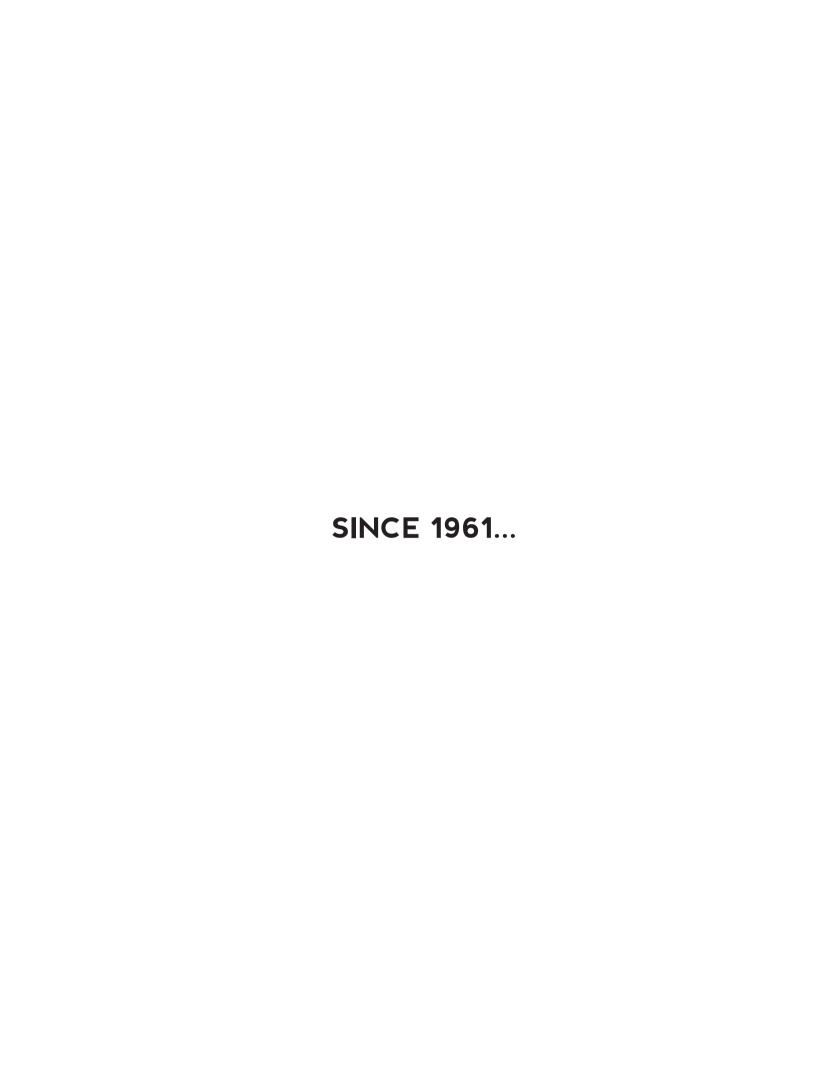
OUR UNRELENTING PURSUIT OF CONSISTENT VALUE... FOR THE PEOPLE

PEOPLE'S BANK

ANNUAL REPORT 2016



OUR UNRELENTING PURSUIT OF CONSISTENT VALUE... FOR THE PEOPLE

"Ours is an unrelenting pursuit of strategy and action that has as its ultimate goal, the delivery of value added financial propositions for our people and the Nation. Our key aspirations in this pursuit are:

- To constantly and consistently deliver value added propositions to all stakeholders.
- To constantly and consistently contribute to the growth of our country and the national economy.
- To constantly and consciously raise the bar of performance and excellence.
- To continuously enhance our systems, processes and technologies to better serve the people.
- To constantly seek to evolve and improve in meeting the ever changing needs of our valued clients and the wider stakeholder community.

And ... most importantly... to be the foremost financial institution in Sri Lanka."



ABOUT OUR INTEGRATED REPORT

The People's Bank Group's approach to sustainable value creation and the role we play as a Bank in society is aligned to the fundamental principles of integrated reporting. As our primary report to stakeholders, this Report provides a balanced, holistic and accurate assessment of our strategy, performance and outlook in relation to our material financial, social and environmental goals. Material matters, which are defined as issues that could substantially affect our ability to create value over the short, medium and long-term form the anchor of the Report's contents and have been carefully structured to provide the relevant information in the most meaningful manner.

The Group follows an annual reporting cycle and this report covers the Group's operations from the 1st January to the 31st December 2016. The most recent report is for the year ending 31st December 2015. The Group's parent entity, People's Bank and its Subsidiary People's Leasing and Finance PLC collectively account for 99% of the Group's profits and assets. The reporting boundary is as follows; the human capital and environmental information presented in the narrative report reflects only what is relevant to the Bank while customer and infrastructure related information includes those of People's Leasing and Finance PLC. All three of the Bank's subsidiaries, People's Leasing and Finance PLC, People's Merchant Finance PLC and People's Travels (Pvt) Ltd. are consolidated in the Group's Financial Statements.

REPORTING PRINCIPLES

The Financial Statements have been prepared in accordance with the Sri Lanka Accounting Standards and comply with the requirements of the People's Bank Act No. 29 of 1961, Banking Act No. 30 of 1988. Preparation of the Integrated Report was guided by the principles of the <IR>Framework, published by the International Integrated Reporting Council in December 2013. Our sustainability reporting is informed by the Global Reporting Initiative (GRI) G4 criteria 'In Accordance-Core' option and the Financial Services sector disclosures. The section on Corporate Governance (pages 28 to 53) describes how the Bank complies with the Code of Best Practice on Corporate Governance issued by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka as well as the Banking Act Direction No.11 of 2007.

ASSURANCE

The Group obtains internal and external assurance on various aspects of its business including elements of its corporate reporting as demonstrated below:

Element

Combined Assurance

Financial Statements

Board of Directors, Auditor General, Messrs KPMG, Sri Lanka

Sustainability Reporting

Messrs Ernst & Young, Sri Lanka

Corporate Governance

Auditor General

Internal Controls

Board of Directors, Auditor General

FEEDBACK

Through our reporting, we strive to build a platform which facilitates inclusive and meaningful engagement with our stakeholders. We therefore value your suggestions, comments and questions on our Report; please direct any feedback to:

Management Information Department,

People's Bank,

No. 75, Sir Chittampalam A. Gardiner Mawatha,

Colombo 02.

Tel: +9411 2327841, +9411 2446316,

+9411 2481481

E-mail: info@peoplesbank.lk Web: www.peoplesbank.lk

PRIMARY CONCEPTS

Material Issues

In selecting and prioritising the information to be included in this Report, we have applied the principle of materiality; accordingly we have focused on the issues that can materially impact the Group's ability to create value in the short, medium and long-term. (refer page 82)

Six Capitals

Our ability to deliver stakeholder value is dependent on the Group's six capital inputs and its value creating activities. In this Report, we have demonstrated how the six capitals are leveraged to create sustainable value to our stakeholders.

Value Creation

Value is created when the six capitals are input and altered during the Group's value creation process. This includes a series of wide-ranging activities, interactions and relationships.

4		27		75	
About the Group		Corporate Governance and Risk Management		Our Model and the Ultimate Value Creative Process	9
A Brief Introduction	5	Corporate Governance	28	How We Create Value	76
Who Are We?	6	Board Subcommittee Reports	48	Tion Tro Growing Value	
Financial and Non-Financial Highlights	8	Board Audit Committee (BAC) Report	48		
Chairman's Review Chief Executive Officer/	10	Board Human Resources and Remunerations Committee (BHRRC) Report	48		
General Manager's Review Our Leadership	12 15	Board Integrated Risk Management Committee (BIRMC) Report	49		
Board of Directors	15	Board Executive Credit	49	00	
Corporate Management	18	Committee (BECC) Report	49	88	
Executive Management	24	Board Nomination Committee (BNC) Report	50	Our Value Proposition	
		Board Investment Banking Committee (BIBC) Report	50		
		Board Information Technology Committee (BITC) Report	50	Delivering Strategy through Our Business Lines	89
		Directors' Statement on Internal Controls	51	Creating Value to Our Capital Inputs	109
		Auditor General's Assurance Report on Internal Control	53		
		Managing Risk	54		
139		147		233	
Our Milestones and		Financial Reports		Other Information	
Events of the Year Our Milestones	140	Directors' Responsibilities for Financial Reporting	148	Income Statement US \$	234
Events of the Year	144	Auditor General's Report on Financial Statements	149	Statement of Financial Position US \$	235
		Income Statement	151	Performance Review 2007 – 2016	236
		Statement of Profit or Loss and Other Comprehensive Income	152	External Assurance on Sustainability Report	238
		Statement of Financial Position	153	GRI Content Index	
		Statement of Changes in Equity – Bank	154	'In Accordance' Option: Core Glossary of Financial/	239
		Statement of Changes in Equity – Group	156	Banking Terms Corporate Information	Inner Back
		Statement of Cash Flows	158		Cover
		Notes to the Financial Statements	159		

ABOUT THE GROUP

- **5** A BRIEF INTRODUCTION
- 6 WHO ARE WE?
- 8 FINANCIAL AND NON-FINANCIAL HIGHLIGHTS
- 10 CHAIRMAN'S REVIEW
- 12 CHIEF EXECUTIVE OFFICER/GENERAL MANAGER'S REVIEW
- **15** OUR LEADERSHIP

The People's Bank Group is one of Sri Lanka's most economically and socially impactful entities, serving nearly 18 million customers island-wide which represents the highest level of penetration and customer reach.

A BRIEF INTRODUCTION

The People's Bank Group is amongst Sri Lanka's most economically and socially impactful entities and an integral component of the country's financial system. A financial powerhouse, the Group serves nearly 18 million customers island-wide, representing the highest level of penetration and customer reach by any bank in the country. It operators the country's largest financial services network, with on-the-ground presence in 852 locations. People's Bank, the Group's parent entity, is the country's second largest licensed commercial bank. People's Leasing Finance PLC, a subsidiary, is the undisputed market leader in the country's non-banking financial sector.

Established through the People's Bank Act No. 29 of 1961, the Bank was created with the objective of delivering banking services to the grassroots of the economy. Through a rich history spanning over five decades the Bank has played a critical role in empowering communities and partnering the socio economic progress of millions of people through providing access to capital, opportunities for investment and transactional banking services.

A highly motivated team of over 10,471 individuals is the driving force behind the Group's success and we continue to leverage on their talent and expertise in expanding our value creation. The Group's extensive geographical reach has enabled it to generate employment opportunities in economically underprivileged areas, with nearly 60% of the workforce hired from outside the Western Province. The Bank, along with its non-banking sector subsidiary is a frequent recipient of international and local awards, a testimony to its commercial viability and social relevance. As a state-owned institution and a key lender to the Government, the People's Bank Group is strongly committed to the Government's development agenda and ensures that the outcomes of its activities are a catalyst for the country's socio economic progress.

ORGANISATIONAL STRUCTURE

The People's Bank Group comprises the Bank, two licensed finance companies (People's Leasing Finance PLC and People's Merchant Finance PLC) and People's Travels (Pvt) Ltd. The Bank is the largest contributor to the Group close to 90% of assets and 85% of earnings whilst People's Leasing Finance PLC accounts for the remaining.

	Our Clients	Our Products and Services	Highlights			
People's Bank	Individuals, micro	Consumer banking	Assets: Rs. 1,302,048 million			
	enterprises, small and medium	Wholesale banking	Deposits: Rs. 1,077,812 million			
	sized businesses, corporates and the	Enterprise banking	Net profit: Rs. 14,995 million			
	Government	International banking	Headcount: 8,249			
People's Leasing & Finance PLC	Individuals, micro enterprises, small	Leasing and hire purchase	Assets: Rs. 159,085 million			
	and medium businesses	Micro finance	Deposits: Rs .42,414 million			
		Deposits	Net profit: Rs. 4,507 million			
		Loans	Headcount: 2,073			
People's Merchant	Individuals, micro enterprises, small	Leasing and hire purchase	Assets: Rs. 3,499 million			
Finance PLC	and medium	Deposits	Deposits: Rs. 2,533 million			
	businesses	Trade finance	Headcount: 122			
People's Travels	Individuals,	Inbound travel	Revenue: Rs. 48 million			
	corporates	Outbound travel	Net profit: Rs. 13.4 million			
		Destination management	Headcount: 27			

OUR GROUP SCALE

TOTAL ASSETS

RS. 1.44 TRILLION

DEPOSITS

RS. 1.12 TRILLION

CUSTOMER ADVANCES

RS. 1.01 TRILLION

"387th largest in Asia"

The **Only** financial services group to achieve two trillion rupee feats in a single year"

OUR BRANCH NETWORK

737

"Industry's largest"

OUR CUSTOMER ACCOUNT PORTFOLIO

RS. 17.9 MILLION

"Industry's largest"

OUR WORKFORCE

8,249 permanent cadre alone

"Industry's largest"

OUR INCOME/PROFIT GENERATION CAPABILITY - 2016

RS. 144.7 BILLION

PRE-TAX PROFIT

RS. 25.4 BILLION

"Our all time high"

OUR RETURN ON EQUITY

CONSOLIDATED 22.7%

27.5%

"Ranked 18th in Asia amongst the 500 largest banks by the Asian Banker magazine in their 2016 publication"

OUR GROSS NON-PERFORMING LOANS RATIO

1.9%

"our ten year low"

OUR PRIMARY CONTRIBUTION
TO THE NATION

Total in taxes, special levies and dividends

RS. 22.9 BILLION

"Amongst the highest contributors to our National Government takes total paid over the last ten years to Rs. 117.6 billion"

FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

		Bank			Group		
	2016	2015	% Change	2016	2015	% Change	
Operating Performance (Rs. billion)							
Interest Income	110.0	92.5	18.9	129.7	110.4	17.5	
Net Interest Income	43.1	43.8	-1.4	53.6	54.3	-1.4	
Gross Income	122.1	103.6	17.8	144.7	123.8	16.9	
Operating Profit Before VAT	26.2	25.4	3.4	31.6	30.5	3.6	
Profit Before Tax	20.8	19.5	6.6	25.4	24.1	5.4	
Taxation	5.8	6.9	-15.9	7.5	9.1	-17.4	
Profit After Tax	15.0	12.6	19.0	18.0	15.1	19.2	
Dividends Paid to GOSL	8.2	3.2	154.7	8.2	3.2	154.7	
Retained Profit	6.8	9.4	-27.6	9.8	11.8	-17.7	
Financial Position (Rs. billion)							
Total Assets	1,302.0	1,176.6	10.7	1,444.4	1,294.7	11.6	
Gross Loans and Receivables	950.8	829.2	14.7	1,076.4	933.3	15.3	
Total Deposits	1,077.8	899.2	19.9	1,119.8	932.9	20.0	
Shareholders' Funds	59.6	49.5	20.5	85.2	72.8	17.0	
Performance Ratios (%)							
Return on Average Assets (before tax)	1.7	1.8	-	1.9	2.0	-	
Return on Equity	27.5	27.1	_	22.7	22.0	-	
Cost to Income Ratio	59.9	57.5	_	60.8	56.7	_	
Non-Performing Loans Ratio	1.9	2.4	_	1.7	2.4	_	
Provision Coverage	110.4	98.3	_	110.1	97.0	_	
Statutory Liquidity Ratio – DBU	21.7	25.9	_				
OBU	22.5	21.7	_				
Loans to Deposits Ratio	88.2	92.2	_	96.1	100.0	-	
Core Capital Ratio	9.8	9.9	_	11.1	11.5	-	
Total Capital Ratio	12.1	12.5	_	13.0	13.8	-	
Shareholder Ratios (Rs.)							
Earnings per Share	14,995	12,598	19.0	16,722	13,898	20.3	
Net Asset Value per Share	59,649	49,495	20.5	85,191	72,801	17.0	

NON-FINANCIAL HIGHLIGHTS

CUSTOMER VALUE Online & Mobile No. of Interest Banking Transaction Volumes **ATMs Customer Accounts** Paid 506 17.9 2016 2016 66,846 2016 8.6 48,732 492 16.7 5.6 2015 2015 2015 2015 7.2% CHANGE **37.2%** CHANGE **53.2%** 2.8% CHANGE CHANGE

EMPLOYEE VALUE							
No. of Employees	Payments to Employees	Investment in Training	Profit per Employee				
8,249 2015 8,368	2016 17,475 2015 17,056	2016 71 2015 66	2016 1.8 2015 1.5				
-1.4%	(Rs. million) CHANGE 2.5%	(Rs. million) CHANGE 7.6%	(Rs. million) CHANGE 20.7%				

NATIONAL CONTRIBUTION						
Taxes, Special Levy and Dividends Paid to the Government		Loans Granted to Underserved Areas				
2016	20,553	2016	92,382			
2015	16,834	2015	67,888			
CHANGE	(Rs. million) 22.1%	CHANGE	(Rs. million) 36.1%			

BUS	INESS PARTNERS	
Payments to Suppliers		
2016	8,5	88
2015	7,1	61
CHANGE	(Rs. n	nillion) 9%

	COMMUNITY	
Investment in C	Corporate	
Social Respons		
2016		40.3
2015		39.0
CHANGE		(Rs. million) 3.3%



"For your Institution, it was yet another year of new milestones and 'all time highs' – thanks to the unrelenting drive on the part of our employees to constantly and very diligently push the boundaries of success and performance even amidst challenging circumstances"

Dear Stakeholder,

It is with great pleasure that I place before you the Annual Report of People's Bank and its subsidiaries (hereinafter 'the Group') for the financial year ended 31st December 2016.

From a macro context, 2016 was a year of challenge. Amongst others, it was a year that witnessed inflationary pressures, monetary policy tightening, policy rates revise upwards and value added tax increase towards the latter part of the year all of which individually and in aggregate led to pressures on growth and earnings. Notwithstanding, for your Institution, it was yet another year of new milestones and 'all time highs' - thanks to the unrelenting drive on the part of our employees to constantly and very diligently push the boundaries of success and performance even amidst challenging circumstances. Its 2016 delivery remains best described as:

- a. a capacity to achieve two trillion rupee feats in a single year - a first for any bank
- a capacity to expand gross income by close to 17% and net profits by over 19% in a less conducive market environment
- a capacity to expand customer accounts to close to 18 million the highest for any bank. In this context, it is with great pride I, report that during 2016 your Group mobilised a further net Rs. 187 billion in customer deposits representing a 20% growth over 2015 the highest for any bank. Needless to say, on a standalone basis, this is the ultimate *prima facie* evidence of our high and growing brand value for trust, stability and strength
- d. a capacity to consistently deliver a return on equity in excess of 20% to shareholders year on year without exception since 2010 which has also been the industry benchmark since 2014. To be ranked as 18th amongst the 500 largest institutions by the Asian Banker Magazine in their 2016 publication simply puts this in a regional context

e. a capacity to contribute a total of
Rs. 22.9 billion to our National
Government in the form of taxes,
special levy and dividends - which is
the highest paid by your institution in
its fifty-five year operating history and
also amongst the highest paid by any
institution across any industry sector or
subsector. This takes the total paid by
the Group over the last ten years to
Rs. 117.6 billion

In this context, it is worthwhile pointing out that - unlike most - People's Bank's responsibilities are two-fold - one to assist our Government to realise its national objects at every instance so possible and second to help our diverse group of customers of varying demographic, economic and social composition and their businesses of varying scale and scope to grow and prosper. Moreover, these accomplishments have been attained without the benefit of any new capital over the last eight years due to a limitation imposed by our Act - which the Ministry of Public Enterprises Development is now in the process of amending. The recent Cabinet approval received in this connection is viewed as highly positive which, once approved by the Parliament, will give us more flexibility to raise new capital and issue debentures.

Looking ahead, several initiatives, which form an integral part of our 2016-2020 Corporate plan, are now in process and which are anticipated to propel us into a new era of service delivery capabilities. Core to them all is digitisation - an initiative, which commenced in 2015. Backed by a technology of global repute, and a team unlike any other, this will put us on par with our international counterparts in terms of customer convenience offerings. This is expected to be fully operational by end-2017.

On behalf of the Board of Directors, I extend our heartfelt appreciation to all our stakeholders. Foremost, our customers for their trust and confidence - who are undoubtedly our biggest strength, the Honourable Minister Kabir Hashim and the Honourable Deputy Minister Eran Wickramaratne for their unstinted support and expeditious assistance in all matters central to the Bank's attainment of goals, the Honourable Minister of Finance Ravi Karunanayake and the entire team at the Ministry of Finance and the Central Bank of Sri Lanka - for their wise counsel on all matters of a regulatory nature. To our counterparty banks and other stakeholders. thank you for being with us on this journey. The best is yet to come. Importantly, to our CEO/GM Mr. N. Vasantha Kumar and his entire team - well done! These successes are the culminated end results of all the hard work and commitment of all our employees - both past and present!

Hemasiri Fernando

Chairman

14th March 2017

CHIEF EXECUTIVE OFFICER/ GENERAL MANAGER'S REVIEW



"2016 was a year of new highs and one that witnessed continued positive improvements across several aspects of business operations both quantitative and qualitative"

THE BUSINESS LANDSCAPE

From a global perspective, 2016 was a year that witnessed subdued economic growth estimated at around 3.5% and significant political events such as the Brexit and US elections, which individually and collectively has the potential to reshape the future of global trade and economic growth of nations. Geopolitical tensions increased during the period with many countries debating policy options and their respective humanitarian, economic and social consequences thus exacerbating concerns in respect to outlook on globalisation and growth.

Sri Lanka achieved modest growth in 2016 with GDP up by an estimated 4.4%. This, in part, limited by inclement weather conditions, disastrous floods and the drought that affected agricultural activities. Moreover, exports declined as external demand remained in the doldrums and imports marginally increased as policies were implemented to curtail growth.

Tourism gathered momentum and worker remittances showed some moderate growth strengthening foreign currency inflows. The exchange rate remained relatively stable. Inflationary pressures were inevitable resulting in tightened monetary policy including policy rate revisions. In early 2016, CBSL increased the statutory reserve requirement to 7.5% from 6.0% with the object of curtailing consumption based lending. This was later followed by two policy rate revisions - resulting in an upward movement of interest rates by over 2.0%. VAT on financial services was increased with effect from 2nd November 2016 to 15% - all of which ultimately culminating into increased pressure on earnings and retentions.

YOUR INSTITUTION'S PERFORMANCE

Despite the macro economic challenges, I am very pleased to report that 2016 was a year of new highs for your Institution and one that witnessed continued positive improvements across several aspects of business operations both quantitative and qualitative. Select highlights are set out below:

Total customer deposits cross Rs. 1 trillion mark

During the year, total group customer deposits grew by 20% to reach Rs. 1,120.0 billion at 31st December 2016 as compared with Rs. 932.9 billion at 31st December 2015. In this context, it must be noted that, a total Rs. 187.1 billion in new deposits were mobilised during the period - making it the highest in the Industry during the period. This attests to our capability and a strong customer franchise supported by the largest customer base in the sector and high levels of brand recognition, an extensive network of branches and dedication on the part of our employees who constantly push the boundaries to deliver extraordinary results. Consequently, our 5-year deposit mobilisation growth rate amounts to almost 15%, which compares favourably with the industry.

Total group advances cross Rs. 1 trillion mark, composition of loan book improves; gross NPLs reach a ten year low

Total group advances grew 16.6% to reach Rs. 1.0 trillion in 2016 of which broadly 90% was on a Bank solo basis. Noteworthy improvements in the overall composition of our Bank level loan portfolio are set-out below:

- a. State exposures reduced to 35.6% of at year ends as compared with 45.3% at end-2015. State sector gross NPL's continued remain minimal at 0.03% (end-2015: 0.03%).
- b. Pawning exposures continue to be the product of controlled growth up by 10.1% and accounting for 12.0% of portfolio (2015: 12.5%). This is the result of a conscious portfolio management strategy to maintain pawning exposures at these levels, reducing it from almost 30% during the peak of the gold crises in 2013. Moreover, pawning NPL's have been consistently brought down to a negligible 0.2% as compared with 1.0% in 2015 and 7.8% in 2013. These

- initiatives have all been undertaken whilst maintaining the Institutions' product leadership status in pawning which plays a key role in providing access to finance for micro entrepreneurs and less affluent individuals.
- c. Overall gross NPL ratio reduced to 1.9% at end-2016 as compared with 2.4% at end-2015, 3.2% at end-2014 and 5.3% at end-2013. This attests to not only the consistent positive improvements effected over the last three years in a challenging market environment but also efforts continuing on an ongoing basis to push these indicators to the maximum extent reasonably possible and within reasonable control. It must be also noted that this is also the Bank's lowest over the last ten (10) years.

Consolidated gross income and post tax profits up 16.9% and 19.2%, respectively – set new 'highs'

During the year, total gross income reached Rs. 144.7 billion – representing a growth of 16.9% over Rs. 123.8 billion in 2015 while consolidated post tax profit amounted to Rs. 18.0 billion – representing a 19.2% growth over Rs. 15.1 billion in the year prior. Return on equity was yet another industry benchmark 22.7% on a Group basis and 27.5% on Bank standalone basis (2015: 22.0% and 27.1%, respectively).

Net surpluses recorded across all aspects of investment operations

As at end-2016, available-for-sale reserves was a positive Rs. 0.3 billion – reflecting net surpluses across all aspects of investment operations (end-2015: Rs. 0.4 billion).

DIGITISATION – REDEFINING OUR FUTURE AND SHAPING THE ENTIRE BANKING INDUSTRY

Digitisation is at the core of our strategic plan 2016-2020 embodying our persistent drive for scalability and growth, desire to offer world class conveniences for the benefit of all our customers and our endeavour to attain ultimate operational

excellence. This was an initiative which commenced at People's Bank in 2015 when it was a subject matter of least discussion. As the pioneer of channel convergence in Sri Lanka, we are currently in the process of consolidating our ATM, CDM and kiosk network(s) with the aim of also facilitating services to our peer institutions and their customers through a common platform. By end-2017, we reasonably expect to have in place over 1,000 new ATMs, CDMs and kiosks fully operational.

FUTURE OUTLOOK

Market conditions may continue to be volatile in the coming year as global events and policy stances of key economies gradually unfold. From a national perspective, the June 2016 agreement between the Government of Sri Lanka and the IMF for an Extended Fund Facility is viewed positively which will not only help bolster our foreign reserves but also help re-instill confidence of global investors as a more sustainable fiscal and monetary policy framework is put in place.

Government endeavours to counter the ballooned budget deficit and efforts made to prevent an overheating of the economy are all factors which augur well for stronger fundamentals as we look ahead.

On institution specific matters, the recent cabinet approval to amend the People's Bank Act is a big plus as it will offer us better flexibility for recapitalisation and the issuance of new debentures – including for the purposes of bolstering our regulatory capital levels as and when needed.

APPRECIATION

On behalf of Team People's Bank, I extend my sincerest appreciation to all our customers for their trust and confidence in our efforts! A big thank you to our Chairman Mr. Hemasiri Fernando for his invaluable advice at all times in navigating through the many challenges, the Board of Directors for their unstinted support and insight, to our supervisors, the Ministry of Public Enterprise Development and the Government Treasury for their guidance and to the Central Bank of Sri Lanka for their counsel on all matters of a regulatory nature. To our family of staff members, thank you! These are the end results of your tireless efforts!

Not complacent with our successes, and fully conscious of the challenges that may lie ahead, we look to the future with a great degree of optimism with the knowledge of knowing we are now a step closer to realising our end vision of being the foremost financial services provider for all our People and their valued businesses".

N. Vasantha Kumar

Chief Executive Officer/General Manager

14th March 2017

OUR LEADERSHIP

BOARD OF DIRECTORS



1

Mr. Hemasiri Fernando Chairman

Possessing diverse experience in varied genres, his debut into the public sector was as Secretary to the Prime Minister. He later chaired Sri Lanka Telecom, Airport and Aviation Services and Telecom Services and has served as Secretary to the Ministry of Postal Services among other postings. His input as the longest serving President of the National Olympic Committee and in international office including as Vice-President of the Olympic Council of Asia and Commonwealth Games Federation, in addition to representing Sri Lanka in rifle shooting as national champion, makes him the apt choice as Presidential Advisor on Sports to Sri Lanka. With a B.A. (Econ) from the University of Colombo, Associateship in the Institute of Travel and Tourism UK (A INST TT) and Fellowship of the British Institute of Management (FBIM), he is also the Honorary Consul for the Kyrgyz Republic in Sri Lanka. His tenure in the Sri Lanka Navy (Volunteer Force) from which he retired with the rank of Commander having served in combat areas, deserves special mention. His association with Sri Lanka Railways led to the penning of two books, The Viceroy Special based on the steam locomotive he created for tourism in Sri Lanka and The Uva Railway. He has been conferred with the OCA Award of Merit by the Olympic Council of Asia and the ANOC Award of Merit by the Association of National Olympic Committees.

Mr. Jehan P. Amarathunga 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) Ltd. He is also the Chairman of People's Insurance Ltd. He counts over 25 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

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, MBA from the Postgraduate Institute of Management, Sri Lanka, 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 on the Board of the NDB Bank until March 2015. As at now, she represents the Treasury on the Board of the People's Bank, Sri Lanka Telecom 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 an M.A. 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.

5

Mr. Krish Rajendran

Director

Mr. Krish Rajendran was appointed to the Directorate of the People's Bank in April, 2015. He counts 36 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 and also a member of the British Institute of Management. Presently he is the Group Finance Director of DMS Group of Companies.

Mr. Rajendran was the Rotary District Governor in the year 2000/2001, and a Council Member of CIMA.

Mr. T.D. Anton S. Hemantha Director

Mr. Anton Hemantha is an entrepreneur. He is the owner and Chairman of Selmo Private Ltd., a plastics film extruding, printing and laminate manufacturing company, since 1983. He was a member of the Board of the International Christian Chamber of Commerce (ICCC) based in Orebro, Sweden and the Asian Regional Director of ICCC. Currently, he is the President of the ALFPM, the Lamination Packaging Chamber in Sri Lanka and the former Chairman of the Packaging Cluster of the EDB.

7

Mr. M.H. Jamaldeen

Director

He is a financial professional with over 16 years of experience and a Fellow of the Association of Certified Chartered Accountants, UK. He holds a Degree in Engineering and Business from the University of Warwick, UK. He currently serves as a Director of Steradian Capital Investments (Pvt) Ltd., responsible for financing, corporate structures, acquisitions and development. He is also an Independent Non-Executive Director of Hayleys PLC and a Director of Haycarb PLC and Talawakelle Plantation PLC. He is an Executive Director at the following Real Estate Development Companies, HJAW International (Pvt) Ltd., Thudella Holdings (Pvt) Ltd., Hardy James (Pvt) Ltd., Baseline Holdings (Pvt) Ltd., Dutch Bay Holdings (Pvt) Ltd., Crown Resort (Pvt) Ltd., Mulberry Holdings (Pvt) Ltd., Almond Trees (Pvt) Ltd. and Alexandra Holdings (Pvt) Ltd. He is also a Director of Summer Season Ltd., Summer Season Residencies Ltd., Suntan Beach Resort (Pvt) Ltd. and Ferrutti (Pvt) Ltd.

Dr. Aminda M. Perera

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 Jayewardenepura and has obtained a B.Sc. (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 degree 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.) Ltd. 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 with effect from 2nd November 2015.

9 Mr. Chinthaka S. Lokuhetti Director

Mr. Chinthaka S. Lokuhetti has over 27 years of extensive experience in public administration and academia and currently serves as the Secretary to the Ministry of Industry & Commerce. Commencing his academic career as a lecturer at the University of Colombo and subsequently at the University of Ruhuna, he entered the Sri Lanka Administrative Service in 1990 holding several key positions including Divisional Secretary, Senior Consultant (SLIDA), Commissioner of Probation & Child care (Southern Province), Secretary of Provincial Ministries for a range of ministries and Director General of the Ministry of Finance. He has also published widely on a range of subjects and represented Sri Lanka in numerous international workshops and programmes. Mr. Lokuhetti holds a B.Sc. (Hons) Degree, an MBA from the University of Birmingham, UK and an M.Phil. in Solid State Physics. He is also a recipient of the Master Trainer Award on Leadership, Governance, Strategic Management and Marketing and was also recognised as the best Divisional Secretary of the Galle District in 1997.

CORPORATE MANAGEMENT



Mr. N. Vasantha Kumar Chief Executive Officer/General Manager

Mr. N. Vasantha Kumar holds a Master's Degree in Business Administration and a 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 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, the National Payment Council and Lanka Financial Services Bureau Ltd. 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. Deepal Abeysekera
Head of Marketing and Research

Mr. Deepal Abeysekera – Head of Marketing and Research of People's Bank is better known for his capabilities in strategic business development and brand building in financial Services Industry.

He has been responsible for setting up sales, marketing and strategic business development operations in financial sector organisations and has successfully lead corporate brands to top positions in their respective industries in brand value and market leadership.

The prestigious 'Brand Champion of the Year' and 'Brand Leadership Award' were conferred on him by Sri Lanka Institute of Marketing and the World Brand Congress in recognition of his distinctive achievements.

He is a Chartered Marketer and a Fellow of the Chartered Institute of Marketing, (UK), a Member of the Chartered Management Institute (CMI) (UK) and a Member of the Institute of Certified Management Accountants (CMA).

He also holds a MBA from the University of Southern Queensland, (Australia). He is a past President of the Board of Management of The Management Club (TMC) and a Past President of the Association of Professional Bankers (Sri Lanka), and Country Advisory Council Member – Global Marketing Network (UK).



Ms. Chandani Werapitiya
Deputy General Manager –
Strategic Planning
and Performance Management

Ms. Chandani Werapitiya is in charge of Strategic Planning and Performance Management of the Bank for the period 2016-2020.

She holds a B.Sc. in Business Administration (Hons.) with a Second Class Upper and a M.Sc. (Management) from the University of Sri Jayewardenepura and holds Fellowship in Banking (FIB) in Sri Lanka.

She joined the Bank in June 1987 as a Management Trainee. She has been working in the Bank for nearly 30 years in a wide spectrum of fields ranging from corporate and institutional banking, international banking, customer services, SME/project lending, branch operations, credit management and in the Strategic Planning and Research Department. She did research activities, conducted Annual Research Conference, headed the Pulse Magazine being in the editorial board. She has been appointed to revamp the research activities of the Bank in order to streamline research and strategic planning activities. She contributes to the banking industry as Researcher, Lecturer and a Professional Banker.

She is an Alternate Director to the Governing Board of the Institute of Bankers' of Sri Lanka (IBSL) and a Board Member of the International Chamber of Commerce of Sri Lanka (ICCSL) and a Member of the Women's Chamber of Industry and Commerce (WCIC). She was a Director of the Regional Development Bank (RDB) and was a Board Member of the Interim Committee of the Sri Lanka Handicraft Board (SLHB).

Mr. Rajapakse is in-charge to the Development and Micro Finance, SME, and Commercial Credit Departments of the Bank. He joined the Bank in 1987 as a Management Trainee and counts 30 years of experience in the People's Bank.

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

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 Deputy General Manager (Enterprise 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.



Mr. K.B. Rajapakse
Deputy General Manager –
Enterprise Banking

Mr. Samaraweera is the Head of Human Resources. He joined the Bank as a Management Trainee and possesses over 29 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 B.Sc. Second Class Upper Degree in Management from the University of Sri Jayewardenepura and also he is an Associate Member of the Institute of Bankers, Sri Lanka.

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



Mr. S.A.R.S. Samaraweera Deputy General Manager – Human Resources

Mr. Pathirage 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 PLC, People's Fleet Management Ltd., People's Property Development Ltd., and People's Travel's (Pvt) Ltd. He has over 22 years of experience in the Bank.



Mr. Rohan Pathirage
Deputy General Manager –
Secretary to the Board of Directors

Ms. Arsacularatne joined the Bank's service as a Senior Finance Officer, and counts over 31 years of service in the Bank.

She is an Associate Member of the Chartered Institute of Management Accountants (UK) for the past 35 years. She is a Chartered Global Management Accountant, a Fellow Member of the Institute of Certified Management Accountants (Sri Lanka) and a Licentiate of The Institute of Chartered Accountants of Sri Lanka. She is an Attorney-at-Law and holds a Commonwealth Executive Master of Business Administration Degree and a Bachelor of Laws Degree from the Open University of Sri Lanka.

She has gained wide experience in the fields of Management/ Financial Accounting, Management Information, Logistics and Administration. She has had over eight years of professional work experience prior to joining the Bank. Having started her career at the Ceylon Ceramics Corporation as a Trainee Accountant, she served at the Ceylon Fisheries Corporation and Agrarian Research and Training Institute as an Accountant and in the State Engineering Corporation as a Special Grade Accountant.



Ms. M.S. Arsacularatne
Deputy General Manager – Compliance



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 29 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 (Cooperative 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 B.Com. 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 23 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.



Mr. M.A. Bonniface Silva
Deputy General Manager –
Channel Management

Mr. Silva joined the Bank in 1987 and accounts for over 29 years of deep-rooted knowledge and experience in branch business banking.

He currently is responsible for managing the Bank's 'industry leading' branch network of 737 – spread through-out the country. In addition, he oversees all operational activities in branches and relating to its 500-plus supplementary network composed of ATMs, CDMs and Kiosks.

Mr. Silva's experience encompasses managing branch business banking at all levels starting from Branch Manager, to Regional Manager, to Zonal Assistant General Manager to his current role of being Deputy General Manager – Channel Management.

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



Mr. B.M. Premanath
Deputy General Manager –
Banking Support Services

Mr. B.M. Premanath counts over 29 years of service at People's Bank. He joined the Bank in 1987 as a Management Trainee and has served the Bank as a manager in several branches. Then he served as Assistant Regional Manager and as Regional Manager respectively. He became an Assistant General Manager in the Central Zone. Now he is serving as Deputy General Manager (Banking Support Services).

He holds a 2nd Upper Degree in B.Com. 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. Rasitha Gunawardana counts over 29 years of service at People's Bank. He joined the Bank as a Senior Finance Officer in 1987.

He has gained experience covering areas of Finance, Performance Management, Corporate & 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 & hotels, plantation management and construction.

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



Mr. G.B.R.P. Gunawardana Deputy General Manager – Risk Management

Mr. Lionel Galagedara is in-charge of Retail Banking Division of the Bank. He joined the Bank as a Management Trainee and counts over 28 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 B.Com. (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. Lionel Galagedara
Deputy General Manager – Retail Banking

Mr. Edirisinghe joined the Bank on 2nd February 2015 as the Head of Information Technology. He holds a Bachelor of Commerce (Major in Information Systems) and Master of Commerce Degree from the 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 Ltd., Singapore as a 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 Ltd., Australia, Clarity International Ltd., Singapore and Sri Lanka Telecom PLC.



Mr. P.S.A. Edirisinghe
Head of Information Technology

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 and Offshore-Banking activities.

He holds a B.Sc. (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.



Mr. Sunil Wanniarachchi Deputy General Manager – Recoveries



Mr. W.K.S.B. Nandana Chief Law Officer

Mr. W.K.S.B. Nandana is an Attorney-at-Law and also holds a LL.B. Degree from the University of Colombo. He counts over 38 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

Mrs. 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 (FCMA) – Sri Lanka. She also holds a Masters Degree in Business Administration (MBA) from the University of Western Sydney (Australia) and a Masters 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 34 years of banking experience in a wide spectrum of areas covering 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 23 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 (Honors) from the 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 School of Colombo. She was also a Lecturer at the Faculty of Law and Department of Graduate Studies, University of Colombo.

Mr. Ahamat joined People's Bank on 3rd January 2017. He has over 15 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 across respective market spaces. He benefits from being a Member of the Chartered Institute of Securities & Investment (UK), Chartered Institute of Management Accountants (UK), Association of Chartered Certified Accountants (UK), Certified Practicing Accountants (AUST.), Institute of Risk Management (UK) and Chartered Institute of Credit Management (UK).



Mr. Azzam A. Ahamat Head of Finance

Mr. Janitha Priyashantha is a Fellow Member of 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 B. Com. 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 Accountants Service and has served in many Government Departments as an Accountant until he joined 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.



Mr. E.A.D.J. Priyashantha Chief Internal Auditor

EXECUTIVE MANAGEMENT



Ms. S.W.A.D.S. Kalyani Assistant General Manager Retail Banking



Mr. H.C. FernandoAssistant General Manager
Treasury Back Office



Ms. P.R. Madurawala Assistant General Manager Audit



Ms. N.C. Mudalige Assistant General Manager Channel Management



Ms. V.K. Narangoda Assistant General Manager Corporate Banking I



Mr. R. Ranathunga Assistant General Manager Channel Management – Range II



Ms. A.S. Liyanarachchi Assistant General Manager Credit Control



Ms. D.Y.S. Mendis Assistant General Manager Marketing & Public Affairs



Mr. P.R.S. Jayatissa Assistant General Manager Human Resources – Administration



Ms. P.S.J. Kurukulasooriya Assistant General Manager Human Resource Development



Mr. R.M.A.K. Bandara
Assistant General Manager
(Released on Trade Union Activities)



Ms. K.N. Senaratne
Assistant General Manager
Credit Unit II – Corporate Banking Division



Mr. T.D. De Z. Gunawardena Assistant General Manager Investigation & Inquiries



Ms. G.M.R.P. Wijerathna Deputy Head of Treasury



Mr. I.D.S.S. IllukkumburaAssistant General Manager
Retail Banking



Ms. U.S. Gerty Assistant General Manager Credit



Mr. A.S.M.V. Kumarasiri Assistant General Manager Trade Finance



Mr. L. WithanaAssistant General Manager
Enterprise Banking



Mr. S.N.B.M.W. Narayana Assistant General Manager Small & Medium Enterprises



Ms. N.R. Wijayaratne
Assistant General Manager
Overseas Customer Services &
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



Ms. P.A.K. Pathirana
Assistant General Manager
Finance & Accounting



Mr. K.J. Wijewardena Assistant General Manager – Cards



Ms. R.P.N. Premalal Deputy Head of Finance



Ms. H.L.S.S. Senanayake Assistant General Manager Compliance



Mr. A. Dissanayake
Head of Infrastructure & Operations



Ms. M.B.A.K.B. Mudduwa Assistant General Manager Channel Management (Temporary)



Mr. A.U.L.A. Anzar Assistant General Manager Channel Management



Mr. K.A. Nihal Acting Assistant General Manager

CORPORATE GOVERNANCE AND RISK MANAGEMENT

	CORPORATE GOVERNANCE
	BOARD SUBCOMMITTEE REPORTS
DIRECTORS' ST	TATEMENT ON INTERNAL CONTROLS
AUDITOR GENERAL'S ASSURAN	CE REPORT ON INTERNAL CONTROL
	MANAGING RISK

People's Bank is committed to upholding the highest standards of integrity, transparency and accountability in all aspects of its operations. We consistently strive to ensure that the Bank's governance structures, policy frameworks and procedures are effective and relevant in our dynamic and complex operating environment.

CORPORATE GOVERNANCE

The Board of Directors as the main decision-making body of the Bank, is committed to upholding high standards of corporate governance, a *sine qua non* for delivering long-term value to stakeholders, particularly in a regulated industry.

Adherence to sound corporate governance principles facilitates maintaining a balance between stakeholder interest and promotes transparency, equity and accountability. As we operate in a dynamic environment, it is critical that the governance structures,

policies and processes evolve ensuring that they are sufficiently robust to ensure compliance with approved policies and regulations whilst retaining sufficient flexibility to promote innovation and growth to deliver sustainable value.

Voluntary **Corporate Governance** Regulatory **Framework** Framework Code Organisation Structure People's Bank Act No. 29 of 1961 and amendments Code of Conduct Banking Act No. 30 of 1988 and Board of Charter amendments Policy Framework Central Bank of Sri Lanka Directions **Delegation of Authority** Exchange Control Act No. 24 of 1953 Financial Transactions Reporting Act No. 6 of 2006 Prevention of Money Laundering Act No. 5 of 2006 Other Acts relating to banking industry

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 51 and 52 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.

We have used the structure of the Code of Best Practice in Corporate Governance to communicate the governance¹ structures in place at People's Bank.



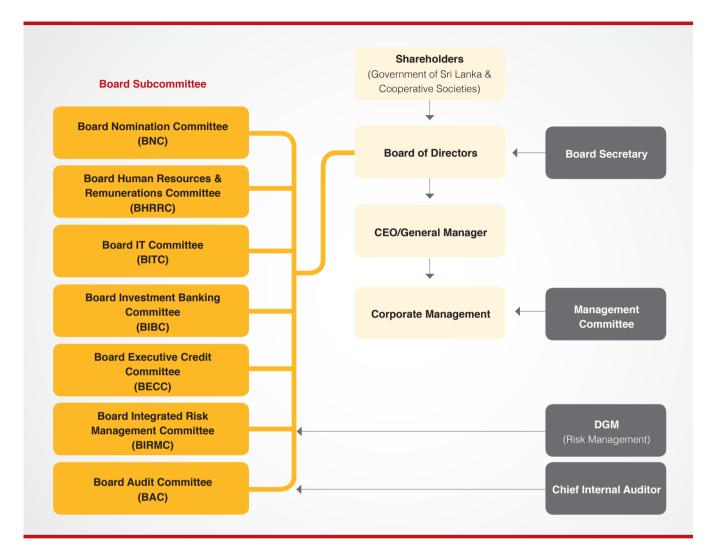
AN EFFECTIVE BOARD (PRINCIPLE A.1)

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 16 and 17. They are collectively responsible for setting the strategic direction for the Bank and setting in place a suitable governance structure, policies and processes to facilitate achievement of strategic goals.

The Board is also responsible for monitoring progress towards strategic goals and has oversight responsibility of the Corporate Management Team who are responsible for implementation of strategy.

^{1.} Code of Best Practice in Corporate Governance jointly issued by the Securities & Exchange Commission and the Institute of Chartered Accountants of Sri Lanka

GOVERNANCE STRUCTURE



The Chief Executive Officer/General Manager heads the executive function and reports to the Board on progress against strategic goals. He is assisted by an experienced Corporate Management comprising experienced professionals who are experts in their respective fields. Management Committees play a key role in the Organisation structure facilitating shared responsibility for specific function as listed on page 31.

The Board Subcommittee functions are summarised below:

Composition	Oversight Responsibility
Three Non-Executive Directors CEO/General Manager	Policy formulation Manpower planning Approve recruitment, employee benefits, service extensions and corporate and Executive Management employment contracts
Three Non-Executive DirectorsCEO/General ManagerDGM (Risk Management)	 Risk Management Policy formulation in line with regulatory requirements and industry best practice Determining Bank's Risk Appetite Monitoring risk indicators and action taken to manage risk
Three Non-Executive Directors CEO/General Manager attends on invitation	Implement procedure to select/appoint CEO/General Manager and senior management personnel Set selection criteria for appointments or promotions to the above positions Review requirements for additional/new expertise
 Two Non-Executive Directors CEO/General Manager DGM (Risk Management) Head of Treasury and Investment Banking attends on invitation 	 Provide guidance and review performance of the Investment Banking Unit (IBU) Regularly review investment banking model, share trading limits, new investment products, approval of stock brokers, trading platforms and IT system
Two Non-Executive Directors	Formulate strategies to overcome challenges and competition and provide policy directions to drive the Bank's Information Technology strategy
Three Non-Executive Directors DGM (Risk Management), DGM (Compliance) and Chief Internal Auditor attends on invitation	Review financial reporting processes and policies Identify operational risks Communicate and encourage best practices and positive quality assurance throughout the branch network
Three Non-Executive Directors CEO/General Manager DGM (Risk Management)	Formulate and periodically review the credit policy Authorise credit facilities over and above the delegated limits of specified categories
	Three Non-Executive Directors CEO/General Manager Three Non-Executive Directors CEO/General Manager DGM (Risk Management) Three Non-Executive Directors CEO/General Manager attends on invitation Two Non-Executive Directors CEO/General Manager DGM (Risk Management) Head of Treasury and Investment Banking attends on invitation Two Non-Executive Directors Three Non-Executive Directors Three Non-Executive Directors DGM (Risk Management), DGM (Compliance) and Chief Internal Auditor attends on invitation Three Non-Executive Directors CEO/General Manager

Further, the Board has established Management Committees, consisting of Key Management Personnel to facilitate better understanding, healthy discussion and debate and informed decision-making on matters considered significant for the operations of the Bank.

Management Committees	Composition	Purpose and Tasks
Corporate Management Committee	Corporate Management	Make key decisions which do not cover by other management committees.
Asset and Liability Committee (ALCO)	CEO/General Manager, DGMs of Enterprise Banking, Treasury and Investment Banking, Risk Management, Retail Banking, Recoveries, International Banking, Digitaisation Corporate Banking and FCBU and Head of Finance.	Optimises the Bank's economic goals whilst maintaining liquidity and managing exposure to market risk within the Bank's predetermined risk appetite.
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.
Executive Credit Committee (ECC)	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.
IT Steering Committee	All DGMs, CM and above from IT Department, Unit Heads on invitation	To review the progress of IT initiatives/ management highlights.
Procurement Committee	Deputy General Managers of human resources, business support services, enterprise banking, compliance, risk management, channel management, recoveries, international banking, process management and quality assurance, Head of Finance and Chief Law Officer. Assistant General Managers of compliance, retail banking and marketing.	Procurement of goods and services.
DGM Committee on Property Valuation and Evaluation	A retied Government Chief Valuer and two DGMs	To decide the forced sale value acceptable to the Bank against property valued and report submitted by external valuer and internal officer in the Bank in order to minimise security risk.
Investment Committee – Primary Dealer Unit	Head of Treasury and Investment Banking Unit, Deputy Head of Primary Dealer Unit and a Dealer	Management and decision-making with regard to Treasury Bills, Treasury Bonds and relevant portfolios.
Investment Committee – FX Desk	Head of Treasury and Investment Banking Unit, Chief Manager – FX and a Dealer	Management and decision-making with regard to SLDB's and relevant portfolios.
Investment Committee – Investment Banking Unit	Head of Treasury and Investment Banking Unit, Investment Analyst and a dealer	Management and decision-making with regard to the equity and debt portfolio of Investment Banking Unit.

REGULAR MEETINGS (PRINCIPLE A.1.1)

Number of Board Meetings and Board Subcommittee Meetings held during the year 2016

	No. of Meetings
Board Meetings	14
Board Audit Committee (BAC)	5
Board Human Resource and Remuneration Committee (BHRRC)	7
Board Integrated Risk Management Committee (BIRMC)	3
Board Executive Credit Committee (BECC)	12
Board Nomination Committee (BNC)	5
Board Investment Banking Committee (BIBC)	3

Attendance at Board Meetings and Board Subcommittee Meetings during the year 2016

	Board Meetings	Board Audit Committee (BAC)	Board Human Resources and Remuneration Committee (BHRRC)	Board Integrated Risk Management Committee (BIRMC)	Board Executive Credit Committee (BECC)	Board Nomination Committee (BNC)	Board Investment Banking Committee (BIBC)
Mr. Hemasiri Fernando	14/14	N/M	7/7	N/M	N/M	5/5	N/M
Mr. Jehan P. Amaratunga	13/14	5/5	N/M	3/3	N/M	5/5	3/3
Ms. G.D.C. Ekanayake	12/14	5/5	N/M	3/3	N/M	5/5	3/3
Mr. Felician Perera	13/14	N/M	3/7	1/3	N/M	N/M	N/M
Mr. Krish Rajendran	7/8	N/M	N/M	N/M	5/5	N/M	N/M
Dr. Aminda Perera	11/14	N/M	N/M	2/3	N/M	N/M	N/M
Mr. M.H. Jamaldeen	9/14	3/5	N/M	N/M	N/M	N/M	N/M
Mr. Anton Hemantha	12/14	N/M	7/7	N/M	12/12	N/M	N/M
Mr. T.M.K.B. Tennakoon**	10/13				12/12	***************************************	

^{*} N/M - Not a Member of the Board Subcommittee.

2016 BOARD HIGHLIGHTS

- Review and approval of Strategic Plan 2016-2020
- Reviewing and approving policy and structural changes under the Strategic plan 2016-2020
- Digitisation and upgrading the information technology systems at the Bank in accordance with the IT strategy under the Strategic Plan

Board Responsibilities (Principle A.1.2)

The Directors' responsibilities include:

- Providing strategic direction to create long-term value for stakeholders
- Setting in place a robust governance structure and an appropriate policy framework to guide the management in implementing business strategy
- Setting in place and 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, co-ordinated through the Board Secretary, if the need arises. The Board also obtains independent professional advice collectively to ensure statutory compliance.

^{**} Resigned on 31st December 2016.

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:

- Co-ordinating matters pertaining to the conduct of Board meetings and Subcommittee meetings.
- Conduct of proceedings in accordance with the People's Bank Act and relevant legislation.
- Facilitating adoption of best practice on corporate governance including assisting Directors with respect to their duties and responsibilities, in compliance with relevant legislation and best practice.
- Acting as 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 Judgment (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 judgment 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)

Year plan containing Board and Board Subcommittee meetings for the subsequent year is approved by the Board in the month of December each year to ensure maximum participation.

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 to review the same and call 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, they have attended training sessions on regulations, financial reporting and internal controls. They also attended the seminars conducted by Sri Lanka Institute of Directors during the year under review and Director Forums organised by the 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. 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 that views of Directors on issues under consideration are ascertained, 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. Appointment of a Senior Independent Director is not necessary

as the roles of the Chairman and Chief Executive Officer are segregated.

Supply of Relevant Information (Principle A.6)

Board papers and other documents required for the Board meeting are circulated to Directors seven days before 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 in 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 ten 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 Co-operatives. For the year under the review, the Bank was under the purview of the Ministry 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 with regards to Directors are disclosed within this Annual Report as follows:

- Name, qualifications, expertise, material business interests, key appointments and brief profiles on pages 16 to 17.
- Membership of Subcommittees on page 31.
- Attendance at Board meetings and Subcommittee meeting on page 32.
- Related Party Transactions on pages 211 to 214.

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 at the beginning of 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 (Principle B.1, B.2 and 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. Remuneration is linked to corporate and individual performance and is designed to attract, retain and motivate high performing, qualified and experienced employees in the Bank.

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 48. The aggregate remuneration paid to the (Non-Executive) Directors is given on page 178.

Relations with Shareholders (Principle C.1 and 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 Public Enterprise Development. The Board liaises with the Ministry to ensure that there is alignment with the socioeconomic development goals of the country.

The Annual Report is printed in English, Sinhala and Tamil and is circulated through the Ministry of Public Enterprise Development 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 46 to the Financial Statements on Related Party Disclosures on pages 211 to 214.

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 Public Enterprise Development, 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 148 includes a statement setting out the responsibilities of the Board for the preparation and presentation of Financial Statements.
- Independent Auditors Report on pages 149 to 150 includes a statement of their responsibilities.
- Directors' Statement on Internal Control on pages 51 to 52.
- Management Discussion and Analysis on pages 75 to 138.
- Statement of going concern of the Company is set out in item page 148 in the Statement of Directors' Responsibility.
- Related Party Transactions are disclosed on pages 211 to 214 in Note 46 in the Financial Statements.

