

An abstract graphic of a globe on the left side of the page, composed of a network of black lines and dots of varying sizes, suggesting a global network or data flow. The lines curve and connect across the globe and extend towards the right side of the page.

IN A NEW *Light*

Annual Report 2015 >>



**PEOPLE'S
BANK**
THE PULSE OF THE PEOPLE >>

IN A NEW
Light

WITH THE GOAL TO BECOME A MORE DIGITALLY ADVANCED INSTITUTION, WE AT PEOPLE'S BANK HAVE LAID THE FOUNDATION TO COMPLETELY CHANGE THE WAY SRI LANKANS HAVE INTERACTED WITH US. With advances in our technology within the bank as well as increasing the avenues through which we will engage with our stakeholders, we aspire to deliver a refined and comprehensive solution for all your banking needs. Faster and easier, yet dedicated to the heritage of being the preferred bank by customers all over the island.

A greater banking experience awaits as you see us in a new light...



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Our Vision

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



Our Mission

- » We are in the business of providing financial services that contribute 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

About the Bank

(G4-6)

(G4-7)

(G4-8)

(G4-9)

People's Bank was established through the People's Bank Act No 29 of 1961, as a Licensed Commercial Bank under the Banking Act. People's Bank was created with the aim of channelling banking services into the rural economy. Today, People's Bank has grown into the country's second largest bank in terms of assets and has the largest network of bank branches in Sri Lanka. Based on the concept of inclusive banking, the Bank serves communities of all socio-economic strata covering primary, secondary and tertiary

sectors. The Bank's product range has expanded over the years to meet the needs of corporates, small and medium enterprises, micro businesses, minors, youth, adults and senior citizens.

People's Bank is a Government owned Bank and comprises three subsidiaries. The subsidiaries are, People's Leasing Finance PLC, People's Travels (Pvt) Ltd and People's Merchant Finance PLC. At present the People's Bank's business operations are limited to Sri Lanka.



**OVER 54 YEARS IN
BANKING SERVICES**



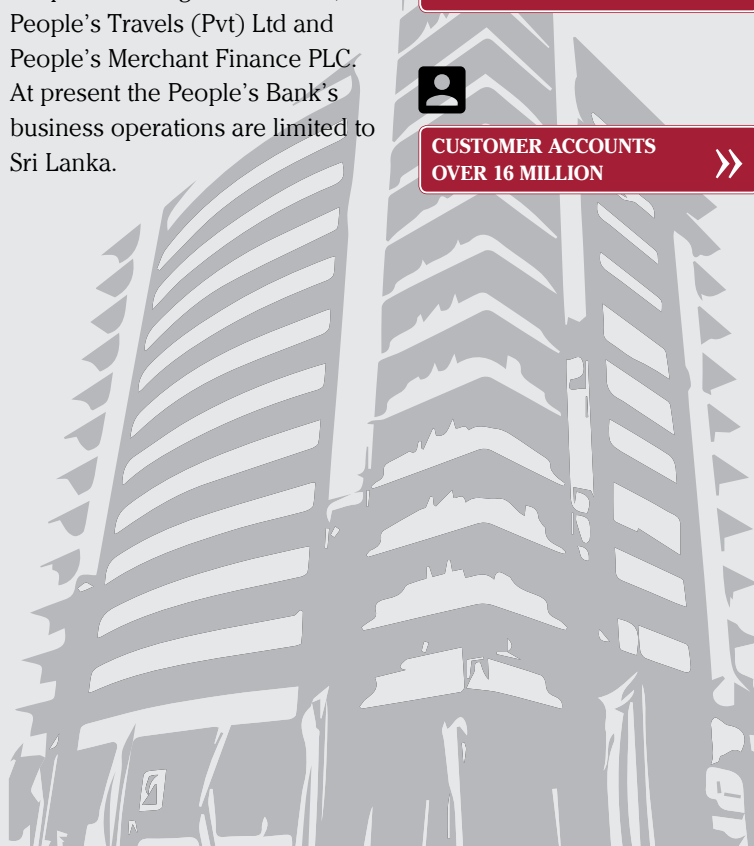
**NUMBER OF OUTLETS
INCREASED TO 740**



**NUMBER OF ATMs
INCREASED TO 492**



**CUSTOMER ACCOUNTS
OVER 16 MILLION**



FINANCIAL HIGHLIGHTS

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	Bank			Group		
	2015	2014	Change %	2015	2014	Change %
Financial Performance - Rs. Mn						
Gross income	103,649	96,377	7.5	123,831	118,641	4.4
Total operating income	54,743	41,894	30.7	67,635	54,308	24.5
Profit before tax	19,520	17,231	13.3	24,121	21,628	11.5
Provision for taxation	6,922	3,012	129.8	9,053	4,674	93.7
Profit after tax	12,598	14,219	(11.4)	15,068	16,953	(11.1)
Financial Position - Rs. Mn						
Gross loans & receivables	829,234	685,310	21.0	933,290	782,301	19.3
Deposits	899,238	793,342	13.3	932,906	829,019	12.5
Total assets	1,177,143	1,026,769	14.6	1,295,366	1,139,258	13.7
Shareholders' fund (Capital & Reserves)	49,495	43,470	13.9	72,801	64,062	13.6
Key Performance Indicators						
Return on Asset (%) - before tax	1.8	1.8	-	2.0	2.0	-
- after tax	1.1	1.5	-	1.2	1.6	-
Return on Equity (%)	27.1	35.5	-	22.0	28.5	-
CASA/Total deposits (%)	47.8	46.3	-	46.3	44.7	-
Statutory Ratios						
Capital Adequacy Ratios (%)						
Core Capital Ratio - Minimum requirement 5%	9.9	10.9	-	11.5	12.4	-
Total Capital Ratio - Minimum requirement 10%	12.5	14.3	-	13.8	14.9	-
Statutory Liquidity Assets Ratio (%)						
Domestic Banking Unit - Minimum requirement 20%	25.9	30.3	-	N/A	N/A	-
Off-Shore Banking Unit - Minimum requirement 20%	21.7	21.8	-	N/A	N/A	-

19.5 Bn
Profit Before Tax

12.6 Bn
Profit After Tax

899 Bn
Total Deposits

829 Bn
Gross Loans & Advances

1.8%
ROA (Before Tax)

47.8%
CASA/ Total Deposits

NON FINANCIAL HIGHLIGHTS

Customers



Over **16.7 Mn** Customer Accounts

740 Branches and over **3,000** ATMs



Employees



Over **8,300** Permanent Employees

21.6 Average Training Hours Per Employee Per Year

5% Employee Turnover Ratio



Government



Rs. 16.8 Bn in Taxes & Dividend Paid to the Government of Sri Lanka



IT Infrastructure



Commenced Digitization

Initiated Data Warehouse Project

Initiated E-Supply Chain Management

Upgraded ATM Infrastructure to an Enterprise Strength Hardware Platform

Upgraded POS Infrastructure by Introducing Latest POS Hardware



Environment



Adopted "Green Banking and Green Building Concepts"

Introduction of a Sustainability Policy for Organizational Operations

OUR MILESTONES

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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.

1967 »

The Bank commenced a new Agriculture Credit Scheme becoming the pioneer lender to the small farm sector.

70's

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 Marandagamula.

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 program brought our total branch count to 158.

1977 »

Our 200th branch opened at Kollupitiya. The Head Office was relocated to a building in Fort. The total number of employees reached 5,000. The first fisheries bank was opened at Korallawella.

80's

1981 »

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

1982 »

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

1984 »

The People's Merchant Bank, a subsidiary of the Bank, was established. Our branch at Slave Island was merged with the International Division and the Fort Foreign Branch.

1986 »

The process of computerization began at our Head Office and selected city branches and a Black Light System was introduced. Customer turnaround time was thereby significantly reduced.

1987 »

Our Headquarters Branch became the Bank's first fully-automated branch. A special loan scheme for rural electrification was implemented in collaboration with the CEB.

1989 »

The Bank participated in a loan scheme sponsored by the Ministry of Labour to provide for housing against EPF balances. A scheme was launched in association with the Sri Lanka Foreign Employment Bureau to provide loans for job seekers abroad. The Bank participated in a loan scheme launched by REPIA to provide credit to those affected by civil unrest in 1983. A Janasaviya associated loan scheme was introduced during the year. The Bank also commenced issuing Negotiable Savings Certificates during the year.

90's

1990 »

An Endowment Savings Deposit Scheme was introduced. The People's Visa Card was introduced in association with Visa International and 24 branches were fully-computerised.

1991 »

The first ATM was installed at our Headquarters Branch.

1992 »

The Bank supported the Government's 200 Garment Factory Program. 'People's Automated Banking System' (PABS) a banking

application developed inhouse, commenced live operations.

1993 »

Three hundred and thirty bank branches were operating throughout the country and 35 main branches were fully automated. 'Vanitha Vasana', a savings scheme for women was introduced.

1994 »

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

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

OUR MILESTONES

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90's

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 decentralized administration and to facilitate better customer service.

1997 »

The 'Surathura' Loan Scheme was launched to assist self-employment projects. The Bank extended its credit

facilities to small and medium scale enterprises and industries under the NDB-funded Small and Medium Enterprises Assistance Project (SMEAP).

1998 »

The total number of ATMs increased to 36, serving over 125,000 PET cardholders. One hundred and seventy five branches were fully-automated and the number of pawning centres increased to 188. A

special credit cum deposit scheme known as 'Videshika' was introduced in collaboration with the Sri Lanka Foreign Employment Bureau to assist migrant workers.

1999 »

The Bank launched 'Isuru Udana', a deposit scheme that encourages parents and guardians to save for the benefit of their young charges.

2000'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.

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 Bn as the first tranche of Equity Capital Investment in the Bank by the Government of Sri

Lanka in keeping with the agreement signed between the Government, ADB and People's Bank. The core banking project was further extended across the branch network. The Bank was also a major intermediary in bringing Government granted financial assistance for rebuilding, after the December 2004 tsunami.

2006 »

The Bank obtained an A-rating from Fitch Ratings Lanka Ltd. indicating progress from its earlier rating level.

People's Bank was awarded the POP Award for 2006 in the Banking and financial services sector by the Sri Lanka Institute of Marketing. The second tranche of capital of Rs. 1 Bn was received from the Government of Sri Lanka.

2007 »

The 16th Chairman of the Bank Mr. W. Karunajeewa assumed duties in May 2007. The rating level of A - from Fitch Ratings was maintained during the year. The Government of Sri Lanka injected the third capital tranche of Rs. 1.5 Bn 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 Bn mark in total deposits during the year 2007.

2008 »

Mr. M. Wickremasinghe assumed office as the 12th CEO/General Manager of the Bank.

The Government of Sri Lanka released the fourth capital tranche of Rs. 1.5 Bn. 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 Bn was made in the year.

A notable advancement in the Bank's remittance service with the introduction of 'People's e-Remittance', a web-based remittance product supported by latest technology to remit money from overseas within minutes. Two new foreign currency deposit products were launched, viz., 'Doo Daru Ethera Isura' a foreign currency deposit product for children and 'Special Foreign Investment Deposit Account' [SFIDA].

2009 »

The 13th CEO/General Manager of the Bank, Mr. P.V. Pathirana assumed duties in January 2009. The Bank issued its second Debenture for Rs. 2.5 Bn 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 Bn. The highest recorded profit before tax of Rs. 6.1 Bn was achieved.

Received a SAFA (South Asian Federation of Accountants) Award for the 2008 Annual Report for the first time in the Bank's history.

2010 »

Mr. H.S. Dharmasiri assumed office as the 14th CEO/ General Manager of the Bank in October 2010.

Branch Network and service centres expanded to 679. ATMs increased to 330.

People's International VISA Debit Card was launched in July 2010.

The Bank obtained AA- from Fitch Ratings Lanka Ltd. and AAA from Ram Ratings.

Total deposits surpassed Rs. 462 Bn during the year 2010. The highest recorded profit before tax of Rs. 8.7 Bn was achieved.

The People's Bank Annual Report won two Gold Awards at the ARC awards held in New York.

The Bank received the SAFA (South Asian Federation of Accountants) Award, for the 1st place in the Public Sector Category, for the 2009 Annual Report.

