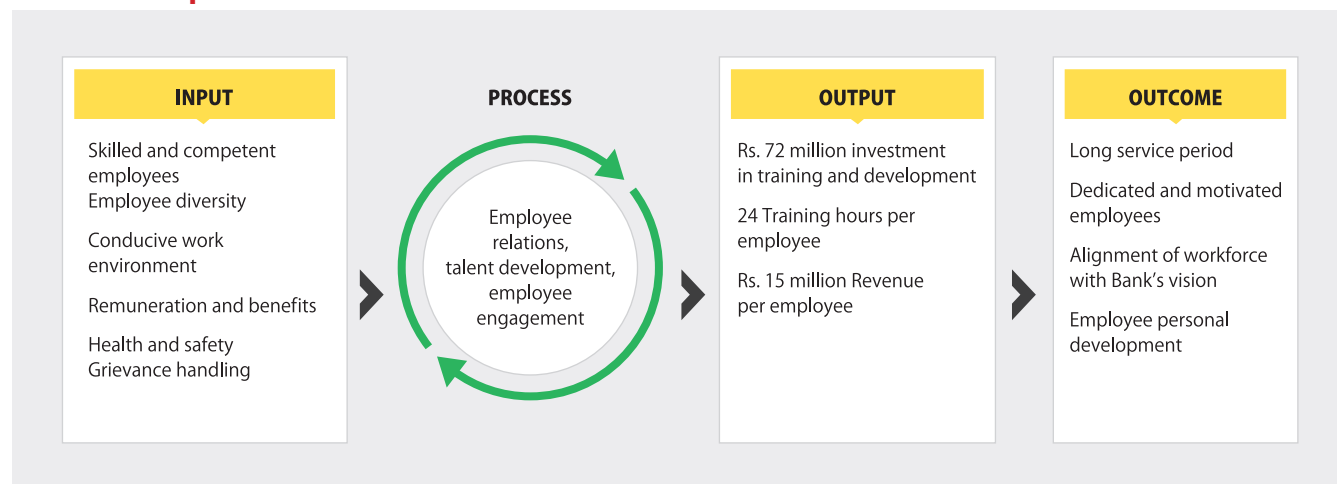
# HUMAN CAPITAL



## DELIVERING VALUE TO EMPLOYEES

We continually strive to deliver increased value to our dedicated employees who are crucial to the Bank's strategic delivery and achieving a sustainable and profitable growth.

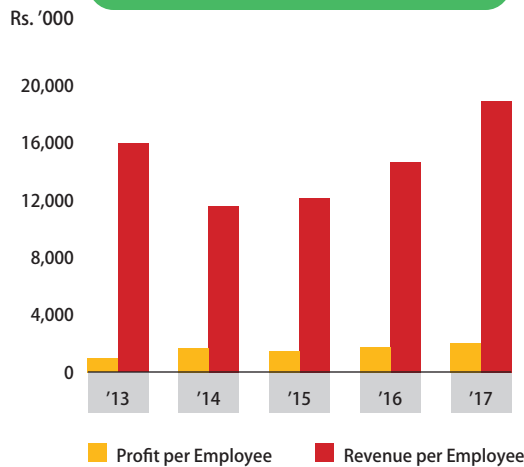
## Our Human Capital Value Creation Process



## Human Resource Statistics

	2017	2016	2015	2014	2013
Male Employees	3,402	3,367	3,443	3,439	3,358
Female Employees	5,052	4,882	4,925	4,717	4,051
Total Employees	8,454	8,249	8,368	8,156	7,409
Profit per Employee (Rs. '000)	2,159	1,818	1,505	1,743	1,011
Revenue per Employee (Rs. '000)	19,182	14,804	12,368	11,817	16,258

**PROFIT AND REVENUE PER EMPLOYEE**



**HUMAN CAPITAL MANAGEMENT**

With over 8,000 people, People’s Bank is one of the largest banks in Sri Lanka. Our success is underpinned by the motivated and highly engaged team of employees who are crucial to our service delivery. We strive to attract and retain talented individuals for our Bank and support them in their development. Hence, we nurture an inspiring work environment founded on integrity, respect and dedication to high performance.

As an equal opportunity employer, we foster a workforce diverse in terms of gender, ethnicity, race, religion and age. This diversity which is a corporate asset have enriched our Organisation culture. We pride in the fact that our Bank’s female representation of 60% is one of the highest in Sri Lanka’s banking industry. We have also been strengthening our Organisation by investing in talent through recruitment, internal development, promotion and training. Substantial investment was made in recruitment, development and training during 2017 to establish People’s Bank as a leading entity in Sri Lanka, placing our Bank in a stronger position to achieve our strategic goals in the ensuing years.

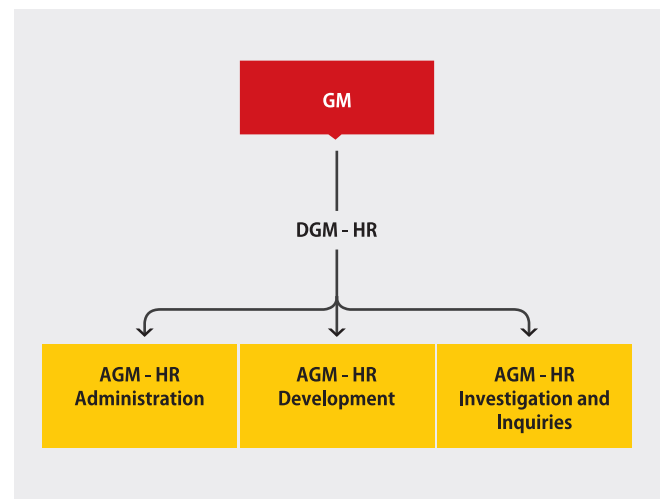
**HUMAN RESOURCE (HR) STRATEGY**

We aim to recruit, develop and deploy the best people in our industry. Our human resource strategy which is aligned to the corporate strategy is founded on three strategic pillars, namely succession planning, capacity planning and performance management. We measure the effectiveness of our strategy based on our ability to attract aspiring and talented young individuals and retain high performing individuals who can be groomed to take leadership positions in our Bank. Our ability to attract, develop and retain a diverse pool of talented employees is a strong testament of our successful strategic delivery and reputation as a most sought after employer in Sri Lanka.

**HR GOVERNANCE**

Our employee value proposition is executed via effective and transparent HR policies and processes. As a result, the Bank has a Code of Ethics in place which seeks to nurture a culture that respects human right and values. Therefore, in complying with the Bank’s overall HR policy, the Bank endeavours to maintain good relations with trade unions. Further we do not engage child labour or forced labour in our business operations and there are no harassment or discrimination in the working place. The Board has delegated responsibility to the Board Human Resources and Remuneration Committee to execute the Bank’s HR strategies. Bank’s HR Department implements the strategies and reports to the Board at regular intervals.

**Our HR Governance Structure**



## PEOPLE'S BANK TEAM

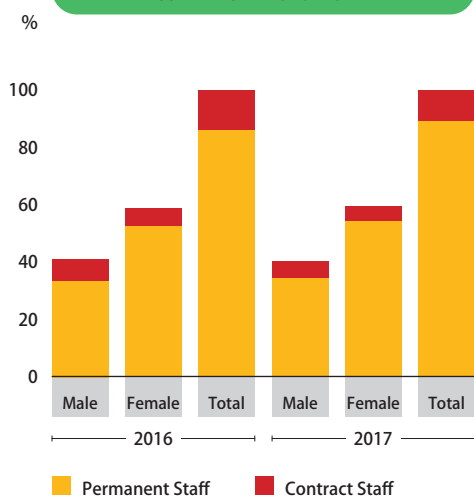
Our team comprised 8,454 employees as at the end of the financial year 2017. This was an increase of 205 employees compared to the previous financial year.

Given below are the details of the People's Bank Team.

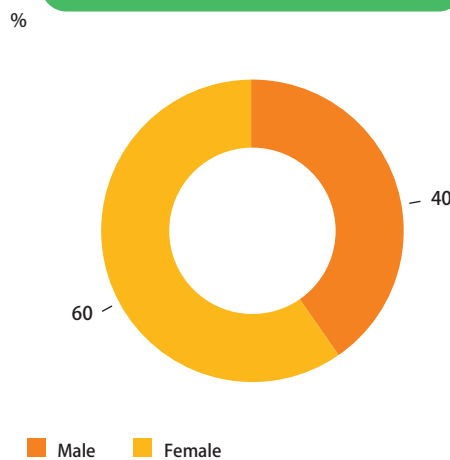
### Total Employees by Employment Contract and Gender

Nos.	2017			2016		
	Male	Female	Total	Male	Female	Total
Permanent Staff	2,931	4,622	7,553	2,771	4,370	7,141
Contract Staff	471	430	901	596	512	1,108
<b>Total</b>	<b>3,402</b>	<b>,5052</b>	<b>8,454</b>	<b>3,367</b>	<b>4,882</b>	<b>8,249</b>

TOTAL EMPLOYEES BY EMPLOYMENT CONTRACT AND GENDER



TOTAL EMPLOYEES BY GENDER – 2017



### Total Permanent Employees by Employment Type and Gender

Employment Category	2017					2016				
	Male Nos.	Female Nos.	Total Nos.	Male %	Female %	Male Nos.	Female Nos.	Total Nos.	Male %	Female %
Corporate Management	11	3	14	0.1	0.0	11	5	16	0.2	0.0
Executive Management	13	17	30	0.2	0.2	15	15	30	0.2	0.2
Officers (3-III – Grade I)	1,271	2,143	3,414	16.8	28.4	1,218	1,793	3,011	17.1	25.1
Staff Assistant Grade	916	1,899	2,815	12.1	25.1	1,057	2,221	3,278	14.8	31.1
Other Categories	720	560	1,280	9.5	7.4	470	336	806	6.6	4.7
<b>Total</b>	<b>2,931</b>	<b>4,622</b>	<b>7,553</b>	<b>38.8</b>	<b>61.2</b>	<b>2,771</b>	<b>4,370</b>	<b>7,141</b>	<b>38.8</b>	<b>61.2</b>

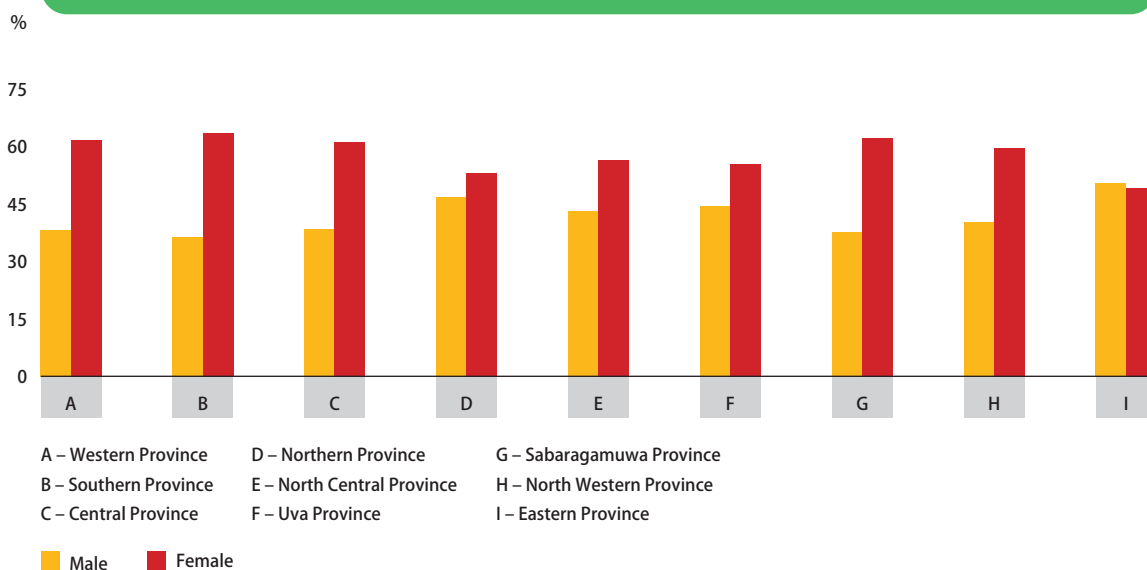
## Total Employees – Department-Wise for 2017

	No. of Employees		
	Permanent	Contract	Total
Branches	5,597	556	6,153
RHO	797	134	931
Treasury and PDU	30	5	35
Corporate and OSBU	164	22	186
OCS	86	5	91
PCC	35	17	52
Head Office	844	162	1,006
<b>Total</b>	<b>7,553</b>	<b>901</b>	<b>8,454</b>

## Total Workforce by Geographic Distribution and Gender for 2017

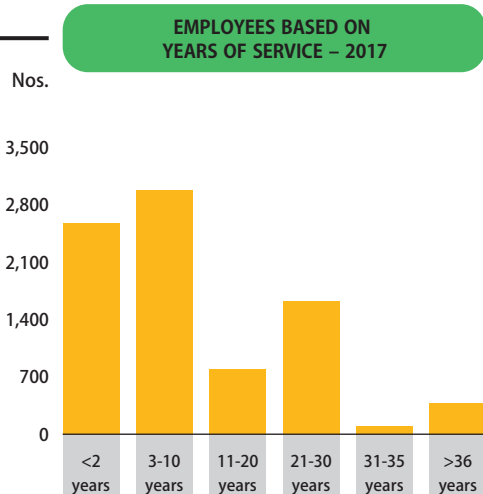
	Male		Female		Total		Total %	
	2017	2016	2017	2016	2017	2016	2017	2016
	Western	1,270	1,248	2,055	2,026	3,325	3,274	39.3
Southern	322	320	563	519	885	839	10.5	10.2
Central	343	341	546	532	889	873	10.5	10.6
Nothern	191	188	216	215	407	403	4.8	4.9
North Central	247	239	323	299	570	538	6.7	6.5
Uva	229	215	287	262	516	477	6.1	5.8
Sabaragamuwa	216	206	356	338	572	544	6.8	6.6
North Western	271	288	401	393	672	681	7.9	8.3
Eastern	313	322	305	298	618	620	7.3	7.5
<b>Total</b>	<b>3,402</b>	<b>3,367</b>	<b>5,052</b>	<b>4,882</b>	<b>8,454</b>	<b>8,249</b>	<b>100</b>	<b>100</b>

TOTAL EMPLOYEES BY PROVINCE AND GENDER – 2017



## Total Employees by Age and Gender

Age	2017			2016		
	Male	Female	Total	Male	Female	Total
56 >	364	236	600	488	269	757
46 - 55	782	733	1,515	747	719	1,466
26 - 45	2,106	3,836	5,942	1,948	3,430	5,378
18 - 25	150	247	397	175	473	648
<b>Total</b>	<b>3,402</b>	<b>5,052</b>	<b>8,454</b>	<b>3,358</b>	<b>4,891</b>	<b>8,249</b>



## Total Employees by Employment Category and Years of Service 2017

Category	No. of Years of Service						Total
	<2	3-10	11-20	21-30	31-35	>36	
Corporate Management	4	1	1	6	6	2	14
Executive Management	2	-	3	14	10	3	30
Officers (3-III – Grade I)	129	1,229	663	1,020	28	345	3,414
Staff Assistant Grade	932	1,734	36	104	-	9	2,815
Other Categories	638	11	109	489	4	29	1,280
Management Trainees	184	-	-	-	-	-	184
Customer Service Assistants	102	3	-	-	-	-	105
Other Contracted Employees	601	3	-	-	-	-	604
<b>Total</b>	<b>2,592</b>	<b>2,981</b>	<b>812</b>	<b>1,633</b>	<b>48</b>	<b>388</b>	<b>8,454</b>

## RECRUITMENT

We are committed to hiring qualified and talented individuals to join our Bank, which is imperative to our success. A formal recruitment policy is in place to hire the right candidate with the required skills and competencies to meet the human resource requirement of our Bank. Being a State-owned bank of high repute, we have been able to attract and retain young and aspiring talent in the banking industry. Accordingly, during the year in review, 525 employees were recruited to strengthen our staff cadre. 25% of the new recruits were below the age of 25 years, whilst 74% were in the 26 to 45 year age group.

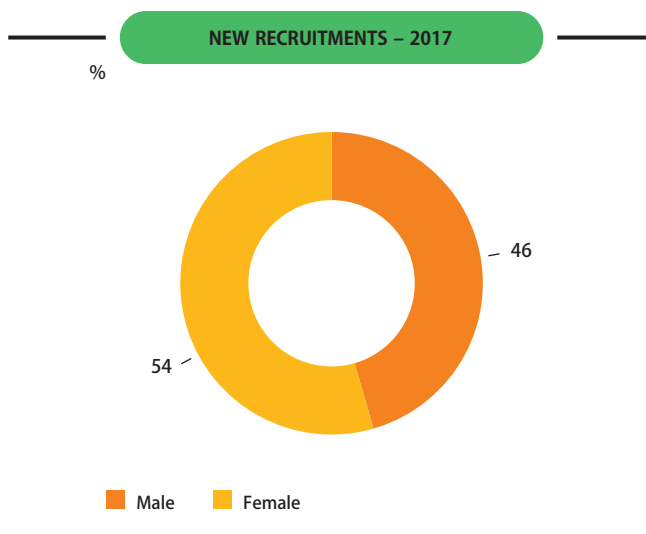
Based on the Bank's medium-term strategy, management trainees and customer service assistants are recruited once every three years. All recruitments are done in conformance to the regulations applicable to Government institutions, in a transparent manner, adopting competency tests and a formal interview process. We give preference to hiring from the localities of our branches and this is aided by the widespread branch network of the Bank which facilitates the bank to recruit from all regions within the country with diversified ethnic backgrounds. Accordingly, 75% of new recruitment in year 2017 were from outstations. It is mandatory for the selected candidates to complete a probation period of one year, after which they are absorbed to the permanent cadre. Also, it is a noteworthy to mention that 54% of the new recruits during the year were female employees, reflecting our inclusive and non-discriminatory recruitment policy.

## Recruitment by Age Group and Gender for 2017

Age Category	No. of Employees		
	Total Nos.	Male Nos.	Female Nos.
18 - 25 years	133	76	57
26 - 45 year	386	159	227
46 - 55 years	3	2	1
56 + years	3	2	1
<b>Total</b>	<b>525</b>	<b>239</b>	<b>286</b>

### New Recruitments by Region and Gender for 2017

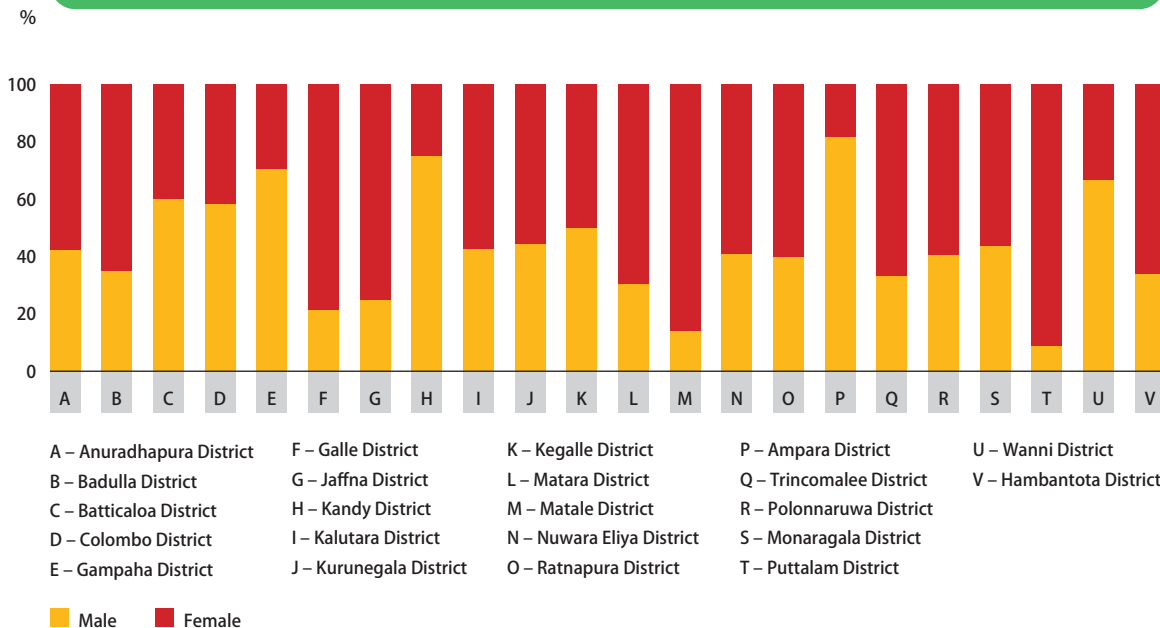
Region	Male	Female	Total	Male %	Female %
Anuradhapura	14	19	33	42	58
Badulla	13	24	37	35	65
Batticaloa	3	2	5	60	40
Colombo	76	54	130	58	42
Gampaha	12	5	17	71	29
Galle	3	11	14	21	79
Jaffna	1	3	4	25	75
Kandy	6	2	8	75	25
Kalutara	3	4	7	43	57
Kurunegala	4	5	9	44	56
Kegalle	8	8	16	50	50
Matara	7	16	23	30	70
Matale	1	6	7	14	86
Nuwara Eliya	16	23	39	41	59
Ratnapura	16	24	40	40	60
Ampara	9	2	11	82	18
Trincomalee	3	6	9	33	67
Polonnaruwa	11	16	27	41	59
Moneragala	11	14	25	44	56
Puttalam	1	10	11	9	91
Wanni	6	3	9	67	33
Hambantota	15	29	44	34	66
<b>Total</b>	<b>239</b>	<b>286</b>	<b>525</b>	<b>46</b>	<b>54</b>



### PERCENTAGE OF SENIOR MANAGEMENT HIRED FROM THE LOCAL COMMUNITY

All recruitments for Bank's Senior Management positions are citizens of Sri Lanka.

### RECRUITMENTS BY REGION AND GENDER - 2017



## MATERNITY LEAVE

During the year 230 employees took maternity leave and we have maintained the return to work rate and retention at an impressive 100% for the past four years.

	2017	2016	2015	2014
Number of employees entitled to maternity leave	3,702	3,690	3,430	3,093
Number of employees who took maternity leave	230	536	566	773
Number of employees who returned to work after maternity leave	230	536	566	773
Returned to work (%)	100	100	100	100

Only the permanent married staff is entitled

## PERFORMANCE APPRAISAL

All employees are appraised annually against a set of predetermined evaluation criteria. Aligned to the strategic plan 2016-2020, a new two way performance appraisal system was introduced. The performance of Executive and Corporate Management is evaluated based on the KPIs set in collaboration with the respective employees and the superiors. The Bank intends to implement the upgraded performance appraisal system to the other grades as well in the future.

Also our employees are encouraged to obtain professional qualifications to enhance their career development process. These qualifications are taken into consideration when granting internal promotions.

## TRAINING AND DEVELOPMENT

The Bank has in place a training and development policy which is imperative for talent retention and ensuring a sustainable competitive advantage. A total of 199,956 hours of training (2016: 183,460 hours) was provided to our employees in 2017. Employee training hours are determined annually, based on need of each business unit, aligned to the Bank's strategic plan. A gap analysis is conducted taking into consideration the employee skills and competencies and the needs identified. Appropriate training programmes are developed, either internally or externally. Resources are allocated to implement the respective training programmes based on time and cost structures. Once the training programmes are conducted, a post implementation evaluation is carried out to obtain feedback from the employees. We have a dedicated staff training centre in Colombo, supported by 24 mini centres across the nation.

The types of training programmes conducted include, on the job training, internal training, external training and foreign training.

## Scope of the Training Programmes

Our employees were given the chance to undergo overseas training sessions in recognized foreign institutions with the aim of exposing them to global practices in banking and finance to ensure competitiveness in the market by capitalising on the knowledge gathered during such corporate trainings, conferences, workshops and seminars.

Internal training includes induction programs for management trainees and other staff, motivational and team building sessions, experience sharing of the well experienced professionals in the field of banking and finance etc. The bank normally makes use of the experience and expertise of the staff members as well as external trainers when needed.

External training includes training programs conducted by accredited professional institutions with the objective of exposing participants to industry best practices and update them with new knowledge and skills.

Year	Training Cost Rs. million	Training Hours	Average Training Hours per Employee
2013	41	163,696	22.1
2014	68	183,340	22.5
2015	66	180,849	21.6
2016	71	183,460	22.2
<b>2017</b>	<b>72</b>	<b>199,956</b>	<b>23.6</b>

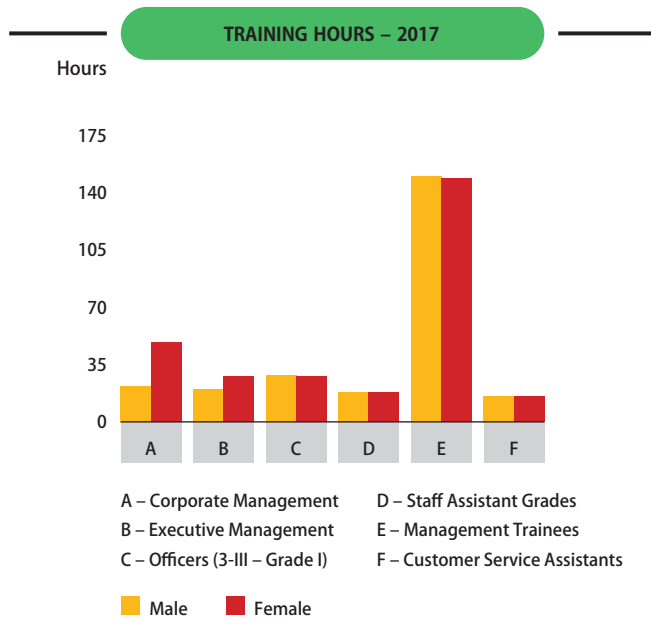
On average, 24 hours of training was provided per employee, with 199,956 total training hours covered in 2017. The Bank invested Rs. 72 million on staff training in 2017.

## Training Programmes in 2017

Type of Training	No. of Programmes	No. of Participants	Training Hours
Internal Training Programmes	411	22,534	185,530
External Training Programmes	185	931	12,618
Foreign Training	17	41	1,808
<b>Total</b>	<b>613</b>	<b>23,506</b>	<b>199,956</b>

### Training Hours by Employment Category and Gender for 2017

Employment Category	Average Training Hours	
	Male	Female
Corporate Management	23	49
Executive Management	21	28
Officers (3-III – Grade I)	29	28
Staff Assistant Grade	19	19
Management Trainees	151	150
Customer Service Assistants and Other	16	16



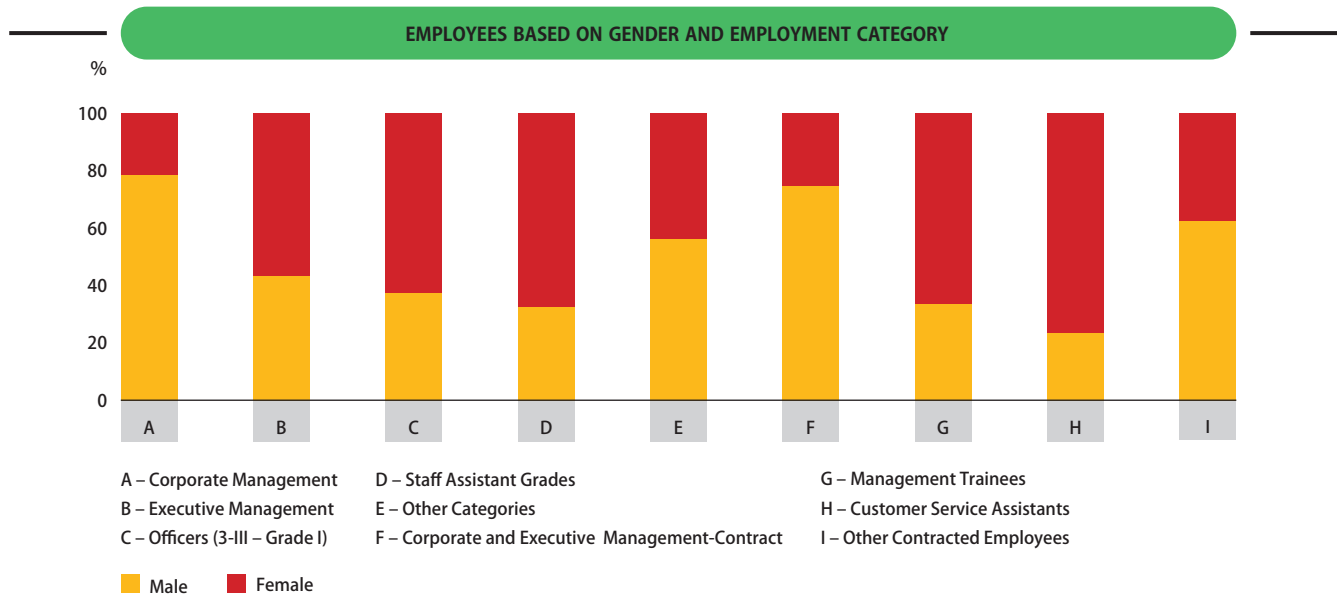
### DIVERSITY AND EQUAL OPPORTUNITY

Diversifying the mix of our people continues to be a priority within our human resource strategy. Our workforce is diverse in terms of race, religion, gender, and social background. As an equal opportunity employer, we encourage workplace diversity, which brings about innovative thinking while creating an enabling environment which promotes a productive workforce.

### RATIO OF BASIC SALARY AND REMUNERATION OF WOMEN TO MEN – 2017

	Female	Male
Corporate Management	1	0.99
Executive Management	1	0.96
Officers (3-III – Grade I)	1	1.07
Staff Assistant Grades	1	1.03
Customer Service Assistants and Other	1	0.90

The ratio of basic salary and remuneration of women to men by employment category and significant locations of operation at our Bank is 1:1. This is because there is no gender bias in our Bank. The fact that all female employees who availed themselves to parental leave over the last four years have returned to work after completion of leave is strong evidence of the equal treatment given to women employees at our Bank. However, this ratio may change due to different service period of employees in the Bank and at a particular salary grade.





## NON-DISCRIMINATION

We remain committed to maintaining a workplace that is free from physical and verbal harassment and discrimination on the basis of race, religion, gender, age or social background. Therefore, we strictly follow a policy of non-discrimination on any of the above criteria which apply to employee recruitment, reward and recognition and promotions. In particular, we have the highest number of female employees in the banking industry. This is a strong testament of our non-discriminatory organisation culture. During the year there were no incidents of discrimination reported in our Bank.

## OCCUPATIONAL HEALTH AND SAFETY

We ensure a safe working environment for all our employees, taking steps to ensure that health and safety concerns are prioritised and addressed across the Organisation. There were no employee fatalities reported in 2017.

## Expenses Incurred in Relation to Health and Safety in 2017

Health and Safety Expense	Rs. million
Medical Expenses	1,413
Fire and Safety	2
<b>Total</b>	<b>1,415</b>

## EMPLOYEE SATISFACTION

### Staff Engagement Survey Results

Main purpose of the staff engagement surveys is to ascertain the extent to which employees are motivated to contribute towards organisational success and are willing to give their effort voluntarily to accomplish the tasks important in achieving the corporate goals. Staff Engagement surveys are carried out annually and a simple random sampling method was adopted to select employees from selected departments of head office and all regions. During the year 156 employees were covered under staff surveys.

Designation	Male	Female	Total
Deputy General Manager	–	1	1
Assistant General Manager	–	1	1
Chief Manager	2	–	2
Senior Manager	2	5	7
Manager	9	6	15
Deputy Manager	12	14	26
Assistant Manager	9	10	19
Staff Assistant	28	31	59
Secretary and Allied Grade	–	14	14
Office Assistant and Below	12	–	12
<b>Total</b>	<b>74</b>	<b>82</b>	<b>156</b>

## REMUNERATION AND BENEFITS

We maintain an impartial remuneration structure, rewarding our employees based on their performance. Every three years, the remuneration and staff benefits of employees are negotiated and mutually agreed with the trade unions through collective agreements of all state banks. Since the Shop and Office Employees Act of Sri Lanka does not provide a framework for governing the minimum wage of employees, salaries and wages of our employees are determined based on negotiations with trade unions and discussions with the Ministry of Finance. Collective agreements represent staff categories upto chief manager category. This assures the transparency of wage rates of these categories. Salaries of Senior Management (AGM and above) are based on industry standards.

Our Bank's remuneration policy is geared to retain high performing employees. We adopt an equal pay policy towards male and female employees. Our employees are eligible for the Employees' Provident Fund (EPF) and the Employees' Trust Fund (ETF) contributions. The total contribution made to the trust funds for the reporting year was Rs. 223 million while the total contribution made to the provident funds was Rs 1,495 million.

All permanent employees are provided numerous other benefits based on employment category. Certain benefits are not given to contract and trainee employees. The benefits given to permanent employees include, bonuses, travelling allowances for certain grades, holiday bungalows, staff loans, medical benefits, death gratuity, personal accident insurance scheme, disability and invalidity cover, maternity leave and retirement benefits.

## EMPLOYEE TURNOVER

We maintain a satisfactory rate of staff turnover. Total staff turnover for the financial year 2017 was 309, of which 67% were male employees. The highest turnover was in the over 56 year age category amounting to 240 employees. Regionally, Colombo reported the highest employee turnover of 127 employees, amounting to 46% of the total.

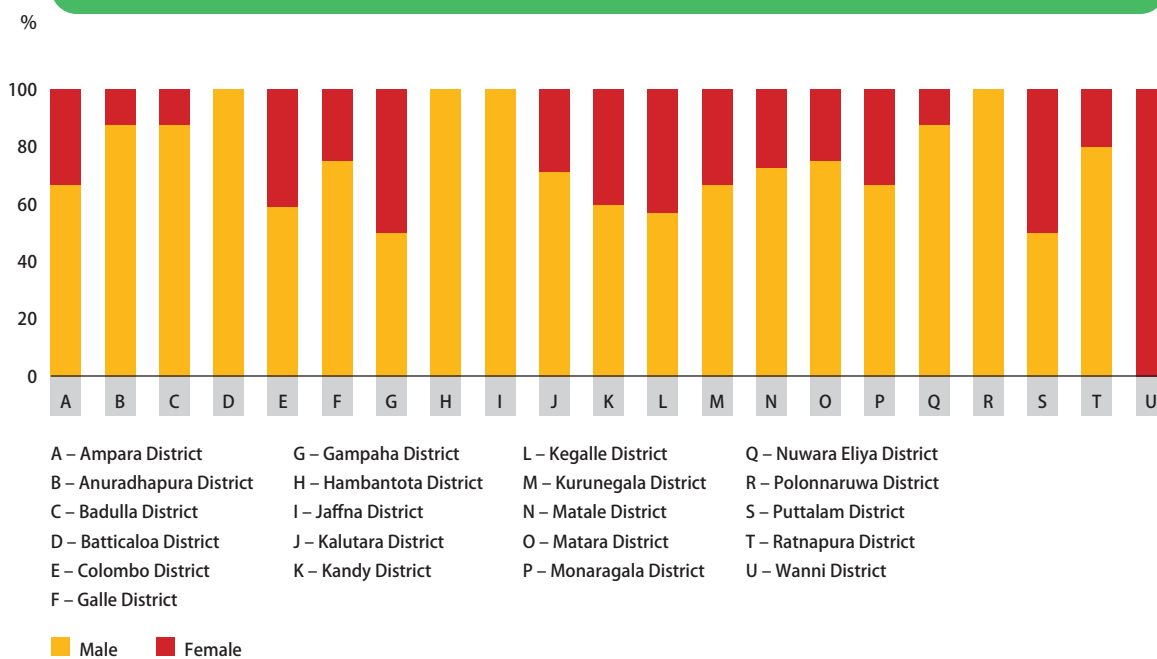
## Employee Turnover by Age Group and Gender – 2017

Age Category	Total No.	Male	Female
18 - 25 years	6	2	4
26 - 35 year	33	14	19
36 - 45 years	16	9	7
46 - 55 years	14	11	3
56 + years	240	168	72
<b>Total</b>	<b>309</b>	<b>204</b>	<b>105</b>

## Employee Turnover by Age Group, Gender and Employment Category – 2017

Employment Category	18-25 Years		26-35 Year		36-45 Years		46-55 Years		56 Years and Above	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Corporate Management	–	–	–	–	–	–	–	–	–	2
Executive Management	–	–	–	–	–	–	–	–	2	–
Officers (3-III – Grade 1)	–	–	2	6	3	6	2	2	132	69
Staff Assistant Grade	–	–	2	5	–	–	–	–	3	–
Other Categories	–	–	1	–	–	–	8	1	31	1
Management Trainees	–	2	3	3	–	–	–	–	–	–
Customer Service Assistants	–	1	2	2	–	–	–	–	–	–
Other Contracted Employees	2	1	4	3	6	1	1	–	–	–
<b>Total</b>	<b>2</b>	<b>4</b>	<b>14</b>	<b>19</b>	<b>9</b>	<b>7</b>	<b>11</b>	<b>3</b>	<b>168</b>	<b>72</b>

## EMPLOYEE TURNOVER BY REGION – 2017



## Employee Turnover by Region and Gender

Region	Male	Female	Total	Male %	Female %
Ampara	2	1	3	67	33
Anuradhapura	8	1	9	89	11
Badulla	7	1	8	88	13
Batticaloa	10	–	10	100	0
Colombo	81	55	136	60	40
Galle	10	3	13	77	23
Gampaha	6	6	12	50	50
Hambantota	3	–	3	100	0
Jaffna	4	–	4	100	0
Kalutara	5	2	7	71	29
Kandy	9	6	15	60	40
Kegalle	4	4	8	50	50
Kurunegala	14	7	21	67	33
Matale	8	3	11	73	27
Matara	6	2	8	75	25
Monaragala	4	3	7	57	43
Nuwara Eliya	8	1	9	89	11
Polonnaruwa	6	3	9	67	33
Puttalam	1	1	2	50	50
Rathnapura	7	2	9	78	22
Trincomalee	1	1	2	50	50
Wanni	–	3	3	0	100
<b>Total</b>	<b>204</b>	<b>105</b>	<b>309</b>	<b>66</b>	<b>34</b>

## GRIEVANCE HANDLING

We have in place a clear and transparent framework approved by the Board to handle employee grievances which arise due to difficulties they face as a part of their working relationship. Hence, we provide a course of action to forward any complaints. A formal process ensures that all our employees are treated 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 elevated to the Bank's HR Department. In October 2017 the Bank introduced a new tailor-made mechanism to redress employee concerns/grievances by presenting them to the CEO/General Manager. The grievances/

concerns are reviewed by a committee consisting of corporate management members. Based on the outcome of the review, the CEO/General Manager redresses the grievance/concern. The total number of incidents of grievances presented were 18 for which corrective actions were taken during the year. The reported cases were mainly due to disciplinary decisions

## COLLECTIVE BARGAINING

The Bank has formal collective bargaining agreements with employee unions and maintains an open door policy for employees to voice their grievances. Staff members upto the category of chief managers are covered by collective agreements, which reflects 94.96% of the Bank's employees. There are no identified restrictions from the Bank's Operations in relation to freedom of association and collective bargaining.

During the year, there were no major disruptions to work arising from any form of industrial action.

Employee Union	No. of Employees
The Ceylon Bank Employee's Union	6,742
Officers' Association	445
Sri Lanka Nidahas Banku Sevaka Sangamaya	76
Jathika Sevaka Sangamaya	717
All Ceylon Bank Employees' Union	48
<b>Total</b>	<b>8,028</b>

## MINIMUM NOTICE PERIOD FOR OPERATIONAL CHANGES

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

Type of Change	Notice Period
Transfers	2 weeks
Resignations	1 month
Retirements	6 months
Terminations	1-3 months

## CODE OF CONDUCT

The Code of Conduct which sets out the rules, regulations and guiding principles for appropriate workplace behaviour applies to all employees across the Bank.

The main Codes of the Bank are –

- Code of Corporate Governance
- Disciplinary Code
- Whistle Blower Policy
- Customer Charter
- Code of Conduct for Employees

### Code of Corporate Governance

This includes the values and conduct of the Group and sets the tone for all employees, management and Board of Directors to ensure ethic behaviour and integrity of the Group.

### Disciplinary Code

A formal document that defines what is construed as misconduct and sets out the formal disciplinary procedure applicable in such instances.

### Whistle Blower Policy

The Whistle Blower Policy is a further measure against misconduct and corruption indicating the Bank's zero tolerance approach towards corruption. The Bank has appointed a Director to review such complaints. An employee can report the following issues to the immediate supervisor or directly to the Audit Committee. The anonymity is guaranteed to safeguard the employee:

- Breach of the disciplinary code
- Failure to comply with legal/regulatory obligation
- Miscarriage of justice
- Financial malpractices
- Concealing information

### Customer Charter

As stipulated by the Central Bank of Sri Lanka, the People's Bank Customer Charter safeguards the rights of customers.

### Code of Conduct for Employees

All employees of the Group are expected to abide by the Code of Conduct and are required to sign the Code upon being employed by the Group.

This includes employee –

- Responsibilities
- Conduct
- Confidentiality
- Conflict of interest
- Insider dealings
- Outside employment
- Competition and fair dealings
- Bribery and corruption
- Customer service and complaints
- Cleanliness
- Compliance
- Protection and the use of assets
- Use of the computer system

## ANTI-CORRUPTION

We maintain a stringent anti-corruption culture within our Bank, facilitated by a proactive Internal Audit Department, Investigations and Inquiries Department, the Risk Management Unit and Internal Audit employees deployed at branches. All employees are given training on preventing and averting corruption and fraudulent behaviour by the Investigations and Inquiries Department and the Internal Audit Department. A Board approved anti-corruption policy is also in place, and communicated to all employees. During the year, employees engaged in 15,808 training hours pertaining to anti- corruption.

Type of Change	Number	%
Total number and percentage of Governance body members that the Organisation's anti-corruption policies and procedures have been communicated to	All	100
Total number and percentage of employees that the organisation's anti-corruption policies and procedures have been communicated to	All	100
Total number and percentage of employees that have received training on anti-corruption	1976	23
Total number and nature of confirmed incidents of corruption	185	N/A
Total number of confirmed incidents in which employees were dismissed or disciplined for corruption	146	N/A

## PROMOTING EMPLOYEE WELLBEING

We understand that the wellbeing of our employees feeds directly into our customers' experience and ensure the ongoing profitability of our Bank. Hence, we strive to enhance employee wellbeing by implementing staff engagement activities, advocating healthy lifestyles, providing a range of benefits and by maintaining a safe working environment. We also conduct sports events routinely for the benefit of our employees.

## STAFF ENGAGEMENT

Several staff engagement events are held annually to promote employee wellbeing and also enhance their level of motivation. The following activities were held during 2017.

## BLOOD DONATION CAMPAIGN

To commemorate our Bank's 56th Anniversary, a blood donation campaign was held at the People's Bank Staff Training College in Colombo. Many employees voluntarily participated in this campaign organised by the People's Bank Welfare Department and the People's Bank Sports Club.



## POSON BODHU GEE FESTIVAL

For the 12th consecutive year, the *Poson Bodhu Gee* festival was organised by our Bank near the Ruwanwelisaya in Anuradhapura on Poson Poya Day.

Members of People's Bank Arts Circle and the staff of the North Central, Central, Uva, North Western and North provinces participated in this event.

The Chief Incumbent of the Ruwanveli Maha Seya, Venerable Pallegama Hemarathana Thero, Government officials, People's Bank's Board of Directors, the Chief Executive Officer/ General Manager, the Corporate and Executive Management and the staff graced the occasion.



## PEOPLE'S BANK ACHIEVERS AWARDS 2016

Top achievers of the Bank were hailed at the People's Bank Achievers Awards 2016 amidst the presence of a large number of distinguished invitees. The grand event was held at the Eagle Lakeside Hotel, Aththidiya.

The awards ceremony is held annually to appreciate and motivate People's Bank internal staff members attached to regions, branches, SME centres and all strategic business units. Accordingly, individuals and teams were awarded Bronze, Silver and Gold awards for their contribution to the progress of the Bank.



## PEOPLE'S BANK COLOURS NIGHT 2017

For the 15th consecutive year, People's Bank Colours Night was held on a grand scale at Cinnamon Lakeside, Colombo.

Organised by the People's Bank Sports Club, the event recognised the outstanding achievement of 168 sportsmen and women. Special awards were conferred to several retired sportsmen and women. This event was made spectacular with animations, colourful dance items and music.



### ANNUAL CHRISTMAS CAROLS

The Christian Guild of the People's Bank organised the annual Christmas Carols, for the 39th consecutive year at the People's Bank Staff Training College Auditorium in Colombo.

The staff members from the branches in Colombo, Gampaha, Puttalam, Kalutara and Vanni took part in the event.



### COMMEMORATING THE NATIONAL READING MONTH

Demonstrated our commitment to promoting Sri Lankan culture and values, the Art Circle of People's Bank organised a book exhibition and fair to commemorate the National Reading Month in October. The objective was to inculcate the habit of reading among the bank's stakeholders.

The event was patronised by a large number of senior officials, staff members and customers. Members of the Corporate and Executive Management including the Chief Executive Officer/General Manager of the Bank graced the occasion.



### INTER-BRANCH/DEPARTMENTAL QUIZ

The Inter Branch/Departmental Quiz held at the Golden Rose Reception Hall, Boraesgamuwa was organised for the 14th consecutive year by the Corporate Banking Department. A total of 88 teams representing various branches and departments of the Bank participated in the competition. The team from Colombo Outer RHO emerged winners bagging the CEO/GM Trophy in 2017.

The competition, which enables the employees to showcase their expertise on contemporary issues governing the banking landscape, is aimed to enhance employees' knowledge on banking and finance. This also empowers the employees to play an active role in the ongoing digital transformation of the Bank.

The Enterprise Banking Department in the head office and the Nuwara Eliya RHO team emerged 1st and 2nd Runners-up while the Colombo North RHO and Head Office Channel Management Department secured the 3rd and 4th Runners-up positions respectively.



### FUTURE OUTLOOK

We will continue to enhance our Human Resource Management process and position our Bank as a most sought after employer in Sri Lanka. We will also nurture an outstanding team of employees who are the best in the industry.

# SOCIAL AND RELATIONSHIP CAPITAL

**HIGHLIGHTS FOR 2017**



**18.6** million  
Customer Accounts



**118**  
Business Partners

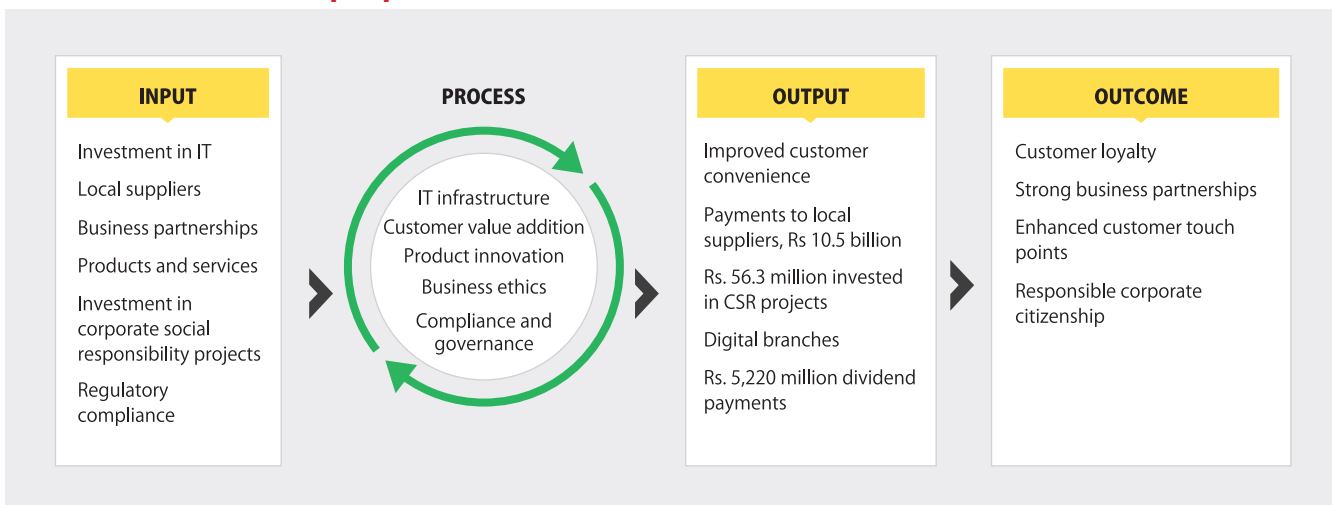


Rs. **56.3** million  
invested in community  
development projects.

## DELIVERING VALUE TO OUR CUSTOMERS, BUSINESS PARTNERS, INVESTORS AND THE SOCIETY AND ENVIRONMENT

Social and relationship capital at our Bank encompass relationships we fostered mainly with our investors, customers, business partners and the community. We continually strive to deliver limitless opportunities in order to generate increased value to our stakeholders as this is crucial for our continued success.

### Our Social and Relationship Capital Value Creation Process



## INVESTOR CAPITAL

### HIGHLIGHTS FOR 2017



Rs. **5,220** million  
dividends paid to shareholders

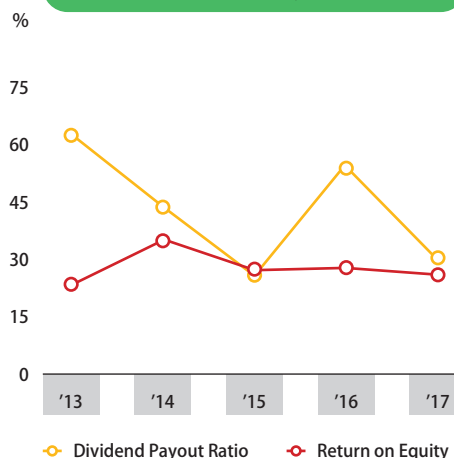


Return on Equity increased to  
**26.6%**

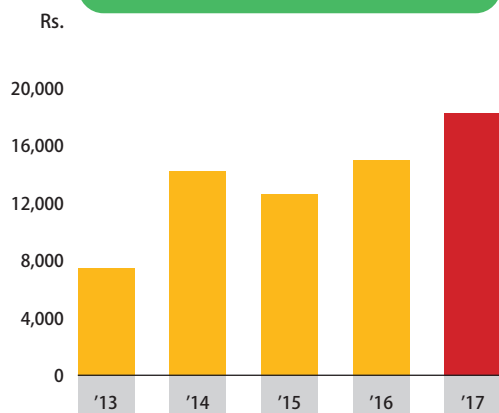
### INVESTOR CAPITAL STATISTICS

	2017	2016	2015	2014	2013
Dividend Payment (Rs. million)	5,220	8,220	3,220	6,220	4,720
Earnings per Share (Rs.)	18,250	14,995	12,598	14,219	7,488
Dividend Payout Ratio (%)	28.6	54.8	25.6	43.7	63.0
Return on Assets (%)	1.9	1.7	1.8	1.8	1.1
Return on Equity (%)	26.6	27.5	27.1	35.5	22.8

### DIVIDEND PAYOUT RATIO AND RETURN ON EQUITY



### EARNINGS PER SHARE



### INVESTOR CAPITAL MANAGEMENT

Investors are stakeholders who invest capital with the expectation of a future financial return. Our investors are imperative for our value creation process as they provide the necessary capital needed for our operations. Therefore, we continually strive to deliver optimised returns by growing our business and delivering healthy and sustainable returns. We also maintain a high level of integrity and transparency in our operations.