Internal Control and Audit Committee (Principle 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 formulating and appropriate and adequate internal Control Systems to safeguard Bank assets, while BIRMC assists the Board in discharge of its duties with regard to risk management. Their roles and responsibilities are provided in the Committee Report given on pages 48 to 49 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 54 to
74. 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 audit
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 other to 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
the Schedule I of the Code of Best Practice
on Corporate Governance.

This Corporate Governance Report from page 28 to 53, 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)

As 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 111 to 113.

Principle 2 – Environment – Impact on Environment on pages 136 to 138.

Principle 3 – Labour Practices – Human Capital on pages 115 to 123.

Principle 4 – Society – Social Impact on pages 124 to 134.

Principle 5 – Product Responsibility – Social and Network Capital: Customer on pages 124 to 134.

Principle 6 – Stakeholder identification, engagement and effective communication – Stakeholder Engagement on pages 80 to 81.

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	on Principle Compliance & Implementation			
3.1	Responsibilities of the	the Board		
3.1 (i)	The Board has strength	nened the safety and the soundness of the Bank in the following manner:		
a.	Setting strategic objectives and corporate values	Complied with The Bank's strategic objectives and corporate values are determined by the Board and are given on pages 83 to 85. 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 February 2015. Goals and objectives have been communicated to all levels of staff through budgets, structured meetings and quarterly performance review meetings.		
		Corporate values are included in the Code of Business Conduct and Ethics which is provided in hard copy to all employees.		
b.	Approval of overall Business Strategy including Risk Policy and Management	Complied with The Board provided direction and guidance for preparation of the five-year Corporate Strategic Plan from 2016-2020. The Plan was prepared in collaboration with MTI Consultants and in consultation with the Corporate Management team. It was subsequently approved by the Board in February 2015.		
		The Corporate 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.		
		Governance and Compliance which are embedded in the Risk Management Policy Framework have also been included in the strategic plan. Measurable goals have been set against time lines and performance measured against these goals.		
C.	Risk management	Complied with 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:		
		Risk Management Report on pages 54 to 74.Integrated Risk Management Committee Report on pages 49.		
d.	Communication with all stakeholders	Complied with The Board has approved and implemented a Communication Policy covering all stakeholders:		
		 Shareholders – 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. 		
		 Customers – The Bank communicates with customers through newspapers, website and leaflets apart from specific correspondence. Accordingly, Bank communicate interest rates, exchange rates and information regarding the 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 all branches. 		
		• Staff – Employees have regular access to management to discuss their concerns. A regular dialogue takes place between representatives of employee trade unions and the management.		
e.	Internal Control System and Management Information Systems	Complied with 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 Committee has subsequently reviewed Management responses to findings raised in these reports, during the year.		
f.	Key Management Personnel (KMP)	KMPs are defined in the International Accounting Standards and the Sri Lanka Accounting Standards, who significantly influence policy, direct activities and exercise control over business activities, operations and risk management. All appointments of designated KMP are recommended by the Board Nomination Committee and approved by the Board.		
		Key Management Personnel include: Board of Directors, CEO/General Manager, Senior Deputy General Manager (Wholesale Banking), Deputy General Manager (Risk Management), Deputy General Manager (Channel Management), Deputy General Manager (Compliance), Deputy General Manager (Enterprise Banking), Head of IT and Head of Finance.		

Section	Section Principle Compliance & Implementation					
g.	Define areas of authority and Key authority and Key Responsibilities for Directors and KMP The People's Bank Act clearly defines the matters specifically reserved for Board, areas of authority and key responsibilities for members of the Corporate Materials are stated in their respective job descriptions.					
h.	Oversight of affairs of the Bank by KMP	Complied with 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 2016 will be carried out in April 2017. The Code of Best Practice on Corporate Governance of the Bank includes of the provisions on management on conflicts of interest of the Directors which needs to be further strengthened.				
j.	Succession plan for KMP	Complied with A new succession plan for Key Management Personnel with named successors and 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/General Manager, DGMs, AGMs and Grade 1 officers.				
k.	Regular meetings with KMP	Complied with 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.				
I.	Regulatory environment and maintaining an effective relationship with regulator	Complied with On appointment, the Directors/Board is furnished with all applicable regulatory requirements. They are also briefed about 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.				
		Compliance Reports submitted to CBSL on a quarterly basis are presented to the Board and monitored closely by the Board. Further, all Board members attend the Director forums arranged by the CBSL, developing relationships with the industry regulator.				
m.	Hiring External Auditors	Complied with As provided for in the constitution of the country, the Auditor General is the External Auditor for the Bank as it is a State-Owned Enterprise.				
		According to Section 34 (1) of People's Bank Act No. 29 of 1961 the Auditor General may employee the service of any qualified Auditor or Auditors who shall act under his direction and control.				
3.1 (ii)	Appointment of Chairman and CEO/ General Manager and defining and approving their	Complied with The People's Bank Act separates the positions of the Chairman and the CEO/General Manager to maintain a balance of power. Functions and responsibilities of the Chairman and the CEO/General Manager are clearly defined and approved in line with Direction 3 (5) of these Directions:				
	functions and responsibilities	The Chairman has been appointed by the Minister in charge of the Subject, whilst the CEO/General Manager has been appointed by the Board.				
3.1 (iii)	Regular Board Meetings	Complied with Board meetings are held monthly while special meetings are scheduled on a needs basis. The Board has met 14 times for the year 2016. Directors actively participate in deliberating matters set before the Board. Attendance at Board and its Subcommittee meetings is given on page 32. Obtaining Board approval via circular resolutions is discouraged and done only on an exceptional basis. Resolutions are ratified by the Board at the subsequent meeting.				
3.1 (iv)	Arrangements for Directors to include proposals in the agenda	Complied with 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.				

Section	Principle	Compliance & Implementation				
3.1 (v)	Notice of Meetings	Complied with 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.				
3.1 (vi)	Directors' Attendance	Complied with Details of the Directors' attendance is given on page 32. No Director has been absent from three consecutive meetings.				
3.1 (vii)	Appointment and setting responsibilities of the Company Secretary	Complied with 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. He is responsible for the secretariat services to the Board and to carry out functions specified in the statutes and other regulations.				
3.1 (viii)	Directors access to advice and services of Company Secretary	Complied with 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.				
3.1 (ix)	Maintenance of Board Minutes	Complied with Board minutes are maintained by the Board Secretary and the Directors have access to the past Board Papers and Minutes.				
3.1 (x)	Minutes to be of sufficient detail and serve as a reference for regulators and supervisory authorities	Complied with The Minutes of the meetings include: (a) A summary of data and information used by the Board in its deliberations; (b) The matters considered by the Board; (c) The fact-finding discussions and the issues of contention or dissent; (d) The testimonies and confirmations of relevant executives with regard to the Board's strategies and policies and adherence to relevant laws and regulations; (e) Matters regarding the risks to which the Bank is exposed and an overview of the risk management measures including reports of the BIRMC; (f) The decisions and Board resolutions; and				
3.1 (xi)	Directors ability to seek independent	(g) Reports of all Board Subcommittees. Complied with There is provision for Directors to obtain independent professional advice in discharging their responsibilities when				
3.1 (xii)	Dealing with Conflicts of Interest	necessary, according to a procedure approved by the Board. This function is co-ordinated by the Board Secretary. Complied with Written declarations of Directors' interests are obtained at appointment and annually. Directors abstain from voting, approving or participating in the 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 16 to 17.				
3.1 (xiii)	Formal schedule of matters reserved for Board decision	Complied with 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	Complied with 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 and requirements under other prudential grounds throughout the year.				
3.1 (xvi)	Publish Corporate Governance Report in Annual Report	Complied with This Report forms part of the Corporate Governance Report of the Bank which is set out from pages 28 to 53.				
3.1 (xvii)	Self-Assessment of Directors	Complied with The Directors complete a self-assessment annually in April 2016. These records are maintained with the Secretary to the Board.				

Section	Principle	Compliance & Implementation			
3.2	The Boards Compositi	pards Composition			
3.2 (i)	Number of Directors	Complied with The Bank's Board comprise nine Directors in compliance with the People's Bank Act, which stipulates a maximum number of ten Directors. CBSL Governance direction requirement is for the number of Directors to be between 7 and 13.			
3.2 (ii)	Period of service of a Director	Complied with No Director has exceeded nine years of service as per CBSL requirement. Appointment of the Board of Directors is made as per the People's Bank Act No. 29 of 1961. All Directors were appointed by the Minister in charge of the subject during 2015 except for Mr. Jehan P. Amaratunga, who was first appointed in 2010 by Minister in charge of the subject.			
3.2 (iii)	Board Balance	Complied with There are no Executive Directors on the People's Bank Board.			
3.2 (iv)	Independent Non-Executive Directors	All the Directors are Non-Independent, Non-Executive. They are appointed by the Minister in charge of the subject, under the Section 8 of People's Bank Act No. 29 of 1961. The Directors do not hold a direct/indirect shareholding of the Bank. However, given their appointment by the Minister in charge of the subject, they are deemed representatives of the main shareholder and are designated as Non-Independent. At present there are nine Directors. Four Directors are considered as Independent Non-Executive Directors. As all			
		Directors are deemed Non-Independent due to appointment by the Minister in accordance with the People's Bank Act, this provision is not applicable.			
3.2 (v)	Alternate Independent Directors	There is no provision in the People's Bank Act to appoint alternative Director hence this provision is not applicable.			
3.2 (vi)	Criteria for Non-Executive Directors	All Directors are Non-Executive and appointed by the Minister in charge of the subject, under Section 8 of People's Bank Act No. 29 of 1961.			
3.2 (vii)	More than half the quorum to comprise Non-Executive Directors	Complied with All Directors are Non-Executive. According to the Code of Best Practice of the Bank the stipulated quorum is five.			
3.2 (viii)	Identify Independent Non-Executive Directors in communications and disclose categories of Directors in Annual Report	As all Directors are deemed Non-Independent due to appointment by the Minister in accordance with the People's Bank Act, this provision is not applicable. At present there are nine Directors. Four Directors are considered as Independent Non-Executive Directors. However, the composition of the Board including the names of the Chairman and Non-Executive Directors are given on page 32 of the Corporate Governance Report.			
3.2 (ix)	Formal and transparent procedure for appointments to the Board	Complied with 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. In 2015 and 2016, the Minister in charge of the subject was the Minister of Public Enterprise Development.			
3.2 (x)	Re-election of Directors filling casual vacancies	Not Applicable This does not arise since the Minister in charge of the subject appoints them.			
3.2 (xi)	Communication of reasons for removal or resignation of Director	Not Applicable The People's Bank Act Section 08, 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 of a Gazette. 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 obtains declarations from the Directors at the time of appointment as a Director of the Bank.			

Section	Principle	Compliance & Implementation				
3.3	Criteria to Assess Fitness and Propriety of Directors					
3.3 (i)	Age of Director should not exceed 70	Complied with 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	Complied with No Director holds directorships of more than 20 companies inclusive of Subsidiaries of the Bank.				
3.4	Management Functions Delegated by the Board					
3.4 (i)	Understand and study delegation arrangements	elegation				
3.4 (ii)	Extent of delegation should not hinder Board ability to discharge its functions	Complied with Delegation arrangements are reviewed and approved by the Board annually ensuring that it balances the business needs of the Bank whilst enabling the Board to discharge their functions effectively and is relevant to the operations of the Bank.				
3.4 (iii)	Review delegation arrangements periodically to ensure relevance to operations of the Bank					
3.5	The Chairman and Chief Executive Officer					
3.5 (i)	Separation of roles	Complied with The People's Bank Act provides for a clear separation of duties between the roles of the Chairman and the CEO/ General Manager, preventing unfettered powers for decision-making being vested with one person.				
3.5 (ii)	Non-Executive Chairman and appointment of a Senior Independent Directors	Complied with The Chairman is a Non-Executive Director but is not deemed Independent since he serves as a Chairman of Subsidiary with another Director of Bank.				
3.5 (iii)	Disclosure of identity of Chairman and CEO/ General Manager and	The identity of the Chairman and CEO/General Manager are disclosed in the Annual Report on page 16 and 18 respectively.				
	any relationships with the Board members	The Board receives declarations of interest annually and rely on these to identify any relationships between Board members and the CEO/General Manager.				
3.5 (iv)	Chairman to provide leadership to the Board	Complied with The Chairman provides leadership to the Board and ensures that the Board functions effectively in discharging its responsibilities and all key issues are deliberated in a timely manner.				
3.5 (v)	Responsibility for agenda lies with Chairman but may be delegated to Company Secretary	Complied with 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	Complied with Chairman ensures that the Board is adequately briefed and informed regarding the matters arising at Board. The following procedures are in place to ensure this: Board papers are circulated seven days prior to the Board meetings; Relevant members of the Management Team are on hand for explanations and clarifications; Management information is provided in agreed formats on a regular basis to enable Directors to assess the performance and stability of the Bank; and				
		 Directors are able to seek independent professional advice on a needs basis at the Bank's expense. 				

Directors

Section	Principle	iple Compliance & Implementation		
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. Findings of the process are put fourth to the Board for ratification.		
3.5 (viii)	Encourage participation of Non-Executive Directors and relationships between Non-Executive and Executive Directors	Complied with Bank's Board consists of all Non-Executive Directors.		
3.5 (ix)	Refrain from direct supervision of KMP and executive duties	The Chairman does not get involved in the supervision of KMP or any other executive duties.		
3.5 (x)	Ensure effective communication with shareholders	Complied with Effective communication is maintained with the Government of Sri Lanka who is the main shareholder. Reports are illed in a timely manner with the Ministry and are also subject to scrutiny by Parliament Committees.		
3.5 (xi)	CEO/General Manager functions as the apex executive in charge of the day-to-day operations	Complied with Day-to-day operations of the Bank are delegated to the CEO/General Manager.		
Board A	ppointed Committees			
3.6 (i)	Establishing Board Committees, their functions and reporting	Complied with Seven 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. Board Audit Committee on page 48 Board Nominations Committee on page 50 Board Integrated Risk Management Committee on page 49 Board Human Resources and Remuneration Committee on page 48 Board Executive Credit Committee on page 49 Board Investment Banking Committee on page 50 Board IT Committee on page 50		
3.6 (ii)	Audit Committee			
a.	Chairman to be an Independent Chairman of the Committee, Mr. Jehan P. Amaratunga is a Non-Independent Non-Executive Director. He is a 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 count over 25 years of experience in the fields of finance and management and the requisite skills and experience function effectively.			
b.	Committee to comprise solely of Non-Executive	Complied with Two members of BAC are Non-Independent, Non-Executive Directors and one member is Independent Non-Executive Director.		

Section	Principle	Compliance & Implementation	
C.	Audit Committee functions	Complied with The Audit Committee makes recommendations with regard to the following: (i) implementation of the CBSL guidelines issued to Auditors from time to time; (ii) the application of the relevant accounting standards. The Board evaluates the requirements consulting the Chief Internal Auditor and Head of Finance of relevant	
		accounting standards. 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. As such, the Committee has no role to play in the engagement of the External Auditor.	
d.	Review and monitor External Auditors' independence and objectivity and the effectiveness of the audit processes	Not applicable The Bank's Auditor being the Auditor General, his independence and effectiveness is guaranteed under the Constitution of Sri Lanka.	
e.	Provision of non-audit services by an External Auditor	nis is mentioned in the terms of Reference as the key functions of the Audit Committee regards to External Auditor. It was a since the Auditor General is the auditor of the Bank.	
f.	Determines scope of audit	he scope and extent of audit have been determined by the Auditor General.	
g.	Review financial information of the Bank	Complied with The Committee reviews the financial information of the Bank to monitor the integrity of the Financial Statements of the Bank, its 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:	
		(i) Major judgemental areas;	
		(ii) Any changes in accounting policies and practices;	
		(iii) Significant adjustments arising from the audit;	
		(iv) The going concern assumption; and	
		(v) The compliance with relevant accounting standards and other legal requirements.	
		The Audit Committee makes their recommendations to the Board on the above.	
h.	Discussions with External Auditor on interim and final audits	Complied with BAC discusses issues, problems and reservations arising from the interim and final audits with the representative of the Auditor General's present at the Committee meetings who assisted the Auditor General, in the year 2016.	
i.	Review of Management Letter and Bank's response	Not complied The Management Letter issued by the External Auditor's and Management's response thereto have not been reviewed by the Board Audit Committee.	
j.	Review of Internal Audit function	Complied with Appraisal of the performance of the head and senior staff members of the Internal Audit Department is generally carried out at the time of promotions/extension to service.	
		Outsourced services used by the internal audit function was approved by the Committee.	
		The Internal Audit function is independent according to the 'Terms of Reference' of BAC and Internal Audit Department reports directly to BAC.	
k.	Internal investigations	Complied with BAC has reviewed the major findings of internal investigations and management's responses thereto.	
l.	Attendees at Audit Committee meetings	The Chief Internal Auditor, Chief Risk Officer, Chief Financial Officer and representatives of the External Auditor appointed to assist the Auditor General, if any, and Auditor General's representative normally attend meetings. Other Board members and CEO/General Manager may also attend meetings upon the invitation of the Committee.	

Manager are being discussed

Section	Principle	Compliance & Implementation			
m.	Explicit authority, resources and access to information	Complied with Terms of Reference for BAC is set out in the Report of the Audit Committee on page 48. It includes: (i) Explicit authority to investigate into any matter within its terms of reference; (ii) The resources which it needs to do so; (iii) Full access to information; and (iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.			
n.	Regular meetings	Complied with BAC meets regularly on a quarterly basis. Five 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.			
0.	Disclosure in Annual Report	Complied with The Report of the Audit Committee on page 48 includes the following: (i) Details of the activities of the Audit Committee; and (ii) The number of Audit Committee meetings held in the year. Details of attendance of each individual Director at such meetings are given on page 32.			
p.	Maintain minutes of meetings	Complied with 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	Complied with The Whistle-Blower Policy of the People's Bank was approved by the 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. 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. BAC also acts as the key representative body for overseeing the Bank's relations with the Auditor General.			
Human l	Resources and Remunera	. <u> </u>			
3.6 (iii) (a)	Remuneration policy relating to Directors, CEO/ General Manager and Key Management Personnel of the Bank	Complied with The remuneration of the Board is decided according to guidelines set by the Ministry of Finance. The Remuneration of CEO/General Manager and DGMs is determined by the BHRRC/Board on the basis of the collective agreement. The CEO/General Manager attends all meetings of the committee, except when matters relating to him are being discussed. Also refer the BHRRC Report on page 48.			
(b)	Set Goals and targets for the Directors, CEO/ General Manager and the Key Management Personnel	Complied with Not applicable to Directors as they are all Non-Executive. Goals and targets for the CEO/General Manager and KMPs are set based on the Strategic Plan and linked to Key Performance Indicators.			
(c)	Evaluating the performance of the CEO/General Manager and Key Management Personnel	Complied with The Bank is in the process of developing a performance-based rewards scheme, under the Strategic Plan 2016-2020			
(d)	The CEO/General Manager shall be present at all meetings of the Committee, except when matters relating to the CEO/General	Complied with Terms of Reference of BHRRC 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.			

Section	Principle	Compliance & Implementation			
Nominat	ions Committee				
3.6 (iv) a.	Appointment of Directors, CEO/ General Manager and KMP	Directors are appointed by the Minister in charge of the subject as per provisions of the People's Bank Act.			
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/ General Manager	The CEO/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 & Proper persons	Annual 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 atter 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/General Manager 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.			
3.6 (v)	Integrated Risk Manage	ement Committee/Board Risk Management Committee			
a.	Composition of BIRMC	Complied with The Committee comprises three Non-Executive Directors, the CEO/General Manager, SDGM (Wholesale Banking), DGM (Risk Management).			
		Other KMPs who supervise credit, market, liquidity, operational, reputational and strategic risks are invited to attend the meeting on a regular basis.			
		The Committee works closely with KMP within the framework of authority and responsibility assigned to the Committee.			
b.	Risk Assessment	Complied with 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) is reviewed by the Risk Management Department on a monthly basis and a summary submitted for review by BIRMC on a quarterly basis, discharging its responsibilities as per the Terms of Reference.			
C.	Review of management level committees on risk	Complied with The Committee reviews reports of Asset and Liability Committee 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. However, if any exceptional situation arises, it is reviewed at the next Board meeting.			

Section Principle Compliance & Implementation					
d.	Corrective action to mitigate risks exceeding prudential levels	Complied with 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	Complied with 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 three times during 2016.			
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	Complied with Risk Assessment Reports submitted to the BIRMC are submitted to the Board meeting immediately following the committee meeting.			
h.	Compliance function	Complied with 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.			
3.7	Related Party Transac	ctions			
3.7 (i)	Avoid conflict of interest	A Board approved process is in place to ensure compliance with Related Party Transaction Directions. 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. The Bank is taking initiatives to further strengthen the monitoring mechanism.			
		Directors refrain from participating at meetings where lending to related parties are discussed and approved, in order to avoid any kind of influence.			
3.7 (ii)	Related party	Definitions of related party transactions for the Bank's purposes include:			
	transactions covered by direction	(a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation;			
		(b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments;			
		(c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank;(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.			
		The Bank has a process in which Related Party transactions are identified and reported. However, the Bank is in the process of further strengthening the monitoring mechanism in this regard.			

Annual Report

Section	Principle	Compliance & Implementation	
3.7 (iii)	Prohibited transactions	The Board approved process to ensure compliance with Related Party Transactions Directions, prohibits transactions which would grant related parties more favourable treatment than that accorded to other customers. These include the following:	
		(a) Granting of 'total net accommodation' to related parties, exceeding a prudent percentage of the Bank's regulatory capital;	
		(b) Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty;	
		(c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/ commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;	
		(d) Providing services to or receiving services from a related-party without an evaluation procedure;	
		(e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	
3.7 (iv)	Granting accommodation to a Director or close	Complied with 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	
	relation to a Director	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.	
3.7 (v)	Accommodations granted to persons,	No such situation has arisen in the Bank during the year 2016.	
	or concerns of persons, or close relations of persons,	Processes for compliance with this regulation is in place. The Board Secretary obtains declarations/affidavits from all Directors on appointment.	
	who subsequently are appointed as Directors of the Bank	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.	
3.7 (vi)	Favourable treatment or accommodation to bank employees or their close relations	Accommodation specified in the Direction was granted to employees only under 'Staff Benefit Schemes' of the Bank.	
3.7 (vii)	Remittance of accommodations subject to Monetary Board approval	Circular instructions have been issued in this regard.	
3.8	Disclosures		
3.8 (i)	Publish annual and quarterly Financial Statements	Complied with 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.	
3.8 (ii)	Disclosures in		

Section	Principle Compliance & Implementation						
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 148. A statement to this effect is included in the Directors' Responsibility to Financial Reporting on page 148.						
b.	The Report by the Board on the Bank's Internal Control Mechanism	Complied with 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 that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.					
		Directors' Statement on Internal Control on pages 51 to 52.Statement of Directors' Responsibility on page 148.					
C.	External Auditor's Certification on the Effectiveness of the Internal Control Mechanism	Complied with The Bank has obtained a certificate on the effectiveness of Internal Controls over Financial Reporting from the Auditor General, published on page 53.					
d.	Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank	Complied with Profiles of Directors are given on pages 16 to 17. Directors' interests in contracts with the Bank are given on pages 211 to 214. Remunerations paid by the Bank are given in Notes to the Financial Statements on page 178.					
e.	Total accommodations granted to each category of related parties and as a percentage of the Bank's regulatory capital	Total net accommodation granted to each category of related par a percentage of the Bank's regulatory capital is given below:	ty during the year 2016	as %			
		Key Management Personnel (KMPs) and their Close Family Members (CFMs)	1,679	0			
		Subsidiaries	12,920,849	21			
		Government and Government related entities	396,794,757	638			
f.	Aggregate values of remuneration to, and transactions with KMP	Complied with The aggregate amount of remuneration paid by the Bank and tranyear 2016 are detailed in Note 46 of pages 211 to 212.	nsactions with KMPs (inc	cluding their CF	Ms) for the		
g.	External Auditor's Certification of Compliance	Complied with The Bank has obtained certification 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 2017.					
h.	Report confirming compliance with prudential requirements, regulations, laws and internal controls	Complied with Compliance risk on pages 71 to 73 clearly sets out details regarding compliance with prudential requirements, regulations, laws and internal controls.					
i.	Non-compliance Report	The draft report of supervisory concerns as at 30th September 2016 issued by the Bank Supervision Department of the CBSL has been submitted to the Board through paper No. 9,32/2016.					
3.9	Transitional and other general provisions	Complied with The Bank has taken all possible measures to comply with all applicable provisions of this Direction that are not inconsistent with the provisions of the People's Bank Act No. 29 of 1961, the enabling enactment.					

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 (3) Non-Executive Independent Directors as at the end of the year.

- Mr. Jehan P. Amaratunga Chairman
- Ms. G.D. Chandra Ekanayake
- Mr. M.H. Jamaldeen

The quorum for a BAC meeting is two (2) members.

The Deputy General Manager/Board Secretary functions as the Secretary to the BAC. Deputy General Manager (Risk Management), Deputy General Manager (Compliance) and Chief Internal Auditor 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:

- Approved the Annual Audit Plan prepared based on risk profiles of the areas of the Bank for the year 2016.
- 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 2015 and the management responses thereon.

- Reviewed quarterly financial performance of the Bank for the year 2016 and recommended to submit the same to the Board.
- d. Reviewed and discussed issues raised at CBSL Statutory Examinations and follow-up examinations in 2014/15 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.

Five (5) meetings were held during the financial year ended 31st December 2016. 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 2016 on matters raised by CBSL Statutory Examination Reports and by the Auditor General in the report for the year ended 31st December 2015.

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.

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Jehan P. Amaratunga Chairman

Board Audit Committee

22nd March 2017

BOARD HUMAN RESOURCES AND REMUNERATIONS COMMITTEE (BHRRC) REPORT

Scope

The BHRRC 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 at all circumstances.

The Committee plays a main role in recruitments, determining salaries and other benefits to the employees. The Committee has also been granted 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 three Directors of the Board and the Chief Executive Officer/General Manager (CEO/General Manager). The current members of BHRRC are:

- Mr. Hemasiri Fernando Chairman
- Mr. Felician Perera
- Mr. T.D. Anton S. Hemantha
- Mr. N. Vasantha Kumar CEO/General Manager

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 BHRRC is two Directors of the Board and the CEO/General Manager.

Hemasiri Fernando

Chairman

Board Human Resources and Remuneration Committee

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. Felician Perera
- Mr. N. Vasantha Kumar CEO/General Manager
- Mr. Rasitha Gunawardana DGM (Risk Management)

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/General Manager.



Jehan P. Amaratunga

Chairman

Board Integrated Risk Management Committee (BIRMC)

27th March 2017

BOARD EXECUTIVE CREDIT COMMITTEE (BECC) REPORT

Scope

The BECC has been authorised to approve all credit proposals to customers up to Rs. 1,000 million 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 and the DGM (Risk Management). The current members of BECC are:

- Dr. Aminda M. Perera Chairman
- Mr. T.D. Anton S. Hemantha
- Mr. Krish Rajendran
- Mr. N. Vasantha Kumar CEO/General Manager
- Mr. Rasitha Gunawardana DGM (Risk Management)

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

Committee Meetings

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



Dr. Aminda M. Perera

Chairman

Board Executive Credit Committee (BECC)

BOARD NOMINATION COMMITTEE (BNC) REPORT

Scope

Main function of the BNC is to implement a procedure to select/appoint a CEO/ General Manager and Key Management Personnel. The Committee sets the criteria for the eligibility to be considered for appointment or promotion to the post of CEO/General Manager 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/General Manager 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 2017

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 and the DGM (Risk Management). The current members of BIBC are:

- Mr. Jehan P. Amaratunga Chairman
- Ms. G.D. Chandra Ekanayake
- Mr. N. Vasantha Kumar CEO/General Manager
- Mr. Rasitha Gunawardana DGM (Risk Management)

Head of Treasury and Investment Banking attends the meetings on invitation.

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 four members including two Directors of the Board.

Jehan P. Amaratunga

Chairman

Board Investment Banking Committee (BIBC)

27th March 2017

BOARD INFORMATION TECHNOLOGY COMMITTEE (BITC) REPORT

Scope

The BITC has been establish 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

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)

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 48.
- 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.
- The Bank adopted the new Sri Lanka
 Accounting Standards comprising LKAS
 and SLFRS in 2012. The processes and
 procedures initially applied to adopt the
 aforementioned Accounting Standards
 were further strengthened during the
 years 2013, 2014, 2015 and 2016 based
 on the feedback received from the
 External and Internal Auditors, regulators
 and the Board Audit Committee.

- The Board also has taken into consideration the requirements of the Accounting Standard SLFRS 9 on 'Financial Instruments' that has been issued with effective date being 01st January 2018. The bank is in the process of identifying the impact on the calculation of impairment of financial instruments on an expected credit loss basis compared to the incurred credit loss basis that is currently being applied under LKAS 39 on 'Financial Instruments Recognition and Measurement'.
- The comments made by the External Auditors in connection with the internal control system during the financial year 2015 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 2016 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 53 of the Annual Report.

For and on behalf of the Board.

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Jehan P. Amaratunga

Director

Chairman of the Board Audit Committee

AUDITOR GENERAL'S ASSURANCE REPORT ON INTERNAL CONTROL



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கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம் **AUDITOR GENERAL'S DEPARTMENT**



මගේ අංකය எனது இல. My No.

BAF/D/PB/IC/2016

உமது இல.

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 ("Statement") of People's Bank ("Bank") included in the annual report for the year ended 31 December 2016. 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 the 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 the Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of Work Performed

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

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

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

SLSAE 3050 does not require me to consider whether the Statement covers all risk 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

In assessing the internal control system, all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Bank were collated and developed a detailed guideline by way of a procedure manual towards the latter part of the financial year and started to perform testing and documentation. Further management intends to develop procedures to improve the controls documentation on identification of related party transactions in the ensuing year.

Based on the procedures performed, nothing has come to our 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 system over the financial reporting of the Bank.

H.M. Gamini Wijesinghe Auditor General





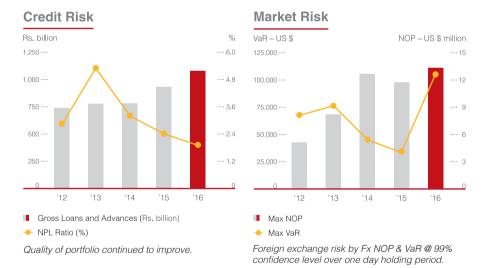
MANAGING RISK

At People's Bank Group, we understand that proactive identification and management of risk is fundamental to generating sustainable stakeholder value. 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 Group. This resulted in an integrated and comprehensive approach towards risk and the emergence of an organisational culture which aptly balances growth and risk considerations.

OVERVIEW OF RISK DISCLOSURES

	Risk Management Report
Risk Governance	✓
Approach to Risk Management	✓
Risk Appetite	✓
Stress Testing	✓
Credit Risk	✓
Market Risk	✓
Liquidity Risk	✓
Operational Risk	✓
Compliance Risk	✓
Strategic Risk	✓
Reputation Risk	✓
Group Risk Management	✓

RISK MANAGEMENT HIGHLIGHTS - 2016



Operational Losses -

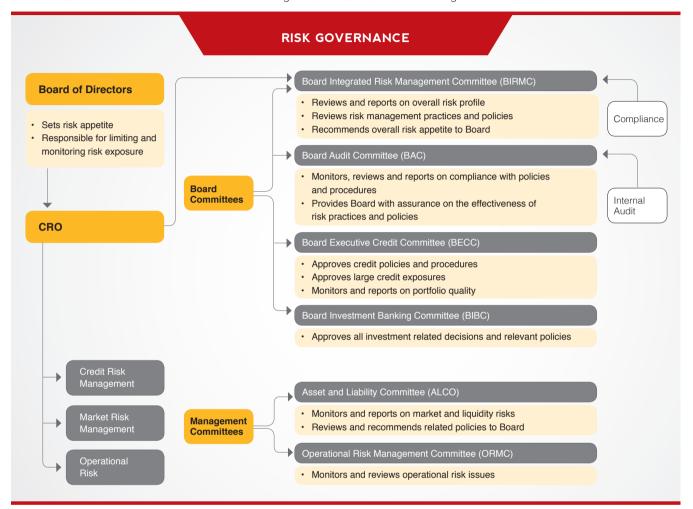
Trends 2012 - 2016

Liquidity Risk



RISK GOVERNANCE

The Group's Board of Directors holds apex 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 is assisted by several Subcommittees and Executive Committees in the discharge of its duties related to risk management as illustrated below:



Board Committees

Board Integrated Risk Management Committee (BIRMC)

The BIRMC provides independent oversight of all risk-related aspects across the Group by ensuring the adequacy and effectiveness of the implementation of risk governance structures, policy frameworks, standards and processes. The Committee also recommends risk appetite limits to the Board of Directors while reviewing and evaluating quarterly risk management reports. The composition, terms of references and Committee activities during the year are detailed in the BIRMC Report on page 49 of this Annual Report.

Board Audit Committee (BAC)

The BAC plays a vital role in assessing the adequacy and effectiveness of the Group's internal financial controls and risk management measures and holds oversight responsibility for the Group's financial position. The Committee also assesses the independence and monitors the performance of the internal audit. Further details on the activities of the BAC are given on page 48 of this Report.

Board Executive Credit Committee (BECC)

The BECC assists the Board in formulating credit policies and procedures, provides direction on the Bank's lending exposures (including approving large loan exposures) and consistently monitors portfolio quality

indicators. Please refer page 49 of this Report for further information regarding the activities of the BECC during the year.

Board Investment Banking Committee (BIBC)

The BIBC is responsible for overseeing the investment strategy of the Bank and ensures that the investment portfolio is managed within Board-approved parameters.

Executive Committees

Asset and Liability Committee (ALCO)

An executive committee comprising 12 the ALCO is entrusted with the responsibility of managing the Bank's Balance Sheet within the performance and risk parameters

defined by the Board. The ALCO also assists the Board in formulating relevant policy frameworks and procedures for management of liquidity and funding risks.

The responsibility for taking policy decision relating pricing of Asset/Liability products is within the per view of the ALCO.

Operational Risk Management Committee (ORMC)

The ORMC is composed of eight, and holds responsibility for monitoring and reviewing matters relevant to the management of operational risk.

OUR APPROACH TO RISK MANAGEMENT

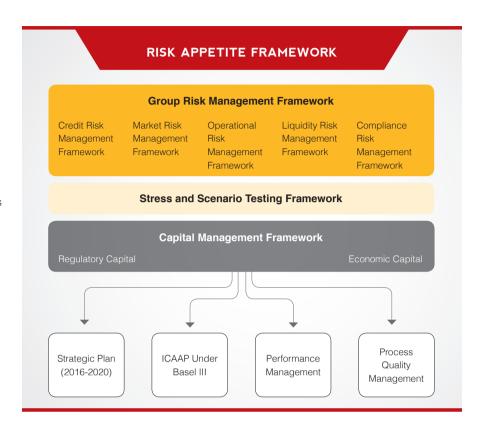
The Group adopts an integrated approach towards formulating strategy, managing performance as well as risk and Balance Sheet management. The People's Bank Group Risk Management Framework forms the foundation for managing risk, and sets out the Group's risk universe, risk parameters and assigns executive and Board responsibility for the management and oversight of risk.

The Key objectives of the Group's Risk Management Framework are –

- Determining and monitoring the Group's risk appetite and evaluating its capital adequacy
- Managing and optimising Group-wide asset quality and the cost of risk
- Compliance to regulatory requirements and internal limits
- Periodically assessing the relevance of the Group's strategic direction in view of emerging risks and opportunities
- Nurturing a Group-wide risk culture within the Organisation

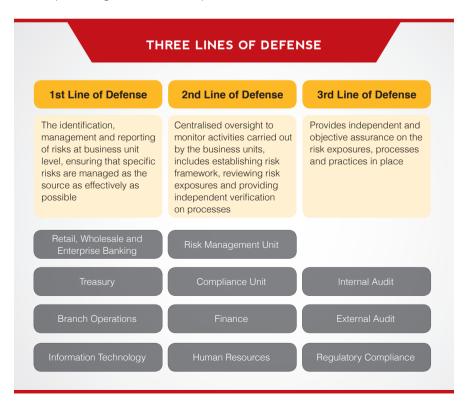
The Group's comprehensive risk and Balance Sheet management frameworks provide informed inputs in strategy and policy formulation, and are therefore an integrated into the Group's business and management processes.

The Bank adopts a precautionary approach when evaluating investments. Accordingly, environment and social risk and potential impact are given due consideration.



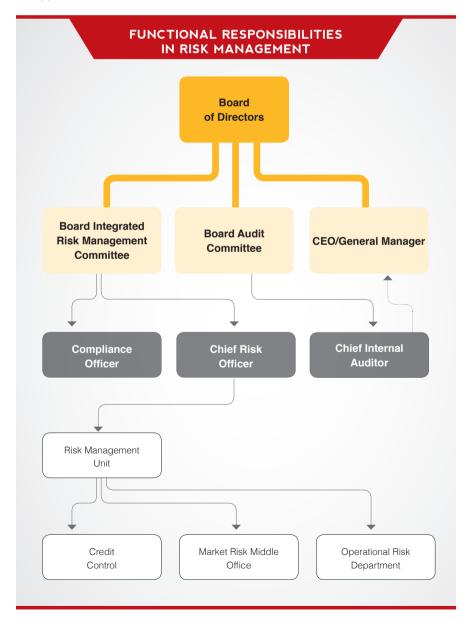
Three Lines of Defense

The Group's risk management framework is based on the three lines of defense model, which ensures clear identification and judicious segregation of duties, which has enabled the Group to manage its risks in a transparent and standardised manner.



Functional Responsibilities in Risk Management

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) and operates independently of business units as well as profit and volume targets. Three separate units have been established under the RMU with specific responsibilities for handling Credit, Market and Operational Risks. The RMU is responsible for the implementation of Board-approved risk policies and frameworks while ensuring that the Group's risk indicators are in line with its defined risk appetite.



Risk Culture

Best practices in risk management and strong leadership by the Risk Management Unit in promoting awareness on emerging threats, policies, tools and techniques has allowed the Group to nurture a strong risk culture amongst its employees. Resultantly, all employees strive towards achieving the Group's strategic objectives and maximising stakeholder value within the Group's defined risk appetite.

RISK APPETITE

The risk appetite is set by the Board of Directors and clearly demonstrates the type and quantum of risk the Organisation is willing to take, in pursuit of its strategic and financial objectives. It is expressed in the form of tolerance limits and risk trigger points across a range of variables reflective of all the risks the Group is exposed to. The Group's risk appetite is prudent, enabling growth and profitability in a sustainable manner. The risk appetite is reviewed and revised (if required) on an annual basis.

		Limit/Range			Position as at
	High Risk	Medium Risk	Low Risk	End-December 2016	End-December 2015
Credit Risk					
NPL/Total Advances	>10%	5% – 10%	5%>	2.45%	1.92%
Provision Coverage	75%>	75% – 90%	>90%	110.4%	98.3%
P&L Charge	>15%	5% – 15%	5%>	N/A	9.06%
Concentrations (HHI Method)	>0.25	0.25 – 0.15	0.15>	0.20	0.20
Recoveries	>2%	2% – 4%	>4%	30.60%	22.85%
Overdraft Excess	>20%	10% – 20%	10%>	17.92%	10.92%
Overseas Exposure (OBU)	>15%	10% – 15%	10%>	0.04%	0.30%

	Approved Limit	Year Ended 31.12.2016	Year Ended 31.12.2015
Market Risk			
Fx Net Open Position	US \$ +/- 16 million	Complied	Complied
Value at Risk (VaR) (Conf. Level 99%, 1 day)	US \$ 250,000	Complied	Complied
Cumulative Losses			
– Fx Trading	US \$ 175,000	Complied	Complied
- FIS Trading (realised)	Rs. 25 million	Complied	Complied
(unrealised)	Rs. 500 million	Complied	Complied
Forward Fx Gap Limit	US \$ 300 months millions	Complied	Complied
GOSL Securities			
- Trading	Rs. 150 billion	Complied	Complied
- Investment	Rs. 155 billion	Complied	Complied
– AFS	Rs. 10 billion	Complied	Complied
Sri Lanka Development Bonds (SLDB)	US \$ 750 million	Complied	Complied
Inter Bank Borrowings	Rs. 170 billion	Complied	Complied
DBU Foreign Currency Borrowings	US \$ 50 million	Complied	Complied
Investment Value of Share Trading Portfolio	Rs. 1,000 million	Complied	Complied
% of Shares on the S&P SL20 Index	Min: 25%	Complied	Complied
Gilt Unit Trust Limit	Rs. 2.5 billion	Complied	Complied
Debentures	Rs. 5 billion	Complied	Complied
Interest Rate Risk (DGap+VaR on Fwd Fx)	Rs. 6.5 billion	Complied	Complied

Operational Ris	Position as at	Position as at			
	High Risk	Medium Risk	Low Risk	End-December 2016	End-December 2015
Operational Losses – Internal	>25	25 – 10	<10	12	05
Operational Losses – External	>1000	400 – 1000	<400	236	248
Total Operational Losses to Total Operational Expenses	>1.0%	0.5% – 1.0%	<0.5%	0.29%	0.41%
System Availability	<97.5%	97.5% – 99.8%	>99.9%	99.5	98.5
% of Branch Audits Rated less than Satisfactory	>15%	15%	Nil		78.76%

STRESS TESTING

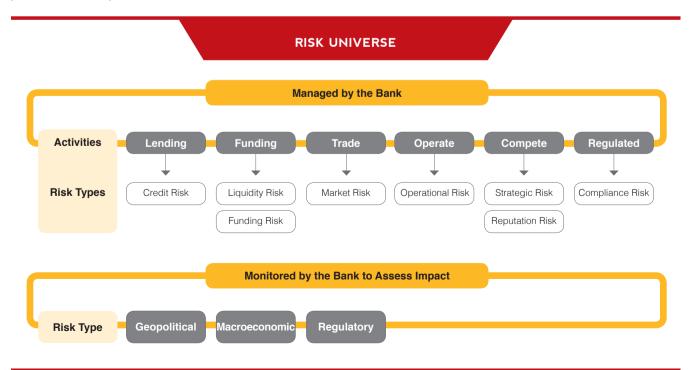
The Group engages in stress testing on a regular basis to evaluate the sensitivity of its risk profile to changes in market variables and other risk factors. The simulation technique is used to measure potential impacts on earnings, capital and liquidity resulting from changes in market variables and other risk factors. The BIRMC conducts regular reviews of the stress testing outcomes including the major assumptions that underpin them. The outputs from the Group's stress testing activities are a vital input in several business processes including –

- Capital planning for ICAAP
- Strategic planning
- Defining risk appetite
- Communication with internal and external stakeholders
- Managing risk within defined parameters



RISK UNIVERSE

The Group's business activities give rise to various risk exposures, some of which can directly be managed by the Bank. Meanwhile, certain risks arising from the operating landscape are beyond the control of the Group and can only be monitored to assess the potential impact on performance and capital.

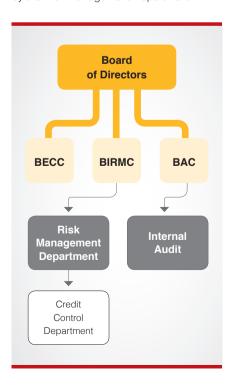


Credit Risk

Credit risk is defined as potential losses 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 as well as 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.

Approach to Credit Risk Management

The Board Executive Credit Committee (BECC) functions as the Steering Committee holding overall responsibility for implementing the Bank's 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 at a business unit level. The primary responsibility for managing credit risk lies with the business units, complemented by independent review by the Credit Control Department, which is in turn supported by the standards and frameworks implemented by the Risk Management Department.



The Group's credit risk management framework is underpinned by:



Robust Risk Policies and Control Framework

The credit risk policy framework is formulated by the BECC on behalf of the Board of Directors and reviewed and updated regularly based on evolving best practices as well as emerging risks and opportunities. 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.

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 comprehensive training programmes. 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. The internal credit rating models in place represent diverse risk factors and are able to predict the probability of default and loss given default, facilitating the Bank's transition from the current Basel II Standardised approach to the Advanced approach in computing the capital charge for credit risk.

Segregation of Duties

Each business line has clearly articulated and approved risk acceptance criteria and credit approval authority at multiple levels. Meanwhile any post-disbursement material changes to a credit facility (such as revision in tenor, covenants or collateral structure) required approval. Responsibility for per-sanction risk assessment and post-sanction monitoring is clearly segregated enabling the effective implementation of credit appraisal guidelines and facilitating the specialisation of skills.

Credit Risk Mitigation and Collateral Management

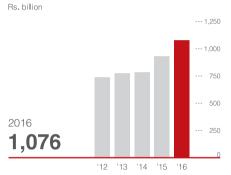
Clearly articulated processes and procedures are in place to guide the Group's credit risk mitigation techniques, which are reviewed regularly to ensure consistent application and acceptability. The main types of collateral obtained by the Group include property mortgages, movable assets and book debts among others. Measures are in place to ensure that the collateral obtained meets the requirements for legal and timely enforcement and is valued appropriately and regularly.

Credit Monitoring

The Credit Control Department independently monitors the loans and advances portfolio and prepares monthly reports on portfolio NPL positions, performance of large exposures, loan ageing analysis and performance of industry sectors among others. These

reports are reviewed by the Risk Management Unit, BECC and BIRMC on a regular basis to ensure effective management of credit risk. Procedures are also in place for early identification of borrowers that could face potential difficulties in repayment; such exposures are typically placed on a watch list and proactive measures for collection are undertaken depending on the size of the exposure.

Gross Loans & Advances



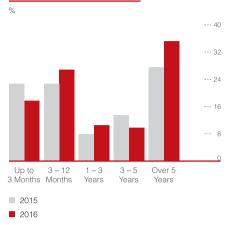
Credit Risk Performance in 2016

The Bank's net loans and advances portfolio expanded by 15.9% yoy to Rs. 891 billion, accounting for 68.4% of the Balance Sheet by end December 2016. Portfolio growth was driven by strong expansion of the Bank's corporate (10.4%) and enterprise banking and retail banking (16.5%) portfolios. Despite strong portfolio growth the impairment charges for the year declined by 66.7%.

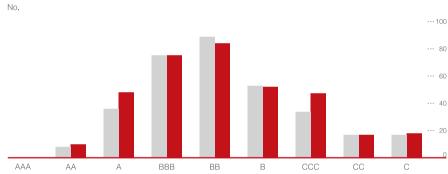
Default Risk

Default risk is the key component of credit risk and comprises of potential losses arising from the default of a borrower or counterparty. The strong portfolio growth during the year was achieved with a parallel improvement in the risk ratings of its credit portfolio, whilst the overall gross NPL ratio clocked in at 1.9%, better than the sector's average of 2.6% for the year. The healthy portfolio quality is a reflection of stringent precredit underwriting standards, post-disbursement monitoring as well as granularity of the portfolio.

Loan Aging Analysis



Risk Rating of Corporate Customers



- Number of Customers (as at 31st December 2015)
- Number of Customers (as at 31st December 2016)

Concentration Risk

Concentration risk stems from high lending exposure to a particular sector, product, region or customer/group. The Bank's Risk Appetite defines exposure limits for particular sectors and products and these are monitored by the Risk Department, BIRMC and Board on a regular basis. Limits are reviewed and modified in the context of emerging risks and opportunities presented by the operating landscape.

Name concentration arises from large exposures to specific individual borrowers and is monitored through the Herfindahl-Hirshman Index (HHI) and the single borrower limit. Given its strategic alignment to the country's development agenda and its position as a key lender to the Government, People's Bank's exposure

to state-owned entities (SOE) remains high. These entities comprise primarily of systemically important organisations, such as the Ceylon Petroleum Corporation and Ceylon Electricity Board Majority and therefore carry an explicit guarantee from the Government Treasury; resultantly lending to SOEs does not expose the Bank to excessive credit risk.

As demonstrated below, the Bank's name concentration risks moderated during the year as lending to the SOEs as a proportion of the total loan book declined to 35.6% by end-December 2016, compared to 45.3% the year before. The HHI value¹ of the portfolio excluding SOEs and including SOEs clocked in at 0.05 excluding and 0.12 respectively.

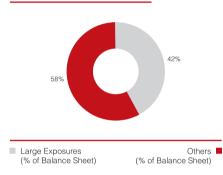
¹ Well-diversified portfolios have HHI values close to zero, whilst relatively concentrated portfolios have higher HHI values.

Share of Large Exposures

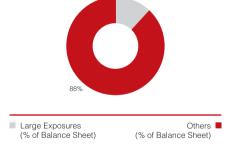
Including SOE	Top 3 %	Top 5 %	Top 10 %	Top 20 %
2015	63	72	83	91
2016	46	54	68	82
Excluding SOE	Тор 3		Top 10	
2015	33	45	59	70
2016	29	40	57	69

Concentration of Large Exposures (facilities over Rs. 100 million)

Including SOEs - 2016

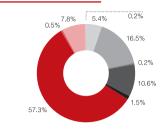


Excluding SOEs - 2016



In terms of product concentration, pawning remains the Bank's most significant individual product line, a reflection of its pioneering market position. In 2016, exposure to pawning facilities declined to 12.0% of the total portfolio, compared to 12.5% the previous year and credit losses during the year were minimal.

Loan Portfolio (by Product) – 2016





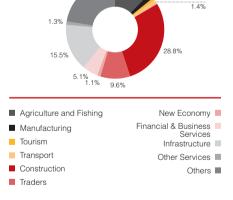
Meanwhile, the Bank's portfolio continues to be well diversified in its sectoral distribution as illustrated below. Regionally the Western Province is the largest contributor to the credit portfolio; this is in line with the overall banking industry, although People's Bank's geographical distribution reflects a broader regional spread than its counterparts.

Loans - Sector wise Distribution

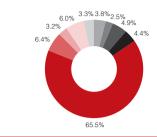
22 4%

12.1%

2.1%



Total Loans – Region wise Distribution





Collateral Analysis

We adopt a stringent approach towards collateral valuation, and these are regularly reviewed and updated to ensure that valuations reflect market conditions.

The Bank maintains a relatively diverse collateral portfolio thereby limiting the impact of potential price drops in a particular asset class.

Credit Risk - Stress Testing

Stress testing for credit risk is carried out in order to gauge the potential impact of the following on the Bank's capital adequacy levels:

- Deterioration in asset quality as determined by an increase in non-performing-loans
- Adverse movements within NPL categories
- Falls in the forced sales value of collateral held by the Bank
- Slippage of performing loans to NPL
- Defaults by large borrowers

Increase in NPLs	Magnitude of shock - 5%	Magnitude of shock - 10%	Magnitude of shock – 20%
Revised core capital ratio	9.71%	9.63%	9.47%
Revised total capital ratio	12.01%	11.93%	11.77%
Adverse movements within NPL categories	Magnitude of shock – 50%	Magnitude of shock - 80%	Magnitude of shock - 100%
Revised core capital ratio	9.72%	9.68%	9.66%
Revised total capital ratio	12.02%	11.98%	11.96%
Fall in the FSV of collateral held by the Bank	Magnitude of shock - 5%	Magnitude of shock - 10%	Magnitude of shock - 15%
Revised core capital ratio	9.75%	9.70%	9.66%
Revised total capital ratio	12.04%	12.00%	11.95%
Slippage of performing loans to NPLs	Magnitude of shock - 1%	Magnitude of shock – 2%	Magnitude of shock – 3%
Revised core capital ratio	9.24%	8.68%	8.13%
Revised total capital ratio	11.53%	10.98%	10.43%
Defaults by large borrowers	Magnitude of shock - 5%	Magnitude of shock – 7.5%	Magnitude of shock – 10%
Revised core capital ratio	9.24%	8.97%	8.70%
Revised total capital ratio	11.54%	11.27%	11.00%

As demonstrated by the stress testing results above, the Bank maintains a sufficient capital buffer to withstand considerable deterioration in credit quality.

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.

The Bank's key market risks are -

- Interest rate risk
- Foreign exchange risk
- Equity risk
- Commodity risk (this is primarily through the Bank's exposure to pawning)

Market Risk Exposure

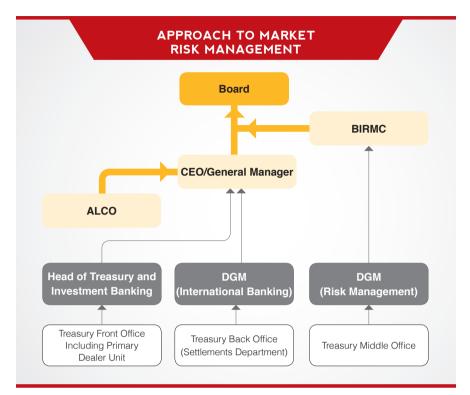
	2016		20	15
	Trading Book Rs. million	Non-Trading Book Rs. million	Trading Book Rs. millions	Non-Trading Book Rs. millions
Assets	HFT	нтм	HFT	HTM
T/Bills	35,696	-	73,952	8,068
T/Bonds	37,552	93,588	41,911	75,991
SLDB	_	40,866	_	66,341
GOSL Bonds	_	7,323	_	7,323
Other Invt.	1,027	5,860	1,394	7,173
Liabilities				
Debenture	_	12,500	_	15,000

The Bank's exposure to market risk stems primarily from the interest rate risk of its trading and non-trading books, exposure to gold prices stemming from its relatively significant pawning portfolio. Exposure to foreign exchange risk is moderate and arises from the Bank's proprietary trading and foreign currency denoted transactions. The Bank's exposure to equity risk is limited, as its proprietary trading portfolio amounts to merely 3.6% of the Balance Sheet.

Approach to Market Risk Management

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. At an executive level, the Asset and Liability Committee (ALCO) is vested with the responsibility of implementing the market risk management framework and ensuring that the Bank's market risk exposures are within the defined risk appetite. The Market risk management function operates within the Risk Management Department and is responsible for daily market risk management activities including measuring, monitoring and reporting risks.



As Treasury operations can give rise to significant risks, the Treasury Middle Office (TMO) has been set up independently from both the Treasury Front Office and Back Office to seperately measure and monitor Treasury transactions while ensuring compliance to risk limits defined by the Board.

The primary tools and mechanisms in place for managing the Bank's market risks are as follows:

Comprehensive Framework of Policies

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.

Risk Assessment

Market risk is assessed using a range of tools such as Value at Risk (VaR), Duration gap, sensitivity analysis and stress testing. The valuation rates and methodologies used are independently verified.