2011 »

Mr. N. Vasantha Kumar assumed office as the 15th CEO/General Manager of the Bank on 22nd February 2011.

The Bank celebrated the Golden Jubilee on 1st July 2011.

Total branch network reached 714 whilst ATM locations increased to 382 covering almost all parts of the island.

The Bank obtained an upgraded rating of AA (stable) from Fitch Ratings Lanka Ltd.

The Bank's total assets, total deposits and total loans and receivables surpassed Rs. 663 Bn, Rs. 539 Bn and Rs. 478 Bn respectively. The highest recorded profit before tax of Rs. 15.3 Bn and a profit after tax of Rs. 10.2 Bn 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.

OUR MILESTONES

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12 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 Bn, Rs. 683 Bn and Rs. 660 Bn 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 Mn cards milestone during the year with access to over 30 Mn 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 Bn worth Debentures issued during the year at the Bank's fourth Debenture issue.

2014 »

The Bank's asset base crossed one trillion rupees, as the second largest bank in the industry.

Bank garnered the triple accolades of 'Bank of the Year 2014' at the European Global Banking and Finance Award - Sri Lanka 2014 as well as 'Best Banking Group Sri Lanka' and 'Most Sustainable Bank Sri Lanka' at the World Finance Banking Awards 2014.

2015 »

- » The Bank has taken an initiative to become a fully digitized bank.
- » The Bank has taken initiative to identify its customer 360 degree view of total exposure by embark on "data ware house" project to combine all its major data sources to derive this value proposition.
- » The Bank has upgraded its ATM infrastructure to an enterprise strength hardware platform to strengthen its capacity, reliability and its availability to customers
- » The Bank has upgraded its Core Banking infrastructure to a state of the art hardware platform to strengthen its serviceability, increase efficiency and processing power.

- » The Bank has upgraded its POS infrastructure to cater to its customers, giving a more reliable shopping experience.
- » Strategic planning for the period 2016-2020 was successfully implemented.
- » The Bank launched a 'Green Banking Concept' parallel to its 54th Anniversary celebrations.

AWARDS AND RECOGNITION

Best Banking Group 2015 - Sri Lanka

- 'Best Banking Group 2015 - Sri Lanka' award at the prestigious World Finance Banking Awards in 2015.



Most Sustainable Bank 2015

- 'Most Sustainable Bank 2015 - Sri Lanka' award at the prestigious World Finance Banking Awards in 2015.



Banking Service Provider of the Year

- 'Banking Service Provider of the Year' for the 9th consecutive year, at the SLIM Nielson People's Awards in 2015.



Service Brand of the Year

- 'Service Brand of the Year' for the 9th consecutive year, at the SLIM Nielson People's Awards in 2015.



Bank of the year 2015

- The reputed international financial and business magazine, the European, recently honored People's Bank for serving Sri Lankans for over five decades and enabling them to meet all their financial and banking need by awarding the Bank of the year 2015.



ABOUT THIS REPORT

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(G4 - 28,29,30,31,32)

People's Bank is pleased to present its first Integrated Annual Report. This report is based on the International Integrated Reporting Framework of 2013 to report on our performance for the financial year 2015, together with the Global Reporting Initiative's (GRI) G4 'Core' Guidelines for sustainability reporting.

Coverage and Boundary of Aspects

This report does not cover the performance of the Bank's three subsidiaries - People's Leasing and Finance PLC, People's Travels (Pvt) Ltd and People's Merchant Finance PLC, although these entities are included in the Bank's financial statements.

Reporting Cycle

This integrated report covers the period 1st January 2015 to 31st December 2015, in line with People's Bank's traditional 12 months reporting cycles for annual reports. Our most recent previous annual report was the annual report for the financial year 2014.

Restatements and Changes to Scope and Aspect Boundaries

The Bank has not been required to restate any information published in prior reports and there are no significant changes in scope and aspect boundary between the current report and the previous annual report of 2014. The report boundary and scope was, and continues to be limited to the economic, social and environmental impacts of People's Bank excluding its subsidiaries.

External Assurances

Messrs KPMG Sri Lanka were appointed by the Auditor General of Sri Lanka, to review and provide assurance on the Bank's Financial Statements and compliance with Corporate Governance Directives of the Central Bank of Sri Lanka, for the financial year 2015.

Further, external assurance has been obtained for the Sustainability Reporting of this report from Messrs KPMG Sri Lanka.

External Assurance on sustainability Reporting has been provided for Reasonable Assurance on key Financial Highlights and Limited Assurance on performance based on the six capitals.

Precautionary Approach

(G4 - 14)

The Bank is bound to develop products and services that are in line with the regulatory and compliance procedures. To that effect, every new product or services is vetted by the relevant units including compliance and Audit before it is put into the market. With all such parameters in place, the Bank is ensuring that it always follows the best standards and has no negative impacts on society and economy.

Bank's Subscription to External Charters and Principles

(G4 - 15)

Peoples' Bank does not subscribe to any externally developed economic, environmental and social charters, principles, or other initiatives. However, the Bank conforms to an externally developed Code of Conduct on Governance.

Please refer the chapter on Stewardship on page 97 and the chapter titled Compliance Reports for details.

Membership in Associations

(G4 - 16)

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) Limited
- » Institute of Bankers of Sri Lanka
- » The Ceylon Chamber of Commerce
- » Sri Lanka Bankers Association (Guarantee) Limited
- » The Association of Banking Sector Risk Professionals - Sri Lanka
- » Clearing Association of Bankers
- » Employee Federation of Sri Lanka
- » Association of Primary Dealers

Feedback Regarding this Report

Please direct any comments or requests to:

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Materiality Assessment

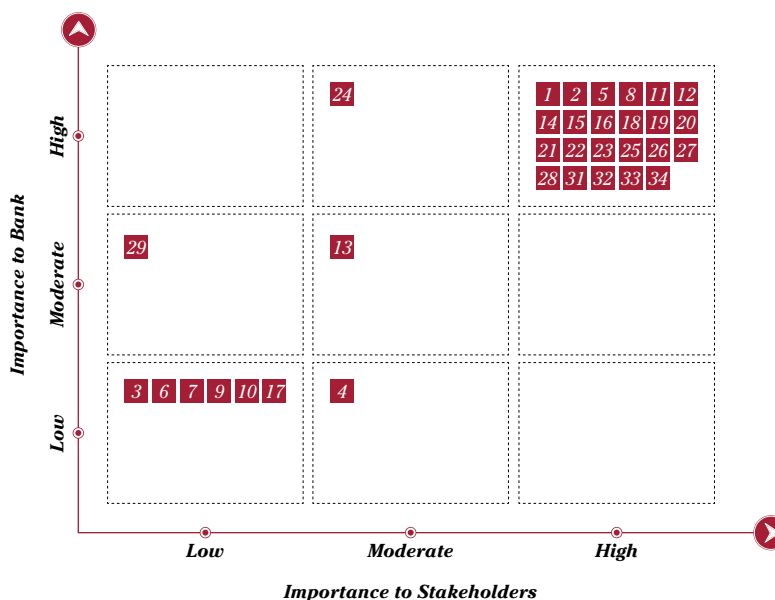
Materiality is about identifying the issues that matter most to our business and to our stakeholders. We plot the economic, social and environmental issues that are of most concern to our stakeholders, against the impacts they may have on our reputation, operations and finances. Together, the results highlight the material issues that are facing our business, which may be ongoing, evolving or new. These material aspects often have a significant financial impact in the short term or long term on an organization. The aspects identified as 'material' and the process for determining materiality are presented in the graphic below;



Our strategy is focused on providing financial services that contribute to quality of life and enterprise development, via affordable, accessible and efficiently delivered solutions. In identifying the key aspects we took into consideration the boundaries inside the organization and boundaries outside the organization which we believe are material to our long-term sustainability. We applied the following criteria to measure the impacts and boundaries;

1. Customer and employee satisfaction
2. Economic growth and infrastructure
3. Building confidence levels to investors
4. A corporate citizen to the society
5. Business convenience through technology
6. Reduce environmental footprint and energy consumption

Based on the issues, we then assessed and prioritized these issues through an impact matrix, which prioritized the key stakeholder issues, ranking them as low, moderate and high. This has been presented below. Finally, we defined our responses and measured our performance.



Note – The numbers in the matrix represents the Aspect number in the following table.

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No.	Aspect	Aspect Boundary					Materiality	
		Internal	External					
			Customer	Community	Supplier	Environment	Bank	Stakeholder
	Economic							
1	Economic Performance	✓					H	H
2	Market Presence	✓					H	H
3	Indirect Economic Impacts		✓				L	L
	Environmental							
4	Materials						L	M
5	Energy	✓					H	H
6	Water						L	L
7	Effluents and Waste				✓		L	L
8	Products & Services	✓	✓				H	H
9	Transport						L	L
10	Environmental Grievance Mechanisms						L	L
	Social – Labor Practices and Decent Work							
11	Employment	✓			✓		H	H
12	Labor/ Management Relation	✓					H	H
13	Occupational Health & Safety	✓					M	M
14	Training and Education	✓					H	H
15	Diversity and Equal Opportunity	✓					H	H
16	Equal Remuneration for Women and Men	✓					H	H
17	Supplier Assessment for labour practices					✓	L	L
18	Labor Practices Grievance Mechanisms	✓					H	H

No.	Aspect	Aspect Boundary					Materiality	
		Internal	External					
			Customer	Community	Supplier	Environment	Bank	Stakeholder
	Social - Human Rights							
19	Non-Discrimination	✓					H	H
20	Freedom of Association and Collective Bargaining	✓					H	H
21	Child Labour	✓					H	H
22	Human Rights Grievance Mechanisms	✓			✓		H	H
23	Forced or Compulsory Labour	✓					H	H
24	Security Practices	✓					H	M
	Social – Society							
25	Local Communities	✓		✓			H	H
26	Anti-corruption	✓					H	H
27	Compliance	✓					H	H
28	Supplier Assessment for Impacts on Society				✓		H	H
29	Grievance Mechanisms for Impacts on Society						M	L
30	Social - Product Responsibility							
31	Product and Service Labelling	✓					H	H
32	Market Communications	✓					H	H
33	Customer Privacy	✓					H	H
34	Compliance	✓					H	H

The Bank has decided to report on the aspects which are high importance to the Bank and stakeholders.

EVENTS OF THE YEAR

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Members of the staff who have served the Bank for 25 years were recognized for their loyalty and dedication. A total of 94 employees were felicitated at the event.



People's Bank was the sponsor of the Job and Entrepreneurship Fair titled "Career lead" held at the Rajarata University. The fair is organized by the Young Members Forum of the Ceylon Chamber of Commerce in collaboration with the Rajarata University.



The Annual Christmas Carols organized by the Christian Guild of People's Bank was held in grand scale at the Bishops Collage Auditorium. The occasion witnessed the staff members of People's Bank branches of Colombo, Kalutara, Gampaha, Puttalam and Wannu regions, joining together to sing carols.



The People's Bank Sports Club hosted the 14th Annual Colors Night to felicitate the exceptionally skilled sportsmen and women of People's Bank. The ceremony saw 141 sportsmen and women receive colors for their achievements in 2014/2015.



22 People's Bank branches and service centers commemorated the Deepavali festival 2015. The main celebration was held at the Wellawatta Branch of People's Bank.



On International Woman's Day 2015, People's Bank launched an investment plan account exclusively for its female customer base, titled Vanitha Vasana Money Planner Investment Plan account.



People's Bank was adjudged Sri Lanka's "Best Banking Group" and "Most Sustainable Bank" for 2015 by the highly acclaimed prestigious World Finance Banking Award 2015 for the second consecutive year.



People's Bank launched Sri Lanka's first ever Green Banking initiative under its youth – friendly brand, "YES" at the Ananda College. People's Bank Chairman Hemasiri Fernando is seen at the inaugural event during the launch of the YES Facebook page targeted at young account holders.





People's Bank celebrated 67 years of national independence with gifts for children born during the week of independence. The main event of this program was held at the Castle Street Maternity Hospital in Borella under the patronage of Mr. Wasantha Kumar - CEO/GM of People's Bank.



People's Bank Annual Research Conference 2015 was organized by the Strategic Planning and Research Department.



People's Bank was the Gold sponsor of "PeMEx 2015" a medical exhibition organized by the medical faculty of the Peradeniya University.