### SHAREHOLDER PROFILE

Our principal shareholder is the Government of Sri Lanka holding a 92.27% stake and the balance 7.73% is held by Cooperative Societies.

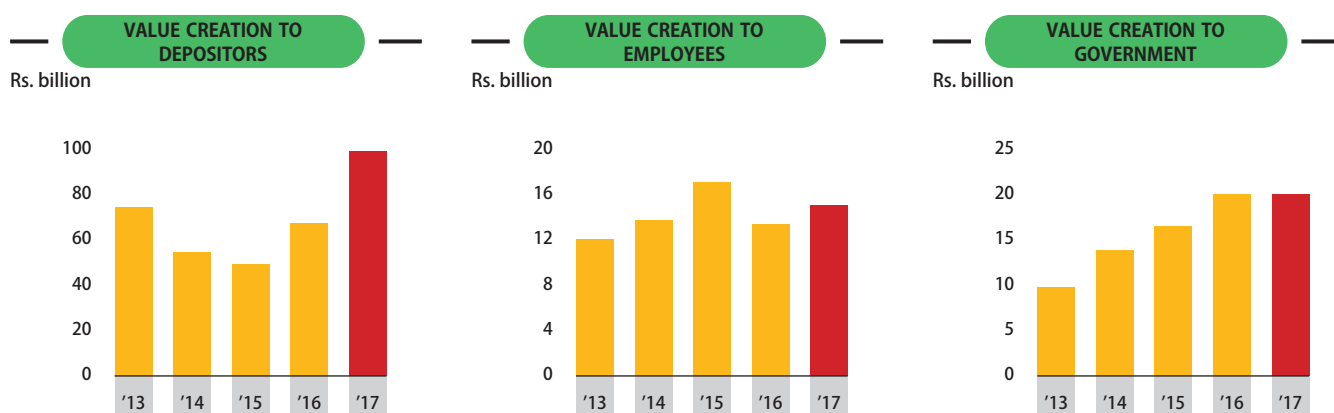


## DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTION

The table below shows the Bank's contribution to the Sri Lankan economies in the past five years

For the year ended December 31,	2017 Rs. '000	2016 Rs. '000	2015 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Sources of Income</b>					
Interest	149,184,471	109,970,256	92,485,979	84,479,961	110,440,562
Exchange	2,119,499	2,572,743	3,050,646	1,598,506	1,418,430
Commission and Fees	5,132,907	3,948,052	3,712,146	3,820,242	3,478,015
Capital Gain	125,763	531,921	305,011	1,042,108	396,910
Other	5,602,657	5,091,388	4,095,182	5,436,664	10,135,606
<b>Total</b>	<b>162,165,297</b>	<b>122,114,360</b>	<b>103,648,964</b>	<b>96,377,482</b>	<b>125,869,523</b>
<b>Utilisation of Income</b>					
To Depositors as Interest	98,718,636	66,845,869	48,731,974	54,362,126	73,791,102
To Employees as Emoluments	15,425,116	13,633,514	17,377,025	14,005,555	12,384,396
To Providers of Goods and services	10,491,130	8,588,379	7,160,999	7,414,998	7,719,560
Net Impairment Loss on Financial Assets	2,678,366	1,246,748	3,739,914	(1,430,440)	13,716,320
To Government – Taxes, Special Levy and Dividend	20,513,116	20,515,560	16,834,192	14,125,646	10,039,483
To Community	56,317	40,269	39,461	24,675	14,735
Retained for growth	14,282,615	11,244,022	9,765,398	7,874,923	8,203,927
<b>Total</b>	<b>162,165,297</b>	<b>122,114,360</b>	<b>103,648,964</b>	<b>96,377,482</b>	<b>125,869,523</b>

Note: Above figures has been derived from the Audited Financial Statements that were prepared based on the Sri Lanka Accounting Standards (SLFRS/LKAS)



## ECONOMIC VALUE ADDED (EVA)

EVA is the true economic profit or the value created exceeding the required return for the Company's shareholders. We remain committed to delivering the highest value to our shareholders through efficient use of capital and higher profits. The EVA created in 2017 amounted to Rs. 34.9 billion.

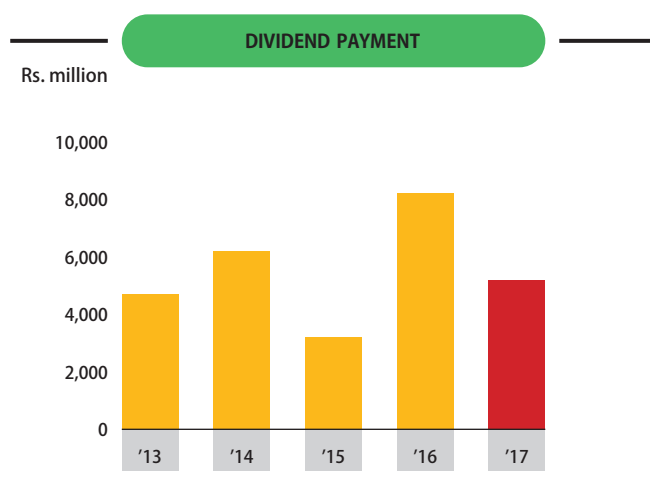
For the Year Ended 31st December	2017 Rs. '000	2016 Rs. '000	Change %
<b>Invested Equity</b>			
Shareholders' Funds	77,456,726	59,648,856	29.9
Add: Cumulative Provision for Loan Losses/Provision for Impairment	61,604,938	60,295,848	2.2
<b>Total</b>	<b>139,061,664</b>	119,944,704	15.9
<b>Earnings</b>			
Profit After Tax	18,249,777	14,994,691	21.7
Add: Loan Losses and Provisions/Impairment Provision	2,678,366	1,246,748	114.8
Less: Loans written off	(104,512)	(103,986)	0.5
<b>Total</b>	<b>20,823,631</b>	16,137,453	29.0
Cost of Equity (Based on 12 months Weighted Average Treasury Bill + 2% for Risk Premium)	10.9%	12.2%	
Cost of Average Equity	14,115,847	14,005,160	0.8
Economic Value Added	34,939,478	30,142,613	15.9

## DIVIDEND PAYMENT AND DIVIDEND POLICY

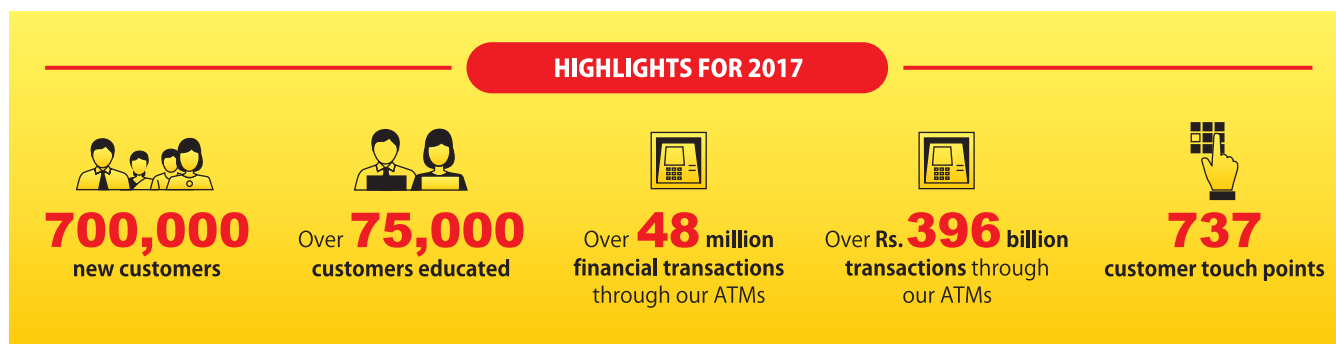
As per our dividend policy we provide a dividend that is fair both to the shareholder and us. Dividend payment for 2017 amounted to Rs. 5,220 million. We ensure wealth maximisation for our shareholders by maintaining an optimal balance between dividend payment and retention.

## FUTURE OUTLOOK

We will continue to create shareholder wealth through sustainable and constant growth levels. We will do this by generating increased profits, delivering attractive financial returns whilst effecting improvements to governance.

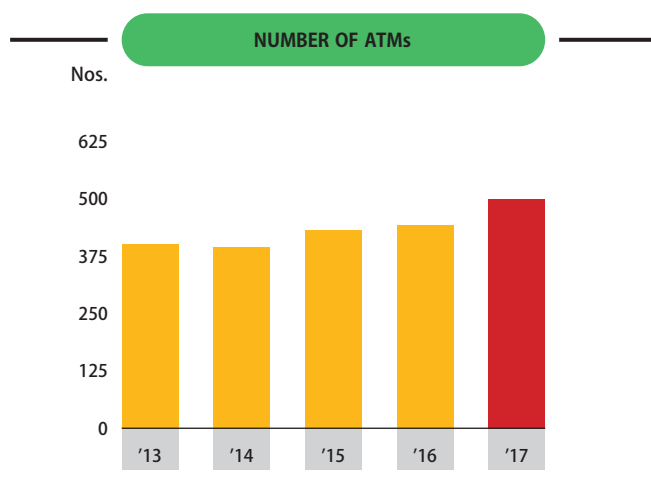


## CUSTOMER CAPITAL



### CUSTOMER CAPITAL STATISTICS

	2017	2016	2015	2014	2013
Number of Customer Accounts (million)	18.6	17.9	16.7	16.1	15.3
Number of Branches	737	737	740	739	735
Number of ATMs	572	506	492	469	460
Customer Deposits (Rs. million)	1,244,003	1,072,812	899,238	793,342	762,249
Interest Paid (Rs. million)	98,719	66,846	48,732	54,362	73,791
Customer Advances (Gross) (Rs. million)	1,074,248	950,824	829,234	685,310	681,467



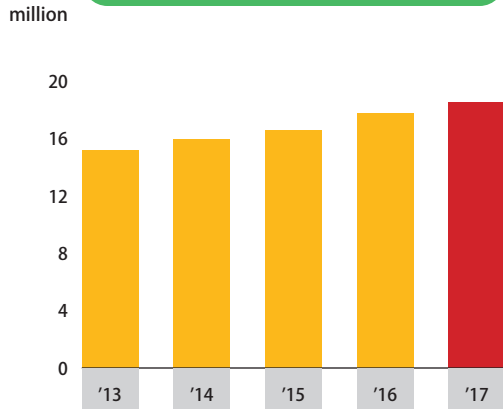
### CUSTOMER CAPITAL MANAGEMENT

We build long-term customer relationships based on trust and understanding of our customers' needs. Therefore, we combine our financial expertise with a deep understanding of our customers' needs to design and deliver innovative, industry-leading services that increase customer value. People's Bank is differentiated by our investment in customer relationships, innovation, digitalisation and operational and service excellence.

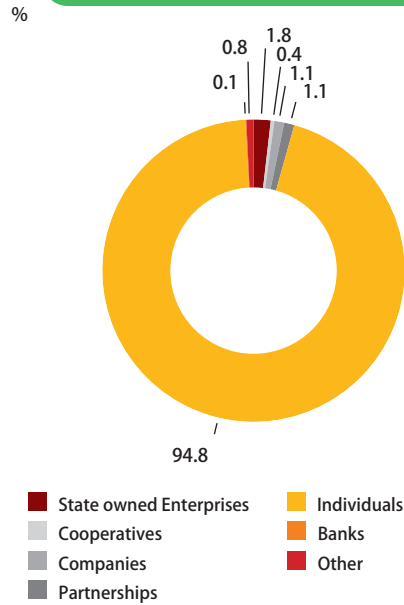
### ANALYSIS OF OUR CUSTOMERS

We serve approximately 19 million customers across the nation with our island-wide branch network. Despite intense competition in the banking industry, we have grown our customer base sustainably over the years, which is a reflection of customer's trust and loyalty towards our Bank and our strong brand reputation. We serve diverse customer segments, covering all ages and all sectors of the economy. Our customer base increased by 4% to 19 million, year on year (YoY) in 2017, compared to 18 million in 2016. Majority (52%) of our customers were from the housing and property development industry followed by the agricultural industry. In terms of geographical dispersion, the largest customer concentration was from Colombo.

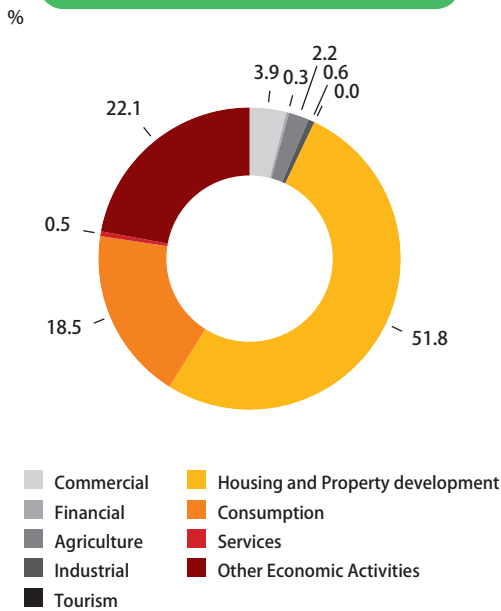
**NUMBER OF CUSTOMER ACCOUNTS**



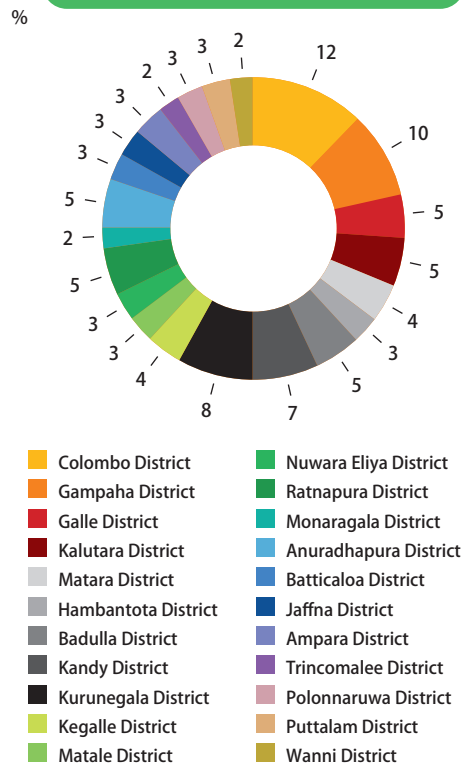
**CUSTOMERS BASED ON INSTITUTIONS – 2017**



**CUSTOMERS BASED ON INDUSTRY – 2017**



**CUSTOMER ACCOUNTS BY GEOGRAPHICAL DISTRIBUTION – 2017**



## OUR PRODUCT AND SERVICE OFFERING

We provide an innovative, flexible and cost effective product offering that cater to every life stage of our customers. As we aspire to be the foremost financial institution in Sri Lanka, we provide an inclusive and dynamic range of products and services as summarised below:

### OUR PRODUCTS AND SERVICES

#### CONSUMER BANKING

##### Deposits Products

- ▶ **Current Accounts**
- ▶ **Savings**
  - Isuru Udana
  - Sisu Udana
  - Yes
  - Vanitha Vasana
  - JanaJaya
  - Aswenna
  - Parinatha
  - People's Relax
  - Normal Savings
- ▶ **Fixed Deposits**
- ▶ **Call Deposits**
- ▶ **Foreign Currency Deposits**

##### Advances

- ▶ **Personal Loans**
- ▶ **Term Loans**
- ▶ **Housing Loans**
- ▶ **Pawning**

##### Other

- ▶ **Credit/Debit Cards**
- ▶ **Gift Vouchers**
- ▶ **Mobile Banking/SMS Banking**
- ▶ **Internet Banking**

#### ENTERPRISE BANKING

- ▶ **Current Accounts**
- ▶ **Savings Accounts**
- ▶ **Fixed Deposits**
- ▶ **Overdrafts**
- ▶ **Term Loans**
- ▶ **SME Loans**
- ▶ **Development and Micro Finance Loans**
- ▶ **Trade Finance**

#### WHOLESALE BANKING

- ▶ **Current Accounts**
- ▶ **Savings Accounts**
- ▶ **Fixed Deposits**
- ▶ **Overdrafts**
- ▶ **Term Loans**
- ▶ **Trade Finance**
  - Import/Export Financing
  - Shipping and Bank Guarantees
  - Facilities for International Trade Payments (Letter of Credit, Acceptances)

#### TREASURY AND INVESTMENT BANKING

- ▶ **Money Market Activities**
- ▶ **Trading of Government Securities**
- ▶ **Repurchase Transactions on Government Securities**
- ▶ **Foreign Exchange Transactions**
- ▶ **Derivative Transactions**  
(Forward Exchange Contracts, FX Swaps)
- ▶ **Investment Banking**  
Debt Structuring, Advisory Services  
Trustee Services

#### INTERNATIONAL OPERATIONS

- ▶ **Trade Services**
- ▶ **Overseas Customer Services**
- ▶ **Foreign Currency Remittances**
- ▶ **Foreign Currency Deposits**
- ▶ **International Payment and Settlement Services**

## PRODUCT AND SERVICE LABELING AND MARKETING COMMUNICATIONS

We respect customers' rights to have fair and accurate information. Therefore, we disseminate clear, accurate, timely and relevant information about our products and services, enabling our customers to make informed decisions. The Bank's Customer Charter has been formulated in conformance to the requirements of the Central Bank of Sri Lanka. We also ensure all terms and conditions applicable to our products and services are delivered simply and are easily understood. Information pertaining to interest rates on deposits and advances, exchange rates and other applicable charges are published on our corporate website and revised daily. Our brochures which include information about our products and relevant terms and conditions are printed in all three languages (Sinhala, Tamil and English) and are made available at all our branches. In addition, our Call Centre provides necessary information about our products and services to customers. Our marketing communications which include advertising and promotions is designed according to the Bank's Corporate Communication Policy.

Our marketing communications are conducted in all three languages and we ensure that our marketing communication material does not contain any information that could mislead the public. All our communications are based on principles of ethical and responsible advertising displaying consistency to Bank's branding guidelines. All marketing communications are subject to strict scrutiny and a multi-level approval process prior to publication.

During the year under review, there were no incidents of non-compliance pertaining to product and service labelling, marketing communications, or any voluntary codes or other guidelines.

## CUSTOMER TOUCHPOINTS

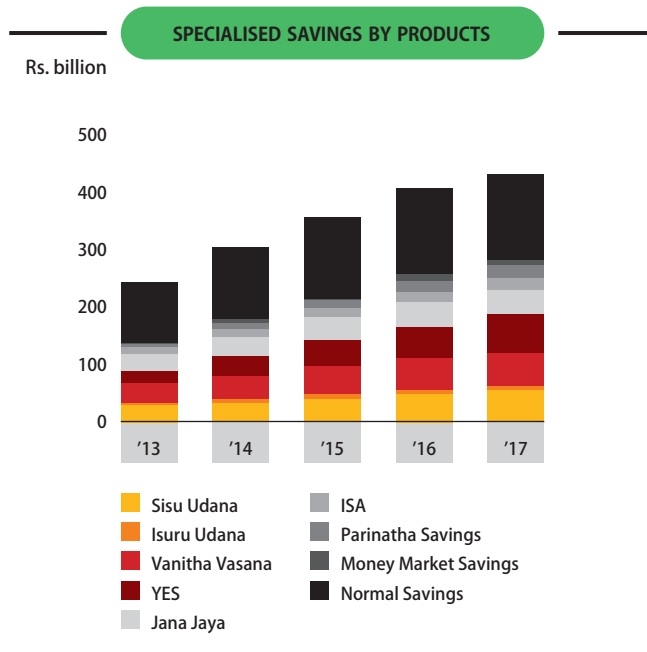
We offer our customers a wide range of financial solutions, through our network of branches which is the most expansive banking network in Sri Lanka. In addition, we have setup multiple channels to connect with our customers. These include our 1,287 school offices, 572 ATMs, 96 kiosk machines and 121 CDMs. During the year, we expanded our network by adding 66 ATMs, 94 self service kiosks and 116 CDMs. The branch refurbishment programme continued successfully during the year, in order to offer a convenient, comfortable, modern banking environment with disability access and many other additional features. During the year over 48 million transactions were conducted to the value of Rs. 396,518 million through our ATM network.

The performance of our branches is monitored by the Channel Management Department based on KPIs, including, business growth, customer service, turnaround times and non-performing loans. Every quarter, the best performing branches are selected and rewarded for their performance, which helps to drive employee motivation. In addition, the Internal Audit Department visits branches to ensure the effectiveness and efficiency of internal controls and risk management mechanism in place.

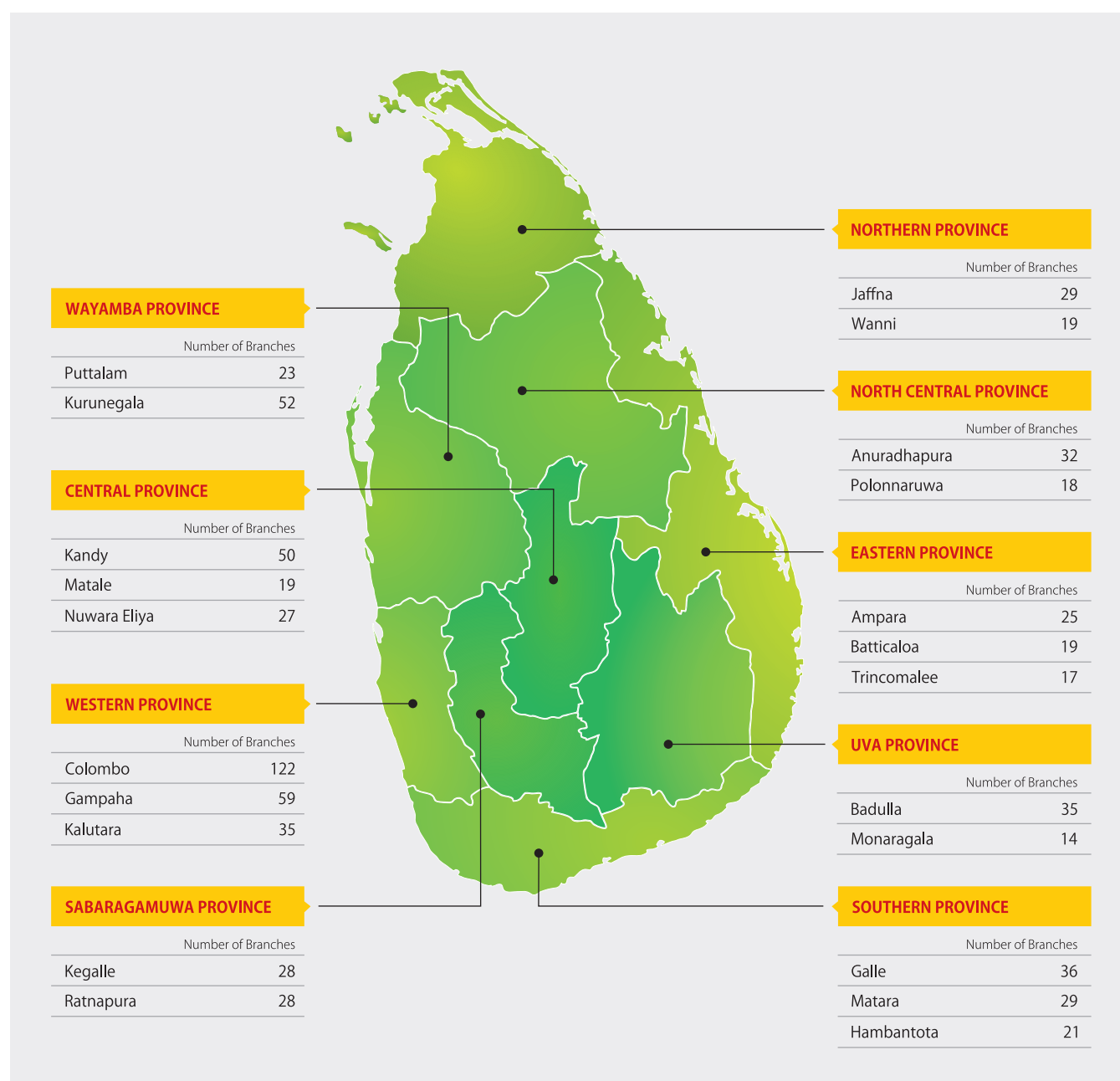
## INCLUSIVE BANKING

We are the first financial institution in Sri Lanka to open doors to the economically disadvantaged regions in our nation. This is why we've had a presence in the Northern and the Eastern Provinces for over 55 years, way before the end of the ethnic conflict and entry of other financial institutes to the region. Our staff members serving in these regions are well conversant in all three languages and all marketing communications are conducted in all three languages as well. Additionally 138 of our branches provide convenient access and services to differently-able customers.

We are also specialised in launching products to underserved customer segments in our nation. We are the pioneers to launch specialised products for women and minors. Although, many financial institutions are now operating in this space, we still hold a significant market share in this segment.



	All Provinces	Economically Disadvantaged Regions		
		Northern	Eastern	Uva
Number of Branches	737	48	61	49
Number of ATMs	572	28	32	34
Number of CDM	121	2	4	4
Number of Kiosk	96	2	4	4
Advances (Rs. millions)	1,074,248	25,852	44,950	23,382
Deposits (Rs. millions)	1,244,003	44,107	40,572	40,696



## MULTI-CHANNEL BANKING

As per our corporate strategy we provide multiple channels for our customers to engage with our Bank. Whilst strengthening our Internet and mobile banking solutions we launched the digital banking platform – the first ever in Sri Lanka during the year under review.

### 1. Digital Banking

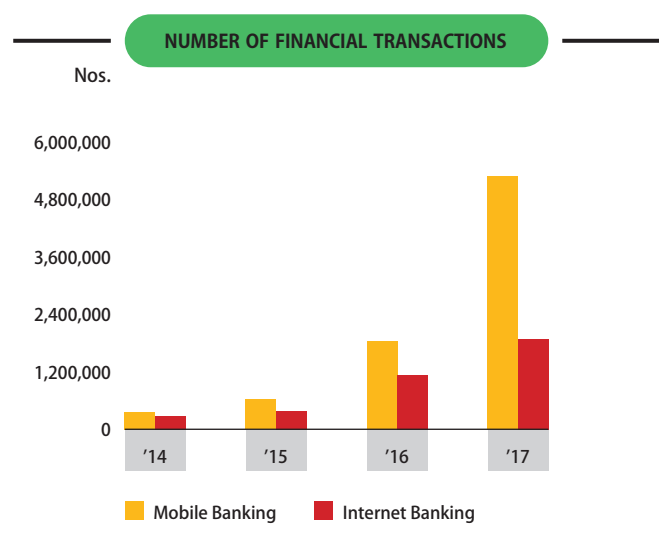
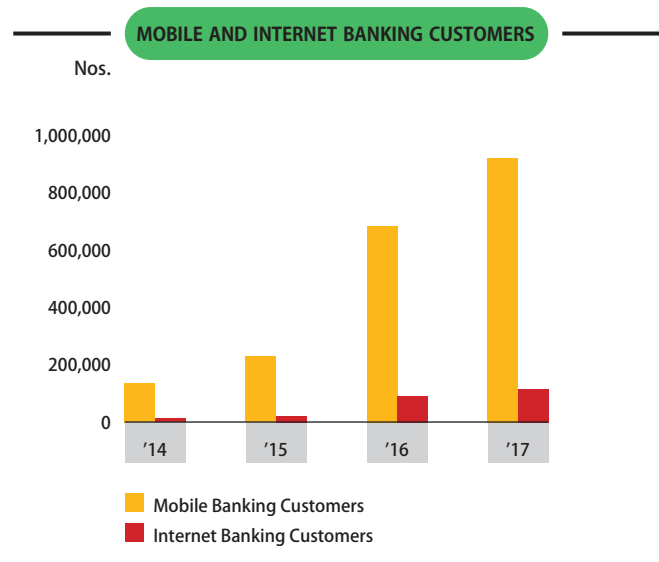
We demonstrated our leadership status by initiating digitalisation, in alignment with the latest consumer and market trends. The launch of Sri Lanka’s first digital centre with Express Banking allows us to bring the benefits of digital banking to all our stakeholders across our wide customer base; from rural farmers to leading corporates. As the country’s first digitalised State Bank, we are confident that Sri Lanka would reap rich dividend through a digital economy.

Customers are enabled to enjoy the benefits of Express Banking, learn how to conduct transactions in real time from the opening of an account to getting instant access to e-statements, SMS alerts, debit cards, cash deposit and withdrawals, fund transfers, bill payment via Mobile, Internet banking and Kiosk machines and a variety of other beneficial services. Once our entire network is fully operational, our customers will be able to transact with us 24 hours of the day in a fast, convenient, accurate and economical manner.

Additionally, we have deployed our staff to take digital banking to the doorstep of rural consumers facilitating transactions on their mobile devices. We will be opening more fully digitalised branches in the ensuing year, thus fulfilling our sustainability pledge to reduce our carbon footprint and promote paperless banking. Additionally, digital banking would reduce crowding and queuing within branches thus increasing the productivity of our branches.

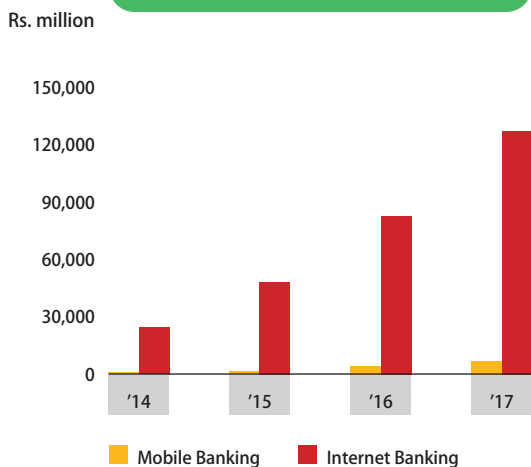
### 2. Mobile Banking and Internet Banking

Our Internet banking system was enhanced with more user-friendly features whilst strengthening transaction security. Also, there was significant increase in Internet banking customers in 2017.

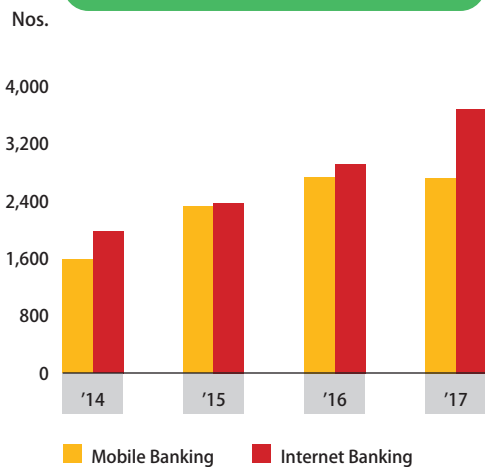




**VALUE OF FINANCIAL TRANSACTIONS**



**NUMBER OF NON-FINANCIAL TRANSACTIONS**



Our multiple channels of distribution are shown below:



**OUR CALL CENTRE**

In keeping with our innovative approach to banking, we launched Sri Lanka's first ever 24-hour Call Centre to deliver increased convenience to our customers. The Call Centre which was launched in March 2017, fulfils a long-felt need and our commitment to continually raise the bar of customer service standards across the banking industry.

Our customers and the general public can get connected with our Call Centre by simply dialing 1961, 24 hours of the day and reach our staff members to obtain a range of banking related information such as products and services, credit and debit card balances, activation and deactivation of cards, enhancing credit card limits, opening and closing times of selected branches, their locations and make customer complaints. Our services are provided in all three languages.

The Call Centre also serves the Bank's non-resident customers who can access the Centre by dialing +94 11 203 1001.

During the year, the Call Centre handled on average, over 2,000 calls per day and the average time taken to answer each call was one second.

## CUSTOMER EDUCATION

Through structured customer education programmes and customer engagement initiatives, we strive to bridge the social and digital barrier to banking. During the year, several multi-disciplinary programmes were conducted to add value to over 75,000 customers across the island as detailed in the following table.

Programme/Initiative	Objective/Description	Region/District	Number of Participants
Women's "Vanitha Vasana" Workshop	To raise awareness on Women's safety and protection, family nutrition, financial discipline, attitude and personality development.	Galle, Kandy, Kegalle, Ambalangoda	Over 1,000
Sisu Udana Grade 5 Scholarship seminar programme with "Sujaya" newspaper	Educate students and their parents about Grade 5 Scholarship	84 seminars across the island	Approximately, 50,000 students and 25,000 parents
Entrepreneur Glory for SME Customers	Educate customers on the areas of Banking, Financial Accounting, Financial Management, Marketing, Business Strategic and Taxation	Polonnaruwa, Gampaha, Monaragala	525 customers



Sisu Udana Grade 5 Scholarship seminar programmes with "Sujaya" newspaper for all island students



Entrepreneur Glory Programmes for SME customers at Galle, Kandy, Kegalle and Ambalangoda Districts

### CUSTOMER SATISFACTION

The services of an independent market research organisation was obtained to conduct a customer survey to ascertain customers’ attitude and perception about our Bank in 2017. The objectives were to capture the Bank’s overall brand equity, levels of customer awareness about our CSR projects, level of satisfaction received through our branches and usage of our products and services. Overall the Bank achieved a rating of 3.5 on the brand equity index indicating a strong brand equity for People’s Bank.

The survey identified the areas of improvement required to build our brand equity such as product differentiation and customised products to suit specific customer needs, friendly and supportive customer service, convenience, and improved branch services. Accordingly, measure were taken to address the identified gaps in customer expectations.

### HANDLING CUSTOMER GRIEVANCES

We strive to resolve customer complaints fairly, effectively and speedily which is essential to enhance customer satisfaction. We have in place a structured customer complaint and grievance procedure which is communicated to all our customers via our branches and our corporate website. In the event, the efforts taken by the Bank to resolve a certain grievance is unsatisfactory to the customer, the customer can elevate the grievance to the Financial Ombudsman, whose contact details are displayed at every branch.

In addition, we operate a 24 hour customer service hotline and a dedicated Customer Complaint Handling Unit to ensure that all grievances are recorded and responded within a specific time period. The grievances are first directed to the relevant regional manager who is responsible for investigating and responding to the grievances. Recurring complaints and grievances pertaining to employees are directed to the Bank’s Internal Investigations and Inquiries Department for review and action. The employees are informed about customer complaints via monthly branch managers conferences and corrective action is recommended to avoid repetition.

We have also set up a Central ATM Control Department to monitor complaints pertaining to breakdown of ATMs. A robust mechanism has been initiated to ensure every breakdown is reported to the relevant branch and prompt action is taken within a reasonable time. Average uptime of our ATMs was 99.9%.

### Details of Customer Complaints received in 2017

Details	Numbers
Number of Customer Complaints Received	251
Number of Customer Complaints Resolved	214
Pending complaints	
– Pending Investigation	17
– Pending Legal Cases	3
– In Progress	17

---

## **CUSTOMER HEALTH AND SAFETY**

We take maximum care to design our products and services to minimise any impacts to health and safety of our customers, although the nature of such impact cannot be easily evaluated due to the nature of our business.

## **CUSTOMER PRIVACY**

Being a financial institution, we handle large volumes of sensitive information from a wide range of banking transactions. We, therefore, strive to protect customer privacy and maintain a high standard of confidentiality.

## **SALE OF BANNED OR DISPUTED PRODUCTS**

We operate in strict compliance to the CBSL customer charter. Hence, we do not sell or market products or services which are banned in the market or subject to stakeholder or public debate. We do not finance any illegal project which is documented as illegal in our credit policy.

## **OVERALL COMPLIANCE OF ALL ASPECTS PERTAINING TO PRODUCT RESPONSIBILITY**

During the year under review, the bank has complied with all the applicable regulations and voluntary codes concerning product and service information, labeling, health and safety of products and services, marketing communications and protection of customer privacy.


Therefore, there were no any warnings issued against the bank and/or fines/penalties charged from the bank during the year.

## **FUTURE OUTLOOK**


We will continue to relentlessly push boundaries and drive innovation to evolve services in line with customer expectations. As the Bank with the largest customer base in Sri Lanka, we will empower a large proportion of the population to become financially aware and empowered by our digital technology backed financial solutions. We will also continually raise the bar in customer service standards by delivering an exceptional customer service every time.

## BUSINESS PARTNERS


HIGHLIGHTS FOR 2017




Over **20** years  
relationship with  
26 correspondence  
banks



Over **20** years  
relationship with  
45 franchise  
agents



Rs. **10.5** billion  
value created for suppliers



**22.2%**  
increase in value  
delivered to suppliers

### Business Partner Capital Statistics

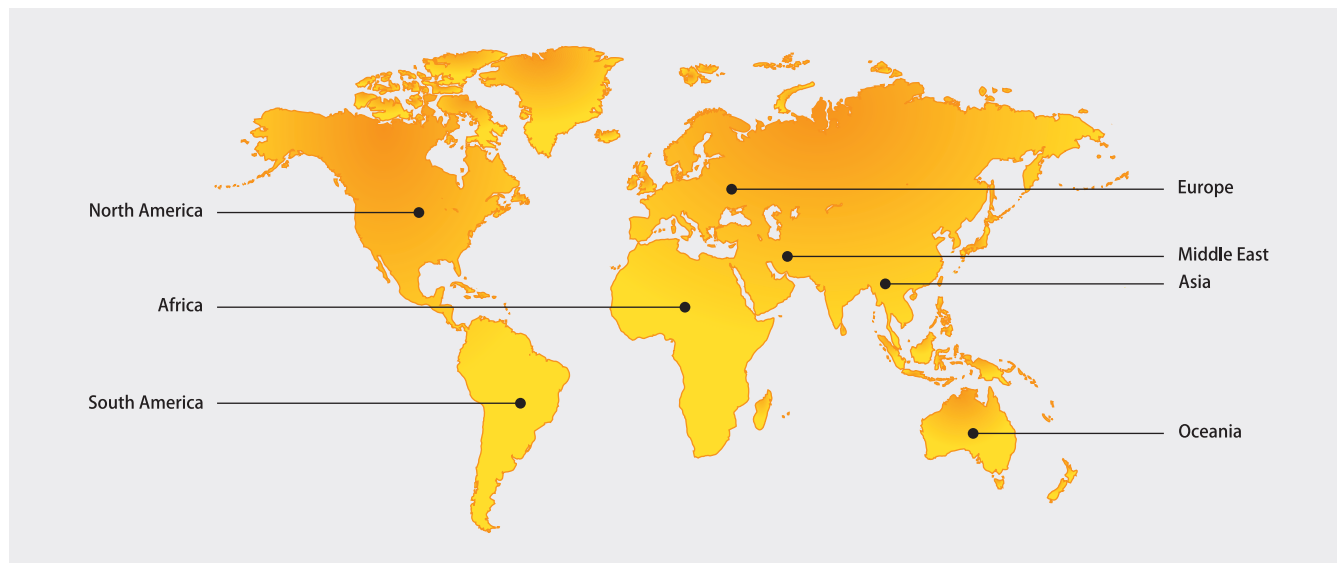
	2017	2016	2015
Number of Registered Suppliers	662	363	217
Number of Correspondent Banks	46	49	49
Number of Vostro Agents	72	70	71
Payments to Suppliers (Rs. billion)	10.5	8.6	7.2

### GLOBAL PARTNERSHIPS

We have facilitated our global reach by a network of 46 correspondence banks and 72 exchange houses across 108 nations around the globe. Our correspondent banks comprise world's largest financial institutions whilst our exchange houses facilitate remittances from Sri Lankan working abroad. The partners are selected following a stringent evaluation process. We also have clearly articulated agreements with our global partners on which our operations are based on.

### BUSINESS PARTNER CAPITAL MANAGEMENT

Our business partners comprise, suppliers, correspondence banks and franchise partners. Business partners are vital for the smooth functioning of our operations. Therefore, we have successfully built long-term relationships with a range of business partners who play an important role in our value creation process. We develop mutually beneficial relationships and follow ethical business practices. We also strive to select local suppliers and services from the localities of our branches and deliver increased value to them.

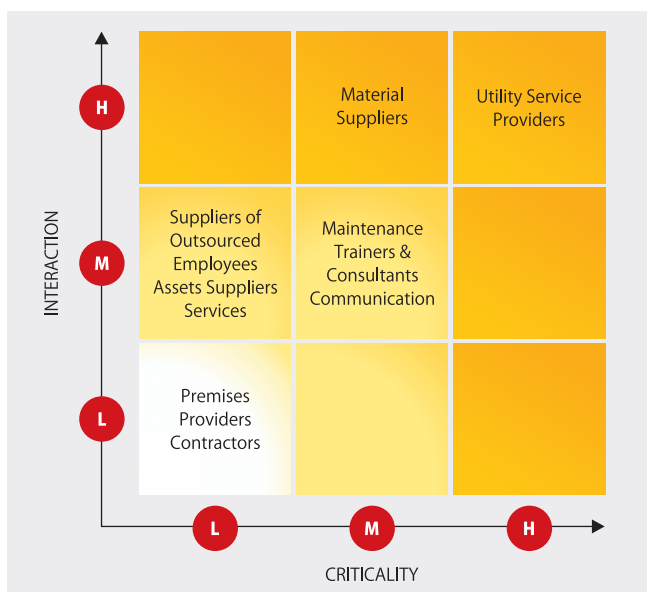


### SUPPLY CHAIN MANAGEMENT

We follow a formal Board approved tender procedure to select suppliers. Each year, new suppliers are registered, by calling for public tenders followed by a stringent assessment process which includes quality parameters, cost implications and compliance to environmental and labour regulations.

We maintain different levels of communication with our suppliers, based on the level of dependence and the level of interaction required to achieve our strategic goals.

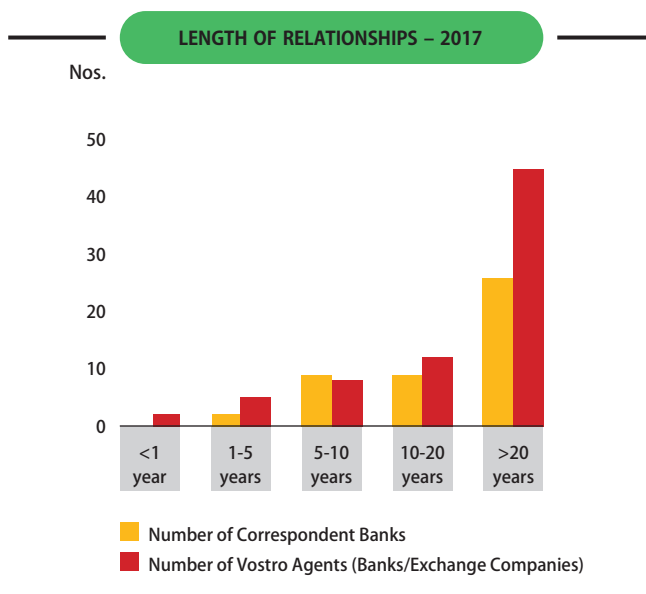
#### Supplier Prioritisation Matrix



### BUSINESS PARTNER RELATIONSHIPS

We have nurtured mutually beneficial, strong relationships with 46 correspondence banks and 72 franchise agents. In particular, we have maintained long-term relationships spanning over 20 years with 26 correspondence banks and 45 franchise partners.

	Length of Relationships (Years)				
	< 1	1 - 5	5-10	10-20	> 20
Number of Correspondent Banks	0	2	9	9	26
Number of Vostro Agents (Banks/Exchange Companies)	2	5	8	12	45



### MEMBERSHIP IN INDUSTRY ASSOCIATIONS:

We have memberships in several organisations which enables us to keep abreast of local and international best practices in the banking industry.

We are members of the following organisations:

- Asia Pacific Rural & Agriculture Credit Association
- The Association of Compliance Officers of the Bank, Sri Lanka
- The Financial Ombudsman Sri Lanka (Guarantee) Ltd.
- Institute of Bankers of Sri Lanka
- The Ceylon Chamber of Commerce
- Sri Lanka Bank's Association (Guarantee) Ltd.
- The Association of Banking Sector Risk Professionals – Sri Lanka
- Clearing Association of Bankers
- Employers' Federation of Sri Lanka
- Association of Primary Dealers

### ETHICAL PRACTICES

We follow a transparent tender procedure for procurements. We also treat all information pertaining to our suppliers with confidentiality. Environmental and social concerns are embedded into our procurement process and we require our suppliers, contractors and consultants to maintain highest standards of ethics. To the best of our knowledge, we have not come across any incidents of forced labour or child labour related issues with regard to our suppliers. We also ensure our suppliers are paid on time.

### FUTURE OUTLOOK

We will continue to strengthen the relationships with our business partners and follow ethical business practices.

## COMMUNITY CAPITAL

### HIGHLIGHTS FOR 2017



Invested Rs. **56.3** million  
on corporate social responsibility  
(CSR) projects



**51,375**  
community based development  
loans granted

### Community Capital Statistics

	2017	2016	2015
Investment in CSR (Rs. million)	56.3	40.3	39.5
Community-Based Development Loans (Nos.)	51,375	62,943	61,879
Community-Based Development Loans (Rs. million)	10,480	13,169	12,399

### COMMUNITY CAPITAL MANAGEMENT

As a responsible corporate citizen, we consider it our responsibility to make a positive difference to the communities around us. Therefore, we ensure that we do not exert a negative impact on the environment and community through our operations. As one of the largest financial institutions in Sri Lanka, we make a significant contribution to national economy extending financial facilities to uplift the standard of living of people and promoting entrepreneurship. We also create job opportunities for individuals island wide and develop their skills and talents through training and development.

In particular, our commitment to uplift underprivileged communities in our nation through developing arts and culture, healthcare and education remains key areas of focus.

### SOCIAL RESPONSIBILITY

We work on structured CSR programmes to uplift communities around us. During the year, we invested Rs. 56.3 million on welfare initiatives through the Bank's CSR budget. The initiatives were focused on uplifting arts and culture, education, health and other social activities. The details are given in the table below:

### Investment in CSR Projects in 2017

Category	Description	Amount Rs. '000
Arts and Culture	Main sponsor of the Kandy Esala Maha Perahara, contribution and sponsorships to numerous religious and cultural activities in the localities	17,283
Health	Dengue prevention	282
Education	Distribution of school books and stationery, improving school infrastructure, other sponsorships and donations to underprivileged schools	3,720
Other Social Activities	Donations to housing projects, community centres, flood donations and other sponsorships	35,032
<b>Total</b>		<b>56,317</b>



People's Bank has come forward as the main sponsor for the historical Kandy Esala Perahera. People's Bank continuously offered this sponsorship towards the iconic cultural pageant culminating perennial customs and traditional dances.



A house constructed in Ganithapura, Warakapola and handed over to a poor family by the Muslim Majlis of People's Bank.



As torrential rains recently affected fifteen districts of the Island, People's Bank expeditiously contributed to aid those who were victimised.



Construction of a Cultural Centre at Sivapuram, Thiruketheeswaram, Mannar by the People's Bank Hindu Society.

### COMMUNITY-BASED DEVELOPMENT LENDING

Partnering several Non-Governmental Organisations (NGOs) and Government organisations through refinance loan schemes, we provide financial assistance to specific industry sectors by delivering social benefits. These facilities are granted primarily through the SME Development Unit and the Microfinance Units of our Bank. During the year, 51,375 loans were extended to numerous industries, supporting employment generation, spurring cottage industries and developing Sri Lanka's agricultural sector. 65% of the loans were extended to fund economic activities.

Industry Sector	As at End December 2017			
	Funded by the Bank		Funded through Refinance Schemes	
	No. of Loans	Outstanding Amount Rs. million	No. of Loans	Outstanding Amount Rs. million
Agricultural	9,663	4,740.8	4,824	703.8
Commercial	14	2.4	928	236.9
Consumption	1	0.1	4	0.3
Financial	-	-	12	2.2
Housing and Property Development	2	0.1	8	0.7
Industrial	803	22.7	1,006	198
Other Economic Activities	29,661	4,178.8	3,849	280.4
Services	42	1.8	545	103.9
Tourism	2	0.1	11	6.3
<b>Grand Total</b>	<b>40,188</b>	<b>8,946.7</b>	<b>11,187</b>	<b>1,532.5</b>

### FUTURE OUTLOOK

We will contribute towards Sri Lanka's economic and social development through our investments in community and social development initiatives.