Market Risk Limits

The Board, upon recommendations of the Asset and Liability Committee defines limits for a range of Treasury and investment-related activities; these include open position limits, counterparty limits and dealer limits. Actual performance against these limits is monitored by the Middle Office and brought to the attention of the Asset and Liability Committee on a fortnightly basis. Limits are monitored by product, sector, geographic and credit ratings. The limits are regularly reviewed by Asset and Liability Committee and revised to narrower bands if required to control the impact of potential market dynamics.

Action Trigger Points

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

Market Risk Overview and Performance in 2016

Interest Rate Risk:

Interest rate risk is the potential loss to earnings and capital resulting from the Bank's exposure to assets of which the value 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.

Interest rate risk can be further classified into sub-types:

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

Interest Rate Risk Management

The interest rate risk (IRR) is managed based on the Board approved framework which clearly sets out prudential limits for maximum maturity periods, interest rate gaps and VaR among others. 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.

The Asset and Liability Committee holds responsibility for decisions pertaining to the repricing of the Bank's asset and liability portfolio and continuously monitors the Bank's 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.

Asset Liability Maturity Mismatches

							(in million)
	0-1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Above 5 Years
2016							
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	0
Period gap	(62,704)	(125,017)	6,001	(376,870)	123,181	139,054	271,949
Cumulative gap	(62,704)	(187,721)	(181,720)	(558,590)	(435,409)	(296,355)	(24,406)
2015							
Rate sensitive assets	142,794	167,330	135,082	163,997	146,322	84,716	175,877
Rate sensitive liabilities	193,904	172,389	157,924	463,562	7,635	2,017	0
Period gap	(51,110)	(5,059)	(22,841)	(299,565)	138,686	82.700	175,877
Cumulative gap	(51,110)	(56,169)	(79,010)	(378,575)	(239,889)	(157,189)	18,688

Impact on MV of Equity due to 1% Adverse Interest Rate Change using Duration Gap Analysis

Rs. million



Interest Rate Risk - Stress Testing

	Magnitude of Shock – 0.25%	Magnitude of Shock - 0.50%	Magnitude of Shock – 1.00%	
2016				
Impact on earnings (Rs. million)	1,541	3,082	6,164	
Revised overall CAR (%)	11.79	11.49	10.89	
2015				
Impact on earnings (Rs. million)	1,339	2,677	5,354	
Revised overall CAR (%)	12.24	11.94	11.33	

Foreign Exchange Risk

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

Foreign Exchange Risk Management

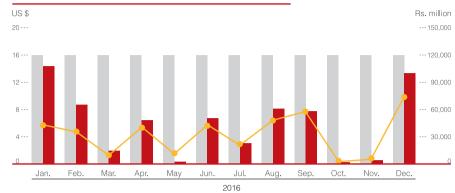
FOREX transactions are governed by a stringent regulatory framework which includes an approval mechanism and limits set by the CBSL. Internally the Bank has set in place stringent volume limits (within the regulatory limits and the limits defined by Asset and Liability Committee) on open positions for individual currency exposures

as well as on the aggregate exposure. Meanwhile, forward maturity gap limits are also in place to ensure that the risk arising from forex maturity gaps are managed within the Bank's risk appetite. The Treasury Department holds overall responsibility for managing the Bank's forex risk and there is clear segregation of duties between the front, middle and back offices to ensure the adequacy of internal controls. For instance the Middle Office independently monitors open position, asset liability maturities and currency exposures.

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.

Currency	Net Open Position	Overall Exposure '000
US Dollar	12,059	1,811,815
Euro	-113	-17,917
GB Pound	-21	-3,884
Japanese Yen	9,160	11,816
Total Exposure as a % of Shareholders' funds		3.3%

Month End Fx NOP & Daily VaR During 2016

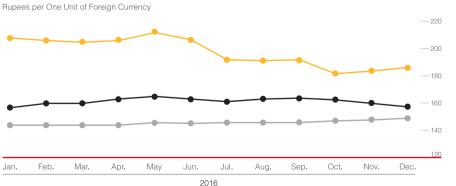


- Limit (US \$)
- NOP (US \$)
- VaR (Rs. million)

Exchange Rate Risk - Stress Testing

	Magnitude of Shock – 5%	Magnitude of Shock – 10%	Magnitude of Shock – 15%
2016			
Impact on Earnings (Rs. million)	72	144	216
Revised overall CAR (%)	12.07	12.06	12.04
2015			
Impact on Earnings (Rs. million)	69	139	208
Revised Overall CAR (%)	12.53	12.51	12.50

Exchange Rate Movements



During the year under review, the Sri Lanka Rupee fluctuated between a low of Rs. 143.94 and a high of Rs. 148.88 against the US Dollar, depreciating by 3.4% by the end of the year.

- Furo

◆ US \$ ◆ GBP

Equity Risk

Equity risk arises from exposures to changes in fluctuations in the value of equity investments held by the Bank. The Bank's equity risk exposure stems primarily from its available-for-sale investment portfolio and excludes strategic investments by the Bank in subsidiaries. Equity risk exposure is relatively limited as the Bank's investments in equity shares amounted to merely 0.04% (or Rs. 529 million) of total Balance Sheet assets.

Equity Risk Management

The Board Investment Committee 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. At present the approved

maximum exposure for trading equities is Rs. 1.0 billion while actual exposure remains well below this limit.

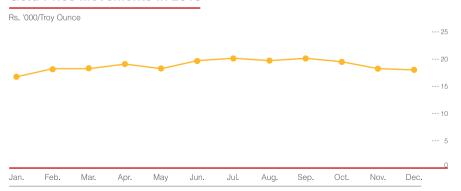
The market risk function which operates within the Risk Management Department independently reviews proposed equity transactions, impairment assessments and exposures against limits. The unit is also responsible for maintaining independent oversight over the non-traded equity risk framework. Meanwhile, the movements in share market prices, performance of the entities as well as broader macroeconomic conditions are monitored by the Investment Committee on a regular basis.

(Rs. million)	Magnitude of Shock – 5%	Magnitude of Shock – 10%	Magnitude of Shock – 20%
Held-for-trading	22	44	87
AFS – Impact on OCI	36	71	143
Total Impact	57	115	230

Commodity Risk

Although People's Bank does not directly have exposure to commodities, it takes the view that pawning exposes the Bank to commodity risk given that gold price fluctuations impact the value of the gold collateral. As a pioneer in pawning, the Bank holds a strong market position in this space, although conscious efforts to trim exposure to pawning has resulted in it declining to 12.0% of total loans, compared to 12.5% the previous year.

Gold Price Movements in 2016



The following measures are in place to effectively mitigate market risks arising from pawning facilities:

COMMODITY RISK

Pre Disbursement

- Use of dencimetres and acid tests to determine the gold content of the items
- · Customer due diligence
- Maintain prudent Loans to Value ratios
- Continuous assessment of gold prices and competitor offerings
- Regular staff training
- Insurance cover against losses arising from stolen items

Post Disbursement

- Regular independent valuation of items pawned
- Daily verification of a 5% sample
- Regular auctioning of unredeemed items

Liquidity Risk

Liquidity risk is the potential loss of earnings and/or erosion of capital arising from the inability to meet the Bank's contractual obligations as and when they are due. The inherent mismatch between its asset and liability maturity profile renders Banks inevitably vulnerable to liquidity risks and the management of such risks are a vital element of the Bank's operations.

Approach to Liquidity Risk Management

The Bank's liquidity risk management framework aims to ensure that the Bank maintains the quantity of funds that are required to meet its contractual obligations on a timely basis. The Asset and Liability Committee is the main Governance Committee overseeing the management is liquidity risks and continuously monitors the Bank's liquidity position to ensure that compliance to internal targets as well as regulatory requirements. The Head of Treasury is responsible for the daily management of the Bank's funding and liquidity positions within the stipulated limits while the Middle Office independently monitors the Bank's liquidity on an ongoing basis. Meanwhile effective risk reporting ensures that the Board, BIRMC and the Asset and Liability Committee regularly review the performance of key liquidity indicators to ensure they are within the defined parameters.

Key aspects of the framework include -

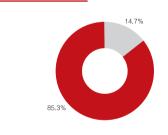
Measuring Liquidity

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.

Diversified Funding Base

The Bank adopts a diversified funding strategy, sourcing liquidity from multiple sources depending on market conditions, regulatory considerations and trends in interest rate movements. Deposits are the largest funding source with a share of 82.8% of total funding, followed by other borrowings (10.3%) and shareholders' funds (4.6%). Deposit concentration is relatively low, given the granularity of the deposit base. The Bank also benefits from a relatively high proportion of savings account, which can be considered a quasi-stable source of funds.

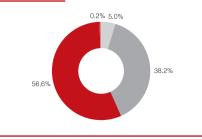
Deposit Concentration



■ Top 20 Depositors

Other Deposits

Deposit Breakdown



- Time Deposits
- Savings Deposits

Staff Loans ■
Term Loans ■

Contingency Funding Plan

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

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

The CFP consists of the following:



Liquidity Risk Overview and Performance in 2016

During the year, the Bank maintained its liquidity indicators 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 also indicates a relatively healthy liquidity position. Details on Maturity Profile of Assets and Liabilities illustrate on page 223.

Liquidity Indicator	31st Mar. 2016	30th Jun. 2016	30th Sep. 2016	31st Dec. 2016
Loans to Deposits Ratio %	95.6	92.6	87.4	88.2
Statutory Liquid Asset Ratio (DBU) %	21.7	21.3	24.6	22.2

Operational Risk

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

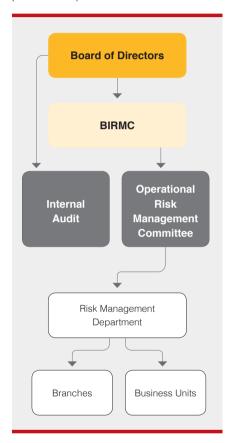
The sub-types of operational risk that the Bank is exposed to are –

- Technology Risk
- People Risk
- Legal Risk

Approach to Operational Risk Management

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. The branches and business units, which make up the 'First line of Defense' are responsible for the identification of operational risks at the point of origination, and structured mechanisms

are in place to measure, assess and report on these risks. Loss events are recorded and periodically reported through the Risk Management Unit to the dedicated Operational Risk Management Committee. Meanwhile, Internal Audit also provides assurance to the Board on the effectiveness on the operational risk management processes in place.



The Bank's Operational risk management framework encompasses the following:

Identification and Assessment

The Risk Management Department works with business units to map business processes and identify potential areas of operational risk. Further all branch and business unit staff undergoes training on operational risk exposures and are engaged in proactively identifying and assessing these risks. Risk and Control Self-Assessments (RCSA) are administered to all key business units which allow units to evaluate the exposure to defined operational risk parameters. Findings are then used to identified and devise action plans for potential gaps in risk management. Risks are also identified through loss events and near misses which are collated and periodically reported by business units to the Risk Management Department, which maintains a database of loss events. The Bank also evaluates the potential operational risk impact of new products, processes and activities on an ongoing basis.

Limits and Tolerance Levels

In the Bank's Risk Appetite Statement, the Board has defined specific limits and tolerance levels for operational risk indicators; 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 the initiation of corrective action if required.

Risk Mitigation

Risk mitigation policies and programmes are in place to maintain a sound operating environment within the Bank. These include the following:

Risk Reporting

The Risk Management Departments maintains a database of operational risk events/losses and near misses, enabling systematic identification of root causes, trends and risk frequency. The BIRMC and Board are regularly updated on significant loss events, emerging issues and review activity through structured reporting. Control failures are also reported to the Operational Risk Committee and escalated to the BIRMC level depending on its potential impact and frequency.

Operational Risk Review in 2016

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. 121.6 million, approximately 0.1% of the Bank's gross income. In 2016, operational loss events declined 5% in volume and 25% in value compared to the previous year.

Operational Losses - Trends 2012-2016

	Pawning	Normal Banking	Total
Year	Rs. million	Rs. million	Rs. million
2012	63.8	140	203.8
2013	80.1	35.5	115.6
2014	92.86	14.88	107.74
2015	36.11	67.12	103.23
2016	17.02	60.74	77.76
Total			608.13
Average			121.6

Comprehensive framework of operational risk policies and procedures Disaster recovery plans and crisis management procedures to ensure continuity of operations

Segregation of duties

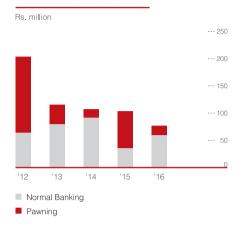
Transfer of risks through insurance (for instances such as damage to physical assets from natural disasters/fire and stolen gold items being pawned)

Stringent criteria for selecting and monitoring outsourcing partners

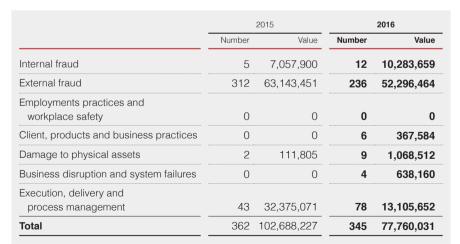
Ongoing staff training to create a culture of risk awareness

Comprehensive analysis of the potential operational risk impacts of new products and services prior to launch

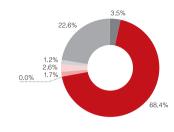
Operational Losses – Trends 2012 – 2016



The following charts depict the comparison of operational losses in the past two years under each 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 on page 69 of this Report, we have strengthened the mechanisms in place to ensure the quality of the gold being pawned and continue to obtain insurance coverage for such items.

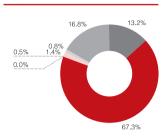


Operational Loss Events (by Number) – 2016





Operational Loss Events (by Value) – 2016







Technology Risk

Technology risk is defined as the risks associated with the ownership, use, operation, involvement and adoption of IT within the Bank. This includes breakdowns and failures in IT systems, technological obsolescence, and inadequate infrastructure to support business volumes among others.

Technology risk is a growing area of concern globally, as threats from cyber security and system manipulations continue to increase in frequency and magnitude. For the Banking sector, technology has also emerged as a key source of competitive advantage, resulting in heavy dependence on technology to facilitate complex processes and handle large amounts of critical and private information, thereby underscoring the vital importance of effective IT risk management. The Board IT Committee holds oversight responsibility for the Bank's IT management framework and recommends IT strategies, policies and procedures while determining the need for system integrations, and the use of new software and hardware

The Risk Department together with the IT Unit carries out regular monitoring of key risk IT indicators, which aim to gauge the robustness of the key information systems within the Bank. Corresponding risk thresholds have been defined to direct

management attention for appropriate corrective measures. Overview of the IT risk indicators are as follows:

Systems		Actual Availability	
Central ATM Switch	≥ 99.9%	Green - Low Risk	100.0%
Core Banking System	Between 99.8%-97.5%	Amber – Moderate Risk	
SWIFT			
Credit/Debit Card Management System	Below 97.5%	Red – High Risk	
Image Capturing and	≥ 97.5%	Green – Low Risk	100.0%
Presentment System	Between 97.4%-95.0% Risk Below 95.0%	Amber – Moderate Red – High Risk	
SMS Banking System			
Web Remittance System	***************************************		
Internet Banking System			
Finacle (treasury)			
ATM (individual)			99.5%
IHRM System	≥ 90.0%	Green – Low Risk	100.0%
SLIPS System	Between 89.9%-87.0% Risk Below 87.0%	Amber – Moderate Red – High Risk	
	Central ATM Switch Core Banking System SWIFT Credit/Debit Card Management System Image Capturing and Presentment System SMS Banking System Web Remittance System Internet Banking System Finacle (treasury) ATM (individual) IHRM System	Central ATM Switch Core Banking System SWIFT Credit/Debit Card Management System Image Capturing and Presentment System Below 97.5% Between 97.4%-95.0% Risk Below 95.0% SMS Banking System Web Remittance System Internet Banking System Finacle (treasury) ATM (individual) IHRM System ≥ 90.0% SLIPS System Between 97.4%-95.0% Between 97.4%-95.0% Between 89.9%-87.0%	Total Working Hours and Thresholds Central ATM Switch ≥ 99.9% Green – Low Risk Core Banking System Between 99.8%-97.5% Amber – Moderate Risk SWIFT Credit/Debit Card Management System Below 97.5% Red – High Risk Image Capturing and ≥ 97.5% Green – Low Risk Presentment System Between 97.4%-95.0% Amber – Moderate Risk Below 95.0% Red – High Risk SMS Banking System Web Remittance System Internet Banking System Finacle (treasury) ATM (individual) IHRM System ≥ 90.0% Green – Low Risk SLIPS System Between 89.9%-87.0% Amber – Moderate

People Risk

People risk can be defined as the potential losses arising from human resource related aspects such as lack of appropriate human resources, inappropriate employee activity and failure to comply with employee related requirements. The Bank's HR-related risks are managed through comprehensive HR policies and processes which ensure uniformity in employee practices, effective recruitment practices and continuous focus on enhancing our employee value proposition. The Bank's value proposition centres on providing employees opportunities for skill development and career progression in a rewarding and dynamic work environment while ensuring a high level of engagement and attractive reward schemes (Please refer to the HR Report on pages 115-123 of this Report)

Legal Risk

This is the potential losses to earnings and reputational damage arising from non-compliance with regulatory/statutory provisions, uncertainty due to legal actions or uncertainty in the applicability or interpretation of relevant laws or regulation applicable to the Bank.

A comprehensive framework of internal procedures ensures that the Bank's legal risk exposures are mitigated to a large extent. Applicable regulations and stakeholder needs are fully taken into consideration when entering into contracts with individuals and institutions while business units are responsible for ensuring that all legally binding agreements are signed by the compliance and legal divisions of the Bank.

Compliance Risk

Compliance risk is the risk arising out of non-compliance with applicable laws, regulations, codes of conduct and standards of good practice culminating in financial loss, or loss to the Bank's reputation. The Bank has implemented internal policies, procedures and governance frameworks which ensure that all employees comply with the applicable laws and regulations which could arise from multiple sources including legislation, rules issued by the regulators and best practices promoted by industry associations among others.

The Board of Directors holds ultimate responsibility for ensuring that the Bank complies with all relevant laws, regulations such as primary legislation, rules and standards issued by the regulators and legislators, market conventions, Codes of Best Practices as well as internal codes of conduct, policies, procedures and governance frameworks. The Board is supported by the Board Audit Committee and Board Integrated Risk Management Committee in its compliance-related functions. A dedicated Compliance Unit, reporting directly to the BIRMC, ensures that the Bank is compliant with all relevant external regulations and internal guidelines. The Unit, in addition to Risk Management Department and internal audit function provides assurance to the Board on the Bank's overall compliance level. The Bank retains a dedicated officer to look after and mitigate Compliance Risk in order to ensure that the Bank is operated efficiently and in conformity with the rules and regulations applicable to the industry. compliance risk is assessed through a scorecard which rates the Bank's compliance to internal best practices and external regulations against a 5-point rating scale; the scorecard forms part of the Unit's reporting to the BIRMC.

Business disruption and system failures are at minimal



The duties entrusted to the Compliance Department are two-fold –

Mandatory Compliance Functions

- Develop compliance policies and procedures designed to eliminate or minimise the risk of non-compliance with regulatory requirements and protect the Bank from reputational risks.
- Develop a Code of Conduct/Ethics for all employees clearly articulating the best practices and to monitor and ensure compliance with it at all levels.
- Develop an Anti-Money Laundering Policy together with the Know Your Customer (KYC) regulations to be issued and adhered to across all departments of the Bank.
- Maintain regular contact and a good working relationship with regulators based upon clear and timely communication and a mutual understanding of the regulator's objectives.
- Promote, across the compliance network, and wherever it is considered appropriate a culture of best practices developed in the areas of compliance.
- Understand and ensure the effective implementation of all new legal and regulatory developments relevant to the business of the Bank.
- Provide timely reports to management which will highlight regulatory developments, changes in laws and any other developments insofar as they give rise to compliance issues relevant to the Bank's business.

- Highlight serious, or present, compliance problems and where appropriate work with management to ensure that they are rectified within an acceptable time frame.
- Submit monthly compliance reports to the Central Bank of Sri Lanka on the Bank's compliance with Central Bank Directives and Guidelines as and when required by Law.
- Prepare and submit quarterly compliance reports to the Board Integrated Risk Management Committee and the Board Audit Committee as and when necessary and monthly reports to the Board of the Bank on the Bank's Compliance with Statutory regulations applicable to the banking business.
- Put in place a Customer Charter for the Bank prepared based on the Directions issued by the Central Bank of Sri Lanka in this regard.
- Prepare a Code of Best Practice on Corporate governance for the Bank based on the Central Bank Directive on Corporate Governance for Licensed Commercial Banks and be responsible for implementation and monitoring compliance with the same.
- Function as the Anti-Money Laundering Compliance Officer, responsible to have in place systems and controls for monitoring transactions and reporting of suspicious transaction to the FIU and responsible to train staff on compliance matters including AML including developing of an e-learning module to ensure the training needs of entire branch network.
- Prepare all other policies and implement procedures to minimise compliance risk and reputation risk for the Bank including development of a Whistle-Blowing Policy and a Code of Conduct.
- Liaise with Credit Information Bureau in order to maintain updated credit details of the customers.

Ancillary Compliance Functions

 Provide advisory services to management and staff in relation to regulatory, reputational and ethical matters.

- Promote the belief that compliance is not a negative process but is an enabler to the success of the Bank, so that the principles and importance of compliance are clearly understood by all.
- Secure early involvement in the design and structuring of new products and systems to ensure that they conform to local regulatory requirements and internal compliance and ethical standards.
- Ensure that assessments and reviews are undertaken at appropriate frequencies to assess compliance with regulatory rules and internal compliance standards.
- Represent the compliance function on relevant internal and external committees.
- Ensure that compliance policies and procedures are clearly communicated to management and members of staff.
- Liaise with the Bank's audit function, both internal and external, to ensure that auditors are familiar with local regulatory and ethical requirements so that they are able to ensure that compliance issues are properly addressed.
- Those compliance weaknesses identified as a result of audits are followed up.
- To liaise with the auditors and conduct random compliance audits on risk based assessment-higher the areas of risk identified, more frequent audits to be conducted.

Compliance Reporting

The Compliance Department submits monthly compliance reports to the Board of Directors which include sign offs from the Heads of Departments and branches on statutory and mandatory requirements, events of non-compliance (if any) and details of any employee training and branch assessments held. Meanwhile, a quarterly report is also submitted to the BIRMC and BAC on any special compliance-related matters arising during the quarter.

Prevention of Money Laundering and Terrorist Financing

The Bank actively works to combat the rising prevalence of money laundering and terrorism financing. All relevant employees undergo thorough training on anti-money laundering, KYC and Customer due diligence through structured programmes and e-learning modules. Unusually large and suspicious transactions are analysed, evaluated and reported to the Financial Intelligence Unit.

Strategic Risk

Strategic risks are the potential losses arising from the possibility of the Bank's future business plans and strategies being inadequate. Strategic risks arise from external and/or internal factors and inability to respond to emerging risks and opportunities in the operating landscape.

The Bank adopts a cohesive approach towards managing its strategic risks, permeating all employees and business units. The Strategic Plan for 2016-2020 was formulated following extensive stakeholder engagement at multiple levels and strategic action plans together with budgets are discussed extensively and approved by the Board and Executive Management. Implementation is monitored against defined targets at each business unit level on a continuous basis. Meanwhile, macroeconomic trends and emerging threats and opportunities are monitored continually to ensure the Bank's readiness to face dynamics in the operating environment.

Strategic risk is measured assessed using a scorecard based approach which takes 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 administered at least annually and highlights areas for potential improvements in mitigating strategic risk.

Reputational Risk

Reputational risks are those that impact the Bank's current or prospective earnings capacity and organisational value arising from the loss of confidence, breakdown in relationships and negative perceptions of transactional stakeholders.

Policy frameworks in place to mitigate credit, market and operational risks, the Employee Code of Conduct and an organisation-wide culture which nurtures values such as integrity, transparency and honesty are crucial in managing the Bank's reputational risk exposures. Reputational risks are assessed through a comprehensive scorecard developed by the Bank to measure such risks under the ICAAP guidelines.

Group Risk Management

The Bank's main subsidiaries, People's Leasing and Finance Company PLC, People's Merchant Finance PLC and People's Insurance PLC, regulated entities and have structured risk management frameworks in place to identify, assess and monitor risk exposures. The parent exercises oversight on the risk management aspects of the 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.
- 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, the Parent entity nominates Directors to the Boards of the Subsidiaries.
- DGM-Risk Management Department of People's Bank is a Director and Member of the Board Risk Management Committee of People's Leasing PLC.

- The Bank's BIRMC periodically reviews the risk profiles of the regulated subsidiaries.
- The Bank's Board of Directors have access to the Board minutes of the Group companies.

The Group's risk ratings for the key categories of risk in 2016 are given below:

	Risk Exposures					
	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 with the objective of maintaining sufficient capital for its regulatory requirements, growth aspirations and cushioning against unexpected events. The Internal Capital Adequacy Assessment Process (ICAAP) in line with the requirements of the Basel II Accord has enabled the implementation of a framework for the assessment of total overall capital adequacy in relation to the Bank's overall risk profile.

The Bank's approach for evaluating internal capital starts with the capital and risk weighted assets as reported under Pillar I. It enables 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 II and supports several business processes including strategic planning, setting risk appetite, developing contingency plans and liquidity management among others. The results of the stress testing are reported to the BIRMC on a regular basis. Please refer page 59 on this Report for stress testing results.

Regulatory Capital

Regulatory requirements on licensed banks necessitate the maintenance of a Tire I (core) capital adequacy ratio (CAR) of not less than 5% and an overall CAR of not less than 10%. As at end-December 2016, the Bank's Tier I and overall CAR declined to 9.8% and 12.1% respectively, compared to 9.9% and 12.6% the year before reflective of strong portfolio growth during the year.

Implementation of the Basel III minimum capital requirements and leverage ratio frameworks will come into effect on the 1st July 2017. The Bank is geared to embrace these proposed changes in contributing towards a more resilient banking industry.

Capital and Dividend Management

As a fully-state-owned entity, the Bank has no access to the equity markets and due to the stipulations of the People's Bank Act access to the debt market is also limited. As such, the Bank must rely entirely on its own capital generation and infusions from the Government Treasury to augment its capital base, in funding future growth.

Accordingly, the Bank has reached an informal agreement with the Government Treasury to limit the Bank's dividend payouts 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). Going forward we have made necessary arrangement with regard to robust capital augmentation plan, to ensure Basel III compliance, when it comes into effect on 1st July 2017.

OUR MODEL AND THE ULTIMATE VALUE CREATIVE PROCESS

HOW WE CREATE VALUE

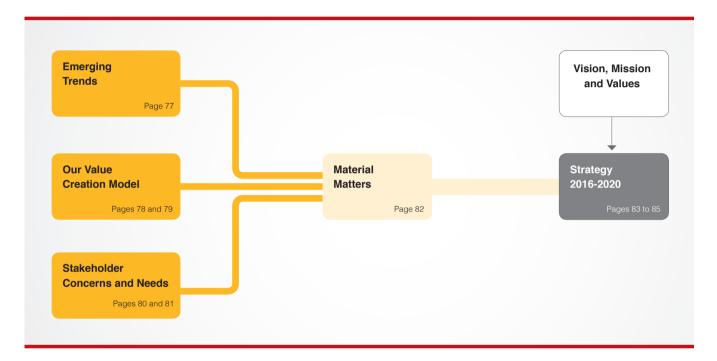
76

The Group's leading market positions across many of its businesses, sustainable growth in shareholder return and consistently high employee retention rates is testimony to how well it is creating value for its diverse stakeholders. Nurturing relationships with a base of nearly 18 million customers, as well as managing our business effectively and efficiently has enabled the Group to achieve sustainable growth in size and earnings.

HOW WE CREATE VALUE

DETERMINING STRATEGY

The Bank's strategic agenda for 2016-2020 was determined by its vision, mission, values and material issues, which are defined as the issues that could materially affect the Bank's ability to create value. Material matters were derived from intense stakeholder engagement at multiple levels, thorough evaluation of emerging risks and opportunities in the operating landscape and assessment of the Bank's unique value creation model.

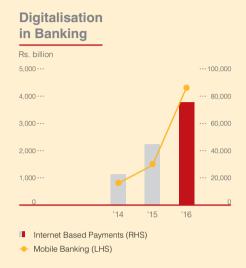


EMERGING OPPORTUNITIES AND RISKS

As a Group with unparalleled depth and scope of operations, we are deeply connected and interdependent on the economic and social environment of the country. Our operating landscape is continually being reshaped by evolving dynamics and timely identification of these emerging trends is vital in sustaining our competitive advantage and ability to create value. Determining ways and means of proactively responding to these trends is a vital element of the Group's strategic agenda.

Digitisation in Financial Services

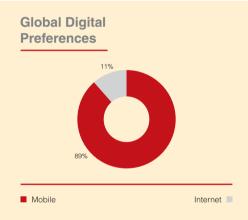
The digital revolution in financial services is rapidly transforming the way banks can interact with its customers. Effective deployment of technology can facilitate improved customer service levels, cost effective distribution platforms and more reliable and efficient processes. Customer's increasing propensity to adopt mobile and internet banking services is reflected in the value of such transactions widening by 75% compared to 2015.



Strategic Response: The Group strives to embrace the opportunities presented by emerging technologies by rolling out self-service channels, engaging with customers via social media platforms, and propagating the use of mobile and internet banking facilities. Increased focus will be placed on educating rural customers on adopting these technologies, as a means of bridging the digital barrier to financial services. This is anticipated provide growth opportunities in existing markets and facilitate penetration in new markets.

Changing Customer Expectations

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. Customers seek out platforms through which banking operations can be conducted seamlessly, where and when they want. Globally, channel preferences have recorded a dramatic shift, with more than 75% of customers showing preference for non-traditional channels.



Strategic Response: In line with the Bank's planned digitisation project, new digital channels allowing seamless integration of platforms will be introduced over the short to medium-term. This will include self-service kiosks and Cash Deposits Machines.

Increased Demands on Governance and Risk Management

Stakeholders are increasingly demanding more transparent and robust corporate governance and risk management frameworks, in line with the broader goals of advancing financial stability and sustainable economic growth. In addition to fulfilling their fiduciary responsibilities, Boards and Senior Management are expected to effectively communicate strategic business direction while ensuring proactive risk assessment and mitigation.

Strategic response: Discuss recent steps in strengthening governance and risk management frameworks.

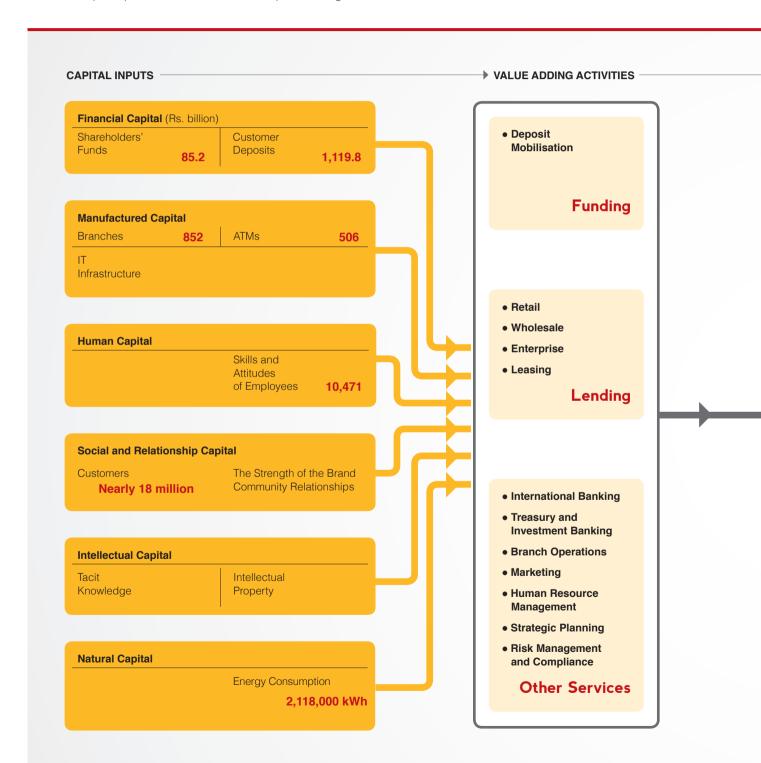
Sustainability Considerations

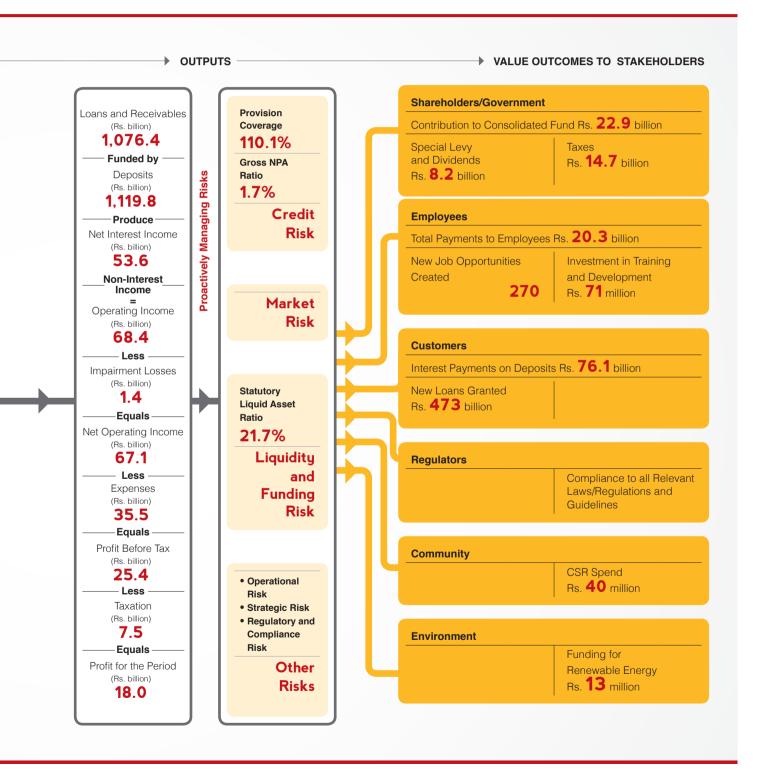
Banks can play a vital reach in promoting sustainable development through integrating environmental and social considerations into core areas of business strategy. Examples include integration of environmental criteria into lending decisions, and the development of new products which provide access to environmentally friendly businesses.

Strategic Response: In 2016, the Bank launched Green Banking, a multi-faceted initiative aimed at promoting green practices amongst its employees and customers. Green Banking consists of raising employee and customer awareness on environmental sustainability, the launch of several Green Banking products and the introduction of paperless transaction.

VALUE CREATING BUSINESS MODEL

The Group's leading market positions across many of its businesses, sustainable growth in shareholder return and consistently high employee retention rates is testimony to how well it is creating value for its diverse stakeholders. Nurturing relationships with a base of nearly 18 million customers, as well as managing our business effectively and efficiently has enabled the Group to achieve sustainable growth in size and earnings. Our value creation model graphically depicts the capitals that are input to our value creation process, the activities that enable the capital inputs to be altered and value outputs and long-term outcomes for our stakeholders.





OUR KEY RELATIONSHIPS

Maintaining an ongoing dialogue with our key stakeholders allow us to clearly identify the issues which matter to them the most. These matters subsequently shape our strategic agenda and guide our activities. We engage with stakeholders who potentially have the most significant impact on our value creation process and those who are affected most by our activities. The Group adopts a systematic process in identifying and systematically questioning stakeholders, as illustrated below:

Stakeholder Identification **Prioritisation of Stakeholder** Requirements **Create Communication Channels** and Allocate Internal Resources Listen and Assess Respond and Implement

The follwing table highlights the Group's key engagement mechanisms with its main stakeholder groups, and the topics and concerns that were identified as a result of this engagement during the year;

GROUP'S KEY ENGAGEMENT MECHANISMS WITH ITS MAIN STAKEHOLDER GROUPS

Shareholders

The Government of Sri Lanka holds and Major Shareholder of the Group

Annual General Meeting

- Annual Report
- Quarterly Financial Statements
- Corporate Website (ongoing)
- Media Releases and Press Conferences (ongoing)

Customers

We Serve Nearly 18 million Customers Island-Wide

- Relationship Managers (ongoing)
- Satisfaction Surveys (ongoing)
- Customer Networking Events (ongoing)
- Corporate Website (ongoing)

Key Topics and Concerns **Raised During** the Year

How we

Engaged

with them

- Sustainable Growth in

- Affordability of

Our Response/ Management **Approach**

We provide detailed and timely disclosures to our shareholders on our performance, asset quality, risk management and efforts to embed sustainability to our daily operations.

(Refer page 111)

We aim to nurture long-standing relationships with our customers through serving them as effectively as possible.

(Refer page 124)

Employees/ Trade Unions

The Group Employs a Total Talent Pool of 10,471 Individuals

Performance • Onsit

- Appraisals (annual)Collective Bargaining
- Multi-level Staff Meetings (ongoing)
- Orientation Programmes (ongoing)
- Training Programmes (ongoing)
- Group Intranet and eMail (ongoing)

Regulators/ Legislators

Includes the Central Bank of Sri Lanka, Ministry of Finance and Ministry of Public Enterprise Development

- Onsite Surveillance by the CBSL (ongoing)
- Regulatory Reporting (Monthly, Quarterly and Annually)
- Industry Forums and Meetings (ongoing)
- Press Releases (ongoing)

Suppliers

Communities

The Group Engages with a Large Network of Communities Island-wide

- Supplier Surveys (ongoing)
- Supplier Relationship Management (ongoing)
- Onsite Visits and Meetings (ongoing)
- Community
 Engagement
 Initiatives
- Workshops to Cultivate Financial Discipline
- Community Surveys

- Transparent, Fair and Attractive Remuneration
- Opportunities for Skills Development
- Career Progression
- Workplace Safety
- Dignity of Labour
- Regulatory
 Compliance
- Corporate
 Governance
 Practices
- Rick Management
- Sustainable Business Practices
- Ease of Transactions
- Value Addition and Supplier Development
- Long-term
 Partnerships
- Quality of Service
- Creation of Job Opportunities
- Sponsorships and Development Initiatives
- Economic and Social Impacts of the Business

The Group strives to provide a dynamic and rewarding work environment, providing numerous opportunities for engagement, skills development and career progression.

(Refer page 115)

We maintain a continuous and open dialogue with our regulators, engaging with all relevant authorities in contributing to the development of the industry.

(Refer page 28)

Our commitment towards our business partners involves establishing long-term, mutually beneficial relationships while propagating sustainable business practices.

(Refer page 133)

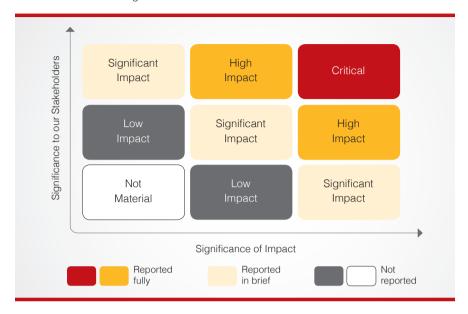
Our community objectives are centred on empowering and uplifting the living standards of the people in the communities we operate in.

(Refer page 130)

DETERMINING OUR MATERIAL ISSUES

The process of determining material issues is a group-wide exercise, with inputs from all departments and business units. Information obtained from engaging with our stakeholders, analysis of market opportunities and risks and the Group's key value drivers are used to identify all potential material issues. Impacts are identified based on the consequences to stakeholders and the likelihood of occurrence. Criteria considered when measuring potential impacts include customer and employee satisfaction, financial performance, magnitude of environmental impacts and investor confidence among others.

The identified material aspects for 2016, demonstrating the relative importance to the Group and its stakeholders are given below:





Material Aspect	Corresponding GRI Requirement	Relevant Strategic Pillar	Pag Referenc
Financial performance	Economic performance	Sustainable growth	109
Customer experience	Customer privacy	Customer-centricity	130
Talent management	Employment, labour/management relations, training and development, equal remuneration for men and women, labour practices grievance mechanism		119-12
Employee productivity	_	People first	11:
Operational efficiency	_	Operational excellence	11
Socioeconomic impacts	Market presence, Indirect economic impacts	A responsible organisation	117-11
Risk and Corporate governance	_	A responsible organisation	27-7
Technology	_	Operational excellence	
Compliance	Product Responsibility-compliance	A responsible organisation	13
Environmental impacts of our operations	Energy, Products and services	A responsible organisation	136-13
Responsible lending		A responsible organisation	12
Anti-corruption	_	A responsible organisation	11
Human rights	Non-discrimination, freedom of association and collective bargaining	A responsible organisation	11
Supplier value creation	_	_	13
Marketing communications	Marketing communications, product and service labelling	Customer-centricity	12

Refer to page 2 for detailed disclosures on aspect boundaries and restatements in material aspects

OUR STRATEGY

Our strategy represents our commitment to national socioeconomic development as well as sustainable value creation to our shareholders, employees, customers and other stakeholders. The Bank's Strategic Plan (2016-2020) was prepared by an international consultant with the support and guidance of the Bank's Board of Directors and the Senior Management with the fullest co-operation of every level in the Bank's hierarchy from the grass root level to the top levels including the SBUs and support services. The entire Bank has contributed for this exercise for incremental strategic planning process. The formulation followed detailed analysis of the Bank's performance, business model and operating landscape with the objective of aligning the Bank's internal value drivers to emerging risks and opportunities through strategy, structure, systems and strategic actions. The Strategic Plan (2016-2020) outlines the key strategic initiatives for an excelled outcome and to achieve the Bank's desired goals in line with its Vision Statement.

All identified strategies are aligned to the Bank's Vision and Mission statements by introducing 67 Strategic Initiatives to be accomplished by 15 functional areas led by the CEO/General Manager whilst having a dotted line relationship to four functions which directly report to the Board of Directors whilst maintaining strong ethics and good corporate governance frameworks.

Our Vision

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

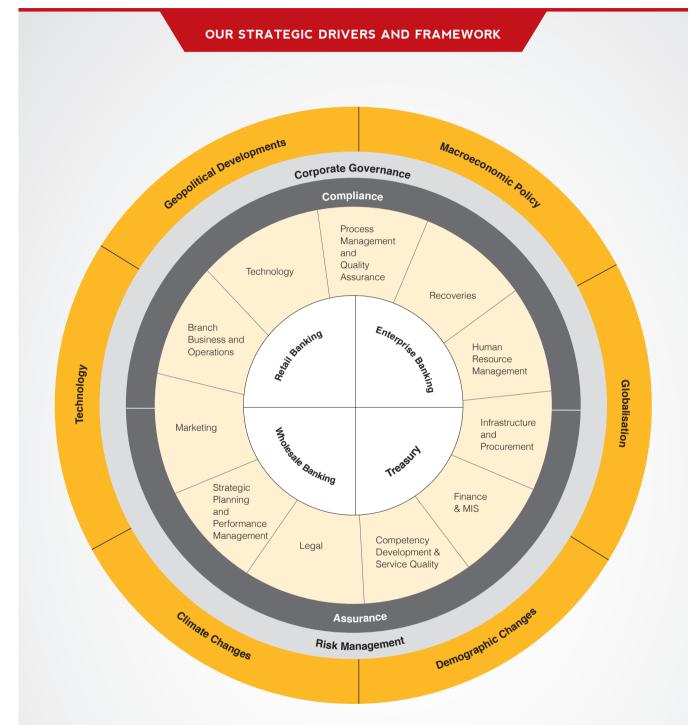
Our Mission

- 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 societies 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



The formulation of the Bank's Strategic Plan (2016-2020) followed detailed analysis of the performance, business model and operating landscape with the objective of aligning the Bank's internal value drivers to emerging risks and opportunities through strategy, structure, systems and strategic actions. All identified strategies are aligned to the Bank's Vision and Mission statements and are to be accomplished by 15 functional areas led by the CEO/General Manager whilst having a dotted line relationship to four functions which directly report to the Board of Directors.

Strategic Pillars

To realise the Bank's long-term vision and generate shared value, we have prioritised the following focus areas as key pillars of our strategic agenda.

Becoming Undisputed Market Leader for Financial Services

Sustainable Growth via Enhanced Shareholder Interests

Customer Centricity

- CRM
- Centralised Call Centre
- Dedicated Sales
 Channels
- BOP based NPD
- Launch Economic
 Enabler Products
- Professionalised
 Consumer Products
- Scale-up SME Business
- Overhaul Commercial Credit
- Autonomous Corporate Banking Unit
- Aggressive Credit Line
 Push
- R&D Lab
- Semi Autonomous & Mass Market Credit Card/Payment Solution
- Rationalised Current
 Credit Lines
- Aggressive Push for Fee based Income including Inward Remittances

We will aspire to place customers as the heart of everything we do and fortify our market position as the most preferred Bank in the country whilst striving to be the undisputed market leader in the industry.

Operational Excellence

- Remap Branch
 Geography
- Expand/Excel Digita
 Reach
- Experiment Transaction
 KIOSK
- Promote ATM Usage
- Experiment New
 Channels and Introduce
 Express Banking
- Unique Model on Branch Base Scientifically Driven Location Planning
- Professionalise Channe Supply Chain and Streamline Operational Process
- Uplift of Service Culture and Dedicated Channel Service
- Branch Ergonomics
- Challengeable Brand
 Architecture
- Ground Zero Based
 Credit Process
- Controlled oProcess

Our goal is to achieve process and operational excellence through developing an agile and simple operating model by embracing the digital frontier.

Effective Employee Engagement

- Scientific Capacity Planning Linked to C&SP
- Major Competency Based Training
- Senior Management
 Winning the Hearts
- Professionalised
 Recruitment Planning
 and Processes
- Two Way Performance Appraisals
- Performance Appraisals
 Coupled with Attractive
 Rewarding Schemes
- KPI Based PMS and Track Strategy Quantification/ Measurement

Good Governance

- Focused CSR Policy
- Up Staff Appreciation on Sustainability
- Maintain Good
 Governance and
 Mitigate Governance
 Gapp
- Mitigate Technology, Compliance, Business Continuity Gaps

Our goal is to inspire, develop and motivate our people to drive our ambitious strategies and deliver our customer experience. Nurture a culture of responsible leadership and good governance in ensuring we do the right business the right way.

SUSTAINABILITY AT PEOPLE'S BANK

As one of Sri Lanka's systemically important banks, we are cognisant of the vital role we play in facilitating movement of capital to where it is required for the benefit of our stakeholders and the community at large. Our heritage and strong market position affords us a unique advantage

in developing a differentiated financial services offering that can shape the country's socioeconomic landscape.

Sustainability is embedded into the Group's strategy and day-to-day business operations and is founded upon creating long-term value for its stakeholders, the national economy and society at large and is underpinned by the following:



OUR COMMITMENT TO THE SUSTAINABLE DEVELOPMENT GOALS (SDG)

In September 2015, over 200 countries including Sri Lanka, committed to the 17 Sustainable Development Goals with the aim of fighting inequality, addressing the challenges of climate change and ensuring prosperity for all. As one of Sri Lanka's most impactful entities with an unparalleled

island-wide customer reach, we are aware of how, vital the role we can play in the country's commitment towards achieving the SDGs. We also believe that our commitment towards these goals will result in a more robust and a resilient Bank.

No Poverty **Gender Equality** People's Bank has remained true We value diversity in our workforce, to its founding objective of creating and the Bank's female participation financial inclusion in underprivileged rate of 57% is amongst the highest in communities. With a network of the industry. Female representation 158 branches in economically at management level is also relatively disadvantaged communities, the high. Conducive work conditions for females have enabled the Bank to Bank's lending portfolio in these regions amounted to achieve 100% return to work rates Rs. 92.4 million in 2016. following maternity leave. **Decent Work and** Reduced **Economic Growth** Inequalities We are the largest Throughout its existence the employer in the Bank has played a critical role in empowering communities banking sector and **Our Commitment** have continued to and partnering the to the Sustainable demonstrate high socioeconomic progress of **Development Goals** employee retention millions of people through levels, attesting to providing access to capital, the strength of our opportunities for investment and employee value transactional banking services. proposition. **Sustainable City** and Communities As a key lender to the Government Climate of Sri Lanka and systematically Action important state institutions, the Bank In 2016 the Bank launched a has been a vital contributor to the Affordable and comprehensive carbon management country's infrastructure development. **Clean Energy** programme, a three-year systematic People's Bank disbursed over The Bank has launched special project which comprises the Rs. 202 billion for road development, development and implementation lending products to encourage SMEs electrification and irrigation projects of carbon management plans and households to install renewable which have directly contributed at all major divisions to facilitate energy, thereby contributing towards towards enhancing the accessibility actions towards reducing the Bank's reducing the country's dependence of infrastructure in cities around on fossil fuels. operational emissions. the country.

OUR VALUE PROPOSITION

- 89 DELIVERING STRATEGY THROUGH OUR BUSINESS LINES
- 109 CREATING VALUE TO OUR CAPITAL INPUTS

The Bank's strategic agenda is delivered primarily through its four business lines and supported by enabling functions such as human resource development, marketing, technology and risk among others. Our value creation process is designed to effectively transform our six capital inputs to sustainable and shared value to our diverse stakeholders.

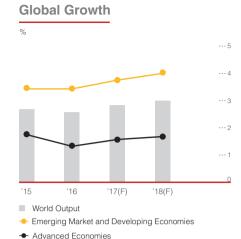
DELIVERING STRATEGY THROUGH OUR BUSINESS LINES

OPERATING CONTEXT

Global Operating Context

Global output is estimated to have grown by 3.1% in 2016, supported by stronger than anticipated growth in advanced economies while emerging market economies demonstrated an unexpected slowdown. Activity in the United States rebounded, particularly during the second half of the year, although the performance of the European region was below expectations.

Emerging markets are estimated to have grown by 4.1% although demonstrating divergent trends across individual markets. China benefited from a policy stimulus; however activity was weaker than expected in several sizable markets including India and Brazil. The International Monetary Fund in its World Economic Outlook published in January 2017, projects global growth to accelerate to 3.4% in 2017 with advanced economies and emerging markets expected to grow by 1.9% and 4.5% respectively.



Sri Lankan Economy

Economic Growth

Sri Lanka's GDP expanded by 4.4% during the 2016, reflecting growth in the country's industrial and services sectors while the agriculture sector contracted in comparison to the previous year. With a share of 57.1% the services sector continued to be the largest contributor to GDP and grew by 4.2% during 2016, upheld by expansion in financial services (+12.4) transportation (+4.1%) and telecommunication services (+8.3%). The industrial sector grew by 6.7% (compared to 2.1% in the corresponding period in 2015) as the construction sector rebounded with the recommencement of Government and Private sector projects. The agriculture sector contracted by 4.2%, with adverse weather conditions affecting the supply of paddy and several key export crops, which were also impacted by weaker global prices.

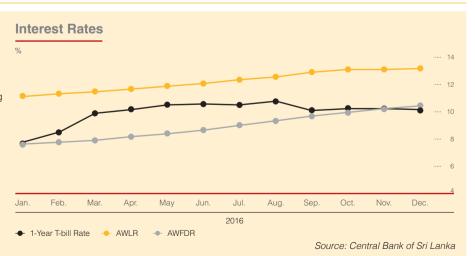
	Growth in 2016 (%)	Growth in 2015 (%)
GDP	4.4	4.8
Agriculture	-4.2	4.8
Industry	6.7	2.1
Services	4.2	5.7
The Group's focus sectors		
Construction	14.9	-2.7
Financial services	12.4	17.2
Wholesale and retail trade	2.5	
Transport	4.1	5.0

Source: Dept. of Census and Statistics

Impact on Group: Opportunities for growth in the construction, trade and tourism sectors while mitigating measures will be adopted for a potential increase in impairments from the agriculture sector.

Interest Rates

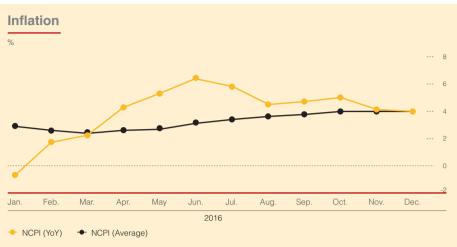
The CBSL raised policy rates twice during the year, as a tightening monetary policy stance was adopted to curb inflationary pressures and support the balance of payments. Accordingly, the Standing Deposit Facility Rate and Standing Lending Facility Rate were increased by 50 basis points each in February and July 2016, closing the year at 7.0% and 8.5% respectively. Meanwhile, the Statutory Reserve Ratio was raised from 6.0% to 7.5% in January 2016. In response to monetary policy adjustments, market interest rates continued to increase steadily during the year.



Impact on Group: Higher interest rates led to a slowdown in credit demand while deposit liabilities repricing faster in a rising interest rate scenario, resulted in the Group faced margin pressure during the year.

Inflation

Headline and core inflation were on an upward trajectory during the first half of the year, reflecting demand driven inflationary pressures, supply constraints in the agriculture sector as well as revisions to the tax structure. Resultantly, inflation measured by the Colombo Consumers' Price Index (CCPI) peaked at 6.0% in June 2016, before declining gradually and stabilising in the latter half of the year in response to tightening monetary policy measures and contained aggregate demand pressures.



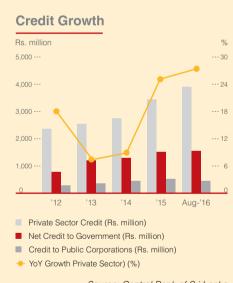
Source: Dept. of Census and Statistics

Impact on Group: Higher inflation resulted in a slowdown in credit demand

Government Finances

In line with the Government's fiscal consolidation efforts, the budget deficit narrowed by 18% during the first half of 2016 supported by revenue expansion of 22%. The deficit as a share of GDP declined to 2.7% by June, on track with the year-end target of 4.6%. The 2017 budget proposals on improving the administrative efficiency of collecting taxes, simplifying the tax structure and fiscal disciplinary measures are expected to contribute towards fiscal consolidation, leading to more stable interest rates and conducive macro-economic fundamentals over the medium to long-term.

Credit growth to the private sector was strong during the first half of 2016, before decelerating in the 3rd quarter of the year in response to tighter monetary policy measures. However, commercial banks lending to the public sector continued to rise resulting in the acceleration of broad money growth to 18.4% in September, compared to 17.3% the year before.



Source: Central Bank of Sri Lanka

Impact on Group: As a key lender to the Government, the slowdown in private sector credit growth was somewhat balanced by increased lending to the Government and Public Sectors.

External Sector

Total exports from Sri Lanka declined 2.8% YoY during the 11 months to November 2016, reflecting weaker economic growth and geopolitical tensions in key export destinations. Textiles and garment exports increased marginally YoY although this was offset by weaker agricultural exports, particularly tea, spices and minor crops. Meanwhile, imports were relatively flat during the period; fuel and vehicle imports recorded a decline. Overall, the trade deficit widened marginally during the period. However, strong earnings from tourism (+18.7%), worker's remittances (+3.1%) and foreign inflows to the Government (+60.8%) resulted in an overall improvement in the country's balance of payments, which recorded a deficit of US \$ 635.3 million, compared to a deficit of US \$ 12,742 million in 2015.