People's Bank was awarded the Service Brand of the Year and the Banking Service Provider of the Year, for the 9th consecutive time, at the SLIM Nielson People's Awards 2015.



The Commercial Credit & Small and Medium Enterprise Department of People's Bank held a Commercial Credit & SME Achievers Awards 2015, with much pomp and pageantry.



The management team of People's Bank recently presented its 5 year Strategic Plan for future growth to over 1,000 head office and branch network professionals, from different levels of the organization.



The People's Bank Art Circle recently organized Vesak Bakthi Gee in lieu of the Vesak festival. The Bakthi Gee was a presentation by the Bank's staff members, who also contributed with the lyrics.



The reputed international financial and business magazine 'The European' honored People's Bank as the Bank of the Year - Sri Lanka, at its Global Banking and Finance Award 2015.



A COMPREHENSIVE SOLUTION FOR ALL YOUR BANKING NEEDS.



People's Bank is a one-stop shop that offers a multitude of services to our valuable customers. Our philosophy is to provide convenient and efficient services and also to create the opportunity for the Bank to offer more products to our customers. Our customers include an array of demographics, from children to senior citizens, entrepreneurs and large corporates. We offer simple transaction banking to complex investment banking products and with the largest branch network in Sri Lanka People's Bank is well positioned to serve the nation.



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ATMS



CHAIRMAN'S MESSAGE

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People's Bank
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2015



- “My vision for People’s Bank is to make it the number one bank in Sri Lanka. People’s Bank is already the second largest Bank in terms of assets and I believe the number one position is possible, if we can leverage our considerable assets and brand equity, more efficiently”

A handwritten signature in black ink, which appears to read 'Hemasiri Fernando'. The signature is stylized and fluid, with a long, sweeping line extending from the end.

Hemasiri Fernando
Chairman



"The year 2015, will be noted as a turning point in People's Bank's 55 year history, because it is the start of a new era for the Bank. During the year, we initiated the process to shift People's Bank into the modern, digital era"

It gives me great pleasure to present People's Bank's first Integrated Annual Report. I would like to stress that this is not only about a change in reporting style. This report heralds broader and deeper changes that will reposition People's Bank 'In a New Light,' as it says in the theme of this report. The year 2015, will be noted as a turning point in People's Bank's 55 year history, because it is the start of a new era for the Bank. During the year, we initiated the process to shift People's Bank into the modern, digital era. And when I say digital era, I do not mean a few cosmetic changes by computerizing a few departments. I mean digitizing the entire business model of the bank, from top to bottom and across all its operational functions. I hope to look back five years from now, in 2020, and see a transformed financial entity, operating on modern, interconnected, ICT platforms, managed and manned by technology savvy Sri Lankans.

Our Strategic Focus in 2015

People's Bank employs over 8,000 personnel spread far and wide across the island in the biggest branch network of any organization in the country. Our branches are asymmetric in technology availability and given the geographic spread and interior localities, pose massive challenges in physically networking and digitizing the supply chain. Given that our large and wide spread employee base varies widely in terms of ICT skills and attitudes towards technology and modernisation, the development of these skills too, has to happen in parallel to the adoption of the technology based service channels. Our customer base comprising over 16 million accounts, is also highly varied in its level of technological familiarity.

Language is another challenge, as any tech-based banking product needs to be available in all three languages. These are just a few of the broader challenges we will have had to overcome to achieve our final objective.

Given the magnitude of our task we set ourselves a single, overarching strategic focus in 2015. This was; first, to finalise a comprehensive strategy to digitize the entire Bank and second, to identify and implement all preparatory works to allow the Bank to immediately kick start Phase 1 of the strategy in the new financial year of 2016. I am pleased to report that we have been successful. We closed 2015, by finalizing a digitization strategy with a detailed implementation plan, phased out over the five year period of 2016-2020.

Throughout this entire process, we retained the concept of sustainability by adopting a stakeholder participation approach. We conducted many rounds of consultation with management and staff in the design and development of our strategy along with customer surveys, supplier feedback, requirements of regulatory bodies and also the national development goals of the Government of Sri Lanka, the primary shareholder of People's Bank. We also considered our present and potential environmental impacts. While digitization will reduce resource consumption on one hand, we are cognizant that we will need to develop new systems to minimize impacts that could occur through large scale technology adoption. With that in mind, we have already commenced designing 'green products' and we are also making provisions for 'environmentally

CHAIRMAN'S MESSAGE

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"My message to the employees of People's Bank is that we, collectively, have an obligation to our country and our people. We must work together to ensure that national assets are put to best use and not only for short term gains. As employees of People's Bank, I call on all of you to put your weight behind positive change for the benefit of future generations"

friendly constructions' in our future construction activities.

In preparation to embedding our far reaching digitization strategy, we have already commenced staff training and technology acquisition. We have already made financial allocations to shift our core banking system on to a new, more advanced platform and to develop supporting systems that will facilitate a range of superior, technology based products. We have also invested in more advanced security systems. I invite you to read the Value Creation chapter of this report on pages 50 - 96 for more information.

Business as Unusual

I would say the year 2015 qualifies to be termed business as unusual for People's Bank, as we did not overlook our regular business matters at the expense of strategy development and the political uncertainty that prevailed for most of the year. That is why I am especially pleased to report a very good financial year for People's Bank. I congratulate the General Manager and his team on the best profits to date, and I invite you to read the General Manager's Review for further information on the Bank's performance in 2015.

Message to Stakeholders

I believe that People's Bank, with its ability to take formal financial services deep into the country, has great untapped potential. The Bank has the ability to significantly uplift economic and social standards in Sri Lanka and I believe technology is the most efficient key to unlock these latent benefits.

Therefore, I call on the support of all our stakeholders to realize this vision for a modern, more flexible and responsive national economic asset. My message to the employees of People's Bank is that we, collectively, have an obligation to our country and our people. We must work together to ensure that national assets are put to best use and not only for short term gains. As employees of People's Bank, I call on all of you to put your weight behind positive change for the benefit of future generations.

To the customers of People's Bank, particularly our rural customers, I would like to emphatically state that you are our strength and will remain so. I believe our digitization strategy will support you more than ever, by making it possible to offer greater convenience, wider choice and more competitive pricing.

Future Outlook

My vision for People's Bank is to make it the number one bank in Sri Lanka. People's Bank is already the second largest Bank in terms of assets and I believe the number one position is possible, if we can leverage our considerable assets and brand equity, more efficiently. I would also like to make People's Bank the leader in niche, technology based banking services, including ATMs and credit and debit cards. In the short term, I would like to see People's Bank emerge as the most digitized bank in the country and I would like to achieve this by the end of 2016.

In the long term, I want to create a bank that is on par with the best international banks. There is still a

perception in some quarters that People's Bank is a rural or provincial bank with limited financial services. This is not correct; we are a fully fledged commercial bank. We offer, in addition to our traditional products, complex investment banking solutions and we are already among the country's top five investment banking services providers. By end 2020, I want to see People's Bank transformed into a fully fledged digital banking solutions provider with the People's Bank brand competing with international banking giants. I believe this is a very achievable goal.

The next few years will open up many growth opportunities for the Bank, not only through new products and services that can be developed on a digital platform, but also through national development plans. The Government's plans for a Western Megapolis and its accompanying development projects, will open up diverse avenues for the Bank to supply financial services for government, businesses and individuals. People's Bank will be ready to partner this mega development drive that will change the face of this nation.

Another growth avenue we are considering is expansion beyond domestic horizons. In 2016, we will explore possibilities of taking People's Bank's expertise to foreign climes. We are currently examining a few overseas market opportunities with a view to establishing fully fledged branches.

In conclusion, I would like to thank all our stakeholders for their support

during this time of transition. I am particularly grateful to our employees and management for their resilience and willingness to embrace change. I am grateful to our customers for their loyalty and long term patronage of the Bank and I can promise them bigger and better things in the future. I would also like to thank the Minister of Public Enterprise Development, the Hon Kabir Hashim, for his constant support and officials at the Central Bank of Sri Lanka for their cooperation and guidance.

Thank You



Hemasiri Fernando
Chairman

23rd March 2016

CHIEF EXECUTIVE OFFICER/ GENERAL MANAGER'S REVIEW

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- “We continued to uphold our commitment to the country through our business activities in 2015. We channelled considerable amounts in the form of development support for the country, out of which Rs. 199 Bn was to facilitate national infrastructure projects.”

A handwritten signature in black ink, appearing to read 'N. Vasantha Kumar', with a stylized flourish at the end.

N. Vasantha Kumar
Chief Executive Officer/ General Manager



"I am pleased to report that we have been extremely successful in improving our overall asset quality. In fact, we closed the year with a Gross NPL ratio of 2.4% which is well below the industry average of 3.2%"

I am very happy to report an extremely productive and profitable year for People's Bank despite a somewhat unsettled year. We were able to maintain our focus and exceed our annual growth targets, while also finalizing and putting in place the groundwork to implement a strategic plan for the next five years.

The political environment set the tone for the entire financial industry in 2015, including People's Bank, which is one of the largest lenders in the country. While State sector demand remained flat for most of the year, private sector demand growth was slow during the early part of the year but increased appreciably towards the end of the year. The initial subdued credit demand was reflected in the continued excess liquidity in the market, which declined as the year progressed. The Central Bank notes that excess liquidity in the domestic money market, declined to Rs. 62.4 Bn by end September 2015, from as much as Rs. 325.6 Bn at the beginning of the year. Despite this somewhat slow start, People's Bank saw rapid credit growth towards the latter part of the year, resulting in strong overall credit expansion by the end of the year.

Due to the surfeit of liquidity, market interest rates continued to remain at low levels for most of the year but the Average Weighted Call Money Rate (AWCMR) showed some fluctuations and indicated an increasing trend after August 2015. The rupee depreciated against the US dollar, the Sterling Pound and the Indian Rupee, from the first half of the year, and had depreciated by about 9% year-on-year, against the US dollar. People's Bank did not experience significant negative impacts due to this fluctuation in the interest rates and exchange rates. In fact, I am pleased to report that our cautious

approach generated overall positive outcomes in exchange earnings while maintaining interest incomes.

The Colombo stock market too, experienced a fairly volatile year with price indices, market capitalization and turnover levels declining in the wake of net foreign sales. This capital flight could be attributed to the recovery of the US market, as well as some investor uncertainty over future policy directions. Lowering oil prices and persistent instability in the Middle East, Sri Lanka's single largest destination for migrant labor, caused migrant remittances to decline, although People's Bank has done extremely well in capturing remittance inflows.

Our Performance

We continued to uphold our commitment to the country through our business activities in 2015. We increased our economic contribution by nearly 25% year-on-year, with our total contribution reaching Rs. 16.8 Bn. We channelled considerable amounts in the form of development support for the country, out of which Rs. 199 Bn was to facilitate national infrastructure projects. In 2015, People's Bank extended financial support to a number of road development, water management and hospital construction projects, that will have wide spread social benefits. We injected capital into under developed economic segments by channelling Rs. 10 Bn into rural and underserved sectors through a number of re-finance schemes. We also helped over 6,000 small and micro entrepreneurs begin their journey as formal businesses. I believe these economic contributions, although limited in value, are almost unlimited in their potential to contribute towards overall economic and social development of this country.

CHIEF EXECUTIVE OFFICER/ GENERAL MANAGER'S REVIEW

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"Our new five-year corporate strategy to digitize the Bank, will change how we do business in future. This change will be accompanied by a communication and branding campaign to reposition People's Bank as a technology based financial services provider"

I am happy to report that our financial situation has continued to improve. Although we faced some internal distractions as well as external instability due to the larger political environment, we were able to expand our balance sheet by Rs. 150 Bn, to reach Rs. 1.2 Tn by the end of 2015.

Despite the overall depressed credit market, we were able to sustain strong credit expansion during the year by successfully promoting our retail products. The current year saw a noteworthy increase in retail lending. The Government sector continued to account for over 45% of People's Bank's lending in 2015, but we made a concerted effort to expand our share of the private credit market through corporate and personal credit products. Credit cards are an emerging source of revenue for the bank and we expect stronger inflows from this sector within the next five years, supported by the system upgrade that will come into effect through our digitization strategy.