# NATURAL CAPITAL

**HIGHLIGHTS FOR 2017**



Opened  
**342,327**  
YES Accounts

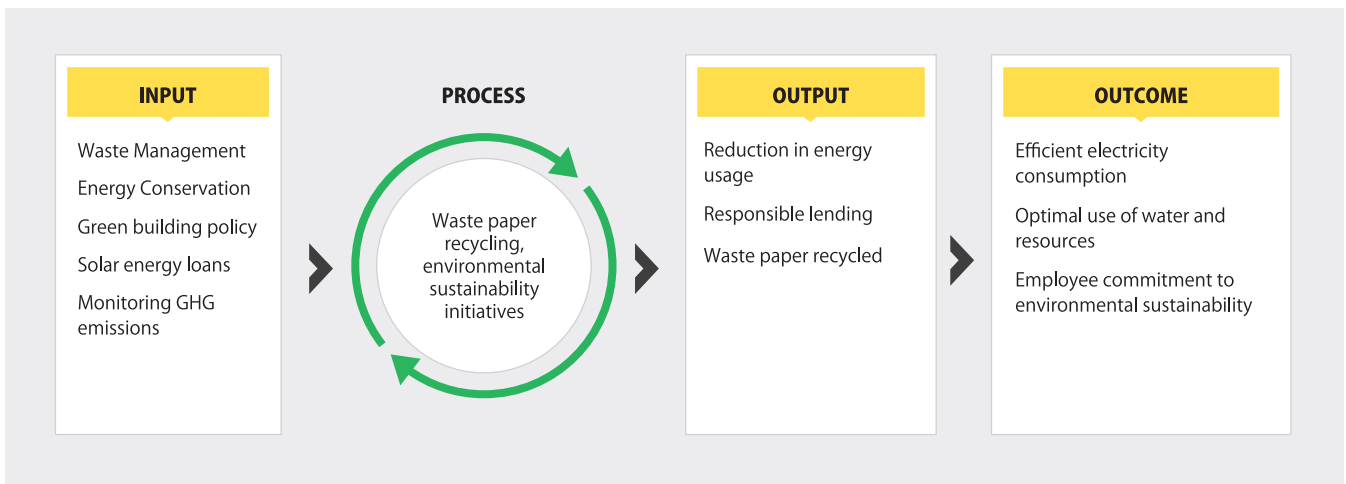


Introduced  
the **Green Building Policy**



Airconditioner gas  
refills reduced by  
**86%**  
compared to 2016

## OUR NATURAL CAPITAL VALUE CREATION PROCESS



### NATURAL CAPITAL MANAGEMENT

Being a financial services institution, we have a minimal impact on the environment. However, we adopt a comprehensive environmental sustainability policy to measure, manage and mitigate the environmental impact. We remain committed to reducing our greenhouse gas emissions through an extensive carbon management programme rolled out over three years. Having conducted assessments aligned with global protocols and standards, we are focused on energy, waste and increasing the efficiency of products, services and other resources. Additionally, through our green banking concept – “People’s Green Pulse” we offer concessionary lending to environmentally-friendly business projects and promote the digital banking drive.

### CARBON FOOTPRINT

We are committed to reducing the Greenhouse Gas (GHG) emissions from our operations. In 2016, we introduced an extensive Carbon Management Programme to effectively, measure, manage and mitigate our carbon footprint rolled out over three years.

With the expert guidance and support from a leading sustainability solutions provider – The Carbon Consulting Company, we are now in the second year of this Programme. Progress is made towards obtaining “CarbonConscious® Bank” certification through sustainability verification and certification services provider, The Sustainable Future Group. As part of the requirement of the certification, we have implemented a comprehensive management plan to establish objectives and identify initiatives to mitigate our overall environmental impact.

The Scope 1 and Scope 2 Carbon Footprint for our head office for 2017 is given below:

Reporting Scope	Emissions Source	Emissions Component	2017 Emissions Total (tCO <sub>2</sub> e)	2016 Emissions Total (tCO <sub>2</sub> e)
Scope 1 – Direct Emissions	Stationary Combustion	Generator Fuel and LP Gas Consumption	<b>45.96</b>	65.19
	Mobile Combustion	Bank-Owned Vehicle Fuel Consumption	<b>437.30</b>	572.61
	Fugitive Emissions	A/C Refrigerant and Leakages	<b>83.01</b>	585.54
Scope 1 Total Emissions			<b>566.28</b>	1,223.34
Scope 2 – Indirect Emissions	Purchased Electricity	Electricity Consumption	<b>1,075.06</b>	1,037.97
Scope 2 Total Emissions			<b>1,075.06</b>	1,037.97
Total Scope 1 and 2 Carbon Footprint of People's Bank HQ			<b>1,641.33</b>	2,261.31

As can be seen from the above table, the carbon footprint has reduced by 620 tCO<sub>2</sub>e (27%) compared to the previous assessment. The main reason for this significant reduction is the decrease in fugitive emissions (air-conditioner gas refills) in 2017 by 502.5 tCO<sub>2</sub>e (86%) compared to 2016.

### Paper Recycling

In our effort to reduce our carbon footprint, we continually strive to reduce the amount of paper waste in our office and branches by establishing recycling points, and encouraging a paperless office. Our digitalisation drive which establishes, digital branches, 24-hour self-service banking units and People's Wave mobile banking app encourage anytime anywhere banking.

### WASTE MANAGEMENT

We are in the process of rolling out waste management practices implemented in the previous year to our entire branch network. Waste is segregated and disposed as per the guidelines laid out by the Central Environmental Authority (CEA) to ensure minimal impact on the environment. Adhering to these guidelines enables us to monitor our waste and optimise reuse/recycling volumes whilst reducing the volume of waste-generated through effective staff and customer engagement. Paper and plastic waste is sent to a third-party recycler approved by the CEA. At the end of the third year of GHG assessment, the following waste segregation process was implemented in the head office and all our branches.

LOCATION	TYPE OF WASTE	SEGREGATION WASTE BIN COLOUR
Each Building Floor (Mandatory)	Organic (Food)	Green
	Paper and Cardboard	Blue
	Plastic and Polythene	Orange
IT/Maintenance Departments (Recommended)	Electrical and Electronic	Dark Grey
	Glass	Red
	Metals and Other Maintenance Waste	Brown

### GREEN BUILDINGS AND ENVIRONMENTS

We successfully introduced a comprehensive Green Building Policy for all our renovations, retrofits to existing buildings and all new constructions, developed by CCC following the GreenSL<sup>®</sup> Rating System of the Sri Lankan Green Building Council. We are in the process of aligning our entire building portfolio to this new policy that facilitates us to manage and mitigate our energy, water, and waste.

## **ENERGY CONSERVATION AND EFFICIENCY IMPROVEMENTS**

A higher percentage of our Bank's energy requirement is met through the national grid, whilst 45% of our footprint is electricity. Therefore, we continuously make every effort to improve energy efficiency and implement effective measures to conserve energy. In 2018, we aim to convert 100 branches to solar energy whilst replacing the interior lighting system with energy saving LED lighting and maximising the use of natural lighting. Total energy consumption of the Head Office building in the year 2017 is recorded as 2,194,500 kWh.

## **ADOPTION OF ENVIRONMENTAL IMPACTS IN LENDING AND INVESTMENT POLICY**

When granting loans and making investments, we evaluate compliance to all relevant environmental regulations, including the CEA license of our clients to ascertain any potential adverse environmental impacts. We believe that giving due consideration to environmental impacts in our lending and investment policy would result in not just monetary benefits but also lead to long-term advantages. Therefore, we encourage positive environmental initiatives through such investments. We also evaluate the impact on the environment from our business operations when approving the loan limits.

## **ENVIRONMENT-FRIENDLY INITIATIVES BY THE BANK/STAFF**

We have introduced environmental friendly loan scheme to purchase solar power systems and vehicle loans to purchase hybrid and electric cars. We have also implemented the Young Executive Saver (YES) account featuring paperless banking. During the year 342,327 new YES accounts were opened.

## **FUTURE OUTLOOK**

We will continue to adopt environmental initiatives to ensure environmental sustainability through our green banking concept and the digital banking drive.

# EVENTS OF THE YEAR



"Nidahase Upatha" a programme held by People's Bank every year on Independence Day since 2006 was carried out this year too. Under this concept, People's Bank made arrangements to gift "Isuru Udana" Gift Certificates and other gifts to every baby born in the country during the week of independence.

The main events of this programme were held at the Castle Street Maternity Hospital in Borella and De Soysa Hospital for Women in Borella under the patronage of CEO/GM of People's Bank, Mr. N. Vasantha Kumar.



A bilateral agreement to install 300 new Self-Service Banking Units at railway stations was signed between the People's Bank and the Department of Railway at the Ministry of Transport in Battaramulla. Attending the ceremony Minister of Transport and Civil Aviation, Nimal Siripala de Silva stated that this event will mark a significant milestone in the historical records of Sri Lanka Railway Department and the People's Bank.



A special ceremony was held by People's Bank to commemorate International Women's Day under the patronage of CEO/GM Mr. N. Vasantha Kumar at the People's Bank's Headquarters with the participation of many female dignitaries, customers and the staff members.

Meanwhile, Women's Day celebrations were also held in People's Bank branches island wide.



People's Bank sponsored the tree-planting campaign organised this year by the Base for Enthusiasts of the Environment Science and Zoology of University of Colombo, in association with the Zoology Students' Association of the University of Jaffna.

The aim of the People's Bank in sponsoring this campaign through its "YES" account was to assist for the protection of the country's ecological balance and the establishment of a foundation for a sustainable future.



People's Bank won the "People's Service Brand of the Year" and "People's Banking Service Provider of the Year" awards for the 11th consecutive time at SLIM-Nielson People's Awards 2017. People's Awards Ceremony was hosted by the leading global information and measurement company Nielson and the Sri Lanka Institute of Marketing.



The inaugural programme for awarding *Swashakthi* loans was held at People's Bank Nuwara Eliya branch under the patronage of People's Bank Chairman, Mr. Hemasiri Fernando. The *Swashakthi* Loan Scheme was initiated by the Ministry of National Policies and Economic Affairs and the Central Bank of Sri Lanka with the objective of offering loans and financial aids to new and existing entrepreneurs engaged in businesses related to agriculture, animal husbandry, industrial and service sectors at grass root level.



People's Bank opened its 100th Self-Banking Unit in the People's Bank, Trincomalee Regional Head Office premises. In conjunction with the digitalisation programme, which aims to provide ultimate convenience in banking, People's Bank established its first Self-Banking Unit at the People's Bank Head Office Premises in December 2016. Thereafter, People's Bank established a number of Self-Banking Units in various parts of the island, and intends to rapidly expand the service to remaining areas.



People's Bank achieved a unique milestone in its digitalisation drive with the opening of its fully fledged Digital Centre by Prime Minister Hon. Ranil Wickremesinghe at York Street, Colombo 1 which is the first fully-Digitalised Branch and thus creating history in Sri Lanka's banking industry. The Bank proudly launched Express Banking simultaneously to allow customers to experience how its digitalisation initiatives would streamline and simplify their financial affairs by offering speedy and convenient service.



People's Bank organised a series of ceremonies at the Wellawatte Branch to celebrate Deepawali – The Hindu Festival of Lights. A special Hindu *Pooja* was conducted to invoke blessings for the staff members, customers and the entire nation.



People's Bank Innovation Centre was inaugurated under the patronage of Chairman of People's Bank, Mr. Hemasiri Fernando at York Street, Colombo 1.

In conjunction with its digitalisation process, Peoples' Bank has marked a milestone in the history of Sri Lankan banking sector by establishing the Innovation Centre, aiming to offer a fully-fledged digital initiative and further strengthen the operations of its IT Department.



People's Bank's YES Savings Account has been bestowed with the Bronze Award for "Service Brand of the Year", one of the most coveted accolades in the corporate world, at the SLIM Brand Excellence Awards 2017 at BMICH.



People's Bank was bestowed with two prominent awards at the prestigious National Business Excellence Award 2017 held in December 2017 at the Hilton Colombo. People's Bank emerged "Winner – Banking Sector" while also securing the "Merit Award for Excellence in Environment Sustainability". Through these awards, the National Chamber of Commerce of Sri Lanka (NCCSL) recognises business enterprises which have demonstrated excellence in business, whilst contributing to the economic progress of the country.



The International Banking Division of People's Bank was inaugurated at ACHC (All Ceylon Hindu Congress) building on No. 91, Sir Chittampalam A. Gardiner Mawatha, Colombo 2 under the patronage of Acting CEO/GM of the People's Bank Mr. K.B. Rajapakse recently.

People's Bank took steps to relocate the International Banking Division, which was previously operating from the Lake House building in Colombo, to the new premises with the aim of providing an extensive range of banking services to the customers.



The laying of foundation stone for the People's Bank's proposed seven-storey eco-friendly green branch in Jaffna took place with the objective of realising a green future under the patronage of People's Bank CEO/GM Mr. N. Vasantha Kumar.

The new building is expected to house People's Bank's Jaffna Regional Office, Jaffna Branch as well as a fully-fledged auditorium.



# **FINANCIAL REPORTS**

197 /	Directors' Responsibilities for Financial Reporting
198 /	Auditor General's Report on Financial Statements
199 /	Income Statement
200 /	Statement of Comprehensive Income
201 /	Statement of Financial Position
202 /	Statement of Changes In Equity – Bank
204 /	Statement of Changes in Equity – Group
206 /	Statement of Cash Flows
207 /	Notes to the Financial Statements





## DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Board of Directors of the Bank has responsibility for ensuring that the Bank keeps proper books of account of all the transactions and prepares Financial Statements that give a true and fair view of the state of affairs and of the profit /loss for the year.

Accordingly, the Board of Directors oversees the Managements' responsibilities for financial reporting through their regular meeting reviews and the Audit Committee. The Audit Committee Report is given on page 56.

The Board of Directors has instituted effective and comprehensive system of Internal Control. This comprises Internal Checks, Internal Audit and the whole system of financial and other controls required to carry on business of banking in an orderly manner, safeguard its assets and secure as far as practicable the accuracy and reliability of the records. Directors consider that they adopted appropriate accounting policies on a consistent basis and supported by reasonable and prudent judgment and estimates in preparing the Financial Statements for the Year 2017 exhibited on pages 199 to 292.

The Board of Directors ensure the compliance with prudential requirements, regulations, laws and internal controls, and measures have been taken to rectify any material non-compliances.

The Bank's Financial Statements for the year ended 31st December 2017 prepared and presented in this report are in conformity with the requirements of Sri Lanka Accounting Standards and the Banking Act No. 30 of 1988, the amendments thereto. The Financial Statements reflect a true and fair view of the state of affairs of the Bank and the Group as at that date as per the External Auditors' Report.



**Rohan Pathirage**

Deputy General Manager  
Secretary to the Board of Directors

27th March 2018

# AUDITOR GENERAL'S REPORT ON FINANCIAL STATEMENTS



## විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය  
எனது இல.  
My No. }

BAF/D/PB/FA/2017  
ඔබේ අංකය  
உமது இல.  
Your No. }

දිනය  
திகதி  
Date } 27 March 2018

### REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE PEOPLE'S BANK AND ITS SUBSIDIARIES FOR THE YEAR ENDED 31ST DECEMBER 2017

The audit of the financial statements of the People's Bank ("the Bank") and the consolidated financial statements of the Bank and its Subsidiaries ("the Group") for the year ended 31st December 2017 comprising the statements of financial position as at 31st December 2017, income statements, statements of comprehensive income, statements of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

#### Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

#### Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement,

including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank'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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluation the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2017 and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Exemption

The Bank has been exempted from the provisions of Part II of the Finance Act, No. 38 of 1971 by an order of then Minister of Finance published in the Government Gazette No. 715 of 14 May 1992 by virtue of powers vested in him by Sections 5 (1) of the said Finance Act.

#### Report to Parliament

My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka will be tabled in due course.

**H.M. Gamini Wijesinghe**  
Auditor General



# INCOME STATEMENT

For the Year Ended 31st December	Note	Bank			Group		
		2017 Rs. '000	2016 Rs. '000	Change %	2017 Rs. '000	2016 Rs. '000	Change %
<b>Gross Income</b>	5	162,165,297	122,114,359	32.8	190,183,693	144,749,519	31.4
Interest Income		149,184,471	109,970,256	35.7	173,820,509	129,708,199	34.0
Interest Expenses		(98,718,636)	(66,845,869)	47.7	(111,074,981)	(76,111,563)	45.9
<b>Net Interest Income</b>	6	50,465,835	43,124,387	17.0	62,745,528	53,596,636	17.1
Fee and Commission Income		5,132,907	3,948,052	30.0	5,769,244	4,365,052	32.2
Fee and Commission Expense		(260,773)	(208,912)	24.8	(260,773)	(208,912)	24.8
Net Fee and Commission Income	7	4,872,134	3,739,140	30.3	5,508,471	4,156,140	32.5
Net Gain from Trading	8	2,664,721	2,816,079	-5.4	2,697,941	2,801,632	-3.7
Other Operating Income (Net)	9	5,183,198	5,379,972	-3.7	7,895,999	7,874,636	0.3
<b>Total Operating Income</b>		63,185,888	55,059,578	14.8	78,847,939	68,429,044	15.2
Impairment for Loans and Other Losses	10	(2,678,366)	(1,246,748)	114.8	(4,379,767)	(1,362,253)	221.5
<b>Net Operating Income</b>		60,507,522	53,812,830	12.4	74,468,172	67,066,791	11.0
Personnel Expenses	11	(15,914,505)	(17,475,442)	-8.9	(19,127,876)	(20,277,225)	-5.7
Other Expenses	12	(12,407,346)	(10,093,258)	22.9	(18,081,580)	(15,207,929)	18.9
<b>Operating profit Before Value Added Tax (VAT) and Nation Building Tax (NBT)</b>		32,185,671	26,244,130	22.6	37,258,716	31,581,637	18.0
VAT & NBT on Financial Services		(6,272,565)	(5,430,470)	15.5	(7,390,285)	(6,148,315)	20.2
<b>Profit Before Tax</b>		25,913,106	20,813,660	24.5	29,868,431	25,433,322	17.4
Income Tax Expenses	13	(7,663,329)	(5,818,969)	31.7	(9,357,510)	(7,477,394)	25.1
<b>Profit for the Year</b>		18,249,777	14,994,691	21.7	20,510,921	17,955,928	14.2
<b>Profit Attributable to:</b>							
Equity Holders of the Bank		18,249,777	14,994,691	21.7	19,295,734	16,721,972	15.4
Non-Controlling Interests		-	-		1,215,187	1,233,956	-1.5
<b>Earnings per Share on Profit</b>	14						
Basic Earnings per Ordinary Share (Rs.)	14.1	18,250	14,995	21.7	19,296	16,722	15.4
Diluted Earnings per Ordinary Share (Rs.)	14.2	75	104	-28.2	79	116	-32.2

The Notes appearing on pages 207 to 292 form an integral part of these Financial Statements.

# STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31st December	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
<b>Profit for the Year</b>	18,249,777	14,994,691	20,510,921	17,955,928
<b>Other Comprehensive Income Net of Tax</b>				
<b>Items that will never be Reclassified to Profit or Loss</b>				
Net Actuarial Gains and Losses on Defined Benefit Plans	(3,222,626)	3,386,550	(3,246,834)	3,362,348
Deferred Tax Effect on Gratuity	(41,067)	15,167	(35,060)	22,135
Gains on Revaluation of Land and Buildings	6,568,522	–	7,749,055	25,000
Deferred Tax Effect on Revaluation of Land and Buildings	(3,366,405)	–	(3,732,372)	–
Tax Expense Relating to Components of Other Comprehensive Income	–	–	–	(754)
	(61,576)	3,401,717	734,789	3,408,729
<b>Items that are or may be Reclassified to Profit or Loss</b>				
Net Gains and Losses on Remeasuring Available-for-Sale Financial Assets	(177,930)	(13,286)	(175,331)	(167,029)
Gains and Losses on Derivative Financial Assets	–	–	(15,715)	6,186
Reversal of AFS Reserve on Disposal of AFS Investment	17,289	(9,315)	17,289	(9,315)
	(160,641)	(22,601)	(173,757)	(170,158)
<b>Other Comprehensive Income for the Year, Net of Taxes</b>	(222,217)	3,379,116	561,032	3,238,571
<b>Total Comprehensive Income for the year</b>	18,027,560	18,373,807	21,071,953	21,194,499
<b>Attributable to:</b>				
Equity Holders of the Bank	18,027,560	18,373,807	19,788,396	19,997,591
Non-Controlling Interests	–	–	1,283,557	1,196,908
	18,027,560	18,373,807	21,071,953	21,194,499

The Notes appearing on pages 207 to 292 form an integral part of these Financial Statements.

# STATEMENT OF FINANCIAL POSITION


As at 31st December	Note	Bank			Group		
		2017 Rs. '000	2016 Rs. '000	Change %	2017 Rs. '000	2016 Rs. '000	Change %
<b>Assets</b>							
Cash and Cash Equivalents	16	68,958,012	64,008,639	7.7	69,675,003	66,408,702	4.9
Balances with Central Bank of Sri Lanka	17	65,689,278	63,049,516	4.2	65,689,278	63,049,516	4.2
Placements with Banks	18	13,458,639	32,772,978	-58.9	18,944,087	34,059,860	-44.4
Derivative Financial Instruments	19	334,230	15,057	2,119.7	334,230	21,196	1,476.9
Other Financial Assets – Held for Trading	20	53,042,557	46,915,311	13.1	53,354,989	47,455,844	12.4
Loans and Receivables to Banks	21	86,097,515	71,528,031	20.4	86,436,113	72,205,378	19.7
Loans and Receivables to Other Customers	22	1,012,642,714	890,528,101	13.7	1,143,766,774	1,013,921,293	12.8
Financial Investments – Available for Sale	23	3,415,344	1,525,839	123.8	4,483,905	3,258,308	37.6
Financial Investments – Held to Maturity	24	112,351,039	96,171,734	16.8	117,137,814	101,069,681	15.9
Non-Current Assets Held for Sale	25	–	–	–	–	1,040,828	-100.0
Investments in Subsidiaries	26	1,325,766	1,325,766	0.0	–	–	0.0
Goodwill and Intangible Assets	27	225,058	110,514	103.6	679,663	438,323	55.1
Property, Plant and Equipment	28	25,047,501	17,224,026	45.4	33,757,975	23,440,966	44.0
Investment Properties	29	1,222,299	184,006	564.3	177,501	184,006	-3.5
Prepaid Leases	30	483,886	512,184	-5.5	483,886	512,184	-5.5
Other Assets	32	22,805,270	16,176,745	41.0	24,157,374	17,331,932	39.4
<b>Total Assets</b>		<b>1,467,099,108</b>	<b>1,302,048,447</b>	<b>12.7</b>	<b>1,619,078,592</b>	<b>1,444,398,017</b>	<b>12.1</b>
<b>Liabilities</b>							
Due to Banks	33	80,676,350	106,924,276	-24.5	100,628,552	130,122,246	-22.7
Derivative Financial Instruments	34	273,975	72,182	279.6	273,975	72,182	279.6
Due to Other Customers	35	1,244,002,768	1,077,812,127	15.4	1,305,625,750	1,119,753,182	16.6
Other Borrowings	36	24,380,962	27,184,535	-10.3	33,634,482	42,296,376	-20.5
Current Tax Liabilities		4,064,907	2,432,266	67.1	4,367,318	3,000,249	45.6
Net Deferred Tax Liabilities	31	4,455,617	63,479	6,919.0	7,277,032	2,254,462	222.8
Other Liabilities	37	19,256,075	15,378,998	25.2	28,380,411	25,182,416	12.7
Subordinated Term Debts	38	12,531,728	12,531,728	0.0	32,447,923	36,525,796	-11.2
<b>Total Liabilities</b>		<b>1,389,642,382</b>	<b>1,242,399,591</b>	<b>11.9</b>	<b>1,512,635,443</b>	<b>1,359,206,909</b>	<b>11.3</b>
<b>Equity</b>							
Stated Capital/Assigned Capital	39	12,201,998	7,201,998	69.4	12,201,998	7,201,998	69.4
Statutory Reserve Fund	40	5,814,744	4,902,255	18.6	5,814,744	4,902,255	18.6
Other Reserves	41	25,117,785	21,195,855	18.5	26,913,806	22,269,995	20.9
Retained Earnings	42	34,322,199	26,348,748	30.3	52,191,314	43,185,534	20.9
<b>Total Shareholders' Equity</b>		<b>77,456,726</b>	<b>59,648,856</b>	<b>29.9</b>	<b>97,121,862</b>	<b>77,559,782</b>	<b>25.2</b>
Non-Controlling Interests					9,321,287	7,631,326	22.1
<b>Total Equity</b>		<b>77,456,726</b>	<b>59,648,856</b>	<b>29.9</b>	<b>106,443,149</b>	<b>85,191,108</b>	<b>24.9</b>
<b>Total Equity and Liabilities</b>		<b>1,467,099,108</b>	<b>1,302,048,447</b>	<b>12.7</b>	<b>1,619,078,592</b>	<b>1,444,398,017</b>	<b>12.1</b>
<b>Contingent Liabilities and Commitments</b>	43	<b>303,344,150</b>	<b>226,429,659</b>	<b>34.0</b>	<b>304,101,876</b>	<b>226,442,491</b>	<b>34.3</b>

The Notes appearing on pages 207 to 292 form an integral part of these Financial Statements.

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. These Financial Statements were approved by the Board of Directors and signed on their behalf.



**Azzam A. Ahamat**  
Head of Finance  
Colombo  
19th March 2018



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



**Hemasiri Fernando**  
Chairman

# STATEMENT OF CHANGES IN EQUITY – BANK

	Stated Capital/Assigned Capital	
	Ordinary Shares	Assigned Capital
	Rs. '000	Rs. '000
<b>Balance as at 1st January 2016</b>	49,998	7,152,000
Profit for the Year	-	-
<b>Other Comprehensive Income</b>		
Changes in Fair Value in AFS Investments	-	-
Reversal of AFS Reserve on Disposal of AFS Investment	-	-
Net Defined Benefit obligation	-	-
Deferred Tax Effect on Defined Benefit Plans	-	-
Reversal of Revaluation Gain on Disposed Property	-	-
<b>Total Other Comprehensive Income/(Expense)</b>	-	-
<b>Total Comprehensive Income/(Expense)</b>	-	-
<b>Transactions with Equity Holders, Recognised Directly in Equity</b>		
Transfer to Reserve during the Year	-	-
Special Levy to Treasury/Dividend	-	-
<b>Total Transactions with Equity Holders</b>	-	-
<b>Balance as at 31st December 2016</b>	49,998	7,152,000
<b>Balance as at 1st January 2017</b>	49,998	7,152,000
Profit for the Year	-	-
<b>Other Comprehensive Income</b>		
Changes in Fair Value in AFS Investments	-	-
Reversal of AFS Reserve on Disposal of AFS Investment	-	-
Revaluation Surplus of Land and Building	-	-
Deferred Tax Effect on Revaluation Surplus	-	-
Net Defined Benefit Obligation	-	-
Deferred Tax Effect on Defined Benefit Plans	-	-
<b>Total Other Comprehensive Income/(Expense)</b>	-	-
<b>Total Comprehensive Income/(Expense)</b>	-	-
<b>Transactions with Equity Holders, Recognised Directly in Equity</b>		
Increase of assigned Capital	-	5,000,000
Transfer to Reserve during the Year	-	-
Transfers from Retained Earnings during the Year	-	-
Special levy to Treasury/ Dividend (Note 41.6)	-	-
<b>Total Transactions with Equity Holders</b>	-	5,000,000
<b>Balance as at 31st December 2017</b>	49,998	12,152,000

Statutory Reserve Fund	Reserves				Total
	Revaluation Reserve	Other Reserves	Available-for-Sale Reserve	Retained Earnings	
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
4,152,518	10,846,499	10,703,873	296,379	16,293,472	49,494,739
-	-	-	-	14,994,691	14,994,691
-	-	-	(13,286)	-	(13,286)
-	-	-	(9,315)	-	(9,315)
-	-	-	-	3,386,550	3,386,550
-	-	-	-	15,167	15,167
-	(3,295)	-	-	3,295	-
-	(3,295)	-	(22,601)	3,405,012	3,379,116
-	(3,295)	-	(22,601)	18,399,703	18,373,807
749,737	-	(625,000)	-	(124,737)	-
-	-	-	-	(8,219,690)	(8,219,690)
749,737	-	(625,000)	-	(8,344,427)	(8,219,690)
4,902,255	10,843,204	10,078,873	273,778	26,348,748	59,648,856
4,902,255	10,843,204	10,078,873	273,778	26,348,748	59,648,856
-	-	-	-	18,249,777	18,249,777
-	-	-	(177,930)	-	(177,930)
-	-	-	17,289	-	17,289
-	6,568,522	-	-	-	6,568,522
-	(3,366,405)	-	-	-	(3,366,405)
-	-	-	-	(3,222,626)	(3,222,626)
-	-	-	-	(41,067)	(41,067)
-	3,202,117	-	(160,641)	(3,263,693)	(222,217)
-	3,202,117	-	(160,641)	14,986,084	18,027,560
-	-	-	-	-	5,000,000
912,489	-	873,864	-	(1,786,353)	-
-	6,590	-	-	(6,590)	-
-	-	-	-	(5,219,690)	(5,219,690)
912,489	6,590	873,864	-	(7,012,633)	(219,690)
5,814,744	14,051,911	10,952,737	113,137	34,322,199	77,456,726

# STATEMENT OF CHANGES IN EQUITY – GROUP

	Stated Capital/Assigned Capital	
	Ordinary Shares Rs. '000	Assigned Capital Rs. '000
<b>Balance as at 1st January 2016</b>	49,998	7,152,000
Profit for the Year	-	-
<b>Other Comprehensive Income</b>		
Changes in Fair Value in AFS Investments	-	-
Reversal of AFS Reserve on Disposal of AFS Investment	-	-
Net Defined Benefit Obligation	-	-
Revaluation Surplus of Land and Building	-	-
Reversal of Revaluation Gain on Disposed Property	-	-
Gains and losses on Derivative Financial Assets	-	-
Deferred Tax Effect on Defined Benefit Plans	-	-
Tax on Other Comprehensive Income	-	-
<b>Total Other Comprehensive Income/(Expense)</b>	-	-
<b>Total Comprehensive Income/(Expense)</b>	-	-
<b>Transactions with Equity Holders, Recognised Directly in Equity</b>		
Transfer to Reserve during the Year	-	-
Share Issue	-	-
Special Levy to Treasury/Dividend	-	-
Change of Holding of Associate	-	-
Dividends Paid	-	-
<b>Total Transactions with Equity Holders</b>	-	-
<b>Balance as at 31st December 2016</b>	49,998	7,152,000
<b>Balance as at 1st January 2017</b>	49,998	7,152,000
Profit for the Year	-	-
<b>Other Comprehensive Income</b>		
Changes in Fair Value in AFS Investments	-	-
Reversal of AFS reserve on Disposal of AFS Investment	-	-
Net Defined Benefit Obligation	-	-
Revaluation Surplus of Land and Building	-	-
Deferred Tax Effect on Revaluation Surplus	-	-
Gains and Losses on Derivative Financial Assets	-	-
Deferred Tax Effect on Defined Benefit Plans	-	-
<b>Total Other Comprehensive Income/(Expense)</b>	-	-
<b>Total Comprehensive Income/(Expense)</b>	-	-
<b>Transactions with Equity Holders, Recognised Directly in Equity</b>		
Increase of Assigned Capital	-	5,000,000
Transfer to Reserve during the Period (Note 40) and ( Note 41.4)	-	-
Transfers from Retained Earnings During the Year	-	-
Special Levy to Treasury/Dividend (Note 41.6)	-	-
Movement Due to Changes in Ownership	-	-
Dividends Paid	-	-
<b>Total Transactions with Equity Holders</b>	-	5,000,000
<b>Balance as at 31st December 2017</b>	49,998	12,152,000



Reserves						Total Rs. '000	Non-Controlling Interest Rs. '000	Total Equity Rs. '000
Statutory Reserve Fund Rs. '000	Revaluation Reserve Rs. '000	Other Reserves Rs. '000	Available- for-Sale Reserve Rs. '000	Cash Flow Hedge Reserve Rs. '000	Retained Earnings Rs. '000			
4,152,518	11,867,700	10,703,873	433,941	7,148	32,209,592	66,576,770	6,223,858	72,800,628
-	-	-	-	-	16,721,972	16,721,972	1,233,956	17,955,928
-	-	-	-	-	-	-	-	-
-	-	-	(128,446)	-	-	(128,446)	(38,583)	(167,029)
-	-	-	(9,315)	-	-	(9,315)	-	(9,315)
-	-	-	-	-	3,370,185	3,370,185	(7,837)	3,362,348
-	18,750	-	-	-	-	18,750	6,250	25,000
-	(3,295)	-	-	-	3,295	-	-	-
-	-	-	-	4,639	-	4,639	1,547	6,186
-	-	-	-	-	20,393	20,393	1,742	22,135
-	-	-	-	-	(588)	(588)	(166)	(754)
-	15,455	-	(137,761)	4,639	3,393,285	3,275,618	(37,047)	3,238,571
-	15,455	-	(137,761)	4,639	20,115,257	19,997,590	1,196,909	21,194,499
749,737	-	(625,000)	-	-	(124,737)	-	-	-
-	-	-	-	-	(13,016)	(13,016)	(4,339)	(17,355)
-	-	-	-	-	(8,219,690)	(8,219,690)	-	(8,219,690)
-	-	-	-	-	(781,872)	(781,872)	776,130	(5,742)
-	-	-	-	-	-	-	(561,232)	(561,232)
749,737	-	(625,000)	-	-	(9,139,315)	(9,014,578)	210,559	(8,804,019)
4,902,255	11,883,155	10,078,873	296,180	11,787	43,185,534	77,559,782	7,631,326	85,191,108
4,902,255	11,883,155	10,078,873	296,180	11,787	43,185,534	77,559,782	7,631,326	85,191,108
-	-	-	-	-	19,295,734	19,295,734	1,215,187	20,510,921
-	-	-	(177,011)	-	-	(177,011)	1,680	(175,331)
-	-	-	17,289	-	-	17,289	-	17,289
-	-	-	-	-	(3,240,752)	(3,240,752)	(6,082)	(3,246,834)
-	7,582,372	-	-	-	-	7,582,372	166,683	7,749,055
-	(3,640,880)	-	-	-	-	(3,640,880)	(91,492)	(3,732,372)
-	-	-	-	(11,787)	-	(11,787)	(3,928)	(15,715)
-	-	-	-	-	(36,570)	(36,570)	1,510	(35,060)
-	3,941,492	-	(159,722)	(11,787)	(3,277,322)	492,661	68,371	561,032
-	3,941,492	-	(159,722)	(11,787)	16,018,412	19,788,395	1,283,558	21,071,954
-	-	-	-	-	-	5,000,000	-	5,000,000
912,489	-	873,864	-	-	(1,786,353)	-	-	-
-	6,590	-	-	-	(6,590)	-	-	-
-	-	-	-	-	(5,219,690)	(5,219,690)	-	(5,219,690)
-	-	(6,626)	-	-	-	(6,626)	987,624	980,998
-	-	-	-	-	-	-	(581,222)	(581,222)
912,489	6,590	867,238	-	-	(7,012,633)	(226,316)	406,403	180,086
5,814,744	15,831,237	10,946,111	136,458	-	52,191,314	97,121,862	9,321,287	106,443,149

# STATEMENT OF CASH FLOWS

For the Year Ended 31st December	Note	Bank		Group	
		2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
<b>Cash Flows from Operating Activities</b>					
Profit Before Tax		25,913,106	20,813,660	29,868,431	25,433,322
Adjustment for					
Non-Cash Items Included in Profits Before Tax	49	4,044,519	2,824,333	6,004,394	3,180,031
Changes in Operating Assets	50	(137,084,970)	(83,928,201)	(147,647,369)	(106,039,634)
Changes in Operating Liabilities	51	136,623,689	121,125,671	146,347,372	135,320,066
Dividend Income from Subsidiaries and Others		(1,643,111)	(1,628,700)	(305,136)	(189,530)
Interest Expense on Subordinated Debt		1,612,500	1,987,500	1,612,500	1,987,500
Contribution Paid to Defined Benefit Plans/Gratuity		1,169,904	1,811,662	1,254,748	1,894,316
Tax Paid		(5,046,022)	(7,514,644)	(6,735,303)	(9,639,397)
<b>Net Cash Generated from Operating Activities</b>		<b>25,589,615</b>	<b>55,491,281</b>	<b>30,399,636</b>	<b>51,946,673</b>
<b>Cash Flows from Investing Activities</b>					
Purchase of Investment Property		(1,040,000)	–	4,798	–
Purchase of Property, Plant and Equipment		(2,805,073)	(1,942,542)	(3,328,075)	(3,020,288)
Proceeds from the Sale of Property, Plant and Equipment		27,306	98,471	46,041	131,611
Purchase of Financial Investments		(16,475,317)	(9,855,692)	(16,364,145)	(10,269,333)
Net Purchase of Intangible Assets		(158,080)	(17,810)	(191,723)	(25,475)
Net Cash flow from Preference Shares of Subsidiaries		–	150,000	–	–
Dividends Received from Investment in Subsidiaries, and Others		1,643,111	1,628,700	305,136	189,530
Net Cash and Cash Equivalents on Acquisition of Subsidiary		–	–	(1,114,082)	–
<b>Net Cash (used in) from Investing Activities</b>		<b>(18,808,053)</b>	<b>(9,938,873)</b>	<b>(20,642,050)</b>	<b>(12,993,955)</b>
<b>Cash Flows from Financing Activities</b>					
Increase of Assigned Capital		5,000,000	–	5,000,000	–
Net Proceeds from the Issue of Subordinated Debt		–	–	–	5,618,556
Repayment of Subordinated Debt		–	(2,500,814)	(4,077,873)	–
Interest Paid on Subordinated Debt		(1,612,500)	(1,987,500)	(1,612,500)	(1,987,500)
Dividend Paid to Non-Controlling Interest		–	–	(581,222)	(561,232)
Dividend/Levy Paid to Holders of Other Equity Instruments		(5,219,690)	(8,219,690)	(5,219,690)	(8,219,690)
<b>Net Cash from Financial Activities</b>		<b>(1,832,190)</b>	<b>(12,708,004)</b>	<b>(6,491,285)</b>	<b>(5,149,866)</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		<b>4,949,373</b>	<b>32,844,404</b>	<b>3,266,301</b>	<b>33,802,852</b>
Cash and Cash Equivalents at the Beginning of the Year		64,008,639	31,164,235	66,408,702	32,605,850
Cash and Cash Equivalents at the End of the Year		68,958,012	64,008,639	69,675,003	66,408,702

# NOTES TO THE FINANCIAL STATEMENTS

## 1. REPORTING ENTITY

### 1.1 Corporate Information

People's Bank ("The Bank") is a Government-owned Bank, established under People's Bank Act No. 29 of 1961 on 1st July 1961 and is domiciled in Sri Lanka. The registered office of the Bank is at No. 75, Sir Chittampalam A. Gardiner Mawatha, Colombo 02. The Consolidated Financial Statements of the Bank for the year ended 31st December 2017, comprises the Bank and its Subsidiaries (together referred to as the "Group").

People's Bank is the ultimate parent of the Group.

### 1.2 Principal Activities

#### Bank

The Bank's business comprises, accepting deposits, granting credit facilities, personal banking, development banking, pawn brokering, international trade, dealing in Government Securities, credit card operations, Investment Banking and Off-Shore Banking Unit for foreign currency banking, inter alia.

#### Subsidiaries

The principal activities of the Bank's Subsidiaries are as follows:

Name of Company	Principal Activities
People's Leasing and Finance PLC	The principal business activities are providing finance leases, hire purchase assets financing, term loans, Islamic finance, margin trading, share trading, issue of debt instruments and mobilisation of public deposits.
People's Travels (Pvt) Ltd.	Arrangement of tours and air ticketing (travel agent).
People's Merchant Finance PLC	Providing leasing, hire purchase, trade finance, real estate, short-term investments, and corporate financial services.

#### Sub Subsidiaries

The principal activities of the Bank's Sub Subsidiaries are as follows:

Name of Company	Principal Activity
People's Leasing Fleet Management Ltd.	Fleet management, vehicle valuation, operations of a service station and sale of vehicles.
People's Leasing Property Development Ltd.	Carrying out a mixed development projects and property development activities.
People's Insurance PLC	Carrying out general insurance business.
People's Microfinance Ltd.	Providing non-bank financial services to low income earners and micro enterprises.
People's Leasing Havelock Properties Ltd.	Construct and operate an office complex.
Lankan Alliance Finance Ltd.	Providing leasing of movable and immovable properties and to provide loans

## 2. BASIS OF PREPARATION

### 2.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank which comprise with the Income Statements, Statements of Comprehensive Income, Statements of Financial Position, Statements of Changes in Equity and Statements of Cash Flow have been prepared in accordance with Sri Lanka Accounting Standards (LKAS and SLFRS) as issued by The Institute of Chartered Accountants of Sri Lanka. The preparation and presentation of these Financial Statements are in compliance with the requirements of the People's Bank Act No. 29 of 1961. The presentation of the Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988.

## **2.2 Directors' Responsibility for Financial Statements**

The Board of Directors is responsible for the preparation and presentation of the Consolidated and Separate Financial Statements in compliance with the requirements of the People's Bank Act No. 29 of 1961, Banking Act No. 30 of 1988 and its amendments and Sri Lanka Accounting Standards (LKAS and SLFRS).

## **2.3 Approval of Financial Statements**

The Consolidated and separate Financial Statements for the year ended 31st December 2017 were authorised for issue on 19th March 2018 by the Board of Directors.

## **2.4 Basis of Measurement**

The Financial Statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following:

- Non-derivative financial instruments at fair value through profit or loss are measured at fair value
- Derivative financial instruments are measured at fair value
- Available-for-sale financial assets are measured at fair value
- The liability for defined benefit obligations are actuarially valued and recognised as the present value of the defined benefit obligation less the net total of the plan assets
- Lands and buildings are measured at cost at the time of acquisition and subsequently at revalued amounts less accumulated depreciation and any impairment losses

## **2.5 Functional and Presentation Currency**

The Consolidated and separate Financial Statements are presented in Sri Lanka Rupees, which is the Bank's functional currency. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise.

## **2.6 Materiality and Aggregation**

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.

## **3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

In the process of applying the Group's accounting policies, management has exercised judgement and estimates and assumptions in determining the amounts recognised in the Financial Statements. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about judgements, assumptions and estimates made in applying accounting policies that have the most significant effects on the amounts recognised in the Consolidated and Separate Financial Statements is set out below:

### **3.1 Going Concern**

The Directors have made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

### **3.2 Fair Value of Financial Instruments**

Where the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, those are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible. However, if this is not available, judgement is required to establish fair values. The valuation of financial instruments is described in more detail in Note 46.

### **3.3 Impairment Losses on Loans and Advances**

The Group reviews their individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the Income Statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ.

If impairment is not required based on the individual assessment all such individually significant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics. This is required to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as loan ownership types, levels of arrears, industries, etc.), and judgements on the effect of concentration of risks and economic data.

### **3.4 Impairment of Available-for-Sale Investments**

The Group reviews their securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgement.

### **3.5 Taxation**

For the calculation of deferred tax, the Group has adopted the requirements of new Inland Revenue Act No. 24 of 2017 which was substantively enacted as at the reporting date, except treatment on finance lease transactions and new capital allowance rates. The relevant transitional provisions are not yet introduced by the Department of Inland Revenue.

Details of the deferred tax computation can be found in Note 31 to the Financial Statements.

### **3.6 Defined Benefit Obligations**

The value of the defined benefit obligations are determined using actuarial valuation technique. The actuarial valuation involves making assumptions on discount rates, expected rates of return on assets, future salary increases, and mortality rates. All assumptions are reviewed at each reporting date. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. See Notes 37.1.5 and 37.2.1 for the assumptions used.

### **3.7 Fair Value of Property, Plant and Equipment**

The freehold land and buildings and the buildings on leasehold land of the Group are reflected at fair value. The group engaged independent valuation specialists to determine fair value of such properties. When current market prices of similar assets are available, such evidences are considered in estimating fair value of these assets.

### **3.8 Useful Lifetime of Property, Plant and Equipment**

The Group reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

The Group is subject to income tax and judgement is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to the interpretation of the applicable tax laws, at the time of preparation of these Financial Statements.

### **3.9 Commitments and Contingencies**

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote. Details of commitments and contingencies are given in Note 43.

### **3.10 Classification of Investment Properties**

Management requires using its judgement to determine whether a property qualifies as an investment property. The Group has developed criteria so it can exercise its judgement consistently. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Group are accounted for as investment properties. On the other hand, a property that is used for operations

or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a standalone asset are accounted for as property, plant and equipment. The Group assesses the accounting classification of its properties on an annual basis, taking into consideration the current use of such properties.

## **4. SIGNIFICANT ACCOUNTING POLICIES**

Group has consistently applied the accounting policies as set out from Note 4.1 to Note 4.28 to all periods presented in these Consolidated and Separate Financial Statements.

### **4.1 Basis of Consolidation**

The Financial Statements of the Bank and Group comprise the Financial Statements of the Bank and its Subsidiaries for the year ended 31st December 2017. The Financial Statements of the Bank's Subsidiaries for the purpose of consolidation are prepared for the same reporting year as that of People's Bank, using consistent accounting policies.

#### **4.1.1 Business Combinations**

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e., when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in Income Statement immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in Income Statement.

#### **4.1.2 Non-Controlling Interests (“NCI”)**

NCI are measured at their proportionate share of the acquirer's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

#### **4.1.3 Subsidiaries**

“Subsidiaries” are investees controlled by the Group. The Group “controls” an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date when control ceases.

#### **4.1.4 Loss of Control**

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the Subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in Income Statement. Any interest retained in the former subsidiary is measured at fair value when control is lost.

#### **4.1.5 Transactions Eliminated on Consolidation**

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## **4.2 Foreign Currency Translation**

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange on the reporting date. All differences arising on non-trading activities are taken to “Other operating income” in the Income Statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

### **4.3 Financial Instruments – Initial Recognition, Classification and Subsequent Measurement**

#### **4.3.1 Date of Recognition**

Purchases of financial assets which are traded regularly are recognised using settlement date accounting. The settlement date is the date that an asset is delivered to an entity. Settlement date accounting refers to the recognition of an asset on the day it is received by the entity. When settlement date accounting is applied an entity accounts for any change in the fair value of the assets to be received during the period between the trade date and settlement date.

Non-regular purchases of financial assets and liabilities are recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument.

A regular purchase is a purchase of a financial asset under a contract whose terms require delivery of the assets within the timeframe established generally by a regulation or convention in the market place concerned.

#### **4.3.2 Initial Measurement of Financial Instruments**

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus significant transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

#### **4.3.3 Classification and Subsequent Measurement of Financial Assets and Financial Liabilities**

##### **Financial Assets**

At inception a financial asset is classified in one of the following categories:

- At fair value through profit or loss held for trading, or designated at fair value through profit or loss
- Available for sale
- Loans and receivables
- Held to maturity

The subsequent measurement of financial assets depends on their classification.

##### **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

The subsequent measurement of financial liabilities depends on their classification.

#### **4.3.4 Financial Assets or Financial Liabilities Held for Trading**

Financial assets or financial liabilities held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in "Net trading income". Interest income or expense is recorded in "Net interest income" and dividend in other operating income according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities and equities that have been acquired principally for the purpose of trading in the short term.

#### **4.3.5 Derivatives Recorded at Fair Value Through Profit or Loss**

The Bank uses derivatives such as forward foreign exchange contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in "Net trading income".

#### **4.3.6 Available-for-Sale Financial Investments**

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale and that are not classified in any of the other categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein.

Unrealised gains and losses are recognised in the other comprehensive income. In the event of disposal of such an investment, the cumulative gain or loss previously recognised in equity is recognised in the Income Statement in "Other operating income". Dividends earned whilst holding available-for-sale financial investments are recognised in the Income Statement as "Other operating income" at the date of declaration by the

Company in which the investment is made. The losses arising from impairment of such investments are recognised in the Income Statement in "Net gain/(loss) from financial investments" and removed from the respective asset/investment account in the "Statement of Financial Position".

#### 4.3.7 Held-to-Maturity Financial Investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. Such investments are mainly Treasury Bonds. Subsequent to initial measurement, held-to-maturity financial investments are later measured at amortised cost using Effective Interest Rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and significant fees that are an integral part of the EIR. The amortisation is included in "Interest income" in the Income Statement. The losses arising from impairment of such investments are recognised in the Income Statement line net gain/(loss) from financial investments. If the Bank were to sell or reclassify a significant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available for sale. Furthermore, if this happens, the Bank would be prohibited from classifying any financial asset as held to maturity for two subsequent years.

#### 4.3.8 Financial Assets Classified as Loans and Receivables

Financial assets classified as loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at fair value through profit or loss
- Those that the Bank, upon initial recognition, designates as available for sale
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration

After initial measurement, amounts "Due from banks" and "Loans and advances to customers" are subsequently measured at amortised cost using EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in "Interest income" in the Income Statement. The losses arising from impairment are recognised in the Income Statement in "Impairment expenses".

#### 4.3.9 Reclassification of Financial Assets

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the "available-for-sale" category, any previous gain or loss on that asset that has been recognised in equity is amortised to Income Statement over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the Income Statement.

The Bank may reclassify a non-derivative trading asset out of the "held-for-trading" category and into the "Loans and receivables" category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the discretion of management, and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

#### 4.3.10 "Day 1" Difference for Staff Loans

All staff loans are granted at below market interest rates and were recognised at fair value. The difference between the fair value and the amount disbursed were treated as day 1 difference and amortised as staff cost in the Income Statement over the loan period by using the effective interest rate. This amount is shown as interest income as well. Hence the net effect on the Income Statement is zero.

#### 4.3.11 Other Financial Liabilities

Financial instruments issued by the Bank that are not designated at fair value through profit or loss, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.



Other financial liabilities include, deposits from customers, amount due from banks, borrowings from banks and others and debentures.

After initial measurement, other financial liabilities are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

#### **4.4 Derecognition of Financial Assets and Financial Liabilities**

##### **4.4.1 Financial Assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; or either:
  - The Bank has transferred substantially all the risks and rewards of the asset;
  - or
  - The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

##### **4.4.2 Financial Liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same borrower on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in Income Statement.

#### **4.5 Repurchase and Reverse Repurchase Agreements**

Securities sold under agreements to repurchase at a specified future date are not derecognised from the Statement of Financial Position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the

Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within “repurchase agreements”, reflecting the transaction’s economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within “Cash collateral on securities borrowed and reverse repurchase agreements”, reflecting the transaction’s economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in “Net interest income” and is accrued over the life of the agreement using the EIR.

#### **4.6 Determination of Fair Value**

“Fair value” is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist, and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank’s best estimate of the most appropriate model assumptions.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 46.

## 4.7 Impairment of Financial Assets

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an "incurred loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter Bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### 4.7.1 Financial Assets Carried at Amortised Cost

For financial assets carried at amortised cost (such as amounts due from Banks and loans and advances to customers), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Income Statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited as an income.