Key Performance Indicator	JanOct. (16) US \$ million	JanOct. (15) US \$ million	YoY Change %
Exports	9,450.7	9,726.0	-2.8
Imports	1,784	1,789	1.7
Petroleum imports	1,469.3	1,699.4	-13.5
Trade balance	-8,133.3	-7,563.9	7.5
Tourism earnings	3,132.8	2,639.0	18.7
Remittances	6,556.9	6,361.8	3.1

Source: Dept. of Census and Statistics

Impact on Group: The decline in the value of petroleum and fertilizer imports affected the Group's trade business, as the bulk of these import transactions are channelled through the Bank.

Exchange Rate and International Reserves

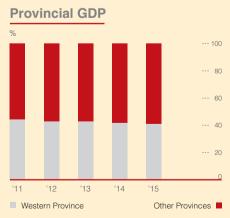
Sri Lanka's gross official reserves increased during the year, mainly due to foreign exchange inflows to the Government Securities market and the issuance of a US \$ 500 million international sovereign bond. In November, Sri Lanka also received the second tranche of the IMF facility, following the successful completion of the first review by the IMF. By end-December 2016, gross official reserves amounted to US \$ 6 billion which translated to 3.7 months of imports. Meanwhile, the Sri Lankan rupee depreciated by 4.0% against the US dollar to close the year at Rs. 149.75.



Source: Dept. of Census and Statistics

Regional Development

The Western Province's share in the country's GDP has declined in recent years, as other provinces have recorded relatively strong growth, gradually contributing towards reducing regional disparities. In 2015, the Northern and the North Central Provinces marked the fastest growth of 12.1% (nominal GDP) while the Eastern and the Sabaragamuwa Provinces expanded by 10.9% and 9.9% respectively during the year.

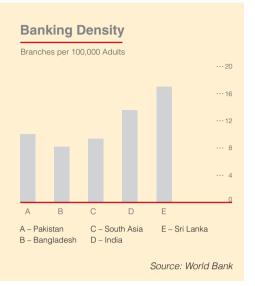


Source: Dept. of Census and Statistics

Impact on Group: The Group is well-positioned to benefit from growth stemming from regions outside the Western Province, particularly given the Bank's extensive rural network and relationships it has nurtured with the masses.

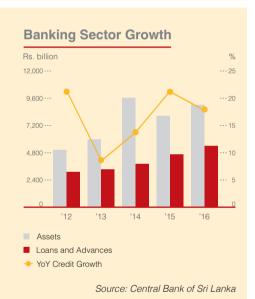
Banking Sector

The banking sector is an integral component of the country's financial system, accounting for around 70% of the latter's total assets. The banking sector comprised 25 licensed commercial banks and seven licensed specialised banks, which operated a collective branch network of 3,587 branches. The country's banking density is high, with an average of 17 branches per 100,000 people, compared to the global average of 12 and South Asian average of 9.



Sector Growth

The sector's asset base witnessed strong growth during the year, expanding 12.0% YoY during the 2016, against the backdrop of robust credit growth particularly during the first half of the year. Net loans and advances thus grew by 17.7% YoY during 2016, representing 60% of the sector's total assets. Lending growth was supported by increased credit demand in major sectors such as construction, consumption, financial services and manufacturing. The expansion in loans were funded primarily through deposits, which increased by 16.5% YoY in 2016.



Asset Quality

The sector's asset quality improved during the year as reflected by a decline in its absolute non-performing loans (NPLs) and gross NPL ratio. Total NPLs reduced by 4.5% in 2016 supported by stronger recoveries, while this translated to a historically low gross NPL ratio of 2.6%. Meanwhile the sector's NPL coverage was relatively healthy, with total provision coverage clocking in at 70% by end-December 2016.



Source: Central Bank of Sri Lanka

Performance

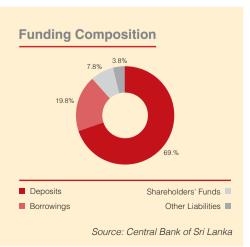
The banking sector turned in a year of strong performance supported by healthy top line growth and improved portfolio quality although efficiency (as measured by cost to income ratio) declined marginally. The sector's interest income grew by 24.8% during 2016, although a faster increase in interest expenses during the period resulted in net interest income growth being contained at 13.4%. Impairment charges for the year declined by 42.9% despite the strong expansion in loans and advances, thereby supporting profit growth. Overall, the banking sector's Profit after Tax widened 16.4% to Rs. 275.9 billion in 2016.



Source: Central Bank of Sri Lanka

Funding

Public deposits continued to dominate the sector's funding mix accounting for 70% of total liabilities including equity by end-December 2016. The sector's deposit base grew by 16.5% to Rs. 6.3 billion by end-September 2016, supported by the relatively attractive interest rates. Borrowings remained relatively unchanged during the period in comparison to 2015 and funded around 20% of the sector's Balance Sheet. Liquidity position was healthy with the ratio of liquid assets to total assets declining marginally to 28.1% from 30.4% in the previous year.



DELIVERING STRATEGY THROUGH OUR BUSINESS LINES

The Bank's strategic agenda is delivered primarily through its four business lines and supported by enabling functions such as human resource development, marketing, technology and risk among others.

BRANCHES <

People's Bank's most significant business line, this comprises retail banking, enterprise banking and the micro financing portfolio.

Contribution

Advances – 60%Assets – 39%PAT – 34%Net Income – 67%

TREASURY

The Bank's Treasury operations consist of its foreign exchange trading arm, ALM desk, primary dealership and the investment banking unit.

Contribution

Assets – 30%
PAT – 37%
Net Income – 18%

CORPORATE

This segment caters to the Bank's corporate clientele including state-owned enterprises. The earnings of the offshore banking and overseas customer units are also consolidated to the corporate business line.



BRANCHES

Branches are the Bank's most significant line of operations in terms of net income, assets and deposits. Branches comprise People's Bank retail arm, its enterprise banking division and its microfinancing operations. The subsequent section of this Report will provide a comprehensive assessment of the performance of these divisions in 2016.

Performance Highlights 2016

Relevance to the Bank (%)

67%	Net Income
34%	Profit After Tax
39%	Assets
60%	Advances



Key Performance Indicator	2016	2015	% YoY
Net Income (Rs. million)	34,730	30,864	12.5
Profit After Tax (Rs. million)	3,836	3,123	22.8
Assets (Rs. million)	532,196	427,867	24.4
Advances (Rs. million)	503,756	432,502	16.5
Deposits (Rs. million)	885,790	760,893	16.4
NPL Ratio (%)	1.4	2.0	-30.0
Cost to Income Ratio (%)	79.2	69.8	13.4
No. of Online/Mobile Banking Subscribers	774,272	246,600	213.9
Lending to Economically Disadvantaged Areas (Rs. million)	92,382	67,888	36.1



737

Branches

506

ATMs

MARKET LEADER

in Savings Deposits Minors' Savings Senior citizens' Savings

RETAIL BANKING

With an unparalleled reach of nearly 18 million retail customers island-wide, the Retail Banking cluster has facilitated economic activity and driven financial inclusion across the country's socioeconomic strata. A true innovator in consumer and retail banking, the Bank has pioneered numerous products targeted towards empowering underserved segments of the economy, including pawning and facilities for women, minors and senior citizens. With a product portfolio designed to serve the transitioning needs of customers across all stages of their lives.

Performance Highlights 2016

Key Performance Indicator	2016	2015	% YoY
Total Deposits (Rs. million)	885,790	760,893	16.4
Retail Loans (Rs. million)	285,594	202,991	40.7
Pawning (Rs. million)	114,423	103,945	10.1
Credit Cards (Rs. million)	1,840	1,500	22.7

Women's savings

Youth savings

accounts

accounts



Access to Finance

- Housing loans
- Term loans
- Personal loans
- Education loans
- Auto loans
- Pawning
- Loan schemes for professionals
- Loan schemes for teachers
- Loan schemes for armed forces



Savings Products

- Savings accountsFixed deposits
- Accounts for
- senior citizens
- Minor accounts



Channel Products

- Debit and credit cards
- ATMs and self-service kiosks
- Branch operations

Strategy and Performance

Delivering Sustainable Growth in Earnings

The retail banking unit demonstrated strong resilience in an increasingly competitive environment, driven by robust credit expansion, lower credit impairments and disciplined cost management. The strong performance during the year is testimony to the progress made in expanding our targeted customer base, redefining customer experiences and driving operational efficiency.

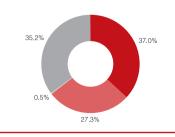
Credit Growth

Loans and advances in the retail banking book grew by 30.3% to Rs. 93.4 billion during the year, accounting for 45% of the Bank's total loan book. Growth stemmed from multiple product lines including housing loans, 'Pahasu' multi-purpose loans as well as facilities designed for specific customer groups, such as Guru Setha for teachers and Dayaviru Pranama for employees of armed forces. The Bank adopted a strategy of collaborating with Government, private and community organisations to design products targeted towards fulfilling the requirements of specific customer groups, such as professionals, media personnel, farmers and students among others.

Exposure to pawning increased by 10.1% to Rs. 10.5 billion during the year. As a party to the CBSL's Credit Guarantee Scheme on pawning advances introduced in 2014, the Bank increased disbursements during

the year, while maintaining LTV ratios at prescribed levels. Focus was also placed on strengthening recoveries.

Loan Portfolio Composition – Retail Banking



HousingPawning

Credit Cards ■
Term Loans ■

Deposit Growth

An unparalleled geographical reach and solid reputation enabled the Bank to grow its retail deposit base by 16.4% to Rs. 124.9 billion during the year, accounting for 83.6% of the Bank's total deposits. Our customer value proposition is underpinned by identifying and fulfilling changing needs stemming from transitioning demographics. The Bank is the industry pioneer and market leader in mobilising deposits from underserved segments such as women, senior citizens and minors. The CASA ratio of 48% is well above industry standards and reflects our understanding of customer needs and the depth of our product portfolio. During the year, the Bank also made its mark as the fastest Bank to achieve the milestone of Rs.1.0 trillion in deposits.

Healthy Portfolio Quality

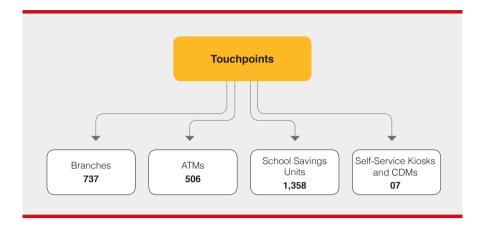
Continued engagement with customers, well-defined credit criteria and proactive monitoring of the portfolio has allowed the Consumer Division to maintain a resilient and healthy loan book. Portfolio quality is also supported by the granularity of the loan book. The cluster's gross NPA ratio of 1.9% is better than the industry average of 2.6%.

Customer Centricity at the Core of Our Offering

In the current operating context, our primary customer priority is to understand emerging customer needs and enable a better overall client experience. With the digital revolution in financial services we are positioned to embrace new and better ways of interacting with our customers and placing customers at the centre of our offering.

Growing Customer Contact Points

With an island-wide network of 737 branches, and 506 ATMs, the Group's geographical reach is unmatched, facilitating access to banking services in the country's most economically underprivileged areas. In addition to these owned customer touchpoints, the Group has also formed alliances with Government schools around the country to operate school 1,358 savings unit. Through the common ATM switch, the Bank's customers are also able to access over 3,000 ATMs located across the country.



Transforming Customer Interactions

The Bank's digitisation drive is a vital pillar of the Strategic Plan (2016-2020) and aims to transform our customer value proposition through facilitating better service, increased flexibility in customer interactions and more reliable processes. The branch infrastructure will undergo significant enhancement in terms of service levels, ambience and digital capabilities, with digital self-service kiosks enabling customers to conduct their operations swiftly and with ease. In addition, the Bank is driving simple and more efficient banking and payment services through online and mobile banking channels giving customers flexibility and control over all aspects of their finances. This has included the launch of a mobile banking application, introduction of the country's first voice activated application for checking account balances, unveiling a more sophisticated internet banking portal and revamping the Bank's corporate website.

Online and mobile banking transactional volumes grew by 48.5% and 57.5% respectively during the year while transactions processed through these channels amounted to Rs. 88.2 billion in 2016. This demonstrates the Bank's progress in gradually transitioning from a branch-based Bank to an entity with advanced digital capabilities.

Online Banking and Mobile Banking Subscribers



- Online & Mobile Banking Subscribers (No.)
- Transaction Value (Rs. billion)

Credit and Debit Cards

The use of payments cards in the country continued its upward trajectory with total debit and credit cards in issue increasing by 16.4% and 11.3% respectively up to the 2nd quarter of 2016. Meanwhile, the value of transactions conducted by debit and credit cards also increased by a respective 32.4% and 21.2% during the same period, reflective of increasing customer acceptance and popularity for this channel product.

The Bank is still a relatively small player in the credit and debit cards market. Having identified this sector as presenting substantial potential for growth, the Bank has strengthened its customer education efforts to encourage customers to use payment cards for transactions while also engaging with merchants to provide a range of promotions to increase the attractiveness of the credit cards.

The Bank has been a driving force in promoting affordable access to finance in Sri Lanka

Online and mobile banking transactional volume grew by

53.2%

RS. **424.6**BILLION

Largest Savings base

Customer-Focused Innovation

Continuous investment in customer focused innovation is key to success in our intensely competitive market. The Bank aspires to innovate around emerging demands, with the objective of creating tangible value to our customers and the communities we operate in. Innovation is also driven through collaborative partnerships with other state and private sector entities. New products/ services introduced by the consumer banking unit during the year include:

- Solar Power Loan Scheme in line with the 'Soorya Bala Sangraamaya' initiative of the Government to encourage solar power generation in households.
- People's Travel Pass Developed in partnership with the Road Passenger Transport Authority, Sri Lanka Private Bus Association and Dialog Axiata the first-of-its-kind Touch Travel Card enables customers and the general public to benefit from cashless commuting.
- Special loan facility enabling university students to purchase laptops.
- Loan facility with easy payment scheme for purchasing smartphones.
- Special loan facilities for media professionals/artists.

Nurturing Financial Discipline

The Bank's savings deposit base of Rs. 424.6 billion is amongst the largest in the country, and through the launch of attractive product propositions targeting specific customer segments, the Bank has been successful in encouraging saving habits and nurturing financial discipline amongst underserved segments in the market such as minors and senior citizens. A high level of proactive engagement at primary school level and attractive prizelinked incentive schemes has enabled the Bank to widen its student savings base, with a remarkable mark to market share

in this segment. The Bank's drive towards encouraging savings is also in line with the national objective of increasing the country's household savings rate, which currently stands at 22.6% and compares lower than most middle income earning economies and regional counterparts.

Operational Excellence

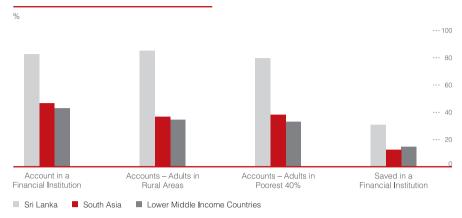
As a vital element of the Strategic Plan (2016-2020), the Bank revisited its operational processes with the objective of overhauling both back-office and frontend operations simultaneously to achieve operational excellence. Meanwhile, the ongoing implementation of a core banking programme under the digitisation drive will underpin our transformation to a more agile and dynamic entity and is anticipated to be a fundamental factor driving efficiency, productivity and cost management over the foreseeable future.

A Responsible Organisation

Driving Financial Inclusion

Financial inclusion has long been identified as a key factor uplifting households from extreme poverty and has been directly linked to a country's socioeconomic development. Since its inception, over five decades ago, People's Bank has functioned with the fundamental objective of serving the unbanked masses of the country's rural economy, seeking to ensure that all households regardless of income levels have access to formal financial services. Aligning itself with the national objective of inclusive development, the Bank has been a driving force in promoting affordable access to finance in Sri Lanka.

Financial Inclusion in Sri Lanka



ENTERPRISE BANKING

As an industry pioneer and one of the largest lenders to the country's SME sector, People's Bank is aligned to the Government's national economic agenda in facilitating economic activity across the island by providing access to finance at affordable rates. Through its enterprise banking unit, the Bank serves Small and Medium-sized Enterprises, commercial enterprises and selected state-owned enterprises as well as the co-operative sector and micro enterprises.

Performance Highlights 2016

Key Performance Indicator	2016	2015	% YoY
Advances (Rs. million)	93,283	74,426	25.3
Non-performing Loans (Rs. million)	4,293	4,578	-6.2
Interest Income (Rs. million)	7,046	6,129	15.0
Number of SME Education Seminars	4	3	33.3
Beneficiaries of SME Seminars (No.)	780	541	44.2



SME Banking

- Business start-up loans
- Working capital loans
- Expansion loans



Commercial/SOEs

- Trade finance facilities
- Business loans



Other

- Microfinancing
- CBSL refinancing schemes
- Lending to the co-operative sector at concessionary rates

Strategy and Performance

Sustainable Growth

The enterprise banking division turned in a year of strong performance, recording a portfolio of 25%. Credit expansion was driven by the Bank's continuing efforts in upskilling employees in relationship driven marketing, which enabled customer acquisition as well as deepen relationships with existing customers. Focus was also placed on improving credit quality and generating process efficiencies which supported the overall profit growth during the year.

SME Banking

The Bank's SME proposition is targeted to businesses with an annual turnover of between Rs. 15 million and Rs. 750 million. During the year, the SME book grew by 35% supported by proactive customer engagement by the SME centres and branches; the 23 SME centres operate as dedicated hubs for serving the requirements of SME customers. These centres are monitored by respective Regional Managers and SME Development Unit at Head Office through which targets are allocated. During the year, the division also placed emphasis on training credit officers on a range of SME lending aspects including credit evaluation, risk management, collection and monitoring.

The Bank's extensive geographical reach has enabled it to facilitate business growth in regions outside the Western Province, stimulating economic activity in these regions. In 2016, 73% of SME disbursements was to outstation regions, while overall 70% of the Bank's outstanding SME portfolio originated outside the Western Province. Industry exposures are also diverse, with the Bank providing funding to numerous sectors including agriculture, trading, tourism and manufacturing.

Commercial Loans

The Enterprise Banking Division's commercial loans comprise facilities granted to commercial enterprises and specific state-owned enterprises and departments, some of which are

co-ordinated by the Treasury. These include (but are not limited to) the Paddy Marketing Board, Pension Gratuity Fund and the State Engineering Corporation. During the year, this portfolio expanded by 25% to Rs. 11,526 million while interest income increased by 5%. The commercial loan market in Sri Lanka is highly competitive and evaluating credit to this segment, the Bank carries out a cash flow-based assessment rather than the traditional focus on collateral. We are also able to provide tailor-made solutions based on the requirements and repayment capabilities of the relevant entities. This enables the Bank to widen funding access to a sizable segment of the country's medium and large business segments.

Supporting the Co-operative Sector

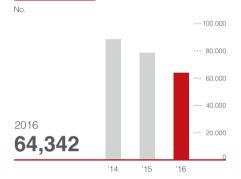
The Bank has partnered with the co-operative sector to disburse funding to co-operative society members for multiple purposes such as agriculture, animal husbandry, consumer trading, fisheries and special projects among others. The facilities are disbursed at concessionary rates and allow the Bank to reach a segment of the population that is often overlooked by the formal financial sector. The Bank engages with the Chairmen, Executive/General Managers of co-operative societies islandwide to raise awareness and develop skills on entrepreneurship, financial discipline and business management among others. In 2016, the Bank disbursed Rs. 300 million via the co-operative sector.

Development Banking/ Microfinance

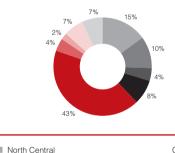
Development Finance/Microcredit aims to empower the grass roots of the country's economy and develop the rural sector through providing financing at affordable rates. This sector generally falls beyond the risk appetite of financial institutions and resultantly lacks access to formal credit at equitable rates. One of the first banks in the country to engage in microfinancing, People's Bank disburses microfinancing facilities for multiple purposes including agriculture, industrial and cottage industries. The Bank's competitive advantage in this segment is based on

relatively equitable rates (compared to dedicated microfinancing institutions and Non-Banking Financial Institutions) and flexible repayment terms, which do not burden the borrower. During the year under review, the Bank granted Rs. 7,200 million microfinancing facilities to a total of 21,215 borrowers.

Microfinance Borrowers



Microfinance Loans





Customer Centric Offering

The expertise and industry acumen of our employees allows enterprise banking unit to engage with customers and develop tailor-made solutions based on the specific requirements of the customers and the industry sectors they operate in. Therefore, the Bank's value proposition to its SME customers is a holistic one, with the Bank offering guidance and non-financial support in addition to the facilities.

Ongoing Investments in Customer Education

'Entrepreneurial Glory' is a series of tailor-made seminars and workshops organised and sponsored by the Bank for its SME clientele. The workshops are aimed at improving the entrepreneurship and business management skills of the SME customers and feature multidisciplinary presentations from the Bank's senior management and external/industry consultants. During the year, the Bank conducted four such seminars with a total participant base of over 850.

Responsible Lending Practices

All facilities above are assessed for social and environmental impacts and during the year disbursements of over Rs. 2.9 billion underwent this assessment process. Key aspects of the assessment include compliance to relevant environmental and labour regulations, potential employment creation of the venture, raw material substitution and alignment with national policies on export substitution among others. As a responsible organisation, we also engage with our customers to ensure that the financial burden resulting from our credit facilities is minimized. For example, in the event that a customer faces difficulty in repayment due to a genuine reason, the Bank engages with the customer to restructure the facility and provide options for flexible repayment.

Conduit for Channelling Government Funds

The Bank's extensive reach enables it to act as a conduit for Government/ non-Governmental organisation funds targeted to specific industry sectors and/or purposes. People's Bank is a key partner in 11 of such re-financing schemes, which have directly contributed towards empowering and supporting the socioeconomic progress of underserved communities.

Loans granted under refinancing schemes are given below:

Scheme/Loan	Sectors	Purpose	Disbursements (Rs. million) in 2016
Poverty alleviation Microfinance Project (refinance scheme by CBSL)	Agriculture, Agro-based industries, Cottage industries, Trade and Services	For business start-ups and expansion of existing businesses	182.66
Kapruka Ayojana Loan Scheme (Refinance Scheme by Coconut Cultivation Board)	Coconut Cultivation and Development	New planting and replanting coconut with inter-crop	47.82
Self-Employment Promotion Initiative Loan Scheme (SEPI-II)	Trained youth who passed out from recognised vocational training institutions for establishment of their own self-employment projects.	For business start-ups and expansion of existing businesses	11.74
Saubhagya (Prosperity) Loan Scheme	Micro and small medium entrepreneurs	For business start-ups and expansion of existing businesses	223.69
Smallholder Plantation Entrepreneurship Development Programme (SPEnDP)	Agriculture and allied activities including tea and rubber-based industries, any income generating activity	For business start-ups and expansion of existing businesses	7.28
Kapruka Nipeyum Diriya Loan Scheme	Upgrade micro, small arid medium scale entrepreneurs engaged in coconut-related industries	For business start-ups and expansion of existing businesses	6.93
National Agri-business Development Programme (NADeP)	Agricultural/Agri-business, Fishery, Livestock, Trade and Services, Small Industries or other income-generating activities	For business start-ups and expansion of existing businesses	97.65
(Refinance Scheme by CBSL)			
The Awakening East RF PHASE II	Agriculture and economic activities	Revival of economic activities in Eastern Province	0.45

Way Forward

In aligning itself with the country's national economic agenda, the Bank will continue to pursue opportunities in industry sectors such as tourism and manufacturing which are expected to benefit from government policy impetus. Specific focus will also be placed on economically

and environmentally enabling products including green energy and ecologically sustainable products. Our extensive footprint and solid reputation as a credible and trustworthy financial institution has afforded us a strong platform for growth in the SME sector and we hope to capture growth opportunities presented by an increasingly vibrant economy.

CORPORATE

The corporate banking business line is a significant contributor to the Bank's profits during the year accounting for a respective 40% and 29% of consolidated advances and profits during the year. In addition to the wholesale banking line which caters to the Bank's corporate clientele, the division's operations also include the remittances business and trade financing (through the Overseas Customer Service Unit) and the Offshore Banking Unit.

Performance Highlights 2016

Relevance to the Bank (%)

16%	Net Income
29%	Profit After Tax
31%	Assets
40%	Advances

Key Performance Indicator	2016	2015	% YoY
Net Income (Rs. million)	8,752	13,283	-34.1
Profit After Tax (Rs. million)	4,367	5,894	-25.9
Assets (Rs. million)	402,397	370,212	8.7
Advances (Rs. million)	359,879	325,978	10.4
Deposits (Rs. million)	172,925	70,804	144.2
NPL Ratio (%)	1.4	1.6	-11.1
Cost to Income Ratio (%)	26.6	17.8	49.2
Lending to SOEs (Rs. million)	296,567	282,512	5.0



RS. 360 BILLION

of Corporate Sector Advances 22% Growth of Import Turnover

2ND LARGEST INDUSTRY SINGLE BORROWER LIMIT

WHOLESALE BANKING

Wholesale banking has been at the forefront of national socioeconomic and infrastructure development, helping support GDP growth in key industry segments. Our strong local knowledge, relationship management skills, full suite of products and extensive experience across diverse industries has continuously driven balanced credit growth whilst prudent risk management practices have resulted in a NPL ratio of 1.4%, well below the industry average.

Wholesale banking is well-equipped with the full suite of products to serve the mid to large businesses, including listed companies, large local corporates, multinational corporations, state-owned enterprises and offshore companies with sales turnover exceeding Rs. 1,500 million and corporate net worth in excess of Rs. 100 million.

Given its State ownership, the Bank has traditionally been a prime lender to state-owned enterprises and the Government sector and this sector still accounts for a significant share of the corporate banking portfolio.

Asset growth was strong at 10%, driven by demand from State-owned utilities and infrastructure sector and demand from the private sector for capacity expansion projects. We continued to focus on retail and wholesale businesses, infrastructure and development projects and aligning ourselves to the overall economic growth strategy of the country.

In order to diversify our portfolio, we started focusing on the private sector business resulting in the doubling of the private sector portfolio. We focused on increasing the share of wallet of existing customers as well as acquiring new customers through continuous marketing efforts. We have made efforts to increase the levels of engagement to understand our customer needs better, packaging the product offering as a total financial solution and encouraging the increased utilisation of a wider range of products, both funds and fee based. As key lender to the state,

People's Bank continues to directly support the country's infrastructure drive lending for numerous power generations, road development and water development projects. End of the year 2016, Bank has Rs. 202 billion loan portfolio under this category

Offshore Banking Unit

The Offshore Banking Unit provides services for companies registered under the BOI, Monetary Board approved state sector institutions and offshore business ventures. These services include trade and project financing and deposit taking. Growth in the Offshore Banking Unit was driven by higher demand from the private sector from a combination of demand from apparel and industrial exporters, hospitality sector both onshore and offshore and large foreign projects in the country. There was also an increased demand from the state sector.

Client Centricity and Service Delivery

Customers are central to our business and we are committed to enhancing service quality and customer experience. We seek to understand our clients' financing needs better, supporting their growth through different stages of their business and life cycle. Our ability to provide a comprehensive solution including trade and working capital, long and short-term loans, foreign exchange and project financing is a key strength.

The ongoing automation of banking systems will provide corporate clients online and mobile access, faster processing times and real time access to account information. The streamlining of systems processes and documentation will result in improved operational efficiencies and speedier delivery to clients. Through the implementation of a new management information system (Data Warehouse Project), Relationship Officers will be able to have a single view of the customer, assess relationship returns and facilitate improved pricing decisions.

Wholesale banking is well-equipped with the full suite of products to serve the mid to large businesses

1.4%

Wholesale banking NPL Ratio well below the industry average

RS. 202 BILLION of infrastructure and development loans

INTERNATIONAL DIVISION AND OVERSEAS CUSTOMER SERVICES

The International Division is responsible for Trade Services whilst Overseas Customer Services handles Correspondent Banking, Inward Remittances, Foreign Currency Deposits and International Payment and Settlement Services.

Performance Highlights 2016

Key Performance Indicator	2016	2015	% YoY
Import Financing (US \$ million)	1,917	2,453	-22
Export Financing (US \$ million)	85	108	-22
Import Turnover (US \$ million)	32	26	22
Fee and Commission Income (Rs. million)	2,261	2,263	0
Average LC Processing Time (hours)	4	4	

This year, we focused on growing our inward remittance volumes by offering greater accessibility, convenience and building brand presence.

We expanded our overseas network in key growth markets worldwide.

We are also engaged in promotional activities providing meaningful benefits for both the remitter and the beneficiary nurturing brand loyalty, including sponsorship of Ethera Isuru radio programme connecting Sri Lankan diaspora in the Middle East, offering of gold coins weekly for Sri Lankan expatriates remitting funds through "People's Bank Foreign Remittance Gold Fortune – 2016" promotion, offering of free airline tickets through the Ethera Methera Vasana Rewards scheme for recipients of remittances through Western Union and competitive interest rates for foreign currency deposits.

We are committed to being responsive to customer needs and to this end we employ overseas representatives, in high potential markets such as UAE, Qatar, Canada and Korea to provide enhanced customer services.

Leveraging on investments in technology, our secure, web based InstantRemit and e-Remittance products offer convenient, reliable, low cost, real time fund transfers. Thus customers can obtain cash 24/7, through any of the 737 Bank branches or over 506 ATMs spread throughout the island. These facilities are available even

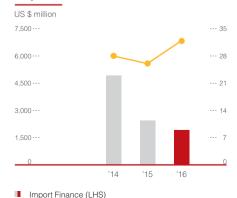
to non-customers of the Bank as over-the-counter cash payments by producing proof of identity.

Trade Services

Import financing declined by 22% to US \$ 536 million, similar to the drop in volume of imports of the country for the first nine months of the year, due to the reduction in import of vehicles for personal and business purposes, fuel and rice. Drop in the average import prices of crude oil and refined petroleum products also impacted the decline. As a key banker to the Government and State-owned enterprises.

Exports financing decreased during the year by 22% to US \$ 23 million, in contrast to a decline in the volume of export of the country. This is largely attributed to the successful strategic drive by the Corporate Banking Division to promote trade facilities amongst its existing customers and new, by leveraging on our extensive correspondent bank network.

Imports



Import Turnover (RHS)

A key strategy to improve our trade capability and offer a more competitive customer service is the implementation of technological enhancements and system process re-engineering under the digitisation programme. Improving effectiveness and efficiency, these initiatives include minimising processing times and facilitating submission and monitoring of documentary credits/collection online using robust IT platforms.

Way Forward

We are well-positioned to grow our market share in the intensifying competition by providing greater accessibility and convenience to our customers and offering an enhanced customer experience, through the ongoing digitisation programme, growth of our presence in key migrant markets and expansion of our local branch network.

The economic pressures expected to be experienced locally and globally will impact overall businesses and trade volumes in the country. However, we will drive Import and export turnover leveraging on our extensive correspondent bank network and progressive digitisation.

TREASURY

The Bank's Treasury Unit plays a vital role in supporting the retail and corporate lending units by managing the overall funding operations of the Bank and the foreign currency flows arising from these business units. This Unit's operations are segregated into FOREX trading, fixed income investments, investment banking, and the primary dealership. Through its ALM operations, the Unit also effectively manages the Bank's interest and liquidity risk exposures

Relevance to the Bank (%)

18% Net Income 37% Profit After Tax 30% Total Assets

Performance Highlights 2016

Key Performance Indicator	2016	2015	% YoY
Net Income (Rs. million)	9,752	8,371	16.5
FOREX Profit (Rs. million)	896	711	26.0
Assets (Rs. million)	388,746	446,650	-13.0
Profit After Tax (Rs. million)	5,492	3,418	60.7



Strategy and Performance

The Treasury Unit demonstrated strong resilience in a challenging operating landscape to record net income and profit growth of 16.5% and 60.7% respectively during the year. Performance was upheld by strong growth in FOREX operations while astute management of the duration and volume of the fixed income portfolio enabled the Bank to curtail mark to market losses arising from adverse interest rate movements.

Treasury operations are highly vulnerable to volatilities in market variables such as interest rates and exchange rates which in turn reflect broader monetary/fiscal policy implications. During 2016, the regulator adopted a tightening monetary policy stance with the objective of controlling demand driven inflationary pressures and supporting the balance of payments. Accordingly, policy rates were increased twice during the year, in response to which the interbank rates, AWDR and AWPLR continued to rise gradually during the second half of the year. On the exchange rate front, the Sri Lankan rupee depreciation by 4% against the US dollar to close the year at Rs. 149.75. Performance of the equity market was subdued during the year, reflecting weaker investor sentiments and the persistent rise in interest rates during the year.

Foreign Exchange

The Unit provides continuous support to the Corporate Banking Division and trade financing businesses by managing the foreign exchange requirements of their customers. The Bank is one of the largest players in the export/import business and benefits from several significant Government sector exporters which channel transactions through People's Bank. During the year, we placed strategic focus on maintaining a high level of engagement with the Corporate Banking Division and building relationships with customers through offering customised solutions and superior customer service. Resultantly, profit from this segment increased by 60.7% during the year, a commendable achievement given the prevalent volatility in global markets.

Fixed Income

The Bank's fixed income securities portfolio accounted for 75.8% of its total assets as at end-December 2016, and as expected its performance was affected by rising interest rates during the latter part of the year.

Investment Banking

Despite being a relatively new entrant to this sector, the Bank has emerged as one of the top four players in the market, successfully growing its portfolio of clients and business volumes. In 2015, the Bank structured and managed the Rs. 6 billion debenture issue of People's Leasing and Finance PLC, the largest debt issue of the year. Our success in this segment is underpinned by a high level of customer engagement by our young and dynamic team, which has enabled the Bank to nurture long-term relationships with a diverse pool of clientele.

Way Forward

FOREX operations present significant potential for growth, particularly given policy impetus towards strengthening the country's export sector. With a strong presence in the corporate and SME segments, the Bank is well positioned to benefit from this upturn. Meanwhile, the Treasury Unit will also focus on widening its product offering; in 2016 we ventured into Trustee Services, an area with significant upside potential given synergies across the Group. We also hope to commence custodian services over the short to medium-term and will aggressively pursue growth opportunities in these business lines.

PEOPLE'S LEASING AND FINANCE PLC

The Bank's 75% owned subsidiary, People's Leasing and Finance PLC (PLC) is the market leader in the country's leasing industry and largest Licensed Finance and Leasing establishment in terms of assets, and advances. With a customer base of nearly 300,000 individuals and SMEs, the company plays a vital role in serving the financial needs of the informal sector, through an island-wide network of 103 branches and a diverse product portfolio which includes an array of investment and lending products. PLC is a significant contributor to the People's Bank Group, accounting for 16% and11% of the latter's profit after tax and assets respectively in 2016.

Relevance to Group (%)

12%	Interest Income
16%	Profit After Tax
11%	Total Assets
13%	Total Advances



Performance Highlights 2016

Key Performance Indicator	2016	2015	% YoY
Interest Income (Rs. million)	21,000	18,453	13.80
Profit After Tax (Rs. million)	4,507	4,691	(3.92)
Assets (Rs. million)	159,085	129,194	23.14
Advances (Rs. million)	134,273	107,680	24.70
Deposits (Rs. million)	42,414	33,656	26.03
NPL Ratio (%)	1.50	2.37	(0.87)
Cost to Income Ratio (%)	44.42	35.95	8.47
Total Risk Weighted Capital Adequacy Ratio (RWCAR)	13.68	14.78	(1.1)
Return on Equity (ROE)	17.53	20.45	(2.92)
Number of Customers	284,049	257,071	10.49
Branch Network	(()) 103	(1) (1) (1) (2)	11.96
Dividends per Share	1.25	(1025	', ', - I

11%

of Group Assets **16**%

of Group Profits MARKET LEADER

in the Leasing Industry for 14 Consecutive Years

FINANCIAL SERVICE PROVIDER OF THE YEAR 2016

SLIM Nielsen People's Award

STRATEGY AND PERFORMANCE

The PLC Group demonstrated strong resilience in the face of multiple industry challenges to achieve 23.14% growth in assets, generating a net profit of Rs. 4.5 billion in the year ended 31st December 2016. The leasing industry faced unprecedented challenges in 2016, with the implementation of the Loan to Value ratio rule, escalation in motor vehicle prices and rising interest rate scenario having a significant impact on volumes and margins. PLC, however, outperformed the industry to achieve a portfolio growth of 24.70%, supported by its strategic focus on the commercial vehicle segment and its unparalleled expertise in the country's vehicle market. Net interest income growth was moderate, a reflection of narrowing interest margins given the persistent increase in funding costs during the period under review. Stringent credit standards, proactive monitoring and focus on recoveries resulted in the Group recording an 89.53% decline in its impairment charges during the year. Meanwhile, overhead costs increased by 25.06%, primarily due to the increase in personnel cost and addition of 11 new branches to the Group's network during the year. Overall, PLC generated a profit after tax of Rs. 4.5 billion during the year 2016, a reduction of 3.92% in comparison to the previous year.

The PLC Group's deposit base grew by 26.03% to Rs. 42.4 billion during 2016, testimony to its strong deposit franchise. In November 2016, PLC also successfully issued Rs. 6.0 billion of senior, redeemable debentures. With a total risk-weighted capital adequacy ratio of 13.68% as at end-December 2016, PLC has a strong capital buffer for future growth.

Commitment to Sustainability

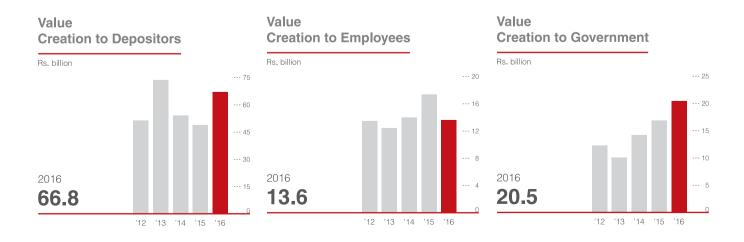
The PLC Group continues to demonstrate a strong commitment to sustainability and strives to generate value to all its stakeholders through a sustainable and holistic approach to value creation. A team of 2,726 skilled and high-performing employees are the driving force behind the Group's success and PLC in turn provides attractive remuneration and opportunities for skill and career development in a dynamic work environment. The Group also plays a vital role in empowering and facilitating socio economic progress in the informal sector, which typically lacks access to formal financing. The Group's responsible lending practices are characterised by transparent and fair terms, social and environmental screening as well as specific products targeting environmental preservation. As an ongoing programme, the Group also proactively engages its customers in developing financial literacy through structured training and awareness programmes particularly in disadvantaged communities. PLC's commitment to sustainability is frequently recognised and the Group is a frequent recipient of local and international awards; in 2016, PLC secured the second runner-up award among all categories, for the best sustainable performance - finance sector at the Best Corporate Citizen Sustainability Awards whilst ranking as one of the Sri Lanka's Top Ten Corporate Citizens. The Company was also awarded the Financial Services Provider of the year 2016 at the SLIM Neilsen People's Awards.

CREATING VALUE TO OUR CAPITAL INPUTS

Value Creation Highlights

As a financial powerhouse and one of Sri Lanka's most economically and socially impactful entities, the Group has generated substantial value to its diverse stakeholder groups over its near six decade existence. The Group's value creation has stemmed through contributions to the Government, remuneration to employees, interest payments to depositors, payments to suppliers and investments in community engagement initiatives. The Bank's commitment to value creation can be illustrated as follows:

	2016 Rs. '000	2015 Rs. '000	YoY Growth %
Sources of Income			
Interest	109,970,256	92,485,979	19
Exchange	2,572,743	3,050,646	-16
Commission and Fees	3,948,052	3,712,146	6
Capital Gain	531,921	305,011	74
Other	5,091,388	4,095,182	24
Total	122,114,360	103,648,964	
Utilisation of Income			
To Depositors as Interest	66,845,869	48,731,974	37
To Employees as Emoluments	13,633,514	17,377,025	-22
To Providers of Goods and Services	8,588,379	7,160,999	20
Net Impairment Loss on Financial Assets	1,246,748	3,739,914	-67
To Government – Taxes, Special Levy and Dividend	20,515,560	16,834,192	22
To Community	40,269	39,461	2
Retained for Growth	11,244,022	9,765,398	15
Total	122,114,360	103,648,964	



The total economic value added by the Bank amounted to Rs. 30.1 billion during the year, an increase of 17.2% in comparison to the previous year.

For the year ended December 31,	2016 Rs. '000	2015 Rs. '000	Change %
Invested Equity			
Shareholders' Funds	59,648,856	49,494,740	20.5
Add: Cumulative Provision for Loan Losses/ Provision for Impairment	60,295,848	60,719,312	-0.7
Total	119,944,704	110,214,052	8.8
Earnings			
Profit After Taxation	14,994,691	12,597,843	19.0
Add: Loan Losses and Provisions/Impairment Provision	1,246,748	3,739,914	-66.7
Less: Loans Written Off	(103,986)	(267,051)	-61.1
Total	16,137,453	16,070,706	0.4
Cost of Equity (Based on 12 months Weighted-Average Treasury Bill + 2% for Risk Premium) (%)	12.17	9.11	
Cost of Average Equity	14,005,160	9,646,783	45.2
Economic Value Added	30,142,613	25,717,489	17.2

Creating Value to Our Capital Inputs

The <IR> Framework defines six input capitals that are transformed through an organisation's value creating processes and activities. The subsequent section of this Report aims to provide a balanced assessment of how the Group transforms each of these capital inputs to generate long-term sustainable value.

Financial Capital

Major milestones achieved;

- Rs. 1.0 trillion in deposits
- Rs. 1.0 trillion in advances (Group)

Profit growth of 19.2% to reach highest ever PAT of Rs. 17.9 billion

ROE of 22.7% consistently outperforming peers

Social and Relationship Capital

- Most accessible Bank in the country, with 737 branches and 1,358 school offices
- Numerous customer education and financial literacy initiatives
- 158 branches in economically underprivileged areas
- Value created to suppliers increased by 20% to Rs. 8.6 billion

Manufactured Capital

- Established 7 self-service kiosks and CDMs in Colombo
- Investments of Rs. 1.6 billion in Capital Expenditure

Intellectual Capital

Awards received during the year include,

- Best Banking Group 2016 –
 Sri Lanka and Most Sustainable
 Bank 2016 Sri Lanka World
 Finance Banking awards
- Service Brand of the year for 10th consecutive year – SLIM Neilsen People's Awards
- Banking Service Provider of the Year for 10th consecutive year – SLIM Neilsen Pepole's Awards

Human Capital

- Provided 183,460 training hours, an increase of 1.5%
- Total value created to employees: Rs 13.6 billion
- Female participation rate of 59%

Natural Capital

- Implemented a cohesive and comprehensive sustainability framework
- Introduced mechanisms to capture the Bank's carbon footprint, which amounted to 2,261 tCO₂e for People's Bank Head Office
- Concessionary loan facilities for residential and commercial installation of solar power

FINANCIAL CAPITAL

Relevance to our Strategy and Value Creation



Financial capital inputs are used to run our daily operations and fund our expansion. Our ability to effectively raise the necessary equity and/or debt capital is a key consideration in determining strategy and expanding our operations.

How We Measure Success

- Consistent and sustainable growth in profit generation and shareholder value creation
- Efficient management of costs
- Ability to raise equity and/or debt capital at attractive rates

The Bank turned in a year of stellar performance in 2016, reaching the Rs. 1 trillion milestone in both deposits and customer advances (Group). Despite a challenging operating environment, both Bank and Group demonstrated profit growth of 19.0% and 19.2% respectively, supported by the meticulous implementation of a robust strategy, which facilitated healthy loan growth, discipline cost management and substantial improvements in credit quality.

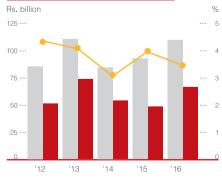
The following analysis of the Group's financial performance should be read in conjunction with the section on 'Delivering Strategy through Our Business Lines' on pages 89 to 108 and Notes to the Financial Statements on pages 151 to 232 of this Report.

Net Interest Income

The Bank's interest income growth was strong at 18.9% during the year, upheld by a 14.7% expansion in customer advances and 15.8% growth in other interest earning assets. Interest income generated on customer advances continues to be the largest contributor to the Bank's interest income, with a share of almost 80% during the year. Meanwhile, interest expenses increased at a faster rate of 37.2%, a reflection of the rising interest rate scenario

for most part of the year, which resulted in the Bank's net interest income dipping marginally by 1.4% to Rs. 43.12 billion. Margin compression was evident across the industry, as short-term deposit liabilities repriced upwards, although the relatively higher proposition of Current and Savings Accounts (CASA) in its deposit portfolio, enabled the Bank to limit pressure on its net interest margins (NIM); the Bank's NIM declined to 3.5% from 4.0% the previous year. The People's Bank Group's net interest income also declined by 1.4% during the year.

Net Interest Income Trends



- Interest Income (Rs. billion)
- Interest Expenses (Rs. billion)
- NIM (%)

Non-Interest Income

The Bank's non-interest income comprises fee and commission income, trading income and other operating income. In 2016, the Bank's net non-interest income grew by 8.6% to Rs.11.9 billion, supported by the following:

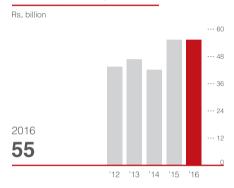
- Net fee and commission income increased by 5.7%, driven by higher usage and popularity of the Bank's ATM, debit and credit cards, a reflection of the strategic focus placed on driving the growth of self-service channels
- Net gains from trading declined by 8.6%, primarily due to a reduction in foreign exchange gains in comparison to the previous year
- Other operating income increased by 23.1% upheld by bad debt recoveries and dividends from subsidiary and associate companies

Total Operating Income

Total operating income increased marginally to Rs. 55.06 billion (2015 – Rs. 54.74 billion), relatively unchanged in comparison to the previous year.

Meanwhile, the Group's operating income grew by 1.2% to Rs. 68.43 billion.

Total Operating Income



Impairment Charges

The assessment of impairment charges on loans and advances consists of two components, individual and collective impairment. Individual impairment is computed on individually large facilities which are determined, based on thresholds set by the Bank. The thresholds and the impairment triggers are revised annually to ensure they are in line with the Bank's overall appetite. Collective impairment is computed through classifying facilities into several large groups, based on similar risk profiles and applying a Probability of Default and Loss Given Default, based on the historical credit losses of each portfolio.

In 2016, the Bank's net impairment charges on financial assets declined sharply by 66.7% to Rs.1.25 billion, attesting to the overall improvement in asset quality. This resulted in reductions in both individual and collective impairments, which declined by a respective 53.9% and 79.0% during the year, supported by a strong focus on recoveries and continued emphasis on strengthening credit appraisal and collection frameworks.

Credit quality as measured by non-performing loans also improved during the year, with the Bank's gross NPL ratio (measured in accordance with the CBSL guidelines) improving to 1.9% in 2016, from 2.4% the year before. The Bank has been successful in achieving a sustained reduction in its NPL ratio over the past few years as illustrated below:

Asset Quality Indicators



Cost Management

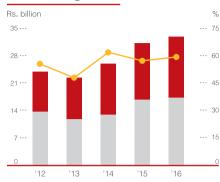
Gross NPL Ratio (%)

The Bank contained increases in overhead costs (incl. VAT) to 4.8% during the year, reflective of ongoing commitments to increase operational and process efficiencies. The Bank's overhead expenses comprise personnel expenses (63%) and other expenses (37%) and the main cost drivers during the year were –

- Personnel costs grew by 2.5% due to salary increases and new recruitments to support the Bank's strategic growth aspirations
- Other expenses increased by 7.6%

The Bank's cost to income ratio increased marginally to 59.9% during the year (2015 – 57.5%), primarily due to the relatively stagnant income levels against the backdrop of rising interest rates. The Bank's cost to income ratio is expected to record gradual improvement over the short to medium-term, as the digitisation drive facilitates substantial improvements in process efficiencies and employee productivity.

Cost Management



- Other Operating Expenses (incl. VAT) (Rs. billion)
- Personnel Expenses (Rs. billion)
- Cost to Income Ratio (%)

Taxation

The Bank is a vital contributor to Government finances and total value created to the Government in the form of direct and indirect taxes, amounted to Rs.11.25 billion during the year. This comprised VAT and NBT on Financial Services (Rs. 5.43 billion) and Income tax (Rs. 5.82 billion).

Profitability

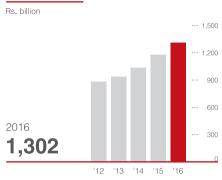
Continued focus on improving asset quality and leveraging on the Bank's extensive reach to deliver innovative products and services to our customers, enabled us to demonstrated resilience in a challenging environment to a profit growth of 19.0% to Rs.14.9 billion. Supported by the strong performance of its subsidiary, People's Leasing and Finance PLC, the Group also recorded a surge in profits of 19.2% to reach a record high level of Rs. 17.95 billion. The Bank's profitability, as measured by Return on Equity (ROE), has consistently outperformed its peers, clocking in at 27.5% in 2016.

Profitability Indicators

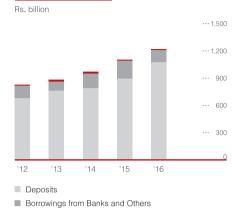


- Profit after Tax (Rs. billion)
- ROE Bank (%)
- → ROE Industry (%)

Total Assets



Funding Profile



■ Subordinated Debt

BALANCE SHEET ANALYSIS

Asset and Portfolio Growth

Despite the prevalent rising interest rate scenario, the Bank's credit growth was strong during the year, with total loans and advances to customers increasing by 14.7%, in comparison to the previous year, which in turn supported asset growth of 10.7%. Lending growth stemmed from increased credit demand across the Bank's key business lines of consumer, SME, corporate and microfinancing. Meanwhile, exposure to trading assets declined during the year. The Bank's asset composition was relatively unchanged in comparison to the previous year, with credit assets dominating the asset base with a share of 68.4% by end December 2016. Meanwhile, the Group's asset growth was also strong, expanding by 11.6% during the year to reach Rs. 1,444.4 billion. The Group also passed the Rs.1 trillion milestone in customer loans and advances during the year.

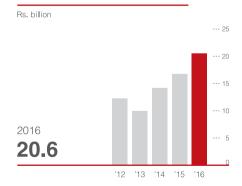
Capital and Funding

The Bank maintains a healthy and well diversified funding profile. Deposits dominate the Bank's funding portfolio with a share of 88% and grew by 19.9% during the year, reflective of the Bank's strong deposit franchise. We achieved a significant milestone in 2016, reaching a deposit base of Rs. 1.0 trillion by end December 2016, the fastest banking and financial services organisation to achieve this feat in the industry's history. As an industry innovator and pioneer in numerous deposit products including women's and minor savings products, the Bank continues to enjoy a relatively high CASA ratio of around 45%. Meanwhile, despite an industry-wide drop in CASA, given the rising interest rate scenario, the Bank's CASA base increased by 12.5% during the year. Meanwhile, exposure to bank borrowings and other debt declined during the year.

Shareholder Value Creation

The Bank is a significant contributor to Government revenue with sustainable value generated through direct and indirect taxes, as well as dividends and special levies. During the year under review, the total value created to the Government increased by 22.1%, to reach a record high of Rs. 20.6 billion. Over the past 5 years, the Bank's value creation to the Government has exceeded Rs. 73.0 billion.

Value Created to the Government



MANUFACTURED CAPITAL

Relevance to our Strategy and Value Creation Customer Operational Employee Good Governance Centricity Excellence Engagement Governance

Manufactured capital comprises the Bank's physical and digital infrastructure which enable our reach facilitate the customer experience

How We Measure Success

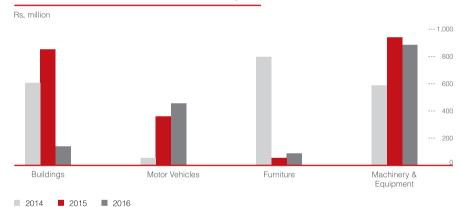
- Increased accessibility of our services through our multi-channel approach
- Persistent reductions in branchrelated customer complaints
- Increased use of self-service channels in branches for cash deposits and withdrawals, thereby freeing up time for employees to pursue business growth

Value Addition to Manufactured Capital

Physical Infrastructure:

The Bank's physical network consists of its 737 branches and 506 ATMs. During the year, the Group invested Rs. 1.6 billion in capital expenditure comprising value addition to its branch network, machinery and equipment and computer hardware. In an initiative that commenced in 2016, 100 selected branches will undergo extensive refurbishment with the objective of enhancing ambience in branches and improving the overall customer experience. The internal and external appearance of these branches will also reflect the Bank's new branding guidelines. Meanwhile, in line with the Bank's digitisation drive, selfservice kiosks including ATMs and CDMs have been established in eight branches in the Colombo city with plans to further expand this service in outstation regions. Targets applied to branches on customers' use of self-service channels have resulted in around 60% of cash transactions on average being conducted through self-service kiosks leading to queuing time in branches being falling significantly.

Value Addition to Manufactured Capital



Digital Infrastructure

The Bank's digitisation initiative has the dual objectives of enhancing customer experience and streamlining and integrating internal processes. Digital channels including mobile and internet banking will be launched to provide seamless integration of the customer experience across multiple platforms. This transformation is anticipated to present numerous opportunities for attracting

Generation Y customers to the Bank while contributing towards bridging the digital barrier to financial services. Internally, the digitisation process is expected to accrue substantial benefits in terms of driving process efficiencies, strengthening internal controls and risk management and providing real-time information to management which will enhance the quality and effectiveness of decision-making.

HUMAN CAPITAL

Relevance to our Strategy and Value Creation Customer Centricity Operational Excellence Engagement Good Governance

The diversity, skills and values of our employees are vital in driving our strategic agenda and facilitating the overall customer experience.

How We Measure Success

- Our ability to attract aspiring young talent
- The strength of our value proposition is demonstrated by our ability to retain high-performing individuals who can be effectively groomed to emerge as the next generation of leaders in the Bank

Our Approach to Human Capital Management

People's Bank offers exciting opportunities to its team of 8,249 employees across its extensive branch network and invests significant resources to develop and nurture their skills. Total value delivered to employees amounted to Rs. 17.5 billion during the year, comprising remuneration, training and welfare costs which translated to 14.3% of total value delivered to all stakeholders in recognition of the critical role they play in driving our performance. Our ability to attract, develop and retain a diverse pool of talented individuals is testimony to our reputation as a preferred employer, offering job security and opportunities for career and skill development in a conducive work environment.

HR Strategy

The Bank adopts a holistic approach towards managing its people, and its HR strategy is based on the following pillars.