We were also able to further consolidate our reputation as a sophisticated financial services provider. During the year, the People's Bank Investment Banking Unit presented two of the country's largest debenture issues and debuted the Bank's first equity IPO for our sister company People's Insurance. I believe the success of these capital market instruments has showcased the diversity of People's Bank's financial expertise and what we can offer the private sector. Therefore, I am confident of greater opportunities in the new financial year.

At People's Bank, we are highly conscious of balancing our risks with our growth. Therefore, another area

of focus during the current financial year was on managing our credit risk and I am pleased to report that we have been extremely successful in improving our overall asset quality. In fact, we closed the year with a Gross NPL ratio of 2.4% which is well below the industry average of 3.2%. I believe we can continue to contain and reduce our NPL ratios over the next year.

I am also pleased to report that as at end 2015, we are the custodian of one of the largest savings deposit bases in the country worth Rs. 372.2 Bn. I believe this reflects the public trust in the People's Bank brand. On this note, I would like to mention that People's Bank won the 'Service Brand of the Year' and the 'Banking Service Provider of the Year,' awards for the 9th consecutive time, at the SLIM Nielson People's Awards, in 2015.

We closed the year with our bottom line reaching Rs. 19.5 Bn in net profit before tax, which is a year-on-year growth of 13.3% and the highest recorded to date.

Digitization

In 2015, we set in motion a process that will transform People's Bank as you know it today. Our new five-year corporate strategy to digitize the Bank, will change how we do business in future. This change will be accompanied by a communication and branding campaign to reposition People's Bank as a technology based financial services provider.

During the current year we put in place the foundation for this transformation by mapping manual processes onto digital platforms, identifying technology requirements and sourcing technology providers, and by entering into agreements with

technology and services providers. Building skills and capacities of our employees is crucial for the success of our strategy and we have already started investing in this process. Please refer the section on Human Capital in page 82 for more information. As part of this transition, we restructured the internal units of the Bank under the three main business sectors of 'Wholesale Banking', 'Enterprise Development' and 'Retail Banking'. We believe this new internal organization structure presents a more cohesive platform to support our final objectives. Over the next five years from 2016-2020, we hope to digitize all 740 branches and all operational aspects of the Bank.

Plans for 2016

Due to the extensive preparatory work done in 2015, we are ready to hit-the-ground-running in 2016, on strategy implementation. Therefore, 2016 will see our digitization program rolled at selected bank branches. The full roll out will take place thereafter. Marketing and branding campaigns to reposition People's Bank will also kick off during 2016. The existing product portfolio will be rationalized and selected products will be upgraded with additional features and services, and new technology base products will be introduced. We will continue to expand our market share in the card sector and wholesale banking, backed by more advanced technologies.

Although People's Bank is noted for its rural footprint, what is less well known is that People's Bank is the bank of first resort for a majority of small and micro entrepreneurs. Hundreds of entrepreneurs that are classified as 'unbankable' by traditional commercial banks begin

their journey at People's Bank, to become 'bankable.' We are very proud of this achievement, and in future, I believe we can support our small and micro customers with the convenience of electronic banking products that can be customized to their individual cash flow and growth needs.

Acknowledgements

I would like to thank our Chairman, Mr. Hemaisri Fernando, and the Board of Directors for their support and leadership, in steering the Bank through its current stage of transformation. I thank the employees and management of the Bank for their hard work during the year and look forward to their continued support as we begin to write a new chapter of the Bank. As always, I extend my gratitude to our customers and valued business partners, whose continued confidence and loyalty have been our strength.



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

23rd March 2016

BOARD OF DIRECTORS

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BOARD OF DIRECTORS

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1. Mr. Hemasiri Fernando

Chairman

Possessing diverse experience, Mr. Fernando's 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 positions. His input as the longest serving President of the National Olympic Committee and in international offices, 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 for Presidential Advisor on Sports to Sri Lanka. He has a B.A (Econ) from the University of Colombo, is an Associate in the Institute of Travel and Tourism UK (A INST TT) and is a Fellow 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 the OCA Award of Merit by the Olympic Council of Asia and the ANOC Award of Merit by the Association of National Olympic Committees.

2. Mr. Jehan P. Amaratunga

Director

Mr. Jehan Prasanna Amaratunga is the Executive Deputy Chairman of MTD Walkers PLC, Sri Lanka. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and a Fellow Member of the Chartered Institute of Management Accountants, UK. Mr. Amaratunga was awarded

the First in Order of Merit Prize, at the final examination of the Institute of Chartered Accountants of Sri Lanka. Mr. Amaratunga currently serves as a Director of People's Bank, People's Leasing & Finance PLC, Sri Lanka Institute of Information Technology (SLIIT) and JAT Holdings (Private) Limited. He is also the Chairman of People's Insurance PLC and a member of the council of the University of Colombo. 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.

3. Ms. G.D. Chandra Ekanayake

Director

Ms. Ekanayake was appointed to the Board of the People's Bank in February 2015, as a Non-Executive Director and is a member of the Board Audit Committee, the Board Risk Management Committee and the Board Investment Banking Committee.

Ms. Ekanayake is from the Sri Lanka Administrative Service and joined the Service in 1984. She was appointed as a Deputy Secretary to the Treasury on 09th March 2015 and continues in that position up to now. 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 and MBA from the Postgraduate Institute of Management Sri Lanka and Postgraduate Diploma in the fields of Development Planning Techniques (ISS, The Hague), International Relations (BCIS, Colombo) and Economic Development (University of Colombo). She represented the Treasury in the Council of the Asian Re-insurance Corporation from 2002 to 2013 and functioned as its Vice Chairman during the period 2008 to 2013. She also represented the Treasury on the Board of the NDB Bank from February 2011 until March, 2015. As at now, she represents the Treasury on the Board of Sri Lanka Telecom PLC and the Board of Management of the Superior Courts Complex. Ms. Ekanayake was also appointed in May 2015 as the Chairman of MILODA, the Academy of Financial Studies, the training arm of the Ministry of Finance.

4. Mr. Felician Perera

Director

Mr. Felician Perera was appointed as a Director of People's Bank in March 2015. He holds a 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. Dr. Aminda M. Perera

Director

Dr. Aminda Methsila Perera is a Senior Lecturer in Financial Management at the Department of Accountancy, Wayamba University of Sri Lanka. He had his early education at St. Thomas' College, Matale and he pursued higher studies at the Faculty of Management Studies

and Commerce, University of Sri 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 behavior at the same university. He has also followed a Diploma Program in NGO Staff Management, conducted by the Klasnoff Academy, Germany in 1998.

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

Dr. Perera was appointed to the Board of Directors of People's Bank with effect from 2nd November 2015.

6. Mr. T.D. Anton S. Hemantha

Director

Mr. Anton Hemantha is an entrepreneur. He is the owner and Chairman of Selmo Private Limited, 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 Chairman of the Packaging Cluster of the EDB.

7. Mr. M.H. Jamaldeen

Director

He is a financial professional with over 15 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. 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.

8. Mr. S.C.B. Senevirathne

Director

Mr. Chandrasiri Senevirathne joined the Directorate of the Bank in 2015. He holds a Bachelor of Arts Degree. He is a highly accomplished Attorney-at-Law with over 14 years experience. Mr. Senevirathne has over 30 years of administrative experience in the senior administrative capacity. In addition to his law and administrative experience, Mr. Senevirathne has over 45 years of experience as a freelance journalist. He is also an author of several publications.

9. Mr. T.M.K.B. Tennekoon

Director

Mr. Tennekoon currently holds the position of Secretary, Ministry of Industry & Commerce. Prior to this, he held the posts of Secretary, Ministry of Public Order and Christian Affairs; and Secretary, Ministry of Public Order, Disaster Management and Christian Affairs. Mr. Tennekoon, a career administrator, who joined the Sri Lanka Administrative Service (SLAS), formerly known as the Ceylon Civil Service, in 1984, has held a variety of postings across the island. Having risen through the ranks during the last 29 years, Mr. Tennekoon is currently a Special Grade Officer in the SLAS.

He has served as an administrator, a sectoral planner, a policy analyst, implementer, coordinator and has dealt with both Government and International agencies including donor agencies, United Nations bodies and ADB.

With a keen interest in Training and Development, Mr. Tennekoon possesses two Bachelors one in Laws and the other in Public Finance and Taxation, and a Masters in Economics. He is currently reading for a PhD.

His exposure to International programmes had him attending fifteen programmes in various parts of the world since 1979, when he was still an undergraduate.

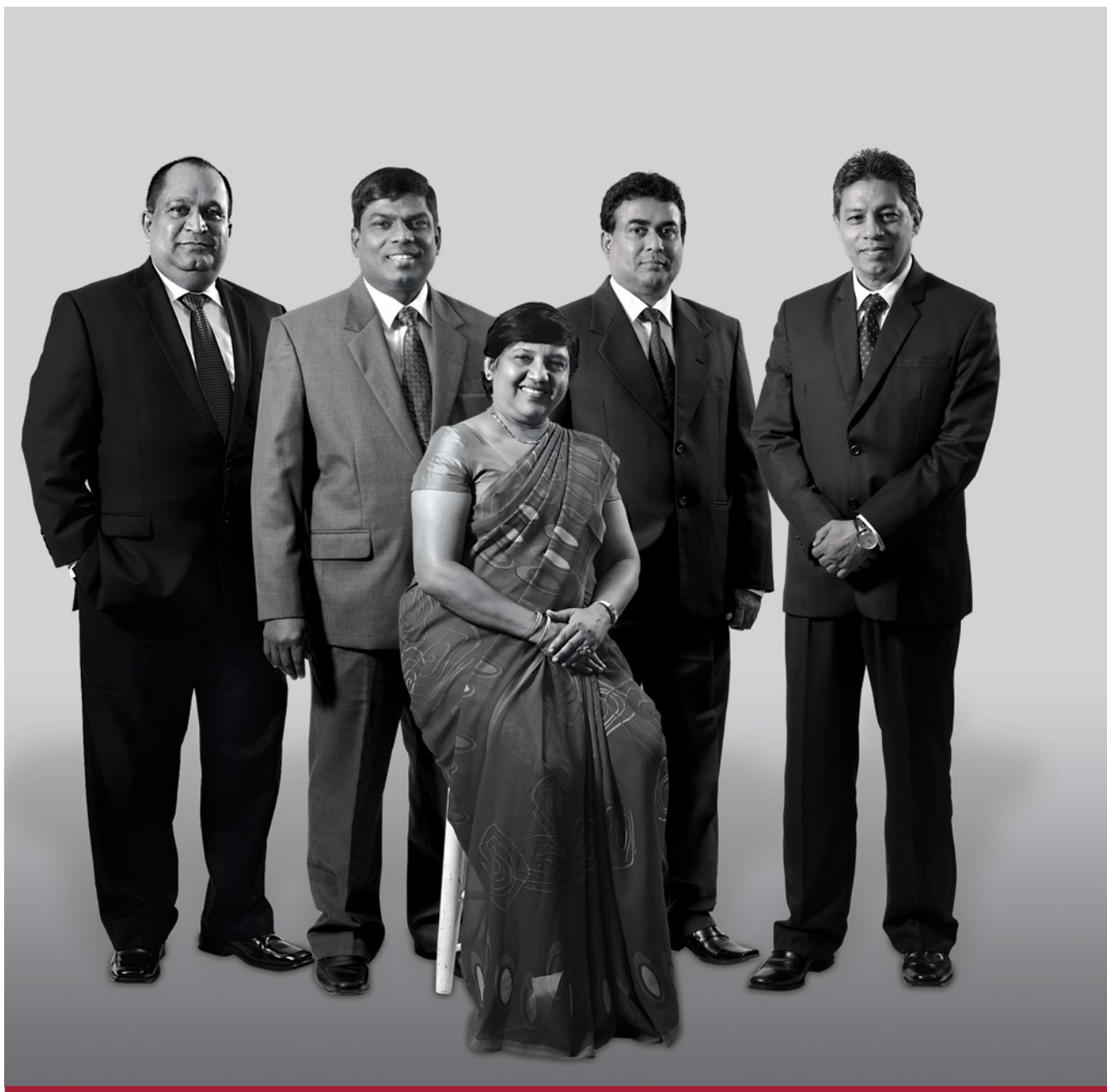
Mr. Tennekoon is a member of several professional bodies including the Sri Lanka Administrative Service Association, Member of the Sri Lanka Bar Association and Member of the Sri Lanka Economists Association.