The present values of the estimated future cash flows are discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as asset type, industry, ownership type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### 4.7.2 Available-for-Sale Financial Investments

For available for sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of equity investments classified as available for sale, objective evidence would also include a “significant” or “prolonged” decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Income Statement – is removed from equity and recognised in the Income Statement. Impairment losses on equity investments are not reversed through the Income Statement; increases in the fair value after impairment are recognised in other comprehensive income.

See Note 23 for details of impairment losses on financial investments-available for sale.

#### **4.7.3 Renegotiated Loans**

Where possible, the Bank seeks to reschedule loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original EIR.

#### **4.7.4 Collateral Valuation**

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and other credit enhancements

#### **4.7.5 Collateral Repossessed or where Properties have Devolved to the Bank**

The immovable property acquired by foreclosure of collateral from defaulting customers, or which has devolved on the Bank as part settlement of debt, has not been accounted for as an investment property or as part of the assets of the Bank in accordance with directions issued by the Central Bank of Sri Lanka.

### **4.8 Offsetting Financial Instruments**

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position.

### **4.9 Leases**

#### **4.9.1 Finance Lease Income**

Assets leased to customers to whom the group transfers substantially all the risks and rewards associated with ownership other than the legal title are classified as finance leases. Amounts receivable under finance leases are included under “Lease Rental Receivable”. Leasing balances are stated in the Statement of Financial Position after deduction of initial rentals received.

The excess of aggregate rentals receivable over the cost of the leased assets constitutes the total unearned income.

The unearned income is taken into revenue over the term of the lease, commencing from the month in which the lease is executed in proportion to the remaining receivable balance of the lease.

#### **4.9.2 Lease Payments**

Payments made under operating leases are recognised in Income Statement 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.

### **4.10 Cash and Cash Equivalents**

Cash and short-term funds include cash in hand, balances with banks, placements with banks and money at call and at short notice. Details of the cash and short-term funds are given in Note 16 to the Financial Statements.

## 4.11 Derivatives Held for Risk Management

### Purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the Statement of Financial Position.

## 4.12 Property, Plant and Equipment

Property, plant and equipment is stated at cost or valuation excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

### Cost Model

Plant and Equipment are stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the plant and equipment when the cost is incurred, if the recognition criteria are met.

### Revaluation Model

The Bank applies the revaluation model for the entire class of freehold land and buildings and leasehold building. Such properties are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment charged subsequent to the date of the revaluation.

Revaluations are performed every three years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus is credited to the revaluation reserve included in the equity section of the Statement of Financial Position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in Income Statement, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in Income Statement, except that deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

### Subsequent Cost

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow into the Group and its cost can be reliably measured.

### Restoration Cost

Expenditure incurred on repairs or maintenance of property, plant and equipment in order to restore or maintain future economic benefits is charged to Statement of Comprehensive Income as incurred.

### Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of building, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost.

### Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the Sri Lanka Accounting Standard (LKAS) 17 – “Leases”.

### Depreciation

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Leased assets under finance leases are depreciated over the shorter of either lease term or its useful life, which is limited to maximum tenor of 50 years. Freehold Land is not depreciated. The estimated useful lives are as follows:

Category of Asset	Period of Depreciation
Freehold Buildings	Estimated useful life
Leasehold Building	Shorter of lease term or its useful life, which is limited to maximum tenor of 50 years
Furniture, Equipment and Machinery	20% p.a.
Freehold and Leasehold Motor vehicles	25% p.a.
Prepaid Leases	over the period of lease

## Derecognition

Property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in "Other operating income" in the Income Statement in the year the asset is derecognised.

## 4.13 Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes.

### Basis of Recognition

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.

### Measurement

An investment property is measured initially at its cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure. The cost of a self-constructed investment property is its cost at the date when the construction or development is complete.

The Group applies the cost model for investment properties in accordance with Sri Lanka Accounting Standard (LKAS) 40 – "Investment Property". Accordingly, land classified as investment properties are stated at cost less any accumulated impairment losses and buildings classified as investment properties are stated at cost less any accumulated depreciation and any accumulated impairment losses.

## 4.14 Intangible Assets and Goodwill

### 4.14.1 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of Group's share of the net identifiable assets of the acquired Subsidiary at the date of acquisition. Goodwill acquired in a business combination is tested annually for impairment or more frequently if events or changes in circumstance indicate that it might be impaired and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

### 4.14.2 Software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally-developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any impairment.

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.

### 4.14.3 Amortisation

Software is amortised on a straight-line basis in Income Statement over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is five years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

## 4.15 Impairment of Non-Financial Assets

### Basis of Recognition

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

## Measurement

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement.

Impairment losses relating to goodwill are not reversed in future periods.

Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's CGUs or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with SLFRS 8 – "Operating Segments".

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the Income Statement.

## 4.16 Financial Guarantees

### Basis of Recognition

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the Financial Statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

### Measurement

Any increase in the liability relating to financial guarantees is recorded in the Income Statement in "Credit loss expense". The premium received is recognised in the Income Statement in "Net fees and commission income" on a straight line basis over the life of the guarantee.

## 4.17 Pension Benefits

### 4.17.1 Defined Benefit Pension Plan

#### 4.17.1.1 Pre-1996 – Pension Scheme

The Bank operates a defined benefit pension plan, for the permanent staff members who have joined the Bank prior to 1st January 1996, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined separately using the projected unit actuarial cost method.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly, less actuarial losses not yet recognised. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The latest actuarial valuation was carried out as of 31st December 2017, by Mr. Piyal S. Gunatilleke F.S.A. (USA), Member of the American Academy of Actuaries and Consulting Actuaries.

The principal financial assumptions used in the valuation as at 31st December 2017 are as follows:

Discount Rate	10.65% p.a.
Increase in Cost of Living Allowances	5% p.a.
Gross Salary increase for all Grades	7% p.a.

The Bank provides a pension to retiring staff on the following basis; Staff are eligible to draw a pension after 10 years of service and after reaching normal age of retirement of 55 years. The quantum of pension paid is dependent on the length of service as follows:

	Length of Service	Quantum of Pension
i.	10 to 20 years	80% of last drawn salary
ii.	21 to 29 years	80% plus 1% for each additional year in excess of 20 years of last drawn salary.
iii.	30 years and above	90% of last drawn salary

The Accounts of the Pension Fund are maintained separately and are subject to annual audit by Independent External Auditors. The Statement of Accounts as well as the Auditors Report are tabled and reviewed by the Board of Trustees. These statements of Accounts and Auditor's Report are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at required levels. Pension is payable monthly as long as the participant is alive.

#### 4.17.1.2 Post-1996 Pension Plan

As approved by the Ministry of Finance the Bank has almost finalised a new pension scheme for permanent employees who joined the Bank post 1st January 1996. Since the bank has concluded this as a defined benefit plan, the surplus/deficit has been recorded as per LKAS – 19.

The latest actuarial valuation was carried out as of 31st December 2017, by Mr. Piyal S. Gunatilleke F.S.A. (USA), Member of the American Academy of Actuaries and Consulting Actuaries.

The principal financial assumptions used in the valuation as at 31st December 2017 are as follows:

Discount Rate	10.7% p.a.
Increase in Cost of Living Allowances	5% p.a.
Gross Salary Increase for all Grades	7% p.a.

#### 4.17.1.3 Gratuity

Employees who joined the Bank on or after 1st January 1996 will be eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983, or if opted can join the proposed new post 1996 pension scheme and if so such employees will forfeit their right to gratuity.

Other employees whose services are terminated other than by retirement are eligible to receive terminal gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of one half of Gross Salary applicable to the last month of the financial year in which employment is terminated, for each year of continuous service, for those who have served in excess of 5 years.

The Bank makes a monthly provision towards such Gratuity Payment Liabilities and this value is reflected in the Statement of Financial Position of the Bank, the Bank made a provision based on the actuarial valuation. However as per Sri Lanka Accounting Standards the Bank has provided for gratuity liability based on an Actuary Valuation.

The Subsidiary and Associate Companies of the Bank provide for gratuity under the Payment of Gratuity Act No. 12 of 1983. Provision for Gratuity has been made for employees who have completed one year of service with the companies. These liabilities are not externally funded.

#### 4.17.2 Defined Contribution Plans

The Bank also operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under "Personnel expenses". Unpaid contributions are recorded as a liability.

The Bank contributes to the following Schemes:

##### 4.17.2.1 Employees' Provident Fund

The Bank and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Provident Fund. The Bank's Provident Fund is an approved fund under the Employees' Provident Fund Act and is maintained internally.

##### 4.17.2.2 Employees' Trust Fund

The Bank contributes 3% of the employee's monthly gross salary (excluding overtime) to the Employees' Trust Fund maintained by the Employees, Trust Fund Board.

### 4.17.3 Widows'/Widowers' and Orphans' Pension Plan (Pre-1996/Post-1996)

A separate fund is maintained by the Bank to meet future obligations under the scheme, based on the advice of a qualified actuary.

### 4.18 Provision

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

### 4.19 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. The Bank's share of any contingencies and capital commitments of a Subsidiary or Associate for which the Bank is also liable severally or otherwise are also included with appropriate disclosures.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

## 4.20 Taxes

### 4.20.1 Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the balance sheet date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified in Note 13 to the Financial Statements.

### 4.20.2 Deferred Taxation

Deferred tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose.

#### 4.20.2.1 Deferred Tax Liability

Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither the accounting profit nor the taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in Subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

#### 4.20.2.2 Deferred Tax Assets

Deferred tax assets are recognised for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or losses; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset are reassessed at each balance sheet date and are recognised to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.



Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the balance sheet date.

#### **4.20.3 Value Added Tax on Financial Services (FSVAT)**

Bank's total value addition was subjected to a 15% Value Added Tax as per Section 25A of the Value Added Tax No. 14 of 2002 and amendments thereto.

#### **4.20.4 Value Added Tax (VAT)**

Value Added Tax is calculated in accordance with Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto. VAT is payable at 15%.

#### **4.20.5 Economic Service Charge (ESC)**

As per the provisions of the Economic Service Charge Act No. 13 of 2006, ESC is payable on the liable turnover at specified rates. ESC paid is deductible from the income tax liability. Any unclaimed liability can be carried forward and set-off against the income tax payable in the four subsequent years.

#### **4.20.6 Withholding Tax on Dividends (WHT)**

Dividend distributed out of taxable profit of the local Subsidiaries 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 Subsidiaries in the Consolidated Financial Statements as a consolidation adjustment.

#### **4.20.7 Crop Insurance Levy (CIL)**

As per the provision of the Section 14 of the Finance Act No. 12 of 2013, the Crop Insurance Levy (CIL) was introduced with effect from 1st April 2013. Accordingly, Bank is required to pay 1% of the profit after tax for a year of assessment to the National Insurance Trust Fund.

#### **4.20.8 Nation Building Tax (NBT)**

As per the provisions of the Nation Building Tax Act No. 9 of 2009 and the subsequent amendments thereto, Nation Building Tax should be payable at the rate of 2% with effect from 1st January 2011 on the liable turnover as per the relevant provisions of the Act.

#### **4.20.9 Nation Building Tax on Financial Services**

With effect from 1st January 2014, NBT of 2% was introduced on supply of financial services via amendment to the NBT Act No. 09 of 2009.

### **4.21 Recognition of Income and Expenses**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

#### **4.21.1 Interest and Similar Income and Expense**

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

#### **4.21.2 Fee and Commission Income**

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fees and commission income are recognised when the service is performed. Fees earned for the provision of services over a period of time are accrued over that period.

#### **4.21.3 Dividend Income**

Dividend income is recognised when the Bank's right to receive the payment is established.

#### 4.21.4 Net Trading Income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities “held for trading”.

#### 4.21.5 Profit/Loss from Sale of Property, Plant and Equipment

Profit/loss from sale of property, plant and equipment is recognised in the period in which the sale occurs and is classified as other income.

#### 4.21.6 Income from Government Securities and Securities Purchased under Resale Agreements

Discounts/premium on Treasury Bills and Treasury Bonds are amortised over the period to reflect a constant periodic rate of return. The coupon interest on Treasury Bonds is recognised on an accrual basis. The interest income on securities purchased under resale agreements is recognised in the Income Statement on an accrual basis over the period of the agreement.

#### 4.21.7 Rental Income

Rental income arising on operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the Income Statement in “other operating income”.

### 4.22 Segmental Reporting

The Bank’s segmental reporting is based on the following operating segments: Banking, Leasing, and Travels and others. Information relating to above is disclosed in Note 47.

### 4.23 Cash Flow Statement

The Cash Flow Statement has been prepared using the “Indirect Method” of preparing cash flows in accordance with the Sri Lanka Accounting Standard (LKAS 7) – “Statement of Cash Flows”. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalent include cash in hand, balances with banks and money at call and short notice.

### 4.24 Deposit Insurance Scheme

In terms of the Banking Act Direction No. 5 of 2010 “Insurance of Deposit Liabilities” issued on 27th September 2010 and subsequent amendments there to, all Licensed Commercial Banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No. 1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1st October 2010. Deposits to be insured include demand, time and savings deposit liabilities and exclude the following:

- Deposit liabilities to member institutions
- Deposit liabilities to Government of Sri Lanka
- Deposit liabilities to Directors, Key Management Personnel and other related parties as defined in Banking Act Direction No. 11 of 2007 on Corporate Governance of Licensed Commercial Banks
- Deposit liabilities held as collateral against any accommodation granted
- Deposit liabilities falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act funds of which have been transferred to Central Bank of Sri Lanka

Licensed Commercial Banks are required to pay a premium of 0.10% on eligible deposit liabilities if the Bank maintains a Capital Adequacy Ratio (CAR) of 14% or above as at the end of the immediately preceding financial year and a premium of 0.125% on eligible deposit liabilities for all other Licensed Commercial Banks (with CAR below 14%) calculated on the total amount of eligible deposits as at the end of the quarter payable within a period of 15 days from the end of the quarter.

### 4.25 Subsequent Events

Events occurring after the reporting date are those events, favourable and unfavourable, that occur between the reporting date and the date of the Financial Statements are authorised for issue.

All material and important events which occur after reporting date have been considered and disclosed in Note 44 to the Financial Statements as adjusted as applicable.

## **4.26 Comparative Information**

The comparative information is reclassified wherever necessary to conform with the current year's presentation in order to provide a better presentation.

## **4.27 Policies Specific to Insurance Sector**

### **4.27.1 Significant Accounting Estimates and Assumptions**

#### **Non-Life Insurance Contract Liabilities**

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the Statement of Financial Position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods and Frequency/Severity method.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future (for example to reflect one-off occurrences, changes in external or market factors such

as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

### **4.27.3 Revenue Recognition**

#### **Gross Written Premium**

Non-life insurance gross written premium comprises the total premium receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences.

#### **Reinsurance Premium**

Non-life gross reinsurance premium written comprises the total premium payable for the whole cover provided by contracts entered into the period and is recognised on the date on which the policy incepts. Premium includes any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned reinsurance premium is the proportion of premium written in a year that relates to periods of risk after the reporting date. Unearned reinsurance premium is deferred over the term of the underlying direct insurance policies.

## **4.28 New Accounting Standards Issued But Not Effective**

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standard which will become applicable for financial periods beginning on or after 1st January 2018. Accordingly, the Group has not applied the following new standards in preparing these Consolidated and separate Financial Statements.

### 4.28.1 SLFRS 9 – Financial Instruments

SLFRS 9 – “Financial Instruments” will replace LKAS 39 for annual periods on or after 1st January 2018 with early adoption permitted.

Bank performed the diagnostic phase and implementation phase for SLFRS 9 – “Financial Instruments”. The quantifications has been performed as at 31st December 2016 on adoption of SLFRS 9 with the assistance of an external consultant. The Bank has undertaken a significant analysis of how SLFRS 9 should be implemented and has taken tentative accounting policy decisions.

#### Classification and Measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity’s business model for managing the assets and the instruments’ contractual cash flow characteristics.

#### Business Model Assessment

Bank determines its business model at the level that best reflects how it manages the financial assets to achieve its objectives. The Bank’s business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as the performance of the business model and the financial asset held within that business model are evaluated and reported to the entity’s Key Management Personnel, the risks that affects the performance and, in particular, the way those risks are managed and the financial asset held within that business model, how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flow collected) and the expected frequency, value and timing of sales are also important aspect of Bank’s assessment.

The business model assessment is based on reasonably expected scenarios without taking “worst case” or “stress case” scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank’s original expectation, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

#### Contractual Cash Flow Characteristic Test

The Bank assesses the contractual terms of the financial asset to identify whether they meet Solely the Payment of Principle and Interest (SPPI) as the second test of the classification process.

The “Principle” for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial; asset (for example, if there are repayments of principle or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make SPPI assessment, the Bank applies judgement and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast to contractual exposures that introduce a more than deminimise exposure to risk or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely the payment of principle and interest on the amount outstanding. In such cases the financial asset is required to be measured at Fair Value through Profit or Loss.

#### Impairment of Financial Assets

##### Overview of Expected Credit Loss Principle (ECL)

SLFRS 9 will principally change the Bank’s loan loss provision method by replacing LKAS 39 – “Financial Instrument Recognition and Measurement’s” incurred loss approach with a forward looking ECL approach.

ECL allowance will be based on credit losses expected to arise over the life of the asset (Lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination in which case the loss allowance will be 12-month expected credit loss (12mECL).

12mECL is the portion of LTECL that represent the ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date.

The Bank has established a policy to perform an assessment, at the end of each reporting period of whether a financial instrument’s credit risk has increased significantly since initial recognition. Based on such process Bank groups loans into Stage 1, Stage 2, Stage 3 as described below:

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include the facilities where the credit risk has improved and the loans has been reclassified from Stage 2. Assessment of Stage 1 will be performed collectively.

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 2. Assessment of Stage 2 will be performed collectively.
- Stage 3: Loan considered to be credit Impaired/contains objective evidence of incurred losses records an allowance for the LTECL. Stage 3 assessment will be performed individually/collectively.

### Significant Increase in Credit Risk

The Bank continuously monitors all assets subject to ECL, in order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assess whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk when facilities exceeding 30 days past due or when the facilities are restructured/rescheduled.

### Individually Significant Assessment and Loans and Receivables that are not Impaired Individually

Bank will individually assess all customer exposures exceeding Rs. 25 million. Individual assessment will be performed for all the customers with objective evidence of incurred losses (under Stage 3). Loans which are individually significant but not impaired will be assessed collectively for impairment either under Stage 1 or Stage 2 based on the criteria whether there have been significant credit deterioration since origination.

While establishing significant credit deterioration Bank will consider the following criteria;

- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated.
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument.
- Other information related to the borrower, such as changes in the price of a borrower's debt/equity instrument.
- An actual/expected internal credit rating downgrade for the borrower or decrease in behavioural score used to assess credit risk internally.
- Existing or forecast adverse changes in business, financial or economic condition that are expected to cause as significant change in the borrower's ability to meet its obligation.

- An actual or expected significant change in the operating results of the borrower in relating to actual/expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, increase in gearing, liquidity management problems.
- Significant increase in credit risk on other financial instruments of the same borrower.
- An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that result in a significant change in the borrower's ability to meet the debt obligation.

### Grouping Financial Assets Measured on a Collective Basis

The Bank calculates ECL either on collective or individual basis as explained above. Asset classes where Bank calculates ECL on an individual basis includes all individually significant assets which are belong to Stage 3. All assets which belong Stages 1 and 2 will be assessed collectively for impairment.

Bank groups these exposures for smaller homogeneous exposures, based on a combination of internal and external characteristics of the loan such as product type, collateral type, days past due, industry etc.

### The Calculation of ECL

The Bank calculates ECL-based on three probability-weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculation are outlined below and the key elements are as follows:

- **PD:** The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio
- **EAD:** Exposure At Default (EAD) is the estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities.

- **LGD:** Loss Given Default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lenders would expect to receive, including realisation of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECL, Bank considers three scenarios (base case, best case and worst case). Each of these scenarios associated with different loss rates. For all products Banks considers the maximum period of which the credit losses are determined is the contractual life of a financial instrument.

#### **Forward Looking Information**

In its ECL model Bank relies on broad range qualitative/quantitative forward looking information as economic input. Quantitative information includes GDP growth, inflation, unemployment, interest rates and exchange rates, whereas qualitative information includes Government policies, status of the industry business and regulatory impact.

#### **4.28.2 SLFRS 15 – Revenue Recognition from Customer Contracts**

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”, LKAS 11 – “Construction Contracts”.

SLFRS 15 is effective for annual reporting period beginning on or after 1st January 2018 and with early adoption permitted.

#### **4.28.3 SLFRS 16 – Leases**

SLFRS 16 requires lessees to recognise all leases on their Statement of Financial Position as lease liabilities, with the corresponding right of-use assets.

The profit or loss recognition pattern for recognised leases will be similar to existing finance lease accounting, with interest and depreciation expense recognised separately in Profit or Loss.

SLFRS 16 is effective for annual periods beginning on or after 1st January 2019.

The Impact on the implementation of the above standard has not been quantified yet by the Group.

## 5. GROSS INCOME

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Interest Income (Note 6.1)	149,184,471	109,970,256	173,820,509	129,708,199
Fee and Commission Income (Note 7.1)	5,132,907	3,948,052	5,769,244	4,365,052
Net Gain from Trading (Note 8)	2,664,721	2,816,079	2,697,941	2,801,632
Other Operating Income (Net) (Note 9)	5,183,198	5,379,972	7,895,999	7,874,636
<b>Total Gross Income</b>	<b>162,165,297</b>	<b>122,114,359</b>	<b>190,183,693</b>	<b>144,749,519</b>

## 6. NET INTEREST INCOME

### 6.1 Interest Income

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Cash and Cash Equivalents	238,338	233,527	627,723	1,020,892
Placements with Banks	195,443	542,475	195,509	542,475
Loans and Receivables – To Banks	6,955,577	5,536,683	6,955,577	5,536,683
Loans and Receivables to Other Customers	118,727,914	86,653,415	142,974,501	105,603,533
Financial Investments – Held to Maturity	12,343,729	7,749,838	12,343,729	7,749,839
Financial Investments – Available for Sale	517,741	114,378	517,741	114,378
Day one Difference on Staff Loans	982,045	867,111	982,045	867,570
	139,960,787	101,697,427	164,596,825	121,435,370
Other Financial Assets Held for Trading	9,223,684	8,272,829	9,223,684	8,272,829
<b>Total Interest Income</b>	<b>149,184,471</b>	<b>109,970,256</b>	<b>173,820,509</b>	<b>129,708,199</b>

### Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions

The Inland Revenue (Amendment) Act No. 10 of 2006, provides that a company which derives interest income from the secondary market transactions in Government Securities would be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the Company for that year of assessment. Accordingly the net interest income earned by the Bank and Group from the secondary market transactions in Government Securities for the year has been grossed up in these Financial Statements. Accordingly, the Bank has accounted for Rs. 2,302 million for the year 2017. ( Rs. 1,397 million for 2016).

### 6.2 Interest Expenses

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Due to Banks	(4,195,944)	(3,628,098)	(6,750,915)	(7,710,119)
Due to Other Customers	(90,447,630)	(57,400,369)	(95,895,830)	(60,254,871)
Other Borrowings	(2,462,562)	(3,830,716)	(6,815,736)	(6,159,887)
Debt Securities Issued	(1,612,500)	(1,986,686)	(1,612,500)	(1,986,686)
Total Interest Expenses	(98,718,636)	(66,845,869)	(111,074,981)	(76,111,563)
<b>Net Interest Income</b>	<b>50,465,835</b>	<b>43,124,387</b>	<b>62,745,528</b>	<b>53,596,636</b>

## 7. NET FEE AND COMMISSION INCOME

### 7.1 Fee and Commission Income

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Loans	193,300	104,401	193,300	104,401
Cards	443,999	344,779	443,999	344,779
Trade and Remittances	1,328,049	1,289,999	1,328,049	1,289,999
Investment Banking	9,517	32,893	9,517	32,893
Deposits	2,369,131	1,508,371	2,369,131	1,508,371
Guarantees	656,400	525,072	656,400	525,072
Others	132,511	142,537	768,848	559,537
	<b>5,132,907</b>	<b>3,948,052</b>	<b>5,769,244</b>	<b>4,365,052</b>

### 7.2 Fee and Commission Expenses

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Loans	–	–	–	–
Cards	(115,511)	(103,381)	(115,511)	(103,381)
Trade and Remittances	(2,168)	(2,420)	(2,168)	(2,420)
Investment Banking	(4,559)	(3,099)	(4,559)	(3,099)
Guarantees	(3,131)	(4,791)	(3,131)	(4,791)
Others	(135,404)	(95,221)	(135,404)	(95,221)
	<b>(260,773)</b>	<b>(208,912)</b>	<b>(260,773)</b>	<b>(208,912)</b>
<b>Net Fee and Commission Income</b>	<b>4,872,134</b>	<b>3,739,140</b>	<b>5,508,471</b>	<b>4,156,140</b>

## 8. NET GAIN FROM TRADING

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Foreign Exchange	2,119,499	2,572,743	2,119,499	2,572,743
Equities	4,572	(142,797)	34,945	(145,509)
Others				
– Capital Gain Treasury Bills/Bonds	125,763	531,921	125,763	531,921
– Change in Fair Valuation of Treasury Bills	84,799	77,658	84,799	77,658
– Change in Fair Valuation of Treasury Bonds	330,088	(223,446)	332,935	(235,181)
<b>Total</b>	<b>2,664,721</b>	<b>2,816,079</b>	<b>2,697,941</b>	<b>2,801,632</b>



**9. OTHER OPERATING INCOME (NET)**

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Gain on Sale of Property, Plant and Equipment	27,306	98,471	46,041	131,611
Gain/ (Loss) on Revaluation of Foreign Exchange	117,381	50,915	117,381	50,915
Dividend from Investment				
– Quoted	54,537	59,640	198,921	189,530
– Unquoted	106,215	56,951	106,215	–
– Subsidiaries	1,482,358	1,512,109	–	–
Recovery of Bad Debts Written Off and Provision Reversals	1,379,729	1,770,994	1,554,838	1,967,368
Net Earned Premiums	–	–	3,777,037	3,551,235
Others	2,015,671	1,830,891	2,095,566	1,983,977
<b>Total</b>	<b>5,183,198</b>	<b>5,379,972</b>	<b>7,895,999</b>	<b>7,874,636</b>

**10. IMPAIRMENT FOR LOANS AND OTHER LOSSES**

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
<b>Loans and Receivables</b>				
To Other Customers (Note 22.2.3)	2,678,366	1,246,748	4,191,907	692,083
– Individual Impairment	1,324,326	847,801	1,547,969	796,703
– Collective Impairment	1,354,040	398,947	2,643,938	(104,620)
Others	–	–	187,860	670,170
<b>Total</b>	<b>2,678,366</b>	<b>1,246,748</b>	<b>4,379,767</b>	<b>1,362,253</b>

**11. PERSONNEL EXPENSES**

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Salaries, Bonus and Related Expenses	9,807,288	9,121,658	12,935,207	11,840,789
Contribution to Defined Benefit Plan – Pre-1996 Pension Fund (Note 37.1.3)	1,095,455	1,758,314	1,095,455	1,758,314
Contribution to Defined Benefit Plan – Gratuity (Note 11.1)	74,449	53,348	159,293	136,000
Amortisation of Pre Paid Staff Cost	982,045	867,111	982,653	867,111
Others	3,955,268	5,675,011	3,955,268	5,675,011
<b>Total</b>	<b>15,914,505</b>	<b>17,475,442</b>	<b>19,127,876</b>	<b>20,277,225</b>

### 11.1 Contribution to Defined Benefit Plan – Gratuity (Note 37.2)

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Current Service Cost	34,796	24,957	117,315	107,609
Interest Cost	39,653	28,391	41,978	28,391
<b>Net Expense</b>	<b>74,449</b>	<b>53,348</b>	<b>159,293</b>	<b>136,000</b>

### 12. OTHER EXPENSES

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Directors' Emoluments	7,331	6,296	18,820	11,103
Auditors' Remuneration	5,869	11,238	19,359	22,245
Non-Audit Fees to Auditors	4,428	2,748	9,188	4,237
Professional and Legal Expenses	136,172	95,617	156,162	118,777
Depreciation of Property, Plant and Equipment	1,081,440	955,723	1,352,823	1,192,618
Amortisation of Leasehold Property	94,989	66,542	94,989	66,866
Depreciation of Investment Property	1,707	1,707	1,707	1,707
Amortisation of Intangible Assets	43,536	34,187	58,937	49,508
Amortisation of Prepayment Leases	30,856	24,136	30,856	24,136
Office Administration and Establishment Expenses	7,707,881	6,602,223	10,348,197	8,885,087
Benefits, Claims and Underwriting Expenditure	–	–	2,713,961	2,503,035
Deposit Insurance	1,395,878	1,174,690	1,395,878	1,174,690
Others	1,897,259	1,118,148	1,880,703	1,153,919
<b>Total</b>	<b>12,407,346</b>	<b>10,093,258</b>	<b>18,081,580</b>	<b>15,207,929</b>

### 13. INCOME TAX EXPENSES

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Current Year Tax Expense				
Income Tax Expense (Note 13.1)	7,724,267	6,089,336	9,225,208	8,120,960
– Deemed Dividend Tax	77,520	–	–	–
– Prior Year' (Over)/Under Provision	(1,123,123)	12,093	(1,123,123)	12,093
Deferred Tax Expense (Note 13.2)	984,666	(282,460)	1,255,425	(655,659)
<b>Total Tax Expense</b>	<b>7,663,329</b>	<b>5,818,969</b>	<b>9,357,510</b>	<b>7,477,394</b>
<b>Effective Tax Rate (%)</b>	<b>29.9</b>	<b>29.3</b>	<b>31.3</b>	<b>31.9</b>

### 13.1 Reconciliation of Tax Expenses

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Profit Before Tax for the Year	25,913,106	20,813,660	29,868,431	25,433,322
Income Tax for the Period (Accounting Profit @Applicable Tax Rate)	7,255,670	5,827,825	8,363,161	7,121,330
Add:				
Tax Effect of Expenses that are not Deductible for Tax Purposes	2,854,684	2,692,103	27,078,826	26,117,364
(Less):				
Tax Effect of Expenses that are Deductible for Tax Purposes	(2,386,087)	(2,430,592)	(26,216,779)	(25,117,734)
Income Tax Expense for the Period	7,724,267	6,089,336	9,225,208	8,120,960

### 13.2 Deferred Tax (Credit)/Charge in the Profit/(Loss) Comprise the Following:

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Deferred Tax Assets	847,909	(481,061)	912,080	(487,543)
Deferred Tax Liabilities	136,757	198,601	343,345	(168,116)
Deferred Tax (Credit)/Charge to Profit or Loss	984,666	(282,460)	1,255,425	(655,659)

### 13.3 Deferred Tax (Credit)/Charge in Other Comprehensive Income Comprise the Following:

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Retirement Benefit	41,067	(15,167)	35,060	(22,135)
Other Temporary Difference – Revaluation of Assets	3,366,405	–	3,732,371	–
Deferred Tax (Credit)/Charge to Other Comprehensive Income	3,407,472	(15,167)	3,767,431	(22,135)
<b>Net Deferred Tax for the Year</b>	<b>4,392,138</b>	<b>(297,627)</b>	<b>5,022,571</b>	<b>(677,794)</b>

### Applicable Rates Exemptions, Concessions or Holidays Granted on Income Tax

	2017 %	2016 %
Domestic Operation of the Bank	28	28
On-Shore Banking Operations of the Off-Shore Banking Unit	28	28
Off-Shore Banking Operations of the Off-Shore Banking Unit	28	28
People's Leasing and Finance PLC	28	28
People's Travels (Pvt) Ltd.	15	12
People's Merchant Finance PLC	28	28

The tax liabilities of the Group are computed at the above rates except for the following companies which enjoy exemptions and concessions:

#### **People's Leasing Property Development Ltd.**

Pursuant to the agreement dated 3rd December 2008 entered into by People's Leasing Property Development Ltd. with the Board of Investment under Section 17 of the Board of Investment Law, for the business of setting up and operating a mixed development project, the Inland Revenue Act relating to the imposition payment and recovery of income tax shall not apply for a period of five years reckoned from the year in which the Company makes profit or any year of assessment not later than two years reckoned from the date of commencement of its commercial operations whichever is earliest. The Company is eligible for a 10% concessionary tax rate for a period of two years immediately succeeding the last date of tax exemption period and a 20% concessionary tax rate after the expiration of the 10% concessionary tax period.

#### **People's Leasing Havelock Properties Ltd.**

Pursuant to the agreement dated 16th December 2010 entered into by People's Leasing Havelock Properties Ltd. with the Board of Investment under Section 17 of the Board of Investment Law, for the business of setting up and operating a mixed development project, the Inland Revenue Act relating to the imposition, payment and recovery of income tax shall not apply for a period of five years reckoned from the year in which the Company makes profit or any year of assessment not later than two years reckoned from the date of commencement of its commercial operations whichever is earliest. The Company is eligible for a 10% concessionary tax rate for a period of two years immediately succeeding the last date of tax exemption period and a 20% concessionary tax rate after the expiration of the 10% concessionary tax period.

## **14. EARNINGS PER SHARE ON PROFIT**

### **14.1 Basic Earnings per Ordinary Share**

The calculation of basic earnings per share has been based on the following profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding during the year.

	Bank		Group	
	2017	2016	2017	2016
Net Profit Attributable to Ordinary Equity Holders (Rs. '000)	18,249,777	14,994,691	19,295,734	16,721,972
Weighted Average Number of Ordinary Shares in Issue ('000)	1,000	1,000	1,000	1,000
<b>Basic Earnings Per Share (Rs.)</b>	<b>18,250</b>	<b>14,995</b>	<b>19,296</b>	<b>16,722</b>

### **14.2 Diluted Earnings per Ordinary Share**

The calculation of diluted earnings per share has been based on the following profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding during the year, after adjustment for the effects of all dilutive potential ordinary shares.

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Net Profit Attributable to Ordinary Equity Holders (Rs. '000)	18,249,777	14,994,691	19,295,734	16,721,972
Weighted Average Number of Ordinary Shares in Issue ('000)	1,000	1,000	1,000	1,000
Number of Ordinary Shares in Capital Pending Allotment ('000)	243,040	143,040	244,040	143,040
Total Number of Shares in Issue and Pending Allotment ('000)	244,040	144,040	245,040	144,040
<b>Diluted Earnings per Share (Rs.)</b>	<b>75</b>	<b>104</b>	<b>79</b>	<b>116</b>

## 15. MEASUREMENT OF FINANCIAL INSTRUMENTS

### Bank – 2017

	HFT Rs. '000	FVTPL Rs. '000	HTM Rs. '000	Loans and Receivables Rs. '000	AFS Rs. '000	Total Rs. '000
<b>Assets</b>						
Cash and Cash Equivalents	–	–	–	68,958,012	–	68,958,012
Balances with Central Bank	–	–	–	65,689,278	–	65,689,278
Placements with Banks	–	–	–	13,458,639	–	13,458,639
Derivative Financial Instruments	–	334,230	–	–	–	334,230
Financial Assets Held for Trading	53,042,557	–	–	–	–	53,042,557
Loans and Receivables to Banks	–	–	–	86,097,515	–	86,097,515
Loans and Receivables to Other Customers	–	–	–	1,012,642,714	–	1,012,642,714
Financial Investments	–	–	112,351,039	–	3,415,344	115,766,383
<b>Total Financial Assets</b>	<b>53,042,557</b>	<b>334,230</b>	<b>112,351,039</b>	<b>1,246,846,158</b>	<b>3,415,344</b>	<b>1,415,989,328</b>

	FVTPL Rs. '000	Loans and Receivables Rs. '000	Total Rs. '000
<b>Liabilities</b>			
Due to Banks	–	80,676,350	80,676,350
Derivative Financial Instruments	273,975	–	273,975
Due to Other Customers	–	1,244,002,768	1,244,002,768
Other Borrowings	–	24,380,962	24,380,962
Subordinated Term Debts	–	12,531,728	12,531,728
<b>Total Financial Liabilities</b>	<b>273,975</b>	<b>1,361,591,808</b>	<b>1,361,865,783</b>

### Bank – 2016

	HFT Rs. '000	FVTPL Rs. '000	HTM Rs. '000	Loans and Receivables Rs. '000	AFS Rs. '000	Total Rs. '000
<b>Assets</b>						
Cash and Cash Equivalents	–	–	–	64,008,639	–	64,008,639
Balances with Central Bank	–	–	–	63,049,516	–	63,049,516
Placements with Banks	–	–	–	32,772,978	–	32,772,978
Derivative Financial Instruments	–	15,057	–	–	–	15,057
Financial Assets Held for Trading	46,915,311	–	–	–	–	46,915,311
Loans and Receivables to Banks	–	–	–	71,528,031	–	71,528,031
Loans and Receivables to Other Customers	–	–	–	890,528,101	–	890,528,101
Financial Investments	–	–	96,171,734	–	1,525,839	97,697,573
<b>Total Financial Assets</b>	<b>46,915,311</b>	<b>15,057</b>	<b>96,171,734</b>	<b>1,121,887,265</b>	<b>1,525,839</b>	<b>1,266,515,206</b>

	FVTPL Rs. '000	Loans and Receivables Rs. '000	Total Rs. '000
<b>Liabilities</b>			
Due to Banks	–	106,924,276	106,924,276
Derivative Financial Instruments	72,182	–	72,182
Due to Other Customers	–	1,077,812,127	1,077,812,127
Other Borrowings	–	27,184,535	27,184,535
Subordinated Term Debts	–	12,531,728	12,531,728
<b>Total Financial Liabilities</b>	<b>72,182</b>	<b>1,224,452,666</b>	<b>1,224,524,848</b>

## Group – 2017

	HFT Rs. '000	FVTPL Rs. '000	HTM Rs. '000	Loans and Receivables Rs. '000	AFS Rs. '000	Total Rs. '000
<b>Assets</b>						
Cash and Cash Equivalents	–	–	–	69,675,003	–	69,675,003
Balances with Central Bank	–	–	–	65,689,278	–	65,689,278
Placements with Banks	–	–	–	18,944,087	–	18,944,087
Derivative Financial Instruments	–	334,230	–	–	–	334,230
Financial Assets Held for Trading	53,354,989	–	–	–	–	53,354,989
Loans and Receivables to Banks	–	–	–	86,436,113	–	86,436,113
Loans and Receivables to Other Customers	–	–	–	1,143,766,774	–	1,143,766,774
Financial Investments	–	–	117,137,814	–	4,483,905	121,621,719
<b>Total Financial Assets</b>	<b>53,354,989</b>	<b>334,230</b>	<b>117,137,814</b>	<b>1,384,511,255</b>	<b>4,483,905</b>	<b>1,559,822,193</b>
		FVTPL Rs. '000		Loans and Receivables Rs. '000		Total Rs. '000
<b>Liabilities</b>						
Due to Banks	–	–	–	100,628,552	–	100,628,552
Derivative Financial Instruments	–	273,975	–	–	–	273,975
Due to Other Customers	–	–	–	1,305,625,750	–	1,305,625,750
Other Borrowings	–	–	–	33,634,482	–	33,634,482
Subordinated Term Debts	–	–	–	32,447,923	–	32,447,923
<b>Total Financial Liabilities</b>	<b>–</b>	<b>273,975</b>	<b>–</b>	<b>1,472,336,707</b>	<b>–</b>	<b>1,472,610,682</b>

## Group – 2016

	HFT Rs. '000	FVTPL Rs. '000	HTM Rs. '000	Loans and Receivables Rs. '000	AFS Rs. '000	Total Rs. '000
<b>Assets</b>						
Cash and Cash Equivalents	–	–	–	66,408,702	–	66,408,702
Balances with Central Bank	–	–	–	63,049,516	–	63,049,516
Placements with Banks	–	–	–	34,059,860	–	34,059,860
Derivative Financial Instruments	–	21,196	–	–	–	21,196
Financial Assets Held for Trading	47,455,844	–	–	–	–	47,455,844
Loans and Receivables to Banks	–	–	–	72,205,378	–	72,205,378
Loans and Receivables to Other Customers	–	–	–	1,013,921,293	–	1,013,921,293
Financial Investments	–	–	101,069,681	–	3,258,308	104,327,989
<b>Total Financial Assets</b>	<b>47,455,844</b>	<b>21,196</b>	<b>101,069,681</b>	<b>1,249,644,749</b>	<b>3,258,308</b>	<b>1,401,449,778</b>
		FVTPL Rs. '000		Loans and Receivables Rs. '000		Total Rs. '000
<b>Liabilities</b>						
Due to Banks	–	–	–	130,122,246	–	130,122,246
Derivative Financial Instruments	–	72,182	–	–	–	72,182
Due to Other Customers	–	–	–	1,119,753,182	–	1,119,753,182
Other Borrowings	–	–	–	42,296,376	–	42,296,376
Subordinated Term Debts	–	–	–	36,525,796	–	36,525,796
<b>Total Financial Liabilities</b>	<b>–</b>	<b>72,182</b>	<b>–</b>	<b>1,328,697,600</b>	<b>–</b>	<b>1,328,769,782</b>

## 16. CASH AND CASH EQUIVALENTS

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Cash in Hand	37,378,183	33,512,266	38,007,696	34,032,152
Cash at Banks	4,568,707	1,428,863	4,656,185	3,309,040
Money at Call and Short Notice	6,323,768	2,857,433	6,323,768	2,857,433
Others	20,687,354	26,210,077	20,687,354	26,210,077
	68,958,012	64,008,639	69,675,003	66,408,702

## 17. BALANCES WITH CENTRAL BANK OF SRI LANKA

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Statutory Balances with Central Bank of Sri Lanka	65,689,278	63,049,516	65,689,278	63,049,516
	65,689,278	63,049,516	65,689,278	63,049,516

The Balance with the Central Bank of Sri Lanka in the Statutory Cash Reserve is 7.5% (7.5% in 2016) of Rupee deposit liabilities. This is a non-interest bearing balance. A similar reserve is not required in respect of Foreign Currency Deposits Liabilities in the Domestic Banking Unit and Deposit Liabilities in the Off-Shore Banking Unit.

## 18. PLACEMENTS WITH BANKS

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Placements	13,458,639	32,772,978	13,458,639	32,772,978
Fixed Deposits	–	–	5,485,448	1,286,882
	13,458,639	32,772,978	18,944,087	34,059,860

## 19. DERIVATIVE FINANCIAL INSTRUMENTS

	Bank				Group			
	2017		2016		2017		2016	
	Assets Rs. '000	Notional Amount Rs. '000	Assets Rs. '000	Notional Amount Rs. '000	Assets Rs. '000	Notional Amount Rs. '000	Assets Rs. '000	Notional Amount Rs. '000
Foreign Currency Derivatives								
Currency Swaps								
– Sales	325,846	18,224,912	6,884	949,100	325,846	18,224,912	13,023	955,239
– Purchases	4,231	2,422,890	2,667	245,370	4,231	2,422,890	2,667	245,370
Forward Foreign Exchange Contracts								
– Sales	1,723	1,588,867	4,541	948,156	1,723	1,588,867	4,541	948,156
– Purchases	2,430	1,419,081	963	702,004	2,430	1,419,081	963	702,004
<b>Total</b>	<b>334,230</b>	<b>20,647,802</b>	<b>15,057</b>	<b>2,844,630</b>	<b>334,230</b>	<b>20,647,802</b>	<b>21,196</b>	<b>2,850,769</b>

## 20. OTHER FINANCIAL ASSETS HELD FOR TRADING

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Sri Lanka Government Securities (Note 20.1)	50,133,681	44,183,629	50,133,681	44,183,629
Equity Securities (Note 20.2)	311,655	850,579	624,087	1,391,112
Unit Trusts (Note 20.3)	2,519,075	176,696	2,519,075	176,696
Debt Securities	78,146	1,704,407	78,146	1,704,407
	53,042,557	46,915,311	53,354,989	47,455,844

### 20.1 Sri Lanka Government Securities

Treasury Bills	45,991,016	35,695,820	45,991,016	35,695,820
Treasury Bonds	4,142,665	8,487,809	4,142,665	8,487,809
	50,133,681	44,183,629	50,133,681	44,183,629

### 20.2 Equity Securities

#### 20.2.1 Equity Securities – Bank

	No. of Shares	Cost 2017 Rs. '000	Market Value as at 31.12.2017 Rs. '000	No. of Shares/ Unit	Cost 2016 Rs. '000	Market Value as at 31.12.2016 Rs. '000
<b>Land and Property</b>						
Overseas Reality (Ceylon) PLC	–	–	–	21,813,003	341,046	436,260
CT Land Development PLC	333	17	16	333	17	17
<b>Capital Goods</b>						
Access Engineering PLC	2,000,000	54,545	47,000	1,900,000	51,985	47,120
Colombo Dockyard PLC	–	–	–	249,362	56,825	19,600
<b>Telecommunication Services</b>						
Dialog Axiata PLC	800,000	8,400	10,400	4,800,000	51,358	50,400
<b>Diversified Holdings</b>						
Expolanka Holdings PLC	6,000,000	49,777	31,800	6,000,000	49,777	37,800
Hayles PLC	40,679	11,800	9,804	40,679	11,800	10,983
John Keells Holdings PLC	162,149	24,633	24,079	586,123	102,597	84,988
Richard Pieris Company PLC	–	–	–	1,672,197	13,982	13,378
<b>Banks, Finance and Insurance</b>						
Janashakthi Insurance PLC	1,375,257	21,438	21,592	–	–	–
The Finance Company PLC	–	–	–	2,080,400	83,400	13,731
<b>Power and Energy</b>						
Lanka IOC PLC	640,250	22,873	17,927	640,250	22,873	20,296
LVL Energy Fund Ltd.	1,561,600	15,616	15,616	–	–	–



	No. of Shares	Cost 2017 Rs. '000	Market Value as at 31.12.2017 Rs. '000	No. of Shares/ Unit	Cost 2016 Rs. '000	Market Value as at 31.12.2016 Rs. '000
<b>Manufacturing</b>						
Pelawatta Sugar PLC	58,100	1,829	–	58,100	1,829	–
Piramal Glass PLC	5,900,066	38,240	34,220	5,900,066	38,240	31,270
Teejay Lanaka PLC	100,000	3,510	3,400	–	–	–
Alumex PLC	1,498,732	29,969	27,727	–	–	–
Chevron Lubricants Lanka PLC	399,998	59,655	47,600	299,998	54,405	47,130
<b>Food, Beverage and Tobacco</b>						
Renuka Agri Foods PLC	4,557,361	20,508	11,849	4,557,361	20,508	13,216
Melstarcorp Ltd.	140,000	8,299	8,330	300,000	17,783	17,790
<b>Retailing</b>						
Singer Sri Lanka PLC	–	–	–	49,959	4,596	6,305
<b>Motors</b>						
United Motors Lanka PLC	3,426	305	296	3,426	305	295
<b>Total Value of the Quoted Equity Securities</b>		371,412	311,655		923,325	850,579

## 20.2.2 Equity Securities – Group

	No. of Shares/ Unit	Cost 2017 Rs. '000	Market Value as at 31.12.2017 Rs. '000	No. of Shares/ Unit	Cost 2016 Rs. '000	Market Value as at 31.12.2016 Rs. '000
<b>Land and Property</b>						
Overseas Reality (Ceylon) PLC	101,594	2,257	1,788	21,885,571	318,729	437,711
CT Land Development PLC	333	17	16	–	–	–
<b>Capital Goods</b>						
Access Engineering PLC	2,137,620	58,077	50,234	1,900,000	51,985	47,120
Colombo Dockyard PLC	–	–	–	249,362	56,825	19,600
<b>Manufacturing</b>						
Alumex PLC	1,498,732	29,969	27,727	–	–	–
ACL Cables PLC	9,400	451	398	4,700	452	568
Chevron Lubricants Lanka PLC	399,998	59,655	47,600	299,998	54,405	47,130
Kelani Cables PLC	20,000	2,522	1,808	20,000	2,522	2,600
Pelawatta Sugar PLC	58,100	1,829	–	58,100	1,829	–
Piramal Glass PLC	5,900,066	38,240	34,220	5,900,066	38,240	31,270
Royal Ceramic Lanka PLC	30,000	3,750	3,435	–	–	–
Tokyo Cement PLC – Voting	50,000	3,605	3,300	–	–	–
Tokyo Cement PLC – Non-Voting	132,000	5,926	7,788	11,000	4,650	5,665
Teejay Lanka PLC	100,000	3,510	3,400	–	–	–
Textured Jersey PLC	174,983	7,201	5,949	75,000	3,158	3,210

	No. of Shares/ Unit	Cost 2017 Rs. '000	Market Value as at 31.12.2017 Rs. '000	No. of Shares/ Unit	Cost 2016 Rs. '000	Market Value as at 31.12.2016 Rs. '000
<b>Telecommunication Services</b>						
Dialog Axiata PLC	800,000	8,400	10,400	4,800,000	51,358	50,400
<b>Chemicals and Pharmaceuticals</b>						
CIC Holdings PLC	87,000	6,740	4,124	87,000	6,740	5,916
<b>Diversified Holdings</b>						
Aitken Spence PLC	82,800	16,287	4,521	82,800	16,287	5,382
Expolanka Holdings PLC	6,000,000	49,777	31,800	6,000,000	49,777	37,800
Hayles PLC	44,479	13,049	10,720	44,479	13,049	12,009
John Keells Holdings PLC	863,231	142,531	128,189	1,387,205	222,496	187,736
Richard Pieris Company PLC	–	–	–	1,672,197	13,982	13,378
Sunshine Holdings PLC	50,500	2,800	2,879	50,000	2,775	2,330
<b>Banks, Finance and Insurance</b>						
Commercial Bank PLC – Voting	452,570	22,100	61,459	423,003	42,923	61,335
Commercial Bank PLC – Non-Voting	189,294	9,276	19,876	170,133	14,232	19,565
Hatton National Bank PLC – Non-Voting	–	–	–	112,100	12,366	21,299
Janashakthi Insurance PLC	1,375,257	21,438	21,592	–	–	–
National Development Bank PLC	63,176	9,006	8,617	60,855	8,651	9,493
Nations Trust Bank PLC	395,871	26,091	30,878	464,871	27,333	33,213
Sampath Bank PLC – Voting	–	–	–	815,402	180,677	212,331
Seylan Bank PLC – Voting	76,572	5,918	6,683	75,000	5,777	6,750
Seylan Bank PLC – Non-Voting	113,674	3,746	6,366	165,000	5,292	9,735
The Finance Company PLC	–	–	–	2,080,400	83,400	13,736
Peoplès Leasing & Finance PLC	69,000	1,242	1,173	–	–	–
Vanik Incorporation PLC	61	3	–	61	3	–
Vallibel One PLC	350,000	8,769	6,195	350,000	8,769	6,510
<b>Plantations</b>						
Horana Plantation PLC	–	–	–	20,000	768	368
<b>Food, Beverage and Tobacco</b>						
Melstarcorp Ltd.	440,000	17,751	26,180	700,000	30,620	41,510
Renuka Agri Foods PLC	4,557,361	20,508	11,849	4,557,361	20,508	13,216
<b>Hotels and Travels</b>						
John Keells Hotels PLC	107,085	2,151	942	7,085	150	77
Hotel Services Ceylon PLC	43,500	1,320	587	43,500	1,320	661
<b>Power and Energy</b>						
Lanka IOC PLC	640,250	22,873	17,927	640,250	22,873	20,296
Mackwoods Energy Limited PLC	100,000	1,400	220	100,000	1,400	290
LVL Energy Fund Ltd.	1,905,200	19,052	19,052	–	–	–

	No. of Shares/ Unit	Cost 2017 Rs. '000	Market Value as at 31.12.2017 Rs. '000	No. of Shares/ Unit	Cost 2016 Rs. '000	Market Value as at 31.12.2016 Rs. '000
<b>Retailing</b>						
Singer Sri Lanka PLC	–	–	–	49,959	4,596	6,305
<b>Motors</b>						
United Motors Lanka PLC	53,426	5,305	4,196	53,426	5,305	4,597
<b>Total Value of the Quoted Equity Securities</b>		654,540	624,087		1,386,222	1,391,112

### 20.3 Investment in Unit Trusts – Bank and Group

	No. of Units	Cost 2017 Rs. '000	Market Value as at 31.12.2017 Rs. '000	No. of Units	Cost 2016 Rs. '000	Market Value as at 31.12.2016 Rs. '000
National Equity Fund	–	–	–	5,112,735	161,000	176,696
Ceybank Gilt Edge Fund	48,776,681	500,000	503,692	–	–	–
Ceylon Gilt Edged Fund	38,329,449	500,000	503,779	–	–	–
CAL Gilt Trading Fund	46,855,526	500,000	503,964	–	–	–
Arpico Ataraxia Sri Lanka Bond Fund	45,833,715	500,000	503,763	–	–	–
NDB Wealth Gilt Edged Fund	39,519,444	500,000	503,877	–	–	–
<b>Total Value of the Unit Trusts</b>		2,500,000	2,519,075		161,000	176,696

### 21. LOANS AND RECEIVABLES TO BANKS

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Gross Loans and Receivables	89,944,619	75,292,245	90,283,217	75,969,592
<b>Net Loans and Receivables</b>	<b>86,097,515</b>	<b>71,528,031</b>	<b>86,436,113</b>	<b>72,205,378</b>
<b>Analysis</b>				
By Product				
Sri Lanka Development Bonds	40,200,667	41,415,757	40,200,667	41,415,757
Restructuring Bond (Note 21.1)	7,689,150	7,689,150	7,689,150	7,689,150
Securities Purchased Under Resale Agreements	38,207,698	22,423,124	38,546,296	23,100,471
<b>Net Total</b>	<b>86,097,515</b>	<b>71,528,031</b>	<b>86,436,113</b>	<b>72,205,378</b>

## 21.1 Government of Sri Lanka Restructuring Bonds

**21.1.a** In April 1993, The Bank received restructuring bonds amounting to Rs. 10,541 million, from the Government of Sri Lanka (GOSL) for the following purposes:

	Rs. million	
(i)	1,152.00	To Achieve the capital adequacy requirement in accordance with CBSL Guidelines.
(ii)	1,700.50	To write-off loans granted to Sri Lanka State Plantations Corporation and Paddy Marketing Board for Rs. 1,467 million and Rs. 233.5 million respectively.
(iii)	4,355.00	To Finance pension liabilities.
(iv)	3,231.00	To Provide for loan loss provision.
(v)	102.50	For loans to be transferred to Special Recovery Unit (RACA).
	10,541.00	

**21.1.b** The above value of Bonds granted by GOSL effectively relates to accounting entries that were booked to clear carrying values of advances granted under State recommendation, which were deemed as irrecoverable.