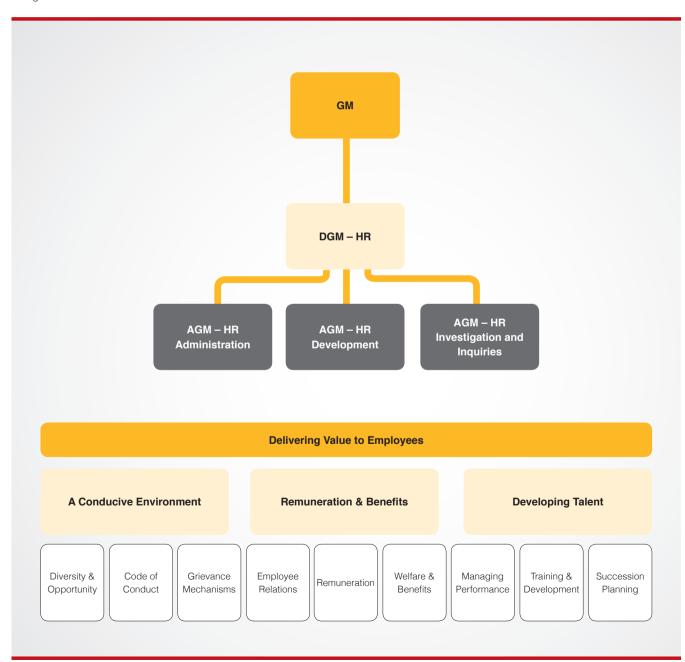


HR Governance and Policy

As a financial powerhouse we are guided by formal policy frameworks, Government guidelines and People's Bank Act.

A solid governance structure within the Group enables us to balance the interest of our employees with the interest of our other stakeholders. The Board has delegated responsibility to Board Human Resources and Remuneration Committee (BHRRC) for HR strategies. Human Resource Department implements these strategies and reports to the Board.

The governance structure at Bank.



A Conducive Environment

Diversity and Opportunity

As the second largest state-owned bank, People's Bank provides employment opportunities to 8,249 staff members throughout the country. We are an equal opportunity employer and do not discriminate on age, gender or ethnicity in recruitments, promotions or when determining remuneration. Accordingly, the ratio of standard entry level wage between males and females is 1:1. The Bank's female representation rate of 59% is one of the highest in the banking industry and we are proud to have nurtured female leaders who have progressed to senior management positions within the Bank. The workforce is also diverse in terms of age representation given that entry level staff is recruited as Management Trainees and Customer Service Assistants and provide opportunities for skill and career development. Meanwhile, the Bank's widespread branch network encourages and provides opportunity to recruit from all regions within the country with a diversified ethnic back ground. All recruits to the Bank's senior management categories (executive management and above) are hired locally and are Sri Lankan citizen. We also do not discriminate against employees with disabilities when recruiting.

Total Number of Employees by Employment Contract and by Gender (2016)

Total	3,367	4,882	8,249
Contract	596	512	1,108
Permanent	2,771	4,370	7,141
Contract	Male	Female	Total

Total Number of Permanent Employees by Employment Type and Gender (2016)

Total	3,367	4,882	8,249
Other Contracted Employees	531	386	917
Customer Service Assistants	11	40	51
Management Trainees	48	85	133
Other Categories	470	336	806
Staff Assistant Grade	1,057	2,221	3,278
Officers (3-III-Gr.I)	1,218	1,793	3,011
Executive Management	16	15	31
Corporate Management	16	6	22
Employment Type	Male	Female	Total

Total Workforce by Region and Gender (2016)

Province	Male	Female	Total
Western	1,248	2,026	3,274
Southern	320	519	839
Central	341	532	873
Northern	188	215	403
North Central	239	299	538
Uva	215	262	477
Sabaragamuwa	206	338	544
North Western	288	393	681
Eastern	322	298	620
Total	3,367	4,482	8,249

Code of Conduct

The codes of conduct for the Bank set out the rules outlining the social norms, rules and responsibility within the Group. This code could be further subdivided into,

- Code of Corporate Governance
- Code of Conduct for Employees
- Disciplinary Code
- Whistle Blower Policy
- Customer Charter

Code of Corporate Governance

The Code set the tone for all employees, management and the Board. The values

and the conduct of the Group is set forth in Corporate Governance and upheld by all as it sets us apart to be an ethical financial institute.

Code of Conduct for Employees

- Responsibilities
- Conduct
- Confidentiality
- Conflict of interest
- Insider dealing
- Outside employment
- · Competition and fair dealing
- Bribery and corruption
- Customer service and complaints
- Cleanliness
- Compliance
- Protection and use of assets
- Use of the computer system

All employees within the Group are expected to sign the Code of Conduct upon joining.

Disciplinary Code

A formalised document is in place defining what misconduct is and giving out disciplinary procedures that address the particular issue.

Whistle Blower Policy

To report misconduct within the Group a Whistle Blower Policy is put in place. Issues that can be reported through this policy include,

- Breach of the disciplinary code
- Failure to comply with legal/ regulatory obligation
- Miscarriage of justice
- Financial malpractices
- Concealing information

Reporting of such issues could be made direct to the immediate supervisor or directly to the Audit Committee.

Full anonymity is guaranteed in this system to protect employee.

Customer Charter

As specified by the Central Bank of Sri Lanka the customer charter protect the rights of the customers' the bank serves.

Anti Corruption

The Bank has a strong anti-corruption culture in place, facilitated by a proactive Internal Audit Department, Investigations and Inquiries Department, Risk Management Unit as well as independent audit employees placed deployed at branches, Employees, undergo comprehensive awareness and training sessions organised by the Investigations and Inquiry Departments and the Audit Department on preventing corruption and fraudulent behaviour. A Board approved anti-corruption policy is also in place, and communicated to all employees. During the year, employees engaged in 18,656 training hours pertaining to anti-corruption.

	Number	% of Employees
Total number and percentage of Governance body members that the Organisation's anti-corruption policies and procedures have been communicated	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	2,332	28%
Total number and nature of confirmed incidents of corruption	130	N/A
Total number of confirmed incidents in which employees were dismissed or disciplined for corruption	62	N/A

Non-Discrimination

The Bank's policy frameworks, governance structures, grievance mechanisms and the organisational culture ensure that discrimination based on any form of gender or demographic is eliminated. The Bank also encourages a culture of tolerance and respect through facilitating multi-cultural

religious activities through associations representing various religious beliefs. During the year, there were no incidents of discrimination reported.

Grievance Mechanisms

We ensure that all employees are given the opportunity to voice their concerns regarding workplace issues. Bank places a high level of importance on resolving employee grievances. As such a Board approved mechanism is in place to ensure that grievances are handled justly while protecting the anonymity of the respective employees. The structured grievance mechanism is illustrated below:



During the year 2016 there were two significant grievances reported and resolved. The reported cases were mainly on transfers from one location to another.

Employee Relations

We are cognisant of our employees' right to freedom of association and 99% of our employees are represented through five trade unions; namely the Ceylon Bank Employees' Union, Officer's Association, Sri Lanka Nidahas Banku Sevaka Sangamaya, Jathika Sevaka Sangamaya and All Ceylon Bank Employees' Union. Remuneration, benefits and other important employee related aspects are governed by a collective agreement which is revised every three years. During the year, there were no major disruptions to work arising from any form of industrial action.

Remuneration and Benefits

The Bank maintains an impartial remuneration structure which rewards our employees based on their performance. The Bank provides benefits to all the permanent employees based on employment category. Remuneration and benefits of staff are negotiated and mutually agreed with the trade unions through a collective agreement of all state banks once in every three years. The Bank's remuneration policy is designed to attract and retain dynamic and high-performing employees. We have an equal pay policy towards male and female employees of the same grade at all locations.

Sri Lanka's Shop and Office Employees
Act does not provide a framework for
governing minimum wages for employees.
Accordingly, salaries and wage rates are
determined based on negotiations with
trade unions and discussions with the
Ministry of Finance. Collective agreements,
which represent staff categories up to
Chief Managers, ensure that wages rates
are transparent. For senior management
categories (AGM and above) salaries are
determined based on remuneration offered
by similar peers and industry competitors.

Welfare and Benefits

Our employees receive a host of attractive benefits in addition to their remuneration. The Bank provides a comprehensive medical scheme for permanent and contact members of the staff on several scales based on the severity of the medical condition. This facility is extended to the retired members of the staff as well. To alleviate the work related stress among the employees the Bank provides holiday home facilities at a number of locations scattered island-wide at a nominal rate. The Bank also grants personal and housing loans at concessionary rates. Employees on contract and training are not eligible to certain benefits that permanent employees enjoy. The full time employees of the Bank receives the following benefits:



Maternity Leave

Maternity leave is provided to all female staff fulfilling the requirements. People's Bank encourages and helps female staff to return back to work and to continue their career progression. Over the past three years, the Bank's return to work rates have been 100%, a reflection of our ability to retain and provide a conducive work environment for female employees.

Provision for Maternity Leave

	2016	2015	2014
No. of Employees Entitled to Maternity Leave	3,690	3,430	3,093
No. of Employees Who Took Maternity Leave	536	566	773
No. of Employees Who Returned to Work After Maternity Leave	536	566	773
Return to Work Percentage (%)	100	100	100

Developing Talent

Managing Performance

All employees are appraised at least annually against a set of predetermined KPIs and targets. The Bank is currently in the process of introducing a merit-based performance management system in order to nurture a performance driven culture in line with the strategic objectives for 2016-2020. Currently, evaluations are carried out by the immediate supervisor and findings from the appraisal are taken into consideration when determining salary increments and internal promotions. The evaluation criteria are set forth.



To be in line with the Strategic Plan for 2016-2020, the Bank has developed a number of initiatives including the adoption of a merit base performance system.

Interlinkages between corporate objective and individual KPIs



Training and Development

Ongoing investment in developing our employees is a key attribute of our value proposition and training programmes are conducted throughout the year, aligned with the Bank's overall strategy. In 2016, the Bank invested around Rs. 71.0 million on staff training, which translated to approximately 183,460 training hours in total, a 1.4% increase when compared to the prior year. According to Group performance strategy, the training and development plan is formulated in the following manner:



The Bank has a dedicated staff training facility in Colombo which is supported by 24 mini centres across the island. A training needs survey which is conducted annually enables the Group to effectively identify training needs. Training is provided by way of, on the job training (shadowing, rotation and in-house skill sharing) internal training (regional training centres, staff training college), external training, foreign training, external courses of study.

People Development

We believe in internal recruitment when it comes to hiring for managerial positions. A significant increase in training cost and hours can be seen in 2015 and 2016 as we launched the digitisation across all business processors requiring more training to be provided to employees in oder to get them accustomed to the new systems.

Training Hours & Cost



- Training Cost (Rs. million)

Training Hours by Employee Category and Gender for 2016

Category	Average Hours of Training 2016		
	Male	Female	
Corporate Management	38	36	
Executive Management	25	54	
Officers (3-III – Grade I)	27	27	
Staff Assistant Grade	21	22	
Management Trainees	45	42	
Customer Service Assistants and Other	27	28	
Total	183	209	

Transfers and Promotions

The Bank has a systematic succession plan in place which has enabled it to identify and groom its next generation of leaders. Internal promotions are encouraged in order to enable the effective career progression of its employees and retain experienced and high-performing staff. Promotions are determined based on performance evaluations while annual transfers are based on the requirements of the branches.

Minimum Notice Period for Operational Changes in 2016

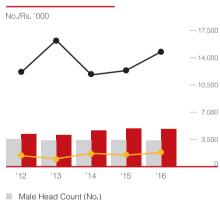
Type of Change	Notice Period
Transfers	2 Weeks
Resignations	1 Month
Retirements	3 Months
Terminations	1-3 Months

Value Delivered by **Employees in 2016**

Team Performance

Employee productivity increased, as measured by profit per employee (after tax) and revenue per employee has continued to increase over the years, a testimony to our investment in training and the overall skill development amongst other employees. The overall increase in the head count from 2012 to 2016 is 7%.

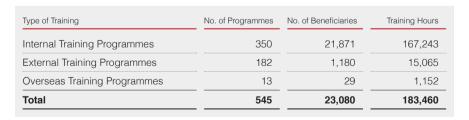
Total Head Count



- Female Head Count (No.)
- Profit per Employee (Rs. '000)
- Revenue per Employee (Rs. '000)

Talent Acquisition

The Bank's success depends on its ability to attract and retain high-performing employees. The Bank's government ownership and its reputation as a preferred employer enable it to attract and retain young and aspiring talent in the banking industry. The Corporate Management together with the Human Resources Division determines the manpower requirement for



the Bank based on its medium-term growth plans. Accordingly, applicants are called in for Management Trainees and Customer Service Assistance once every three years in accordance with all rules and regulations applicable to Government institutions. In order to maintain transparency, competitive exams and interview procedures are held to recruit the suitable candidates. When recruiting, preference is given to individuals from localities. The Group has an island-wide presence and 60% of our staff is stationed outside Western Province. Selected candidates are required to complete one year probation period before they are absorbed into the permanent cardre.

- Management trainees are recruited on a two year contract and at the end of the period promoted to permanent staff.
- Customer service assistants are recruited on a four year contract and at the end of the period promoted to staff assistant III.

The major task in hand for 2017 is recruiting 700 new employees to fulfil the identified human capital requirement of the Bank to continue servicing its customers. We do not have any gender discrimination when recruiting. The Bank has been more female staff been recruited in than male staff during the past selection processor. This can be seen in the following analysis.

New Recruitments by Region for 2016

Region	Male	Female	Total
Anuradhapura	8	0	8
Badulla	7	1	8
Batticaloa	3	0	3
Colombo	51	41	92
Gampaha	9	12	21
Galle	5	2	7
Jaffna	3	3	6
Kandy	12	3	15
Kalutara	7	2	9
Kurunegala	8	2	10
Kegalle	4	6	10
Matara	7	2	9
Matale	3	0	3
Nuwara Eliya	8	1	9
Ratnapura	11	8	19
Ampara	6	2	8
Trincomalee	3	2	5
Polonnaruwa	3	0	3
Monaragala	3	0	3
Puttlam	4	1	5
Wanni	5	3	8
Hambantota	7	2	9
Total	177	93	270

New Recruitments by Age Group and Gender for 2016

		Age Group			
	18-25	26-45	46-55	56+	
Male	26	133	18		177
Female	37	56	_	_	93
Total	63	189	18		270

Employee Retention

The strength of its employee value proposition has enabled the Bank to maintain relatively high employee retention levels. The Bank's overall employee turnover ratio for 2016 was as low as 4%, a reflection of our commitment to provide a conducive work environment, ongoing investments in training and development and the Bank's attractive reward schemes.

Employee Turnover by Age Group and Gender for 2016

		Age Gro	up		Total
	18-25	26-45	46-55	56+	
Male	-	2	9	224	235
Female	_	18	_	115	133
Total		20	9	339	368

Employee Turnover by Region and Gender for 2016

Region	Male	Female	Total
Ampara	4	0	4
Anuradhapura	10	3	13
Badulla	6	2	8
Batticaloa	6	3	9
Colombo	84	58	142
Galle	10	5	15
Gampaha	10	12	22
Hambantota	8	1	9
Jaffna	4	1	5
Kalutara	15	8	23
Kandy	22	12	34
Kegalle	4	1	5
Kurunegala	12	8	20
Matale	4	4	8
Matara	11	9	20
Monaragala	2	_	2
Nuwara Eliya	7	_	7
Polonnaruwa	5	_	5
Puttalam	4	1	5
Ratnapura	5	3	8
Trincomalee	1	_	1
Wanni	1	2	3
Total	235	133	368

Bank maintains a high employee retention

4% employee turnover

183,460

Training hours for employees during the year

SOCIAL AND RELATIONSHIP CAPITAL



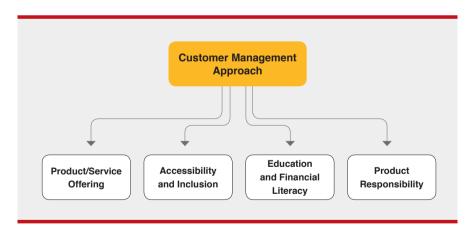
How we Measure Success

- Continued patronage and endorsement of our customers is a measure of our commercial success
- Improving customer satisfaction scores is a key indicators of our effectiveness in meeting their needs
- Ability to retain customers as they through different stages of their lives is a measure of the wide range of products and services we offer
- Mutually beneficial, productive relationships with our suppliers

Customer Relationships

Our Management Approach

Customers are at the heart of everything we do and our customer value proposition is underpinned on understanding their changing product needs as well as catering to their preferences on how and when to interact with the Bank.



Customer Profile

People's Bank serves nearly 18 million customers with an island-wide penetration level of around 80%. The Bank's ability to attract and retain such a large customer base despite intensifying competition is a barometer of the strength of our brand and customer confidence placed in us. Our customer profile is diverse in its geographical representation, age and economic status reflecting the breadth of our product portfolio and our ability to cater to diverse customer segments.

Integrated Product and Service Offering

The breadth of our product portfolio enables us to provide continuing support to our individual and business customers throughout the different stages of their lives. For instance, for individuals we

offer a safe place for investing savings; provide financing for purchasing movable/ immovable property, wealth management solutions and savings products for senior citizens. For businesses, the Bank is able to support entrepreneurs launch a business, fund its expansion and manage its payments securely.

	Investment Products	Access to Finance	Transactional Products	Other
Consumer Banking	 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 	 Personal Loans Term Loans Housing Loans Pawning 	 Credit/debit Cards Mobile/SMS Banking Internet Banking 	• Gift Vouchers
Enterprise Banking	Current AccountsSavings AccountsFixed Deposits	 Overdrafts Term Loans SME Loans Development and microfinance 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 in Government securities Repurchase transactions in Government Securities Foreign exchange transactions Derivative transactions (Forward exchange contracts, FX swaps) 			 Investment Banking Debt Restructuring Advisory Services Trustee Services
International Operations	Foreign Currency Deposits			 Trade services Overseas customer services Foreign currency remittances International payment and settlement services

Accessibility and Channels

With 737 branches, 1,358 school offices and 506 ATMs island-wide, the Bank has the most extensive banking network in the country. Meanwhile, People's Leasing and Finance PLC and People's Merchant Finance PLC operates 103 and 11 branches respectively. Extended banking hours and 365 day banking are offered in four branches while most branches provide disability access for differently abled customers. The Bank is also currently in the process of refurbishing and upgrading 100 branches with the objective of improving ambience and the overall customer experience. The strategic positioning of our ATMs enables the Bank to attract over 400,000 customers per annum from other banks.



The performance of all branches is consistently monitored by the Channel Management Department based on a range KPIs reflecting business growth, customer service, transaction turnaround times and non-performing loans among others. Branches are ranked based on these KPIs on a quarterly basis, and highest-performing branches are incentivised to drive employee recognition and motivation. Meanwhile, the Internal Audit Unit also visits branches to ensure the effectiveness and adequacy of the internal controls and risk management mechanisms in place.

Self-Service Channels

The Bank's medium to long-term strategy includes driving services through as multi-channel approach, with specific focus on self-service channels. Accordingly, the Bank introduced seven self-service kiosks during the year; each of these kiosks comprise a Cash Deposit Machine (CDM), an ATM and a payment kiosk which enables customers to make utility

payments. In addition to enhancing customer convenience and the overall banking experience, this is expected to cut down crowding and queuing within the branches thereby enabling branch employees to focus on driving business growth. Given the Bank's customer reach, the roll out of digital channels across our network can play a vital role in contributing towards bridging the digital barrier to financial services. Following the anticipated launch of the Bank's mobile app, we hope to engage a digital agent in every branch who will facilitate customer education and propagate the use of digital banking amongst customers.

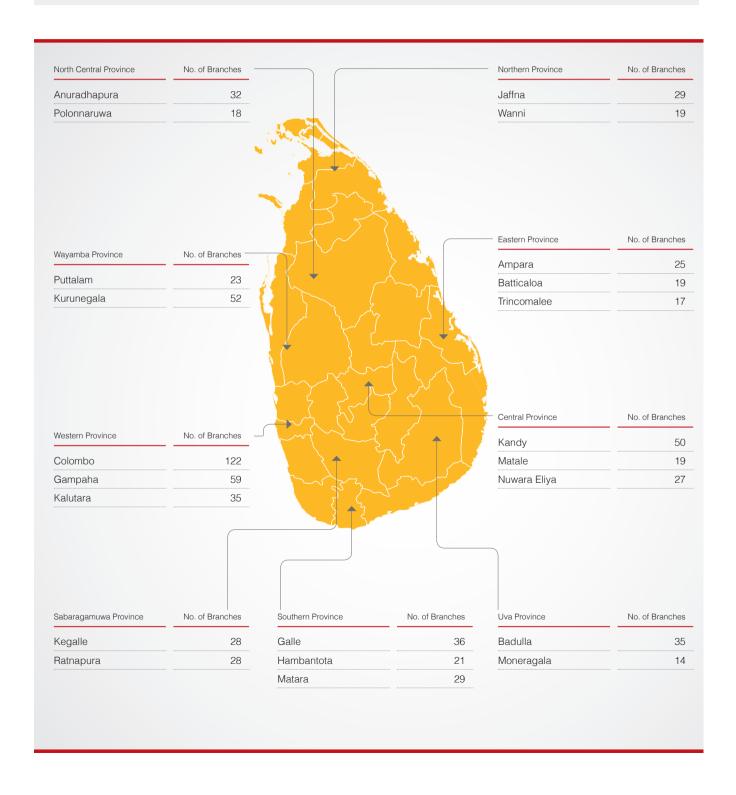
ATMs and Withdrawals



Inclusive Banking

People's Bank also holds the distinction of being the first financial institution to open its door in numerous economically disadvantaged regions in the country. For instance, the Bank has had a presence in the Northern and Eastern Provinces for more than 54 years, long before the end of the ethnic conflict and subsequent entry of other financial institutions to the region. All employees in these regions are able to communicate in all three languages while relevant marketing information and paperwork is also trilingual. In facilitating services for differently abled customers, 138 of our branches have been equipped with wheelchair access while specialised services are offered for the elderly and the differently abled persons in all our branches.

	All Provinces	Economically Disadvantaged Regions		
		Northern Province Eastern Province Uva		Uva Province
No. of Branches	737	48	61	49
No. of ATMs	506	22	37	28
Advances (Rs. million)	950,824	22,762	39,630	29,990
Deposits (Rs. million)	1,077,812	38,031	37,868	36,776



The Bank has also been at the forefront of launching specialised products targeting underserved segments of the society. For instance, People's Bank pioneered savings accounts for 3 minors and women, and despite other banks subsequently following suit with similar product launches, the Bank has successfully retained its market position in these attractive segments.

Specialised Savings by Products



Responding to Our Customers

The Bank obtained the services of an independent market research organisation to conduct an island-wide customer satisfaction survey in 2016, with the objective of clearly identifying customer preferences and potential areas for improvement. Overall, the Bank achieved a rating of 4.3 on a 5-point rating scale, scoring high for factors such as brand equity, product range and stability. Aspects that customers believed have further potential for improvement included, responsiveness of staff, branch services and convenience. Findings from this study formed a critical input to the Bank's Strategic Planning Process and the following action plans have been implemented to effectively respond to identified shortcomings.

Identified Gap in Customer Expectations	Strategic Action
Responsiveness of staff	Each branch employee is currently undergoing at least two training sessions on service delivery
Customer convenience	In line with the digitisation drive, the Bank is aggressively pursuing expansion in its online and mobile platforms with the objective of driving customer convenience and flexibility. Self-service kiosks have also been established in several locations.
Branch services	Physical infrastructure and ambience of all branches to be upgraded with the objective of positioning People's Bank as a technologically advanced Bank

The Bank is also currently in the process of setting up a dedicated in-house marketing research unit with advanced research capabilities to track, analyse and report customer needs in a structured and comprehensive manner.

Customer Education

We play a vital role in bridging the social and digital barrier to banking through structured customer education programmes and other forms of customer engagement. During the year, the Bank conducted multi-disciplinary programmes with the total participation of over 76,000 customers, as detailed in the table below.

Programme/Initiative	Objective/Description	Region/ District	No. of Participants
Women's ' <i>Vanitha</i> <i>Vasana</i> ' workshop	The programmes were designed to raise awareness on Women's safety and protection, family nutrition, financial discipline, attitude and personality development among others. Participants were also given the opportunity to open a women's and/or minor's savings account	Dickwella	Approximately 1,000
Sisu Udana Year 5 Scholarship programme with 'Sujaya' Newspaper	Educate students and their Parents about grade 5 Scholarship	All island	40,000 students 25,000 parents (Approximately)
Entrepreneur Glory-for SME customers	Educate customers on the areas of Banking, Financial Accounting, Financial Management, Marketing, Business Strategic and Taxation.	Gampaha Kalutara Matale	806



Awareness Programmes on women's safety and protection, family nutrition, financial discipline, attitude and personality development at Dickwella, Matara District.



 $\it Sisu\ Udana\ grade\ 5\ Scholarship\ programmes\ for\ all\ Island\ students\ and\ their\ parents.$



Entrepreneur Glory programmes for SME customers at Gampaha, Kalutara and Matale Districts.

Product Responsibility

The Bank's Customer Charter, has been formulated in line with the CBSL's requirements and ensures that the terms and conditions applicable to our products and services are clearly understood by all customers. Interest rates on deposits and loans as well as exchange rates and other charges are published on our website and updated on a daily basis. Meanwhile, brochures and pamphlets which include detailed information on product features, terms and conditions are available to

customers in a language of their choice. During the year under review, there were no instances of non-compliance to product and service and product and service labeling related regulations, voluntary codes or other guidelines.

Marketing Communications

The Bank's marketing communications which include advertising and promotional material are designed in line with the Bank's Corporate Communication Policy which ensures compliance to relevant regulatory requirements, corporate ethics

and consistency to the Bank's branding guidelines. All marketing communications undergo a comprehensive process of checking and multi-level approval prior to publication. During the year there were no incidents of non-compliance to any regulations, voluntary codes or other guidelines pertaining to marketing communications.

Customer Privacy

Security of customer information is regulated by the Banking Act and subsequent directions issued by the CBSL

in this regard. The following measures have been implemented to ensure confidentiality and privacy of customer information at all times:

- All employees take an oath of secrecy
- Assurance of e-mail privacy
- Limitations and controls on employees' access to personal information of customers
- Regular compliance reviews and audits
- Restrictions on disclosures of account information to third parties

During the year there were no incidents of non-compliance to any regulations, voluntary codes or other guidelines pertaining to customer privacy.

Customer Grievance Handling

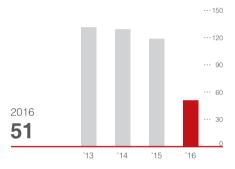
A structured customer complaints and grievance procedure is in place and communicated to all customers through the Bank's website and displayed at branches. The contact details of the Bank and Financial Ombudsman is also displayed at branches in the event that the efforts made by the Bank in handling a specific grievance are unsatisfactory to the customer.

The Bank operates a 24-hour customer hotline and a dedicated Complaint Handling Unit ensures that all grievances are recorded and responded to within a specific time period. Upon receipt, grievances are directed to the relevant regional manager who is responsible for investigating and responding to the grievance. Repetitive complaints and grievances pertaining to employees are directed to the Bank's Internal Investigation and Inquiries Department for review and action. Meanwhile, details relating to customer complaints and grievances are communicated to employees through the monthly branch manager conferences and corrective action is recommended to ensure that it is not repeated. During the year, the Bank received 304 customer complaints of which 266 were resolved during the year; the rest are currently being processed by the Internal Investigations and Inquiries Department.

In addition to the general grievance handling mechanism, the Bank has also established a Central ATM Control Department to monitor complaints pertaining to ATM breakdowns. A robust mechanism is in place to ensure that all breakdowns are reported to the branch and prompt corrective action is taken within a specific time period. Prompt reporting and proactive monitoring have enabled the Bank to record a sharp decline in such breakdowns in recent years.

ATM Breakdowns

No. of Breakdowns



Business Partners

The relationships we have nurtured with numerous business partners over our history spanning over 55 years have enhanced our ability to create value. We strive to develop mutually beneficial relationships that facilitate collective growth based on common values and ethics. In 2016, total value created to our suppliers amounted to Rs. 8.6 billion an increase of 20% in comparison to the previous year. The Bank's business partners consist of suppliers through whom we procure products and services necessary for our value creation as well as a global network of correspondent banks and franchise partners who facilitate our global reach.

The Bank has membership in the following industry related associations:

- 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 Bankers Association (Guarantee) Ltd.
- The Association of Banking Sector Risk Professionals – Sri Lanka
- Clearing Association of Bankers
- Employer's Federation of Sri Lanka
- Association of Primary Dealers

COMMUNITY ENGAGEMENT

The Bank has nurtured deep-rooted relationships within the localities it operates in, enabling it to emerge as an integral component in the social fabric of Sri Lanka's communities. Throughout its existence, People's Bank has therefore played a vital role in facilitating socioeconomic progress in underprivileged areas, through engaging with the grassroots of the economy, widening financial inclusion and promoting entrepreneurship. The Bank's community support stems from the following aspects of its operations;

- Developing entrepreneurship
- Community development based lending
- Ongoing CSR initiatives

Developing Entrepreneurship

As a pioneer in micro financing the Bank has maintained ongoing engagement with the grassroots of the economy, conducting capacity building programs and providing access to finance across its extensive network. Through this program, the Bank's regional offices identify individuals living below the national poverty line and engage them (if willing) in extensive capacity building programs aimed at enhancing business management skills, financial literacy and entrepreneurship. Training programs are conducted by the Bank's employees and provide an effective platform for generating ideas, sharing knowledge and nurturing financial discipline. Participants are subsequently given the opportunity to obtain a Rs. 25,000/facility to commence entrepreneurial, self-employment ventures. The Bank's microfinancing officers maintain continuous

engagement with these individuals, providing ongoing support and training to ensure the success of the venture. Focus on potential women entrepreneurs have enabled the Bank to directly empower females, provide an alternative source of income and contribute towards the socioeconomic progress of these families. As at end 2016, the Bank was engaged in providing support to 341 microcredit customers.

Community Development Based Lending

In addition to its own lending, the Bank has partnered with several NGO and Government organisations (through refinance schemes) to provide support to specific industry sectors, delivering social benefits. These facilities are granted primarily through the SME development unit and the Development and Microfinance Unit of the Bank and contribute towards generating employment, supporting cottage industries and supporting the country's agricultural sector.

		As at end Decer	mber 2016	
	Funded by	the Bank	Funded through Refinance Schemes	
	No. of Loans	Outstanding Amount (Rs. million)	No. of Loans	Outstanding Amount (Rs. million)
Agriculture	11,237	2,692.67	7,108	5,525.99
Commercial	14	0.59	1,084	205.22
Consumption	2	0.08	5	0.30
Financial		-	24	2.27
Housing & Property	3	0.15	8	0.30
Industrial	1,764	53.16	612	82.64
Other Economic Activities	32,530	4,150.40	7,299	435.89
Services	105	6.11	138	7.56
Tourism	_		10	5.51
Total	45,655	6,903.17	16,288	6,265.68

Corporate Social Responsibility



For the 7th consecutive year People's Bank sponsored the Colombo Nawam Perehera 2016.



The Christian Guild of People's Bank took a step to donate necessary medical equipment to Athimale Hospital at Monaragala District.





School books project implemented across the entire island was launched by the Buddhist Society of People's Bank. While about 7,000 children were benefited and Rs. 4 million was spent for these donations.





A house constructed in Eravur, Batticaloa Region and handed over to a poor family by the Muslim Majlis of People's Bank.



Construction of a steel pavilion for children's classes by *Vidya* Foundation at Matugama by the People's Bank Hindu Society.

Every year, the Bank engages in numerous CSR initiatives targeted towards supporting the educational requirements of underprivileged children, celebrating religious and cultural initiatives and preserving the environment. Funds are allocated through the Bank's employees' associations, including the Buddhist Society, the Hindu Society, the Christian Guild and the Muslim Majlis. During the year, the Bank invested Rs. 40.3 million in such community welfare projects, a few of which are listed below:

Education

- Distribution of school books and stationery for the 20th year, supporting nearly 7,000 children in underprivileged schools
- Improving school infrastructure, such as construction of steel pavilions in Mathugama and developing common facilities
- Contributions towards religious education through strengthening infrastructure and donating books
- Numerous sponsorships and book donation projects

Culture and Arts

- Main sponsor of the historical Kandy Esala Perehera for the 11th Consecutive year
- Numerous contributions and sponsorships for religious activities in localities
- · Construction of cultural centres
- Sponsorships for cultural activities, including stage plays and musical shows

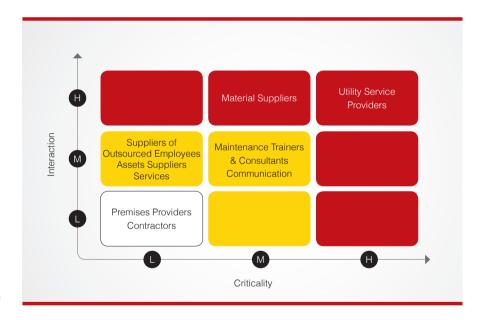
Other Activities

- Construction of five houses for destitute families in Anuradhapura, Ratnapura, Monaragala and Hambantota Districts, at a total investment of Rs. 7.5 million
- Aid for natural disasters including droughts, floods and landslides
- Aid for disabled people, including the donation of wheelchairs, crutches and sanitary items

Supply Chain Partners

The Bank's suppliers range from material suppliers and premises providers to utility service providers, contractors and asset suppliers. Selection of suppliers is based on a formal Board approved tender procedure. New suppliers are registered every year by calling for public tenders, followed by an assessment procedure which includes quality parameters, cost implications as well as compliance to environmental and labour regulations. The Bank currently manages its supply chain manually and the anticipated migration to e-supply management will accrue a host of benefits in terms of efficiency, flexibility as well as agility in responding, branch level requirements. This process will also include the launch of an e-inventory system and e-tendering system

The level of engagement the Bank maintains with its suppliers may be routine or ad doc depending on the relative importance to our operations as illustrated below. In 2016, 95% of total payments made to suppliers were to local parties.



Global Partners

The Bank's global reach is facilitated by a network of 49 correspondent banks and 72 exchange houses through whom we have developed a presence in over 108 countries across the world. Our correspondent banks are among the world's largest financial institutions while exchange houses are key

partners in facilitating remittances from Sri Lankan employees working overseas. These partners are also selected following a comprehensive evaluation process and transactions are based on detailed agreements with clearly define obligations expected from both parties.



Europe

Banca Nationale del Lavoro SpA, (BNL) Rome Bank of Ceylon, London

Bank of Cyprus Public Company Ltd., Nicosia Barclays Bank PLC, London

BHF Bank Aktiengesellsschaft, Frankfurt am Main

BNP Paribas SA, Paris

Budapest Bank RT, Budapest

Commerzbank AG. Frankfurt am Main

Credit Suisse, Zurich

Czekoslovenka Obchodna Banca AS,

Bratislava

Danske Bank A/S, Copenhagen

Deutsche Bank AG, Frankfurt am Main

Gorengska Banka DD, Ljubljana

HSBC Bank PLC, London

ING Bank NV, Amsterdam

ING Belgium SA/NV, Brussels

Intesa Sanpaolo SpA, Milano

Komercni Bank NA, Prague

MKB Bank ZET, Budapest

National Westminster Bank PLC, London

Natixis, Paris

Nordea Bank AB (Publ), Stockholm

Nordea Bank Norge ASA, Oslo

Raifaizen Bank, Vienna

SEB Bank, Tallinn

SEB Bank, Vilnius

Skandinaviska Enskilda Banken AB (Publ),

Stockholm

Societe Generale, Paris

Sparkasse Kolnbonn, Cologne

Svenska Handelsbanken AB (Publ), Stockholm

UBAE S.P.A, Rome

UBAF, Paris

UBS AG, Zurich Ukrexim Bank, Kiev

Unicredit Bank Austria AG, Vienna

Unicredit Bank, Sofia

UniCredito Italiano SpA, Milan

Zagrebacka Banka DD, Zagreb Zurcher Cantonale Bank, Zurich

North America

Bank of Montreal, Montreal

Bank of Nova Scotia, Montreal

Canadian Imperial Bank of Commerce, Toronto

Citibank NA, New York

Deutsche Bank Trust Company Americas,

New York

Habib American Bank, New York

HSBC Bank USA NA, New York

JP Morgan Chase Bank NA, New York

Mashreq Bank PSC, New York

Standard Chartered Bank, New York

Wells Fargo Bank NA, USA

South America

Banco de Chile, Santiago Banco Santander Brazil SA, Sao Paulo

BBVA Banco Continental, Lima

Deutsche Bank, Sao Paulo

Africa

ABSA Bank Ltd., Johannesburg

Bank Misr, Cairo

Barclays Bank of Kenya Ltd., Nairobi

Citi Bank - Abidjan

Mauritius Commercial Bank Ltd - Port Louis

National Bank of Egypt, Cairo

Nedbank Ltd., Johannesburg

Asia

Axis Bank Ltd., Mumbai

Bank for Foreign Trade - Hanoi

Bank of Ceylon, Chennai Bank of China, Shanghai

Bank of Communications Co. Ltd., Shanghai

Bank of Maldives, Malé

Bank of Tokyo Mitsubishi UFJ Ltd., Tokyo

China Construction Bank, Beijing

China Development Bank, Shanghai

CIMB Bank Ltd., Kuala Lumpur

DBS Bank Ltd., Singapore

Exim Bank of Korea, Seoul

Export Import Bank of China, Beijing

Hana Bank, Seoul

HSBC Bank, Hong Kong

ICICI Bank Ltd., Mumbai

Industrial Bank of Korea, Seoul

Mashreq Bank PSC, Mumbai

MCB Bank Ltd., Karachi Mizuho Corporate Bank Ltd., Tokyo

Nepal Bank Ltd., Kathmandu

Oversea-Chinese Banking Corp. Ltd., Hong Kong

Oversea-Chinese Banking Corp. Ltd., Kuala Lumpur

Oversea-Chinese Banking Corp. Ltd., Singapore

Pubali Bank Ltd., Dhaka

Rupali Bank Ltd., Dhaka

Standard Chartered Bank, Khartoum

Standard Chartered Bank (Pakistan) Ltd., Karachi

Standard Chartered Bank, Dhaka

Standard Chartered Bank, Kathmandu

Standard Chartered Bank, Tokyo

State Bank of India, Chennai

Sumitomo Mitsui Banking Corporation, Tokyo

UBAF, Singapore

Woori Bank, Hanoi

Oceania

ANZ National Bank Ltd., Wellington

Australia & New Zealand Banking Group Ltd.,

Melbourne

National Australia Bank Ltd., Melbourne

Westpac Bank PNG Ltd. - Port Moresby

Westpac Banking Corporation, Suwa

Middle East

Ahli United Bank, Kuwait City

Al Rajhi Banking & Investment Corp - Riyadh

Bank Dhofar, Ruwi

Bank of Bahrain and Kuwait, Manama

Bank Muscat SAOG, Ruwi

Byblos Bank SAL, Beirut

Commercial Bank of Dubai PSC, Dubai

Commercial Bank of Qatar, Doha

Doha Bank, Doha

Emirates NBD Bank PJSC, Dubai

Jordan Islamic Bank, Amman

Mashreq Bank PSC, Dubai

National Bank of Abu Dhabi, Abu Dhabi National Bank of Oman SAOG, Muscat

UBAE S.P.A., Dubai

United Bank Limited, Dubai

INTELLECTUAL CAPITAL

Relevance to our Strategy and Value Creation



Intellectual capital consists of the collective knowledge, systems and processes which have been nurtured over the years

How We Measure Success

- Awards, accolades and ratings are testimony to the Bank's intellectual capital and brand value
- Minimal disruptions to the Bank's daily operations attests to the robustness and strength of its systems

The Bank's Excellence

The Bank is a frequent recipient of local and global awards and accolades, a reflection of its commitment to achieve excellence in all aspects of its operations. Key areas of excellence in 2016 include service delivery, sustainability and brand value as listed below.



'Best Banking Group 2016 – Sri Lanka' award at the prestigious World Finance Banking Awards in 2016.



'Banking Service Provider of the Year' for the 10th consecutive year at the SLIM Nielson People's Awards in 2016.



'Most Sustainable Bank 2016 – Sri Lanka' award at the prestigious World Finance Banking Awards in 2016.



People's Bank's 'YES SAVINGS ACCOUNT' Recognised with Gold Award at 2016 SLIM Brand Excellence Awards



'Service Brand of the Year' for the 10th consecutive year at the SLIM Nielson People's Awards in 2016.



South Asian Federation of Accountants (SAFA), Best Annual Report Awards and SAARC Anniversary Awards for Corporate Governance Disclosures 2015, First Runner Up.



The reputed international financial and business magazine, *The European*, also recently honoured People's Bank for serving Sri Lankans for over five decades and enabling them to meet all their financial and banking needs by awarding the 'Bank of the year 2016'.

NATURAL CAPITAL

Relevance to Our Strategy and Value Creation Customer Centricity Sustainable Growth Operational Excellence People First Organisation As a service organisation, we recognise that we have

As a service organisation, we recognise that we have a minimal impact on the environment and that we are positioned to effectively propagate sustainable practices amongst our extensive customer base. We also consistently strive to reduce the environmental impact of our operations.

How We Measure Success

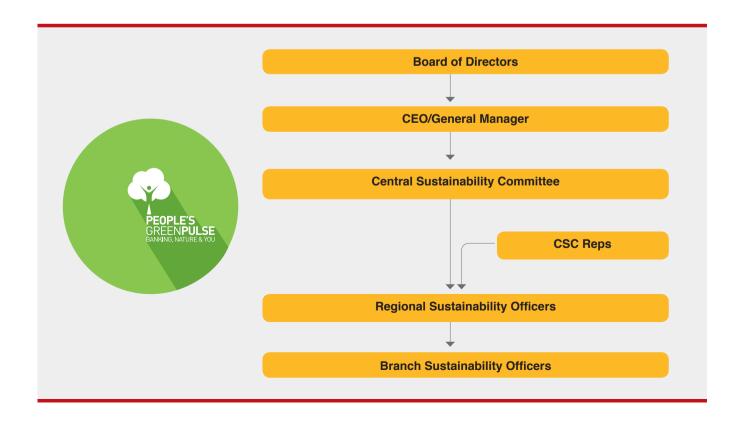
- Consistent improvements in the intensity ratios of our natural resource consumption is an indication of our commitment to reduce the environmental footprint of our operations
- Increased propagation of green practices amongst our customers through the adoption of initiatives such as paperless banking

Our Management Approach – People's Green Pulse

In 2016, People's Bank embarked on a journey to measure, manage and mitigate its environmental impact via the introduction of a comprehensive Environmental Sustainability Policy –"*People's Green Pulse*" and the responsibility of this

mammoth undertaking was supported by leading sustainability solutions provider – The Carbon Consulting Company (CCC).

As a first step, the Bank implemented a Sustainability Framework that spans all divisions of the organisation, from Head Office to Regional Offices and the entire Branch network. This framework included the creation of Sustainability Teams at all key operational levels that will manage the Bank's Environmental, as well as Social initiatives, all of whom now report to a newly formed Central Sustainability Committee.



To initiate the policy, People's Bank committed to focus on reducing the Greenhouse Gas (GHG) emissions of its organisational operations. To this end, an extensive Carbon Management Programme was introduced to effectively measure, manage and mitigate the Carbon Footprint of the Bank and it is the most globally recognised method of measuring, monitoring and reducing an entity's overall impact on the environment. The Carbon Management Programme will be systematically phased over a three-year period and includes the development and setting-up of Carbon Management Plans at all major divisions to assist in reducing the Bank's operational emissions. People's Bank also facilitated special training and awareness sessions on Environmental Sustainability, the Bank's Sustainability Framework and ongoing environmental initiatives for the Central Sustainability Committee, selected key Head Office Department along with Regional and Branch Sustainability Officers spanning the 737 outlet network.

The assessments are conducted in accordance with the WRI/WBCSD GHG Protocol and ISO 14064-1 Standard and as part of the first year of this programme, Scope 1 and Scope 2 Carbon Footprint for People's Bank Head Office for the calendar year 2016.

Energy

The vast majority of the Bank's energy requirements are currently fulfilled through the national grid. Given that 45% of the Bank's footprint is its electricity usage. Whilst emissions from electricity consumption appears to remain nearconstant from 2015 to 2016 and total energy consumption of the Head Office building in the year 2016 is recorded as 2,118,800 kWh. There were significant projects/events that took place within the Head Office premises in 2016 that could have led to this similarity in footprint - four floors were renovated and equipped with new Air Conditioning Systems; the Bank's anniversary celebrations at Head Office that saw the significant use of ceremonial lighting in the month of July; and the Thalangama IT Centre' was shifted to Head Office occupying its 1st Floor. Therefore, it could be assumed that the overall electricity consumption footprint has in fact reduced year-on-year.

A series of mitigation measures have been introduced to improve the Institution's energy efficiency. These measures include but are not limited to:

- Use of Solar Power in selected branches
- Use of energy efficient lighting systems such as CFL and LED bulbs

- Switching off unnecessary lighting
- Switching to energy efficient air conditioners with inverter technology
- Engaging employees on energy conservation through awareness programmes and internal communications

Moving forward, the Bank intends to reduce its dependency on fossil fuels by systematically migrating to renewable sources for power generation. The Bank's short to medium-term plans include introducing solar powered solutions in branches.

Waste

The principal types of waste generated out of the Bank's operations are comprised paper, food, plastic, electrical and glass waste. The Bank is currently making plans to segregate and dispose waste into colourcoded bins as per the guidelines laid out by the Central Environmental Authority (CEA) to ensure minimal impact on the environment. Adhering to these standards sets the groundwork that also allows the Bank to monitor its waste disposal, and to accurately assess the GHG Emissions generated during disposal of waste. Paper and plastic waste is sent to third-party recyclers approved by the CEA and the

Reporting Scope	Emissions Source	Emissions Component	Emissions Total (tCO ₂ e)
Scope 1 – Direct Emissions	Stationary Combustion	Generator Fuel and LP Gas Consumption	65.19
	Mobile Combustion	Bank Owned Vehicle Fuel Consumption	572.61
	Fugitive Emissions	A/C Refrigerant and Fire Extinguisher CO ₂ Leakages	585.54
	Scope 1 Total Emission	ns	1,223.34
Scope 2 – Indirect Emissions	Purchased Electricity	Electricity Consumption	1,037.97
	Scope 2 Total Emission	ns	1,037.97
	Total Scope 1 Scope& 2 Carbon Footpri	nt of People's Bank	2,261.31

Based on the findings of the assessment, People's Bank will focus on the following key areas in working towards reducing its impact on the environment.

- Energy
- Waste
- Products and Services

Bank is further committed to reducing paper consumption and to continue engaging with its stakeholders through the following initiatives:

- Encouraging the use of technology for communication
- Double sided printing and reuse of paper wherever possible
- Encourage paperless banking through electronic and mobile platforms and self banking units as part of the Bank's digitisation drive

Products and Services

The Bank's extensive customer reach enables it to propagate best practices in sustainability to a substantial audience and having recognised this potential, the Bank launched a dedicated 'Green Banking' product line during the year. The Young Executive Saver (YES) account was reintroduced featuring paperless banking, thereby partnering customers in the Bank's sustainability drive. During the year 312,754 new YES accounts were opened and we hope to drive further growth in this product line through targeted marketing and promotional campaigns for its entire portfolio.

The Bank also introduced concessionary loan facilities for specific products, promoting environmental sustainability, which includes facilities to install Solar Power for both residential and commercial purposes and Auto Loans for the purchase/lease of hybrid vehicles, amongst others.

In addition to the above, the Bank proactively engaged stakeholders in its sustainability commitments through the following initiatives:

 Press releases and advertisements to coincide with the World Environment
 Day and Earth Day, amongst other key environment conservation related days

- Training sessions conducted at Regional and Branch levels to help employees understand their role in making People's Bank the most environmentally conscious financial institution in Sri Lanka
- Using social media as an effective platform to communicate the Bank's Green Agenda amongst the country's youth
- Digital Banking drive to encourage customers and employees to use paperless solutions

FUTURE PLANNED INITIATIVES

People's Bank has pledged to become a certified CarbonConscious® Bank at the end of their three-year Carbon Management Programme. This proprietary certification was developed by leading environmental sustainability verification and certification provider, The Sustainable Future Group, and requires a client to sign up for a regular reassessment, monitoring and management programme of its Carbon Footprint, whilst working towards mitigation targets.

The Bank is also in the process of introducing a comprehensive Green Building Policy for all its renovations, retrofits to existing buildings and all new constructions, developed by CCC following the GreenSL® Rating System of the Sri Lankan Green Building Council.



OUR MILESTONES AND EVENTS OF THE YEAR

OUR MILESTONES 140

EVENTS OF THE YEAR 144

Throughout its illustrious operating history, the Group has surpassed numerous milestones growing by leaps and bounds to deliver exciting solutions for customers, attractive returns for shareholders and contribute towards the country's overall socioeconomic progress.

OUR MILESTONES

60's

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.

90's

1990

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

1992

The Bank supported the Government's 200 Garment Factory Programme. 'People's Automated Banking System' (PABS) a banking application developed inhouse, commenced live operations.

1991

The first ATM

was installed

Headquarters

at our

Branch.

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.

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 iob 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.

1994

Eight new ATMs were installed and 160 branches were computerised under the automation programme

1995

'Gurusetha', a new deposit mobilization 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.

70's

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 Koralawella.

80's

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.

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.

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.

1982

The 300th branch of the Bank opened at Ingiriya. The total number of employees reached 10,000.

1981

Our branch network increased to 290 branches. The Extended Minors' Savings Scheme was launched

2000's

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.

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. 23 SME Centres were established across the island. Surpassed 1 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.

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.

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.

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 island wide. 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.

2000's

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.

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 Rs.1 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, 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.

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].

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.

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.

2004

The second phase of the restructuring plan for 2004-2008 launched and approved by the Government of Sri Lanka was based on the recapitalization support of ADB. The Bank obtained the first ever public rating of BBB+ from Fitch Ratings Lanka. The Core Banking project was implemented successfully.

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.

EVENTS OF THE YEAR



'Nidahase Upatha' a Programme held to celebrate 68 years of independence with gifts for children born during the week of independence. The main event of this programme was held at the Castle Street Maternity Hospital in Borella under the patronage of Mr. N. Vasantha Kumar – CEO/GM of People's Bank.



People's Bank was the Co-Sponsor of Miss Tourism Sri Lanka International 2016. This programme was in line with People's Bank Green Banking initiative which is one of the Bank's key strategic goals for 2016 and beyond. As a part of this sponsorship, the contestants from the world actively participated in tree-planting programmes.



On International Women's Day 2016, People's Bank *Vanitha Vasana* account offers myriad of benefits for women. To commemorate this, a ceremony was held at the Arcade Independence Square. At the event, gifts and certificates were given out *Vanitha Vasana* account holders.



A performance of *Bakthi Geetha* in Commemoration of *Vesak* Celebration was organised by the Arts Circle of People's Bank. The event was a part of the ITN *Bauddhaloka Vesak Kalapaya* held in Colombo 07.



In commemoration of the 55th Anniversary of People's Bank, a Blood Donation Camp was held at the People's Bank Staff Training College in Colombo.



In commemoration of Deepavali People's Bank organised a series of ceremonies at the Wellawatta Branch.



People's Bank awarded 'Best Banking Group in Sri Lanka' and 'Most Sustainable Bank in Sri Lanka' 2016 by the World Finance Magazine at the World Finance Banking Awards for the 3rd time.



People's Bank 'YES SAVINGS ACCOUNT' recognised with Gold Award for 'Service Brand of the Year', one of the most coveted accolades in the corporate world, at the SLIM Brand Excellence Awards, held on 2016, at BMICH.



People's Bank Highlights Carbon
Management as a Key Building Block in
its 'People's Green Pulse' environmental
sustainability journey. The bank
collaborates with Sri Lanka's foremost
provider of integrated sustainability solution
the carbon consultant company to achieve
its ambitious environmental goals.



People's bank was awarded 'People's Service Brand of the Year and People's Banking Service Provider of the Year' for the 10th consecutive time at the SLIM Nielson People's Awards 2016.



The newly built two-storied building of People's Bank, Beruwala branch was declared open by Mr. N. Vasantha Kumar, CEO/GM People's Bank.



People's Bank Chairman's Trophy, an Inter-Provincial, Six-A-Side, Leather Ball Cricket Tournament organised by the People's Bank Sports Club was held in NSCA grounds in Ratmalana. The Head Office Team emerged victorious for the second consecutive year.



People's Bank launched the 'People's Smart Phone Easy Payment Scheme' in partnership with two leading telecom operators in the country, Dialog and Mobitel. This Payment Scheme was introduced as a part of the digitisation of bank's services.



People's Bank launched its new logo to reflect evolving aspiration of the Bank and its stakeholders. The new logo was unveiled by Hon. Kabir Hashim – Minister of Public Enterprise Development.



People's Bank unveils state-of-the-art CDM/ ATM/Kiosk at Head Office to enhance customer convenience.



People's Bank opened its milestone 500th PET machine at the Military Hospital in Narahenpita by Mr. N. Vasantha Kumar – CEO/GM, People's Bank and Major General S.H. Munasinghe – Director General, Army Health Services.



FINANCIAL REPORTS

!	DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING	148
, -	AUDITOR GENERAL'S REPORT ON FINANCIAL STATEMENTS	149
	INCOME STATEMENT	151
STATEMENT	OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	152
	STATEMENT OF FINANCIAL POSITION	153
	STATEMENT OF CHANGES IN EQUITY - BANK	154
	STATEMENT OF CHANGES IN EQUITY - GROUP	156
	STATEMENT OF CASH FLOWS	158
	NOTES TO THE FINANCIAL STATEMENTS	150

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 or 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 48.

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 2016 exhibited on pages 151 to 232.

The Bank's Financial Statements for the year ended 31st December 2016 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 2017

AUDITOR GENERAL'S REPORT ON FINANCIAL STATEMENTS



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கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம் **AUDITOR GENERAL'S DEPARTMENT**



මගේ අංකය எனது இல. My No.

BAF/D/PB/FA/2016

உமது இல. Your No.

திகதி 27 March 2017

Report of the Auditor General on the Financial Statements of the People's Bank and its Subsidiaries for the Year Ended 31 December 2016

The audit of the financial statements of the People's Bank ("Bank") and the consolidated financial statements of the Bank and its Subsidiaries ("Group") for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016, the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and 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. The financial statements of the subsidiaries were audited by firms of Chartered Accountants in public practice appointed by the members of the respective subsidiaries.