His research interests cover areas of Economic Growth, Income disparity and the social welfare state.

CORPORATE MANAGEMENT

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1. 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 Leasing & Finance PLC, People's Travels (Pvt) Ltd., People's Insurance PLC, People's Property Development Ltd., People's Leasing Havelock Property Ltd, People's Leisure Ltd, the Credit Information Bureau and the National Payment Council. 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.

2. Mr. Ahamed Sabry Ibrahim

(Senior Deputy General Manager – Wholesale Banking)

Mr. Ibrahim has over 32 years of banking experience both locally and internationally, primarily in the areas of corporate banking, treasury management and risk management. He holds an Honours Degree (B.Sc) from the University of Colombo and is a Fellow of the Chartered Institute of Bankers - UK (FCIB).

3. Mr. Deepal Abeysekera

(Head Of Marketing & Research)

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

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

The prestigious “Brand Champion of the Year” and “Brand Leadership Award” were conferred on him by the 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 the past President of the Board of Management of The Management Club (TMC) and President of the Association of Professional Bankers – Sri Lanka and Country Advisory Council Member – Global Marketing Network – UK.

4. Ms. Chandani Werapitiya

(Deputy General Manager – Strategic Planning & Performance Management)

Ms. Chandani Werapitiya is in charge of strategic planning & Performance Management contributing to the Bank's Strategic Plan implementation process 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 and counts nearly 29 years of experience in a wide spectrum of fields ranging from corporate and institutional banking, international banking, customer services, SME/project lending, branch operations, credit management and 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 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).

5. Mr. K.B. Rajapakse

(Deputy General Manager –Enterprise Banking)

Mr. Rajapakse is in charge of the Commercial Credit, SME Development, Micro Finance & Co-operatives Departments. He joined the Bank in 1987 as a Management Trainee and counts 29 years of experience in People's Bank.

He holds a Second Class Honours Degree (B.Sc.) in Public Administration, and is a 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 the branch network of the Bank and the Corporate Banking Division and at present serves as Deputy General Manager of Enterprise Banking of People's Bank.

Mr. Rajapakse serves as a Director of the Institute of Bankers of Sri Lanka and an Alternate Director of the Credit Information Bureau of Sri Lanka.

6. Mr. S.A.R.S. Samaraweera

(Deputy General Manager – Human Resources)

Mr. Samaraweera is the Head of Human Resources. He joined the Bank as a Management Trainee and possesses over 28 years of experience in banking. 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 he is also 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.

7. Mr. Rohan Pathirage

(Deputy General Manager – Secretary to the Board of Directors)

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 21 years of experience in the Bank.

8. Ms. M.S. Arsacularatne

(Deputy General Manager – Compliance)

Ms. Arsacularatne joined the Bank's service at Grade II level, as a Senior Finance Officer, and counts over 30 years of service in the Bank.

She has been an Associate Member of the Chartered Institute of Management Accountants – UK for the past 34 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 – Sri Lanka. She is an Attorney-at-Law and also holds a Bachelor of Law 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 had over 8 years of professional work experience prior to joining the Bank. Having started her career at the Ceylon Ceramics Corporation as 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.

9. Ms. G.P.R. Jayasinghe

(Deputy General Manager – Retail Banking)

Ms. Renuka Jayasinghe joined the Bank in 1987 as a Management Trainee and counts over 28 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 Assistant General Manager. Since 2011, she has been working as the Deputy General Manager (Retail Banking).

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 the Association of Professional Bankers of Sri Lanka and the Institute of Bankers of Sri Lanka.

During her banking career, she has participated in various exposure programs - both local and overseas. She is a member of the Board of Directors of the Regional Development Bank.

10. Mr. Clive Fonseka

(Head of Treasury & 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 the Postgraduate Institute of Management of the University of Sri Jayewardenepura. He has received a Distinction for the ACI Dealing Certificate and counts more than 22 years experience in treasury management. He is also a Certified Member (CMA) of the Institute of Certified Management Accountants of Australia.

He joined People's Bank in 2002, prior to which he served at American Express Bank and Standard Chartered Bank. He has been a member of People's Bank's senior corporate management team from November 2011.

CORPORATE MANAGEMENT

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11. Mr. M.A. Bonniface Silva

Deputy General Manager – Channel Management

Mr. Silva joined the Bank in 1987 and counts over 27 years of service in People's Bank.

His career experience covers the areas of branch business banking at the levels of Branch Manager, Regional Manager, Zonal Assistant General Manager and presently holds the position of Deputy General Manager - Channel Management.

In addition, centralised back office functions of the entire branch network and the Cash Department are also operated under his purview.

He holds a degree (B.A) from the University of Peradeniya and has a professional banking qualification, AIB - Sri Lanka and also he is an Associate Member of the Institute of Bankers of Sri Lanka.

He has gained extensive local and overseas training and exposure in branch business/banking.

12. Mr. B.M. Premanath

(Deputy General Manager – Banking Support Services)

Mr. B.M.Premanath counts over 28 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 programs both locally and internationally.

13. Ms. N.S. Thilakaratne

(Chief Internal Auditor)

Ms. Nandanie Thilakaratne was appointed as the Chief Internal Auditor of the Bank since August 2010.

She is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka. She holds a B.Sc. in Business Administration (Hons.) with a Second Class Upper from the University of Sri Jayewardenepura. She is a Fellow Member of the Institute of Bankers of Sri Lanka.

She holds a Diploma in Information Systems Security Control and Audit conducted by The Institute of Chartered Accountants of Sri Lanka with technical collaboration of the Institute of Chartered Accountants of India.

She joined the Bank in March 1990 as an Assistant Finance Officer and counts nearly 26 years of experience in the field of project lending and auditing.

14. Mr. G.B.R.P. Gunawardena

(Deputy General Manager – Risk Management)

Mr. Rasitha Gunawardana counts over 28 years of service at People's Bank. He joined the Bank as a Senior Finance Officer in 1987.

His exposure in the Bank covered areas of finance, performance management, corporate and commercial credit, treasury operations and credit control & risk management functions.

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

He is an Associate Member of the Chartered Institute of Management Accountants, U.K.

15. Mr. Lionel Galagedara

(Deputy General Manager – Recoveries)

Mr. Lionel Galagedara is in charge of the Credit Recoveries 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, trade finance, lending, credit administration and recoveries.

He holds a B.Com (Special) Degree from the 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.

16. Mr. G.G. Mangala

(Head of Finance)

Mr. G.G. Mangala joined the Bank as Head of Finance in March 2014. He counts over 25 years of banking exposure, most of which is based overseas. Prior to joining the People's Bank he held positions of Financial Controller at HSBC Oman, Chief Financial Officer at Bank Sohar Oman and Chief Financial Officer at Pan Asia Bank, Sri Lanka.

His areas of expertise include asset liability management, strategic planning, financial and management accounting, budgeting and performance analysis. He is a Fellow Member of the Chartered Institute of Management Accountants – UK.

17. Mr. Priyantha S. Edirisinghe*(Head Of Information Technology)*

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.

18. Mr. S. Wanniarachchi*(Deputy General Manager – International Banking)*

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 B.Sc (Special) Degree from the University of Sri Jayewardenapura and soon after graduation he worked there as a Demonstrator and Assistant Lecturer in Chemistry. He 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.

Presently, he heads the Corporate Banking Division, Overseas Customer Service Unit, Financial Institution Unit and Treasury Back Office.

19. 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 37 years of service in both the banking and legal fraternity and has served in the Legal Department, International Division, Galle Region, Western Zone – I and the Special Assets Unit.

His experience covers the areas of company law, commercial law, and labour law, in addition to banking and credit recoveries. Further, he has undergone several exposure programs both locally and overseas, especially on management and leadership development, judiciary system in Asia, etc.

EXECUTIVE MANAGEMENT

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Mr. R. Ranathunga
*Assistant General Manager –
Channel Management*

1

Ms. S. Prathapasinghe
*Assistant General Manager –
Finance & Accounting*

3

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

9

Ms. P.R. Madurawala
Assistant General Manager – Audit

4

Mr. H.C. Fernando
*Assistant General Manager –
Banking Support Services*

5

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



11

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

12

Mr. W.M.S. Weerakoon
Assistant General Manager –
Channel Management

10

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

7

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

2

Mr. R.M.S.B. Ratnayake
Assistant General Manager –
Retail Banking

8

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

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

13

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

19

Mr. R. Kodituwakku
*Assistant General Manager –
Off Shore Banking*

20

Mr. I.D.S.S. Illukkumbura
*Assistant General Manager –
Retail Banking*

14

Mr. T.D. De Z. Gunawardena
*Assistant General Manager –
Investigations & Inquiries*



18

Ms. G.M.R.P. Wijerathna
Deputy Head of Primary Dealer Unit

21

Mr. K.D.J. Perera
*Assistant General Manager –
Channel Management*

15

Ms. K.N. Senaratne
*Assistant General Manager -
Credit Unit II – C.B.D*

16

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

22

Ms. U.S. Gerty
Assistant General Manager – Credit

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

24

Mr. L. Withana
*Assistant General Manager –
Enterprise Banking*

27

Ms. P.A.K. Pathirana
*Assistant General Manager –
Corporate Banking*

25

Ms. N.R. Wijayaratne
*Assistant General Manager – OCS
& Financial Institutions*

26

Mr. S.N.B.M.W. Narayana
*Assistant General Manager -
Small and Medium Enterprises*



29

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

30

Mr. K.D. Karunatilake
*Assistant General Manager –
Channel Management*

33

Mr. M. K. De S. Gunaratne
*Assistant General Manager – Channel
Management (ATM Operations)*

32

Ms. R.P.N. Premalal
*Deputy Head of Finance –
Management Information Department*

28

Mr. U. Alimohamed
*Assistant General Manager –
Credit Recoveries*

31

Not Pictured

Mr. D.P. Champika

Assistant General Manager - Treasury Unit

A GREATER BANKING EXPERIENCE WITH SERVICE PLUS



Customers are becoming more and more digitally driven. As such, for People's Bank it is important to optimize customer experiences, while taking advantage of alternative distribution channels along with our strong branch network . Social, mobile and internet communication channels are coming together to transform the way consumers interact with banks for their banking needs. New technology is continuously emerging and People's Bank has already made substantial progress in this direction.