**21.1.c** The agreement underlying the granting of these Bonds, stipulates the following:

- a. A tenor of 30 years, where the Bonds could be redeemed through the recovery of any of the specific loan losses for which the Bonds were issued.

As at Statement of Financial Position date, no recoveries have been made of those specific loan losses.

- b. As per the initial agreement an interest rate of 12% p.a. would apply, with half yearly payment of interest.
- c. A value of 25% of income derived from (b) above would be refunded to the GOSL annually.

**21.1.d** As indicated in 21.1, a sum of Rs. 4,355 million of this tranche of Bonds was assigned to the Pension Fund (Rs. 3,218 million) and to the W&OP Fund (Rs. 1,137 million).

Accordingly, the carrying balance of Bonds reflected on the Statement of Financial Position does not include the value assigned to the Pension Fund, which is managed as an independent Trust Fund.

**21.1.e** The financial implications of these Bonds in year 2017 are as follows:

- a. A value of Rs. 7,689 million is reflected on the Statement of Financial Position as Loans and Receivables to Banks.
- b. A value of Rs. 879 million is received during the year as income and is reflected under Interest Income.

## 22. LOANS AND RECEIVABLES TO OTHER CUSTOMERS

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Gross loans and receivables (Note 22.1)	1,074,247,652	950,823,949	1,209,116,267	1,076,448,155
Impairment Allowance for Loans and Receivables				
(Less): Individual impairment (Note 22.2.1)	(44,913,498)	(43,589,172)	(45,672,491)	(44,124,522)
Collective impairment ( Note 22.2.2)	(16,691,440)	(16,706,676)	(19,677,002)	(18,402,340)
<b>Net Loans and Receivables</b>	<b>1,012,642,714</b>	<b>890,528,101</b>	<b>1,143,766,774</b>	<b>1,013,921,293</b>

## 22.1 Analysis

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
<b>By Product</b>				
Bills of Exchange	1,674,810	1,709,061	1,674,810	1,709,061
Overdrafts	117,634,482	59,392,369	116,161,035	58,046,445
Trade Finance	141,032,176	177,188,131	141,032,176	177,188,131
Credit Cards	2,212,132	1,839,646	2,212,132	1,839,646
Pawning	136,475,059	114,422,847	136,532,611	114,422,847
Staff Loans (Net)	16,284,225	15,379,641	16,840,916	15,899,113
Term Loans				
Short Term	110,772,777	118,981,654	110,772,777	118,981,654
Medium Term	183,915,794	190,916,058	225,941,410	229,998,334
Long Term	362,830,433	269,086,493	362,830,433	269,086,493
Securities Purchased Under Resale Agreement	80,059	–	80,059	–
Others	1,335,705	1,908,049	5,614,191	5,025,438
Lease and hire purchase receivables	–	–	89,423,716	84,250,993
<b>Gross Total</b>	<b>1,074,247,652</b>	<b>950,823,949</b>	<b>1,209,116,267</b>	<b>1,076,448,155</b>
Staff Loans	25,872,113	24,553,011	26,428,804	25,072,483
(Less): Allowance for Day One Difference	(9,587,888)	(9,173,370)	(9,587,888)	(9,173,370)
<b>Net Staff Loans</b>	<b>16,284,225</b>	<b>15,379,641</b>	<b>16,840,916</b>	<b>15,899,113</b>
<b>By Currency</b>				
Sri Lankan Rupee	911,926,634	770,729,358	1,046,795,249	896,353,565
United States Dollars	157,625,273	176,747,153	157,625,273	176,747,153
Great Britain Pounds	–	911	–	911
Others	4,695,746	3,346,527	4,695,746	3,346,526
<b>Gross Total</b>	<b>1,074,247,652</b>	<b>950,823,949</b>	<b>1,209,116,267</b>	<b>1,076,448,155</b>
<b>By Industry</b>				
Agriculture and Fishing	119,026,169	115,430,627	124,684,524	119,455,772
Manufacturing	29,332,963	19,904,045	30,889,241	20,850,016
Tourism	13,986,681	6,471,564	14,853,616	7,400,874
Transport	44,296,601	12,959,562	57,946,324	26,379,531
Construction	325,405,039	273,414,163	330,731,092	278,322,146
Traders	94,668,761	91,711,328	108,258,326	109,692,519
New Economy	10,017,453	10,009,462	10,017,453	10,009,462
Others	437,513,985	420,923,198	531,735,691	504,337,835
<b>Gross Total</b>	<b>1,074,247,652</b>	<b>950,823,949</b>	<b>1,209,116,267</b>	<b>1,076,448,155</b>

## 22.2 Movements in Individual and Collective Impairment during the Year

### 22.2.1 Allowance for Individual Impairment

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Opening Balance as at 1st January	43,589,172	42,741,371	44,124,522	43,327,819
Movement in Individual Impairment	1,324,326	847,801	1,547,969	796,703
<b>Closing Balance as at 31st December</b>	<b>44,913,498</b>	<b>43,589,172</b>	<b>45,672,491</b>	<b>44,124,522</b>

Around 80% of the individual impairment is pertaining to non-performing which is over 10 years advances.

### 22.2.2 Allowance for Collective Impairment

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Opening Balance as at 1st January	16,706,676	17,977,941	18,402,340	20,177,173
Gross Charge/(Reversal) for Impairment	1,354,040	398,947	2,643,938	(104,620)
Reversals Made during the Year	(1,329,906)	(1,690,390)	(1,329,906)	(1,690,390)
Exchange Rate Variance on Foreign Currency Provision	65,142	124,164	65,142	124,163
Write-off during the Year	(104,512)	(103,986)	(104,512)	(103,986)
<b>Closing Balance as at 31st December</b>	<b>16,691,440</b>	<b>16,706,676</b>	<b>19,677,002</b>	<b>18,402,340</b>

### 22.2.3 Movement in Impairment Allowance for Loans and Receivables

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Opening Balance as at 1st January	60,295,848	60,719,312	62,526,862	63,504,992
Gross Charge/(Reversal) for Impairment	2,678,366	1,246,748	4,191,907	692,083
Reversals Made during the Year	(1,329,906)	(1,690,390)	(1,329,906)	(1,690,390)
Exchange Rate Variance on Foreign Currency Provision	65,142	124,164	65,142	124,163
Write-off during the Year	(104,512)	(103,986)	(104,512)	(103,986)
<b>Closing Balance as at 31st December</b>	<b>61,604,938</b>	<b>60,295,848</b>	<b>65,349,493</b>	<b>62,526,862</b>

## 23. FINANCIAL INVESTMENTS – AVAILABLE-FOR-SALE

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Equity Securities – Unquoted (Note 23.1)	614,071	529,125	614,104	529,158
Equity Securities – Quoted (Note 23.2)	548,290	–	755,804	202,326
Investment in Unit Trusts (Note 23.3)	–	–	–	131,378
Sri Lanka Government Securities	318	–	861,332	1,398,732
Debt Securities	2,252,665	996,714	2,252,665	996,714
<b>Total Available-for-Sale Investments</b>	<b>3,415,344</b>	<b>1,525,839</b>	<b>4,483,905</b>	<b>3,258,308</b>

### 23.1 Equity Securities – Unquoted

#### 23.1.1 Bank

	No. of Shares 31.12.2017	Fair Value as at 31.12.2017 Rs. '000	Cost as at 31.12.2017 Rs. '000	No. of Shares 31.12.2016	Fair Value as at 31.12.2016 Rs. '000	Cost as at 31.12.2016 Rs. '000
Credit Information Bureau of Sri Lanka	47,400	8,018	50,715	47,400	50,715	50,715
Society for Worldwide Inter Bank Fund Transfer	14	1,168	1,168	14	1,168	1,168
Regional Development Bank	16,448,448	403,005	162,300	16,448,448	453,367	162,300
Lanka Financial Services Bureau	225,000	2,178	2,250	225,000	2,250	2,250
Fitch Rating Lanka Ltd.	62,500	625	625	62,500	625	625
Lanka Clear (Pvt) Ltd.	2,100,000	21,000	21,000	2,100,000	21,000	21,000
Megpeck Ltd.	125,000	–	–	125,000	–	–
National Equity Fund	5,112,735	178,077	177,156	–	–	–
		614,071	415,214		529,125	238,058

#### 23.1.2 Group

	No. of Shares 31.12.2017	Fair Value as at 31.12.2017 Rs. '000	Cost as at 31.12.2017 Rs. '000	No. of Shares 31.12.2016	Fair Value as at 31.12.2016 Rs. '000	Cost as at 31.12.2016 Rs. '000
Credit Information Bureau of Sri Lanka	47,500	8,051	50,748	47,500	50,748	50,748
Society for Worldwide Inter Bank Fund Transfer	14	1,168	1,168	14	1,168	1,168
Regional Development Bank	16,448,448	403,005	162,300	16,448,448	453,367	162,300
Lanka Financial Services Bureau	225,000	2,178	2,250	225,000	2,250	2,250
Fitch Rating Lanka Ltd.	62,500	625	625	62,500	625	625
LankaClear (Pvt) Ltd.	2,100,000	21,000	21,000	2,100,000	21,000	21,000
Megpeck Ltd.	125,000	–	–	125,000	–	–
National Equity Fund	5,112,735	178,077	177,156	–	–	–
		614,104	415,247		529,158	238,091

## 23.2 Equity Securities – Quoted

### 23.2.1 Bank

	No. of Shares 31.12.2017	Fair Value as at 31.12.2017 Rs. '000	Cost as at 31.12.2017 Rs. '000	No. of Shares 31.12.2016	Fair Value as at 31.12.2016 Rs. '000	Cost as at 31.12.2016 Rs. '000
Overseas Reality (Ceylon) PLC	30,538,203	537,472	518,963	–	–	–
The Finance PLC	2,080,400	10,818	83,400	–	–	–
		548,290	602,363	–	–	–

### 23.2.2 Group

	No. of Shares 31.12.2017	Fair Value as at 31.12.2017 Rs. '000	Cost as at 31.12.2017 Rs. '000	No. of Shares 31.12.2016	Fair Value as at 31.12.2016 Rs. '000	Cost as at 31.12.2016 Rs. '000
Overseas Reality (Ceylon) PLC	30,538,203	537,472	518,963	–	–	–
The Finance PLC	2,080,400	10,818	83,400	–	–	–
Sanasa Development Bank PLC	2,036,446	207,514	197,253	1,951,073	202,326	188,473
		755,804	799,616		202,326	188,473

## 23.3 Investment in Unit Trusts – Group

	No. of Units	Fair Value as at 31.12.2017 Rs. '000	Cost as at 31.12.2017 Rs. '000	No. of Units	Fair Value as at 31.12.2016 Rs. '000	Cost as at 31.12.2016 Rs. '000
Cey Bank Unit Trust Management Finance Ltd.	–	–	–	1,893,222	48,353	50,000
Orient Gilt Edge	–	–	–	6,976,928	83,025	81,211
		–	–		131,378	131,211

## 24. FINANCIAL INVESTMENTS – HELD TO MATURITY

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Sri Lanka Government Securities				
Treasury Bills	–	–	4,762,027	4,873,609
Treasury Bonds	112,351,039	96,171,734	112,375,787	96,196,072
<b>Total Held-to-Maturity Investments</b>	<b>112,351,039</b>	<b>96,171,734</b>	<b>117,137,814</b>	<b>101,069,681</b>



## 25. NON-CURRENT ASSETS HELD FOR SALE

As one of the measures to improve core capital status of People's Merchant Finance PLC, the Board decided and took steps to sell the Land and Building of the Company. During the year, pursuant to an independent valuation carried out by the Government valuer, this property was purchased by People's Bank during 2017 and booked under Investment Properties (please refer Note 29).

Location	Bank		Group		Extent	Revalued Amount Rs. '000
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000		
No. 21, Nawam Mawatha, Colombo 02 – Land	–	–	–	1,029,500	108.40 (Perches)	1,192,000
No. 21, Nawam Mawatha, Colombo 02 – Building	–	–	–	11,328	16,000 (Sq.ft)	Economically obsolescence
	–	–	–	1,040,828		1,192,000

In 2016, the Company revalued its Land and Building and the fair value was assessed based on open market and a contractor's test method by Mr. N.M. Jayathilake, Dip. In Val, BSc Est. Mat & Val., M.I.Q.S.N.C.T. (Q.S.), an incorporated valuer. The value of the land and buildings was recognised at the lower of carrying value or fair value less costs to sell.

## 26. INVESTMENTS IN SUBSIDIARIES

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Quoted Equity Share (Note 26.1)	1,320,816	1,320,816	–	–
Unquoted Equity Share (Note 26.2)	4,950	4,950	–	–
<b>Net Total</b>	<b>1,325,766</b>	<b>1,325,766</b>	<b>–</b>	<b>–</b>

### 26.1 Quoted – Equity Shares

	No. of Shares 31.12.2017	Holding % as at 31.12.2017	Cost as at 31.12.2017 Rs. '000	No. of Shares 31.12.2016	Holding % as at 31.12.2016	Cost as at 31.12.2016 Rs. '000
<b>People's Leasing and Finance PLC</b>						
– Ordinary Shares	1,184,896,862	75	690,958	1,184,896,862	75	690,958
– Preference Shares	–	–	–	–	–	–
<b>People's Merchant Finance PLC</b>						
– Ordinary Shares	33,856,246	50.16	619,858	33,856,246	50.16	619,858
– Preference Shares	1,000,000	–	10,000	1,000,000	–	10,000
			1,320,816			1,320,816

### 26.2 Unquoted – Equity Shares

<b>People's Travels (Pvt) Ltd.</b>	495,000	99	4,950	495,000	99	4,950
			4,950			4,950

## 26.3 Investments in Subsidiaries

### Non-Controlling Interests

The following subsidiaries have material NCI.

Name	Principal Place of Business/Country of Incorporation	Operating Segment	Ownership Interest Held by NCI	
			2017	2016
People's Leasing & Finance PLC	No. 1161, Maradana Road, Colombo 08, Sri Lanka	Leasing and Finance	25.0%	25.0%
People's Merchant Finance PLC	No. 21, Nawam Mawatha, Colombo 02, Sri Lanka	Leasing and Finance	22.1%	22.1%

The following is summarised financial information for the People's Leasing & Finance PLC prepared in accordance with SLFRS/LKAS, modified for fair value adjustments on acquisition and differences in the Group's accounting policies. The information is before inter-company eliminations with other companies in the Group.

	People's Leasing & Finance PLC	
	2017 Rs. '000	2016 Rs. '000
Revenue	32,238,929	25,793,499
Profit	4,367,959	4,506,981
<b>Profit attributable to NCI</b>	1,091,990	1,126,745
Other comprehensive income	268,709	(147,474)
<b>Total comprehensive income</b>	4,636,668	4,359,507
<b>Total comprehensive income attributable to NCI</b>	1,159,167	1,089,877
Total assets	167,467,152	159,104,384
Non-current assets	–	–
Total liabilities	(137,057,769)	(132,250,340)
Non-current liabilities	–	–
Net assets	30,409,383	26,854,044
<b>Net assets attributable to NCI</b>	7,602,346	6,713,511
Cash flows from operating activities	16,489,767	(12,552,033)
Cash flows from investing activities	(1,479,604)	(994,867)
Cash flows from financing activities	(18,972,497)	15,437,459
Net increase in cash and cash equivalents	(3,962,334)	1,890,559
Dividends paid to NCI during the year	581,207	561,232

## 27. GOODWILL AND INTANGIBLE ASSETS

### 27.1 Intangible Assets

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
<b>Cost</b>				
As at beginning of the Year	1,072,424	1,054,610	1,252,205	1,226,728
Subsidiary Acquired during the Year	–	–	–	–
Additions during the Year	158,080	17,814	191,723	25,477
As at end of the Year	1,230,504	1,072,424	1,443,928	1,252,205
<b>Accumulated Amortisation</b>				
As at beginning of the Year	961,910	927,722	1,122,427	1,072,918
Subsidiary Acquired during the Year	–	–	–	–
Additions during the Year	43,536	34,188	58,937	49,509
As at end of the Year	1,005,446	961,910	1,181,364	1,122,427
<b>Net Book Value</b>	225,058	110,514	262,564	129,778

### 27.2 Goodwill

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
<b>Cost</b>				
As at beginning of the Year	734,889	734,889	308,545	308,545
Goodwill on Acquisition	–	–	108,554	–
As at end of the Year	734,889	734,889	417,099	308,545
<b>Accumulated Impairment</b>				
As at beginning of the Year	(734,889)	–	–	–
Impairment for the Year	–	(734,889)	–	–
As at end of the Year	(734,889)	(734,889)	–	–
<b>Net Book Value</b>	–	–	417,099	308,545
<b>Total Net Book Value</b>	225,058	110,514	679,663	438,323

## 28. PROPERTY, PLANT AND EQUIPMENT

### 28.1 Property, Plant and Equipment – Bank

	Freehold Land Rs. '000	Freehold Building Rs. '000	Leasehold Building Rs. '000	Motor Vehicles Rs. '000	Furniture Rs. '000	Machinery & Equipment Rs. '000	Computer Rs. '000	Total 31.12.2017 Rs. '000	Total 31.12.2016 Rs. '000
<b>Cost/Fair Value</b>									
Opening Balance as at 1st January 2017	7,037,269	5,019,685	2,233,279	1,378,108	249,388	2,097,682	2,684,192	20,699,604	26,768,951
Additions	282,535	391,391	176,231	142,819	47,286	505,453	986,903	2,532,618	1,127,805
Disposals	-	-	-	-	-	-	-	-	(77,560)
Transfers/Adjustments	-	-	-	-	-	(548)	(1,007)	(1,555)	(7,119,594)
Revaluation Adjustment on Accumulated Depreciation	-	(451,468)	(269,288)	-	-	-	-	(720,756)	-
Revaluation Surplus (Note 28.1.1)	5,787,454	262,879	144,498	-	-	-	-	6,194,832	-
<b>Closing Balance as at 31st December 2017</b>	<b>13,107,259</b>	<b>5,222,488</b>	<b>2,284,720</b>	<b>1,520,926</b>	<b>296,675</b>	<b>2,602,587</b>	<b>3,670,088</b>	<b>28,704,742</b>	<b>20,699,602</b>
<b>Accumulated Depreciation</b>									
Opening Balance as at 1st January 2017	-	390,874	234,784	1,010,709	150,236	1,295,223	1,735,558	4,817,384	10,982,865
Charge for the year	-	199,731	94,989	144,465	35,128	324,252	377,864	1,176,429	1,022,265
Disposals	-	-	-	-	-	-	-	-	(68,073)
Transfers/Adjustments	-	-	-	-	-	-	-	-	(7,119,672)
Revaluation Adjustment on Accumulated Depreciation	-	(451,468)	(269,288)	-	-	-	-	(720,756)	-
<b>Closing Balance as at 31st December 2017</b>	<b>-</b>	<b>139,137</b>	<b>60,485</b>	<b>1,155,172</b>	<b>185,364</b>	<b>1,619,475</b>	<b>2,113,420</b>	<b>5,273,057</b>	<b>4,817,385</b>
(Less): Impairment Charges									
<b>Net Book Value at 31st December 2017</b>	<b>13,107,259</b>	<b>5,083,350</b>	<b>2,224,235</b>	<b>365,754</b>	<b>111,311</b>	<b>983,111</b>	<b>1,556,667</b>	<b>23,431,685</b>	<b>15,882,217</b>
Capital Work in Progress at Cost								1,333,657	1,259,475
Furniture Equipment and Machinery at Store					2,509	4,861	274,789	282,159	82,332
								<b>25,047,501</b>	<b>17,224,026</b>

**28.1.1** On 1st July 2017 – the Bank carried out an independent valuation of all its lands and buildings. This valuation was carried out by Messrs KPMG (Chartered Accountants) together with Mr. Sunil Wickramarachchi (MRICS, AIV, BSc (Estate Management Valuation) an Independent Valuer, on a market value basis. Book values of these properties were adjusted for the revalued amounts and revaluation surplus was credited accordingly to the Revaluation Reserve.

	Rs. '000
Amount Recognised in Other Comprehensive Income	6,568,522
Amount Recognised in Income Statement	(373,691)
	<b>6,194,832</b>

**28.1.2 The Carrying Amount of Revalued Assets, in the Financial Statements if Carried at Net Book Value is as follows:**

Class of Assets	Cost Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value as at 31.12.2017 Rs. '000
Freehold Land and Building	9,024,309	1,707,889	7,316,420
Leasehold Land and Building	2,516,070	1,078,372	1,437,698
	11,540,379	2,786,262	8,754,118

**28.1.3 Property, Plant and Equipment Pledge as Security for Liabilities**

There were no items of property, plant and equipment pledge as securities for liabilities as at reporting date.

**28.1.4 Unobservable Inputs Considered in Measuring Fair Value**

The following table depicts information about significant unobservable inputs used in measuring fair value of the assets categorised under Level 3 of the fair value hierarchy.

**28.1.4.1 Bank**

Type of Asset	Fair Value as at 31.12.2017 Rs. '000	Valuation Technique	2017		
			Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs	Sensitivity of Fair Value to Unobservable Inputs
Freehold Land	13,107,259	Land Comparison	Estimated Cost per Perch	Rs. 50,000 - Rs. 18,000,000	Positively Correlated Sensitivity
Freehold Buildings	5,083,350	1. Building depreciation replacement cost or residual value 2. Condominium properties income/rental approach	Estimated Cost per Square Feet	Rs. 100 - Rs. 34,900	Positively Correlated Sensitivity
Buildings on Leasehold Lands	2,224,236	Building depreciation replacement cost or residual value	Estimated Cost per Square Feet	Rs. 100 - Rs. 9,000	Positively Correlated Sensitivity

**28.1.4.2 Group**

Type of Asset	Fair Value as at 31.12.2017 Rs. '000	Valuation Technique	2017		
			Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs	Sensitivity of Fair Value to Unobservable Inputs
Freehold Land	16,963,272	Land Comparison	Estimated Cost per Perch	Rs. 50,000 - Rs. 18,000,000	Positively Correlated Sensitivity
Freehold Buildings	8,919,672	1. Building depreciation replacement cost or residual value 2. Condominium properties income/rental approach	Estimated Cost Per Square Feet	Rs. 100 - Rs. 34,900	Positively Correlated Sensitivity
Buildings on Leasehold Lands	2,241,607	Building depreciation replacement cost or residual value	Estimated Cost Per Square Feet	Rs. 100 - Rs. 9,000	Positively Correlated Sensitivity

## 28.2 Property, Plant and Equipment – Group

	Freehold Land Rs. '000	Freehold Building Rs. '000	Leasehold Building Rs. '000	Motor Vehicles Rs. '000	Furniture Rs. '000	Machinery & Equipment Rs. '000	Computer Rs. '000	Total 31.12.2017 Rs. '000	Total 31.12.2016 Rs. '000
<b>Cost/Fair Value</b>									
Opening Balance as at 1st January 2017	9,858,283	6,263,922	2,290,150	2,019,307	673,546	2,899,543	3,288,359	27,293,111	34,024,109
Additions	282,535	391,391	176,231	225,109	141,158	607,515	1,058,164	2,882,103	1,581,550
Disposals	–	–	–	(97,248)	(7,436)	(1,489)	(6,438)	(112,611)	(166,938)
Transfers/Adjustments	–	795,113	6,560	–	–	(548)	(1,007)	800,118	(7,120,011)
Transfers from Investment Property	1,035,000	622,794	15,771	–	–	–	–	1,673,565	–
Revaluation Adjustment on Accumulated Depreciation	–	(458,028)	(262,728)	–	–	–	–	(720,756)	–
Reclassification to Asset Held for Sale	–	–	–	–	–	–	–	–	(1,050,599)
Revaluation Gain	5,787,454	1,443,412	144,498	–	–	–	–	7,375,364	25,000
<b>Closing Balance at 31st December 2017</b>	<b>16,963,272</b>	<b>9,058,603</b>	<b>2,370,483</b>	<b>2,147,168</b>	<b>807,268</b>	<b>3,505,021</b>	<b>4,339,078</b>	<b>39,190,894</b>	<b>27,293,111</b>
<b>Accumulated Depreciation</b>									
Opening Balance as at 1st January 2017	–	390,668	291,469	1,190,435	487,295	1,788,662	2,215,935	6,364,464	12,371,105
Charge for the Year	–	199,731	95,721	187,109	80,711	413,273	467,178	1,443,723	1,259,484
Disposals	–	–	–	(34,661)	(7,030)	(1,331)	(6,405)	(49,427)	(136,143)
Transfers/Adjustments	–	–	–	–	–	–	–	–	(7,120,212)
Transfers from Investment Property	–	–	10,974	–	–	–	–	10,974	–
Revaluation Adjustment on Accumulated Depreciation	–	(458,028)	(262,728)	–	–	–	–	(720,756)	–
Reclassification to Asset Held for Sale	–	–	–	–	–	–	–	–	(9,771)
<b>Closing Balance as at 31st December 2017</b>	<b>–</b>	<b>138,931</b>	<b>128,876</b>	<b>1,342,883</b>	<b>560,976</b>	<b>2,200,604</b>	<b>2,676,708</b>	<b>7,048,978</b>	<b>6,364,463</b>
<b>Net Book Value at 31st December 2017</b>	<b>16,963,272</b>	<b>8,919,672</b>	<b>2,241,607</b>	<b>804,285</b>	<b>246,292</b>	<b>1,304,416</b>	<b>1,662,370</b>	<b>32,141,916</b>	<b>20,928,648</b>
Capital Work in Progress at Cost								1,333,657	2,429,475
Furniture Equipment and Machinery at Store								282,400	82,841
								<b>33,757,975</b>	<b>23,440,966</b>

### 28.2.1 Book Values of these Properties were Adjusted for the Revalued Amounts and Revaluation Surplus was Credited Accordingly to the Revaluation Reserve

	Rs. '000
Amount Recognised in Other Comprehensive Income	7,749,055
Amount Recognised in Income Statement	(373,691)
	<b>7,375,364</b>

**28.2.2 The Carrying Amount of Revalued Assets, in the Financial Statements if Carried at Net Book Value is as Follows:**

Class of Assets	Cost Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value as at 31.12.2017 Rs. '000
Freehold Land and Building	10,720,425	1,707,889	9,012,536
Leasehold Land and Building	3,659,382	1,078,372	2,581,010
	14,379,807	2,786,261	11,593,546

**29. INVESTMENT PROPERTIES**

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
<b>Cost</b>				
Opening Balance	217,186	217,186	217,186	217,186
Additions	1,040,000	–	1,040,000	–
Disposals	–	–	–	–
Transfer during the Year	–	–	617,793	–
Transfer to Property, Plant and Equipment	–	–	(1,673,565)	–
<b>Closing Balance</b>	<b>1,257,186</b>	<b>217,186</b>	<b>201,415</b>	<b>217,186</b>
<b>Accumulated Depreciation</b>				
Opening Balance	33,180	31,473	33,180	31,473
Charge for the Year	1,707	1,707	1,707	1,707
Disposals	–	–	–	–
Transfer to Property, Plant and Equipment	–	–	(10,974)	–
<b>Closing Balance</b>	<b>34,887</b>	<b>33,180</b>	<b>23,914</b>	<b>33,180</b>
<b>Net Book Value</b>	<b>1,222,299</b>	<b>184,006</b>	<b>177,501</b>	<b>184,006</b>

During the year 2017 the Bank has purchased the land and building of People's Merchant Finance PLC situated at Nawam Mawatha, Colombo 02 in extent of 108.40 perches for a sum of Rs. 1,040 million. People's Bank has obtained three valuations including Government Valuer and two external panel valuers viz. Messrs J.M.S. Bandara – Govt. Deputy Chief Valuer (Retired) [BSc (Hons) (Estate Management and Valuation), Postgraduate Diploma (Land Settlement and Development), FIV (Sri Lanka), IRRV (Hons, UK)] and R.W.M.S.B. Rajapakse – Retired Additional Chief Valuer [BSc (Hons) Estate Management and Valuation, LLB, Attorney-at-Law and Notary Public, FIV (Sri Lanka)]. The average valuation of the said three valuers amounted to Rs. 1,050 million.

### 30. PREPAID LEASES

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
<b>Cost</b>				
Opening Balance	1,010,584	1,010,584	1,010,584	1,010,584
Additions	2,558	–	2,558	–
Disposals	–	–	–	–
<b>Closing Balance</b>	<b>1,013,142</b>	<b>1,010,584</b>	<b>1,013,142</b>	<b>1,010,584</b>
<b>Accumulated Depreciation</b>				
Opening Balance	498,400	474,263	498,400	474,263
Charge for the Year	30,856	24,137	30,856	24,137
Disposals	–	–	–	–
<b>Closing Balance</b>	<b>529,256</b>	<b>498,400</b>	<b>529,256</b>	<b>498,400</b>
<b>Net Book Value</b>	<b>483,886</b>	<b>512,184</b>	<b>483,886</b>	<b>512,184</b>

### 31. NET DEFERRED TAX (ASSETS)/LIABILITIES

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Deferred Tax Liabilities	4,543,769	1,040,608	7,395,359	3,319,643
Deferred Tax Assets	(88,152)	(977,129)	(118,327)	(1,065,181)
	<b>4,455,617</b>	<b>63,479</b>	<b>7,277,032</b>	<b>2,254,462</b>

#### 31.1 Bank

	2017				2016			
	Deferred Tax Asset Rs. '000	Deferred Tax Liability Rs. '000	Statement of Profit or Loss Rs. '000	Statement of Comprehensive Income Rs. '000	Deferred Tax Asset Rs. '000	Deferred Tax Liability Rs. '000	Statement of Profit or Loss Rs. '000	Statement of Comprehensive Income Rs. '000
Retirement Benefit	88,152	–	(28,285)	41,067	100,934	–	(2,089)	(15,167)
Impairment Allowance for Loan Receivables	–	–	876,194	–	876,195	–	(478,971)	–
Accelerated Depreciation Allowance for Tax Purpose – Property, Plant and Equipment	–	1,177,364	136,757	–	–	1,040,608	198,601	–
Revaluation of Freehold Land and Building	–	3,366,405	–	3,366,405	–	–	–	–
	<b>88,152</b>	<b>4,543,769</b>	<b>984,666</b>	<b>3,407,472</b>	<b>977,129</b>	<b>1,040,608</b>	<b>(282,460)</b>	<b>(15,167)</b>



**31.2 Group**

	2017				2016			
	Deferred Tax Asset	Deferred Tax Liability	Statement of Profit or Loss	Statement of Comprehensive Income	Deferred Tax Asset	Deferred Tax Liability	Statement of Profit or Loss	Statement of Comprehensive Income
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Retirement Benefit	91,168	(83,503)	(44,081)	35,060	111,417	(59,582)	(954)	(22,135)
Carry Forward Tax Losses	6,855	(1,045)	(6,281)	–	–	–	–	–
Impairment Allowance for Loan Receivables	21,583	(383,699)	478,161	–	961,025	81,061	(467,161)	–
Accelerated Depreciation Allowance for Tax Purpose – (Lease)	–	2,630,428	410,606	–	–	(7,250)	(1,001)	–
Accelerated Depreciation Allowance for Tax Purpose – Property, Plant and Equipment	(1,279)	1,500,806	417,020	–	(7,261)	3,305,414	(156,594)	–
Revaluation of Freehold Land and Building	–	3,732,372	–	3,732,372	–	–	–	–
	118,327	7,395,359	1,255,425	3,767,432	1,065,181	3,319,643	(625,711)	(22,135)

**32. OTHER ASSETS**

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Deposits and Prepayments	2,821,686	1,328,078	3,136,631	1,609,394
Unamortised Day One Difference Staff Loans	9,587,888	9,173,370	9,587,888	9,173,370
Accrued Other Income	3,476,868	3,060,418	3,476,868	3,060,418
Insurance and Insurance Receivables	–	–	314,945	281,316
Net Employee Benefit Asset (Post 1996) (Note 37.3)	1,409,071	–	1,409,071	–
Others	5,509,757	2,614,879	6,231,971	3,207,434
<b>Total</b>	<b>22,805,270</b>	<b>16,176,745</b>	<b>24,157,374</b>	<b>17,331,932</b>

**33. DUE TO BANKS**

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Money Market Borrowings	79,289,197	104,946,951	79,289,197	104,946,951
Call Money Borrowing	–	500,274	–	500,274
Other Borrowings	1,387,153	1,477,051	21,339,355	24,675,021
<b>Total</b>	<b>80,676,350</b>	<b>106,924,276</b>	<b>100,628,552</b>	<b>130,122,246</b>

### 34. DERIVATIVE FINANCIAL INSTRUMENTS

	Bank				Group			
	2017 Liability	2017 Notional Amount	2016 Liability	2016 Notional Amount	2017 Liability	2017 Notional Amount	2016 Liability	2016 Notional Amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Foreign Currency Derivatives								
Currency Swaps								
– Sales	2,610	693,857	51,573	7,754,437	2,610	693,857	51,573	7,754,437
– Purchases	243,113	12,395,844	–	5,159	243,113	12,395,844	–	5,159
Forward Foreign Exchange Contracts								
– Sales	925	486,306	7,273	3,260,001	925	486,306	7,273	3,260,001
– Purchases	27,328	2,133,085	13,336	1,899,782	27,328	2,133,085	13,336	1,899,782
<b>Total</b>	<b>273,975</b>	<b>15,709,093</b>	<b>72,182</b>	<b>12,919,379</b>	<b>273,975</b>	<b>15,709,093</b>	<b>72,182</b>	<b>12,919,379</b>

### 35. DUE TO OTHER CUSTOMERS

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Total Amount due to Other Customers	1,244,002,768	1,077,812,127	1,305,625,750	1,119,753,182
<b>Total</b>	<b>1,244,002,768</b>	<b>1,077,812,127</b>	<b>1,305,625,750</b>	<b>1,119,753,182</b>

#### (a) Analysis

<b>Product Wise Analysis</b>				
Demand Deposits (Current Accounts)	60,948,774	58,663,410	58,912,691	55,883,642
Savings Deposits	462,656,628	424,563,304	466,537,083	427,890,031
Fixed Deposits	716,510,807	591,808,309	771,044,347	633,202,405
Other Products	3,886,559	2,777,104	9,131,629	2,777,104
<b>Total</b>	<b>1,244,002,768</b>	<b>1,077,812,127</b>	<b>1,305,625,750</b>	<b>1,119,753,182</b>
<b>By Currency</b>				
Sri Lanka Rupee	1,120,762,321	951,810,288	1,182,385,304	993,751,345
United State Dollars	111,316,394	117,859,330	111,316,394	117,859,330
Great Britain Pounds	2,963,155	2,637,380	2,963,155	2,637,380
Others	8,960,898	5,505,129	8,960,897	5,505,127
<b>Total</b>	<b>1,244,002,768</b>	<b>1,077,812,127</b>	<b>1,305,625,750</b>	<b>1,119,753,182</b>

### 36. OTHER BORROWINGS

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Central Bank of Sri Lanka	1,810,218	1,152,288	1,810,218	1,152,288
Other Financial Institutions	1,279,709	1,338,456	11,414,031	18,712,287
Borrowing Under Repurchase Agreement (Note 36.1)	21,291,035	24,693,791	20,410,233	22,431,802
	24,380,962	27,184,535	33,634,482	42,296,376

**36.1** The following assets have been pledged as security for repurchase liabilities.

Nature of Liabilities	Nature of Assets	Bank		Group	
		2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Borrowings Under	} Treasury Bills } Treasury Bonds	–	3,869,513	–	3,869,513
Repurchase Agreements		23,663,703	25,172,724	23,663,703	25,172,724

### 37. OTHER LIABILITIES

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Deferred Income in Respect of Off-Balance Sheet Items	562,326	336,605	562,326	336,605
Sundry Creditors	3,479,178	3,633,919	3,486,929	4,117,512
Net Defined Benefit Obligation – Pre-1996 Pension Plan (Note 37.1)	5,124,862	2,136,673	5,124,862	2,136,673
Provision for Gratuity (Note 37.2)	314,829	360,480	684,982	646,932
Payable on Other Expenses	3,669,475	2,897,206	4,990,797	4,395,877
Insurance Liabilities and Reinsurance Payable	–	–	3,889,906	3,533,091
Other Liabilities	6,105,405	6,014,115	9,640,609	10,015,726
<b>Total</b>	<b>19,256,075</b>	<b>15,378,998</b>	<b>28,380,411</b>	<b>25,182,416</b>

#### 37.1 Net Defined Benefit Obligation – Pre-1996 Pension Plan

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Fair Value of Plan Assets (Note 37.1.1)	(45,433,858)	(45,125,860)	(45,433,858)	(45,125,860)
Present Value of Obligations (Note 37.1.2)	50,558,720	47,262,533	50,558,720	47,262,533
<b>Net Defined Benefit Obligation</b>	<b>5,124,862</b>	<b>2,136,673</b>	<b>5,124,862</b>	<b>2,136,673</b>

### 37.1.1 Fair Value of Plan Assets

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
<b>Plan Assets Comprise:</b>				
Fixed Deposits	7,881,875	6,133,875	7,881,875	6,133,875
Government Securities	23,945,498	25,431,060	23,945,498	25,431,060
Debentures	12,500,000	12,500,000	12,500,000	12,500,000
Net Current Assets	1,106,485	1,060,925	1,106,485	1,060,925
	45,433,858	45,125,860	45,433,858	45,125,860
Actual Return on Plan Assets	4,597,537	4,476,090	4,597,537	4,007,438
<b>Movement in the Fair Value of Plan Assets</b>				
Fair Value of Plan Assets as at 1st January	45,125,860	43,771,564	45,125,860	43,771,564
Expected Return on Plan Assets	4,643,578	3,899,403	4,643,578	3,899,403
Benefit Paid by the Plan	(5,374,781)	(5,030,864)	(5,374,781)	(5,030,864)
Actual Employer Contribution	1,361,536	2,180,828	1,361,536	2,180,828
Actuarial Gain/(Losses)	(322,335)	304,929	(322,335)	304,929
Fair Value of Plan Assets as at 31st December	45,433,858	45,125,860	45,433,858	45,125,860

### 37.1.2 Movement in the Present Value of the Obligations

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Balance as at 1st January	47,262,533	49,764,741	47,262,533	49,764,741
Benefit Paid by the Plan	(5,374,781)	(5,030,864)	(5,374,781)	(5,030,864)
Current Service Cost	540,154	930,067	540,154	930,067
Interest Cost	5,198,879	4,727,650	5,198,879	4,727,650
Actuarial (Gain)/Losses	2,931,935	(3,129,060)	2,931,935	(3,129,060)
<b>Present Value of Obligation as at 31st December</b>	<b>50,558,720</b>	<b>47,262,533</b>	<b>50,558,720</b>	<b>47,262,533</b>

### 37.1.3 Net Expenses Recognised in Income Statement

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Current Service Cost	540,154	930,067	540,154	930,067
Interest Cost	5,198,879	4,727,650	5,198,879	4,727,650
Expected Return	(4,643,578)	(3,899,403)	(4,643,578)	(3,899,403)
<b>Net Expenses</b>	<b>1,095,455</b>	<b>1,758,314</b>	<b>1,095,455</b>	<b>1,758,314</b>

### 37.1.4 Actuarial (Gains)/Losses Recognised in Other Comprehensive Income

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Amount Accumulated in Retained Earnings as at 1st January	(2,715,833)	(6,149,821)	(2,715,833)	(6,149,821)
Recognised during the Year	(3,254,268)	3,433,988	(3,254,268)	3,433,988
Amount Accumulated in Retained Earnings as at 31st December	(5,970,101)	(2,715,833)	(5,970,101)	(2,715,833)

### 37.1.5 Actuarial Assumptions

The following are the principal actuarial assumptions as at the reporting date:

	Bank		Group	
	2017 %	2016 %	2017 %	2016 %
<b>Financial Assumptions</b>				
Discount Rate	10.65	11.00	10.65	11.00
Increase in Cost of Living Allowances	5.00	5.00	5.00	5.00
Future Gross Salary Increase	7.00	7.00	7.00	7.00
<b>Demographic Assumptions</b>				
Mortality Table	RP – 2000	RP – 2000	RP – 2000	RP – 2000

### 37.1.6 Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible changes in the key assumptions employed with all other variables held constant in the employment benefit liability measures. The sensitivity of the Comprehensive Income Statement and the Statement of Financial Position is the assumed changes in discount rate and salary increment rate as follows:

	Bank				Group			
	2017		2016		2017		2016	
	Effect on Comprehensive Income Statement Increase/ (Decrease) Rs. '000	Effect on Employee Benefit Obligation Increase/ (Decrease) in the Liability Rs. '000	Effect on Comprehensive Income Statement Increase/ (Decrease) Rs. '000	Effect on Employee Benefit Obligation Increase/ (Decrease) in the Liability Rs. '000	Effect on Comprehensive Income Statement Increase/ (Decrease) Rs. '000	Effect on Employee Benefit Obligation Increase/ (Decrease) in the Liability Rs. '000	Effect on Comprehensive Income Statement Increase/ (Decrease) Rs. '000	Effect on Employee Benefit Obligation Increase/ (Decrease) in the Liability Rs. '000
<b>Increase/(Decrease) in Discount Rate</b>								
1%	3,144,958	(3,144,958)	2,976,920	(2,976,920)	3,144,958	(3,144,958)	(2,976,920)	2,976,920
-1%	(3,567,734)	3,567,734	(3,380,680)	3,380,680	(3,567,734)	3,567,734	3,380,680	(3,380,680)
<b>Increase/(Decrease) in Salary Increment</b>								
1%	(759,148)	759,148	(645,915)	645,915	(759,148)	759,148	645,915	(645,915)
-1%	711,186	(711,186)	604,109	(604,109)	711,186	(711,186)	(604,109)	604,109

## 37.2 Provision For Gratuity

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Balance as at 1st January	360,480	298,852	646,932	483,280
Current Service Cost	34,796	24,957	117,315	107,609
Interest Cost	39,653	28,391	41,978	28,391
Benefits Paid during Year	(20,870)	(39,157)	(47,244)	(43,987)
Actuarial Losses/(Gains) on Obligations	(99,231)	47,436	(74,000)	71,639
Balance as at 31st December	314,829	360,480	684,982	646,932

The Principal Financial Assumptions Used in the Valuations are as follows:

	Bank	
	2017 Percentage p.a.	2016 Percentage p.a.
Discount Rate	10.42	11
Gross Salary Increase for all Grades	7	7

### 37.2.1 Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible changes in the key assumptions employed with all other variables held constant in the employment benefit liability measures. The sensitivity of the Statement of Financial Position is the assumed changes in discount rate and salary increment rate as follow:

	Bank				Group			
	2017		2016		2017		2016	
	Effect on Statement of Profit or Loss Increase/ (Reduction) Rs. '000	Effect on Employee Benefit Obligation Increase/ (Reduction) in the Liability Rs. '000	Effect on Statement of Profit or Loss Increase/ (Reduction) Rs. '000	Effect on employee benefit obligation Increase/ (reduction) in the Liability Rs. '000	Effect on Statement of Profit or Loss Increase/ (Reduction) Rs. '000	Effect on Employee Benefit Obligation Increase/ (Reduction) in the Liability Rs. '000	Effect on Statement of Profit or Loss Increase/ (Reduction) Rs. '000	Effect on employee benefit obligation Increase/ (reduction) in the Liability Rs. '000
Increase/(Decrease) in Discount Rate								
1%	21,634	(21,634)	22,851	(22,851)	21,634	(21,634)	22,851	(22,851)
-1%	(24,846)	24,846	(26,212)	26,212	(24,846)	24,846	(26,212)	26,212
Increase/(Decrease) in Salary Increment								
1%	(25,889)	25,889	(34,219)	34,219	(25,889)	25,889	(34,219)	34,219
-1%	22,802	(22,802)	30,081	(30,081)	22,802	(22,802)	30,081	(30,081)

### 37.3 Net Employee Benefit Asset (Post 1996)

The Board of Directors of the Bank approved this retirement benefit plan for the employees recruited to the Bank on or after 1st January 1996. An actuarial valuation was carried out in accordance with the Sri Lanka Accounting Standard – 19 “Employee Benefits” and resulted in a net asset amounting to Rs. 1,409,071/- at 31st December 2017.

	Bank and Group
	2017 Rs. '000
Fair Value of Plan Assets	4,395,515
Present Value of Obligations	(2,986,444)
Net Defined Benefit Asset	1,409,071

#### 37.3.1 Actuarial Assumptions

The following are the principal actuarial assumptions as at the reporting date.