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 judgment, including the assessment of the risks of material

misstatement of the financial statements. whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements 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 evaluating the overall presentation of the financial statements

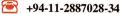
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

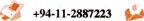
Opinion - Bank

In my opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

අංක 306/72, පොල්දුව පාර, බත්තරමුල්ල, ශී ලංකාව, . - இல. 306/72, **ධ**mබහු**ma ක්**නී, பத්தரமுல்லை, இலங்கை. · No. 306/72, Polduwa Road, Battaramulla, Sri Lanka















Opinion – Group

In my opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements present the information required by the Banking Act, No. 30 of 1988 and subsequent amendments thereto.

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 will be tabled in due course.

H.M. Gamini Wjesinghe

Auditor General

INCOME STATEMENT

	Note	ote BANK			GROUP			
For the Year ended 31st December		2016 Rs. '000	2015 Rs. '000	Change %	2016 Rs. '000	2015 Rs. '000	Change %	
Gross Income	5	122,114,359	103,648,964	17.8	144,749,519	123,830,806	16.9	
Interest Income		109,970,256	92,485,979	18.9	129,708,199	110,360,612	17.5	
Interest Expenses	***************************************	(66,845,869)	(48,731,975)	37.2	(76,111,563)	(56,020,994)	35.9	
Net Interest Income	6	43,124,387	43,754,004	(1.4)	53,596,636	54,339,618	(1.4)	
Fee and Commission Income		3,948,052	3,712,146	6.4	4,365,052	4,037,408	8.1	
Fee and Commission Expense	***************************************	(208,912)	(174,479)	19.7	(208,912)	(174,479)	19.7	
Net Fee and Commission Income	7	3,739,140	3,537,667	5.7	4,156,140	3,862,929	7.6	
Net Gain from Trading	8	2,816,079	3,079,736	(8.6)	2,801,632	3,080,092	(9.0)	
Other Operating Income (Net)	9	5,379,972	4,371,103	23.1	7,874,636	6,352,694	24.0	
Total Operating Income		55,059,578	54,742,510	0.6	68,429,044	67,635,333	1.2	
Net Impairment Loss on Financial Assets	10	(1,246,748)	(3,739,914)	(66.7)	(1,362,253)	(5,167,881)	(73.6)	
Net Operating Income		53,812,830	51,002,596	5.5	67,066,791	62,467,452	7.4	
Personnel Expenses	11	(17,475,442)	(17,056,303)	2.5	(20,277,225)	(19,045,558)	6.5	
Other Expenses	12	(10,093,258)	(8,577,334)	17.7	(15,207,929)	(12,929,761)	17.6	
Operating Profit Before Value Added Tax (VAT)		26,244,130	25,368,959	3.4	31,581,637	30,492,133	3.6	
VAT & NBT on Financial Services		(5,430,470)	(5,849,440)	(7.2)	(6,148,315)	(6,370,969)	(3.5)	
Operating Profit After Value Added Tax (VAT)		20,813,660	19,519,519	6.6	25,433,322	24,121,164	5.4	
Share of Profits/(Loss) of Associates (Net of Tax)		_	_		_	_	_	
Profit Before Tax		20,813,660	19,519,519	6.6	25,433,322	24,121,164	5.4	
Income Tax Expenses	13	(5,818,969)	(6,921,677)	(15.9)	(7,477,394)	(9,053,173)	(17.4)	
Profit for the Year		14,994,691	12,597,842	19.0	17,955,928	15,067,991	19.2	
Profit Attributable to:								
Equity Holders of the Bank		14,994,691	12,597,842	19.0	16,721,972	13,898,050	20.3	
Non-Controlling Interests	***************************************	_	_		1,233,956	1,169,941	5.5	
		14,994,691	12,597,842	19.0	17,955,928	15,067,991	19.2	
Earnings per Share on Profit	14							
Basic Earnings per Ordinary Share	14.1	14,995	12,598	19.0	16,722	13,898	20.3	
Diluted Earnings per Ordinary Share	14.2	104	87	19.0	116	96	20.3	

The Notes appearing on pages 159 to 232 form an integral part of these Financial Statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	BANI	к	GROUP		
For the Year ended 31st December	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	
Profit for the Year Ended	14,994,691	12,597,842	17,955,928	15,067,991	
Other Comprehensive Income Net of Tax					
Items that will not be Reclassified to Profit or Loss					
Net Actuarial Gains and Losses on Defined Benefit Plans	3,386,550	(635,394)	3,362,348	(635,372)	
Deferred Tax Effect on Defined Benefit Plan Liability	15,167	(1,884)	22,135	(1,953)	
Gains on Revaluation of Land and Buildings	_	-	25,000	672,574	
Deferred Tax Effect on Revaluation of Land and Building	_		_	-	
Tax Expense Relating to Components of Other Comprehensive Income	-		(754)	(188,321)	
	3,401,717	(637,278)	3,408,729	(153,072)	
Items that are or may be Reclassified to Profit or Loss					
Net Gains and Losses on Re-Measuring Available-for-Sale					
Financial Assets	(13,286)	54,433	(167,029)	198,846	
Gains and Losses on Derivative Financial Assets	_		6,186	30,594	
Reversal of AFS Reserve on Disposal of AFS Investment	(9,315)		(9,315)	_	
	(22,601)	54,433	(170,158)	220 440	
				229,440	
Other Comprehensive Income for the Year, Net of Taxes	3,379,116	(582,845)	3,238,571	76,368	
Other Comprehensive Income for the Year, Net of Taxes Total Comprehensive Income for the Year	3,379,116 18,373,807	(582,845) 12,014,997	3,238,571 21,194,499		
				76,368	
Total Comprehensive Income for the Year				76,368	
Total Comprehensive Income for the Year Attributable to:	18,373,807	12,014,997	21,194,499	76,368 15,144,359	

The Notes appearing on pages 159 to 232 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

	BANK				GR		
As at 31st December		2016 Rs. '000	2015 Rs. '000	Change %	2016 Rs. '000	2015 Rs. '000	Change %
Assets							
Cash and Cash Equivalents	16	64,008,639	31,164,235	105.4	67,695,584	33,892,732	99.7
Balances with Central Bank of Sri Lanka	17	63,049,516	42,947,711	46.8	63,049,516	42,947,711	46.8
Placements with Banks	18	32,772,978	8,097,147	304.7	32,772,978	8,097,147	304.7
Derivative Financial Instruments	19	15,057	4,109	266.5	21,196	24,853	(14.7
Other Financial Assets – Held for Trading	20	46,915,311	93,400,763	(49.8)	47,455,844	93,973,350	(49.5
Loans and Receivables to Banks	21	71,528,031	111,406,452	(35.8)	72,205,378	112,319,406	(35.7
Loans and Receivables to Other Customers	22	890,528,101	768,514,659	15.9	1,013,921,293	869,780,503	16.6
Financial Investments – Available-for-Sale	23	1,525,839	3,533,743	(56.8)	3,258,308	5,661,805	(42.5
Financial Investments – Held-to-Maturity	24	96,171,734	86,604,889	11.0	101,069,681	91,089,198	11.0
Non-Current Assets – Held for Sale	25	_	_	_	1,040,828	_	_
Investments in Subsidiaries	26	1,325,766	1,475,766	(10.2)	_	_	_
Investments in Associates	27	_	_	_	_	_	_
Goodwill and Intangible Assets	28	110,514	126,888	(12.9)	438,323	462,355	(5.2
Property, Plant and Equipment	29	17,224,026	16,303,749	5.6	23,440,966	22,695,990	3.3
Investment Properties	30	184,006	185,713	(0.9)	184,006	185,713	(0.9
Prepaid Leases	31	512,184	536,321	(4.5)	512,184	536,321	(4.5
Other Assets	33	16,176,745	12,293,017	31.6	17,331,932	13,070,117	32.6
Total Assets	***************************************	1,302,048,447	1,176,595,162	10.7	1,444,398,017	1,294,737,201	11.6
Liabilities							
Due to Banks	34	106,924,276	143,923,634	(25.7)	130,122,246	162,687,453	(20.0
Derivative Financial Instruments	35	72,182	112,149	(35.6)	72,182	112,149	(35.6
Due to Other Customers	36	1,077,812,127	899,237,880	19.9	1,119,753,182	932,905,835	20.0
Other Borrowings	37	27,184,535	48,159,100	(43.6)	42,296,376	63,107,816	(33.0
Current Tax Liabilities	***************************************	2,432,266	3,845,470	(36.7)	3,000,249	4,505,699	(33.4
Net Deferred Tax Liabilities	32	63,479	361,106	(82.4)	2,254,462	2,932,396	(23.
Other Liabilities	38	15,378,998	16,428,542	(6.4)	25,182,416	24,777,985	1.6
Subordinated Term Debts	39	12,531,728	15,032,542	(16.6)	36,525,796	30,907,240	18.2
Total Liabilities	***************************************	1,242,399,591	1,127,100,423	10.2	1,359,206,909	1,221,936,573	11.2
Equity	***************************************			***************************************			-
Stated Capital/Assigned Capital	40	7,201,998	7,201,998	_	7,201,998	7,201,998	_
Statutory Reserve Fund	41	4,902,255	4,152,518	18.1	4,902,255	4,152,518	18.1
Other Reserves	42	21,195,855	21,846,751	(3.0)	22,269,995	23,012,662	(3.2
Retained Earnings		26,348,748	16,293,472	61.7	43,185,534	32,209,592	34.
Total Shareholders' Equity		59,648,856	49,494,739	20.5	77,559,782	66,576,770	16.5
Non-Controlling Interests			_	_	7,631,326	6,223,858	22.6
Total Equity		59,648,856	49,494,739	20.5	85,191,108	72,800,628	17.0
Total Equity and Liabilities		1,302,048,447	1,176,595,162	10.7	1,444,398,017	1,294,737,201	11.6
Contingent Liabilities and Commitments	44	226,429,659	181,532,584	24.7	226,442,491	181,545,416	24.7

The Notes appearing on pages 159 to 232 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

Stomoj

N. Vasantha Kumar

Chief Executive Officer/General Manager

Hemasiri Fernando

Chairman

STATEMENT OF CHANGES IN EQUITY - BANK

	Stated Capital/Ass	signed Capital
	Ordinary Shares Rs.'000	Assigned Capital Rs.'000
BANK		
Balance as at 01.01.2015	49,998	7,152,000
Super Gain Tax (Note 43.1)		
Balance as at 01.01.2015	49,998	7,152,000
Profit for the Year	_	_
Other Comprehensive Income		
Changes in Fair Value in AFS Investments	-	_
Net Defined Benefit Obligation	_	_
Deferred Tax Effect on Defined Benefit Plans	_	_
Reversal of Revaluation Gain on Disposed Property		_
Total Other Comprehensive Income/(Expense)		-
Total Comprehensive Income/(Expense)	_	_
Transactions with Equity Holders, Recognised Directly in Equity		
Transfer to Reserve During the Year	-	=
Special Levy to Treasury/Dividend		_
Total Transactions with Equity Holders		-
Balance as at 31.12.2015	49,998	7,152,000
Balance as at 01.01.2016	49,998	7,152,000
Profit for the Year		-
Other Comprehensive Income		
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	_	_
Total Other Comprehensive Income/(Expense)	-	=
Total Comprehensive Income/(Expense)		_
Transactions with Equity Holders, Recognised Directly in Equity		
Transfers to Reserves During the Year	=	-
Special Levy to Treasury/Dividend (Note 42.6)	_	_
Total Transactions with Equity Holders		-
Balance as at 31.12.2016	49,998	7,152,000

			Reserves		
Total	Retained Earnings	Available-for-Sale Reserve	Other Reserves	Revaluation Reserve	Statutory Reserve Fund
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
43,469,552	12,797,562	241,946	8,828,873	10,876,547	3,522,626
(2,770,120)	(2,770,120)				
40,699,432	10,027,442	241,946	8,828,873	10,876,547	3,522,626
12,597,842	12,597,842	_	_	_	_
54,433	_	54,433	_	_	_
(635,394)	(635,394)	-			
(1,884)	(1,884)				
(1,00+)	30,048			(30,048)	
(582,845)	(607,230)	54,433		(30,048)	
12,014,997	11,990,612	54,433		(30,048)	
12,014,331	11,990,012	34,433		(30,040)	_
_	(2,504,892)	_	1,875,000		629,892
(3,219,690)	(3,219,690)				
(3,219,690)	(5,724,582)		1,875,000		629,892
49,494,739	16,293,472	296,379	10,703,873	10,846,499	4,152,518
49,494,739	16,293,472	296,379	10,703,873	10,846,499	4,152,518
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)	-
3,379,116	3,405,012	(22,601)		(3,295)	
18,373,807	18,399,703	(22,601)		(3,295)	
	,		,		
	(124,737)		(625,000)	_	749,737
(8,219,690)	(8,219,690)	=	=	-	-
(8,219,690)	(8,344,427)		(625,000)	_	749,737
59,648,856	26,348,748	273,778	10,078,873	10,843,204	4,902,255

STATEMENT OF CHANGES IN EQUITY - GROUP

	Stated Capital/Assigned Capital		
	Ordinary Shares	Assigned Capital	
	Rs.'000	Rs.'000	
GROUP			
Balance as at 01.01.2015	49,998	7,152,000	
Super Gain Tax (Note 43.1)		-	
Balance as at 01.01.2015	49,998	7,152,000	
Profit for the Year		-	
Other Comprehensive Income			
Changes in Fair Value in AFS Investments	_	_	
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			
Total Other Comprehensive Income/(Expense)		_	
Total Comprehensive Income/(Expense)		_	
Transactions with Equity Holders, Recognised Directly in Equity			
Transfer to Reserve During the Period	_	_	
Share Issue		_	
Special Levy to Treasury/Dividend (Note 42.6)			
Acquired During the Year	_	_	
Change of Holding of Associate			
Dividends Paid			
Total Transactions with Equity Holders		-	
Balance as at 31.12.2015	49,998	7,152,000	
Balance as at 01.01.2016	49,998	7,152,000	
Profit for the Year		-	
Other Comprehensive Income		-	
Changes in Fair Value in AFS Investments	_	_	
Reversal of AFS Reserve on Disposal of AFS Investment			
Net Defined Benefit Obligation			
Reversal of Revaluation Gain on Disposed Property			
Revaluation Surplus of Land and Building			
Gains and Losses on Derivative Financial Assets		_	
Deferred Tax Effect on Defined Benefit Plans	_		
Tax on Other Comprehensive Income		_	
Total Other Comprehensive Income/(Expense)			
Total Comprehensive Income/(Expense)		-	
Transactions with Equity Holders, Recognised Directly in Equity			
Transfer to Reserve During the Period	_	_	
Share Issue		_	
Special Levy to Treasury/Dividend (Note 42.6)			
Movement Due to Changes in Ownership			
Movement Due to Changes in Ownership Dividends Paid		_	
Dividends Paid		<u> </u>	

		Rese	erves					
Statutory Reserve Fund	Revaluation Reserve	Other Reserves	Available-for-Sale Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total	Non-Controlling Interest	Total Equity
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000		
3,522,626	11,393,318	8,828,873	271,215	(15,797)	27,536,628	58,738,861	5,323,419	64,062,280
- 0,022,020	-	-		(13,737)	(3,413,319)	(3,413,319)	(214,400)	(3,627,719)
3,522,626	11,393,318	8,828,873	271,215	(15,797)	24,123,309	55,325,542	5,109,019	60,434,561
-	-	-		(.0,.0.)	13,898,051	13,898,051	1,169,941	15,067,992
			-				.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	
_	_	_	162,726	_	_	162,726	36,120	198,846
			-	_	(635,377)	(635,377)	5	(635,372)
	504,430			_	(000,011)	504,430	168,144	672,574
	(30,048)			_	30,048	=	-	=
	(00,010)			22,945	-	22,945	7,649	30,594
					(1,935)	(1,935)	(18)	(1,953)
					(141,241)	(141,241)	(47,080)	(188,321)
	474,382		162,726	22,945	(748,505)	(88,452)	164,820	76,368
	474,382		162,726	22,945	13,149,546	13,809,599	1,334,761	15,144,359
	474,002		102,720	22,040	10,140,040			10,144,000
600,000		1 075 000			(0.504.000)			
629,892	_	1,875,000	_	_	(2,504,892)	- COO FO4	140.400	750,000
	_	-	_	-	609,561	609,561	140,439	750,000
			_	-	(3,219,690)	(3,219,690)	-	(3,219,690)
_	_	_		-	-		133,346	133,346
_	_	_	_	_	51,758	51,758	- (400.707)	51,758
		-		_	- (5.000.000)		(493,707)	(493,707)
629,892		1,875,000		-	(5,063,263)	(2,558,371)	(219,922)	(2,778,293)
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
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
	(3,295)		-	_	3,295	-	-	=
	18,750				=	18,750	6,250	25,000
		_		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
	.0, .00		(101,101)	.,000				2.,.0.,.00
749,737		(625,000)			(124,737)			
149,101		(625,000)		······	(13,016)	(13,016)	(4 330)	(17,355)
	-	-	-		(8,219,690)	(8,219,690)	(4,339)	(8,219,690)
-	-	_	-	_	(781,872)	(781,872)	776,130	(5,742)
	_	=		=	(101,012)	(101,012)		
_	_	=					(561,232)	(561,232)
749,737	-	(625,000)			(9,139,315)	(9,014,578)	210,559	(8,804,019)
	11 000 155		- 006 100	- 11 707	·			
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

STATEMENT OF CASH FLOWS

	BAN	NK	GROUP		
For the year ended 31st December	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	
Cash Flows from Operating Activities					
Profit Before Tax	20,813,660	19,519,519	25,433,322	24,121,164	
Adjustment for					
Non-Cash Items Included in Profits Before Tax	2,824,333	5,332,075	3,180,031	7,534,618	
Changes in Operating Assets	(83,928,201)	(156,348,351)	(106,039,634)	(159,571,583)	
Changes in Operating Liabilities	121,125,671	138,914,805	135,320,066	132,999,699	
Dividend Income from Subsidiaries and Associates and Others	(1,628,700)	(1,659,531)	(189,530)	(219,051)	
Interest Expense on Subordinated Debt	1,987,500	1,987,500	1,987,500	1,987,500	
Contribution Paid to Defined Benefit Plans/Gratuity	1,811,662	1,526,525	1,894,316	1,563,511	
Tax Paid	(7,514,644)	(5,566,426)	(9,639,397)	(7,990,113)	
Net Cash Generated from Operating Activities	55,491,281	3,706,116	51,946,673	425,745	
Cash Flows from Investing Activities					
Purchase of Property, Plant and Equipment	(1,942,542)	(2,079,622)	(3,020,288)	(2,378,217)	
Proceeds from the Sale of Property, Plant and Equipment	98,471	93,379	131,611	104,264	
Purchase of Financial Investments	(9,855,692)	(4,173,564)	(10,269,333)	(3,448,325)	
Net Purchase of Intangible Assets	(17,810)	(43,206)	(25,475)	(44,684)	
Net Cash Flow from Acquisition of Investment in Subsidiaries and Associates	_	(346,758)	_	(726,385)	
Net Cash Flow from Preference Shares of Subsidiaries	150,000	200,000			
Dividends Received from Investment in Subsidiaries and Associates	1,628,700	1,659,531	189,530	219,051	
Net Cash (Used in) from Investing Activities	(9,938,873)	(4,690,240)	(12,993,955)	(6,274,296)	
Cash Flows from Financing Activities					
Net Proceeds from the Issue of Subordinated Debt	_	_	5,618,556	6,024,110	
Repayment of Subordinated Debt	(2,500,814)	_	_	_	
Interest Paid on Subordinated Debt	(1,987,500)	(1,987,500)	(1,987,500)	(1,987,500)	
Dividend Paid to Non-Controlling Interest	_	_	(561,232)	(493,707)	
Special Levy to Treasury/Dividend	(8,219,690)	(3,219,690)	(8,219,690)	(3,219,690)	
Net Cash from Financial Activities	(12,708,004)	(5,207,190)	(5,149,866)	323,213	
Net Increase/(Decrease) in Cash and Cash Equivalents	32,844,404	(6,191,314)	33,802,853	(5,525,338)	
Cash and Cash Equivalents at the Beginning of the Year	31,164,235	37,355,549	33,892,732	39,418,070	
Cash and Cash Equivalents at the end of the Year	64,008,639	31,164,235	67,695,584	33,892,732	

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

1.1 Corporate Information

The 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 Consolidated Financial Statements of the Bank for the year ended 31st December 2016 comprises the Bank, its Subsidiaries (together referred to as 'the Group') and the equity interest in Associate.

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 Activity
People's Leasing and Finance PLC	Providing finance leases, hire purchase assets financing, term loans, Islamic finance, margin trading, share trading, issuing 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	Leasing, hire purchase, fixed deposits and savings, foreign currency.

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 and operations of a service station.
People's Leasing Property Development Ltd.	Carrying out a mixed development project & property development activities.
People's Insurance Ltd.	Carrying out general insurance business.
People's Microfinance Ltd.	Providing financial services excluding banking to low income earners and micro enterprises.
People's Leasing Havelock Properties Ltd.	Construct and operate an office complex.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Statement of Financial Position, Income Statement, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement have been prepared in accordance with 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 Financial Statements in accordance with Sri Lanka Accounting Standards (LKAS and SLFRS).

2.3 Approval of Financial Statements

The Consolidated Financial Statements for the year ended 31st December 2016 were authorised for issue on 14th March 2017 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 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 JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Bank's accounting policies, management has exercised judgment 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 judgments, assumptions and estimates made in applying accounting policies that have the most significant effects on the amounts recognised in the Consolidated Financial Statements is set out below.

3.1 Going Concern

The Bank's management has made an assessment of its 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, they 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, judgment is required to establish fair values. The valuation of financial instruments is described in more detail in Note 47.

3.3 Impairment Losses on Loans and Advances

The Bank reviews its individually significant loans and advances at each Reporting date to assess whether an impairment loss should be recorded in the profit or loss. In particular, management's judgment 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 judgments on the effect of concentration of risks and economic data.

3.4 Impairment of Available-for-Sale Investments

The Bank reviews its securities classified as available-for-sale investments at each Reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Bank 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 judgment.

3.5 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, mortality rates and future

pension increases. 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 Note 38.1.5 and 38.2.1 for the assumptions used.

3.6 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.

3.7 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. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

4. SIGNIFICANT ACCOUNTING POLICIES

The 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 Financial Statements.

4.1 Basis of Consolidation

The Financial Statements of the Bank and The Group comprise the Financial Statements of the Bank and its Subsidiaries for the year ended 31st December 2016. 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 profit or loss 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 profit or loss.

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 profit or loss. 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 gains and losses resulting from transactions between the Group and its Associates are also eliminated in preparing the consolidated Financial Statements to the extent of the Group's interests in the Associates.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

4.1.6 Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in Associate's entities are accounted for using the equity method (equity-accounted investees) and are recognised initially at cost. The cost of the investment includes transaction costs.

The Consolidated Financial Statements include the Bank's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Bank's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reported at nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. If the Associate subsequently reports profits, the Bank's résumés recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

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 time frame established generally by a regulation or convention in the marketplace 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 and dividend income or expense is recorded in 'Net trading 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 profit or loss 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 profit or loss.

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 47.

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 future 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 profit or loss on a straightline 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 and Hedge Accounting

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.

The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80% -125%. The Group makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

These hedging relationships are discussed below.

4.11.1 Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of profit or loss and Other Comprehensive Income).

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

4.11.2 Cash Flow Hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the Statement of Profit or Loss and Other Comprehensive Income.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge

accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

4.11.3 Net Investment Hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

4.11.4 Other Non-Trading Derivatives

If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at fair value through profit or loss.

4.11.5 Embedded Derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not itself carried at fair value through profit or loss;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the Statement of Financial Position together with the host contract.

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. 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 seven 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 profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, 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 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 profit or loss 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 (within 'other liabilities') 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 benefit actuarial valuation method. Actuarial gains and losses are fully recognised as income or expense in the respective financial year.

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 2016, 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 2016 are as follows:

Interest/Discount Rate	11 % p.a.
Increase in Cost of Living Allowances	5% p.a.
Basic 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 Auditor General's Report are tabled and reviewed by the Board of Trustees. These statements of Accounts and Auditor General'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 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. Up to 31st December 2007, the Bank made a provision based on the gratuity formula. 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 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. Total fund balance as at 31st December 2016 was Rs. 3,404 million.

4.17.4 Widow'/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 and Associates, 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 and associates, 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)

During the year under review, Bank's total value addition was subjected to a 11% 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. 09 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, Travels and others. Information relating to above is disclosed in Note 48.

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 Section 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, favorable and unfavorable, 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 the Reporting date have been considered and disclosed in Note 45 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 judgment 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 judgments, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgment 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.

4.27.2 Product Classification

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders, if a specified uncertain future event (the insured event) adversely affects the policyholders.

As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable, if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

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.

Unearned Premium Reserve

Unearned premium reserve represents the portion of the premium written in the year but relating to the unexpired term of coverage. Unearned premium is calculated on the 365 basis.

4.27.4 Claims and Expenses Recognition

Gross Claims

Gross claims for non-life insurance include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Claims expenses and liabilities for outstanding claims are recognised in respect of direct insurance business. The liability covers claims reported but not yet paid, incurred but not reported claims (IBNR) and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claim. The provision in respect of IBNR is actuarially valued on an annual basis to ensure a more realistic estimation of the future liability based on past experience and trends.

Reinsurance Claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

4.27.5 Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each Reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the Statement of Income.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts

payable are estimated in a manner consistent with the related reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

4.27.6 Reinsurance Receivables

Re-insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

4.27.7 Insurance Receivables

Premium receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

4.27.8 Deferred Expenses

Deferred Acquisition Costs (DAC)

The costs of acquiring new businesses including commission, underwriting, marketing and policy issue expenses, which vary with and directly related to production of new businesses, are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, DAC for non-life insurance is amortised over the period on the basis UPR is amortised.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in an accounting estimate.

DAC are derecognised when the related contracts are either expired or cancelled.

Reinsurance Commissions

Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight-line basis over the term of the expected premiums payable.

4.27.9 Insurance Contract Liabilities

Non-Life Insurance Contract Liabilities

Non-life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the balance sheet date. The liability is calculated at the Reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation.

The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income. At each Reporting date, the Company reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses

current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in the statement of income by setting up a provision for liability adequacy.

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 Financial Statements.

4.28.1 SLFRS 9 – Financial Instruments

SLFRS 9 – 'Financial Instruments' replaces the existing guidance in LKAS 39 – 'Financial Instruments: Recognition and Measurement'. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets.

SLFRS 9 is effective for annual period beginning on or after 1st January 2018 with early adoption permitted.

The Group is assessing the potential impact on its Consolidated Financial Statements resulting from the of SLFRS 9. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's Financial Statements.

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

	Ban	Bank		up
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Interest Income (Note 6.1)	109,970,256	92,485,979	129,708,199	110,360,612
Fee and Commission Income (Note 7.1)	3,948,052	3,712,146	4,365,052	4,037,408
Net Gain from Trading (Note 8)	2,816,079	3,079,736	2,801,632	3,080,092
Other Operating Income (Net) (Note 09)	5,379,972	4,371,103	7,874,636	6,352,694
Total Gross Income	122,114,359	103,648,964	144,749,519	123,830,806

6. NET INTEREST INCOME

	Bank		Group	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
6.1 Interest Income				
Cash and Cash Equivalents	233,527	242,357	1,020,892	854,116
Placements with Banks	542,475	153,415	542,475	153,415
Other Financial Assets Held for Trading	8,272,829	6,848,739	8,272,829	6,848,739
Loans and Receivables – to Banks	5,536,683	5,528,956	5,536,683	5,528,956
Loans and Receivables to Other Customers	86,653,415	70,341,462	105,603,533	87,603,874
Financial Investments – Held-to-Maturity	7,749,838	7,426,618	7,749,838	7,426,618
Financial Investments – Available-for-Sale	114,378	49,107	114,378	49,107
Day One Difference on Staff Loans	867,111	1,895,325	867,112	1,895,325
Others	_	_	459	462
Total Interest Income	109,970,256	92,485,979	129,708,199	110,360,612

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. 1,396,755,753.89 for the Year 2016. (Rs. 1,399,146,336 for 2015).

	Ban	Bank		ıp
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
6.2 Interest Expenses				
Due to Banks	(3,628,098)	(2,935,935)	(7,710,119)	(6,216,837)
Due to Other Customers	(57,400,369)	(41,652,783)	(60,254,870)	(43,934,559)
Other Borrowings	(3,830,716)	(2,155,757)	(6,159,887)	(3,882,097)
Debt Securities Issued	(1,986,686)	(1,987,500)	(1,986,687)	(1,987,501)
Total Interest Expenses	(66,845,869)	(48,731,975)	(76,111,563)	(56,020,994)
Net Interest Income	43,124,387	43,754,004	53,596,636	54,339,618

7. NET FEE AND COMMISSION INCOME

	Bank		Group)
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
7.1 Fee and Commission Income				
Loans	104,401	66,693	104,401	66,690
Cards	344,779	301,659	344,779	301,659
Trade and Remittances	1,289,999	1,375,023	1,289,999	1,375,023
Investment Banking	32,893	37,333	32,893	37,333
Deposits	1,508,371	1,431,823	1,508,371	1,431,823
Guarantees	525,072	373,623	525,072	373,623
Others	142,537	125,992	559,537	451,257
	3,948,052	3,712,146	4,365,052	4,037,408
7.2 Fee and Commission Expenses				
Loans	_		_	_
Cards	(103,381)	(84,297)	(103,381)	(84,297)
Trade and Remittances	(2,420)	(2,014)	(2,420)	(2,014)
Investment Banking	(3,099)	(11,661)	(3,099)	(11,661)
Guarantees	(4,791)	(5,139)	(4,791)	(5,139)
Others	(95,221)	(71,368)	(95,221)	(71,368)
	(208,912)	(174,479)	(208,912)	(174,479)
Net Fee and Commission Income	3,739,140	3,537,667	4,156,140	3,862,929

8. NET GAIN FROM TRADING

	Bank		Group	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Foreign Exchange	2,572,743	3,050,646	2,572,743	3,050,646
Equities	(142,797)	(89,465)	(145,509)	(91,064)
Others				
- Capital Gain Treasury Bills/Bonds	531,921	305,011	531,921	305,011
- Change in Fair Valuation of Treasury Bills	77,658	(57,336)	77,658	(57,336)
- Change in Fair Valuation of Treasury Bonds	(223,446)	(129,120)	(235,181)	(127,165)
- Others	_	_	_	_
Total	2,816,079	3,079,736	2,801,632	3,080,092

9. OTHER OPERATING INCOME (NET)

PEOPLE'S BANK ANNUAL REPORT 2016

	Bank		Group	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Gain on Sale of Property, Plant and Equipment	98,471	62,145	131,611	68,455
Gain/(Loss) on Revaluation of Foreign Exchange	50,915	(112,897)	50,915	(112,897)
Dividend from Investment				
- Quoted	59,640	45,902	94,759	64,791
- Unquoted	56,951	73,008	94,771	154,260
- Subsidiaries and Associate Companies	1,512,109	1,540,621	_	_
Recovery of Bad Debts Written off and Provision Reversals	1,770,994	1,334,058	1,967,368	1,452,246
Others	1,830,891	1,428,266	5,535,212	4,725,839
Total	5,379,972	4,371,103	7,874,636	6,352,694

10. NET IMPAIRMENT CHARGE/(REVERSAL)

	Bank		Group	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Loans and Receivables				
To Other Customers (Note 22.2.3)	1,246,748	3,739,914	692,083	3,768,281
– Individual Impairment	847,801	1,839,718	796,703	1,905,739
- Collective Impairment (Note 10.1)	398,947	1,900,196	(104,620)	1,862,542
Others	_		670,170	1,399,600
Total	1,246,748	3,739,914	1,362,253	5,167,881
10.1 Collective Impairment				
Loans and Receivables to Customers Excluding Pawning	1,359,262	4,068,822	855,695	4,031,168
Pawning	(960,315)	(2,168,626)	(960,315)	(2,168,626)
	398,947	1,900,196	(104,620)	1,862,542

11. PERSONNEL EXPENSES

	Bank		Group	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Salaries, Bonus & Related Expenses	9,121,658	9,054,533	11,840,789	11,006,802
Contribution to Defined Benefit Plan - Pre 1996 Pension Fund (Note 38.1)	1,758,314	1,476,772	1,758,314	1,476,772
Contribution to Defined Benefit Plan – Gratuity (Note 11.2)	53,348	49,753	136,000	86,739
Amortisation of Prepaid Staff Cost	867,111	1,895,326	867,111	1,895,326
Others	5,675,011	4,579,919	5,675,011	4,579,919
Total	17,475,442	17,056,303	20,277,225	19,045,558

11.1 Contribution to Defined Benefit Plan - Pre-1996 Pension Fund

For the year 2016, Actual Contribution to the Pension Fund was Rs. 2,180,828,506/- but as per the actuarial valuation report Rs. 1,758,314,564/- should be charged through profit or loss. Hence, we have recognised Rs. 422,513,942/- as a prepayment to the pension trust fund. Since the Bank carries a liability to Pension Trust Fund (Note 38.1) this prepayment is netted off against the said liability.

11.2 Contribution to Defined Benefit Plan-Gratuity (Note 38.2)

	Bank		Group	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Current Service Cost	24,957	23,631	107,609	60,617
Interest Cost	28,391	26,122	28,391	26,122
Net Expense	53,348	49,753	136,000	86,739

12. OTHER EXPENSES

	Bank		Group	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Directors' Emoluments	6,296	3,521	11,103	6,381
Auditors' Remunerations	11,238	12,933	22,245	20,551
Non-Audit Fees to Auditors	2,748	2,070	4,237	9,513
Professional and Legal Expenses	95,617	81,185	118,777	105,727
Depreciation of Property, Plant and Equipment	955,723	847,135	1,192,618	1,125,100
Amortisation of Leasehold Property	66,542	67,737	66,866	72,319
Depreciation of Investment Property	1,707	1,707	1,707	1,707
Amortisation of Intangible Assets	34,187	30,868	49,508	45,326
Amortisation of Prepayment Leases	24,136	24,350	24,136	24,350
Office Administration and Establishment Expenses	6,602,223	5,706,060	11,388,122	9,687,577
Others	2,292,838	1,799,768	2,328,609	1,831,209
Total	10,093,258	8,577,334	15,207,929	12,929,761

13. TAX EXPENSES

	Bank		Group	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Current Year Tax Expense				
Income Tax Expense (Note 13.1)	6,089,336	6,022,761	8,120,960	7,280,028
Deemed Dividend Tax	_	154,500	_	154,500
Prior Years (Over)/Under Provision	12,093	4,904	12,093	4,096
Deferred Tax Expense (Note 13.2)	(282,460)	739,512	(655,659)	1,614,549
Total Tax Expense	5,818,969	6,921,677	7,477,394	9,053,173
Effective Tax Rate	29.3%	31.6%	31.9%	30.8%

	Bank		Group	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
13.1 Reconciliation of Tax Expenses				
Profit Before Tax	20,813,660	19,519,519	25,433,322	24,121,164
Income Tax for the Period (Accounting profit @Applicable Tax Rate)	5,827,825	5,465,466	7,121,330	6,753,927
Add:				
Tax effect of Expenses that are not Deductible for Tax Purposes	2,692,103	2,194,839	26,117,364	16,702,785
Less:				
Tax Effect of Expenses that are Deductible for Tax Purposes	(2,430,592)	(1,637,544)	(25,117,734)	(16,176,684)
Income Tax Expense for the Year	6,089,336	6,022,761	8,120,960	7,280,028
13.2 The Deferred Tax (Credit)/Charge in the Profit/(Loss) Comprise the Following: Deferred Tax Assets	(481,061)	958,139	8,120,960	7,280,028
13.2 The Deferred Tax (Credit)/Charge in the Profit/(Loss) Comprise the Following:		<u> </u>		· · ·
13.2 The Deferred Tax (Credit)/Charge in the Profit/(Loss) Comprise the Following: Deferred Tax Assets	(481,061)	958,139	(487,543)	911,524
13.2 The Deferred Tax (Credit)/Charge in the Profit/(Loss) Comprise the Following: Deferred Tax Assets Deferred Tax Liabilities Deferred Tax (Credit)/Charge to Profit or Loss 13.3 The Deferred Tax (Credit)/Charge in Other Comprehensive Income Comprise the Following:	(481,061) 198,601 (282,460)	958,139 (218,627) 739,512	(487,543) (168,116) (655,659)	911,524 703,025 1,614,549
13.2 The Deferred Tax (Credit)/Charge in the Profit/(Loss) Comprise the Following: Deferred Tax Assets Deferred Tax Liabilities Deferred Tax (Credit)/Charge to Profit or Loss 13.3 The Deferred Tax (Credit)/Charge in Other	(481,061) 198,601 (282,460)	958,139 (218,627) 739,512	(487,543) (168,116) (655,659)	911,524 703,025 1,614,549 (186,507)
13.2 The Deferred Tax (Credit)/Charge in the Profit/(Loss) Comprise the Following: Deferred Tax Assets Deferred Tax Liabilities Deferred Tax (Credit)/Charge to Profit or Loss 13.3 The Deferred Tax (Credit)/Charge in Other Comprehensive Income Comprise the Following:	(481,061) 198,601 (282,460)	958,139 (218,627) 739,512	(487,543) (168,116) (655,659)	911,524 703,025 1,614,549

Applicable Rates Exemptions, Concessions or Holidays Granted on Income Tax

	2016 %	2015 %
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.	12	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 exempts 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

14.1 Basic Earnings per 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	
	2016	2015	2016	2015
Net Profit Attributable to Ordinary Equity Holders (Rs. '000)	14,994,691	12,597,842	16,721,972	13,898,050
Weighted Average Number of Ordinary Shares in Issue ('000)	1,000	1,000	1,000	1,000
Basic Earnings per Share (Rs.)	14,995	12,598	16,722	13,898

14.2 Diluted Earnings per 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	
	2016	2015	2016	2015
Net Profit Attributable to Ordinary Equity Holders (Rs. '000)	14,994,691	12,597,842	16,721,972	13,898,050
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)	143,040	143,040	143,040	143,040
Total Number of Shares in Issue and Pending Allotment ('000)	144,040	144,040	144,040	144,040
Diluted Earnings per Share (Rs.)	104	87	116	96

15. MEASUREMENT OF FINANCIAL INSTRUMENTS

Bank – 2016						
	HFT	Designated at FVTPL	нтм	Loans & Receivables	AFS	Total
Assets						
Cash and Cash Equivalents	_	_	_	64,008,639	_	64,008,639
Balances with Central Banks	-	_	_	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	97,697,572
Total Financial Assets	46,915,311	15,057	96,171,734	1,121,887,265	1,525,839	1,266,515,205
		Designated at FVTPL		Other Financial Liabilities		Total
Liabilities						
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
Total Financial Liabilities		72,182	_	1,224,452,666	_	1,224,524,848

Bank – 2015						
	HFT	Designated at FVTPL	HTM	Loans & Receivables	AFS	Total
Assets						
Cash and Cash Equivalents	-	_	_	31,164,235	-	31,164,235
Balances with Central Banks	_	_	_	42,947,711	_	42,947,711
Placements with Banks	-	-	-	8,097,147	_	8,097,147
Derivative Financial Instruments	-	4,109	-	-	_	4,109
Financial Assets Held for Trading	93,400,763	-	-	_	_	93,400,763
Loans and Receivables to Banks	<u> </u>	_	-	111,406,452	_	111,406,452
Loans and Receivables to Other Customers	<u> </u>		<u> </u>	768,514,659	<u> </u>	768,514,659
Financial Investments		—	86,604,889		3,533,743	90,138,632
Total Financial Assets	93,400,763	4,109	86,604,889	962,130,205	3,533,743	1,145,673,708
		Designated at FVTPL		Other Financial Liabilities		Total
Liabilities						
Due to Banks	_	_	_	143,923,634	=	143,923,634
Derivative Financial Instruments		112,149	-	_	-	112,149
Due to Other Customers				899,237,880	-	899,237,880
Other Borrowings		_		48,159,100	_	48,159,100
Subordinated Term Debts	_	_		15,032,542	_	15,032,542
Total Financial Liabilities	-	112,149	_	1,106,353,156		1,106,465,305

Group – 2016						
	HFT	Designated at FVTPL	HTM	Loans & Receivables	AFS	Total
Assets						
Cash and Cash Equivalents	-	_	_	67,695,584	_	67,695,584
Balances with Central Banks	_	_	-	63,049,516	_	63,049,516
Placements with Banks	_	_	_	32,772,978	-	32,772,978
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	<u> </u>	3,258,308	104,327,989
Total Financial Assets	47,455,844	21,196	101,069,681	1,249,644,749	3,258,308	1,401,449,778
		Designated at FVTPL		Other Financial Liabilities		Total
Liabilities						
Due to Banks	_	_	_	130,122,246	_	130,122,246
Derivative Financial Instruments	-	72,182	_	–		72,182
Due to Other Customers	<u> </u>	_	_	1,119,753,182		1,119,753,182
Other Borrowings	_	-	_	42,296,376	_	42,296,376
Debt Securities Issued	_	-	_	_	_	_
Subordinated Term Debts	_	_	_	36,525,796	_	36,525,796
Total Financial Liabilities		72,182	_	1,328,697,600		1,328,769,782

Group – 2015						
	HFT	Designated at FVTPL	HTM	Loans & Receivables	AFS	Total
Assets						
Cash and Cash Equivalents	_	_	_	33,892,732	_	33,892,732
Balances with Central Banks	-	-	-	42,947,711	-	42,947,711
Placements with Banks	-	-	-	8,097,147	-	8,097,147
Derivative Financial Instruments	-	24,853	-	_	-	24,853
Financial assets Held for Trading	93,973,350	_	-	-	-	93,973,350
Loans and Receivables to Banks	<u> </u>		-	112,319,406	<u> </u>	112,319,406
Loans and Receivables to Other Customers	_		<u> </u>	869,780,503		869,780,503
Financial Investments			91,089,198		5,661,805	96,751,003
Total Financial Assets	93,973,350	24,853	91,089,198	1,067,037,498	5,661,805	1,257,786,705
		Designated at FVTPL		Other Financial Liabilities		Total
Liabilities						
Due to Banks	_	_	_	162,687,453	_	162,687,453
Derivative Financial Instruments		112,149				112,149
Due to Other Customers		_		932,905,835		932,905,835
Other Borrowings	-		_	63,107,816		63,107,816
Debt Securities Issued		_	-		_	
Subordinated Term Debts	-	_	-	30,907,240	_	30,907,240
Total Financial Liabilities		112,149		1,189,608,343		1,189,720,492

16. CASH AND CASH EQUIVALENTS

	Ban	k	Grou	p
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Cash in Hand	33,512,266	21,144,154	34,032,152	22,029,495
Cash at Banks	1,428,863	1,806,272	4,595,922	3,649,428
Money at Call and Short Notice	2,857,433	5,013,282	2,857,433	5,013,282
Others	26,210,077	3,200,527	26,210,077	3,200,527
	64,008,639	31,164,235	67,695,584	33,892,732

17. BALANCES WITH CENTRAL BANK

	Ban	Bank		р
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Statutory Balances with Central Bank of Sri Lanka	63,049,516	42,947,711	63,049,516	42,947,711
	63,049,516	42,947,711	63,049,516	42,947,711

The balance with the Central Bank of Sri Lanka in the Statutory Cash Reserve is 7.5% (6% in 2015) 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	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Placements	32,772,978	8,097,147	32,772,978	8,097,147
	32,772,978	8,097,147	32,772,978	8,097,147

19. DERIVATIVE FINANCIAL INSTRUMENTS

	Bank		Group		
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	
Foreign Currency Derivatives					
Currency Swaps	9,552	499	15,691	21,243	
Forward Foreign Exchange Contracts	5,505	3,610	5,505	3,610	
Total	15,057	4,109	21,196	24,853	

20. OTHER FINANCIAL ASSETS HELD FOR TRADING

	Ban	Bank		ıp
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
20.1 Sri Lanka Government Securities				
Treasury Bills	35,695,820	73,952,476	35,695,820	73,952,475
Treasury Bonds	8,487,809	17,306,915	8,487,809	17,306,915
20.2 Equity Securities (Note 20.2.1)	850,579	1,214,660	1,391,112	1,787,249
20.3 Unit Trusts (Note 20.3)	176,696	179,713	176,696	179,713
20.4 Debt Securities	1,704,407	746,999	1,704,407	746,999
	46,915,311	93,400,763	47,455,844	93,973,350

	No. of Shares/ Unit	Cost 2016 Rs. '000 a	Market Value as at 31.12.2016	No. of Shares/ Unit	Cost 2015 Rs. '000	Market Value as at 31.12.2015
20.2.1 Held for Trading						
Equity Securities – Bank						
Quoted						
Overseas Reality (Ceylon) PLC	21,813,003	341,046	436,260	21,813,003	341,046	506,062
Access Engineering PLC	1,900,000	51,985	47,120	1,900,000	51,985	43,890
Aitken Spence PLC	_	-	_	450,000	51,634	43,515
Colombo Dockyard PLC	249,362	56,825	19,600	249,362	56,825	37,429
Chevron Lubricants Lanka PLC	299,998	54,405	47,130	139,999	51,200	48,160
Dialog Axiata PLC	4,800,000	51,358	50,400	3,800,000	40,858	40,660
Distilleries Company PLC	_	-	_	200,000	53,000	49,200
Expolanka Holdings PLC	6,000,000	49,777	37,800	6,000,000	49,777	48,600
Hayleys PLC	40,679	11,800	10,983	_	_	_
Hemas Holdings PLC	_	_	_	526,642	39,875	48,925
John Keels Holdings PLC	586,123	102,597	84,988	512,858	115,358	91,340
Lanka IOC PLC	640,250	22,873	20,296	784,995	28,231	29,123
MTD Walkers PLC	_	_	-	440,658	26,771	22,562
Pelawatta Sugar PLC	58,100	1,829	-	58,100	1,829	_
Piramal Glass PLC	5,900,066	38,240	31,270	5,650,066	36,790	34,465
Renuka Agri Foods PLC	4,557,361	20,508	13,216	4,557,361	20,508	18,685
Richard Pieris Company PLC	1,672,197	13,982	13,378	1,672,197	13,982	14,213
Singer (Sri Lanka) PLC	49,959	4,596	6,305	200,000	18,400	27,580
Textured Jersey PLC	_	-	-	925,000	32,753	32,838
Tokyo Cement PLC	_	-	_	1,264,598	51,966	49,952
The Finance Company PLC	2,080,400	83,400	13,731	2,080,400	83,400	27,461
Melstarcorp Ltd.	300,000	17,783	17,790		_	_
United Motors Lanka PLC	3,426	305	295		_	_
CT Land Development PLC	333	17	17		-	-
Total Value of the Quoted						
Equity Securities		923,326	850,579		1,166,188	1,214,660
20.3.1 Investment in Unit Trusts – Bank						
National Equity Fund	5,112,735	161,000	176,696	5,112,735	161,000	179,713
Total Value of the Unit Trusts		161.000	176,696		161.000	179.713

	No. of Shares/ Unit	Cost 2016 Rs. '000	Market Value as at 31.12.2016	No. of Shares/ Unit	Cost 2015 Rs. '000	Market Value as at 31.12.2015
20.2.2 Held for Trading Equity Securities – Group						
Quoted Overseas Reality (Ceylon) PLC	21,885,571	318,729	437,711	21,813,003	317,052	506,062
Access Engineering PLC	1,900,000	51,985	47,120	1,900,000	51,985	43,890
ACL Cables PLC	4,700	452	568	4,700	451	569
Aitken Spence PLC		16,287	5,382	532,800	67,921	51,522
Asiri Hospital Holdings PLC	82,800	10,207	5,362			
	200.000		47 120	500,000	11,260 51,200	12,000 48,160
Chevron Lubricants Lanka PLC	299,998	54,405	47,130	139,999		
CIC Holdings PLC	87,000	6,740	5,916	50,000	8,928	5,015
Colombo Dockyard PLC	249,362	56,825	19,600	249,362	56,825	37,429
Commercial Bank PLC – Voting	423,003	42,923	61,335	395,049	39,646	55,386
Commercial Bank PLC – Non-Voting	170,133	14,232	19,565	167,419	13,928	20,593
Dialog Axiata PLC	4,800,000	51,358	50,400	3,800,000	40,858	40,660
Distilleries Company of Sri Lanka PLC		_		400,000	77,133	98,400
Expolanka Holdings PLC	6,000,000	49,777	37,800	6,000,000	49,777	48,600
Hayleys PLC	44,479	13,049	12,009	3,800	1,249	1,168
Hemas Holdings PLC			<u> </u>	651,642	50,571	60,538
Hatton National Bank PLC – Non-Voting	112,100	12,366	21,299	110,183	12,021	19,602
Horana Plantation PLC	20,000	768	368	20,000	768	427
Hotel Services Ceylon PLC	43,500	1,320	661	_	_	_
John Keells Holdings PLC	1,387,205	222,496	187,736	1,126,306	227,131	200,594
John Keells Holdings PLC – Warrants – 22	_	_	_	3,515	222	114
Keells Hotels PLC	7,085	150	77	107,085	2,151	1,649
Kelani Cables PLC	20,000	2,522	2,600	35,000	4,406	4,487
Kingsbury Hotels PLC	_	_	_	43,500	1,320	330
Lanka IOC PLC	640,250	22,873	20,296	784,995	28,231	29,123
Lanka Hospitals Corporation PLC		_		25,000	1,363	1,508
Mackwoods Energy Limited PLC	100,000	1,400	290	100,000	1,400	500
Melstarcorp Ltd.	700,000	30,620	41,510			_
MTD Walkers PLC				440,658	26,771	22,562
National Development Bank PLC	60,855	8,651	9,493	60,855	8,651	11,812
Nations Trust Bank PLC	464,871	27,333	33,213	464,871	27,333	35,686
Pelawatta Sugar PLC	58,100	1,829		58,100	1,829	-
Piramal Glass PLC	5,900,066	38,240	31,270	5,650,066	36,790	34,465
Renuka Agri Foods PLC	4,557,361	20,508	13,216	4,557,361	20,508	18,685
Richard Pieris Company PLC	1,672,197	13,982	13,378	1,672,197	13,982	14,213
Sampath Bank PLC – Voting	815,402	180,677	212,331	766,872	148,109	184,479
Seylan Bank PLC – Voting			•			
	75,000	5,777	6,750	75,000	5,777	7,131
Seylan Bank PLC – Non-Voting	165,000	5,292	9,735	165,000	5,292	12,045
Singer (Sri Lanka) PLC	49,959	4,596	6,305	200,000	18,400	27,580
Sunshine Holdings PLC	50,000	2,775	2,330	-	-	-
Textured Jersey PLC	75,000	3,158	3,210	1,025,000	35,959	36,386
Tokyo Cement PLC – Non-Voting	110,000	4,650	5,665	1,374,598	56,616	54,297
The Finance Company PLC	2,080,400	83,400	13,736	2,080,400	83,400	27,461
Vanik Incorporation PLC	61	3	_	_	_	_
Vallibel One PLC	350,000	8,769	6,510	350,000	8,769	7,525
United Motors Lanka PLC	53,426	5,305	4,597	50,000	5,000	4,595
		1,386,222	1,391,112		1,620,983	1,787,249
20.3.2 Investment in Unit Trusts - Group						
National Equity Fund	5,112,735	161,000	176,696	5,112,735	161,000	179,713
Total Value of the Unit Trusts		161,000	176,696		161,000	179,713

21. LOANS AND RECEIVABLES TO BANKS

	Bar	nk	Group		
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	
Gross Loans and Receivables	71,528,031	111,406,452	72,205,378	112,319,406	
Net Loans and Receivables	71,528,031	111,406,452	72,205,378	112,319,406	
a. Analysis					
By Product					
Sri Lanka Development Bonds	41,415,757	67,028,410	41,415,757	67,028,410	
Restructuring Bond (Note 21.1)	7,689,150	7,689,150	7,689,150	7,689,150	
Securities Purchased under Resale Agreements	22,423,124	36,688,892	23,100,471	37,601,846	
	71,528,031	111,406,452	72,205,378	112,319,406	

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	

- **21.1.1.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.
- **21.1.1.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.
- **21.1.1.d** As indicated in 21.1, a sum of Rs. 4,355 million of this tranche of Bonds w as 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.