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BRANCHES





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VALUE CREATION BUSINESS MODEL

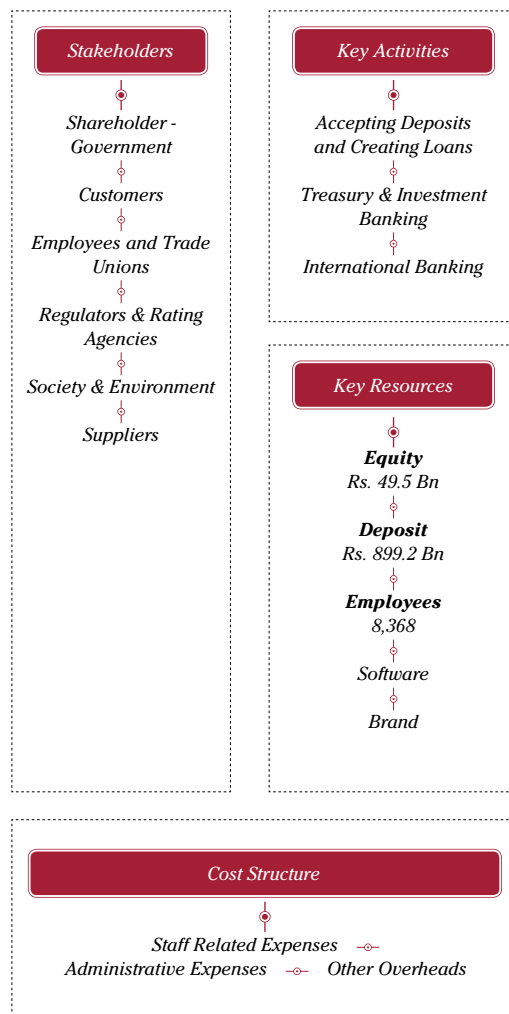
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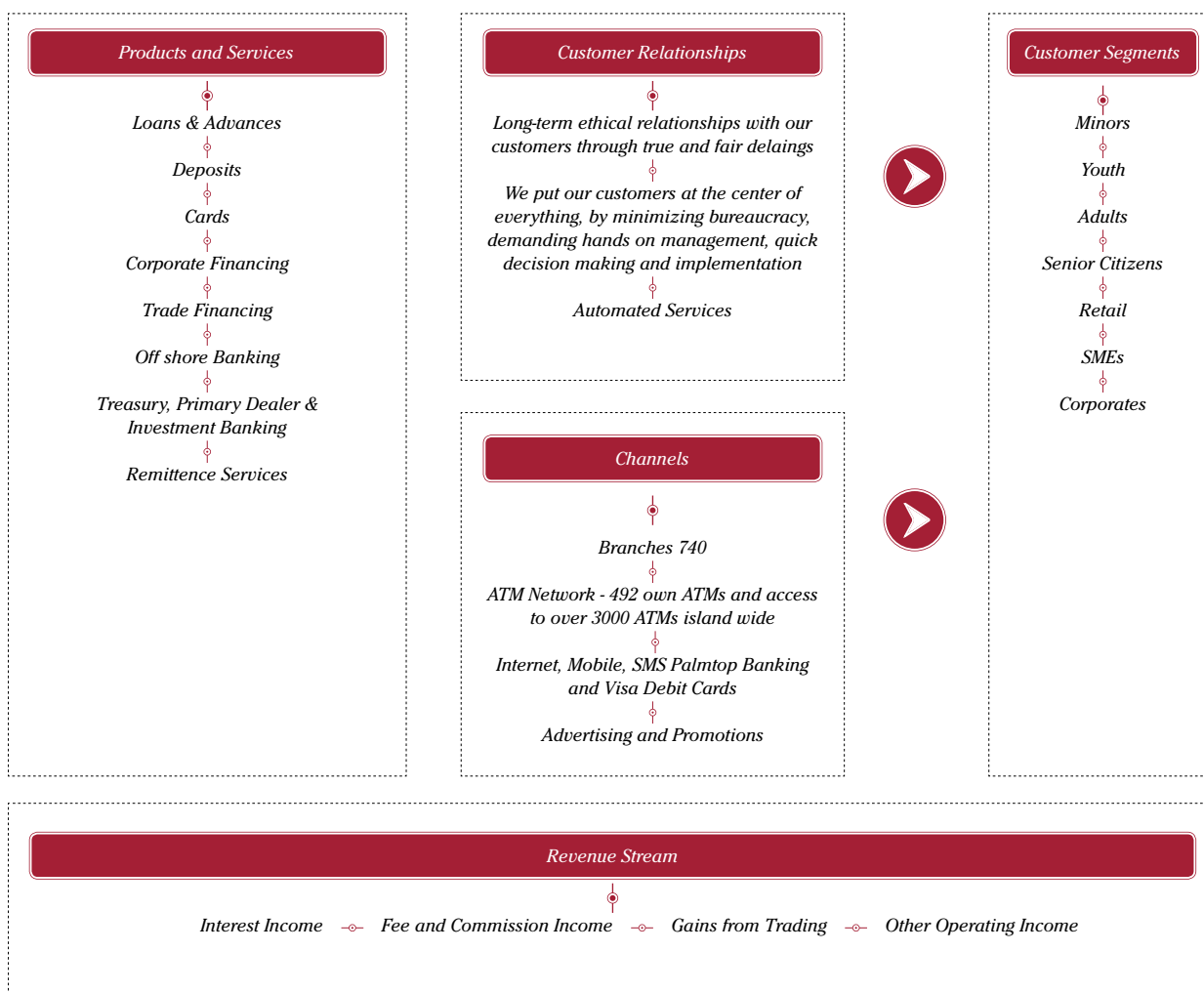
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In sheer scale of operations, our business model is one of the most wide spread and most complex economic processes in the country. In addition, as one of the largest custodians of customer funds and a representative of the State, our business model is expected to deliver beyond the financial performance factors. People's Bank's deep pools of financial, physical, human, intellectual and social capitals must, as stipulated by its mandate, be harnessed to generate significant social development outcomes.

During the current financial year, we honoured our obligations to the nation by contributing over Rs. 25 Bn in economic value to the country and much more in terms of empowering thousands of individuals, families and businesses. More significantly, in 2015, we shaped an ambitious plan to lift our trillion rupee business model onto a new digital dimension that we believe will multiply the value we create for our economy and our people.

Vision
*To be Recognized as
Sri Lanka's Undisputed
Market Leader for
Financial Services*





VALUE CREATION

TRENDS, RISKS, OPPORTUNITIES AND STRATEGIC DIRECTION

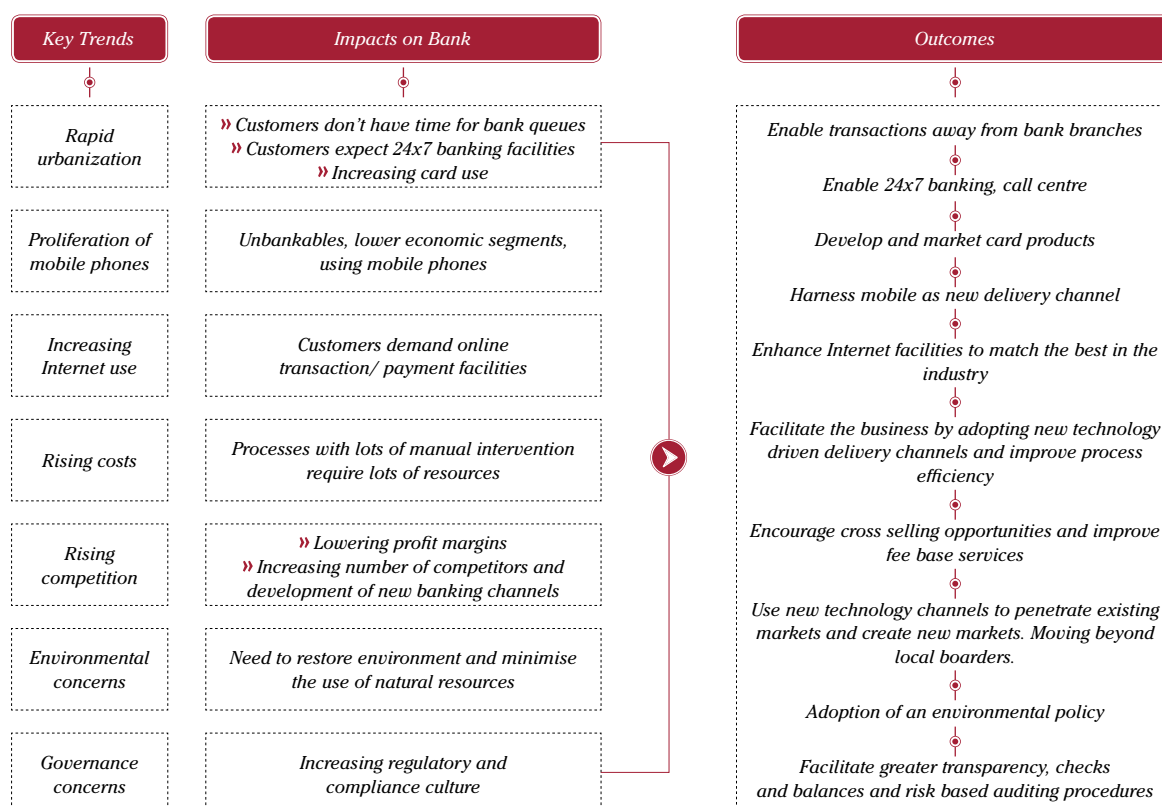
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During the current financial year, the Bank's key strategic focus was the development of a cohesive and sustainable strategy that will guide the Bank's growth over the next five years, during the period 2016 - 2020. This process involved analysis of the macro environment to understand key trends and forces shaping the future of the banking business and to identifying potential risks and opportunities.

We are pleased to report success in our endeavours. We closed 2015, with a clear-cut strategy document and a phased implementation plan. We believe our new five year corporate strategy will be instrumental in positioning People's Bank in a 'New Light,' as a modern, IT based, market driven financial institution.

People's Bank Sustainability Strategy



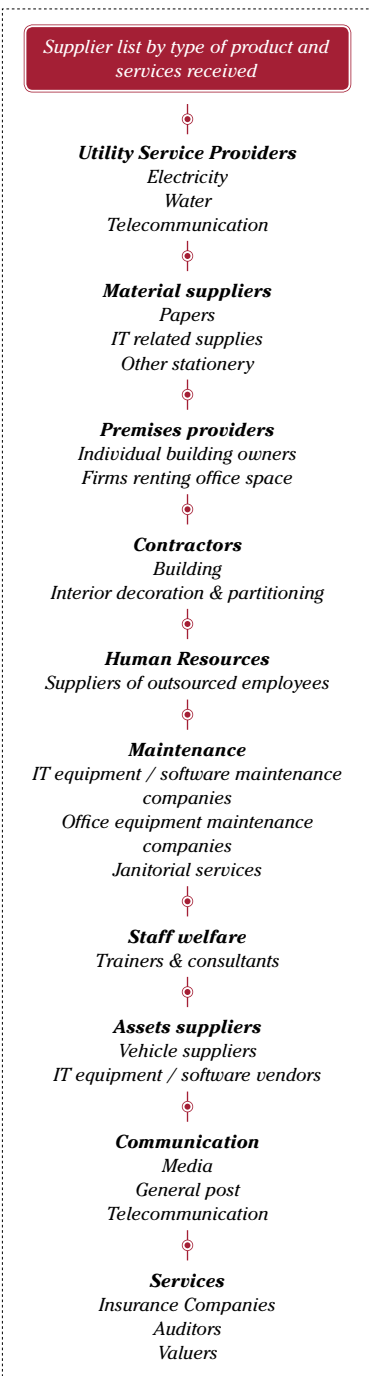
Strategic Focus 2015

Our strategic plan calls for a paradigm shift in the Bank's traditional business model by introducing efficient processing and delivery channels with the support of the advance technologies. Digital banking is an ambitious project that the Bank has initiated, to change the way traditional banking is done by digitizing business, service, operational, administrative and communication processes. Such a paradigm shift requires a service culture change within the Bank. In addition, to make a significant impact, we believe the Bank must also effect behavioral changes among the wider public, particularly the rural public that represent a major share of the Bank's customer base, on how to access and use digital banking services. The current financial year has been the foundation-laying stage of this transformation where we focused on the three broad areas of technology, processes and people, in preparation for a new era.

Please refer the Chairman's Statement for further details on the Bank's strategic direction. The chapter on Human Capital on page 82 details our human resource development initiatives during the year. Please refer the chapter on Supply Chain Management on page 55 and Intellectual Capital on page 89 for details on how we are improving our processes. Please refer the section on Manufactured Capital on page 88 for more information on how we are improving our technology.

SUPPLY CHAIN MANAGEMENT

Due to the large number and wide spread channel network of the Bank, supply chain management is vital for business continuity and quality of services. The Bank maintains large inventories and a large base of suppliers to meet daily requirements.



E-Supply Chain Management

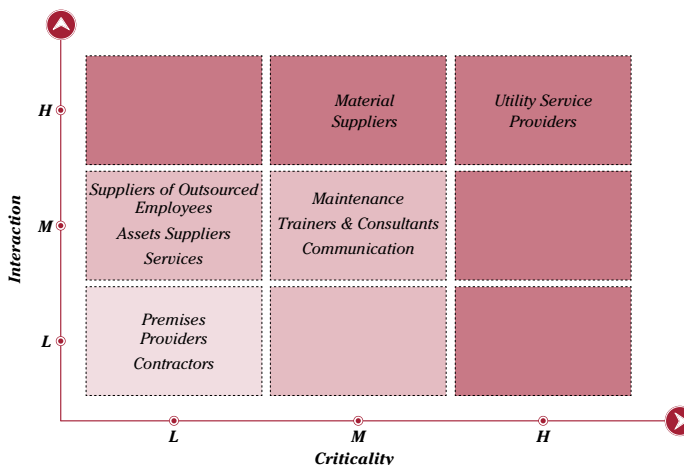
The Bank's supply chain is currently mostly managed manually. A significant change through the Bank's digitization strategy would be the migration on line for end-to-end, real time, 24x7, supply chain management. The bank will look into the E-tendering processes to combine all activities of the supply management processes. This move significantly enhance our ability to respond to the needs of the branch network. It adds to efficiency, speed and greater flexibility in our supply chain management function with a significant reduction in the paper usage.