	%
<b>Financial Assumptions</b>	
Discount Rate	10.7
Increase in Cost of Living Allowances	5.0
Future Gross Salary Increase	7.0
<b>Demographic Assumptions</b>	
Mortality Table	RP – 2000

**38. SUBORDINATED TERM DEBTS**

	Interest Rate and Repayment Terms	Issue Date	Maturity Date	Bank		Group	
				2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
<b>Issued by the Bank</b>							
(i) Tranch 2	13.5% – Biannually	2009.12.30	2022.12.29	2,500,894	2,500,894	2,500,894	2,500,894
(ii) Tranch 3	12.0% – Biannually	2011.12.30	2022.12.29	5,002,486	5,002,486	5,002,486	5,002,486
(iii) Tranch 4	13.0% – Biannually	2013.06.15	2022.12.29	5,028,348	5,028,348	5,028,348	5,028,348
<b>Issued by the Subsidiary</b>							
Listed Debentures							
(i) Option 1	16.5% – Biannually	2013.03.27	2017.03.26	–	–	–	2,172,983
(ii) Option 2	16.75% – Biannually	2013.03.27	2018.03.26	–	–	2,117,594	1,681,523
(iii) Option 3	17.0% – Annually	2013.03.27	2018.03.26	–	–	2,338,162	2,812,966
(iv) Type A	8.75% – Annually	2014.09.15	2017.09.14	–	–	–	1,666,611
(v) Type B	9.63% – Annually	2014.09.15	2018.09.14	–	–	1,315,027	1,621,793
(vi) Type A	9.60% – Semi-Annually	2015.11.13	2019.11.12	–	–	2,196,987	2,203,821
(vii) Type B	9.95% – Annually	2015.11.13	2020.11.12	–	–	3,859,168	3,875,302
Non-Listed Debentures							
Type A	11.9% – Semi-Annually	2016.11.16	2019.11.16	–	–	548,067	549,992
Type B	12.25% – Semi-Annually	2016.11.16	2020.11.16	–	–	666,635	669,308
Type C	12.6% – Semi-Annually	2016.11.16	2021.11.16	–	–	6,874,554	6,739,769
<b>Total</b>				<b>12,531,728</b>	<b>12,531,728</b>	<b>32,447,923</b>	<b>36,525,796</b>
Due within 1 Year				–	2,500,814	5,770,783	2,500,814
Due after 1 Year				12,531,728	10,030,914	26,677,140	34,024,982
<b>Total</b>				<b>12,531,728</b>	<b>12,531,728</b>	<b>32,447,923</b>	<b>36,525,796</b>

**39. STATED CAPITAL/ASSIGNED CAPITAL**

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Stated Capital (Note 39.1)	49,998	49,998	49,998	49,998
Assigned Capital (Note 39.2)	12,152,000	7,152,000	12,152,000	7,152,000
	<b>12,201,998</b>	<b>7,201,998</b>	<b>12,201,998</b>	<b>7,201,998</b>



## 39.1 Stated Capital

### 39.1.1 Movement of Stated Capital

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
<b>Authorised</b>				
20,000,000 Ordinary Shares of Rs. 50/- each	1,000,000	1,000,000	1,000,000	1,000,000
<b>Fully Paid</b>				
999,960 Ordinary Shares of Rs. 50/- each	49,998	49,998	49,998	49,998

All issued shares of one million are fully paid except for 40 shares for which calls have been made, but remain unpaid.

### 39.1.2 Principal Shareholders of the Bank are as follows:

	2017 %	2016 %
Government of Sri Lanka	92.27	92.27
Cooperative Societies	7.73	7.73
	100.00	100.00

## 39.2 Assigned Capital (Capital Pending Allotment)

**39.2.1** The Government of Sri Lanka has injected Rs. 12,152 million as capital to the Bank. This amount is currently in the Capital Pending Allotment Account. The Bank is planning to issue 244,039,960 shares of Rs. 50/- each, subsequent to the increase in authorised share capital.

**39.2.2** The increase in paid up capital requires an amendment to the People's Bank Act and it is yet to be finalised.

**39.2.3** The Ministry of Finance of the Government of Sri Lanka infused four tranches of Rs. 1 billion , Rs. 2 billion, Rs. 1.5 billion and Rs. 1.5 billion capital respectively for years 2005 to 2008 and Rs. 5 billion capital in 2017 in order to meet the stipulated minimum capital requirement by the Central Bank of Sri Lanka.

## 40. STATUTORY RESERVE FUND

The Statutory Reserve Fund is maintained as required by the Banking Act No. 30 of 1988. Accordingly, the Bank should, out of profits after taxation but before any dividend is declared, transfer to the Statutory Reserve Fund a sum equivalent to not less than 5% of the Bank's paid-up capital until the Permanent Reserve is equal to 50% of the paid-up capital and not less than 2% until the Permanent Reserve equals the paid-up capital.

Accordingly, Bank has transferred Rs. 912 million for the current year.

## **41. OTHER RESERVES**

### **41.1 Revaluation Reserve**

This reserve has been created in accordance with Sri Lanka Accounting Standard 16 – “Property, Plant and Equipment”.

### **41.2 Capital Reserve**

This reserve has been created in 1987 and increased in 1998, has no transferred to date.

### **41.3 Special Risk Reserve**

In terms of Central Bank directives, 25% of Primary Dealer Unit (PDU) profit has been transferred to Special Risk Reserve in order to promote the safety, soundness and the stability of the Primary Dealer System and to build-up Primary Dealer Capital Base.

According to Central Bank Direction 08/11/011/0019/001 dated 14th February 2013 Bank is exempted from the requirement of maintaining the reserve. Therefore No transfer is made to the reserve this year based on the Direction from the Central Bank of Sri Lanka.

### **41.4 General Reserve**

This reserve has been created under Section 22(2) of the People's Bank Act No. 29 of 1961. The General Reserve represents accumulated unallocated retained profits and losses which are available for distribution and for settlement of debentures issued.

### **41.5 Available-for-Sale Reserve**

The available-for-sale reserve comprises the cumulative net change in fair value of financial investments available for sale until such investments are derecognised or impaired.

### **41.6 Special Levy to Treasury/Dividend**

Payment of Rs. 219 million was made according to the agreement between the Government of Sri Lanka and the People's Bank, the Bank is required to pay back 25% of the Restructuring Bond interest to the General Treasury as a dividend. Additional details relating to this expense is reflected in Note 21.1.1.C.

Rs. 5,000 million pertains to a dividend/special levy paid to the consolidated fund of the Government of Sri Lanka as determined by the Ministry of Finance.

## 42. MOVEMENT IN RETAINED EARNINGS AND OTHER RESERVES

### 42.1 Bank

	Statutory Reserve	Revaluation Reserve	Capital Reserve	Special Risk Reserve	General Reserve	Available-for-Sale Reserve	Retained Earnings	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Balance as at 1st January 2016</b>	4,152,518	10,846,499	5,663	1,633,710	9,064,500	296,379	16,293,472	42,292,741
Profit for the Year	-	-	-	-	-	-	14,994,691	14,994,691
Changes in Fair Value in AFS Investments	-	-	-	-	-	(13,286)	-	(13,286)
Reversal of Fair Value Gain on Disposal of AFS Investments	-	-	-	-	-	(9,315)	-	(9,315)
Net Defined Benefit Obligation	-	-	-	-	-	-	3,386,550	3,386,550
Reversal of Revaluation Gain on Disposed Property	-	(3,295)	-	-	-	-	3,295	-
Transfer to Reserve during the Year	749,737	-	-	-	(625,000)	-	(124,737)	-
Transfer to Retained Earnings during the Year	-	-	-	-	-	-	-	-
Special Levy to Treasury/Dividend	-	-	-	-	-	-	(8,219,690)	(8,219,690)
Deferred Tax Effect on Defined Benefit Plans	-	-	-	-	-	-	15,167	15,167
<b>Balance as at 31st December 2016</b>	4,902,255	10,843,204	5,663	1,633,710	8,439,500	273,778	26,348,748	52,446,858
<b>Balance as at 1st January 2017</b>	4,902,255	10,843,204	5,663	1,633,710	8,439,500	273,778	26,348,748	52,446,858
Profit for the Year	-	-	-	-	-	-	18,249,777	18,249,777
Changes in Fair Value in AFS Investments	-	-	-	-	-	(177,930)	-	(177,930)
Reversal of Fair Value Gain on Disposal of AFS Investments	-	-	-	-	-	17,289	-	17,289
Net Defined Benefit Obligation	-	-	-	-	-	-	(3,222,626)	(3,222,626)
Deferred Tax Effect on Defined Benefit Plans	-	-	-	-	-	-	(41,067)	(41,067)
Revaluation Surplus of Land and Building	-	6,568,522	-	-	-	-	-	6,568,522
Deferred Tax Effect on Revaluation Surplus	-	(3,366,405)	-	-	-	-	-	(3,366,405)
Transfers from Retained Earnings during the Year	-	6,590	-	-	-	-	(6,590)	-
Transfer to Reserve during the Year (Note 40) and (Note 41.4)	912,489	-	-	-	873,864	-	(1,786,353)	-
Transfer to Retained Earnings during the Year	-	-	-	-	-	-	-	-
Special Levy to Treasury/Dividend (Note 41.6)	-	-	-	-	-	-	(5,219,690)	(5,219,690)
<b>Balance as at 31st December 2017</b>	5,814,744	14,051,911	5,663	1,633,710	9,313,364	113,137	34,322,199	65,254,728

## 42.2 Group

	Statutory Reserve	Revaluation Reserve	Capital Reserve	Special Risk Reserve	General Reserve	Cash Flow Hedge Reserve
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Balance as at 1st January 2016</b>	4,152,518	11,867,700	5,663	1,633,710	9,064,500	7,149
Profit for the Year	-	-	-	-	-	-
Changes in Fair Value in AFS Investments	-	-	-	-	-	-
Reversal of Fair Value Gain on disposal of AFS Investments	-	-	-	-	-	-
Net Defined Benefit Obligation	-	-	-	-	-	-
Reversal of Revaluation Gain on Disposed Property	-	(3,295)	-	-	-	-
Revaluation Surplus	-	18,750	-	-	-	-
Transfer to Reserve during the Year	749,737	-	-	-	(625,000)	-
Special Levy to Treasury/Dividend	-	-	-	-	-	-
Movement due to Change in Ownership	-	-	-	-	-	-
Deferred Tax Effect on defined Benefit Plans	-	-	-	-	-	-
Deferred tax effect on Revaluation Surplus	-	-	-	-	-	-
Gains and Losses on Derivative Financial Assets	-	-	-	-	-	4,638
Dividend Payment	-	-	-	-	-	-
Share Issue Expense	-	-	-	-	-	-
Tax on Other Comprehensive Income	-	-	-	-	-	-
<b>Balance as at 31st December 2016</b>	4,902,255	11,883,155	5,663	1,633,710	8,439,500	11,787
<b>Balance as at 1st January 2017</b>	4,902,255	11,883,155	5,663	1,633,710	8,439,500	11,787
Profit for the Year	-	-	-	-	-	-
Changes in Fair Value in AFS Investments	-	-	-	-	-	-
Reversal of Fair Value Gain on Disposal of AFS Investments	-	-	-	-	-	-
Net Defined Benefit Obligation	-	-	-	-	-	-
Revaluation Surplus on Land and Building	-	7,582,372	-	-	-	-
Transfers From Retained Earnings during the year	-	6,590	-	-	-	-
Transfer to Reserve during the Year	912,489	-	-	-	873,864	-
Special Levy to Treasury/Dividend	-	-	-	-	-	-
Movement due to Change in Ownership	-	-	-	-	-	-
Deferred Tax Effect on Defined Benefit Plans	-	-	-	-	-	-
Deferred Tax Effect on Revaluation Surplus	-	(3,640,880)	-	-	-	-
Gains and Losses on Derivative Financial Assets	-	-	-	-	-	(11,787)
Dividend Payment	-	-	-	-	-	-
<b>Balance as at 31st December 2017</b>	5,814,744	15,831,237	5,663	1,633,710	9,313,364	-

Available-for-Sale Reserve Rs. '000	Exchange Equalisation Fund Rs. '000	Retained Earnings Rs. '000	Total Rs. '000	Non-Controlling Interest Rs. '000	Total Rs. '000
433,941	–	32,209,592	59,374,773	6,223,858	65,598,631
–	–	16,721,972	16,721,972	1,233,956	17,955,928
(128,446)	–	–	(128,446)	(38,583)	(167,029)
(9,315)	–	–	(9,315)	–	(9,315)
–	–	3,370,185	3,370,185	(7,837)	3,362,348
–	–	3,295	–	–	–
–	–	–	18,750	6,250	25,000
–	–	(124,737)	–	–	–
–	–	(8,219,690)	(8,219,690)	–	(8,219,690)
–	–	(781,872)	(781,872)	776,130	(5,742)
–	–	20,393	20,393	1,742	22,135
–	–	–	–	–	–
–	–	–	4,638	1,547	6,185
–	–	–	–	(561,232)	(561,232)
–	–	(13,018)	(13,018)	(4,339)	(17,357)
–	–	(588)	(588)	(166)	(754)
296,180	–	43,185,534	70,357,782	7,631,326	77,989,108
296,180	–	43,185,534	70,357,782	7,631,326	77,989,108
–	–	19,295,734	19,295,734	1,215,187	20,510,921
(177,011)	–	–	(177,011)	1,680	(175,331)
17,289	–	–	17,289	–	17,289
–	–	(3,240,752)	(3,240,752)	(6,082)	(3,246,834)
–	–	–	7,582,372	166,683	7,749,055
–	–	(6,590)	–	–	–
–	–	(1,786,353)	–	–	–
–	–	(5,219,690)	(5,219,690)	–	(5,219,690)
–	(6,626)	–	(6,626)	987,624	980,998
–	–	(36,570)	(36,570)	1,510	(35,060)
–	–	–	(3,640,880)	(91,492)	(3,732,372)
–	–	–	(11,787)	(3,928)	(15,715)
–	–	–	–	(581,222)	(581,222)
136,458	(6,626)	52,191,314	84,919,861	9,321,287	94,241,148

### 43. CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business, the Bank makes various commitments and incurs contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

#### 43.1 Contingent Liabilities

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Acceptances	60,018,935	35,510,881	60,018,935	35,510,881
Documentary Credit	74,128,107	58,600,161	74,128,107	58,600,969
Guarantees	73,466,998	41,574,911	74,224,724	41,586,936
Forward Exchange Contracts	38,061,294	14,997,818	38,061,294	14,997,818
	245,675,334	150,683,770	246,433,060	150,696,604

#### 43.2 Commitments

Non-Disbursed Overdrafts and Loans	57,668,816	75,745,887	57,668,816	75,745,887
Total Contingent Liabilities and Commitments	303,344,150	226,429,659	304,101,876	226,442,491

#### 43.3 Other Capital Commitments

Capital Expenditure approved by the Board of Directors for which provisions has not been made in these Financial Statements amounted to:

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Approved and Contracted for	1,441,812	871,783	1,566,216	3,668,014
Approved but not Contracted for	30,803	330,614	406,184	140,610
	1,472,615	1,202,397	1,972,400	3,808,624

#### 43.4 Assessment Received by the Bank

The assessments received by the Bank from the Inland Revenue Department for Years of Assessment 2010/11, 2011/12, 2012/13, 2013/14 and 2014/15 are respectively Rs. 2,422.29 million (ITA 13291100319V1), Rs. 1,383.83 million (ITA 14271100064V1), Rs. 6,054.77 million (ITA 15271100004V1), Rs. 7,452.63 (ITA 16300500108V1) and Rs. 5,564.82 million (ITA 170106000084V1).

These assessments are being contested by the Bank on reasonable grounds. The tax consultants and Legal Counsels appearing for and on behalf of the Bank, are of the view that the above assessments will not have any material adverse impact on its Financial Statements.

### 43.5 Litigation Against the Bank and Companies within the Group

In the normal course of business, the Bank is involved in various types of litigation, including litigation with borrowers who are in default under terms of their loan agreements. In certain circumstances, borrowers have asserted or threatened counter claims defences. The Bank is also contesting certain Labour Tribunal cases. In the opinion of management, based on its assessment and consultation with outside counsel, litigation which is currently pending against the Bank and the Group will not have a material impact on the financial condition or future operations of the Bank and the Group as a whole. The total value of litigation against the Bank amounts to approximately Rs. 9.57 billion, of which details are given below.

Zone	Region	Total Rs.
Legal	Legal Department	1,798,408,619
Western 1	Western Zone 1	126,912,786
	Gampaha	28,435,000
Central	Kandy	312,631,900
	Matale	665,000
	Nuwara-Eliya	1,189,300
Eastern	Batticaloa	1,754,000
North Central	Anuradhapura	1,050,000
	Polonnaruwa	–
Northern	Jaffna	–
	Wanni	–
Southern	Galle	200,700,000
	Hambantota	4,800,000
	Matara	7,343,700
Uva	Badulla	14,000,000
	Monaragala	2,500,000
Wayamba	Kurunegala	103,619,983
	Puttalam	16,395,100
Sabaragamuwa	Kegalle	60,000,000
	Ratnapura	1,500,000
Western 2	Western 2	1,000,000
	Kalutara	21,103,167
Special Assets Unit/Corporate Banking Division		6,866,964,696
		<b>9,570,973,251</b>

#### 44. SUBSEQUENT EVENTS

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements.

#### 45. RELATED PARTY DISCLOSURES

The Bank has carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as Related parties as per the Sri Lanka Accounting Standard - LKAS 24 "Related Party Disclosures", except for the transactions that Key Management Personnel (KMPs) have availed under schemes uniformly applicable to all staff at concessionary rates. Those transactions include lending activities, acceptance of deposits, off-balance sheet transactions and provision of other banking and finance services.

##### 45.1 Parent and the Ultimate Controlling Party

People's Bank is a Government owned Bank

##### 45.2 Key Management Personnel (KMPs) and their Close Family Members (CFMs)

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Such Key Management Persons include Chairman, Executive and Non Executive Directors, Chief Executive Officer/ General Manager and Corporate Management of the Bank. Close family members of an Individual are those family members who may be expected to influence, or to be influenced by, that individual in their dealings with the entity. They may include individual's domestic partner and children, children of the individual's domestic partner and dependants of the individual or the individual's domestic partner.

##### 45.2.1 Compensation of Key Management Personnel (KMPs)

For the year ended 31st December	2017 Rs. '000	2016 Rs. '000
Short-term Employee Benefits	151,965	71,580
Post-employment Pension	–	–
Termination Benefits	–	–
Share-based Payments	–	–
Other Long term Benefits	1,587	1,057

##### 45.2.2 Transactions with Key Management Personnel (KMPs) and their Close Family Members (CFMs)

For the year ended 31st December	2017 Rs. '000	2016 Rs. '000
<b>a. Items in Income Statement</b>		
Interest Income	659	145
Interest Expenses	4,998	641

As at 31st December	2017 Rs. '000	2016 Rs. '000
<b>b. Items in Statement of Financial Position</b>		
Residential Mortgages	3,903.58	–
Term Loans	7,688.44	–
Credit Cards	1,499	979
Cash Margin Loans	2,263	700
Deposits	99,888	6,200
Guarantees	–	–



## 45.3 Transactions with Group Entities

The Group entities include the Subsidiaries and Associates of the Bank.

### 45.3.1 Transactions with Subsidiaries, Sub-Subsidiaries and Associate Companies of the Bank.

The aggregate amount of income and expenses arising from the transactions during the year, amount due to and due from the relevant related party and total contract sum of off-balance sheet transactions at the year end are summarised below:

For the year ended 31st December	Subsidiary Companies of the Bank		Sub-subsidiary Companies of the Bank	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
<b>a. Items in Income Statement</b>				
Interest Income	1,101,385	1,069,174	–	323
Interest Expense	561,503	412,882	9,455	37,540
Dividend Income	1,482,359	1,512,109	–	–
Other Income	22,454	154,200	76,817	287,694
Other Expenses	–	1,088	287,989	102,079
<b>b. Items in Statement of Financial Position</b>				
<b>Assets</b>				
Investments	1,325,766	1,325,766	–	–
Loans	7,587,761	9,614,090	–	–
Overdrafts	2,131,835	1,582,555	–	74,244
Assets Backed Securities	885,676	1,691,604	–	–
Other Receivables	2,958	2,472	224,086	177,751
	<u>11,933,996</u>	<u>14,216,487</u>	<u>224,086</u>	<u>251,995</u>
<b>Liabilities</b>				
Deposits	5,077,467	2,716,014	210,103	287,236
Securities Sold under Repurchase Agreements	3,583,085	5,758,139	473,506	101,511
Other Payables	1,364	25,068	4,226	102,583
	<u>8,661,915</u>	<u>8,499,221</u>	<u>687,834</u>	<u>491,330</u>
<b>c. Off-balance Sheet Items</b>				
Guarantees	32,800	32,600	–	–

#### 45.4 Transactions with Government of Sri Lanka (GOSL) and State-Owned Enterprises (SOEs)

Transactions and arrangements entered into by the Bank with the Government of Sri Lanka and State-Owned Enterprises as follows:

For the year ended 31st December	2017 Rs. '000	2016 Rs. '000
<b>a. Items in Income Statement</b>		
Interest Income	50,840,496	43,523,098
Other Income	773,823	567,434
Interest Expenses	15,967,815	7,996,399
<b>As at 31st December</b>	<b>2017 Rs. '000</b>	<b>2016 Rs. '000</b>
<b>b. Items in Statement of Financial Position</b>		
<b>Assets</b>		
Balances with CBSL	65,689,278	63,049,516
Investment in Government Securities	231,062,209	215,670,347
Loans & Receivables – Term Loans	269,354,147	294,920,331
– Overdrafts	78,217,200	26,032,546
– Bills	558,684	386,000
	644,881,519	600,058,740
<b>Liabilities</b>		
CBSL Borrowings	1,810,218	1,152,288
Deposits – Demand	25,968,504	22,976,242
– Savings	12,291,431	18,360,262
– Time	142,489,029	113,443,251
	182,559,181	155,932,043
<b>c. Items in Statement of Changes in Equity</b>		
Dividends Paid	219,690	219,690
Special Levy	5,000,000	8,000,000
<b>d. Off-balance Sheet Items</b>		
Acceptances	54,311,258	32,041,603
Documentary Credit	56,922,893	42,341,843
Guarantees	9,563,369	1,072,434
	120,797,521	75,455,879

## 45.5 Transactions with Post-Employment Benefit plans for Bank's Employees

Transactions and arrangements entered into by the post-employment benefit plans for Bank's employees as follows;

For the year ended 31st December	2017 Rs. '000	2016 Rs. '000
<b>a. Items in Income Statement</b>		
Interest Expenses	4,258,920	4,070,018
Contribution Made	1,095,455	1,758,315
<b>As at 31st December</b>	<b>2017 Rs. '000</b>	<b>2016 Rs. '000</b>
<b>b. Items in Statement of Financial Position</b>		
<b>Liabilities</b>		
Deposits	8,405,671	6,264,394
Securities Sold Under Repurchase Agreements	21,239,015	25,969,695
Subordinated Term Debts	12,528,493	12,531,728

## 46. FAIR VALUE OF FINANCIAL INSTRUMENTS

### 46.1 Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

### 46.2 Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates.

### 46.3 Financial Investments – Available for Sale

Available-for-sale financial assets valued using valuation techniques or pricing models primarily consist of unquoted equities. These assets are valued using models that use both observable data. The unobservable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile and economic assumptions.

### 46.4 Other Financial Assets Held for Trading

Other trading assets valued using quoted (unadjusted) prices in active markets available for each of identical assets.

## 46.5 Determination of Fair Value and Fair Value Hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

**Level 1:** Quoted (unadjusted) prices in active markets for identical assets or liabilities

**Level 2:** Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

**Level 3:** Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31st December 2017	Bank				Group			
	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
<b>Financial Assets</b>								
Derivative Financial Instruments								
Forward Foreign Exchange Contracts	–	334,230	–	334,230	–	334,230	–	334,230
<b>Other Financial Assets Held for Trading</b>								
Treasury Bills and Bonds	50,133,681	–	–	50,133,681	50,133,681	–	–	50,133,681
Quoted – Equity Securities	311,655	–	–	311,655	624,087	–	–	624,087
– Debt Securities	–	78,146	–	78,146	–	78,146	–	78,146
Investment in Unit Trust	–	2,519,075	–	2,519,075	–	2,519,075	–	2,519,075
<b>Financial Investments Available-for-Sale</b>								
Treasury Bills and Bonds	318	–	–	318	861,332	–	–	861,332
Unquoted Equity Securities	–	–	614,071	614,071	–	–	614,104	614,104
Quoted Equity Securities	548,290	–	–	548,290	755,804	–	–	755,804
Debt Securities	2,252,665	–	–	2,252,665	2,252,665	–	–	2,252,665
Loans and receivables	–	–	1,013,675,079	1,013,675,079	–	–	1,144,846,273	1,144,846,273
Non-Financial Assets Measured at Fair Value	–	–	–	–	–	–	–	–
Land and Building	–	–	20,414,844	20,414,844	–	–	28,124,551	28,124,551
Investment Properties	–	–	1,222,299	1,222,299	–	–	177,501	177,501
	53,246,609	2,931,451	1,035,926,293	1,092,104,353	54,627,569	2,931,451	1,173,762,429	1,231,321,449
<b>Financial Liabilities</b>								
Derivative Financial Instruments								
Forward Foreign Exchange Contracts	–	273,975	–	273,975	–	273,975	–	273,975

31st December 2016	Bank				Group			
	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
<b>Financial Assets</b>								
Derivative Financial Instruments								
Forward Foreign Exchange Contracts	–	15,056	–	15,056	–	21,196	–	21,196
<b>Other financial Assets Held for Trading</b>								
Treasury Bills and Bonds	44,183,629	–	–	44,183,629	44,183,629	–	–	44,183,629
Quoted – Equity Securities	850,579	–	–	850,579	1,391,112	–	–	1,391,112
– Debt securities	1,704,407	–	–	1,704,407	1,704,407	–	–	1,704,407
Investment in Unit Trust	–	176,696	–	176,696	–	176,696	–	176,696
<b>Financial Investments Available for Sale</b>								
Treasury Bills and Bonds	–	–	–	–	1,398,730	–	–	1,398,730
Unquoted Equity Securities	–	–	529,125	529,125	–	–	731,484	731,484
Investment in Unit Trust	–	–	–	–	–	131,378	–	131,378
Debt Securities	1,011,408	–	–	1,011,408	1,011,408	–	–	1,011,408
	47,750,023	191,752	529,125	48,470,900	49,689,286	329,270	731,484	50,750,040
<b>Financial Liabilities</b>								
Derivative Financial Instruments								
Forward Foreign Exchange Contracts		72,182		72,182		72,182		72,182

The following table shows a reconciliation of the opening and closing amounts of level 3 financial assets and liabilities which are recorded at fair value.

31st December 2017	Bank					Group				
	As at 1st January 2017	Total Gains (Losses) Recorded in Profit Or Loss	Total Gains/ (Losses) Recorded in OCI	Purchase (Sales)	As at 31st December 2017	As at 1st January 2017	Total Gains (Losses) Recorded in Profit or Loss	Total Gains/ (Losses) Recorded in OCI	Purchase (Sales)	As at 31st December 2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>										
<b>Financial investments Available for Sale</b>										
Unquoted Equity Securities	529,125	–	(93,131)	178,077	614,071	731,484	–	(93,131)	(24,249)	614,104
Total Level 3 Financial Assets	529,125	–	(93,131)	178,077	614,071	731,484	–	(93,131)	(24,249)	614,104
<b>Financial Liabilities</b>										
Total Level 3 Financial Liabilities	–	–	–	–	–	–	–	–	–	–
Total Net Level 3 Financial Assets/(Liabilities)	529,125	–	(93,131)	178,077	614,071	731,484	–	(93,131)	(24,249)	614,104

31st December 2016	Bank					Group				
	As at 1st January 2016	Total Gains (Losses) Recorded in Profit or Loss	Total Gains/ (Losses) Recorded in OCI	Purchase (Sales)	As at 31st December 2016	As at 1st January 2016	Total Gains (Losses) Recorded in Profit or Loss	Total Gains/ (Losses) Recorded in OCI	Purchase (Sales)	As at 31st December 2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>										
<b>Financial investments Available-for-Sale</b>										
Unquoted Equity Securities	525,122	–	4,003	–	529,125	818,311	–	(97,591)	10,764	731,484
Total Level 3 Financial Assets	525,122	–	4,003	–	529,125	818,311	–	(97,591)	10,764	731,484
<b>Financial Liabilities</b>										
Total Level 3 Financial Liabilities	–	–	–	–	–	–	–	–	–	–
Total Net Level 3 Financial Assets/(Liabilities)	525,122	–	4,003	–	529,125	818,311	–	(97,591)	10,764	731,484

Set out below is a comparison by class, of the carrying amount and fair values of the Bank's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	Bank				Group			
	2017		2016		2017		2016	
	Carrying Amount Rs. '000	Fair Value Rs. '000	Carrying Amount Rs. '000	Fair Value Rs. '000	Carrying Amount Rs. '000	Fair Value Rs. '000	Carrying Amount Rs. '000	Fair Value Rs. '000
<b>Financial Assets</b>								
Cash and Cash Equivalents	68,958,012	68,958,012	64,008,639	64,008,639	69,675,003	75,160,450	67,695,584	67,695,584
Balances with Central Banks	65,689,278	65,689,278	63,049,516	63,049,516	65,689,278	65,689,278	63,049,516	63,049,516
Placements with Banks	13,458,639	13,458,639	32,772,978	32,772,978	18,944,087	13,458,639	32,772,978	32,772,978
Loans and Receivables to Banks	86,097,515	86,097,515	71,528,031	71,528,031	86,436,113	86,436,113	72,205,378	72,205,378
Loans and Receivables to Other Customers	1,012,642,714	1,013,675,079	890,528,101	890,131,993	1,143,766,774	1,144,846,273	1,013,921,293	1,010,121,909
Financial investments – Held to Maturity	112,351,039	109,096,270	96,171,734	88,900,668	117,137,814	117,137,814	101,069,681	93,818,878
<b>Financial Liabilities</b>								
Due to Banks	80,676,350	80,676,350	106,924,276	106,924,276	100,628,552	100,675,686	130,112,246	129,475,241
Due to Other Customers	1,244,002,768	1,244,002,768	1,077,812,127	1,077,362,605	1,305,625,750	1,305,625,750	1,119,753,182	1,118,407,461
Other Borrowings	24,380,962	24,380,962	27,184,535	27,184,535	33,634,482	33,634,482	42,296,376	42,296,376
Subordinated Term Debts	12,531,728	12,531,728	12,531,728	12,531,728	32,447,923	32,447,923	36,525,796	36,525,796

### Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

#### Assets for Which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity (original maturity less than a year), it is assumed that the carrying amount approximate their fair values. This assumption is also applied to demand deposits, call deposits and savings deposits without specific maturity.

#### Fixed Rate Financial Instruments

Loans and advances with fixed interest rates were fair valued using market rates end of the reporting period and other variable interest bearing loans were considered as carrying value equal fair value. Conversely, fixed deposits with original tenor above one year and interest paid at maturity were discounted using current market rates offered to customers end of the reporting period.

## 47. FINANCIAL REPORTING BY SEGMENT

	Banking		Leasing		Insurance	
	2017 RS. '000	2016 RS. '000	2017 RS. '000	2016 RS. '000	2017 RS. '000	2016 RS. '000
Interest	147,819,025	108,787,090	12,493,494	8,976,128	605,797	458,759
Exchange	2,119,499	2,572,743	-	-	-	-
Leasing	-	-	12,528,094	11,149,370	-	-
Share Trading/Dividend	160,506	147,580	144,630	47,837	-	-
Net Earned Premium	-	-	-	-	3,889,805	3,551,235
Commissions and Fees	5,132,907	3,948,052	591,707	374,783	41,805	39,778
Other	3,976,236	3,868,040	4,792,912	414,066	46,630	25,917
Total Revenue from External Customers	159,208,173	119,323,505	30,550,837	20,962,184	4,584,037	4,075,689
Inter-Segment Revenue						
Interest	1,365,446	1,183,166	895,591	416,190	-	-
Commission and Fees	-	-	-	219,837	-	-
Share Trading/Dividend	1,482,605	1,481,120	-	-	-	-
Net Earned Premium	-	-	-	-	207,377	174,419
Other	109,073	126,569	98,269	119,598	-	-
Unallocated Income	-	-	-	-	-	-
Total Revenue	162,165,297	122,114,360	31,544,697	21,717,809	4,791,414	4,250,108
Segment Result	25,913,106	20,813,661	4,764,116	6,262,990	866,691	733,010
Unallocated Expenses	-	-	-	-	-	-
Income from Associates	-	-	-	-	-	-
Income Tax Expenses	(7,663,329)	(5,818,969)	(1,596,484)	(1,703,580)	(93,606)	(75,013)
Profit for the Year	-	-	-	-	-	-
Non-Controlling Interest	-	-	-	-	-	-
Profit for Equity Holders of the Bank	-	-	-	-	-	-
Profit for the Year	-	-	-	-	-	-
Other Comprehensive Income Net of Tax	-	-	-	-	-	-
Total Comprehensive Income	-	-	-	-	-	-
Non-Controlling Interest	-	-	-	-	-	-
Profit for the Equity Holders of the Bank	-	-	-	-	-	-
Segment Assets	1,467,099,108	1,302,048,447	159,847,008	159,241,009	7,745,115	6,720,144
Investment in Associates	-	-	-	-	-	-
Total Assets	1,467,099,108	1,302,048,447	159,847,008	159,241,009	7,745,115	6,720,144
Segment Liabilities	1,389,642,382	1,242,399,591	133,970,905	132,318,929	3,057,240	2,629,457
Total Equity and Liabilities	1,467,099,108	1,302,048,447	159,847,008	159,241,009	7,745,115	6,720,144



Travels		Finance		Eliminations		Group	
2017 RS. '000	2016 RS. '000	2017 RS. '000	2016 RS. '000	2017 RS. '000	2016 RS. '000	2017 RS. '000	2016 RS. '000
66	459	416,204	353,235	(2,308,300)	(1,618,530)	159,026,286	116,957,141
-	-	-	-	-	-	2,119,499	2,572,743
-	-	-	-	-	(1,088)	12,528,094	11,148,282
-	-	-	-	-	-	305,136	195,417
-	-	-	-	(112,768)	-	3,777,037	3,551,235
-	-	2,825	2,440	-	(219,837)	5,769,244	4,145,216
47,403	47,966	25,820	884	(927,037)	(231,539)	4,184,927	4,125,334
47,469	48,425	444,849	356,559	(3,348,105)	(2,070,994)	187,710,222	142,695,367
5,092	3,420	-	-	-	-	2,266,129	1,602,776
-	-	-	-	-	-	-	219,837
-	-	-	-	-	-	1,482,605	1,481,120
-	-	-	-	-	-	207,342	246,167
-	-	-	-	(1,482,605)	(1,495,748)	(1,482,605)	(1,495,748)
52,561	51,845	444,849	356,559	(4,830,710)	(3,566,742)	190,183,693	144,749,520
16,017	14,795	(208,894)	(174,528)	-	-	31,351,036	26,916,917
-	-	-	-	-	-	(1,482,605)	(1,483,595)
-	-	-	-	-	-	-	-
(4,091)	(1,412)	-	46,568	-	-	(9,357,510)	(7,477,394)
-	-	-	-	-	-	20,510,921	17,955,928
-	-	-	-	-	-	(1,215,187)	(1,233,956)
-	-	-	-	-	-	19,295,734	16,721,972
-	-	-	-	-	-	20,510,921	17,955,928
-	-	-	-	-	-	561,032	3,238,571
-	-	-	-	-	-	21,071,953	21,194,499
-	-	-	-	-	-	(1,283,557)	(1,196,908)
-	-	-	-	-	-	19,788,396	19,997,591
130,445	114,426	2,959,294	3,499,015	(18,702,387)	(20,504,884)	1,619,078,592	1,444,398,017
-	-	-	-	-	-	-	-
130,445	114,426	2,959,294	3,499,015	(18,702,387)	(20,504,884)	1,619,078,592	1,444,398,017
50,038	44,446	2,715,082	3,046,643	(16,800,194)	(18,514,637)	1,512,635,443	1,359,206,909
130,445	114,426	2,959,294	3,499,015	(18,702,387)	(20,504,884)	1,619,078,592	1,444,398,017

## 48. FINANCIAL RISK MANAGEMENT

### Introduction

As a financial intermediary, the Bank is exposed to array of risks through its daily operations. The Bank's key risk exposures include credit, market, liquidity and operational risks. However, with the rapid technological innovations/ IT based products and solutions introduced by the Bank, due consideration should be given to information systems risk as well. Proactive identification of such risk exposures is of high importance to ensure the sustainability and profitability of the Bank. In response to an increasingly dynamic and competitive operating landscape, evolving risks and significant regulatory developments, there is an ongoing imperative to enhance risk management continuously across the Bank. A robust risk management framework in place supports the efficient management and mitigation of the said risk exposure.

### Risk Management Framework

Risk is identified and managed as part of a Group-wide Risk Management Framework. The Group's Board of Directors has ultimate responsibility for the oversight of risk, determining risk appetite levels, formulating risk policies and ensuring the effectiveness of the risk management processes and procedures in place. The Board Integrated Risk Management Committee (BIRMC) assists the Board in the discharge of its risk related duties and provides independent oversight of all risk related aspects by ensuring the adequacy and effectiveness of the implementation of risk governance structures, policy frameworks, standards and processes. Furthermore the Board Executive Credit Committee (BECC), Board Audit Committee (BAC) and the Board Investment Committee (BIC) also support the Board in discharging its risk related duties. Executive committees namely, the Assets and Liabilities Management Committee (ALCO) and the Operational Risk Management Committee (ORMC) play a critical role in ensuring the effective implementation of the Bank's risk management processes.

The People's Bank Group Risk Management Framework forms the foundation for managing risk, and sets out the Group's risk universe, risk parameters and assigns executive and Board responsibility for the management and oversight of risk and ensures that growth and risk considerations are appropriately balanced. Policies and systems associated with the Risk Management Framework are reviewed on a regular basis to factorise the adversities in market conditions and the changes in Group's activities.

The framework is based on the Three Lines of Defence model specifically, the Business Line, Risk Management and Internal Audit.

**Risk Appetite:** The term "risk appetite" refers to the broad types and quantum of risk the People's Bank Group is willing to undertake in implementing its business strategy. It is expressed in the form of tolerance limits and risk trigger points across a range of variables. The Board of Directors has ultimate responsibility for setting the risk appetite of the Group and ensure that the exposures and risks are maintained within that approved levels.

### Risk Management Unit

The Risk Management Unit (RMU) holds overall executive responsibility for the Bank's risk management functions. It is headed by the Chief Risk Officer (DGM-Risk Management) who reports directly to BIRMC and operates independently of business units as well as profit and volume targets. Four separate units have been established under the RMU with specific responsibilities for handling credit, market, operational and information systems risks.

## Credit Risk

Credit risk is the potential loss that arise from customers/borrowers and counterparties failing to honour their financial or contractual obligations to the Bank. As a financial institution this is one of the Group's key risk exposures, stemming from the loans and advances portfolio as well as financial guarantees, letters of credit and acceptances issued and made on behalf of the customers. Credit risk is composed of default risk/settlement risk, concentration risk and counterparty risk.

The Board Executive Credit Committee (BECC) functions as the steering committee holding overall responsibility for implementing the Bank's credit risk management framework. The Credit Control Department which functions within the Risk Management Department operates independently from the business lines and drives all credit risk management efforts. The primary responsibility for managing credit risk lies with the business units, complemented by independent review by the Credit Control Department.

Key aspects of the Group's credit policies include delegated approval authority at multiple levels, a comprehensive credit appraisal mechanism which includes well-defined credit criteria and prudential limits in line with the defined risk appetite among others. Borrowers are assessed primarily on repayment capacity and internally developed risk rating scorecards and a nine-point rating scale is used for evaluating credit worthiness. Tailor-made scorecards have been developed for assessing corporates, SME borrowers and financial institutions. This risk rating system will be further extended to retail borrowers as well with the proposed Retail Loan Originating System (RLOS) which is yet to implement. The internal credit rating models in place represent diverse risk factors and are able to predict the probability of default and loss given default.

## Maximum Exposure to Credit Risk

The following table shows the maximum exposure and net exposure (net of fair value of any collaterals held) to credit risk by class of financial assets.

As at 31st December 2017	Bank	
	Maximum Exposure to Credit Risk Rs. '000	Net Exposure Rs. '000
<b>Financial Assets</b>		
Cash and Cash Equivalents	68,958,012	31,579,829
Placements with Banks	13,458,639	13,458,639
Derivative Financial Instruments	334,230	334,230
Financial Assets Held for Trading	53,042,557	53,042,557
Loans and Receivables to Banks	86,097,515	47,889,817
Loans and Receivables to Other Customers	1,074,247,652	330,659,135
Financial Investments – Available for Sale	3,415,344	3,415,344
Financial Investments – Held to Maturity	112,351,039	112,351,039
<b>Total</b>	<b>1,411,904,988</b>	<b>592,730,590</b>

## Credit Quality by Class of Financial Assets

The tables below show the credit quality by class of asset for all financial assets exposed to credit risk. The amounts presented are gross of impairment allowances.

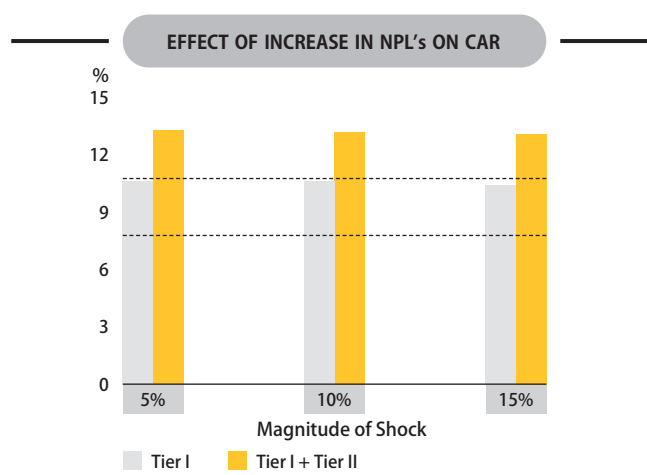
As at 31st December 2017	Bank				
	Neither Past Due nor Impaired Rs. '000	Past Due but Not Impaired Rs. '000	Past Due and Impaired Rs. '000	Individually Impaired Rs. '000	Total Rs. '000
<b>Financial Assets</b>					
Cash and Cash Equivalents	68,958,012	–	–	–	68,958,012
Balances with Central Bank of Sri Lanka	65,689,278	–	–	–	65,689,278
Placement with Banks	13,458,639	–	–	–	13,458,639
Derivative Financial Instruments	334,230	–	–	–	334,230
<b>Financial Assets – Held for Trading</b>					
Government Securities	50,133,681	–	–	–	50,133,681
Quoted Equity Securities	311,655	–	–	–	311,655
Unit Trusts	2,519,075	–	–	–	2,519,075
Debt Securities	78,146	–	–	–	78,146
Loans and Receivables to Banks	86,097,515	–	–	–	86,097,515
Loans and Receivables to Other Customers*	325,890,389	25,352,812	652,373,373	70,631,078	1,074,247,652
<b>Financial Investments – Available for Sale</b>					
Equity Securities – Unquoted	22,793	–	–	591,278	614,071
Equity Securities – Quoted	548,290	–	–	–	548,290
Government Securities	318	–	–	–	318
Debt Securities	2,252,665	–	–	–	2,252,665
<b>Financial Investments – Held to Maturity</b>					
Government Securities	112,351,039	–	–	–	112,351,039
<b>Total</b>	<b>728,645,725</b>	<b>25,352,812</b>	<b>652,373,373</b>	<b>71,222,356</b>	<b>1,477,594,266</b>

\* Any amount uncollected one day or more beyond their contractual due date considered as "past due".

## Stress Testing

### i. Increase in NPL

Magnitude of Shock	Revised Capital Adequacy Ratio	
	Tier I %	Tier I + Tier II %
5%	10.75	13.45
10%	10.68	13.38
20%	10.53	13.23



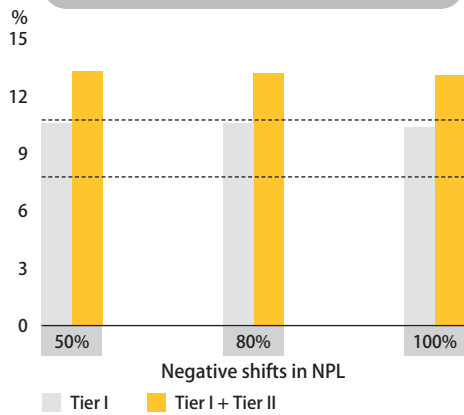
**ii. Negative Shifts in NPL Categories**

Negative Shifts in NPL	Revised Capital Adequacy Ratio	
	Tier I %	Tier I + Tier II %
50%	10.73	13.43
80%	10.68	13.37
100%	10.64	13.34

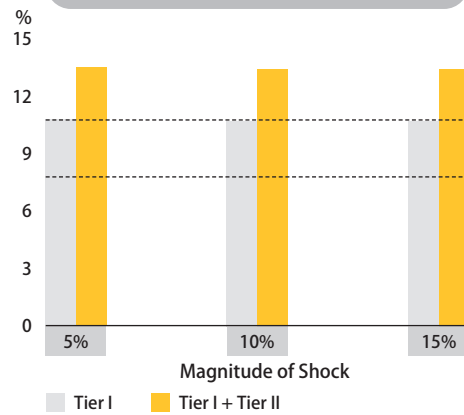
**iii. Fall in Forced Sale Value of Mortgaged Collateral**

Magnitude of Shock	Revised Capital Adequacy Ratio	
	Tier I %	Tier I + Tier II %
5%	10.79	13.48
10%	10.75	13.44
15%	10.71	13.41

**EFFECT OF NEGATIVE SHIFTS IN NPL CATEGORIES ON CAR**



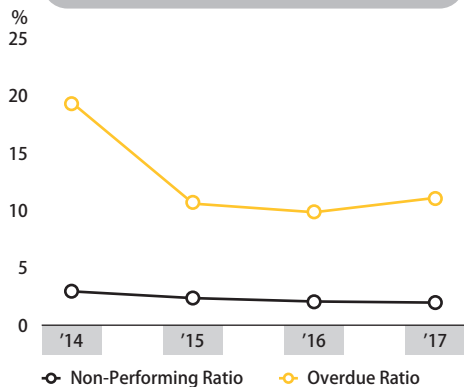
**EFFECT OF FALL IN FSV OF MORTGAGED COLLATERAL ON CAR**



**Credit Quality Analysis**

Credit Indicator	2017 %	2016 %	2015 %
Non-Performing Ratio NPLs	1.91	1.95	2.45
Overdue Ratio	11.09	9.78	10.5
Provision Coverage	97.5	110.4	98.3
Industry Average NPLs	2.5	2.7	3.2

**ANALYSIS OF OVERDUES AND NPL RATIO**



### Collaterals Held and Other Credit Enhancements

The Bank obtains collaterals in form of cash, marketable securities, properties, trade debtors, stocks, machinery and equipments etc. We adopt a stringent approach towards collateral valuation, and these are regularly reviewed and updated to ensure that valuations reflect market conditions. Relatively diverse collateral portfolio of the Bank mitigates the impact of potential price drops in a particular asset class.

### Concentration of Credit Risk

Concentration risk stems from high lending exposure to a particular sector, product, region or customer/group. The Bank's risk appetite clearly defines exposure limits for particular sectors and products and such limits are reviewed and modified in the context of emerging risks and opportunities presented by the operating landscape. In addition to adherence to the Single Borrower Limit, the Bank also uses Herfindahl-Hirschman Index (HHI) to monitor and control concentrations. These limits are monitored by the Risk Management Department, BIRMC and Board on a regular basis.

### Adherence to Credit Concentration Risk Limits

	Q4 – 2017	HHI Threshold
Individual Customer [with Government of Sri Lanka (GOSL)]	0.07	
Individual Customer [w/o Government of Sri Lanka (GOSL)]	0.02	0.15
Industry Segment [with Government of Sri Lanka (GOSL)]	0.19	
Industry Segment [w/o Government of Sri Lanka (GOSL)]	0.12	0.20

### Impaired Loans and Advances and Investment Debt Securities

The Bank reviews its individually significant loans and receivables at each Statement of Financial Position date to assess the need to record Impairment losses in the Income Statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. If impairment is not required based on the individual assessment all such individually significant loans and receivables are then assessed collectively, in groups of assets with similar risk characteristics. The collective assessment takes into account the historical performance of the loan portfolios (such as loan ownership types, levels of arrears, industries, etc.), and judgements on the effect of concentration of risks and economic data.

	2017 Rs. '000	2016 Rs. '000
<b>Individually Significant Impaired Loans</b>		
Amortised Cost	70,631,078	61,578,045
Allowances for Impairment	(44,913,498)	(43,589,172)
<b>Carrying Amount as at 31st December</b>	<b>25,717,580</b>	<b>17,988,873</b>
<b>Collectively Assessed Loans</b>		
Amortised Cost	1,003,616,574	889,245,904
Allowances for Impairment	(16,691,440)	(16,706,676)
<b>Carrying Amount as at 31st December</b>	<b>986,925,134</b>	<b>872,539,228</b>

## Liquidity Risk

Liquidity risk is the potential loss of earnings/erosion of capital arising from the inability to meet the Bank's contractual financial obligations as and when they fall due. Banks are vulnerable to liquidity and solvency problems resulting from asset and liability mismatches.

The management of such risks are a vital element of the Bank's operations.

The Bank's liquidity risk management framework aims to assess/quantify and ensure the availability of funds required to meet Bank's contractual obligations at appropriate times. This is ensured under both normal and stressed conditions. The Bank's Treasury is entrusted to manage the liquidity risk and the Risk Management Department ensures same by monitoring the adherence to set limits/regulatory ratios etc. and performing other related analysis. ALCO on the other hand, oversee the management of same by continuously monitoring the Bank's liquidity position to ensure that compliance to internal targets as well as regulatory requirements are met.

The Bank measures liquidity through the dual approaches of flow and stock. The flow method measures liquidity through analysing the mismatch between inflows and outflows in various time bands based on the maturity of assets and liabilities. The stock method measures liquidity in terms of a set of key ratios such as loans to deposit ratio, commitments ratio (unutilised portion of overdrafts/unutilised Inter-bank lines), statutory liquid asset ratio and cumulative mismatches.