- **21.1.1.e** The financial implications of these Bonds in year 2016 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		
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	
Gross Loans and Receivables (Note 22.1)	950,823,949	829,233,971	1,076,448,155	933,285,495	
Impairment allowance for Loans and Receivables					
Less: Individual Impairment (Note 22.2.1)	(43,589,172)	(42,741,371)	(44,124,522)	(43,327,819)	
Collective Impairment (Note 22.2.2)	(16,706,676)	(17,977,941)	(18,402,340)	(20,177,173)	
Net Loans and Receivables	890,528,101	768,514,659	1,013,921,293	869,780,503	
Not Edulis and Necelyables		7 00,014,000	1,010,321,230		
22.1 Analysis					
22.1 Analysis					
By Product					
Loans and Advances	. === == .	700 500		700 500	
Bills of Exchange	1,709,061	728,529	1,709,061	728,529	
Overdrafts	59,392,369	86,834,679	58,046,445	86,409,132	
Trade Finance	177,188,131	191,248,615	177,188,131	191,248,615	
Credit Cards	1,839,646	1,500,927	1,839,646	1,500,927	
Pawning	114,422,847	103,945,309	114,422,847	103,945,309	
Staff Loans (Net)	15,379,641	14,595,898	15,899,113	15,101,167	
Term Loans					
Short-term	118,981,654	68,559,370	118,981,654	68,559,370	
Medium-term	190,916,058	182,278,131	229,998,334	205,868,500	
Long-term	269,086,493	178,214,577	269,086,493	178,214,577	
Others	1,908,049	1,327,936	5,025,439	2,980,032	
Lease Rental Receivable	_	-	84,250,992	78,729,337	
Gross Total	950,823,949	829,233,971	1,076,448,155	933,285,495	
Staff Loans	24,553,011	23,608,345	25,072,483	24,113,614	
Less: Allowance for Day One Difference	(9,173,370)	(9,012,447)	(9,173,370)	(9,012,447)	
Net Staff Loans	15,379,641	14,595,898	15,899,113	15,101,167	
By Currency					
Sri Lankan Rupee	770,729,358	638,069,879	896,353,565	742,121,403	
United States Dollar	176,747,153	187,565,125	176,747,153	187,565,125	
Great Britain Pound	911	5,091	911	5,091	
Others	3,346,527	3,593,876	3,346,526	3,593,876	
Gross Total	950,823,949	829,233,971	1,076,448,155	933,285,495	
By Industry		100 50 1 225		100 105 00	
Agriculture and Fishing	115,430,627	103,504,692	119,455,772	106,165,391	
Manufacturing	19,904,045	14,358,077	20,850,016	14,382,603	
Tourism	6,471,564	3,823,977	7,400,874	4,331,385	
Transport	12,959,562	894,315	26,379,531	15,088,372	
Construction	273,414,163	205,690,363	278,322,146	210,078,414	
Traders	91,711,328	84,226,596	109,692,519	102,239,475	
New Economy	10,009,462	6,846	10,009,462	6,846	
Others	420,923,198	416,729,105	504,337,835	480,993,009	
Gross Total	950,823,949	829,233,971	1,076,448,155	933,285,495	

22.2 Movements in Individual and Collective Impairment during the Year

	Bani	k	Group	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
22.2.1 Allowance for Individual Impairment				
Opening Balance as at 01st January	42,741,371	40,901,653	43,327,819	41,422,080
Movement in Individual Impairment	847,801	1,839,718	796,703	1,905,739
Closing Balance as at 31st December	43,589,172	42,741,371	44,124,522	43,327,819
Around 80% of the individual impairment is pertaining to non-p	erforming which is ove	er 10-year advance	9S.	
22.2.2 Allowance for Collective Impairment Opening Balance as at 01st January	17,977,941	17,199,214	20,177,173	18,779,465
Subsidiary Acquired During the Year	_		_	656,635
Gross Charge/(Reversal) for Impairment	398,947	1,900,196	(104,620)	1,862,542
Reversals Made During the Year	(1,690,390)	(1,106,993)	(1,690,390)	(1,106,993)
Exchange Rate Variance on Foreign Currency Provision	124,164	252,575	124,163	252,575
Write-off During the Year	(103,986)	(267,051)	(103,986)	(267,051)
Closing Balance as at 31st December	16,706,676	17,977,941	18,402,340	20,177,173
22.2.3 Movement in Impairment Allowance for Loans and Receivables Balance as at 01st January	60,719,312	58,100,867	63,504,992	60,201,545
Subsidiary Acquired During the Year	-	_	-	656,635
Gross Charge/(Reversal) for Impairment	1,246,748	3,739,914	692,083	3,768,281
Reversals Made During the Year	(1,690,390)	(1,106,993)	(1,690,390)	(1,106,993)
Exchange Rate Variance on Foreign Currency Provision	124,164	252,575	124,163	252,575
Write-off During the Year	(103,986)	(267,051)	(103,986)	(267,051)
Balance as at 31st December	60,295,848	60,719,312	62,526,862	63,504,992

23. FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE

	Bank		Group		
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	
Equity Securities (Note 23.1)	238,058	238,058	426,564	415,800	
Less: Impairment	_	_	_	-	
Loss on Fair Valuation	_	_	_	_	
Gain on Fair Valuation	291,067	287,064	304,920	402,511	
	529,125	525,122	731,484	818,311	
Investment in Unit Trusts (Note 23.2)	-	2,000,000	131,211	2,550,000	
Gain on Fair Valuation	-	9,315	167	62,110	
	-	2,009,315	131,378	2,612,110	
Sri Lanka Government Securities	_	_	1,398,730	1,232,078	
Debt Securities	996,714	999,308	996,714	999,308	
Others	_	_	_	_	
Net Available-for-Sale Investments	1,525,839	3,533,743	3,258,308	5,661,805	

23.1 Equity securities – Available-for-Sale – Bank

	No. of Shares 31.12.2016	Fair Value as at 31.12.2016	Cost as at 31.12.2016	No. of Shares 31.12.2015	Fair Value as at 31.12.2015	Cost as at 31.12.2015
Credit Information Bureau of Sri Lanka	47,400	50,715	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	453,367	162,300	16,448,448	449,364	162,300
Lanka Financial Services Bureau	225,000	2,250	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	_	-
		529,125	238,058		525,122	238,058
23.2 Investment in Unit Trusts	- Available No. of Units 31.12.2016	-for-Sale – Ba Fair Value as at 31.12.2016	nk Cost as at 31.12.2016	No. of Units 31.12.2015	Fair Value as at 31.12.2015	Cost as at 31.12.2015
Gilt Unit Trust Fund	_	_		189,414,903	2,009,315	2,000,000
	_	_			2,009,315	2,000,000

23.1 Equity Securities - Available-for-Sale - Group

	No. of Shares 31.12.2016	Fair Value as at 31.12.2016	Cost as at 31.12.2016	No. of Shares 31.12.2015	Fair Value as at 31.12.2015	Cost as at 31.03.2015
Credit Information Bureau of Sri Lanka	47,500	50,748	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	453,367	162,300	16,448,448	449,364	162,300
Lanka Financial Services Bureau	225,000	2,250	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
Sanasa Development Bank Ltd.	1,951,073	202,326	188,473	1,000,000	293,156	177,709
Magpeck Ltd.	125,000	_	_	125,000	_	_
		731,484	426,564		818,311	415,800
23.2 Investment in Unit Trusts	- Available- No. of Units	-for-Sale – Gro Fair Value as at 31.12.2016	Oup Cost as at 31.12.2016	No of Units	Fair Value as at 31.12.2015	Cost as at 31.12.2015
Gilt Unit Trust Fund	_	_		189,414,903	2,009,315	2,000,000
Ceybank Unit Trust Management Finance Ltd.	1,893,222	48,353	50,000	1,893,222	52,537	50,000
	6,976,928	83,025	81,211	42,955,326	550,258	500.000
Orient Gilt Edge	0,970,920	00,020	,			000,000

24. FINANCIAL INVESTMENTS - HELD-TO-MATURITY

	Ban	Group		
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Sri Lanka Government Securities				
Treasury Bills	_	8,067,918	4,873,609	12,528,266
Treasury Bonds	96,171,734	77,906,739	96,196,072	77,930,700
Long-term Treasury Bonds (Note 24.1)	_	630,232	_	630,232
Held-to-Maturity Investments	96,171,734	86,604,889	101,069,681	91,089,198

24.1 Long-Term Treasury Bonds

Long-term Treasury Bonds represent Bonds received during 2003 on account of loans and overdrafts granted by the Bank to Co-operative Wholesale Establishment (CWE) amounting to Rs. 625 million. These Bonds have been received as part of the restructuring process of the Co-operative Wholesale Establishment and its financial obligations. These Bonds are not negotiable and carry a zero coupon rate of interest with a maturity of 13 years. However, these Bonds carry an interest payment scheme for which CWE is required to make a semi-annual payment of interest at 3.68% p.a. net of withholding tax. This Bond was matured on 14th November 2016.

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 has decided and taken steps to sell the Land and Building of the Company. Accordingly these assets are classified as "Asset Held for Sale". Currently management has initiated an active program to locate a buyer at it's market value and expected to complete the sale within one year period.

	Bank			Group		
	2016 Rs. '000	2015 Rs. '000	Extent	Revalued Amount Rs. '000	2016 Rs. '000	2015 Rs. '000
No. 21, Nawam Mawatha, Colombo 02 – Land	_	_ 1	108.40 (Perches)	1,192,000	1,029,500	_
No. 21, Nawam Mawatha, Colombo 02 – Building	_	_	16,000 (Sq.ft.)	Economically obsolescence	11,328	_
		_		1,192,000	1,040,828	_

The Company had revalued its land and Building in 2016 and the fair value of the Land and Building was assessed using open market and contractor's test method by Mr. N.M. Jayathilake, Dip. In Val., B.Sc. Est. Mat & Val., M.I.Q.S.N.C.T.(Q.S), an incorporated valuer. The value of the land and building has been recognised to the lower of the carrying value or fair value less costs to sell.

25.1 Fair Value Measurement

25.1.1 Fair Value Hierarchy

The fair value of the land and buildings was determined by an external independent property valuer, having appropriate recognised professional qualifications and experience in the category of the property being valued. Fair value measurements of the property has been categorised as a level 3 fair value based on the valuation techniques used.

25.1.2 Valuation Techniques and Significant Unobservable Inputs

Description	Effective Date of Valuation	Valuation Technique	Significant Unobservable Inputs	Interrelationship between Key Unobservable Inputs and Fair Value Measurements
Land	27th November 2016	Contractor's Test	Market Value per Perch	Positive Correlated Sensitivity
Building	27th November 2016	Contractor's Test	Cost per square Feet Depreciated Percentage	Positive Correlated Sensitivity Negative Correlated Sensitivity

26. INVESTMENTS IN SUBSIDIARIES

	Bank	K	Group		
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	
Quoted Equity Share (Note 26.1)	1,320,816	1,470,816	-	_	
Unquoted Equity Share (Note 26.2)	4,950	4,950	_	_	
Less: Impairment	_	_	_	_	
Net Total	1,325,766	1,475,766	_		

	No. of Shares	Holding % as at 31.12.16	Cost 2016 Rs. '000	No. of Shares	Holding % as at 31.12.15	Cost 2015 Rs. '000
26.1 Quoted – Equity	/ Shares					
People's Leasing and Finance PLC						
- Ordinary Shares	1,184,896,862	75	690,958	1,184,896,862	75	690,958
- Preference Shares	_	_		15,000,000	_	150,000
People's Merchant Finance PLC						
- 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			1,470,816
26.2 Unquoted – Equ	uity Shares					
	495,000	99	4,950	495,000	99	4,950
	-		4,950			4,950

26.3 Investments in Subsidiaries

Non-Controlling Interests

The following subsidiary have material NCI.

Name	Principal Place of Business/Country of Incorporation	Operating Segment	Ownership Interests Held by NCI			
			2016	2015		
People's Leasing & Finance PLC	No. 1161, Maradana Road, Colombo 08, Sri Lanka	Leasing & Finance	25%	25%		

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
	2016 Rs. '000	2015 Rs. '000
Revenue	25,793,499	22,658,782
Profit	4,506,981	4,690,881
Profit Attributable to NCI	1,126,745	1,172,720
Other Comprehensive Income	(147,474)	640,027
Total Comprehensive Income	4,359,507	5,330,908
Total Comprehensive Income Attributable to NCI	1,089,877	1,332,727
Total Assets	159,085,372	129,193,653
Total Liabilities	(132,231,327)	(104,633,689)
Net Assets	26,854,044	24,559,964
Net Assets Attributable to NCI	6,713,511	6,139,991
Cash Flows from Operating Activities	(12,552,033)	(9,398,593)
Cash Flows from Investing Activities	(994,867)	(770,582)
Cash Flows from Financing Activities	(15,437,459)	9,237,150
Net Increase in Cash and Cash Equivalents	(28,984,359)	(932,025)
Dividends Paid to NCI During the Year	561,232	493,707

27. INVESTMENT IN ASSOCIATES

	Bank		Group		
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	
Unquoted Equity Share	25,000	25,000	25,000	25,000	
Less: Share of Profit/(Loss) from Associate	_	_	_	_	
Less: Impairment	(25,000)	(25,000)	(25,000)	(25,000)	
Sub Total			-	_	

28. GOODWILL AND INTANGIBLE ASSETS

28.1 Intangible Assets

	Ban	Group		
Cost	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
As at Beginning of the Year	1,054,610	1,011,402	1,226,728	1,163,781
Subsidiary Acquired During the Year	_	_	_	17,958
Additions During the Year	17,814	43,208	25,477	44,989
As at End of the Year	1,072,424	1,054,610	1,252,205	1,226,728
Accumulated Amortisation				
As at Beginning of the Year	927,722	896,854	1,072,918	1,010,253
Subsidiary Acquired During the Year	_	_	_	17,339
Amortisation for the Year	34,187	30,868	49,509	45,326
As at End of the Year	961,909	927,722	1,122,427	1,072,918
Net Book Value	110,514	126,888	129,778	153,810

28.2 Goodwill

	Bank	Bank		
Cost	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
As at Beginning of the Year	-	-	1,043,434	308,545
Goodwill on Acquisition	_	_	_	734,889
As at End of the Year	_	_	1,043,434	1,043,434
Accumulated Impairment				
As at Beginning of the Year	_	-	(734,889)	-
Impairment for the Year (Note 28.2.1)	_	-	_	(734,889)
As at End of the Year	_		(734,889)	(734,889)
Net Book Value	_		308,546	308,545
Total Net Book Value	110,514	126,888	438,323	462,355

28.2.1 Impairment of Goodwill

At the Reporting date an impairment testing for goodwill and intangible assets with indefinite useful lives has been performed by the Group, regardless of whether there is an indication of impairment and management has determined that there is no possible impairment loss except for the following:

Group has recognised an impairment loss of Rs. 734.9 million on the Goodwill which was recognised at the acquisition of People's Merchant Finance PLC in year 2015.

29. PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment – Bank

	Freehold	Freehold	I easehold	Motor	Leasehold	Furniture	Machinery	Computer	Total	Total
	Land	Building	Building	Vehicle	Motor Vehicles	Turriture	and Equipment	Computer	31st December 2016	31st December 2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/Fair Value										
Opening Balance as at 1st January 2016	7,029,750	4,840,000	2,277,469	958,510	386,261	710,540	3,377,360	7,189,061	26,768,951	24,744,320
Additions	13,519	71,685	67,809	186,500	_	51,731	405,843	330,718	1,127,805	2,079,621
Disposals	(6,000)	_	(4,000)	(67,236)	_	_	_	(324)	(77,560)	(54,990)
Transfers/Adjustments	_	108,000	(108,000)	_	(85,927)	(512,883)	(1,685,521)	(4,835,263)	(7,119,594)	_
Closing Balance as at 31st December 2016	7,037,269	5,019,685	2,233,278	1,077,774	300,334	249,388	2,097,682	2,684,192	20,699,601	26,768,951
Accumulated Depreciation	on									
Opening Balance as at 1st January 2016	_	257,049	176,766	603,177	386,261	631,940	2,680,662	6,247,010	10,982,865	10,091,749
Charge for the Year	_	125,815	66,542	174,434	_	31,179	300,160	324,135	1,022,265	914,871
Disposals	_	_	(513)	(67,236)	_	_	_	(324)	(68,073)	(23,755)
Transfers/Adjustments	_	8,011	(8,011)		(85,927)	(512,883)	(1,685,599)	(4,835,263)	(7,119,672)	_
Closing Balance as at 31st December 2016	_	390,875	234,784	710,375	300,334	150,236	1,295,223	1,735,558	4,817,385	10,982,865
Net Book Value as at 31st December 2016	7,037,269	4,628,810	1,998,494	367,399		99,152	802,460	948,634	15,882,216	15,786,086
Capital Work in Progress at Cost									1,259,475	456,020
Furniture, Equipment and Machinery at Store									82,332	61,643
									17,224,026	16,303,749

29.1 The Bank has carried out a valuation of all its land and buildings. The Valuation has been carried out by the Chief Government Valuer as at 30th June 2013 on market value basis. Book values of the properties were adjusted for the revalued amounts and revaluation surplus was credited to the Revaluation Reserve.

29.2

The Carrying Amount of Revalued Assets, in the Financial Statements if carried at Net Book Value is as follows:

Class of Assets	Cost	Accumulated Depreciation	Net Book Value As at 31st December 2016
Freehold Land and Building	6,667,007	1,585,599	5,081,408
Leasehold Land and Building	1,196,527	716,379	480,148
	7,863,534	2,301,978	5,561,556

29.3 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.

Property, Plant and Equipment - Group

	Freehold Land Rs. '000	Freehold Building Rs. '000	Leasehold Building Rs. '000	Motor Vehicles Rs. '000	Leasehold Motor Vehicles Rs. '000	Furniture Rs. '000	Machinery and Equipment Rs. '000	Computer Rs. '000	Total 31st December 2016 Rs. '000	Total 31st December 2015 Rs. '000
Cost/Valuation										
Opening Balance as at 1st January 2016	10,855,264	6,105,758	2,334,341	1,419,934	386,261	1,100,804	4,093,893	7,727,853	34,024,109	29,919,060
Subsidiary Acquired During the Year	_	-	-	-	-	-	-	-	_	1,155,672
Additions	13,519	71,685	67,809	454,691	_	85,727	491,545	396,574	1,581,550	2,383,355
Disposals	(6,000)	_	(4,000)	(155,652)	_	(102)	(580)	(604)	(166,938)	(83,682)
Transfers/Adjustments	_	107,578	(108,000)	_	(85,927)	(512,883)	(1,685,315)	(4,835,464)	(7,120,011)	(301)
Reclassification to Asset Held for Sale (Note 25)	(1,029,500)	(21,099)	-	_	-	_	_	_	(1,050,599)	_
Revaluation Gain	25,000	_	_	_	_	_	_	_	25,000	650,005
Closing Balance as at 31st December 2016	9,858,283	6,263,922	2,290,150	1,718,973	300,334	673,546	2,899,543	3,288,359	27,293,111	34,024,109
Accumulated Depreciation										
Opening Balance as at 1st January 2016	_	266,400	233,127	811,291	386,261	917,632	3,094,297	6,662,097	12,371,105	11,142,715
Subsidiary Acquired During the Year	_	_	_	_	_	_	_	_	_	101,713
Charge for the Year	_	126,235	66,866	214,053	_	82,627	379,483	390,219	1,259,484	1,197,419
Disposals	_	_	(513)	(135,278)	_			(352)	(136,143)	(48,016)
Transfers/Adjustments	_	7,804	(8,011)	34	(85,927)	(512,964)	(1,685,118)	(4,836,030)	(7,120,212)	(157)
Remeasurement	_	_	_	_	_	_	_	_	-	_
Reclassification to Asset Held for Sale	_	(9,771)			_	_	_	_	(9,771)	(22,569)
Closing Balance as at 31st December 2016		390,668	291,469	890,101	300,334	487,295	1,788,662	2,215,935	6,364,463	12,371,105
Net Book Value as at 31st December 2016	9,858,283	5,873,254	1,998,682	828,872	_	186,251	1,110,882	1,072,423	20,928,648	21,653,004
Capital Work in Progress at Cost									2,429,475	981,343
Furniture, Equipment and Machinery at Store									82,841	61,643
									23,440,966	22.695.990

29.4 The Carrying amount of revalued assets, in the Financial Statements if carried at Net Book Value is as follows:

Class of Assets	Cost	Accumulated Depreciation	Net Book Value As at 31st December 2016
Freehold Land and Building	8,363,123	1,585,599	6,777,524
Leasehold Land and Building	2,339,839	1,007,706	1,332,133
	10,702,962	2,593,305	8,109,657

30. INVESTMENT PROPERTIES

	Bank	.	Group		
Cost/Valuation	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	
Opening Balance as at 1st January	217,186	217,186	217,186	217,186	
Additions	_	_	_	_	
Disposals	_	_	_	_	
Transfer/Adjustments	_	_	_	_	
Closing Balance as at 31st December	217,186	217,186	217,186	217,186	
Accumulated Depreciation					
Opening Balance as at 1st January	31,473	29,766	31,473	29,766	
Charge for the Year	1,707	1,707	1,707	1,707	
Disposals	_	_	_	_	
Closing Balance as at 31st December	33,180	31,473	33,180	31,473	
Net Book Value as at 31st December	184,006	185,713	184,006	185,713	

Bank has recorded its investment properties at cost and revalued these properties periodically on a systematic basis for disclosure purpose. The valuation of investment properties have been carried out by the Chief Government Valuer, as at 30th June 2013 and based on his valuation the approximate fair value of the investment properties are as follows:

Class of Assets	Amount Rs. '000
Lands	224,000
Building	146,000
Total Fair Value of Investment Property	370,000

31. PREPAID LEASES

	Ban	k	Group	
Cost	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Opening Balance as at 1st January	1,010,584	1,008,790	1,010,584	1,008,790
Additions	-	1,794		1,794
Disposals	_	_	_	_
Closing Balance as at 31st December	1,010,584	1,010,584	1,010,584	1,010,584
Accumulated Amortisation				
Opening balance as at 1st January	474,263	449,913	474,263	449,913
Charge for the Year	24,136	24,350	24,136	24,350
Disposals	_	-	_	
Closing Balance as at 31st December	498,399	474,263	498,399	474,263
Net Book Value as at 31st December	512,184	536,321	512,184	536,321

32. DEFERRED TAX (ASSETS)/LIABILITIES

	BAN	BANK		UP
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Differed Tax Liabilities (Note 32.1)	1,040,608	842,007	3,319,643	3,494,798
Deferred Tax Assets (Note 32.2)	(977,129)	(480,901)	(1,065,181)	(562,402)
	63,479	361,106	2,254,462	2,932,396

32.1 Deferred Tax Liabilities

		BANK			
	201	6	2015		
	Temporary Difference Rs. '000	Tax Effects Rs. '000	Temporary Difference Rs. '000	Tax Effects Rs. '000	
Balance as at 1st January	3,007,167	842,007	3,787,979	1,060,634	
Amount Originating/(Reversing) During the Year to P&L	709,289	198,601	(780,811)	(218,627)	
Amount Originating/(Reversing) During the Year to OCI	-	_	_	-	
Balance as at 31st December	3,716,456	1,040,608	3,007,168	842,007	

		GROUP				
	2016		2015			
	Temporary Difference Rs. '000	Tax Effects Rs. '000	Temporary Difference Rs. '000	Tax Effects Rs. '000		
Balance as at 1st January	12,481,421	3,494,798	10,486,461	2,936,209		
Acquired During the Year	_	_	156,732	43,885		
Amount Originating/(Reversing) During the Year to P&L	(600,414)	(168,116)	2,510,804	703,025		
Amount Originating/(Reversing) During the Year to OCI	(24,886)	(6,968)	(672,575)	(188,321)		
Balance as at 31st December	11,855,869	3,319,643	12,481,422	3,494,798		

32.2 Deferred Tax Assets

		BANK				
	2016	2016 2015				
	Temporary Difference Rs. '000	Tax Effects Rs. '000	Temporary Difference Rs. '000	Tax Effects Rs. '000		
Balance as at 1st January	1,717,504	480,901	5,146,157	1,440,924		
Amount Originating/(Reversing) During the Year to P&L	1,718,074	481,061	(3,421,925)	(958,139)		
Amount Originating/(Reversing) During the Year to OCI	54,166	15,167	(6,728)	(1,884)		
Balance as at 31st December	3,489,744	977,129	1,717,504	480,901		

	GROUP				
	2016		2015		
	Temporary Difference Rs. '000	Tax Effects Rs. '000	Temporary Difference Rs. '000	Tax Effects Rs. '000	
Balance as at 1st January	2,008,581	562,402	5,270,996	1,475,879	
Amount Originating/(Reversing) During the Year to P&L	1,741,227	487,543	(3,255,443)	(911,524)	
Amount Originating/(Reversing) During the Year to OCI	54,168	15,167	(6,975)	(1,953)	
Balance as at 31st December	3,803,977	1,065,181	2,008,578	562,402	

33. OTHER ASSETS

	BAN	BANK		JP
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Deposits and Prepayments	1,328,078	463,694	1,609,394	463,694
Unamortised Day One Difference Staff Loans	9,173,370	9,012,447	9,173,370	9,012,447
Others	5,675,297	2,816,875	6,549,168	3,593,976
Total	16,176,745	12,293,016	17,331,932	13,070,117

34. DUE TO BANKS

	BAN	BANK		UP
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Money Market Borrowings	104,946,951	142,006,056	104,946,951	142,006,056
Call Money Borrowing	500,274	-	500,274	-
Other Borrowings	1,477,051	1,917,578	24,675,021	20,681,397
Total	106,924,276	143,923,634	130,122,246	162,687,453

35. DERIVATIVE FINANCIAL INSTRUMENTS

	Bank		Group	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Foreign Currency Derivatives				
Foreign Currency Swaps	51,573	88,912	51,573	88,912
Forward Foreign Exchange Contracts	20,609	23,237	20,609	23,237
Total	72,182	112,149	72,182	112,149



36. DUE TO OTHER CUSTOMERS

	Ва	Bank		oup
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Total Amount due to Other Customers	1,077,812,127	899,237,880	1,119,753,182	932,905,835
Total	1,077,812,127	899,237,880	1,119,753,182	932,905,835

a) Analysis Product Wise Analysis

	Bank		Group	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Demand Deposits (Current Accounts)	58,663,411	57,484,277	55,883,642	54,801,282
Savings Deposits	424,563,304	372,199,892	427,890,031	376,808,309
Fixed Deposits	591,808,309	465,171,669	633,202,405	496,914,202
Other Products	2,777,103	4,382,042	2,777,104	4,382,042
Total	1,077,812,127	899,237,880	1,119,753,182	932,905,835

By Currency

	Ba	Bank		oup
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Sri Lanka Rupee	951,810,288	796,827,137	993,751,345	830,495,093
United State Dollar	117,859,330	93,739,641	117,859,330	93,739,641
Great Britain Pound	2,637,380	3,152,413	2,637,380	3,152,413
Others	5,505,129	5,518,689	5,505,128	5,518,688
Total	1,077,812,127	899,237,880	1,119,753,182	932,905,835

37. OTHER BORROWINGS

	Ва	Bank		up
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Central Bank of Sri Lanka	1,152,288	1,727,258	1,152,288	1,855,412
Other Financial Institutions	1,338,456	1,475,168	18,712,286	17,057,864
Borrowing under Repurchase Agreement (Note 37.1)	24,693,791	44,956,674	22,431,802	44,194,540
Total	27,184,535	48,159,100	42,296,376	63,107,816

37.1 The following Assets have been Pledged as Security for Repurchase Liabilities.

		Ba	nk	Group	
Nature of Liabilities	Nature of Assets	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Borrowings Under	Treasury Bills	3,869,513	9,864,699	_	_
Repurchase Agreements	Treasury Bonds	25,172,724	40,947,697	22,910,735	40,185,563

38. OTHER LIABILITIES

	Bank		Grou	ір
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Deferred Income in Respect of Off-Balance Sheet Items	336,605	394,572	336,605	394,572
Sundry Creditors	3,633,919	3,982,362	4,117,512	6,370,353
Net Defined Benefit Obligation –				
Pre 1996 Pension Plan (Note 38.1)	2,136,673	5,993,176	2,136,673	5,993,177
Provision for Gratuity (Note 38.2)	360,479	298,852	646,932	483,280
Other Payables	8,911,322	5,759,579	17,944,694	11,536,603
Total	15,378,998	16,428,542	25,182,416	24,777,985
38.1 Net Defined Benefit Obligation – Pre 1996 Pension Plan				
Fair Value of Plan Assets (Note 38.1.1)	(45,125,860)	(43,771,564)	(45,125,860)	(43,771,564)
Present Value of Obligations (Note 38.1.2)	47,262,533	49,764,741	47,262,533	49,764,741
Net Defined Benefit Obligation	2,136,673	5,993,177	2,136,673	5,993,177
38.1.1 Fair Value of Plan Assets				
Plan Assets Comprise:				
Fixed Deposits	6,133,875	1,806,875	6,133,875	1,806,875
Government Securities	25,431,060	26,938,973	25,431,060	26,938,973
Debentures	12,500,000	15,000,000	12,500,000	15,000,000
Net Current Assets	1,060,925	25,716	1,060,925	25,716
	45,125,860	43,771,564	45,125,860	43,771,564
Actual Return on Plan Assets	4,476,090	4,007,438	4,476,090	4,007,438
Movement in the Fair Value of Plan Assets				
Fair Value of Plan Assets as at 1st January	43,771,564	43,479,745	43,771,564	43,479,745
Expected Return on Plan Assets	3,899,403	3,883,533	3,899,403	3,883,533
Benefit Paid by the Plan	(5,030,864)	(4,800,543)	(5,030,864)	(4,800,543)
Actual Employer Contribution	2,180,828	1,360,320	2,180,828	1,360,320
Actuarial Gain/(Losses)	304,929	(151,491)	304,929	(151,491)
Fair Value of Plan Assets as at 31st December	45,125,860	43,771,564	45,125,860	43,771,564
38.1.2 Movement in the Present Value of the Defined Benefit Obligations				
Defined Benefit Obligations as at 1st January	49,764,741	48,714,347	49,764,741	48,714,347
Benefit Paid by the Plan	(5,030,864)	(4,800,543)	(5,030,864)	(4,800,543)
Current Service Cost	930,067	732,442	930,067	732,442
Interest Cost	4,727,650	4,627,863	4,727,650	4,627,863
Actuarial (Gain)/Losses	(3,129,060)	490,632	(3,129,060)	490,632
PV of Defined Benefit Obligation as at 31st December	47,262,533	49,764,741	47,262,533	49,764,741
38.1.3 Net Expenses Recognised in				
Income Statement				
Current Service Cost	930,067	732,442	930,067	732,442
Interest Cost	4,727,650	4,627,863	4,727,650	4,627,863
Expected Return	(3,899,403)	(3,883,533)	(3,899,403)	(3,883,533)
Net Expenses	1,758,314	1,476,772	1,758,314	1,476,772

	Bank		Group	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
38.1.4 Actuarial (Gains)/Losses Recognised in Other Comprehensive Income				
Amount Accumulated in Retained Earnings as at 1st January	(6,149,821)	(5,507,698)	(6,149,821)	(5,507,698)
Recognised During the Year	3,433,988	(642,123)	3,433,988	(642,123)
Amount Accumulated in Retained Earnings as at 31st December	(2,715,833)	(6,149,821)	(2,715,833)	(6,149,821)
38.1.5 Actuarial Assumptions The Following are the Principal Actuarial Assumptions as at the Reporting Date				
Discount Rate	11.0%	9.5%	11.0%	9.5%
Expected Return on Plan Assets	10.0%	9.5%	10.0%	9.5%
Future Salary Increase	7.0%	7.0%	7.0%	7.0%

38.1.6 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 & salary increment rate as follows:

	Bank				Group			
	Effect on Comprehensive Income Statement Increase/ (Reduction) 2016 Rs. '000	Effect on Employee Benefit Obligation Increase/ (Reduction) in the Liability 2016 Rs. '000	Effect on Comprehensive Income Statement Increase/ (Reduction) 2015 Rs. '000	Effect on Employee Benefit Obligation Increase/ (Reduction) in the Liability 2015 Rs. '000	Effect on Comprehensive Income Statement Increase/ (Reduction) 2016 Rs. '000	Effect on Employee Benefit Obligation Increase/ (Reduction) in the Liability 2016 Rs. '000	Effect on Comprehensive Income Statement Increase/ (Reduction) 2015 Rs. '000	Effect on Employee Benefit Obligation Increase/ (Reduction) in the Liability 2015 Rs. '000
Increase/(Decrease) in Discount Rate	0.070.000	(0.070.000)	3,419,098	(3,419,098)	0.070.000	(0.070.000)	3,419,098	(3,419,098)
-1%	2,976,920 (3,380,680)	(2,976,920)	(3,921,522)	3,921,522	2,976,920 (3,380,680)	(2,976,920)	(3,921,522)	3,921,522
Increase/(Decrease) in Salary Increment								
1%	(645,915)	645,915	(537,085)	537,085	(645,915)	645,915	(537,085)	537,085
-1%	604,109	(604,109)	500,805	(500,805)	604,109	(604,109)	500,805	(500,805)

38.2 Provision for Gratuity

	Bank		Group	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Balance as at 1st January	298,852	274,969	483,280	428,947
Current Service Cost	24,957	23,631	107,609	60,617
Interest Cost	28,391	26,122	28,391	26,122
Benefits Paid During the Year	(39,157)	(19,141)	(43,987)	(19,164)
Actuarial Losses/(Gains) on Obligations	47,436	(6,729)	71,638	(13,242)
Balance as at 31st December	360,479	298,852	646,932	483,280
38.2.1 The Principal Financial Assumptions Used in the Valuations are as follows:				
Discount Rate	11% p.a	9.5% p.a		
Basic Salary Increase for all Grades	7% p.a	7% p.a		
Normal Age of Retirement	55 years	55 years		

38.2.2 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 follows:

	Bank					
	Effect on Statement of Profit or Loss Increase/(Reduction)	Effect on Employee Benefit Obligation Increase/(Reduction) in the Liability	Effect on Statement of Profit or Loss Increase/(Reduction)	Effect on Employee Benefit Obligation Increase/(Reduction) in the Liability		
	2016 Rs. '000	2016 Rs. '000	2015 Rs. '000	2015 Rs. '000		
Increase/(Decrease) in Discount Rate						
1%	22,851	(22,851)	17,830	(17,830)		
-1%	(26,212)	(26,212)	(20,418)	(20,418)		
Increase/(Decrease) in Salary Increment						
1%	(34,219)	34,219	(23,709)	23,709		
-1%	30,081	(30,081)	21,001	(21,001)		



39. SUBORDINATED TERM DEBTS

	Interest Rate and	Issue	Maturity	Ва	ank	Gr	oup
	Repayment Terms	Date	Date	2016 Rs '000	2015 Rs '000	2016 Rs '000	2015 Rs '000
Issued by the Bank				-			
(i) Tranch 1	16.0% – Biannually	2008.12.30	2016.12.29	-	2,500,814	-	2,500,814
(ii) Tranch 2	13.5% – Biannually	2009.12.30	2017.12.29	2,500,894	2,500,894	2,500,894	2,500,894
(iii) Tranch 3	12.0% – Biannually	2011.12.30	2019.12.29	5,002,486	5,002,486	5,002,486	5,002,486
(iv) Tranch 4	13.0% – Biannually	2013.06.15	2021.06.14	5,028,348	5,028,348	5,028,348	5,028,348
Issued by the Subsidia	ary						
Listed Debentures							
(i) Option 1	16.5% – Biannually	2013.03.27	2017.03.26	_	-	2,172,983	2,138,214
(ii) Option 2	16.75% – Biannually	2013.03.27	2018.03.26	_	_	1,681,523	1,651,624
(iii) Option 3	17.0% – Annually	2013.03.27	2018.03.26	_	_	2,812,966	2,768,598
(iv) Type A	8.75 % – Annually	2014.09.15	2017.09.14	_	_	1,666,611	1,624,066
(v) Type B	9.63% – Annually	2014.09.15	2018.09.14	_	_	1,621,793	1,637,192
(vi) Type A	9.60% – Semiannually	2015.11.13	2019.11.12	_	_	2,203,821	2,195,553
(vii) Type B	9.95% – Annually	2015.11.13	2020.11.12	_	_	3,875,302	3,859,451
Non-Listed Debentures							
Type A	11.9% - Semiannually	2016.11.16	2019.11.16	_	_	549,992	-
Type B	12.25% – Semiannually	2016.11.16	2020.11.16	_	_	669,308	_
Type C	12.6% – Semiannually	2016.11.16	2021.11.16	_	_	6,739,769	_
Total				12,531,728	15,032,542	36,525,796	30,907,240
Due within 1 year				2,500,814	2,500,814	2,500,814	2,500,814
Due after 1 year				10,030,914	12,531,728	34,024,982	28,406,426
Total				12,531,728	15,032,542	36,525,796	30,907,240

40. STATED CAPITAL/ASSIGNED CAPITAL

	Bar	Bank		Group	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	
Ordinary Shares (Note 40.1)	49,998	49,998	49,998	49,998	
Assigned Capital (Note 40.2)	7,152,000	7,152,000	7,152,000	7,152,000	
	7,201,998	7,201,998	7,201,998	7,201,998	

40.1 Stated Capital

PEOPLE'S BANK ANNUAL REPORT 2016

	Bank		Group	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
40.1.1 Movement of Stated Capital				
Authorised				
20,000,000 Ordinary Shares of Rs. 50/- each	1,000,000	1,000,000	1,000,000	1,000,000
Fully Paid				
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.

40.1.2 Principal Shareholders of the Bank are as follows:

	2016	2015 %
Government of Sri Lanka	92.27	92.27
Corporative Societies	7.73	7.73
	100.00	100.00

40.2 Assigned Capital (Capital Pending Allotment)

- **40.2.1** The Government of Sri Lanka has injected Rs. 7,152 million as capital to the Bank. This amount is currently in the Capital Pending Allotment Account. The Bank is planning to issue 143,040,000 shares of Rs. 50/- each, subsequent to the increase in authorised share capital.
- 40.2.2 The increase in paid up capital requires an amendment to the People's Bank Act and it is yet to be finalised.
- 40.2.3 The Ministry of Finance of the Government of Sri Lanka infused capital to the Bank as follows:

Four tranches of Rs.1 billion, Rs. 2 billion, Rs.1.5 billion and Rs.1.5 billion for the years 2005, 2006, 2007 and 2008 to meet the stipulated minimum capital requirement by the Central Bank of Sri Lanka.

41. 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. 749 million for the current year.



42. OTHER RESERVES

42.1 Revaluation Reserve

This reserve has been created on revaluation of assets of the Bank as per Board approval in compliance with Section 19 (7) of the Banking Act No. 30 of 1988.

42.2 Capital Reserve

This reserve has been created in 1987 and increased in 1998, has no transferred to date.

42.3 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.

42.4 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. Transfer made during the year is arrived as follows:

Item	Amount Rs. '000
Provision Requirement for the Existing Debentures	
Tranch 2	312,500
Tranch 3	625,000
Tranch 4	625,000
Total Provision	1,562,500
Reversal of the Provision due to the Redemption of Debentures	
Tranch 1	(2,187,500)
Net Provision to be Charge/(Reversal)	(625,000)

42.5 Available-for-Sale Reserve

The AFS reserve comprises the cumulative net change in fair value of financial investments available-for-sale until such investments are derecognised or impaired.

42.6 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. 8,000 million pertains to a special dividend/special levy paid to the consolidated fund of the Government of Sri Lanka as determined by the Ministry of Finance.

43. MOVEMENT IN RETAINED EARNINGS AND OTHER RESERVES

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
Balance as at 1st January 2015	3,522,626	10,876,547	5,663	1,633,710	7,189,500	241,946	12,797,562	36,267,554
Super Gain Tax (Note 43.1)	_	_	_	_	_	_	(2,770,120)	(2,770,120)
Balance as at 1st January 2015	3,522,626	10,876,547	5,663	1,633,710	7,189,500	241,946	10,027,442	33,497,434
Profit for the Year	_	_	_	_	_	_	12,597,842	12,597,842
Changes in Fair Value in AFS Investments	_	_	_	_	_	54,433	_	54,433
Net Defined Benefit Obligation	_	_	_	_	_	_	(635,394)	(635,394)
Reversal of Revaluation Gain on Disposed Property	_	(30,048)	_	_	_	_	30,048	_
Transfer to Reserve During the Period	629,892	_	_	_	1,875,000	_	(2,504,892)	_
Special Levy to Treasury/Dividend (Note 42.6)	_	_	_	_	_	_	(3,219,690)	(3,219,690)
Deferred Tax Effect on Defined Benefit Plans	_	_	_	_	_	_	(1,884)	(1,884)
Balance at 31st December 2015	4,152,518	10,846,499	5,663	1,633,710	9,064,500	296,379	16,293,472	42,292,741
Balance as at 1st January 2016	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 Period (Note 41, 42.4)	749,737	_	_	_	(625,000)	_	(124,737)	_
Transfer to Retained Earnings During the Period	_	_	_	_	_		_	_
Special Levy to Treasury/Dividend (Note 42.6)	_	_	_	_	_	_	(8,219,690)	(8,219,690)
Deferred Tax Effect on Defined Benefit Plans	_	_	_	_	_	_	15,167	15,167
Balance at 31st December 2016	4,902,255	10,843,204	5,663	1,633,710	8,439,500	273,778	26,348,748	52,446,858



43. MOVEMENT IN RETAINED EARNINGS AND OTHER RESERVES

Group	Statutory Reserve Rs. '000	Revaluation Reserve Rs. '000	Capital Reserve Rs. '000	Special Risk Reserve Rs. '000	General Reserve Rs. '000	Cash Flow Hedge Reserve Rs. '000	Available- for-Sale Reserve Rs. '000	Retained Earnings Rs. '000	Total	Non- Controlling Interest	Total
Balance as at 1st January 2015	3,522,626	11,393,318	5,663	1,633,710	7,189,500	(15,797)	271,215	27,536,628	51,536,863	5,323,419	56,860,282
Super Gain Tax (Note 43.1)								(3,413,319)	(3,413,319)	(214,400)	(3,627,719)
Balance as at 1st January 2015	3,522,626	11,393,318	5,663	1,633,710	7,189,500	(15,797)	271,215	24,123,309	48,123,543	5,109,019	53,232,563
Profit for the Year	_	_	_	_		_	_	13,898,051	13,898,051	1,169,941	15,067,993
Changes in Fair Value in AFS Investments	<u>-</u>	<u>-</u>	-	_	_	<u>-</u>	162,726	_	162,726	36,120	198,846
Net Defined Benefit Obligation	_	_	_	_	_	_	_	(635,377)	(635,377)	5	(635,372)
Revaluation Surplus	_	504,430	_	_	_		-	_	504,430	168,144	672,574
Reversal of Revaluation Gain on Disposed Property	_	(30,048)	_	_	_	_	_	30,048	_	_	_
Transfer to Reserve During the Period	629,892	_	_	_	1,875,000	_	_	(2,504,892)	_	_	_
Transfer to Retained Earnings During the Period	_	_	_	_	_	_	_	_	_	_	_
Special Levy to Treasury/Dividend	_	_	_	_	_	_	_	(3,219,690)	(3,219,690)	_	(3,219,690)
Acquired During the Year	_	_	_	_	_	_	_	_	_	133,346	133,346
Deferred Tax Effect on Defined Benefit Plans	_	_	-	_	_	_	-	(1,935)	(1,935)	(18)	(1,953)
Gains and Losses on Derivative Financial Assets	_	_	_	_	_	22,945	_	_	22,945	7,649	30,594
Share Issue	_	_	_	_	_	_	-	609,561	609,561	140,439	750,000
Retransferred the Loss of Associate	_	_	_	_	_	_	_	51,758	51,758	_	51,758
Dividend Payment	-	-	-	-	-	-	_	0	0	(493,707)	(493,707)
Tax on Other Comprehensive Income	_	_	_	_		_	_	(141,241)	(141,241)	(47,080)	(188,321)
Balance at 31st December 2015	4,152,518	11,867,700	5,663	1,633,710	9,064,500	7,149	433,941	32,209,592	59,374,772	6,223,858	65,598,631

	Statutory Reserve Rs. '000	Revaluation Reserve Rs. '000	Capital Reserve Rs. '000	Special Risk Reserve Rs. '000	General Reserve Rs. '000	Cash Flow Hedge Reserve Rs. '000	Available- for-Sale Reserve Rs. '000	Retained Earnings Rs. '000	Total Rs. '000	Non- Controlling Interest	Total Rs. '000
Balance as at 1st January 2016	4,152,518	11,867,700	5,663	1,633,710	9,064,500	7,149	433,941	32,209,592	59,374,773	6,223,858	65,598,631
Profit for the Year	_	_		_	_	_	_	16,721,972	16,721,972	1,233,956	17,955,928
Changes in Fair Value in AFS Investments	_	_	_	_	_	_	(128,446)	_	(128,446)	(38,583)	(167,029)
Reversal of Fair Value Gain on Disposal of AFS Investments	_	_	_	_	_	_	(9,315)	0	(9,315)	_	(9,315)
Net Defined Benefit Obligation	_	_	_	_	-	_	-	3,370,185	3,370,185	(7,837)	3,362,348
Reversal of Revaluation Gain on Disposed Property	_	(3,295)	_	_	_	_	_	3,295	_	_	_
Revaluation Surplus	_	18,750	_	_	_	_	_	_	18,750	6,250	25,000
Transfer to Reserve During the Period	749,737	_	_	_	(625,000)	_	_	(124,737)	_	_	_
Transfer to Retained Earnings During the Period	_	_	_	_	_	_	_	_	_	_	_
Special Levy to Treasury/ Dividend (Note 42.6)	_	_	_	_	_	_	_	(8,219,690)	(8,219,690)	_	(8,219,690)
Movement due to Change in Ownership	_	_	_	_	<u> </u>	<u> </u>	_	(781,872)	(781,872)	776,130	(5,742)
Deferred Tax Effect on Defined Benefit Plans	_	_	_	_	<u> </u>	<u> </u>	_	20,393	20,393	1,742	22,135
Deferred Tax Effect on Revaluation Surplus	_	_	_	_	_	_	_	_	_	_	0
Gains and Losses on Derivative Financial Assets	_	_	_	_	_	4,639	_	_	4,639	1,547	6,186
Dividend Payment	-	-	-	-	-	_	-		_	(561,232)	(561,232)
Share Issue Expenses	_	_	_	_	_	_	_	(13,018)	(13,018)	(4,339)	(17,357)
Retransferred the Loss of Associate	_	_	-	_	_	_	_	_	_	_	<u>-</u>
Tax on Other Comprehensive Income	_	_	_	<u>-</u>	_	_	_	(588)	(588)	(166)	(754)
Balance at 31st December 2016	4,902,255	11,883,155	5,663	1,633,710	8,439,500	11,788	296,180	43,185,533	70,357,783	7,631,325	77,989,109

43.1 Super Gain Tax

As per the amendments to provisions of the Finance Act from the Finance Bill passed on 20th October 2015, the Group and the Bank was liable for Super Gain Tax (SGT) amounting to Rs. 3.6 billion and Rs. 2.7 billion respectively.

44. 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.

	Bai	Bank		ир
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
44.1 Contingent Liabilities				
Acceptances	35,510,881	43,434,794	35,510,881	43,434,794
Documentary Credit	58,600,161	57,179,170	58,600,969	57,179,978
Guarantees	41,574,911	32,193,164	41,586,936	32,205,189
Forward Exchange Contracts	14,997,818	11,145,916	14,997,818	11,145,916
	150,683,771	143,953,044	150,696,604	143,965,877
44.2 Commitments				
Non-Disbursed Overdrafts	75,745,887	37,579,540	75,745,887	37,579,540
	75,745,887	37,579,540	75,745,887	37,579,540
Total Contingent Liabilities and Commitments	226,429,659	181,532,584	226,442,491	181,545,416

44.3 Other Capital Commitments

Capital Expenditure approved by the Board of Directors for which provisions has not been made in theses Financial Statements amounted to:

	Ва	nk	Group		
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	
Approved and Contracted for	871,783	2,940,620	1,294,619	3,668,014	
Approved but not Contracted for	330,614	5,700	784,877	140,610	
	1,202,397	2,946,320	2,079,496	3,808,624	

44.4 Assessment Received by the Bank

Assessment number ITA 13291100319v1 for income tax for 2010/11 to Rs. 2,422,289,525 and the assessment number ITA 14271100064v1 for income tax for 2011/12 amounting to Rs.1,383,827,443 are pending year of taxes at present. However Bank has properly appealed for the said assessments.

The Tax Consultants of the Bank is of the view that the above assessments will not have any material impact on the Financial Statements.

44.5 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 defenses. 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. 9.14 billion, of which details are Given Below:

Zone	Region	Value
Legal	Legal Department	1,280,724,029
Western 1	Western Zone 1	92,212,786
	Gampaha	21,650,000
Central	Kandy	66,613,080
	Matale	665,000
Eastern	Ampara	1,000,000
	Batticaloa	3,654,000
North Central	Anuradhapura	10,500,000
Southern	Galle	207,100,000
	Hambantota	_
	Matara	7,305,000
Uva	Badulla	96,084,632
	Monaragala	2,500,000
Wayamba	Kurunegala	27,753,288
	Puttalam	12,895,100
Sabaragamuwa	Kegalle	59,500,000
	Ratnapura	3,500,000
Western 2	Western 2	2,000,000
	Kalutara	21,103,167
Special Assets Unit/ Corporate Banking Division		7,228,062,007
Total		9,144,822,090

45. SUBSEQUENT EVENTS

No circumstances have arisen since the Reporting date which would require adjustments to, or disclosure in the Financial Statements.

46. 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.

46.1 Parent and the Ultimate Controlling Party

People's Bank is a Government owned Bank.

46.2 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.

46.2.1 Compensation of Key Management Personnel (KMPs)

For the Year Ended 31st December	2016 Rs. '000	2015 Rs. '000
Short-term Employee Benefits	71,580	59,824
Post-Employment Pension	_	-
Termination Benefits		_
Share-Based Payments	_	-
Other Long-Term Benefits	1,057	_

46.2.2 Transactions with Key Management Personnel (KMPs) and their Close Family Members (CFMs)

For the Year Ended 31st December	2016 Rs. '000	2015 Rs. '000
a. Items in Income Statement		
Interest Income	145	169
Interest Expenses	641	1,802

As at 31st December	2016 Rs. '000	2015 Rs. '000
b. Items in Statement of Financial Position		
Residential Mortgages	_	-
Credit Cards	979	268
Cash Margin Loans	700	1,452
Deposits	6,200	50,547
Guarantees	_	_

46.3 Transactions with Group Entities

The Group entities include the Subsidiaries and Associates of the Bank.

46.3.1 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 summerised below:

For the Year Ended 31st December	Subsidiary Compan	Sub Subsidiary Companies of the Bank		
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
a. Items in Income Statement				
Interest Income	1,069,174	334,949	323	250
Interest Expense	412,882	282,932	37,540	17,893
Dividend Income	1,512,109	1,540,621	_	_
Other Income	154,200	32,832	287,694	306,373
Other Expenses	1,088	5,847	102,079	127,850

As at 31st December	Subsidiary Companies of the Bank		Sub Subsidiary Companies of the Bank	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
b. Items in Statement of Financial Position				
Assets				
Investments	1,325,766	1,475,766	_	-
Loans	9,614,090	6,747,758	_	_
Overdrafts	1,582,555	460,432	74,244	77,895
Assets Backed Securities	1,691,604	1,052,000	_	_
Other receivables	2,472	4,004	177,751	171,853
	14,216,487	9,739,960	251,995	249,748
Liabilities				
Deposits	2,716,014	2,060,165	287,236	836,091
Securities Sold Under Repurchase Agreements	5,758,139	3,548,213	101,511	762,134
Other Payables	25,068	49,965	102,583	608,684
	8,499,221	5,658,343	491,330	2,206,909
c. Off-balance Sheet Items				
Guarantees	32,600	32,600	-	-

Note:

Bank has paid to People's Leasing Property Development Limited amounting to Rs. 627.4 million during the year 2016 on account of construction eight building projects handled by People's Leasing Property Development Ltd.

46.4 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	2016 Rs. '000	2015 Rs. '000
a. Items in Income Statement		
Interest Income	24,787,413	28,098,736
Other Income	567,434	682,987
Interest Expenses	2,882,189	2,170,665

As at 31st December	2016 Rs. '000	2015 Rs. '000
b. Items in Statement of Financial Position		
Assets		
Loans	294,920,331	298,484,183
Overdrafts	26,032,546	57,795,209
Bills	386,000	605,813
	321,338,877	356,885,205
Liabilities		
Deposits – Demand	21,043,539	20,826,045
– Savings	1,163,572	1,381,955
– Time	63,577,652	29,000,759
	85,784,763	51,208,759
c. Items in the Changes in Equity		
Dividend Paid to GOSL	219,690	219,690
Special Levy to Treasury/Dividend	8,000,000	3,000,000
d. Off-balance Sheet Items		
Acceptances	32,041,603	40,475,644
Documentary Credit	42,341,843	39,868,527
Guarantees	1,072,434	1,536,672
	75,455,880	81,880,843

46.5 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	2016 Rs. '000	2015 Rs. '000
a. Items in Income Statement		
Interest Expenses	4,070,018	3,715,109
Contribution Made	1,758,315	1,476,772
As at 31st December	2016 Rs. '000	2015 Rs. '000
b. Items in Statement of Financial Position		
Liabilities		
Deposits	6,264,394	1,855,611
Securities Sold Under Repurchase Agreements	25,969,695	27,483,865
Subordinated Term Debts	12,531,728	15,032,542

47. FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

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.

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.

Other Financial Assets Held for Trading

Other trading assets valued using quoted (unadjusted) prices in active markets available for each of identical assets.

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:

		Ban	k			Grou	ıp	
31st December 2016	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
Financial Assets								
Derivative Financial Instruments								
Forward Foreign Exchange Contracts		15,056		15,056		21,196		21,196
Other Financial Assets Held for Trading	••••	***************************************			***************************************	****		_
Treasury Bills and Bonds	44,183,629	-		44,183,629	44,183,629			44,183,629
Quoted – Equity Securities	850,579	***		850,579	1,391,111	•		1,391,111
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
Financial Investments Available-for-Sale								
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	996,714	***************************************		996,714	996,714	***************************************		996,714
	47,735,329	191,752	529,125	48,456,206	49,674,591	329,270	731,484	50,735,345
Financial Liabilities								
Derivative Financial Instruments								
Forward Foreign Exchange Contracts		72,182		72,182	***************************************	72,182		72,182

		Ban	k			Grou	ıp	
31st December 2015	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
Financial Assets								
Derivative Financial Instruments								
Forward Foreign Exchange Contracts		4,109		4,109		24,853		24,853
Other Financial Assets Held for Trading								
Treasury Bills and Bonds	91,259,390			91,259,390	91,259,390			91,259,390
Quoted – Equity Securities	1,214,660			1,214,660	1,787,249			1,787,249
Debt Securities	746,999			746,999	746,999			746,999
Investment in Unit Trust		179,713		179,713		179,713		179,713
Financial Investments Available-for-Sale								
Treasury Bills and Bonds					1,232,078			1,232,078
Unquoted Equity Securities		***************************************	525,122	525,122			818,311	818,311
Investment in Unit Trust		2,009,315		2,009,315		2,612,110		2,612,110
Debt Securities	999,310			999,310	999,310			999,310
	94,220,359	2,193,137	525,122	96,938,618	96,025,026	2,816,676	818,311	99,660,013
Financial Liabilities								
Derivative Financial Instruments								
Forward Foreign Exchange Contracts		112,149		112,149		112,149		112,149

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.

			Bank					Group		
31st December 2016	As at 1st Jan-16	Total Gains/ (Losses) Recorded in Profit or Loss	Total Gains/ (Losses) Recorded in OCI	Purchases/ (Sales)	As at 31st Dec-16	As at 1st Jan-16	Total Gains/ (Losses) Recorded in Profit or Loss	Total Gains/ (Losses) Recorded in OCI	Purchases/ (Sales)	As at 31st Dec-16
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets										
Financial Investments Available-for-Sale										
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
Financial Liabilities	_	_	_	_	_	_	_	_	_	_
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

			Bank					Group		
31st December 2015	As at 1st Jan-15	Total Gains/ (Losses) Recorded in Profit or Loss	Total Gains/ (Losses) Recorded in OCI	Purchases/ (Sales)	As at 31st Dec-15	As at 1st Jan-15	Total Gains/ (Losses) Recorded in Profit or Loss	Total Gains/ (Losses) Recorded in OCI	Purchases/ (Sales)	As at 31st Dec-15
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets										
Financial Investments Available-for-Sale										
Unquoted Equity Securities	480,003	-	45,119	-	525,122	639,088	-	161,311	17,912	818,311
Total Level 3 Financial Assets	480,003	_	45,119	_	525,122	639,088	_	161,311	17,912	818,311
Financial Liabilities	_	_	_	_	_	_	_	_	_	_
Total Level 3 Financial Liabilities	_	-	-	_	_	_	-	-	_	_
Total Net Level 3 Financial Assets/(Liabilities)	480,003	_	45,119	_	525,122	639,088	-	161,311	17,912	818,311

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.