Supplier Engagement

To abide by good governance standards in supply chain management, the Bank observes formal, Board approved, tender procedures to register and award contracts to suppliers. New suppliers are registered every year by calling for public tenders followed by an assessment procedure. During the financial year 2015, the Bank did not change existing suppliers. However, number of new suppliers were added to the Bank's supply chain to support the Bank's digitization strategy through the provision of consultancy services, equipment and software.

The Bank maintains different levels of communications with suppliers based on the level of dependence and the level of interaction required to achieve strategic and business goals.

Supplier Prioritization Matrix



Future Focus

During the current financial year the Bank identified a number of methods to improve the Bank's supply chain management process.

- » Implement an E-Inventory System to raise requisitions, real time tracking and management of inventory
- » Introduce an E-Tendering System to facilitate supplier tenders
- » Adopting an environmentally friendly waste management system
- » Include provisioning to encourage suppliers (especially material suppliers) to comply with environmental standards.
- » Check supplier labour practices to ensure they abide by good governance in respect of labour practices

VALUE CREATION DELIVERY CHANNELS

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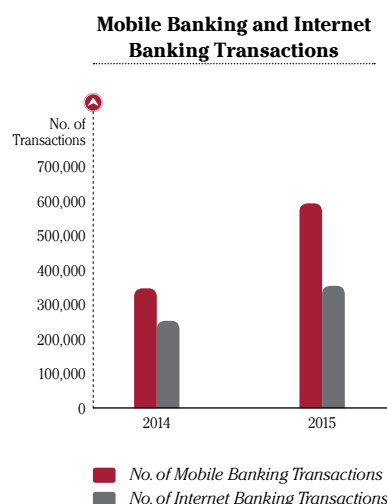
Traditionally bank branches have always played an important role and remained a key banking channel. However the changing needs and preferences of customers, coupled with growing technological innovations, has led to the increased popularity and adoption of newer channels over the last decade. As such, People's Bank had identified channels that are most important to customers, with the aim of providing efficient, cost effective, seamless banking services to our customers. This year, investments in the technology will enable shifting customer services from high-cost to lower-cost channels, thus reducing their total cost-to-serve whilst improving the levels of efficiency with 24/7 service channels. Our investment in the technology will provide new customer experiences, thus supporting businesses and better customer retention.

Branch Network, Mobile Banking, ATMs, Internet, Mobile Phones

People's Bank saw strong business growth across all delivery channels, including the non-traditional electronic and mobile platforms. While traditional bank branches accounted for a majority of transactions during the year, we are pleased to report rapid year-on-year growth in the use of other delivery channels such as the ATMs, Internet banking and mobile banking usage. We are pleased to notice a substantial growth particularly from outside the Western Province, indicating that more of our customers are coming on board Sri Lanka's modern, technology based financial system. The Bank is taking a strategic view on the service delivery channels as per the 2016 – 2020 five year strategic plan. There are a number of initiatives executed in 2015 in order to improve the ATM usage, internet banking and mobile phone usage for banking. One of our main targets in

future is to accommodate a majority of transactions through technology channels, such as cash deposits, money transfers, utility bill payments, cheque deposits etc. Internet and mobile phone banking will be enhanced with modern technology to be on par with the best of the industry standards. Most of the work pertaining to the development of these channels have already started.

Mobile banking for instance, surged in popularity during the year with the number of transactions increasing by 71%. Internet banking transactions have also shown a commendable growth, but lagged behind mobile phone based transactions due to lower Internet penetration.



Branch Network

As at end December 2015, the People's Bank branch network was the largest bank branch network in the country with 740 fully fledged and limited service branches, spread across the island. The branch network saw a record performance with a profit growth of 13% year-on-year accounting for 23% of total post tax profitability of the Bank.

ATM Network

The People's Bank ATM network increased from 469 in 2014 to 492 in 2015. However, through the

common ATM network that include the participation of 11 other banks, People's Bank's total ATM coverage of the country reached over 3,000 ATM machines. We plan to introduce an additional 300 ATMs in 2016, part of it to replace some of the older machines and to cover new locations.

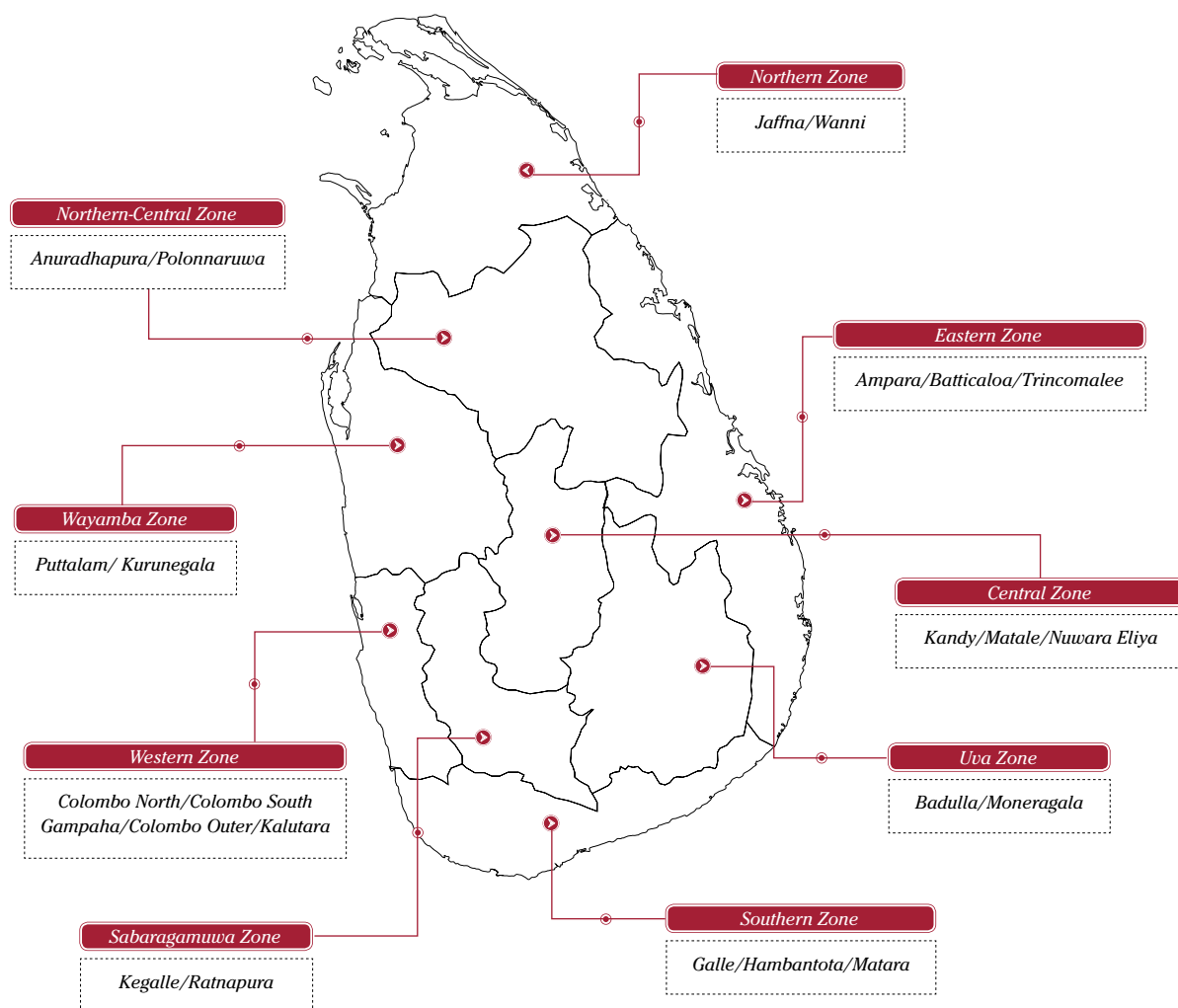
Advanced Technology Support

The Bank has a dedicated monitoring and maintenance unit to continually monitor the ATM network. The monitoring system enables the Bank to immediately pinpoint and respond to breakdowns and malfunctions, anywhere in the island wide ATM network. These advanced technology support services have enhanced customer convenience and accessibility. Due to the reliability and low offline time of People's Bank ATMS, a significant share of People's Bank ATM transactions are conducted by customers of other banks.

Internet and Mobile Phone Banking

The Bank focused strongly on modern technology products in 2015, that are also more environmentally sustainable. During the year we promoted and canvassed customers directly for mobile phone banking accounts, that saw the number of customer registrations shooting up by 113%. Customers are required to register with people's Bank and are able to transfer funds and check their account balances using the 'People's Mobile' App. Through this 'App' the mobile phone can be used to transfer funds to People's Bank and third party accounts, and to pay utility bills etc.

People's Bank's Internet banking facilities provide all of the above financial transactional facilities, real time, 24/7, making banking more convenient than ever for customers located anywhere in the country. The Bank's internet banking customer base grew by 43% during the year.



People's Bank Branch Network (2015)

Location	No. of Branches
Ampara	25
Anuradhapura	32
Badulla	35
Batticaloa	19
Puttalam	23
Colombo	124
Galle	36
Gampaha	59

Location	No. of Branches
Hambantota	21
Jaffna	29
Kalutara	36
Kandy	50
Kegalle	28
Kurunegala	52
Matale	19
Matara	29

Location	No. of Branches
Monaragala	14
Nuwareliya	27
Ratnapura	28
Polonnaruwa	18
Trincomalee	17
Wanni	19
Total	740

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STAKEHOLDER ENGAGEMENT

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(G4 - 24,25,26,27)

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Our promise, "We contribute to quality and enterprise development", concisely summarizes our approach to business: we understand that we succeed by meeting the needs of our stakeholders. Maintaining an open transparent dialogue with our stakeholders is vitally important, because we know a more responsive business is a more successful one.

The stakeholder engagement process is illustrated below. (Along with a table that lists our identified stakeholder groups, engagement approaches, stakeholder expectations, and our initiatives and responses to those expectations)



Stakeholder identification is important to ensure that we understand and prioritize their expectations. The process is analyzing our key stakeholders through a brainstorming process by methodically mapping the influences and stakeholder groups in order to ensure that their position on issues are resolved. Both the internal and the external stakeholder groups are taken into consideration carefully as our regular business activities bring us into contact with our stakeholders every day.

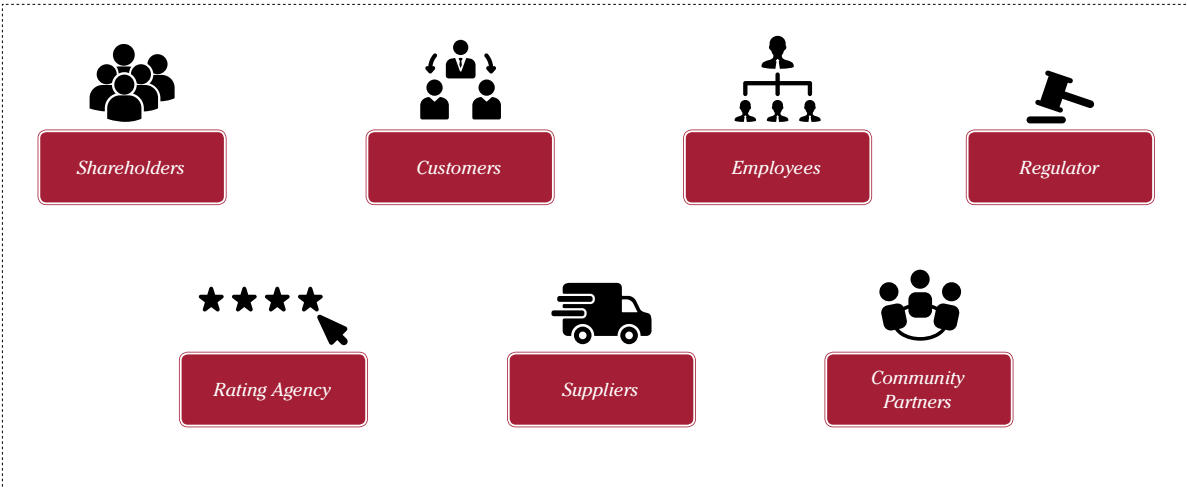
When identifying the key stakeholders we took into consideration the responsibility, influence and proximity of our stakeholders.