## Analysis of Financial Assets and Liabilities by Remaining Contractual Maturity

### Maturity Profile of Assets and Liabilities as at 31st December 2017

	Up to 3 Months	3-12 Months	1-3 Years	3-5 Years	Over 5 Years	Total	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	2017 Rs. '000	2016 Rs. '000
<b>Assets</b>							
Cash and Cash Equivalents	68,958,012	–	–	–	–	68,958,012	64,008,639
Balances with Central Bank	20,142,379	22,799,673	7,656,120	7,178,934	7,912,172	65,689,278	63,049,516
Placements with Banks	13,458,639	–	–	–	–	13,458,639	32,772,978
Derivative Financial Instruments	334,230	–	–	–	–	334,230	15,057
Other Financial Assets Held for Trading	5,400,000	47,642,557	–	–	–	53,042,557	46,915,311
Loans and Receivables to Banks	11,702,790	19,792,871	8,036,696	13,665,274	32,899,883	86,097,515	71,528,031
Loans and Receivables to Other Customers	137,643,288	232,795,417	94,524,236	160,725,200	386,954,573	1,012,642,714	890,528,101
Financial Investments – Available-for-Sale	3,415,344	–	–	–	–	3,415,344	1,525,839
Financial Investments – Held to Maturity	23,235,000	16,925,415	39,608,716	25,258,508	7,323,400	112,351,039	96,171,734
Investments in Subsidiaries	–	–	–	–	1,325,766	1,325,766	1,325,766
Goodwill and Intangible Assets	–	–	–	–	225,058	225,058	110,514
Property, Plant and Equipment	–	–	–	–	25,047,501	25,047,501	17,224,026
Investment Properties	–	–	–	–	1,222,299	1,222,299	184,006
Prepaid Leases	–	–	–	–	483,886	483,886	512,184
Other Assets	19,432,809	1,213,123	844,855	877,224	437,259	22,805,270	16,176,745
<b>Total Assets 2017</b>	<b>303,722,491</b>	<b>341,169,056</b>	<b>150,670,623</b>	<b>207,705,140</b>	<b>463,831,797</b>	<b>1,467,099,108</b>	<b>–</b>
<b>Total Assets 2016</b>	<b>364,357,024</b>	<b>308,683,162</b>	<b>138,951,158</b>	<b>115,996,182</b>	<b>374,060,922</b>	<b>–</b>	<b>1,302,048,447</b>

	Up to 3 Months	3-12 Months	1-3 Years	3-5 Years	Over 5 Years	Total	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	2017 Rs. '000	2016 Rs. '000
<b>Liabilities</b>							
Due to Banks	70,963,322	9,713,027	–	–	–	80,676,350	106,924,276
Derivative Financial Instruments	273,975	–	–	–	–	273,975	72,181
Due to Other Customers	362,586,827	420,101,980	117,690,886	110,667,087	232,955,988	1,244,002,768	1,077,812,127
Other Borrowings	21,445,617	2,935,345	–	–	–	24,380,962	27,184,535
Current Tax Liabilities	4,064,907	–	–	–	–	4,064,907	2,432,266
Deferred Tax Liabilities	–	–	–	–	4,455,617	4,455,617	63,479
Other Liabilities	12,197,328	4,636,172	2,081,797	340,778	–	19,256,075	15,378,998
Subordinated Term Debts	–	–	–	–	12,531,728	12,531,728	12,531,728
<b>Equity</b>							
Stated Capital	–	–	–	–	12,201,998	12,201,998	7,201,998
Statutory Reserve Fund	–	–	–	–	5,814,744	5,814,744	4,902,255
Other Reserve	–	–	–	–	25,117,785	25,117,785	21,195,855
Retained Earnings	–	–	–	–	34,322,199	34,322,199	26,348,748
<b>Total Liabilities and Equity 2017</b>	<b>471,531,976</b>	<b>437,386,525</b>	<b>119,772,683</b>	<b>111,007,864</b>	<b>327,400,059</b>	<b>1,467,099,108</b>	<b>–</b>
Total Liabilities and Equity 2016	422,774,903	386,608,533	113,829,871	107,618,146	271,216,994	–	1,302,048,447
NET GAP 2017	(167,809,485)	(96,217,470)	30,897,940	96,697,276	136,431,739	–	–
NET GAP 2016	(58,417,879)	(77,925,371)	25,121,287	8,378,036	102,843,928	–	–

**Liquidity Shock – Fall in Liquid Liability (SLRs.)**

DBU	Balance as at 31st December 2017	Scenario 1	Scenario 2	Scenario 3
<b>Magnitude of Shock (%)</b>	–	5	10	15
Liquid Assets (Rs. million)	298,497	298,497	298,497	298,497
Total Liabilities (Rs. million)	1,240,226	1,240,226	1,240,226	1,240,226
Fall in the Liabilities (Rs. million)	–	62,011	124,023	186,034
Revised Liquid Liabilities (Rs. million)	–	1,178,215	1,116,204	1,054,192
Revised Liquid Assets (Rs. million)	–	236,486	174,475	112,463
Liquid Asset Ratio After Shock (%)	24.07	20.07	15.63	10.67

**Liquidity Shock – Fall in Liquid Liability (USD)**

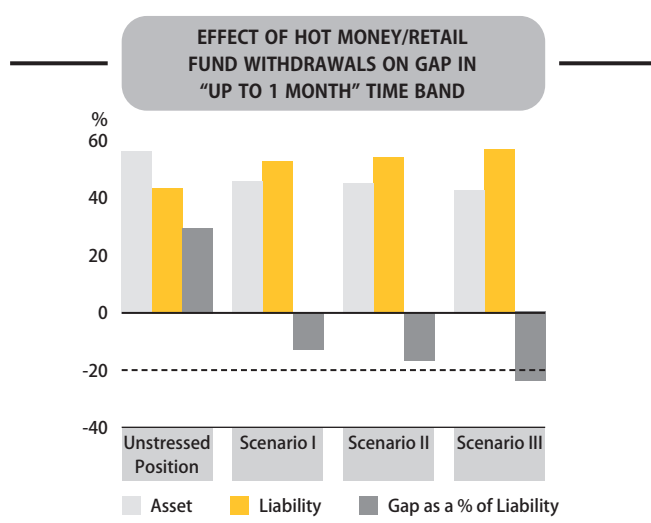
OSBU	Balance as at 31st December 2017	Scenario 1	Scenario 2	Scenario 3
<b>Magnitude of Shock (%)</b>	–	5	10	15
Liquid Assets (US \$ '000)	242,692	242,692	242,692	242,692
Total Liabilities (US \$ '000)	750,197	750,197	750,197	750,197
Fall in the Liabilities (US \$ '000)	–	37,510	75,020	112,530
Revised Liquid Liabilities (US \$ '000)	–	712,687	675,178	637,668
Revised Liquid Assets (US \$ '000)	–	205,182	167,672	130,162
Liquid Asset Ratio After Shock (%)	32.35	28.79	24.83	20.41



## Maturity Analysis of Financial Assets and Financial Liabilities

### Stress Test Hot Money and Retail Money Withdrawal

	Up to 1 Month %	1-3 Months %	3-6 Months %	6-9 Months %	9-12 Months %	1-3 Years %	3-5 Years %	Over 5 Years %
Limit	-20	-40	-50	-50	-25	-10	-10	0
Unstressed	26	1	-7	-21	-24	-18	-9	0
Scenario I	-22	-29	-27	-24	-26	-20	-11	0
Scenario II	-26	-31	-28	-25	-26	-20	-12	0
Scenario III	-33	-35	-30	-27	-27	-20	-12	0



## Market Risk

Market risk is potential losses arising from changes in earnings, market or future cash flows of a portfolio of financial instruments resultant from adverse movements in market variables such as interest rates, share prices, foreign exchange rates and bond and commodity prices. Most of the Bank's operations are exposed to at least one or more elements of market risk. The market risk stems primarily from the interest rate risk of its trading and non-trading books and from exposure to gold prices due to its pawning portfolio.

At Board level, exposure to market risk is monitored by the BIRMC which is also responsible for providing recommendations to the Board on the Bank's market risk management framework, policies and risk appetite limits. The ALCO is vested with the responsibility of implementing the market risk management framework at an executive level and ensures that the Bank's market risk exposures are within the defined risk appetite. Policies governing the Bank's market risk include the asset and liability management policy, Treasury management policy, foreign exchange risk policy and policy on stress testing. These frameworks collectively provide

guidance on the systems, procedures, tools and techniques for the identification, assessment, mitigation, monitoring and reporting on all market related risks. The policies are reviewed and updated regularly in view of emerging market risks. The management of market risk is entrusted to the Bank's Treasury and risk management ensures the same through its monitoring and analysis.

The principal tool used to measure and control market risk exposure within the Bank's trading portfolio is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Bank is based on a 99% confidence level and assumes a 10-day holding period. The VaR model used is based mainly on historical simulation.

The Bank uses VaR limits for market risks, specifically foreign exchange, interest rate, and other price risks. The overall structure of VaR limits is subject to review and approval by BIRMC. VaR limits are allocated to trading portfolios. VaR is measured and monitored against VaR limits at least daily by the Treasury Middle office, under the direction of the Risk Management Department.

## Interest Rate Risk

Interest rate risk is the potential loss to earnings and capital resulting from the Bank's exposure to interest rate sensitive assets. The market value of such assets fluctuates in line with changes in interest rates and credit spreads. The Bank's exposure to interest rate risk arises from its lending portfolio, trading securities and deposit liabilities.

Techniques used to measure interest rate risk include Duration Gap Analysis, VaR and Earnings at Risk. Rate sensitive assets and liabilities are mapped into time buckets based on their maturity period, in order to ascertain the duration gap and overall exposure to interest rate risk.

**Stress Test for Interest Rate Risk**

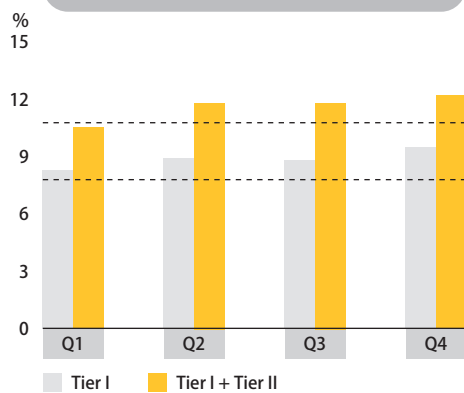
	2017 Revised Capital Adequacy Ratio	
	Tier I %	Tier I + Tier II %
Q1	8.35	10.63
Q2	9.01	11.95
Q3	8.94	11.94
Q4	9.65	12.35

**Foreign Exchange Risk**

Foreign exchange risk (FOREX) is the potential impact to earnings and/or capital stemming from adverse fluctuations in exchange rates. Such exposure of the Bank stems from proprietary trading and from undertaking transactions denominated in foreign currency namely, import/export transactions and remittances etc.

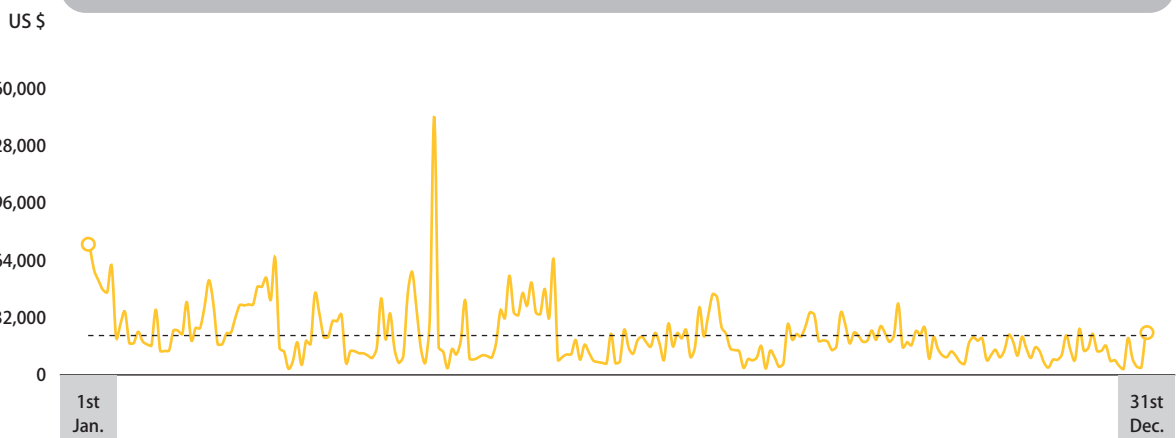
The Bank also conducts VaR calculations and stress testing on the portfolios subject to forex risk. Parallel VaR calculations are performed by the Bank's Treasury Management System (based on Finacle) and the Bloomberg system. Stress testing is performed by applying rate shocks in order to gauge the potential impact on the Bank's profitability and capital adequacy levels.

**EFFECT OF 1% INTEREST RATE INCREASE ON CAR**



Legend: Tier I (Grey), Tier I + Tier II (Yellow)

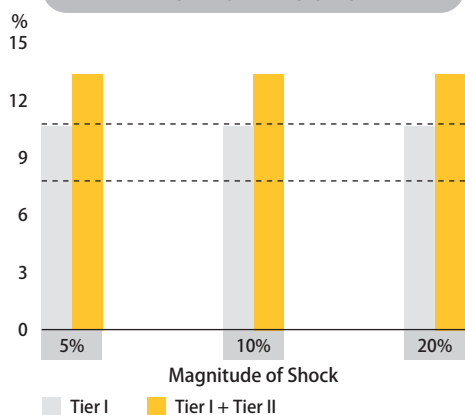
**DAILY VALUE AT RISK FOR YEAR – 2017**



### Exchange Rate Shock Stress Test

Magnitude of Shock	Revised Capital Adequacy Ratio	
	Tier I %	Tier I + Tier II %
5%	10.81	13.51
10%	10.80	13.50
15%	10.79	13.48

EFFECT OF ADVERSE MOVEMENTS IN EXCHANGE RATES ON CAR



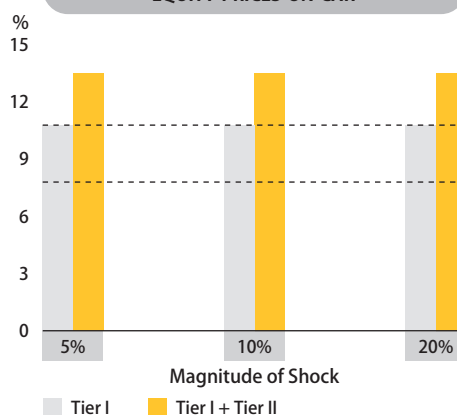
### Equity Risk

Equity risk arises from exposures to changes in fluctuations in the value of equity investments held by the Bank. This arises primarily from its available-for-sale investment portfolio and excludes strategic investments by the Bank in subsidiaries.

The Board Investment Committee (BIC) is responsible for formulating all investment related policies and ensuring that the Bank's investment risks are managed in line with its defined risk appetite. The Board approved Investment Banking Policy Manual clearly articulates the procedures, tools and techniques for managing equity risk as well as volume and stop loss limits.

Magnitude of Shock	Revised Capital Adequacy Ratio	
	Tier I %	Tier I + Tier II %
5%	10.82	13.51
10%	10.81	13.50
20%	10.79	13.49

EFFECT OF ADVERSE MOVEMENTS IN EQUITY PRICES ON CAR



### Operational Risk

Operational risk is the direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks exist in the natural course of business activities, products and processes.

The Bank's operational risk management framework clearly articulates the policies, structures and processes in place to manage the different types of operational risk exposures. The Board of Directors, supported by the BIRMC is responsible for formulating policy and ensuring the robustness of the operational risk management framework. Loss events are recorded and periodically reported through the Risk Management Unit to the Operational Risk Management Committee (ORMC). Newly implemented Operational Risk Management System (which is partly rolled out at present) which is a part and parcel of the ongoing Data Ware House Project of the Bank facilitates the management of various aspects of operational risk in a prudent manner. Meanwhile, Internal Audit also provides assurance to the Board on the effectiveness on the operational risk management processes in place.

## Capital Management

The Bank's capital management framework has been designed taking into consideration regulatory requirements on capital as well as future growth aspirations and funding options available to the Bank.

The Capital Adequacy Ratio (CAR) is calculated based on the CBSL Directions based on the Basel framework. Basel II Guidelines were effective till 30th June 2017 and since 1st July 2017, the Bank is required to comply with Basel III Guidelines. According to Basel III framework the Bank is required to maintain a CAR of not less than 7.75% with core capital (Tier I) and a minimum overall CAR of 11.75% as at 1st July 2017.

The details of the computation of the capital and the ratios as at 31st December 2016 and 31st December 2017 are given below:

### On-Balance Sheet Exposures

As at 31st December	Bank				
	Balance		Risk-Weight	Risk-weighted Balance	
	2017 Rs. '000	2016* Rs. '000	%	2017 Rs. '000	2016* Rs. '000
<b>Assets</b>					
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	242,199,833	231,026,166	0-20	-	-
Claims on Foreign Sovereigns and their Central Banks	-	-	0-150	-	-
Claims on Public Sector Entities (PSEs)	16,175,771	54,122,141	20-150	11,311,791	54,122,141
Claims on Official Entities and Multilateral Development Banks (MDBs)	-	-	0-150	-	-
Claims on Banks	25,390,923	60,499,642	20-150	7,418,602	16,206,123
Claims on Financial Institutions	13,354,043	12,471,163	20-150	4,138,975	3,374,067
Claims on Corporates	138,136,979	73,845,280	20-150	123,760,332	63,962,678
Retail Claims	320,848,656	278,731,664	75-100	248,552,666	219,337,089
Claims Secured by Gold	136,485,146	-	20-100	365,762	-
Claims Secured by Residential Property	81,190,702	85,553,941	50-100	40,595,351	42,776,971
Claims Secured by Commercial Real Estate	-	-	100	-	-
Non-Performing Assets (NPAs)	7,364,951	5,123,452	50-150	9,673,122	6,833,290
Higher-risk Categories	631,345	-	150-250	1,578,363	-
Cash Items	39,045,329	35,216,706	0-20	333,429	340,888
Property, Plant and Equipment	26,753,689	17,920,219	100	26,753,689	17,928,696
Other Assets	20,874,876	5,673,726	100	20,874,876	5,673,726
<b>Total</b>	<b>1,068,452,243</b>	<b>860,184,100</b>		<b>495,356,958</b>	<b>430,555,669</b>

## Group

Balance		Risk-Weight	Risk-weighted Balance	
2017 Rs. '000	2016* Rs. '000	%	2017 Rs. '000	2016* Rs. '000
247,847,622	237,322,843	0	-	-
-	-	0-150	-	-
16,175,771	54,122,141	20-150	11,311,791	54,122,141
-	-	0-150	-	-
31,130,358	63,869,916	20-150	9,102,400	17,141,125
5,529,958	1,755,699	20-150	2,862,347	1,715,699
138,201,793	73,845,280	20-150	123,825,146	63,962,678
460,308,151	413,446,229	75-100	388,012,161	354,051,654
136,485,146	-	20-100	365,762	-
81,190,702	85,553,941	50-100	40,595,351	42,776,971
-	-	100	-	-
7,364,951	5,123,452	50-150	9,673,122	6,833,290
-	-	150-250	-	-
39,678,140	35,736,229	0-20	333,429	340,888
34,419,363	24,137,157	100	34,419,361	24,137,157
22,226,973	7,876,331	100	22,226,973	7,876,331
1,220,558,928	1,002,789,218		642,727,843	572,957,934

## Off-Balance Sheet Exposures

As at 31st December	Bank				
	Balance		Credit Conversion Factor %	Risk-weighted Balance	
	2017 Rs. '000	2016* Rs. '000		2017 Rs. '000	2016* Rs. '000
<b>Instruments</b>					
Direct Credit Substitutes	14,765,115	12,025,934	100	14,765,115	12,025,934
Transaction-related Contingencies	44,276,080	26,379,227	50	22,138,040	13,189,614
Short-Term Self-Liquidating Trade-Related Contingencies	44,929,701	58,851,071	20	8,985,940	11,770,214
Sale and Repurchase Agreements and Assets Sale with Recourse where the Credit Risk Remains with the Bank	–	–	100	–	–
Obligations Under an On-going Underwriting Agreement	–	–	50	–	–
Other Commitments with an Original Maturity of up to One Year or which can be Unconditionally Cancelled at Any Time	–	–	0-20	–	–
Commitments with an Original Maturity up to One Year	30,100,985	18,690,495	20	6,020,197	3,738,099
Other Commitments with an Original Maturity of Over One Year	–	–	50	–	–
Foreign Exchange Contracts	39,915,527	15,283,877	0-5	798,311	305,678
Interest Rate Contracts	–	–	0-3	–	–
<b>Total</b>	<b>173,987,408</b>	<b>131,230,604</b>		<b>52,707,603</b>	<b>41,029,539</b>

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
<b>Computation of Capital</b>				
Common Equity Tier I (CET 1) Capital	62,084,793	N/A	85,077,314	N/A
Total Tier I Capital	62,084,793	50,382,257	85,077,314	75,003,099
Total Capital	77,554,147	62,207,116	101,485,801	87,842,601
<b>Computation of Ratios</b>				
Total Risk Weighted Assets for Credit Risk	495,356,958	430,547,192	642,727,843	572,957,933
Total Risk Weighted Assets for Market Risk	5,252,085	9,058,972	6,208,014	9,669,792
Total Risk Weighted Assets for Operational Risk	73,396,393	75,063,357	91,223,325	94,398,530
<b>Total Risk Weighted Assets (RWA)</b>	<b>574,005,436</b>	<b>514,669,521</b>	<b>740,159,182</b>	<b>677,026,255</b>
<b>Common Equity Tier I Capital Ratio (%)</b> (Minimum Requirement Basel III 6.25%)	10.8	N/A	11.5	N/A
<b>Total Tier I Capital Ratio (%)</b> (Minimum Requirement Basel II 5.0% and Basel III 7.75%)	10.8	9.8	11.5	11.1
<b>Total Capital Ratio (%)</b> (Minimum Requirement Basel II 10.0% and Basel III 11.75%)	13.5	12.1	13.7	13.0

\* Comparative figures are reported based on Basel II guidelines.

<b>Group</b>				
Balance		Credit Conversion Factor %	Risk-weighted Balance	
2017 Rs. '000	2016* Rs. '000		2017 Rs. '000	2016* Rs. '000
14,765,115	12,025,934	100	14,765,115	12,025,934
44,276,080	26,379,227	50	22,138,040	13,189,614
44,929,701	58,851,071	20	8,985,940	11,770,214
-	-	100	-	-
-	-	50	-	-
-	-	0-20	-	-
30,100,985	18,690,495	20	6,020,197	3,738,099
-	-	50	-	-
39,915,527	15,283,877	0-5	798,311	305,678
-	-	0-3	-	-
<b>173,987,408</b>	<b>131,230,604</b>		<b>52,707,603</b>	<b>41,029,539</b>

**49. NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX**

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Depreciation of Property, Plant and Equipment	1,081,440	955,723	1,352,823	1,192,618
Amortisation of Leasehold Properties	94,989	66,542	94,989	66,866
Amortisation of Prepayment Leases	30,856	24,136	30,856	24,136
Amortisation of Intangible Assets	43,536	34,186	58,937	49,508
Depreciation of Investment Property	1,707	1,707	1,707	1,707
Impairment Losses on Loans and Advances	2,678,366	1,246,748	4,191,905	692,083
Other Impairments	–	–	187,862	670,170
Gain on Fair Valuation of AFS Instruments	–	(9,315)	–	(9,315)
Profit on Sale of Fixed Assets	(27,306)	(98,471)	(46,041)	(131,611)
Changes in Derivative Financial Instruments	(117,381)	(50,916)	(126,956)	(30,124)
Changes in Fair Value of Trading Securities	(411,391)	365,144	(411,391)	365,144
Premium Amortisation of Held-to-Maturity Investments	296,012	288,849	296,012	288,849
Revaluation Loss on Property, Plant and Equipment	373,691	–	373,691	–
<b>Total</b>	<b>4,044,519</b>	<b>2,824,333</b>	<b>6,004,394</b>	<b>3,180,031</b>

**50. CHANGES IN OPERATING ASSETS**

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Net increase in Debt Securities, Treasury Bills and Bonds and Equity Shares Held at Fair Value through Profit or Loss	(5,715,855)	46,120,310	(5,487,754)	46,152,364
Net Increase in Balance with Central Bank	(2,639,762)	(20,101,805)	(2,639,762)	(20,101,805)
Net Increase in Placement with Bank	19,314,339	(24,675,831)	17,127,913	(24,675,831)
Net Increase in Loans and Receivable to Banks	(14,569,484)	39,878,421	(14,230,735)	40,114,028
Net increase in Loans and Receivable to Customers	(124,792,979)	(123,260,188)	(134,037,386)	(144,832,872)
Net increase/(Decrease) in Financial Investments Available for Sale	(2,050,146)	1,994,619	(1,383,639)	2,236,468
Change in Other Assets	(6,631,083)	(3,883,727)	(6,996,006)	(4,931,986)
<b>Total</b>	<b>(137,084,970)</b>	<b>(83,928,201)</b>	<b>(147,647,369)</b>	<b>(106,039,634)</b>

**51. CHANGES IN OPERATING LIABILITIES**

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Changes in due to Banks	(26,247,926)	(36,999,355)	(29,493,694)	(32,565,210)
Change in Deposits from Banks, Customers and Debt Securities Issued	166,190,641	178,574,248	185,872,568	186,847,347
Change in Other Borrowings	(2,803,573)	(20,974,565)	(8,661,892)	(20,811,440)
Change in Other Liabilities	(515,453)	525,343	(1,369,610)	1,849,369
<b>Total</b>	<b>136,623,689</b>	<b>121,125,671</b>	<b>146,347,372</b>	<b>135,320,066</b>





# OTHER INFORMATION

- 294 / Income Statement US \$
- 295 / Statement of Financial Position US \$
- 296 / Performance Review 2008-2017
- 298 / Basel III – Market Discipline Disclosure Requirement under Pillar III
- 310 / External Assurance on Sustainability Report
- 311 / GRI Content Index “In Accordance” Option: Core
- 314 / Glossary of Financial/Banking Terms

## INCOME STATEMENT US \$

	Bank			Group		
	2017 US \$ '000	2016 US \$ '000	Change %	2017 US \$ '000	2016 US \$ '000	Change %
Gross Income	1,056,107	812,787	29.9	1,238,578	963,445	28.6
Interest Income	971,569	731,956	32.7	1,132,012	863,331	31.1
Interest Expenses	(642,909)	(444,923)	44.5	(723,380)	(506,594)	42.8
<b>Net Interest Income</b>	<b>328,661</b>	<b>287,034</b>	<b>14.5</b>	<b>408,633</b>	<b>356,736</b>	<b>14.5</b>
Fee and Commission Income	33,428	26,278	27.2	37,572	29,054	29.3
Fee and Commission Expenses	(1,698)	(1,391)	22.1	(1,698)	(1,391)	22.1
Net Fee and Commission Income	31,730	24,888	27.5	35,874	27,663	29.7
Net Gain/(Loss) from Trading	17,354	18,744	(7.4)	17,570	18,648	(5.8)
Other Operating Income (Net)	33,756	35,809	(5.7)	51,423	52,413	(1.9)
<b>Total Operating Income</b>	<b>411,500</b>	<b>366,474</b>	<b>12.3</b>	<b>513,500</b>	<b>455,460</b>	<b>12.7</b>
Impairment for Loans and Other Losses	(17,443)	(8,298)	110.2	(28,523)	(9,067)	214.6
<b>Net Operating Income</b>	<b>394,057</b>	<b>358,175</b>	<b>10.0</b>	<b>484,977</b>	<b>446,393</b>	<b>8.6</b>
Personnel Expenses	(103,644)	(116,316)	(10.9)	(124,571)	(134,964)	(7.7)
Other Expenses	(80,803)	(67,180)	20.3	(117,757)	(101,223)	16.3
<b>Operating Profit/(Loss) Before Value Added Tax (VAT)</b>	<b>209,610</b>	<b>174,680</b>	<b>20.0</b>	<b>242,649</b>	<b>210,206</b>	<b>15.4</b>
Value Added Tax (VAT) on Financial Services	(40,850)	(36,145)	13.0	(48,130)	(40,923)	17.6
<b>Operating Profit/(Loss) After Value Added Tax (VAT)</b>	<b>168,760</b>	<b>138,535</b>	<b>21.8</b>	<b>194,519</b>	<b>169,283</b>	<b>14.9</b>
Share of Profits of associates	–	–	–	–	–	–
<b>Profit/(Loss) Before Tax</b>	<b>168,760</b>	<b>138,535</b>	<b>21.8</b>	<b>194,519</b>	<b>169,283</b>	<b>14.9</b>
Income Tax Expenses	(49,908)	(38,731)	28.9	(60,941)	(49,769)	22.4
<b>Profit/(Loss) for the Year</b>	<b>118,852</b>	<b>99,804</b>	<b>19.1</b>	<b>133,578</b>	<b>119,514</b>	<b>11.8</b>
<b>Profit Attributable to:</b>						
Equity Holders of the Bank	118,852	99,804	19.1	125,664	111,301	12.9
Non-Controlling Interests	–	–	–	7,914	8,213	–
	<b>118,852</b>	<b>99,804</b>		<b>133,578</b>	<b>119,514</b>	

Exchange Rate: 1 US \$ was Rs. 153.55 as at 31st December 2017 (Rs. 150.24 as at 31st December 2016).

The Income Statement and the Statement of Financial Position given on pages 294 and 295 are solely for the convenience of shareholders, investors, bankers, and other users of Financial Statements.

## STATEMENT OF FINANCIAL POSITION US \$

	Bank			Group		
	2017 US \$ '000	2016 US \$ '000	Change %	2017 US \$ '000	2016 US \$ '000	Change %
<b>Assets</b>						
Cash and Cash Equivalents	449,092	426,038	5.4	453,761	442,013	2.7
Balances with Central Bank of Sri Lanka	427,804	419,654	1.9	427,804	419,654	1.9
Placements with Banks	87,650	218,135	(59.8)	123,374	226,701	(45.6)
Derivative Financial Instruments	2,177	100	2,071.9	2,177	141	
Other Financial Assets Held for Trading	345,442	312,266	10.6	347,476	315,864	10.0
Loans and Receivables to Banks	560,713	476,087	17.8	562,918	480,595	17.1
Loans and Receivables to Other Customers	6,594,873	5,927,307	11.3	7,448,823	6,748,606	10.4
Financial Investments – Available for Sale	22,243	10,156	119.0	29,202	21,687	34.6
Financial Investments – Held to Maturity	731,690	640,114	14.3	762,864	672,714	13.4
Non-Current Assets Held for Sale	–	–	–	–	6,928	–
Investments in Subsidiaries	8,634	8,824	(2.2)	–	–	–
Goodwill and Intangible Assets	1,466	736	99.3	4,426	2,917	51.7
Property, Plant and Equipment	163,123	114,642	42.3	219,850	156,022	40.9
Investment Properties	7,960	1,225	550.0	1,156	1,225	(5.6)
Prepaid Leases	3,151	3,409	(7.6)	3,151	3,409	(7.6)
Other Assets	148,520	107,672	37.9	157,326	115,360	36.4
<b>Total Assets</b>	<b>9,554,537</b>	<b>8,666,364</b>	<b>10.2</b>	<b>10,544,309</b>	<b>9,613,835</b>	<b>9.7</b>
<b>Liabilities</b>						
Due to Banks	525,408	711,682	(26.2)	655,347	866,087	(24.3)
Derivative Financial Instruments	1,784	480	271.4	1,784	480	271.4
Due to Other Customers	8,101,614	7,173,859	12.9	8,502,936	7,453,017	14.1
Other Borrowings	158,782	180,939	(12.2)	219,046	281,522	(22.2)
Current Tax Liabilities	26,473	16,189	63.5	28,442	19,969	42.4
Net Deferred Tax Liabilities	29,017	423	6,767.8	47,392	15,006	215.8
Other Liabilities	125,406	102,362	22.5	184,828	167,613	10.3
Subordinated Term Debts	81,613	83,411	(2.2)	211,318	243,114	(13.1)
<b>Total Liabilities</b>	<b>9,050,097</b>	<b>8,269,345</b>	<b>9.4</b>	<b>9,851,094</b>	<b>9,046,808</b>	<b>8.9</b>
<b>Equity</b>						
Stated Capital/Assigned Capital	79,466	47,936	65.8	79,466	47,936	65.8
Statutory Reserve Fund	37,869	32,629	16.1	37,869	32,629	16.1
Other Reserves	163,580	141,078	16.0	175,277	148,228	18.2
Retained Earnings	223,525	175,376	27.5	339,898	287,441	18.2
Total Shareholders' Equity	504,440	397,020	27.1	632,510	516,234	22.5
Non-controlling Interests	–	–	–	60,705	50,794	
Total Equity	504,440	397,020	27.1	693,215	567,027	22.3
Total Equity and Liabilities	9,554,537	8,666,364	10.2	10,544,309	9,613,835	9.7
Contingent Liabilities and Commitments	1,975,540	1,507,104	31.1	1,980,475	1,507,189	31.4

Exchange Rate: 1 US \$ was Rs. 153.55 as at 31st December 2017 (Rs. 150.24 as at 31st December 2016)

The Income Statement and the Statement of Financial position given on pages 294 and 295 are solely for the convenience of shareholders, investors, bankers, and other users of Financial Statements.

# PERFORMANCE REVIEW 2008 – 2017

## TEN YEAR SUMMARY – BANK

(Sri Lanka Rs. million)	Based on New SLASs									2017
	2008	2009	2010	2011	2012	2013	2014	2015	2016	
<b>Assets</b>										
Cash and Short-Term Funds	39,663	83,973	87,062	52,510	67,814	59,143	80,940	74,112	127,058	134,647
Investments	80,109	84,807	82,688	129,977	175,491	226,075	290,486	304,519	250,240	269,691
Loans and Receivables (Net)	248,626	283,760	357,336	461,656	611,414	619,830	627,209	768,515	890,528	1,012,643
Property, Plant and Equipment	8,362	7,939	8,385	7,523	8,235	14,706	14,947	16,304	17,224	25,048
Other Assets	20,787	15,766	12,144	10,412	10,343	10,832	13,186	13,146	16,999	25,071
<b>Total Assets</b>	<b>397,547</b>	<b>476,245</b>	<b>547,616</b>	<b>662,077</b>	<b>873,296</b>	<b>930,585</b>	<b>1,026,769</b>	<b>1,176,595</b>	<b>1,302,048</b>	<b>1,467,099</b>
<b>Liabilities</b>										
Customer Deposits	324,489	396,158	462,140	550,226	683,951	762,249	793,342	899,238	1,077,812	1,244,003
Borrowing from Banks and Others	33,714	36,884	39,132	64,053	135,150	102,148	157,198	192,083	134,109	105,057
Other Liabilities	20,965	20,404	20,505	14,709	14,991	14,619	17,727	20,747	17,947	28,051
Subordinated Term Debts	2,500	5,000	5,000	10,000	10,000	15,033	15,033	15,033	12,532	12,532
<b>Total Liabilities</b>	<b>381,668</b>	<b>458,445</b>	<b>526,778</b>	<b>638,988</b>	<b>844,092</b>	<b>894,048</b>	<b>983,299</b>	<b>1,127,100</b>	<b>1,242,400</b>	<b>1,389,642</b>
Total Equity	15,880	17,800	20,838	23,089	29,205	36,537	43,470	49,495	59,649	77,457
<b>Total Equity and Liabilities</b>	<b>397,548</b>	<b>476,245</b>	<b>547,616</b>	<b>662,077</b>	<b>873,296</b>	<b>930,585</b>	<b>1,026,769</b>	<b>1,176,595</b>	<b>1,302,048</b>	<b>1,467,099</b>
Contingent Liabilities and Commitments	138,989	100,867	131,751	190,732	207,021	197,119	182,573	181,533	226,430	303,344
<b>Operating Results</b>										
Gross Income	58,948	69,050	62,532	68,298	94,777	120,456	96,377	103,649	122,114	162,165
Total Operating Income	24,456	30,635	31,897	36,431	43,310	46,530	41,894	54,743	55,060	63,186
Total Overheads	17,159	19,719	21,305	20,421	24,186	22,509	26,093	31,483	32,999	34,594
Profit Before Tax	5,664	6,076	8,771	15,600	15,249	10,304	17,231	19,520	20,814	25,913
Income Tax	2,959	2,755	3,565	5,154	4,355	2,816	3,012	6,922	5,819	7,663
Profit After Tax	2,705	3,320	5,206	10,446	10,894	7,488	14,219	12,598	14,995	18,250
<b>Performance Indicators</b>										
Number of Employees (Permanent)	8,587	8,863	8,399	8,249	7,823	7,409	8,156	8,368	8,249	8,454
<b>Per Employee</b> (Sri Lanka Rs. '000)										
Deposits	37,788	44,698	55,023	66,702	87,428	102,881	97,271	107,462	130,660	147,150
Loans and Receivables	28,954	32,016	42,545	55,965	78,156	83,659	76,902	91,840	107,956	119,783
Gross Earnings	6,865	7,791	7,445	8,280	12,115	16,258	11,817	12,386	14,804	19,182
Profit After Tax	315	375	620	1,266	1,393	1,011	1,743	1,505	1,818	2,159
<b>Per Share</b> (Sri Lanka Rs.)										
Profit After Tax	2,705	3,320	5,206	10,446	10,894	7,488	14,219	12,598	14,995	18,250
Total Assets	397,547	476,245	547,616	662,077	873,296	930,585	1,026,769	1,176,595	1,302,048	1,467,099
Equity	15,880	17,800	20,838	23,089	29,205	36,537	43,470	49,495	59,649	77,457
Return on Assets (Before Tax) %	1.5	1.4	1.7	2.6	2.0	1.1	1.8	1.8	1.7	1.9
Return on Equity %	18.8	19.7	26.9	49.2	41.7	22.8	35.5	27.1	27.5	26.6
Cost/Income Ratio %	65.4	60.6	60.2	56.1	55.8	48.4	62.3	57.5	59.9	54.8
Capital Adequacy Ratio (CAR) %*	10.5	13.4	12.8	14.8	14.0	15.0	14.3	12.6	12.1	13.5
Non-Performing Loan (NPL) Ratio (Gross) %	6.8	6.7	5.0	3.4	2.8	5.3	3.2	2.4	1.9	1.9
Fitch Rating	A-	A	AA-	AA	AA+	AA+	AA+	AA+	AA+	AA+

\* 2017 – According to Basel III requirements

**TEN YEAR SUMMARY – GROUP**

(Sri Lanka Rs. million)	Based on New SLASs									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Assets</b>										
Cash and Short-Term Funds	37,350	74,105	46,257	54,583	69,515	61,174	83,003	76,840	129,458	135,364
Investments	81,418	94,257	126,105	130,333	176,138	229,280	300,366	311,141	258,049	280,357
Loans and Receivables (Net)	267,718	307,193	407,050	534,875	690,197	710,074	722,099	869,781	1,013,921	1,143,767
Property, Plant and Equipments	8,193	8,170	8,227	9,933	10,923	18,184	19,364	22,696	23,441	33,758
Other Assets	21,995	17,345	15,825	14,665	14,087	12,760	14,425	14,279	19,528	25,833
<b>Total Assets</b>	<b>416,674</b>	<b>501,070</b>	<b>603,465</b>	<b>744,389</b>	<b>960,860</b>	<b>1,031,473</b>	<b>1,139,258</b>	<b>1,294,737</b>	<b>1,444,398</b>	<b>1,619,079</b>
<b>Liabilities</b>										
Customer Deposits	323,034	396,228	481,094	572,722	708,897	789,225	829,019	932,906	1,119,753	1,305,626
Borrowings from Banks and Others	48,195	52,893	69,716	101,028	174,728	140,865	193,825	225,795	172,419	134,263
Other Liabilities	23,169	24,483	21,518	21,906	21,486	23,153	27,469	32,328	30,509	40,299
Subordinated Term Debts	2,815	5,246	5,000	10,000	10,000	23,141	24,883	30,907	36,526	32,448
<b>Total Liabilities</b>	<b>397,214</b>	<b>478,849</b>	<b>577,327</b>	<b>705,656</b>	<b>915,111</b>	<b>976,384</b>	<b>1,075,196</b>	<b>1,221,937</b>	<b>1,359,207</b>	<b>1,512,635</b>
Total Equity	19,460	22,221	26,138	38,734	45,749	55,088	64,062	72,801	85,191	106,443
<b>Total Equity and Liabilities</b>	<b>416,674</b>	<b>501,070</b>	<b>603,465</b>	<b>744,389</b>	<b>960,860</b>	<b>1,031,473</b>	<b>1,139,258</b>	<b>1,294,737</b>	<b>1,444,398</b>	<b>1,619,079</b>
Contingent Liabilities and Commitments	138,989	100,867	131,398	191,045	208,570	197,376	182,597	181,545	226,442	304,102
<b>Operating Results</b>										
Gross Income	64,345	75,560	70,928	79,900	109,974	139,957	118,641	123,831	144,750	190,184
Total Operating Income	27,105	34,069	36,998	42,163	49,618	55,576	54,308	67,635	68,429	78,848
Total Overheads	18,224	21,380	23,386	22,669	27,304	27,264	32,779	38,346	41,633	44,600
Profit Before Tax	7,161	7,891	11,370	18,843	17,671	13,412	21,628	24,121	25,433	29,868
Income Tax	3,733	3,717	4,788	6,319	5,775	4,248	4,674	9,053	7,477	9,358
Profit After Tax	3,428	4,174	6,583	12,524	11,897	9,164	16,953	15,068	17,956	20,511
<b>Performance Indicators</b>										
Number of Employees	9,094	9,327	9,435	9,723	8,905	9,384	10,331	10,331	10,471	10,699
<b>Per Employee</b> (Sri Lanka Rs. '000)										
Deposits	35,522	42,482	50,990	58,904	79,607	84,103	80,246	90,302	106,939	122,033
Loans and Receivables	29,439	32,936	43,143	55,011	77,507	75,669	69,896	84,191	96,831	106,904
Gross Earnings	7,076	8,101	7,517	8,218	12,350	14,914	11,484	11,986	13,824	17,776
Profit After Tax	377	447	698	1,288	1,336	977	1,641	1,459	1,715	1,917
Return on Assets % (Before Tax)	1.8	1.7	2.1	2.8	2.1	1.3	2.0	2.0	1.9	1.9
Return on Equity %	19.3	20.0	27.2	38.6	28.2	18.2	28.5	22.0	22.7	21.4
Cost/Income Ratio %	67.2	62.8	63.2	53.8	55.0	49.1	60.4	56.7	60.8	56.6
Capital Adequacy Ratio (CAR) % *	11.9	13.9	12.8	15.7	15.7	15.9	14.9	13.8	13.0	13.7
Non-Performing Loan (NPL) Ratio (Gross) %	6.6	6.4	4.6	2.9	2.6	4.9	3.2	2.4	1.9	2.0

\* 2017 – According to Basel III Requirements.

# BASEL III – MARKET DISCIPLINE DISCLOSURE REQUIREMENT UNDER PILLAR III

## CAPITAL ADEQUACY

Capital adequacy is one of the key financial indicators which illustrate the soundness and the stability of a bank. This measures banks ability to withstand in an unexpected loss scenarios during various activities carried out by the Bank.

Basel Committee on Bank Supervision (BCBS) has implemented set of stringent measures of capital, liquidity and funding reforms. Accordingly Basel III accord was issued by BCBS in December 2010 and it has come into force and effect in Sri Lanka on 1st July 2017, based on the Central Bank Direction 1 of 2016 on capital requirement under Basel III for licensed commercial banks. This replaces Basel II reforms which were in force and effect in Sri Lanka since 1st January 2008 onwards.

Commencing from 1st July 2017, every Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) with an asset base of over Rs. 500 billion has to comply with three tiers of capital ratios on a staggered basis outlined below:

	1st July 2017 %	1st January 2018 %	1st January 2019 %
Common Equity Tier I Capital Ratio (CET I)	6.25	7.375	8.5
Total Tier I Capital Ratio (CET I + AT I)	7.75	8.875	10.0
Total Capital Ratio	11.75	12.875	14.0

Common Equity Tier I (CET I) is mainly comprised of equity capital, other capital and retained earnings. CET I is the highest quality capital and effective capital in absorbing losses.

Additional Tier I (AT I) capital includes capital instruments other than the instruments included in CET I capital.

Total capital is comprised Tier I plus other qualifying capital instruments such as subordinated debentures subject to regulatory deductions, revaluation reserves on property, plant and equipment with a cap of up to 50% and general loan loss provision.

Basel III has introduced new capital buffers and all banks are required to hold additional capital over and above minimum CET I and total capital levels. Capital requirements stipulated above are inclusive of additional buffer requirements.

- Capital Conservation Buffer
- Surcharge of Domestically Significant Banks (D-SIBs) – Banks with Total assets of Rs. 500 billion and above
- Counter Cyclical Buffer

Three pillars introduced by Basel II is continued to be applied in Basel III framework is mentioned below:

- Pillar I – Minimum Capital Requirements
- Pillar II – Supervisory Review Process
- Pillar III – Market Discipline

### **Pillar I – Minimum Capital Requirement**

Minimum Capital Requirement shall maintain as a percentage of Risk Weighted Assets (RWAs) and bank calculated its RWAs based on following approaches:

- The Standardised Approach for Credit Risk
- The Standardised Measurement Method for Market Risk
- The Basic Indicator Approach for Operational Risk

## Pillar II – Supervisory Review Process (SRP)

SRP framework assesses the Bank's capital adequacy and determining whether bank is maintaining additional capital to cover its risks. Bank has developed an ICAAP (Internal Capital Adequacy Assessment Process) framework in this regard, which closely indicates risks and capital assessment processes to support the Bank's current and projected demand for capital under unexpected and stressed conditions.

## Pillar III – Market Discipline

Pillar III aims to provide consistent and comprehensive disclosure framework which enhances the comparability between banks. It requires number of disclosure requirements to give better understanding of capital adequacy to external shareholders by providing an insight into the internal computation procedures followed by the Bank.

Accordingly, additional disclosures required to be published as per the Central Bank Direction 1 of 2016 are set out below:

## BASEL III DISCLOSURE REQUIREMENT

### Template 1: Key Regulatory Ratio – Capital and Liquidity

	Bank		Group	
	As at 31st December 2017	As at 30th September 2017	As at 31st December 2017	As at 30th September 2017
<b>Regulatory Capital (Rs. '000)</b>				
Common Equity Tier I Capital	62,084,793	58,290,242	85,077,315	83,161,111
Total Tier I Capital	62,084,793	58,290,242	85,077,315	83,161,111
Total Capital	77,554,148	70,110,842	101,485,802	96,881,958
<b>Regulatory Capital Ratio (%)</b>				
Common Equity Tier I Capital Ratio (Minimum Requirement – 6.25%)	10.82	10.23	11.49	11.38
Total Tier I Capital (Minimum Requirement – 7.75%)	10.82	10.23	11.49	11.38
Total Capital (Minimum Requirement – 11.75%)	13.51	12.30	13.71	13.26
<b>Regulatory Liquidity</b>				
Statutory Liquid Assets – Bank				
- Domestic Banking Unit (Rs '000)	298,497,361	293,234,458	NA	NA
- Off-Shore Banking Unit (US \$ '000)	242,692	271,571	NA	NA
Statutory Liquid Assets – (Minimum Requirement 20%)				
- Domestic Banking Unit (%)	24.07	24.10	NA	NA
- Off-Shore Banking Unit (%)	32.35	28.43	NA	NA
Liquidity Coverage Ratio (%) Rupee (Minimum Requirement – for 2017 – 80%)	104.00	126.03	NA	NA
Liquidity Coverage Ratio (%) All currency (Minimum Requirement – for 2017 – 80%)	95.08	121.57	NA	NA

## Template 2: Basel III Computation of Capital Ratios

Rs. '000	Bank		Group	
	As at 31st December 2017	As at 30th September 2017	As at 31st December 2017	As at 30th September 2017
<b>Common Equity Tier I (CET I) Capital after Adjustments</b>	62,084,793	58,290,242	85,077,315	83,161,112
<b>Common Equity Tier I (CET I) Capital</b>	63,359,558	59,565,099	85,756,976	84,046,652
Equity/Assigned Capital	12,201,998	12,201,998	12,201,998	12,201,998
Reserve Fund	5,814,742	4,902,253	5,814,742	4,902,253
Published Retained Earnings/(Accumulated Retained Losses)	34,322,199	32,240,832	52,236,152	49,077,617
Published Accumulated Other Comprehensive Income (OCI)	67,882	141,143	81,875	154,585
General and Other Disclosed Reserves	10,952,737	10,078,873	10,946,111	10,078,873
Unpublished Current Year's Profit/Loss and Gain reflected in OCI	–	–	–	–
Ordinary Shares Issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	–	–	4,476,098	7,631,326
<b>Total Adjustments to CET I Capital</b>	1,274,765	1,274,857	679,661	885,540
Goodwill (Net)	–	–	–	–
Intangible Assets (Net)	225,058	383,557	679,661	723,240
Other (Investment in the Capital of Subsidiaries and Other Financial Institutions)	1,049,707	891,300	–	162,300
<b>Additional Tier I (AT I) Capital after Adjustments</b>	–	–	–	–
<b>Additional Tier I (AT I) Capital</b>	–	–	–	–
Qualifying Additional Tier I Capital Instruments	–	–	–	–
Instrument Issued by Consolidated Banking and Financial Subsidiaries of the Bank and Held by Third Parties	–	–	–	–
<b>Total Adjustments to AT I Capital</b>	–	–	–	–
Investment in Own Shares	–	–	–	–
Others (Specify)	–	–	–	–
<b>Tier II Capital after Adjustments</b>	15,469,355	11,820,601	16,408,487	13,720,847
<b>Tier II Capital</b>	15,469,355	11,820,601	16,408,487	13,720,847
Qualifying Tier II Capital Instruments	480,000	480,000	480,000	480,000
Revaluation Gains	8,797,393	5,179,916	8,797,393	5,179,916
Loan Loss Provisions	6,191,962	6,160,685	7,131,094	8,060,931
Instrument Issued by Consolidated Banking and Financial Subsidiaries of the Bank and Held by Third Parties	–	–	–	–
<b>Total Adjustment to Tier II</b>	–	–	–	–
Investment in Own Shares	–	–	–	–
Others (Specify)	–	–	–	–
<b>CET I Capital</b>	63,359,558	59,565,099	85,756,976	84,046,652
<b>Total Tier I Capital</b>	62,084,793	58,290,242	85,077,315	83,161,112
<b>Total Capital</b>	77,554,148	70,110,843	101,485,802	96,881,959



Rs. '000	Bank		Group	
	As at 31st December 2017	As at 30th September 2017	As at 31st December 2017	As at 30th September 2017
<b>Total Risk-Weighted Assets (RWAs)</b>	574,005,436	569,840,050	740,159,181	730,554,349
RWAs for Credit Risk	495,356,958	492,854,765	642,727,843	635,395,407
RWAs for Operational Risk	73,396,393	71,546,321	91,223,325	89,005,633
RWAs for Market Risk	5,252,085	5,438,964	6,208,013	6,153,309
<b>CET I Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer and Surcharge on D-SIB) (%)</b>	10.82	10.23	11.49	11.38
of which: Capital Conservation Buffer (%)	1.25	1.25	1.25	1.25
of which: Countercyclical Buffer (%)	–	–	–	–
of which: Capital Surcharge Countercyclical Buffer (%)	0.50	0.50	0.50	0.50
<b>Total Tier I Capital Ratio (%)</b>	10.82	10.23	11.49	11.38
<b>Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer and Surcharge on D-SIBs) (%)</b>	13.51	12.30	13.71	13.26
of which: Capital Conservation Buffer (%)	1.25	1.25	1.25	1.25
of which: Countercyclical Buffer (%)	–	–	–	–
of which: Capital Surcharge on D-SIBs (%)	0.50	0.50	0.50	0.50

### Template 3: Computation of Leverage Ratio

Rs. '000	Bank	Group
	31st December 2017	31st December 2017
Tier I Capital	62,084,793	85,077,315
Total Exposures	1,512,405,947	1,664,980,535
On Balance Sheet Items (Excluding Derivatives and Securities Financing Transactions, but Including Collateral)	1,406,635,113	1,558,871,099
Derivative Exposures	1,026,739	1,026,739
Securities Financing Transaction Exposures	58,855,000	59,193,602
Other Off-Balance Sheet Exposures	45,889,095	45,889,095
Basel III Leverage Ratio (%) (Tier I Capital/Total Exposure)	4.11%	5.11%

Leverage ratio is prepared based on the consultation paper issued by the Central Bank of Sri Lanka. As per the paper minimum leverage ratio is 4%.