		Bani	k		Group				
	20	2016		2015		116	2015		
	Carrying Amount Rs. '000	Fair Value Rs. '000							
Financial Assets									
Cash and Cash Equivalents	64,008,639	64,008,639	27,963,708	27,963,708	67,695,584	67,695,584	30,692,205	30,692,205	
Balances with Central Banks	63,049,516	63,049,516	42,947,711	42,947,711	63,049,516	63,049,516	42,947,711	42,947,711	
Placements with Banks	32,772,978	32,772,978	8,097,147	8,097,147	32,772,978	32,772,978	8,097,147	8,097,147	
Loans and Receivables to Banks	71,528,031	71,528,031	114,606,980	114,606,980	72,205,378	72,205,378	115,519,933	115,519,933	
Loans and Receivables to Other Customers	890,528,101	890,131,993	768,514,659	770,950,189	1,013,921,293	1,010,121,909	869,780,503	874,139,280	
Financial Investments – Held-to-Maturity	96,171,734	88,900,668	86,604,889	83,331,585	101,069,681	93,818,878	91,089,198	87,816,475	
Financial Liabilities									
Due to Banks	106,924,276	106,924,276	143,923,634	143,923,634	130,112,246	129,475,241	162,687,453	162,539,358	
Due to Other Customers	1,077,812,127	1,077,362,605	899,237,879	899,461,817	1,119,753,182	1,118,407,461	932,905,835	933,053,769	
Other Borrowings	27,184,535	27,184,535	48,159,101	48,159,101	42,296,376	42,296,376	63,107,816	63,107,816	
Subordinated Term Debts	12,531,728	12,531,728	15,032,542	15,032,542	36,525,796	36,525,796	30,907,240	30,907,240	

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.

48. FINANCIAL REPORTING BY SEGMENT

	Bank	ding	Leas	sing	Travels		
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	
Interest	108,787,090	91,988,391	9,434,887	6,415,476	459	462	
Exchange	2,572,743	3,050,646	_	_	_	_	
Leasing	_	_	11,149,370	11,744,354	_	_	
Share Trading/Dividend	147,580	178,410	47,837	40,643	_	_	
Commissions and Fees	3,948,052	3,712,146	414,561	324,051	_	_	
Other	3,868,040	2,693,224	3,991,218	3,505,461	47,966	42,244	
Total Revenue From:							
External Customers	119,323,505	101,622,817	25,037,873	22,029,985	48,425	42,706	
Inter Segment Revenue:				***************************************	***************************************	***************************************	
Interest	1,183,166	415,154	416,190	293,298	3,420	2,376	
Commission and Fees	_	_	219,837	193,256	_	_	
Share Trading/Dividend	1,481,120	1,481,121	_	_	_	_	
Other	126,569	129,871	119,598	142,242	_	_	
Unallocated Income	_	_	_	_	_	_	
Total Revenue	122,114,360	103,648,963	25,793,498	22,658,781	51,845	45,082	
Segment Result	20,813,661	19,519,520	6,262,990	6,836,061	14,795	12,365	
Unallocated Expenses	_	_	-	_	_	_	
Income from Associates	_	_	_	_	_	_	
Income Tax Expenses	(5,818,969)	(6,921,678)	(1,703,580)	(2,129,573)	(1,412)	(1,924)	
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	1,302,048,447	1,176,595,163	159,241,009	129,209,259	114,426	107,103	
Investment in Associates	_	-	_	_	-	-	
Total Assets	1,302,048,447	1,176,595,163	159,241,009	129,209,259	114,426	107,103	
Segment Liabilities	1,242,399,591	1,127,100,422	132,318,929	104,714,808	44,446	48,457	
Total Equity and Liabilities	1,302,048,447	1,176,595,163	159,241,009	129,290,259	114,426	107,103	

	Financ	e	Elimina	tions	Group			
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000		
	353,235	129,497	(1,618,530)	(704,981)	116,957,141	97,828,845		
-	-	_	_	_	2,572,743	3,050,646		
	_	-	(1,088)	(5,847)	11,148,282	11,738,507		
	_		_	_	195,417	219,053		
-	2,440	1,210	(219,837)	(193,256)	4,145,216	3,844,151		
	884	4,590	(231,539)	(272,113)	7,676,570	5,973,406		
	356,559	135,297	(2,070,994)	(1,176,197)	142,695,368	122,654,608		
	-	-	_	-	1,602,776	710,828		
	_	_	_	_	219,837	193,256		
	_	_	_	_	1,481,120	1,481,121		
	_	_	_	-	246,167	272,113		
	_	_	(1,495,748)	(1,481,121)	(1,495,748)	(1,481,121)		
	356,559	135,297	(3,566,742)	(2,657,318)	144,749,519	123,830,806		
	(174,528)	(30,773)	-	_	26,916,918	26,337,173		
-	_	_	_	_	(1,483,595)	(2,216,010)		
7	_	_	-	_	_	_		
	46,568		-	_	(7,477,394)	(9,053,173)		
	_	_	_	_	17,955,929	15,067,991		
7	_	_	_	_	(1,233,956)	(1,169,941)		
	_		_	_	16,721,972	13,898,050		
-	-	_	-	_	17,955,928	15,067,991		
-	_		_	_	3,238,571	76,368		
	_	<u> </u>	_	_	21,194,499	15,144,359		
-	-	_	-	_	(1,196,908)	(1,334,761)		
	_		_	_	19,997,591	13,809,598		
	3,499,015	3,655,522	(20,504,884)	(14,829,847)	1,444,398,017	1,294,737,201		
•	-	_	_	_	_	_		
	3,499,015	3,655,522	(20,504,884)	(14,829,847)	1,444,398,017	1,294,737,201		
	3,046,643	3,082,113	(18,514,637)	(12,927,652)	1,359,206,909	1,221,936,572		
	3,499,015	3,655,522	(20,504,884)	(14,829,847)	1,444,398,017	1,294,737,201		

49. FINANCIAL RISK MANAGEMENT

Introduction

As a financial intermediary, the Bank is exposed to array of risks through its daily operations and proactive identification and management of these exposures is critical in ensuring the sustainable creation of value. The Bank's key risk exposures include credit, market, liquidity and operational risks. 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.

Risk Management Framework

The Group's Board of Directors holds apex 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. In addition to the BIRMC, the BECC (Board Executive Credit Committee), BAC (Board Audit Committee) and the BIC (Board Investment Committee) also support the Board in discharging its risk-related duties. At an executive level the ALCO (Assets and Liabilities Management Committee) and the ORMC (Operational Risk Management Committee) also play a critical role in ensuring the effective implementation of the Bank's the 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. The Group's Risk Management Framework has been formulated to ensure that growth and risk considerations are aptly balanced and risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The framework is based on the three lines of defense model, which ensures clear identification and judicious segregation of duties, which has enabled the Group to manage its risks in a transparent and standardised manner.

Risk Appetite: The risk appetite is set by the Board of Directors and clearly demonstrates the type and quantum of risk the organisation is willing to take, in pursuit of its strategic and financial objectives. It is expressed in the form of tolerance limits and risk trigger points across a range of variables.

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) and operates independently of business units as well as profit and volume targets. Three separate units have been established under the RMU with specific responsibilities for handling Credit, Market and Operational Risks.

Credit Risk

Credit risk is defined as potential losses 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 as well as 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.

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 at a business unit level. The primary responsibility for managing credit risk lies with the business units, complemented by independent review by the Credit Control Department.

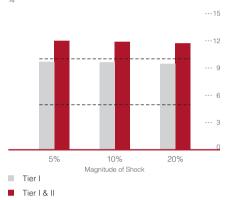
Key aspects of the Group's credit policies include delegated approval authority at multiple levels, a comprehensive credit appraisal mechanism which includes welldefined credit criteria and prudential limits in line with the defined risk appetite among others. Borrowers are assessed primarily on repayment capacity and internally developed risk rating scorecards and a 9-point rating scale is used for evaluating credit worthiness. Tailor-made scorecards have been developed for assessing corporates, SME borrowers and financial institutions. The internal credit rating models in place represent diverse risk factors and are able to predict the probability of default and loss given default.

Stress Testing

i. Increase in NPL

Magnitude of Shock	Revised CAR		
	Tier I Tier I + Tier		
5%	9.71%	12.01%	
10%	9.63%	11.93%	
20%	9.47%	11.77%	

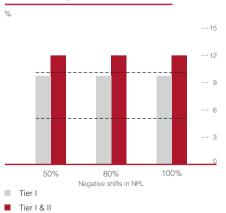
Effect of Increase in NPLs on CAR



ii. Negative Shifts in NPL Categories

Negative Shifts in NPL	Revised CAR				
	Tier I	Tier I + Tier II			
50%		12.02%			
80%		11.98%			
100%		11.96%			

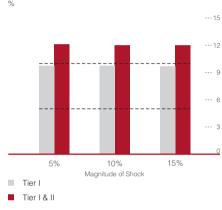
Effect of Negative Shifts in NPL Categories on CAR



iii. Fall in Forced Sale Value of Mortgaged Collateral

Magnitude of Shock	Revised CAR		
	Tier I Tier I + Tier		
5%		12.04%	
10%	9.70%	12.00%	
15%	9.66%	11.95%	

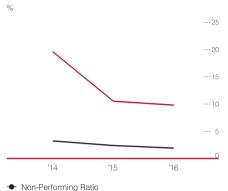
Effect of Fall in FSV of Mortgaged Collateral on CAR



Credit Quality Analysis

Credit Indicator	2014 %	2015 %	2016
Non-Performing Ratio NPLs	3.20	2.45	1.95
Overdue Ratio %	19.59	10.5	9.78
Provision Coverage	84.3	98.3	110.4
Industry Average NPLs	4.2	3.2	2.7

Analysis of NPL % and Overdues Ratio %



- North Chomming Hadio
- Overdue Ratio

Collaterals Held and Other Credit Enhancements

We adopt a stringent approach towards collateral valuation, and these are regularly reviewed and updated to ensure that valuations reflect market conditions. The Bank maintains a relatively diverse collateral portfolio thereby limiting 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 defines exposure limits for particular sectors and products and these are monitored by the Risk Department, BIRMC and Board on a regular basis. Limits are reviewed and modified in the context of emerging risks and opportunities presented by the operating landscape.

Adherence to Credit Concentration Risk Limits

	Q4 – 2016	HHI Threshold
Individual Customer (with GOSL)	0.12	
Individual Customer (without GOSL)	0.05	0.15
Industry Segment (with GOSL)	0.20	
Industry Segment (without GOSL)	0.14	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 judgment 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 judgments on the effect of concentration of risks and economic data.

	2016 Rs. '000	2015 Rs. '000
Individually Significant Impaired Loans		
Amortised Cost	61,578,045	56,942,293
Allowances for Impairment	(43,589,172)	(42,741,371)
Carrying Amount as at 31st December	17,988,873	14,200,922
Collectively Assessed Loans		
Amortised Cost	889,245,904	772,291,678
Allowances for Impairment	(16,706,676)	(17,977,941)
Carrying amount as at 31st December	872,539,228	754,313,737

Liquidity Risk

Liquidity risk is the potential loss of earnings and/or erosion of capital arising from the inability to meet the Bank's contractual obligations as and when they are due. The inherent mismatch between its asset and liability maturity profile renders Banks inevitably vulnerable to liquidity risks and the management of such risks are a vital element of the Bank's operations.

The Bank's Liquidity Risk Management Framework aims to ensure that the Bank maintains the quantity of funds that are required to meet its contractual obligations on a timely basis. The ALCO is the main governance committee overseeing the management is liquidity risks and continuously monitors the Bank's liquidity position to ensure that compliance to internal targets as well as regulatory requirements.

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 Interbank lines), statutory liquid asset ratio and cumulative mismatches.

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturity Maturity Profile of Assets and Liabilities (Rs. '000) as at 31st December 2016

	1 – 3 M	3 – 12 M	1 – 3 Years	3 – 5 Years	Over 5 Years	Total			
						2016	2015		
Assets									
Cash and Cash Equivalents	64,008,639	_	_	-	_	64,008,639	31,164,235		
Balances with Central Bank	18,340,380	21,975,095	7,562,901	7,125,655	8,045,486	63,049,516	42,947,711		
Placements with Banks	32,772,978	_	_	_	_	32,772,978	8,097,147		
Derivative with Banks	15,057	_	_	_	_	15,057	4,109		
Other Financial Assets Held for Trading	29,534,617	17,380,694	_	_	_	46,915,311	93,400,763		
Loans and Receivables to Banks	12,638,762	19,177,281	7,555,529	6,975,298	25,181,160	71,528,031	111,406,452		
Loans and Receivables to Other Customers	157,353,321	238,758,256	94,066,767	86,842,867	313,506,890	890,528,101	768,514,659		
Financial Investments – Available-for-Sale	1,525,839	_	_	_	_	1,525,839	3,533,745		
Financial Investments – Held-to-Maturity	38,174,562	9,640,898	27,843,044	13,190,230	7,323,000	96,171,734	86,604,889		
Investments in Subsidiaries	<u> </u>	_	_	_	1,325,766	1,325,766	1,475,766		
Investments in Associates	_	_	_	_	_	_	_		
Goodwill and Intangible Assets	<u> </u>	_	_	_	110,514	110,514	126,889		
Property, Plant and Equipment	-	_	_	<u> </u>	17,224,026	17,224,026	16,303,749		
Investment Properties	_	_	_	_	184,006	184,006	185,712		
Prepaid Leases	_	_	_	_	512,184	512,184	536,321		
Deferred Tax Assets	_	_	_	_	_	_	_		
Other Assets	9,992,868	1,750,937	1,922,917	1,862,131	647,891	16,176,745	12,293,016		
Total Assets 2016	364,357,024	308,683,162	138,951,158	115,996,182	374,060,922	1,302,048,447			
Total Assets 2015	324,597,604	266,586,507	163,751,945	146,407,585	275,251,523		1,176,595,164		

	1 – 3 Months	3 – 12 Months	1 – 3 Years	3 – 5 Years	Over 5 Years	To	otal
	_					2016	2015
Liabilities							
Due to Banks	85,550,955	21,373,321	_	_	-	106,924,276	143,923,634
Derivative with Banks	72,181	_	_	_	_	72,181	112,149
Due to Other Customers	304,565,956	351,141,312	108,350,130	102,250,071	211,504,658	1,077,812,127	899,237,880
Other Borrowings	21,750,560	5,433,974	_	_	_	27,184,535	48,159,100
Debt Securities Issued	_	_	_	_	_	_	_
Current Tax Liabilities	2,432,266	_	_	_	_	2,432,266	3,845,472
Deferred Tax Liabilities	_	_	_	_	63,479	63,479	361,106
Other Provisions	_	_	_	_	_	_	_
Other Liabilities	8,402,984	6,159,032	477,254	339,728	_	15,378,998	16,428,542
Due to Subsidiaries	_	_	_	_	_	_	_
Subordinated Term Debts	_	2,500,894	5,002,486	5,028,348	_	12,531,728	15,032,542
Stated Capital	_	_	_	_	7,201,998	7,201,998	7,201,998
Statutory Reserve Fund	_	_	_	_	4,902,255	4,902,255	4,152,518
Other Reserve	_	_	_	_	21,195,855	21,195,855	21,846,751
Retained Earnings	_	_	_	_	26,348,748	26,348,748	16,293,473
Total Liabilities 2016	422,774,903	386,608,533	113,829,871	107,618,146	271,216,994	1,302,048,447	
Total Liabilities 2015	397,223,718	344,880,406	99,398,822	94,426,986	242,573,145		1,176,595,162
NET 2016	(58,417,879)	(77,925,371)	25,121,287	8,378,035	102,843,928		
NET 2015	(72,626,114)	(78,293,899)	64,353,123	51,980,599	32,678,378		
Total Equity and Liabilities 2016	364,357,024	308,683,162	138,951,158	115,996,182	374,060,922	1,302,048,447	
Total Equity and Liabilities 2015	324,597,604	266,586,507	163,751,945	146,407,585	275,251,523		1,176,595,162
Cumulative Gap	(58,417,879)	(77,925,371)	25,121,287	8,378,035	102,843,928		
Cumulative Liabilities	364,357,024	446,454,568	585,405,726	701,401,907	1,075,462,829		
Cumulative Gap as a % of Cumulative Liabilities	-16%	-17%	4%	1%	10%		
Maturity Gap Limits	-40%	25%	10%	10%	0%		

Liquidity Shock – Fall in Liquid Liability (SLRs)

DBU	Balance as at 31.12.2016	Scenario 1	Scenario 2	Scenario 3
Magnitude of Shock		5%	10%	15%
Liquid Assets (Rs. million)	229,148	229,148	229,148	229,148
Total Liabilities (Rs. million)	1,054,427	1,054,427	1,054,427	1,054,427
Fall in the Liabilities (Rs. million)		52,721	105,443	158,164
Revised Liquid Liabilities (Rs. million)	***************************************	1.001,706	948,984	896,263
Revised Liquid Assets (Rs. million)		176,427	123,705	70,984
Liquid Asset Ratio After Shock	21.73%	17.61%	13.04%	7.92%

Liquidity Shock-Fall in Liquid Liability (USD)

OSBU	Balance as at 31.12.2016	Scenario 1	Scenario 2	Scenario 3
Magnitude of Shock		5%	10%	15%
Liquid Assets (US \$ '000)	202,041	202,041	202,041	202,041
Total Liabilities (US \$ '000)	899,586	899,586	899,586	899,586
Fall in the Liabilities (US \$ '000)		44,979	89,959	134,938
Revised Liquid Liabilities (US \$ '000)		854,606	809,627	764,648
Revised Liquid Assets (US \$ '000)		157,062	112,082	67,103
Liquid Asset Ratio After Shock	22.46%	18.38%	13.84%	8.78%

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	30%	3%	-1%	-14%	-17%	-9%	-8%	0%
Scenario I	-14%	-26%	-22%	-18%	-19%	-11%	-10%	0%
Scenario II	-17%	-27%	-23%	-18%	-19%	-11%	-10%	0%
Scenario III	-24%	-31%	-25%	-20%	-20%	-11%	-10%	0%

Effect of Hot Money/Retail Funds Withdrawals on Gap in 'Up to 1 Month' time Band



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. The Bank's exposure to market risk stems primarily from the interest rate risk of its trading and non-trading books, exposure to gold prices stemming from its relatively significant 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. At an executive level, the Asset Liability Management Committee (ALCO) is vested with the responsibility of implementing the Market Risk Management Framework and ensuring 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 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

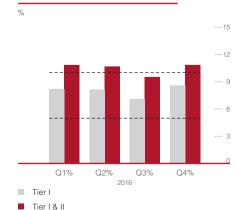
Interest rate risk is the potential loss to earnings and capital resulting from the Bank's exposure to assets of which the value fluctuates in line with changes in interest rates and credit spreads. The Bank's exposure to interest rate risk arises from its lending portfolio, trading securities and deposit 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

2016	Revis	ed CAR
	Tier I	Tier I + Tier II
Q1		10.82%
Q2	8.10%	10.71%
Q3	7.09%	9.54%
Q4	8.59%	10.89%

Effect of 1% Interest Rate Increase on CAR



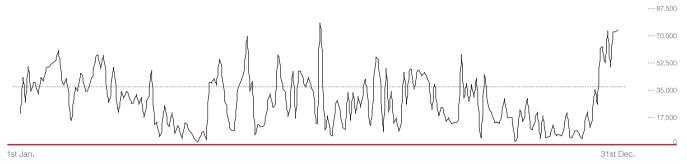
Foreign Exchange Risk

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

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.

Daily Value at Risk for Year 2016

US.\$



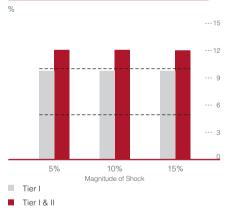
Exchange Rate Shock Stress Test

Magnitude of Shock	Revis	ed CAR			
	Tier I Tier I + Tier				
5%		12.07%			
10%	9.76%	12.06%			
15%	9.75%	12.04%			

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 CAR				
	Tier I Tier I + Tier I				
5%		12.08%			
10%	9.77%	12.07%			
20%	9.75%	12.05%			

Effect of Adverse Movements in Exchange Rates on CAR

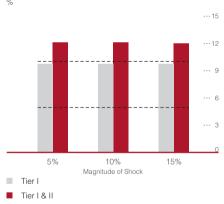


Equity Risk

Equity risk arises from exposures to changes in fluctuations in the value of equity investments held by the Bank. The Bank's equity risk exposure stems primarily from its available-for-sale investment portfolio and excludes strategic investments by the Bank in subsidiaries.

The Board Investment Committee 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

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. According to Basel II definitions, 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 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 dedicated Operational Risk Management Committee. 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 II Accord and the Bank is required to maintain a CAR of not less than 5% with core capital (Tier I) in relation to total risk-weighted assets and a minimum overall CAR of 10% inclusive of Tier I and Tier II (Supplementary Capital) in relation to total risk-weighted assets.

The details of the computation of the capital and the ratios as at 31st December 2015 and 31st December 2016 are given below:

CAPITAL ADEQUACY

Computation of Risk-Weighted Assets

On-Balance Sheet			Bank					Group		
Exposures	Balance Risk Weight			Risk-Weight	ed Balance	Bala	nce	Risk Weight	Risk-Weighted Balance	
As at 31st December	2016 Rs. '000	2015 Rs. '000	%	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	%	2016 Rs. '000	2015 Rs. '000
Assets										
Claims on Government of Sri Lanka & Central Bank of Sri Lanka	231,026,166	219,495,737	0	-	-	237,322,843	227,073,856	0	_	-
Claims on Foreign Sovereigns & their Central Banks	_	_	0-150	-	_	_	_	0-150	-	_
Claims on Public Sector Entities (PSEs)	54,122,141	64,674,803	20-150	54,122,141	64,674,803	54,122,141	64,674,803	20-150	54,122,141	64,674,803
Claims on Official Entities & Multilateral Development Banks (MDBs)	_	_	0-150	_	_	_	_	0-150	_	
Claims on Banks	60,499,642	37,226,258	20-150	16,206,123	12,678,030	63,869,916	39,069,414	20-150	17,141,125	13,046,661
Claims on Financial Institutions	12,471,163	10,285,202	20-150	3,374,067	3,832,711	1,755,699	2,269,588	20-150	1,715,699	2,229,588
Claims on Corporates	73,845,280	44,731,140	20-150	63,962,678	42,242,704	73,845,280	44,731,140	20-150	63,962,678	42,242,704
Retail Claims	278,731,664	181,115,899	75-100	219,337,089	167,099,753	413,446,229	282,381,746	75-100	354,051,654	268,365,600
Claims Secured by Residential Property	85,553,941	84,791,851	50-100	42,776,971	42,395,926	85,553,941	84,791,851	50-100	42,776,971	42,395,926
Claims Secured by Commercial Real Estate	<u> </u>	_	100	_	_	_	_	100	-	_
Non-Performing Assets (NPAs)	5,123,452	5,479,814	50-150	6,833,290	7,354,505	5,123,452	5,479,814	50-150	6,833,290	7,354,505
Cash Items	35,216,706	21,872,683	0-20	340,888	145,706	35,736,229	22,758,024	0-20	340,888	145,706
Property, Plant & Equipment	17,920,219	17,025,783	100	17,928,696	17,025,783	24,137,157	23,418,025	100	24,137,157	23,418,025
Other Assets	5,673,726	3,703,127	100	5,673,726	3,703,127	7,876,331	4,733,899	100	7,876,331	4,733,899
Total	860,184,100	690,402,298		430,555,669	361,153,048	1,002,789,218	801,382,160		572,957,934	468,607,417

Off-Balance Sheet			Bank					Group				
Exposures	Balance		Credit	Credit Credit Equivalent		Bala	Balance Cr			Credit Equivalent		
	2016 Rs. '000	2015 Rs. '000	Conversion Factor (%)	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000		Conversion Factor (%)	2016 Rs. '000	2015 Rs. '000		
Instruments												
Direct Credit Substitutes	12,025,934	9,109,861	100	12,025,934	9,109,861	12,025,934	9,109,861	100	12,025,934	9,109,861		
Transaction Related Contingencies	26,379,227	18,936,531	50	13,189,614	9,468,266	26,379,227	18,936,531	50	13,189,614	9,468,266		
Short-Term Self- Liquidating Trade- Related Contingencies	58,851,071	74,395,196	20	11,770,214	14,879,039	58,851,071	74,395,196	20	11,770,214	14,879,039		
Sale and Repurchase Agreements and Assets Sale with recourse where the Credit Risk Remains with the Bank	_	_	100	_	_	_	_	100	_	_		
Obligations under an Ongoing Underwriting Agreement	_	_	50	_	_	_	_	50	_	_		
Other Commitments with an Original maturity of up to one Year or Which can be Unconditionally Cancelled at any time	18,690,495	6,597,534	0-20	3,738,099	1,319,507	18,690,495	6,597,534	0-20	3,738,099	1,319,507		
Commitments with an Original maturity up to 1 year	_	_	20	_		_	_	20	_	_		
Other Commitments with an Original Maturity of over one year	_	_	50	_	-	_	_	50	_	_		
Foreign Exchange Contracts	15,283,877	6,897,760	0-5	305,678	137,955	15,283,877	6,897,760	0-5	305,678	137,955		
Interest Rate Contracts			0-3					0-3				
Total	131,230,604	115,936,882		41,029,539	34,914,628	131,230,604	115,936,882		41,029,539	34,914,628		

Computation of Capital	Bai	nk	Group			
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000		
Tier I: Core Capital						
Paid-up Ordinary Shares/Common Stock/Assigned Capital	7,201,998	7,201,998	7,201,998	7,201,998		
Statutory Reserve Fund	4,902,253	4,152,518	4,902,253	4,152,518		
Published Retained Profits	29,058,070	22,404,508	46,002,961	37,635,137		
General & Other Reserves	10,078,873	10,703,873	10,078,873	10,703,873		
Minority Interest			7,631,326	6,223,858		
Deductions – Tier I	858,937	882,178	814,312	717,122		
Net Deferred Tax Assets						
Other Intangible Assets	110,514	126,889	428,324	462,355		
50% of Investments in Unconsolidated Banking and Financial Subsidiary Companies	660,408	660,408				
50% Investments in the Capital of Other Banks and Financial Institutions	88,015	94,881	375,988	254,767		
Total Eligible Core Capital (Tier I)	50,382,257	43,580,719	75,003,099	65,200,262		
Tier II: Supplementary Capital						
Revaluation Reserves (as approved by Central Bank of Sri Lanka)	5,179,916	5,179,916	5,179,916	5,179,916		
General Provisions	6,433,369	5,524,594	7,075,574	6,252,700		
Approved Subordinated Term Debt	960,000	1,940,000	960,000	1,940,000		
Deductions – Tier II						
50% of Investments in Unconsolidated Banking and Financial Subsidiary Companies	660,408	660,408				
50% Investments in the Capital of Other Banks and Financial Institutions	88,018	94,881	375,988	254,767		
Total Eligible Supplementary Capital (Tier II)	11,824,859	11,889,221	12,839,502	13,117,849		
Total Capital Base	62,207,116	55,469,940	87,842,601	78,318,111		

	Ва	nk	Gr	oup
Computation of Ratios	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Total Risk-Weighted Assets for Credit Risk	430,547,192	361,153,048	572,957,933	468,607,417
Total Risk-Weighted Assets for Market Risk	9,058,972	10,016,183	9,669,792	10,362,889
Total Risk-Weighted Assets for Operational Risk	75,063,357	70,798,307	94,398,530	87,887,959
Total Risk-Weighted Assets (RWA)	514,669,521	441,967,537	677,026,255	566,858,265
Core Capital Ratio – Tier I (Minimum Requirement 5%) Core Capital Total Risk-Weighted Assets	9.8%	9.9%	11.08%	11.50%
Total Capital Ratio (Minimum Requirement 10%)	12.1%	12.6%	12.97%	13.82%
Total Capital Base Total Risk-Weighted Assets x 100				

Note: The Above Report has Being Prepared in Accordance with the Basel II Guidelines set out by the Central Bank of Sri Lanka.

50. NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX

	Ban	k	Grou	р
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Depreciation of Property Plant & Equipment	955,723	847,134	1,192,618	1,125,098
Amortisation of Leased Hold Properties	66,542	67,737	66,866	72,319
Amortisation of Prepayment Leases	24,136	24,350	24,136	24,350
Amortisation of Intangible Assets	34,186	30,867	49,508	45,325
Depreciation of investment property	1,707	1,707	1,707	1,707
Impairment Losses on Loans & Advances	1,246,748	3,739,914	692,083	3,768,281
Other Impairments	_	_	670,170	2,006,139
Gain on Fair Valuation of AFS Instruments	(9,315)	-	(9,315)	_
Profit on Sale of Fixed Assets	(98,471)	(62,145)	(131,611)	(68,455)
Changes in Derivative Financial Instruments	(50,916)	112,896	(30,124)	(8,120)
Changes in Fair Value of Trading Securities	365,143	280,232	365,143	280,232
Premium Amortisation of Held-to-Maturity Investments	288,849	289,381	288,849	289,381
	2,824,333	5,332,075	3,180,031	7,534,618

51. CHANGES IN OPERATING ASSETS

	Ва	nnk	Gre	oup
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Changes in Derivative Financial Instruments				
Net Increase in Debt Securities, Treasury Bills and Bonds and Equity Shares				
Held at fair Value through Profit or Loss	46,120,310	(33,792,529)	46,152,364	(33,940,396)
Net Increase in Balance with Central Bank	(20,101,805)	637,161	(20,101,805)	637,161
Net Increase in Placement with Bank	(24,675,831)	5,584,278	(24,675,831)	5,584,278
Net Increase in Loans & Receivable to Banks	39,878,421	18,082,404	40,114,028	20,686,277
Net Increase in Loans an receivable to Customers	(123,260,188)	(145,045,512)	(144,832,872)	(149,554,464)
Net Increase/(Decrease) in Financial Investments Available-for-Sale	1,994,619	(91,543)	2,236,468	249,430
Change in Other Assets	(3,883,726)	(1,722,610)	(4,931,985)	(3,233,868)
	(83,928,201)	(156,348,351)	(106,039,634)	(159,571,583)

52. CHANGES IN OPERATING LIABILITIES

	Bank		Gro	oup
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Changes in Due to Banks	(36,999,355)	168,691	(32,565,210)	239,486
Change in Deposits from Banks, Customers & Debt Securities Issued	178,574,247	105,896,147	186,847,347	100,944,040
Change in Other Borrowings	(20,974,565)	34,716,204	(20,811,439)	31,716,610
Change in Other Provisions	-	_	_	-
Change in Other Liabilities	525,345	(1,866,236)	1,849,368	99,563
Change in Due to Subsidiaries	_	_	_	_
Total	121,125,671	138,914,805	135,320,066	132,999,699

OTHER INFORMATION

	INCOME STATEMENT US \$	234
ST	ATEMENT OF FINANCIAL POSITION US \$	235
	PERFORMANCE REVIEW 2007-2016	236
EXTERNAL AS	SURANCE ON SUSTAINABILITY REPORT	238
GRI CONTENT I	NDEX 'IN ACCORDANCE' OPTION: CORE	239
GI C	SSARY OF FINANCIAL /BANKING TERMS	2/.2

INCOME STATEMENT - US \$

	BANK GROUP					
	2016 US \$ '000	2015 US \$ '000	Change %	2016 US \$ '000	2015 US \$ '000	Change %
Gross Income	812,787	718,686	13.1	963,445	858,624	12.2
Interest Income	731,956	641,284	14.1	863,331	765,224	12.8
Interest Expenses	(444,923)	(337,900)	31.7	(506,594)	(388,441)	30.4
Net Interest Income	287,034	303,384	(5.4)	356,736	376,783	(5.3)
Fee and Commission Income	26,278	25,739	2.1	29,054	27,995	3.8
Fee and Commission Expenses	(1,391)	(1,210)	14.9	(1,391)	(1,210)	14.9
Net Fee and Commission Income	24,888	24,530	1.5	27,663	26,785	3.3
Net Gain/(Loss) from Trading	18,744	21,354	(12.2)	18,648	21,357	(12.7)
Other Operating Income (Net)	35,809	30,309	18.1	52,413	44,049	19.0
Total Operating Income	366,474	379,576	(3.5)	455,460	468,973	(2.9)
Impairment for Loans and Other Losses	(8,298)	(25,932)	(68.0)	(9,067)	(35,833)	(74.7)
Net Operating Income	358,175	353,644	1.3	446,393	433,140	3.1
Personnel Expenses	(116,316)	(118,266)	(1.6)	(134,964)	(132,059)	2.2
Other Expenses	(67,180)	(59,474)	13.0	(101,223)	(89,653)	12.9
Operating Profit/(Loss) before Value Added Tax (VAT)	174,680	175,905	(0.7)	210,206	211,428	(0.6)
Value Added Tax (VAT) on Financial Services	(36,145)	(40,559)	(10.9)	(40,923)	(44,175)	(7.4)
Operating Profit/(Loss) after Value Added Tax (VAT)	138,535	135,345	2.4	169,283	167,253	1.2
Share of Profits of Associates		_	***************************************	_	_	
Profit/(Loss) before Tax	138,535	135,345	2.4	169,283	167,253	1.2
Tax Expenses	(38,731)	(47,994)	(19.3)	(49,769)	(62,773)	(20.7)
Profit/(Loss) for the Year	99,804	87,352	14.3	119,514	104,479	14.4
Profit Attributable to:						
Equity Holders of the Bank	99,804	87,352	14.3	111,301	96,367	15.5
Non-Controlling Interests	_	-		8,213	8,112	-
	99,804	87,352		119,514	104,479	

Exchange Rate: 1 US \$ was Rs. 150.24 as at 31st December 2016 (Rs. 144.22 as at 31st December 2015)

The Income Statement and the Statement of Financial Position given on pages 234 and 235 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements.

STATEMENT OF FINANCIAL POSITION - US \$

		BANK		GROUP			
	2016 US \$ '000	2015 US \$ '000	Change %	2016 US \$ '000	2015 US \$ '000	Change %	
Assets							
Cash & Cash Equivalents	426,038	216,088	97.2	450,578	235,007	91.7	
Balances with Central Bank of Sri Lanka	419,654	297,793	40.9	419,654	297,793	40.9	
Placements with Banks	218,135	56,144	288.5	218,135	56,144	288.5	
Derivative Financial Instruments	100	28	251.8	141	172	(18.0)	
Other Financial Assets Held-for-Trading	312,266	647,627	(51.8)	315,864	651,597	(51.5)	
Loans & Receivables to Banks	476,087	772,476	(38.4)	480,595	778,806	(38.3)	
Loans & Receivables to Other Customers	5,927,307	5,328,766	11.2	6,748,606	6,030,928	11.9	
Financial Investments – Available-for-Sale	10,156	24,502	(58.6)	21,687	39,258	(44.8)	
Financial Investments – Held-to-Maturity	640,114	600,505	6.6	672,714	631,599	6.5	
Non-Current Assets Held For Sale	_	_	_	6,928	_	_	
Investments in Subsidiaries	8,824	10,233	(13.8)	_	_	_	
Investments in Associates	_	_	_	_	_	_	
Goodwill & Intangible Assets	736	880	(16.4)	2,917	3,206	(9.0)	
Property, Plant and Equipment	114,642	113,048	1.4	156,022	157,371	(0.9)	
Investment Properties	1,225	1,288	(4.9)	1,225	1,288	(4.9)	
Prepaid Leases	3,409	3,719	(8.3)	3,409	3,719	(8.3)	
Other Assets	107,672	85,238	26.3	115,360	90,626	27.3	
Total Assets	8,666,364	8,158,336	6.2	9,613,835	8,977,515	7.1	
Liabilities							
Due to Banks	711,682	997,945	(28.7)	866,087	1,128,051	(23.2)	
Derivative Financial Instruments	480	778	(38.2)	480	778	(38.2)	
Due to Other Customers	7,173,859	6,235,182	15.1	7,453,017	6,468,630	15.2	
Other Borrowings	180,939	333,928	(45.8)	281,522	437,580	(35.7)	
Current Tax Liabilities	16,189	26,664	(39.3)	19,969	31,242	(36.1)	
Deferred Tax Liabilities	423	2,504	_	15,006	20,333	(26.2)	
Other Liabilities	102,362	113,913	(10.1)	167,613	171,807	(2.4)	
Subordinated Term Debts	83,411	104,233	(20.0)	243,114	214,306	13.4	
Total Liabilities	8,269,345	7,815,146	5.8	9,046,808	8,472,726	6.8	
Equity							
Stated Capital/Assigned Capital	47,936	49,938	(4.0)	47,936	49,938	(4.0)	
Statutory Reserve Fund	32,629	28,793	13.3	32,629	28,793	13.3	
Other Reserves	141,078	151,482	(6.9)	148,228	159,566	(7.1)	
Retained Earnings	175,376	112,977	55.2	287,441	223,337	28.7	
Total Shareholders' Equity	397,020	343,189	15.7	516,234	461,633	11.8	
Non-Controlling Interests	_	_		50,794	43,155	17.7	
Total Equity	397,020	343,189	15.7	567,027	504,789	12.3	
Total Equity & Liabilities	8,666,364	8,158,336	6.2	9,613,835	8,977,515	7.1	
Contingent Liabilities & Commitments	1,507,104	1,258,720	19.7	1,507,189	1,258,809	19.7	

Exchange Rate :1 US \$ was Rs. 150.24 as at 31st December 2016 (Rs.144.22 as at 31st December 2015).

The Income Statement and the Statement of Financial Position given on pages 234 and 235 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements.

PERFORMANCE REVIEW 2007-2016

TEN YEAR SUMMARY - BANK

							Based on	New SLASs		
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
(Sri Lanka Rs. million)										
Assets										
Cash and Short-Term Funds	57,090	39,663	83,973	87,062	52.510	67,814	59,143	80,940	74.112	127,058
Investments	61,095	80,109	84,807	82,688	129,977	175,491	226,075	290,486	304,519	250,240
Loans and Receivables (Net)	238,293	248,626	283,760	357,336	461,656	611,414	619,830	627,209	768,515	890,528
Property, Plant and Equipment	8,414	8,362	7,939	8,385	7,523	8,235	14,706	14,947	16,304	17,224
Other Assets	15,691	20,787	15,766	12,144	10,412	10,343	10,832	13,186	13,146	16,999
Total Assets	380,584	397,547	476,245	547,616	662,077	873,296	930,585		1,176,595	
Liabilities										
Customer Deposits	300,956	324,488	396,158	462,140	550,226	683,951	762,249	793,342	899 238	1,077,812
Borrowings	49,063	33,714	36,884	39,132	64,053	135,150	102,148	157,198	192,083	134,109
Other Liabilities	17,670	20,965	20,404	20,505	14,709	14,991	14,619	17,727	20,747	17,947
Subordinated Term Debts	-	2,500	5,000	5,000	10,000	10,000	15,033	15,033	15,033	12,532
Total Liabilities	367,689	381,667	458,445	526,778	638,988	844,092	894,048	983,299	1,127,100	
								-		
Total Equity	12,895	15,880	17,800	20,838	23,089	29,205	36,537	43,470	49,495	59,649
Total Equity and Liabilities	380,584	397,547	476,245	547,616	662,077	873,296	930,585	1,026,769	1,176,595	1,302,048
Contingent Liabilities and Commitments	74,222	138,989	100,867	131,751	190,732	207,021	197,119	182,573	181,533	226,430
Operating Results										
Gross Income	47,984	58,948	69,050	62,532	68,298	94,777	120,456	96,377	103,649	122,114
Total Operating Income	21,442	24,456	30,635	31,897	36,431	43,310	46,530	41,894	54,743	55,060
Total Overheads	15,736	17,159	19,719	21,305	20,421	24,186	22,509	26,093	31,483	32,999
Profit Before Tax	5,002	5,664	6,076	8,771	15,600	15,249	10,304	17,231	19,520	20,814
Income Tax	2,628	2,959	2,755	3,565	5,154	4,355	2,816	3,012	6,922	5,819
Profit After Tax	2,374	2,705	3,320	5,206	10,446	10,894	7,488	14,219	12,598	14,995
Performance Indicators										
Number of Employees										
(Permanent)	8,416	8,587	8,863	8,399	8,249	7,823	7,409	8,156	8,368	8,249
Per Employee										
(Sri Lanka Rs. '000)										
Deposits	35,760	37,788	44,698	55,023	66,702	87,428	102,881	97,271	107,462	130,660
Loans and Receivables	28,314	28,954	32,016	42,545	55,965	78,156	83,659	76,902	91,840	107,956
Gross Earnings	5,702	6,865	7,791	7,445	8,280	12,115	16,258	11,817	12,386	14,804
Profit After Tax	282	315	375	620	1,266	1,393	1,011	1,743	1,505	1,818
		010	0.0	020	1,200	1,000	1,011	1,7 10	1,000	1,010
Per Share										
(Sri Lanka Rs.)										
Profit After Tax	2,374	2,705	3,320	5,206	10,446	10,894	7,488	14,219	12,598	14,995
Total Assets	380,584	397,547	476,245	547,616	662,077	873,296	930,585	1,026,769	1,176,595	1,302,048
Equity	12,895	15,880	17,800	20,838	23,089	29,205	36,537	43,470	49,495	59,649
Return on Assets % (Before Tax)	1.4	1.5	1.4	1.7	2.6	2.0	1.1	1.8	1.8	1.7
Return on Equity %	20.5	18.8	19.7	26.9	49.2	41.7	22.8	35.5	27.1	27.5
Cost/Income Ratio %	68.7	65.4	60.6	60.2	49.2 56.1	55.8	48.4	62.3	57.5	59.9
Capital Adequacy	00.7	00.4	00.0	00.2	50.1	33.0	40.4	02.3	57.5	59.8
Ratio (CAR) %	6.9	10.5	13.4	12.8	14.8	14.0	15.0	14.3	12.6	12.1
Non-Performing Loan (NPL) Ratio (Gross) %	5.9	6.8	6.7	5.0	3.4	2.8	5.3	3.2	2.4	1.9
Fitch Rating	A –	A -	А	AA -	AA	AA+	AA+	AA+	AA+	ААн

TEN YEAR SUMMARY - GROUP

							Based or	New SLASs		
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
(Sri Lanka Rs. million)										
Assets										
Cash and Short-Term Funds	52,397	37,350	74,105	46,257	54,583	69,515	61,174	83,003	76,840	130,745
Investments	65,190	81,418	94,257	126,105	130,333	176,138	229,280	300,366	311,141	256,762
Loans and Receivables (Net)	253,843	267,718	307,193	407,050	534,875	690,197	710,074	722,099	869,781	1,013,921
Property, Plant and Equipment	8,457	8,193	8,170	8,227	9,933	10,923	18,184	19,364	22,696	23,441
Other Assets	16,962	21,995	17,345	15,825	14,665	14,087	12,760	14,425	14,279	19,528
Total Assets	396,849	416,674	501,070	603,465	744,389	960,860	1,031,473	1,139,258	1,294,737	1,444,398
Liabilities										
Customer Deposits	300,584	323,034	396,228	481,094	572,722	708,897	789,225	829,019	932,906	1,119,753
Borrowings	60,636	48,195	52,893	69,716	101,028	174,728	140,865	193,825	225,795	172,419
Other Liabilities	19,436	23,169	24,483	21,518	21,906	21,486	23,153	27,469	32,328	30,509
Subordinated Term Debts	110	2,815	5,246	5,000	10,000	10,000	23,141	24,883	30,907	36,526
Total Liabilities	380,766	397,214	478,849	577,327	705,656	915,111		1,075,196		1,359,207
Total Equity	16,083	19,460	22,221	26,138	38,734	45,749	55,088	64,062	72,801	85,191
Total Equity and Liabilities	396,849	416,674	501,070	603,465	744,389	960,860	1,031,473	1,139,258	1,294,737	1,444,398
Contingent Liabilities and Commitments	74,222	138,989	100,867	131,398	191,045	208,570	197,376	182,597	181,545	226,442
Operating Results										
Gross Income	52,132	64,345	75,560	70,928	79,900	109,974	139,957	118,641	123,831	144,750
Total Operating Income	23,810	27,105	34,069	36,998	42,163	49,618	55,576	54,308	67,635	68,429
Total Overheads	16,428	18,224	21,380	23,386	22,669	27,304	27,264	32,779	38,346	41,633
Profit before Tax	6,260	7,161	7,891	11,370	18,843	17,671	13,412	21,628	24,121	25,433
Income Tax	2,754	3,733	3,717	4,788	6,319	5,775	4,248	4,674	9,053	7,477
Profit After Tax	3,506	3,428	4,174	6,583	12,524	11,897	9,164	16,953	15,068	17,956
		0, .20	.,		12,021					,
Performance Indicators					. 700					
Number of Employees	8,914	9,094	9,327	9,435	9,723	8,905	9,384	10,331	10,331	10,471
Per Employee										
(Sri Lanka Rs. '000)										
Deposits	33,720	35,522	42,482	50,990	58,904	79,607	84,103	80,246	90,302	106,939
Loans and Receivables	28,477	29,439	32,936	43,143	55,011	77,507	75,669	69,896	84,191	96,831
Gross Earnings	5,848	7,076	8,101	7,517	8,218	12,350	14,914	11,484	11,986	13,824
Profit After Tax	393	377	447	698	1,288	1,336	977	1,641	1,459	1,715
Return on Assets % (Before Tax)	1.7	1.8	1.7	2.1	2.8	2.1	1.3	2.0	2.0	1.9
Return on Equity %	25.0	19.3	20.0	27.2	38.6	28.2	18.2	28.5	22.0	22.7
Cost/Income Ratio %	69.0	67.2	62.8	63.2	53.8	55.0	49.1	60.4	56.7	60.8
Capital Adequacy Ratio (CAR) %	7.2	11.9	13.9	12.8	15.7	15.7	15.9	14.9	13.8	13.0
Non-Performing Loan (NPL) Ratio (Gross) %	5.7	6.6	6.4	4.6	2.9	2.6	4.9	3.2	2.4	1.7

EXTERNAL ASSURANCE ON SUSTAINABILITY REPORT



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Independent Assurance Report to People's Bank on the Sustainability Reporting Criteria Presented in the Integrated Annual Report – 2016

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 indicators in the Annual Report – 2016 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 109 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative G4 'In accordance' – Core guidelines.

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 ("CA Sri Lanka").

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 G4 'In accordance' – Core guideline publication, publicly available at GRI's global website at "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 G4 'In accordance' - Core guidelines. This report is made solely to the Bank in accordance with our engagement letter dated 17th January 2017. 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 of Ethics for Professional Accountants issued by the CA Sri Lanka.

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 2016.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative G4 'In accordance' - Core quidelines.

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 109 of the Report are properly derived from the audited Financial Statements of the Bank for the year ended 31st December 2016.
- 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 GRI-G4- 'In accordance' Core Sustainability Reporting Guidelines.

S. mst + Yours

Chartered Accountants

27th March 2017 Colombo

Partners: WRH Fernando FCA FCMA MPD Cooray FCA FCMA RN de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA WKB S Fernando FCA FCMA Ms. KRM Fernando FCA FCMA Ms. LKHL Fonseka FCA A PA Gunasekera FCA FCMA A Herath FCA DK Hulangamuwa FCA FCMA LLB (Lond) HMA Jayesinghe FCA FCMA Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA N M Sulaiman ACA ACMA BE Wijesuriya FCA FCMA

GRI CONTENT INDEX 'IN ACCORDANCE' OPTION: CORE

GENERAL STANDARD DISCLOSURES

Disclosure	GRI Index	Page No.	External Assurance
Strategic and Analysis			
Statement from the most senior decision-maker of the organisation	G4-1	10	Yes
Organisational Profile			
Name of the organisation	G4-3	Inner back cover	Yes
Primary brands, products, and services	G4-4	125	Yes
Report the location of the organisation's headquarters	G4-5	Inner back cover	Yes
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 G4-7	127 and 134 Ownership – 5,	Yes Yes
tatalo oi omiolonip and logali lomi	311	Legal Form – Inner back cover	100
Markets served (including geographic breakdown, sectors served,			
and types of customers and beneficiaries)	G4-8	125 and 127	Yes
Scale of the organisation	G4-9	8 and 9	Yes
Total number of employees by type	G4-10	117	Yes
Percentage of total employees covered by collective bargaining	G4-11	118	Yes
agreements Supply chain	G4-11 G4-12	133	Yes
Significant changes during the reporting period	G4-12	None	Yes
Precautionary approach	G4-14	56	Yes
External charters, principles, or other initiatives	G4-15	2	Yes
Membership associations	G4-16	130	Yes
dentified Materials Aspects and Boundaries			
Entities included in the organisation's consolidated financial statements	G4-17	2	Yes
Process for defining report content and the aspect boundaries	G4-18	2	Yes
Material aspects	G4-19	82	Yes
Material aspect boundaries within the organisation	G4-20	82	Yes
Material aspect boundaries outside the organisation	G4-21	82	Yes
Effects of any restatements	G4-22	None	Yes
Significant changes during the reporting period	G4-23	None	Yes
Stakeholder Engagement			
Stakeholder groups engaged by the organisation	G4-24	80-81	Yes
Basis for identification and selection of stakeholders	G4-25	80-81	Yes
Approach to stakeholder engagement	G4-26	80-81	Yes
Key topics raised during stakeholder engagements	G4-27	80-81	Yes
Report Portfolio			
Reporting period	G4-28	2	Yes
Date of most recent previous report	G4-29	2	Yes
Reporting cycle	G4-30	2	Yes
Contact point for questions regarding the report	G4-31	2	Yes
n accordance option chosen	G4-32	2	Yes
Policy regarding report assurance	G4-33	2	Yes
Governance			
Governance structure of the organisation	G4-34	30	Yes
<u> </u>			
Ethics and Integrity			
Organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	G4-56	83 and 117	Yes



SPECIFIC STANDARD DISCLOSURES

	Disclosure	GRI Index	Page No.	External Assurance
Economic				
Economic Performance	Direct economic value generated and distributed	EC1	109	Yes
	Coverage of the organisation's defined benefit plan obligations	EC3	168	Yes
Market Presence	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	EC5	118	Yes
	Proportion of senior management hired from the local community at significant locations of operation	EC6	117	Yes
Indirect Economic Impacts	Development and impact of infrastructure investments and services supported	EC7	103	Yes
Environment				
Energy Effluents and Waste	DMA		136	Yes
	Energy consumption	EN3	137	Yes
	Mitigation of environment impact of product and services	EN27	138	Yes
Social				
Employment	DMA		115	Yes
	Total number and rates of new employee hires and employee turnover by age group, gender and region	LA1	122 and 123	Yes
	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	LA2	119	Yes
	Return to work and retention rates after parental leave, by gender	LA3	119	Yes
Labour/Management Relation	DMA			
	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	LA4	121	Yes
Training and Education	DMA		120	Yes
	Average hours of training per year per employee by gender and by employee category	LA9	121	Yes
	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	LA10*	121	Yes
	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	LA11	119	Yes
Equal Remuneration for Women and Men	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	LA13*	117	Yes
Labour Practices Grievance Mechanisms	Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms	LA16	118	Yes
Human Rights				
Non-Discrimination	Total number of incidents of discrimination and corrective actions taken	HR3	118	Yes
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	118	Yes

	Disclosure	GRI Index	Page No.	External Assurance
Society				
Local Communities	DMA			
	Percentage of operations with implemented local community engagement, impact assessments, and development programmes	SO1	132 to 133	Yes
	Operations with significant actual or potential negative impacts on local communities	SO2	130	Yes
	FS13		126 to 127	Yes
	FS14	***************************************	126 to 127	Yes
Anti-Corruption	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	SO3	118	Yes
	Communication and training on anti-corruption policies and procedures	SO4	118	Yes
	Confirmed incidents of corruption and actions taken	SO5	118	Yes
Product Responsibility				
Product and Service Labelling	DMA	DMA	129	Yes
	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	129	Yes
	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes	PR4	130	Yes
	Results of surveys measuring customer satisfaction	PR5	128	Yes
Market Communications	Sale of banned or disputed products	PR6	129	Yes
	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	129	Yes
Customer Privacy	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	PR8	130	Yes
Compliance	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	PR9	130	Yes
	FS8		138	Yes
Product Portfolio	FS6		131	Yes

GLOSSARY OF FINANCIAL/BANKING TERMS



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.



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.

Tier 1 Capital (Core Capital)

Core Capital includes selected items of capital funds. Major core capital items are share capital, share premium, statutory reserve funds, retained profits, general reserves, surpluses/losses after tax arising from the sale of fixed and long-term investments.

Tier II Capital (Supplementary Capital)

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

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 realized 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.

Н

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.



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.



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.



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 recognized as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.



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.



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.



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.



Time Deposit

An interest bearing deposit account which is subject to withdrawal only after a fixed term.

Total Capital

Is the sum of Tier I capital (core capital) and Tier II capital (supplementary capital).

Trading Financial Assets and Liabilities

A financial asset or financial liability is classified as held-for-trading is 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.



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)



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 2, Sri Lanka. Cable JANABANK

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.

KPMG, (Chartered Accountants), 32A, Sir Mohamed Macan Marker Mawatha, PO Box 186 Colombo 3, Sri Lanka.

Secretary

Mr. Rohan Pathirage, LLB, MMgt. in Banking, Attorney-at-Law

Corporate Banking Division

P.O. Box 437,

ANCL (Lake House Building), No. 35, D.R. Wijewardena Mawatha, Colombo 10, Sri Lanka.

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Email: infocbd@peoplesbank.lk

SWIFT: PSBKI KI X

Offshore Banking Unit

People's Bank, 1st Floor, Head Office Building, No. 75, Sir Chittampalam A. Gardiner Mawatha, Colombo 02. Sri Lanka.

Tel: +9411 220 6703, +9411 220 6704 Fax: +9411 245 8752, +9411 245 8821 Email: fcbu@peoplesbank.lk

SWIFT: PSBKLKLX

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: PSBKLKLX

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 8.

Tel: +9411 263 1631 Fax: +9411 263 1000

People's Merchant Finance PLC

No. 21, Nawam Mawatha, Colombo 2,

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 Ltd.

No. 53, Dharmapala Mawatha, Colombo 3.

Tel: +9411 220 6406 Fax: +9411 220 6399

People's Leasing Property Development Ltd.

No. 1161, Maradana Road, Borella,

Colombo 8.

Tel: +9411 263 1631 Fax: +9411 263 1000

People's Leasing Fleet Management Ltd.

No. 1161, Maradana Road, Borella,

Colombo 8.

Tel: +9411 263 1631 Fax: +9411 263 1000

People's Microfinance Ltd.

No. 1161, Maradana Road, Borella,

Colombo 8.

Tel: +9411 263 1631 Fax: +9411 263 1000

People's Leasing Havelock Properties Ltd.

No. 1161. Maradana Road. Borella.

Colombo 8.

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