### Template 4: Computation of Liquidity Coverage Ratio

Rs. '000	As at 31st December 2017		As at 31st December 2016	
	Total Unweighted Value	Total Weighted Value	Total Unweighted Value	Total Weighted Value
<b>Total Stock of High-Quality Liquid Assets (HQLA)</b>	<b>209,576,585</b>	<b>210,556,463</b>	<b>162,270,777</b>	<b>161,525,144</b>
<b>Total Adjusted Level 1A Assets</b>	205,608,413	205,608,414	159,934,650	159,934,650
<b>Level 1 Assets</b>	207,515,715	207,515,715	160,182,094	160,182,094
<b>Total Adjusted Level 2A Assets</b>	3,019,035	2,566,180	499,960	424,966
<b>Level 2A Assets</b>	3,019,035	2,566,180	499,960	424,966
<b>Total Adjusted Level 2B Assets</b>	949,137	474,568	1,836,167	918,084
<b>Level 2B Assets</b>	949,137	474,568	1,836,167	918,084
<b>Total Cash Outflows</b>	<b>1,542,394,880</b>	<b>336,276,533</b>	<b>1,298,305,943</b>	<b>290,738,524</b>
Deposits	867,812,307	86,781,231	805,072,393	80,507,239
Unsecured Wholesale Funding	388,276,563	204,161,629	301,092,362	183,603,159
Secured Funding Transactions	17,998,855	–	20,829,711	–
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	247,268,129	24,294,647	159,166,720	14,483,369
Additional Requirements	21,039,026	21,039,026	12,144,757	12,144,757
<b>Total Cash Inflows</b>	<b>186,923,677</b>	<b>114,816,052</b>	<b>157,847,462</b>	<b>98,174,411</b>
Maturing Secured Lending Transactions Backed by Collateral	47,175,521	8,833,348	22,437,380	–
Committed Facilities	–	–	–	–
Other Inflows by Counterparty which are Maturing within 30 Days	120,686,939	92,323,766	120,052,492	90,951,873
Operational Deposits	4,568,707	–	1,426,528	–
Other Cash Inflows	14,492,510	13,658,938	13,931,062	7,222,538
<b>Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/ Total Net Cash Outflows Over the Next 30 Calendar Days)*100</b>		<b>95.08</b>		<b>83.88</b>

### Template 5: Main Features of Regulatory Capital Instruments

	No. 2 Debenture Issued in 2009	No. 3 Debenture Issued in 2011	No. 4 Debenture Issued in 2013
<b>Description of the Capital Instrument</b>			
Issuer	People's Bank	People's Bank	People's Bank
Unique Identifier (e.g. ISIN or Bloomberg Identifier for Private Placement)	2	3	4
Original Date of Issuance	30th December 2009	30th December 2011	15th December 2013
Par Value of Instrument	N/A	N/A	N/A
Original Maturity Date, if Applicable	29th December 2022	29th December 2022	29th December 2022
Amount Recognised in Regulatory Capital (in Rs. '000 as at the Reporting Date)	2,500,000	5,000,000	5,000,000
Accounting Classification (Equity/Liability)	Liability	Liability	Liability
<b>Issuer Call Subject to Prior Supervisory Approval</b>			
Optional Call Date, Contingent Call Dates and Redemption Amount (Rs. '000)	N/A	N/A	N/A
Subsequent Call Dates, if Applicable	N/A	N/A	N/A
<b>Coupons/Dividends</b>			
Fixed or Floating Dividend/Coupon	Fixed Rate	Fixed Rate	Fixed Rate
Coupon Rate and Any Related Index	13.5%	13.0%	13.0%
Non-Cumulative or Cumulative	N/A	N/A	N/A
<b>Convertible or Non-Convertible</b>			
If Convertible, Conversion Trigger (s)	Non-Convertible	Non-Convertible	Non-Convertible
If Convertible, Fully or Partially	N/A	N/A	N/A
If Convertible, Mandatory or Optional	N/A	N/A	N/A
If Convertible, Conversion Rate	N/A	N/A	N/A

## **Template 6: Summary Discussion on the Adequacy/Meeting Current and Future Capital Requirements**

### **Overview**

In accordance with CBSL stipulations, the Bank carries out an Internal Capital Adequacy Assessment Process annually. The assessment covers a five (5) year time horizon and is closely linked with its Strategic Plan 2016/20.

### **Material Exposures**

Broadly one-third of the Bank's total loan book is "Sovereign like" exposures. These are those extended to the State direct and/or those granted to State-Owned Enterprises on the back by an irrevocable sovereign undertaking by way of a guarantee/indemnity or the like.

Leaving aside such sovereign backed exposures, the Bank's single largest non-sovereign exposure does not account for over 2% of its total loan book.

The Bank's industry sector exposures are also diverse.

### **2017 Successes to Bolster Regulatory Capital Levels and Regulatory Capital Ratios**

During 2017, in order to meet the requisite Basel III new capital adequacy requirements, the Bank successfully undertook the following:

- a. Raised Rs. 5.0 billion from General Treasury, Ministry of Finance on 21st July 2017. This was first received over the last eight (8) years.
- b. Reduced its dividend payout by Rs. 3.0 billion from Rs. 8.2 billion in 2016 to Rs. 5.2 billion in 2017.
- c. Revalued all its land and buildings on 1st July 2017. This enabled the Bank recognise close to Rs. 3.6 billion in Tier II Capital with requisite regulatory approval.
- d. Ensured additional facilities extended to State-Owned Enterprises are sovereign backed.
- e. Meet other Basel III stipulations consistently without exception such as:
  - Liquidity Coverage Ratio, measured by High Quality Liquid Assets over 30-Day Net Cash Outflows, over 90% .
  - Leverage, measured by Tier I over total gross exposures, over 4.0% at end-2017.

These individually and in aggregate enabled the Bank ensure measured growth in assets and corresponding risk-weighted assets

### **Future Plan and Priority**

The Bank is in the process of undertaking several initiatives in view of bolstering its regulatory capital from current levels.

The single most important initiative currently in process is the amendment the People's Bank Act No. 29 of 1961 (hereinafter "the Act") in relation to the issuance of Debentures. As it currently stands, the Act necessitates a Treasury Guarantee be obtained every time the Bank issues a Debenture – including for regulatory capital purposes. This naturally has limited the Bank's ability to issue Debentures with ease with the issuance being in June 2013. Needless to say, this is the single most impeding factor to the Bank's growth and growth potential. On 7th February 2017, the Cabinet of Ministers granted their approval for the proposed amendment which is a noteworthy positive development. Remaining formalities are currently in process. Once finalised, it will enable the Bank issue Basel III compliant Tier II Debentures at relative ease. With Tier II capital capped at 100% of CET I, and in view of the fact that the Bank has not issued any Tier II compliant notes for considerable period, ample capacity for future issuances and thereby to bolster its regulatory capital from current levels do exists. Finalising Act-related amendments are key.

## Template 7: Credit Risk under Standardised Approach

### Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects – Bank

As at 31.12.2017	Exposure Before Credit Conversion Factor (CCF) and CRM		Exposure Post CCF and CRM		RWA and RWA Density (%)	
	On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density
Asset Class Rs. '000						
Claims on Central Government and CBSL	595,426,327	–	242,199,833	–	–	0%
Claims on Foreign Sovereigns and Their Central Banks	–	–	–	–	–	–
Claims on Public Sector Entities	10,087,923	116,938,959	10,087,923	6,087,848	11,311,791	70%
Claims on Official Entities and Multilateral Development Banks	–	–	–	–	–	–
Claims on Banks Exposures	25,390,923	–	25,390,923	–	7,418,602	29%
Claims on Financial Institutions	13,354,043	–	13,354,043	–	4,138,975	31%
Claims on Corporates	94,863,039	47,509,297	94,773,494	43,363,485	123,760,332	90%
Retail Claims	366,626,148	3,256,270	317,592,387	3,256,270	248,552,666	77%
Claims Secured by Gold	136,485,146	–	136,485,146	–	365,762	0%
Claims Secured by Residential Property	81,190,702	–	81,190,702	–	40,595,351	50%
Claims Secured by Commercial Real Estate	–	–	–	–	–	–
Non-Performing Assets (NPAs)	7,364,951	–	7,364,951	–	9,673,122	131%
Higher-Risk Categories	631,345	–	631,345	–	1,578,363	250%
Cash Items and Other Assets	92,675,191	–	86,673,893	–	47,961,994	55%
<b>Total</b>	<b>1,424,095,738</b>	<b>167,704,526</b>	<b>1,015,744,640</b>	<b>52,707,603</b>	<b>495,356,958</b>	<b>46%</b>

### Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects – Group

As at 31.12.2017	Exposure Before Credit Conversion Factor (CCF) and CRM		Exposure Post CCF and CRM		RWA and RWA Density (%)	
	On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density
Asset Class Rs. '000						
Claims on Central Government and CBSL	601,074,116	–	247,847,622	–	–	0%
Claims on Foreign Sovereigns and Their Central Banks	–	–	–	–	–	–
Claims on Public Sector Entities	10,087,923	116,938,959	10,087,923	6,087,848	11,311,791	70%
Claims on Official Entities and Multilateral Development Banks	–	–	–	–	–	–
Claims on Banks Exposures	31,130,358	–	31,130,358	–	9,102,400	29%
Claims on Financial Institutions	5,529,958	–	5,529,958	–	2,862,347	52%
Claims on Corporates	94,927,853	47,509,297	94,838,308	43,363,485	123,825,146	90%
Retail Claims	506,085,642	3,256,270	457,051,881	3,256,270	388,012,161	84%
Claims Secured by Gold	136,485,146	–	136,485,146	–	365,762	0%
Claims Secured by Residential Property	81,190,702	–	81,190,702	–	40,595,351	50%
Claims Secured by Commercial Real Estate	–	–	–	–	–	–
Non-Performing Assets (NPAs)	7,364,951	–	7,364,951	–	9,673,122	131%
Higher-Risk Categories	–	–	–	–	–	–
Cash Items and Other Assets	102,325,771	–	96,324,473	–	56,979,763	59%
<b>Total</b>	<b>1,576,202,420</b>	<b>167,704,526</b>	<b>1,167,851,322</b>	<b>52,707,603</b>	<b>642,727,843</b>	<b>53%</b>

## Template 8: Credit Risk Under Standardised Approach: Exposures by Asset Classes and Risk Weights – Bank

Description		Amount (Rs. '000) as at 31st December 2017 (Post CCF and CRM)							Total Credit Exposures Amount
Asset Classes	Risk Weight	0%	20%	50%	75%	100%	150%	>150%	
Claims on Central Government and Central Bank of Sri Lanka		242,199,833	–	–	–	–	–	–	242,199,833
Claims on Foreign Sovereigns and Their Central Banks		–	–	–	–	–	–	–	–
Claims on Public Sector Entities		–	6,079,975	–	–	10,095,796	–	–	16,175,771
Claims on Official Entities and Multilateral Development Banks		–	–	–	–	–	–	–	–
Claims on Banks Exposures		–	20,434,037	3,250,184	–	1,706,703	–	–	25,390,924
Claims on Financial Institutions		–	9,331,335	3,500,000	–	522,708	–	–	13,354,043
Claims on Corporates		–	14,908,585	4,899,557	–	118,328,837	–	–	138,136,979
Retail Claims		134,656,334	1,828,812	–	289,183,960	31,664,697	–	–	457,333,803
Claims Secured by Residential Property		–	–	81,190,702	–	–	–	–	81,190,702
Claims Secured by Commercial Real Estate		–	–	–	–	–	–	–	–
Non-Performing Assets (NPAs)		–	–	153,975	–	2,440,659	4,770,317	–	7,364,951
Higher-Risk Categories		–	–	–	–	–	–	631,345	631,345
Cash Items and Other Assets		37,378,183	1,667,145	–	–	47,628,565	–	–	86,673,893
<b>Total</b>		<b>414,234,350</b>	<b>54,249,889</b>	<b>92,994,418</b>	<b>289,183,960</b>	<b>212,387,965</b>	<b>4,770,317</b>	<b>631,345</b>	<b>1,068,452,244</b>

## Credit Risk Under Standardised Approach: Exposures by Asset Classes and Risk Weights – Group

Description		Amount (Rs. '000) as at 31st December 2017 (Post CCF and CRM)							Total Credit Exposures Amount
Asset Classes	Risk Weight	0%	20%	50%	75%	100%	150%	>150%	
Claims on Central Government and Central Bank of Sri Lanka		247,847,622	–	–	–	–	–	–	247,847,622
Claims on Foreign Sovereigns and Their Central Banks		–	–	–	–	–	–	–	–
Claims on Public Sector Entities		–	6,079,975	–	–	10,095,796	–	–	16,175,771
Claims on Official Entities and Multilateral Development Banks		–	–	–	–	–	–	–	–
Claims on Banks Exposures		–	25,503,543	3,250,248	–	2,376,568	–	–	31,130,359
Claims on Financial Institutions		–	1,147,013	3,500,000	–	882,944	–	–	5,529,957
Claims on Corporates		–	14,908,585	4,899,557	–	118,393,650	–	–	138,201,792
Retail Claims		134,656,334	1,828,812	–	289,183,960	171,124,191	–	–	596,793,297
Claims Secured by Residential Property		–	–	81,190,702	–	–	–	–	81,190,702
Claims Secured by Commercial Real Estate		–	–	–	–	–	–	–	–
Non-Performing Assets (NPAs)		–	–	153,975	–	2,440,659	4,770,317	–	7,364,951
Higher-Risk Categories		–	–	–	–	–	–	–	–
Cash Items and Other Assets		38,010,994	1,667,145	–	–	56,646,334	–	–	96,324,473
<b>Total</b>		<b>420,514,950</b>	<b>51,135,073</b>	<b>92,994,482</b>	<b>289,183,960</b>	<b>361,960,142</b>	<b>4,770,317</b>	<b>–</b>	<b>1,220,558,924</b>

### Template 9: Market Risk Under Standardised Measurement Method

Rs. '000	Bank	Group
	As at 31st December 2017	As at 31st December 2017
<b>(a) R W A for Interest Rate Risk</b>	248,106	248,106
General Interest Rate Risk	248,106	248,106
(i) Net Long or Short Position	248,106	248,106
(ii) Horizontal Disallowance	–	–
(iii) Vertical Disallowance	–	–
(iv) Options	–	–
<b>(b) R W A for Equity</b>	238,341	350,662
(i) General Equity Risk	121,975	183,072
(ii) Specific Equity Risk	116,366	167,590
<b>(c) RWA for Foreign Exchange and Gold</b>	130,673	130,673
<b>(d) Capital Charge for Market Risk (a)+(b)+(c)</b>	617,120	729,441
RWA for Market risk (d)* 100/11.75	5,252,085	6,208,013

### Template 10: Operational Risk Under Basic Indicator Approach

	Bank				Group				
	1st Year	2nd Year	3rd Year	Average	1st Year	2nd Year	3rd Year	Average	
<b>Basic Indicator Approach – Gross Income (Rs. '000)</b>	54,549,834	54,638,097	63,293,592	57,493,841	67,411,609	68,007,563	78,955,643	71,458,272	
<b>Capital Charges for Operational Risk (Rs. '000)</b>									
The Basic Indicator Approach	15%	8,182,475	8,195,715	9,494,039	8,624,076	10,111,741	10,201,134	11,843,346	10,718,741
<b>Risk Weighted Amount for Operational Risk (Rs. '000)</b>									
The Basic Indicator Approach	8.5	69,638,086	69,750,762	80,800,330	73,396,393	86,057,373	86,818,166	100,794,438	91,223,325

### Template 11: Differences Between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank Only

Rs. '000	Carrying Value as Reported in Published Financial Statements	Carrying Value Under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Subject to Deduction from Capital
<b>Assets</b>	<b>1,467,099,108</b>	<b>1,465,492,120</b>	<b>1,412,781,786</b>	<b>53,042,557</b>	<b>1,274,765</b>
Cash and Cash Equivalents	68,958,012	68,958,012	68,958,012	-	-
Balances with Central Bank of Sri Lanka	65,689,278	65,689,278	65,689,278	-	-
Placements with Banks	13,458,639	13,458,639	13,458,639	-	-
Derivative Financial Instruments	334,230	334,230	334,230	-	-
Other Financial Assets Held for Trading	53,042,557	53,042,567	-	53,042,557	-
Loans and Receivables to Banks	86,097,515	86,097,515	86,097,515	-	-
Loans and Receivables to Other Customers	1,012,642,714	1,022,230,602	1,012,642,714	-	-
Financial Investments – Available for Sale	3,415,344	3,217,407	3,055,108	-	360,236
Financial Investments – Held to Maturity	112,351,039	112,351,039	112,351,039	-	-
Non-Current Assets – Held for Sale	-	-	-	-	-
Investments in Subsidiaries	1,325,766	1,325,766	636,295	-	689,471
Goodwill and Intangible Assets	225,058	225,058	-	-	225,058
Property, Plant and Equipment	25,047,501	25,047,501	25,047,501	-	-
Investment Properties	1,222,299	1,222,299	1,222,299	-	-
Prepaid Leases	483,886	483,886	483,886	-	-
Other Assets	22,805,270	11,808,321	22,805,270	-	-
<b>Liabilities</b>	<b>1,389,642,382</b>	<b>1,383,063,093</b>	<b>-</b>	<b>-</b>	<b>-</b>
Due to Banks	80,676,350	80,676,350	-	-	-
Derivative Financial Instruments	273,975	273,975	-	-	-
Due to Other Customers	1,244,002,768	1,244,268,395	-	-	-
Other Borrowings	24,380,962	24,380,962	-	-	-
Current Tax Liabilities	4,064,907	4,012,246	-	-	-
Net Deferred Tax Liabilities	4,455,617	3,418,032	-	-	-
Other Liabilities	19,256,075	13,533,133	-	-	-
Subordinated Term Debts	12,531,728	12,500,000	-	-	-
<b>Shareholders' Equity</b>	<b>77,456,726</b>	<b>82,429,027</b>	<b>-</b>	<b>-</b>	<b>-</b>
Stated Capital/Assigned Capital	12,201,998	12,201,998	-	-	-
Statutory Reserve Fund	5,814,744	5,814,744	-	-	-
Other Reserves	25,117,785	24,919,848	-	-	-
Retained Earnings	34,322,199	39,492,437	-	-	-
<b>Total Shareholders' Equity</b>	<b>1,467,099,108</b>	<b>1,465,492,120</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Off-Balance Sheet Liabilities</b>	<b>303,344,150</b>	<b>-</b>	<b>303,344,150</b>	<b>-</b>	<b>-</b>
Acceptance	60,018,935	-	60,018,935	-	-
Guarantees	73,466,998	-	73,466,998	-	-
Letter of Credit	74,128,107	-	74,128,107	-	-
Other Contingent Items	38,061,294	-	38,061,294	-	-
Undrawn Loan Commitments	57,668,816	-	57,668,816	-	-
Other Commitments	1,472,615	-	-	-	-



## Template 12: Explanation of Differences Between Accounting and Regulatory Exposure Amounts

Rs. '000	Reasons for Differences						
	Difference Observed Between Accounting Carrying Value and Amounts Considered for Regulatory Purposes	Net Impact Arising from Individual and Collective Impairment	Fair Value Adjustments	Effective Interest Rate (EIR) Adjustment	Unamortised Cost on Staff Loans (Day 1 Difference)	Other SLFRS Adjustments	Tax Impact on SLFRS Adjustments
<b>Assets</b>							
Cash and Cash Equivalents	-	-	-	-	-	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-
Placements with Banks	-	-	-	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-	-	-
Other Financial Assets – Held for Trading	(10)	-	(10)	-	-	-	-
Loans and Receivables to Banks	-	-	-	-	-	-	-
Loans and Receivables to Other Customers	(9,587,888)	-	-	-	(9,587,888)	-	-
Financial Investments – Available for Sale	197,937	-	197,937	-	-	-	-
Financial Investments – Held to Maturity	-	-	-	-	-	-	-
Non-Current Assets – Held for Sale	-	-	-	-	-	-	-
Investments in Subsidiaries	-	-	-	-	-	-	-
Goodwill and Intangible Assets	-	-	-	-	-	-	-
Property, Plant and Equipment	-	-	-	-	-	-	-
Investment Properties	-	-	-	-	-	-	-
Prepaid Leases	-	-	-	-	-	-	-
Other Assets	10,996,949	-	-	-	9,587,888	1,409,061	-
<b>Liabilities</b>							
Due to Banks	-	-	-	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-	-	-
Due to Other Customers	(265,627)	-	-	(265,627)	-	-	-
Other Borrowings	-	-	-	-	-	-	-
Current Tax Liabilities	52,661	-	-	-	-	-	52,661
Net Deferred Tax Liabilities	1,037,585	-	-	-	-	-	1,037,585
Other Liabilities	5,722,942	-	-	-	-	5,722,942	-
Subordinated Term Debts	31,728	-	-	31,728	-	-	-
<b>Shareholders' Equity</b>							
Stated Capital/Assigned Capital	-	-	-	-	-	-	-
Statutory Reserve Fund	-	-	-	-	-	-	-
Other Reserves	197,937	-	197,937	-	-	-	-
Retained Earnings	(5,170,238)	-	-	-	-	(5,170,238)	-

# EXTERNAL ASSURANCE ON SUSTAINABILITY REPORT



Ernst & Young  
Chartered Accountants  
201 De Saram Place  
P.O. Box 101  
Colombo 10  
Sri Lanka

Tel : +94 11 2463500  
Fax Gen : +94 11 2697369  
Tax : +94 11 5578180  
eysl@lk.ey.com  
ey.com

## Independent Assurance Report to People's Bank on the Sustainability Reporting Criteria Presented in the Integrated Annual Report – 2017

### INTRODUCTION AND SCOPE OF THE ENGAGEMENT

The management of People's Bank ("the Bank") engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the Annual Report – 2017 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 173 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: "In accordance" – Core guidelines. (The assurance will cover General and Specific Disclosures of the GRI Standards Guideline).

### BASIS OF OUR WORK AND LEVEL OF ASSURANCE

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", issued by The Institute of Chartered Accountants of Sri Lanka ("CASL").

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines ("GRI Guidelines") and related information in particular, the requirements to achieve GRI Standards "In accordance" – Core guideline publication, publicly available at GRI's global website at "[www.globalreporting.org](http://www.globalreporting.org)".

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

### MANAGEMENT OF THE BANK'S RESPONSIBILITY FOR THE REPORT

The management of the Bank is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustaining reporting process in line with the GRI Sustainability Reporting Guidelines.

### ERNST & YOUNG'S RESPONSIBILITY

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: "In accordance" – Core guidelines. This report is made solely to the Bank in accordance with our engagement letter dated 15th March 2018. We disclaim any

assumption of responsibility for any reliance on this report to any person other than the Bank or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the CASL.

### KEY ASSURANCE PROCEDURES

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- Interviewing relevant the Bank's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the Bank on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the Bank's Audited Financial Statements for the year ended 31st December 2017.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: "In accordance" – Core guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

### LIMITATIONS AND CONSIDERATIONS

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

### CONCLUSION

Based on the procedures performed, as described above, we conclude that;

- The information on financial performance as specified on page 173 of the Report are properly derived from the Audited Financial Statements of the Bank for the year ended 31st December 2017.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Bank's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards – "In accordance" Core.

Ernst & Young  
Chartered Accountants

27th March 2018  
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA  
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

## GRI CONTENT INDEX "IN ACCORDANCE" OPTION: CORE

### GENERAL STANDARD DISCLOSURES

Disclosure	GRI Index	Page No.	Remarks
<b>Strategic and Analysis</b>			
Statement from the most senior decision-maker of the organisation	G4-1	14-16	
<b>Organisational Profile</b>			
Name of the organisation	G4-3	Inner Back Cover	
Primary brands, products, and services	G4-4	177	
Report the location of the organisation's headquarters	G4-5	Inner Back Cover	
Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the Report	G4-6	179 and 185	
Nature of ownership and legal form	G4-7	Ownership – 4 Legal Form - Inner Back Cover	
Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	G4-8	179	
Scale of the organisation	G4-9	12 and 13	
Total number of employees by type	G4-10	159	
Percentage of total employees covered by collective bargaining agreements	G4-11	167	
Supply chain	G4-12	186	
Significant changes during the reporting period	G4-13	15	
Precautionary approach	G4-14	2	
External charters, principles, or other initiatives	G4-15	2	
Membership associations	G4-16	186	
<b>Identified Materials Aspects and Boundaries</b>			
Entities included in the organisation's consolidated Financial Statements	G4-17	2	
Process for defining report content and the aspect boundaries	G4-18	2	
Material aspects	G4-19	123 and 124	
Material aspect boundaries within the organisation	G4-20	123 and 124	
Material aspect boundaries outside the organisation	G4-21	123 and 124	
Effects of any restatements	G4-22	2	
Significant changes during the reporting period	G4-23	2	
<b>Stakeholder Engagement</b>			
Stakeholder groups engaged by the organisation	G4-24	121 and 122	
Basis for identification and selection of stakeholders	G4-25	120	
Approach to stakeholder engagement	G4-26	121 and 122	
Key topics raised during stakeholder engagements	G4-27	121 and 122	
<b>Report Portfolio</b>			
Reporting period	G4-28	2	
Date of most recent previous report	G4-29	2	
Reporting cycle	G4-30	2	
Contact point for questions regarding the report	G4-31	2	
In accordance option chosen	G4-32	2	
Policy regarding report assurance	G4-33	2	
<b>Governance</b>			
Governance structure of the organisation	G4-34	34-36	
<b>Ethics and Integrity</b>			
Organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	G4-56	4 and 168	

## SPECIFIC STANDARD DISCLOSURES

	Disclosure	GRI Index	Page No.	Remarks
<b>Economic</b>				
Economic Performance	Direct economic value generated and distributed	EC1	173	
	Coverage of the organisation's defined benefit plan obligations	EC3	218-220	
Market Presence	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	EC5	165	
	Proportion of Senior Management hired from the local community at significant locations of operation	EC6	162	
Indirect Economic Impacts	Development and impact of infrastructure investments and services supported	EC7	144	
<b>Environment</b>				
Energy Effluents and Waste	DMA		189	
	Energy consumption	EN3	191	
	Direct greenhouse gas (GHG) emissions (Scope 1)	EN15	190	
	Energy indirect greenhouse gas emissions (Scope 2)	EN16	190	
	Mitigation of Environment Impact of Product and Services	EN27	190 and 191	
<b>Social</b>				
Employment	DMA		157	
	Total number and rates of new employee hires and employee turnover by age group, gender and region	LA1	161 and 162 166 and 167	
	Benefits provided to full-time employees that are not provided to temporary or part time employees, by significant locations of operation	LA2	165	
	Return to work and retention rates after parental leave, by gender	LA3	163	
Labour/Management Relation	DMA		167	
	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	LA4	167	
Training and Education	DMA		163	
	Average hours of training per year per employee by gender, and by employee category	LA9	163 and 164	
	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	LA10	163	
	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	LA11	163	
	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	LA13	164	
Labour Practices Grievance Mechanisms	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms	LA16	167	
<b>Human Rights</b>				
Non-Discrimination	Total number of incidents of discrimination and corrective actions taken	HR3	165	
Freedom of Association and Collective Bargaining	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	HR4	167	Partially

	Disclosure	GRI Index	Page No.	Remarks
Child Labour	Operations and suppliers identified as having significant risk for incidents of child labour and measures taken to contribute to the effective abolition of child labour	HR5	158	Partially
	Operations and significant suppliers identified as having significant risk of forced or compulsory labour and measures to contribute to the elimination of all form of forced or compulsory labour	HR6	158	Partially
<b>Society</b>				
Local Communities	DMA		187	
	Percentage of operations with implemented local community engagement, impact assessments, and development programmes	SO1	187 and 188	
	Operations with significant actual or potential negative impacts on local communities	SO2	187	
	FS13		178 and 179	
	FS14		178 and 179	
Anti-Corruption	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	SO3	91	
	Communication and training on anti-corruption policies and procedures	SO4	168	
	Confirmed incidents of corruption and actions taken	SO5	168	
<b>Product Responsibility</b>				
Product and Service Labelling	DMA			
	Type of product and service information required by the organisation's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements	PR3	178	
	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes	PR4	178	
	Results of surveys measuring customer satisfaction	PR5	183	
Market Communications	Sale of banned or disputed products	PR6	184	
	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	PR7	184	
Customer Privacy	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	PR8	184	
Compliance	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	PR9	184	
	FS8		191	
Product Portfolio	FS6		188	

# GLOSSARY OF FINANCIAL/BANKING TERMS

## A

### Accounting Policies

Principles, rules and procedures selected and consistently followed by the management of an entity in preparing and reporting the Financial Statements.

### Accrual Basis

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

### Amortisation

Systematic allocation of the depreciable amount of an intangible asset over its useful life. Depreciation and amortisation both have the same meaning.

### Actuarial Valuation

Fund value determined by computing its normal cost, actuarial accrued liability, actuarial value of its assets and other relevant costs and values.

### Amortised Cost

The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

### Associate Company

A company other than a subsidiary in which a holding company has a participating interest and exercise a significant influence over its operating and financial policies.

### Available-for-Sale Financial Asset

Those financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit and loss.

## B

### Bill Discounted

A promissory Note or Bill of Exchange that has been purchased for less than face value, the difference representing interest on the unexpired term of the bill. At maturity, the holder collects the face value of the bill for its own account.

### Bill of Exchange

A signed, written, unconditional order addressed by one person (the drawer) directing another person (the drawee) to pay a specified sum of money to the order of a third person (the payee). The terms bill of exchange and draft are often used interchangeably.

## C

### Call Deposits or Call Money

Deposits or funds lent out which are repayable on demand.

### Capital Adequacy

The ability of a Bank to meet the needs of their depositors and other creditors in terms of available funds. As per requirement of Bank for International Settlements (SIBS) and Central Bank of Sri Lanka, local banks should maintain a stipulated minimum capital.

### Capital Adequacy Ratio

The percentage of the risk-adjusted assets supported by capital, as defined under the framework of risk based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

### Credit Risk

The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

### Cash Equivalents

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Certificate of Deposit (CD)

A certificate issued by a Bank against funds deposited with it that specifies the rate of interest payable and the date when the deposit will be repaid to the bearer. CDs are often negotiable.

### Commercial Paper

Unsecured short-term Promissory Notes issued by banks and credit worthy corporate borrowed.

### Commitments

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

### Contingencies

A condition or situation, the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

### Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

### Correspondent Banks

A Bank that acts as an agent for another Bank. The correspondent Bank will generally provide a wide variety of banking services on behalf of the other banks in the region in which the correspondent Bank is located.

### Cost Income Ratio

Operating expenses as a percentage of net income.

### Counterparty

The other party (including a Bank) with whom a deal is made or closed.

### Country Risk

The credit risk associated with lending to borrowers within a particular country, sometimes taken to include sovereign risk.

### Cross Rate

The calculated foreign exchange rate from two separate quotations involving the same currency.

### Currency Swap

A current exchange of principal amounts in two currencies combined with an agreement to re-exchange the currencies at a later date and to make interest payments, until the re-exchange, on the currency is received.

## D

### Deferred Tax

Sum set aside in the Financial Statements for taxation that may become payable in a financial year other than the current financial year.

### Depreciation

The systematic allocations of the depreciable amount of the assets over its useful life.

### Derivative

A financial instrument with all three of the following characteristics: (a) Its value changes in response to the change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable (sometimes called the 'underlying'). (b) It requires no initial net investment that is smaller than would be required for other types. (c) It is settled at a future date.

### Dealing Securities

Securities acquired and held with the intention of reselling them in the short-term.

### Defined Benefit Plan

Retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' remuneration and/or years of service.

### Disintermediation

The term often used to describe borrowers raising funds directly from the capital markets rather than from the banking sector. This is usually only undertaken by borrowers with the strongest credit ratings.

### Documentary Bill

A Bill of Exchange that is accompanied by various documents, such as a Bill of Lading, an invoice and an insurance policy.

**Documentary Credit**

A letter of credit that stipulates the documents that must be produced in order for payment to be made.

**Draft**

A term generally synonymous with Bill of Exchange but sometimes used specifically in the context of inter-Bank bills. A banker's draft, payable on demand, drawn by or on behalf of a Bank.

**E****Effective Interest Method**

The method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

**Equity Instrument**

Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

**F****Fair Value**

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**Fixed Charge**

A charge on specific property, usually freehold or leasehold property or plant and machinery, given under a legal mortgage.

**Financial Instrument**

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Floating Charge**

A charge, taken by a lender to secure an advance upon property, such as stock, debtors, or cash, that permits the Company to continue using and disposing of those assets in connection with its ordinary business.

Such a charge becomes fixed in the event of the Company's default.

**Foreclosed Properties**

Properties acquired in full or partial settlement of debts, which will be held with the intention of resale at the earliest opportunity.

**Foreign Exchange Income**

The realised gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan Rupees on the Balance Sheet date at prevailing rates which differ from those rates in force at inception or on the previous Balance Sheet date. Foreign exchange income also arises from trading in foreign currencies.

**Forward Contract**

A contract that commits two parties to an exchange at a specific future date under terms set out at the contract date.

**Forward Rate**

The price of currency with a maturity beyond the spot date. Forward rates may be either the same in price as spot rates or different. In the first case, the forward rate is flat. In the second case, the price is either higher, at a premium, or lower, at a discount.

**Forward Rate Agreement (FRA)**

An agreement to exchange payments at a specified future date based on the difference between a particular interest rate index (e.g. LIBOR) and an agreed fixed rate.

**G****Group**

A group is a parent and all its subsidiaries.

**Guarantees**

Primarily represent irrevocable assurances that a Bank will make payments in the event that its customer is unable to perform its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

**H****Hedging**

A methodology used to cover against risk of unfavorable price movements (interest rates, prices, commodities, etc).

**Held-to-Maturity Investments**

A financial asset with fixed or determinable payments and fixed maturity that an entity has the positive intent and ability to hold to maturity, other than those that the entity on initial recognition elects to designate as held-for-trading or available-for-sale, or that meet the definition of loans and receivables.

**I****Impairment**

This arises due to decline in recoverable amount below carrying amount.

**Indemnity**

An agreement whereby a person agrees to bear any loss that is suffered by a party to a contract to which he himself is not a party. The person giving the indemnity assumes primarily liability, unlike a guarantor who assumes secondary liability.

**Interest Rate Risk**

The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

**Interest in Suspense**

The interest due on non-performing assets.

**Interest Margin**

Net interest income as a percentage of average interest-earning assets.

**K****Key Management Personnel**

Those persons who have the authority and responsibility for planning, directing and controlling the activities of the entity.

**Key Performance Indicators (KPIs)**

KPIs are quantifiable measurements, agreed beforehand that reflects the critical success factors of a company.

**L****Letter of Credit (LC)**

A document issued by a Bank, requesting another Bank or banks to advance money to a third person, up to a certain amount, in accordance with the terms and conditions set out in the document.

**Liquidity Risk**

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

**Liquid Assets Ratio**

Liquid assets expressed as a percentage of total liabilities other than shareholders' funds.

**M****Mark to Market**

The policy to periodically revaluing positions up or down to their current market or fair value.

**Market Risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risks: currency risk, interest rate risk and other price risk.

**Minority Interest**

The proportion of the profit or loss and net assets of a subsidiary attributable to equity interest that are not owned, directly or indirectly through subsidiaries, by the Parent.

**Mortgage**

A lien on real property used to secure a borrowing.

**N****Negotiable Instrument**

A security or other financial instrument which can be freely sold to a third party (i.e. negotiated). Bank notes, bearer bonds, Bills of Exchange and cheques are normally negotiable instruments.

**Net Interest Margin**

Interest income as a percentage of Average Interest Earning Assets.

**Non-performing Loan**

A loan where principal or interest payments are not being made on the due dates or where the borrower is failing to meet some other term or condition of the loan. Non-performing loans are frequently allocated non-accrual status.

**Nostro Account**

A foreign currency current account maintained with another Bank, usually but not necessarily a foreign correspondent Bank. At the other Bank, the deposit is called a nostro account.

**O****Objective Evidence**

Information based on facts that can be proved through analysis, measurement, observation and other such means of research.

**Off-Balance Sheet Transactions**

Transactions not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

**P****Position**

The netted total commitments in a given currency or interest rate. A position can be either flat or square (no exposure), long (more currency bought than sold overbought) or short (more currency sold than bought oversold).

**Prime Rate**

The interest rate which a Bank charges its most credit worthy corporate customers.

**Promissory Note**

An unconditional promise in writing made by one person to another, signed by the promisor, engaging to pay on demand or at a fixed or determinable future time a fixed sum to or to the order of, a specified person or to bearer.

**R****Related Parties**

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

**Repo**

Jargon for sale and repurchase agreement.

**Reserve Assets**

Assets of a financial institution which form part of its reserve requirements with the Central Bank.

**Reverse Repo**

The opposite of a repo, i.e. a purchase and resale agreement.

**Revolving Credit**

A line credit that has terms permitting successive drawings and payments at the borrower's discretion. The funds available to the borrower are replenished by any repayments of principal.

**Risk-Weighted Assets**

On Balance Sheet assets and the credit equivalent of Off-Balance Sheet assets multiplied by the relevant risk weighting factors.

**S****Securitisation**

This involves the transfer of a block of income producing assets to a vehicle company that finances the purchase through the issue of debt (usually notes of commercial paper).

**Segmental Analysis**

Analysis of financial information by segments of an enterprise specifically, the different geographical areas in which it operates.

**Segment Reporting**

Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealings, property and insurance.

**Settlement Date**

The date on which a securities transaction is completed by actual exchange of securities for cash.

**Short Position**

An excess of liabilities (and/or forward sale contracts) over assets (and/or forward purchase contracts). A dealer's position when the net of purchases and sales leaves a net sold or oversold position.

**Subsidiary Company**

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

**Suspense Account**

An account used to record items temporarily which are held subject to clarification and transfer to the appropriate account.

**Syndication Loan**

A loan arrangement in which a number of banks, in a form of joint venture, provides funds which they would individually be unwilling or unable to provide. Syndications are used for customers whose scale of financing is too great for any single Bank to accommodate without distorting its loan portfolio.

**T****Time Deposit**

An interest bearing deposit account which is subject to withdrawal only after a fixed term.

**Tier I Capital****(Common Equity Tier I – CET I)**

Common Equity Tier I (CET I) is a component of Tier I Capital that consists mostly of stated capital. It is a capital measure that was introduced as precautionary measure to protect the economy from a financial crisis.

**Tier I Capital****(Additional Tier I Capital – AT I)**

Additional Tier I Capital (AT I) is a component of Tier I Capital that comprises securities that are subordinated to most subordinated debt, which have no maturity, and their dividends can be cancelled at any time.

**Tier II Capital**

Capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

**Total Capital**

Is the sum of Tier I capital and Tier II capital.

**Trading Financial Assets and Liabilities**

A financial asset or financial liability is classified as held-for-trading if it is: (a) Acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (b) Part of a portfolio of identified financial instruments that are managed together for which there is evidence of a recent actual pattern of short-term profit-taking; or (c) A derivative (except for a derivative that is designated and effective hedging instrument).

**Transaction Costs**

Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

**Treasury Bonds (T-Bond)**

A long-dated security issued by the Central Bank of Sri Lanka. T-Bonds carry a coupon rate of interest.

**V****Value Added**

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital to Government by way of taxes and retained for expression and growth.

**Value at Risk (VAR)**

A risk management methodology that estimates the potential loss arising from adverse movement in market interest or exchange rates over a defined holding period.

**Vostro Account**

A local currency current account maintained with a Bank by another Bank (compare with Nostro account).

**Y****Yield Curve**

A graph showing market interest rates as a function of maturity. Normally, the yield curve is upward sloping: interest rates increase with the term of the instrument.







# CORPORATE INFORMATION

## Name of the Bank

People's Bank

## Legal Status

A licensed commercial bank under the Banking Act No. 30 of 1988 incorporated as a commercial bank by People's Bank Act No. 29 of 1961.

## Head Office (Registered Office)

No. 75, Sir Chittampalam  
A. Gardiner Mawatha,  
Colombo 02, Sri Lanka.  
Tel. : +9411 232 7841 (6 Lines),  
+9411 244 6316 (4 Lines),  
+9411 248 1481  
Email : info@peoplesbank.lk  
Web : www.peoplesbank.lk  
VAT Registration No. 409000037-7000

## Auditors

Auditor General  
Auditor General's Department,  
No. 306/72, Polduwa Road,  
Battaramulla, Sri Lanka.

Ernst & Young  
Chartered Accountants,  
201, De Saram Place,  
P.O. Box 101,  
Colombo 10, Sri Lanka.

## Board Secretary

Mr. Rohan Pathirage, LLB,  
MMgt. in Banking, Attorney-at-Law

## Corporate Banking Division

People's Bank, 11th Floor,  
Head Office Building,  
No. 75, Sir Chittampalam  
A. Gardiner Mawatha,  
Colombo 02, Sri Lanka.  
Tel : +9411 232 7841-6, + 9411 244 6316-9,  
+9411 248 1481  
Fax : +9411 232 9575, +9411 244 6410  
Email : cbdunit1@peoplesbank.lk,  
smcc3@peoplesbank.lk

## Offshore Banking Unit

People's Bank, 11th Floor,  
Head Office Building,  
No. 75, Sir Chittampalam  
A. Gardiner Mawatha,  
Colombo 02, Sri Lanka.  
Tel : +9411 220 6745-7, +9411 220 6725  
Fax : +9411 247 0303  
Email : fcbu@peoplesbank.lk  
SWIFT : PSBKLKX

## International Banking Division

ACHC Building,  
No. 91, Sir Chittampalam  
A. Gardiner Mawatha,  
Colombo 02, Sri Lanka.  
Tel : +9411 243 7239-41, + 9411 232 0651-6  
Fax : +9411 244 8067  
E-mail : cbdadmin@peoplesbank.lk  
SWIFT : PSBKLKX

## Overseas Customer Services

No. 59, D.R. Wijewardena Mawatha,  
Colombo 10, Sri Lanka.  
Tel. : +9411 233 2746, +9411 233 4278,  
+9411 244 6409  
Email : fastcash@peoplesbank.lk  
nrfc@peoplesbank.lk,  
teletran@peoplesbank.lk  
SWIFT : PSBKLKX

## People's Card Centre

2nd Floor, No. 1161,  
Maradana Road, PLC Building,  
Colombo 08, Sri Lanka.  
Tel : +9411 249 0490  
Fax : +9411 216 9023  
Email : card@peoplesbank.lk

## Subsidiaries of People's Bank

### People's Travels (Pvt) Ltd.

No. 59, D.R. Wijewardena Mawatha,  
Colombo 10, Sri Lanka.  
Tel. : +9411 247 0190, +9411 247 8385,  
+9411 239 6296  
Fax : +9411 243 4530  
Email : ptravel@peoplesbank.lk  
Web : www.peoplestravels.com

### People's Leasing and Finance PLC

No. 1161, Maradana Road, Borella,  
Colombo 08, Sri Lanka.  
Tel : +9411 263 1631  
Fax : +9411 263 1000

## People's Merchant Finance PLC

No. 21, Nawam Mawatha,  
Colombo 02, Sri Lanka.  
Tel. : +9411 230 0191-4  
Fax : +9411 230 0190

## Sub-Subsidiaries of People's Bank (Subsidiaries of People's Leasing and Finance PLC)

### People's Insurance PLC

No. 53, Dharmapala Mawatha,  
Colombo 03, Sri Lanka.  
Tel : +9411 220 6406  
Fax : +9411 220 6399

### People's Leasing Property Development Ltd.

No. 1161, Maradana Road, Borella,  
Colombo 08, Sri Lanka.  
Tel : +9411 263 1631  
Fax : +9411 263 1000

### People's Leasing Fleet Management Ltd.

No. 1161, Maradana Road, Borella,  
Colombo 08, Sri Lanka.  
Tel : +9411 263 1631  
Fax : +9411 263 1000

### People's Microfinance Ltd.

No. 1161, Maradana Road, Borella,  
Colombo 08, Sri Lanka.  
Tel : +9411 263 1631  
Fax : +9411 263 1000

### People's Leasing Havelock Properties Ltd.

No. 1161, Maradana Road, Borella,  
Colombo 08, Sri Lanka.  
Tel : +9411 263 1631  
Fax : +9411 263 1000

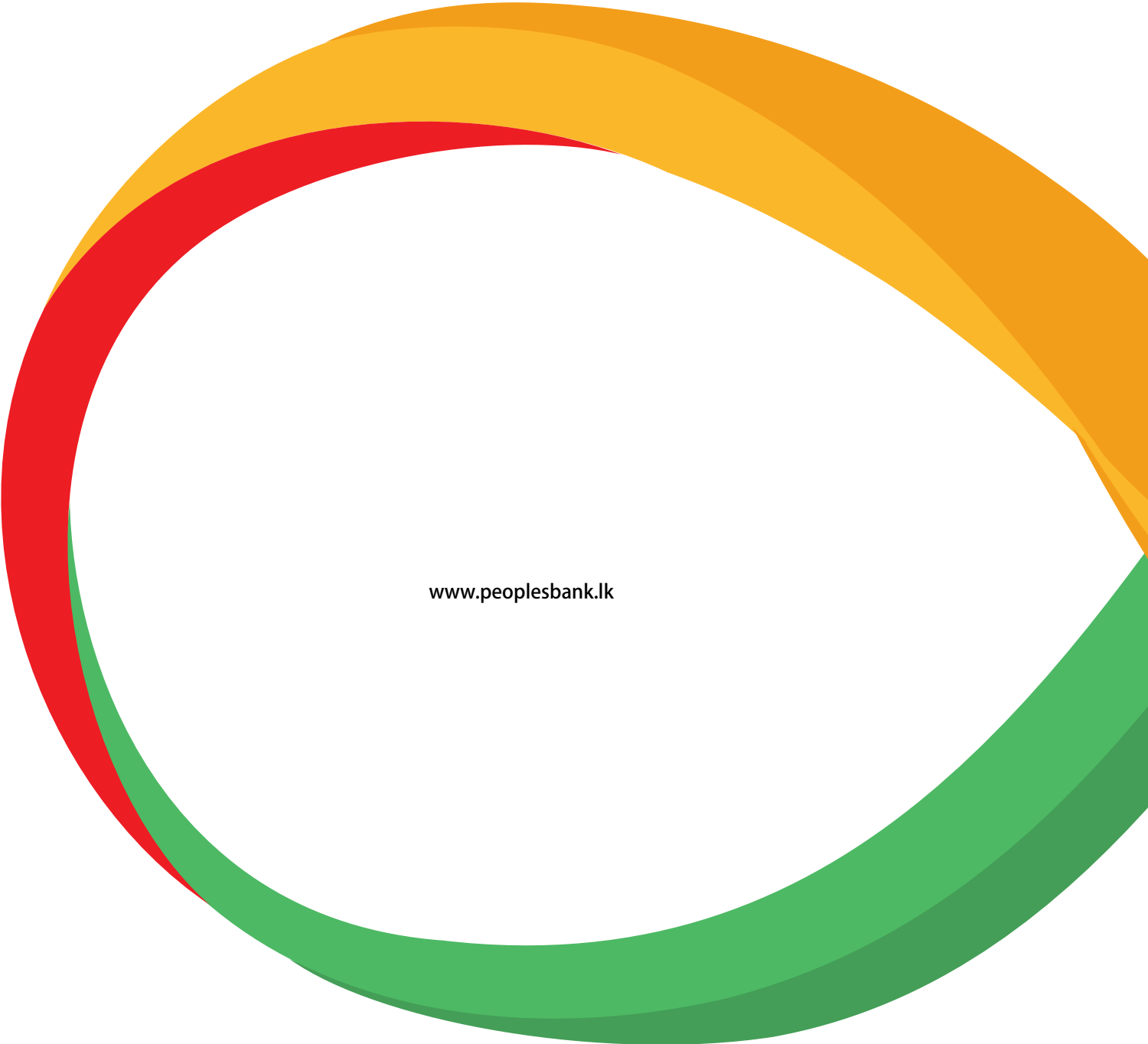


## This Annual Report is Carbon Neutral

Produced by Smart Media (Pvt) Limited, a carbon neutral company that offsets its direct and indirect GHG emissions, including those resulting from the usage of paper and outsourced printing through verified sources.

## This is an Integrated Annual Report

Prepared using the Smart Integrated Reporting Methodology™ of Smart Media The Annual Report Company, this report captures the essence of the IIRC <IR> Framework and the GRI Standards.



[www.peoplesbank.lk](http://www.peoplesbank.lk)



**PEOPLE'S  
BANK**

The Bank of the People