We prioritized our key stakeholders based on the key 15 sustainability issues that are most important to our organization and our internal and external stakeholders. These issues are listed in the following;

Managing our Business	Responsible Banking	Inspiring our People	Building Stronger Communities	Reducing our Environmental Footprint
1. Business Conduct 2. Consumer protection & Transparency 3. Corporate Governance 4. Customer Feedback 5. Privacy & Data Security	6. Access/ Financial Inclusion 7. Responsible Investing 8. Responsible Lending	9. Diversity & Inclusion 10. Employee Engagement 11. Learning & Development 12. Talent Attraction and Retention	13. Contributing & Community 14. Financial Literacy	15. Reducing our Environment Footprint

Based on the assessment carried out above taking the key 15 sustainable issues as the benchmark we prioritized our key stakeholders as below. Peoples Bank stakeholders include customers, investors, employees, regulators, suppliers, community/civil society groups, non-governmental organizations and the research community (e.g. analysts, rating agencies). Each of these groups is important to us.

Peoples Bank Key Stakeholders



The Bank seeks to engage in an ongoing dialogue and collaboration with its Stakeholders, in order to understand and, as far as possible, respond to their expectations, needs, concerns and requests. Moreover, we have developed engagement initiatives designed to extend this dialogue and help us understand how stakeholders rank the importance of the sustainability issues that matter to them. To identify emerging issues and opportunities, we participate in roundtables with our peers, and we are active members in key industry and community associations.

The outcome of these exchanges and conversations gives stakeholders confidence that we're not just aware of their priorities, we're committed to acting on the things that matter to them. . The following table presents the Bank's commitments and response to Stakeholder expectations. These commitments and the respective actions taken have been the Bank's daily operation and the opportunities identified through its interactions with its Stakeholders.

VALUE CREATION

STAKEHOLDER ENGAGEMENT

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Customers

Ways of Inclusion	Priorities	Bank Response
<ul style="list-style-type: none"> » Satisfaction surveys. » Marketing initiatives. » Relationship and business managers. » Customer networking events. » Corporate website » Media Advertisements 	<ul style="list-style-type: none"> » Good return from deposits » Fast services delivery with excellence » Preferential pricing, charges and commission » Product varieties catering market demand » Online banking solutions with secured transactions, privacy and confidentiality » Access to funding for SMEs » Customer Protection 	<ul style="list-style-type: none"> » Provide timely, adequate, clear and accurate information on product and services » Develop quality excellence of service by prioritizing customer satisfaction » Use advertising and promotion that uphold honesty » Constant monitoring and upgrade of systems » Customer satisfaction surveys

Communities

Ways of Inclusion	Priorities	Bank Response
<ul style="list-style-type: none"> » CSR activities » Scholarship » Community workshops, focus groups, surveys and up-skilling initiatives 	<ul style="list-style-type: none"> » Participate in community project » Support to under privileged people » Support to basic need for living » Technology and infrastructure 	<ul style="list-style-type: none"> » Encourage involvement in community activities in education, culture, basic needs humanity and environment

Suppliers

Ways of Inclusion	Priorities	Bank Response
<ul style="list-style-type: none"> » Supplier surveys » Ongoing supplier relationship management » Onsite visits and meetings 	<ul style="list-style-type: none"> » Procurement processes and requirements » Need for greener technology and renewable resources 	<ul style="list-style-type: none"> » Cascade of policies » Real-time updates » Registered suppliers

Employees

Ways of Inclusion	Priorities	Bank Response
<ul style="list-style-type: none"> » Employee meetings, teleconferences, video conference etc. » Training, workshops and orientation program » Group emails, intranet circulation » Business area engagement » Bank internet portal 	<ul style="list-style-type: none"> » Integrity within the banking sector and within Peoples Bank » The complexity of the group's structure, systems and processes » Transparency and fairness of reward and recognition » Inflation adjustment in pay package planning » Proper job description as per individual skill set » Regular training » Healthy working environment and workplace safety » Performance driven career progression 	<ul style="list-style-type: none"> » Employee volunteerism programs » Innovation in employee development programs, systems, process and practices. » Objective, transparent, fair and equal treatment to every member of the Bank. » Provide a work environment that is conducive to increase productivity.

Investors/ Shareholders Analysts

Ways of Inclusion	Priorities	Bank Response
<ul style="list-style-type: none"> » Annual general meeting (AGM) » Annual report, publishing quarterly financials » Press conferences » Media Releases » Corporate Website 	<ul style="list-style-type: none"> » Healthy return on investments and dividend policy » Growing earnings » Sound governance and risk management 	<ul style="list-style-type: none"> » Transparent and timely disclosures.

Government, Legislators and Regulators

Ways of Inclusion	Priorities	Bank Response
<ul style="list-style-type: none"> » Annual & semiannual report, publishing quarterly financials » On site surveillance by the CBSL » Filing of regulatory returns » Press releases 	<ul style="list-style-type: none"> » Healthy return on investment and dividend policy » Growing earnings » Sound governance and risk management 	<ul style="list-style-type: none"> » Transparent and timely disclosures

VALUE CREATION BUSINESS ENVIRONMENT

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Global Economy

According to the latest January 2016 projections by the IMF's World Economic Outlook (WEO) report, the world economy decelerated in 2015, owing to many large emerging economies recording negative growth and most developed economies reporting only marginal growth against 2014. Global GDP was projected at 3.1% as at end December 2015, down from 3.4% in 2014, with both the Russian and Brazilian economies reversing to negative growth of 3.7% and 3.8%, from 0.6% and 0.1% in 2014. The Chinese economy decelerated to 6.9% from 7.3%. The US and Euro area returned marginal growth of 2.5% and 1.5%, from 2.4% and 0.9% a year ago, while the Japanese economy nosed up from no growth in 2014, to a marginal 0.6% growth in 2015. India retained its growth rate of 7.3%.

The IMF noted that three key transitions continued to influence the global outlook in 2015:

- (1) the gradual slowdown and rebalancing of economic activity in China away from investment and manufacturing toward consumption and services,
- (2) lower prices for energy and other commodities, and
- (3) a gradual tightening in monetary policy in the United States in the context of a resilient U.S. recovery as several other major advanced economy central banks continue to ease monetary policy.

Manufacturing activity and trade remained weak globally in 2015, reflecting not only developments in China, but also subdued global demand and investment. Oil prices declined markedly since September

2015, amid continued over supplies. Prices of other commodities, especially metals, have fallen as well.

However, the IMF expects a gradual recovery in 2016 in the world economy. Global growth is projected at 3.4% in 2016 and 3.6% in 2017. Growth in advanced economies is projected to rise to 2.1% and hold steady in 2017. Growth in emerging markets and developing economies is projected to increase from 4% in 2015— the lowest since the 2008–09 financial crisis— to 4.3% and 4.7 % in 2016 and 2017, respectively.

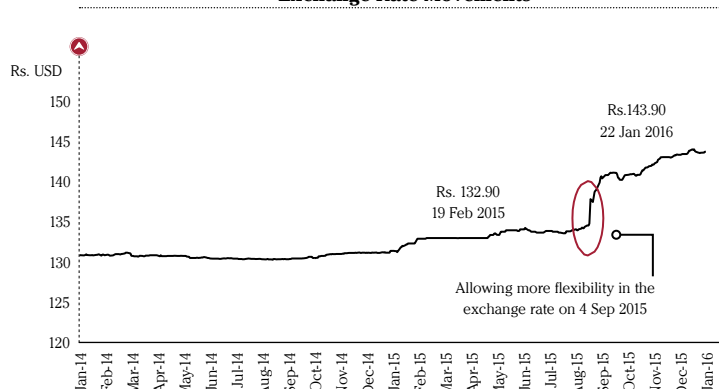
	Year-on-year Growth			
	Estimates		Projections	
	2014	2015	2016	2017
World Output	3.4	3.1	3.4	3.6
Advanced Economies	1.8	1.9	2.1	2.1
United States	2.4	2.5	2.6	2.6
Euro Area	0.9	1.5	1.7	1.7
Japan	0.0	0.6	1.0	0.3
United Kingdom	2.9	2.2	2.2	2.2
Emerging Market Economies	4.6	4.0	4.3	4.7
Russia	0.6	-3.7	-1.0	1.0
China	7.3	6.9	6.3	6.0
India	7.3	7.3	7.5	7.5
Brazil	0.1	-3.8	-3.5	0.0
Asian	4.6	4.7	4.8	5.1

Domestic Economic Developments 2015

The IMF has projected a real GDP growth of 6.5% for Sri Lanka in 2015..

According to the available cumulative third quarter growth figures indicates a stronger 5.2% GDP growth against the 2.4% in the previous year's third quarter, boosted by positive performance across all three major economic sectors of services, industries and agriculture. The third quarter 2015 saw cumulative services growth of 5.2%, industries growth of 3.6% and a strong recovery in the agriculture sector to reach a growth of 6.1%.

Exchange Rate Movements

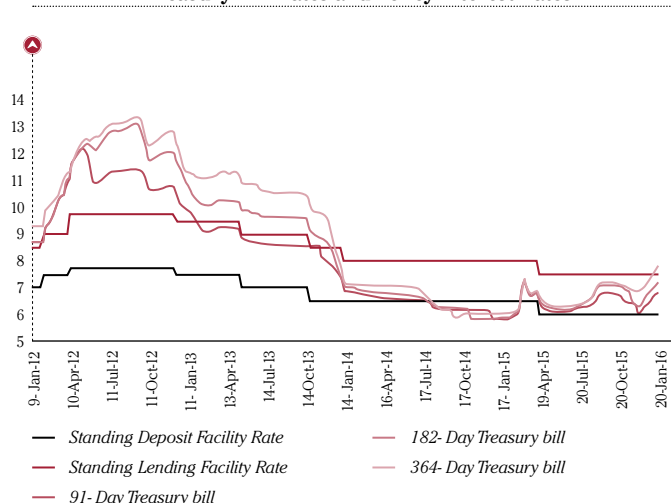


Both exports and imports declined in 2015, with export earnings falling faster by 4.4% as opposed to the decline in import expenditure by 2.1%, causing in the trade deficit to expand by 1% year-on-year during the January to November period. Tourism incomes increased by 17.8% to US\$ 2,862.9 Mn during the year. However, worker remittances fell by 0.5% to US\$ 6,980.3 Mn mainly due to the instability in the Middle East, which is Sri Lanka's largest remittance destination.

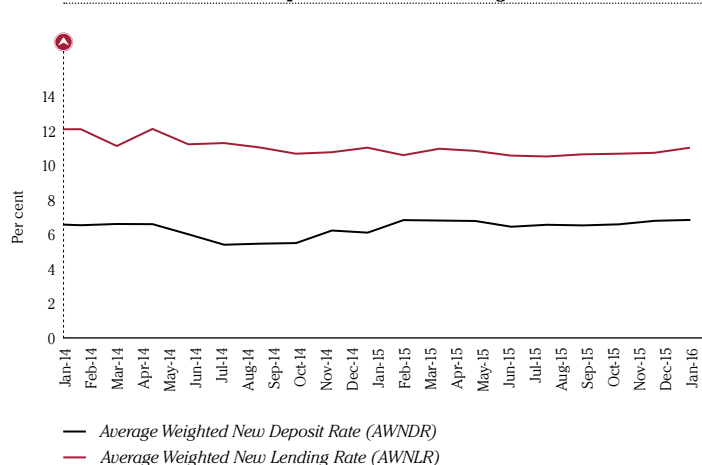
The rupee declined against most major currencies, depreciating by 9% against the US dollar, by 4.5% against the Sterling Pound, 8.2% against the Yen and 4.5% against the Indian rupee but appreciated by 1.3% against the Euro.

Interest rates maintained a downward trend with treasury bill rates and policy rates continuing to decline for most of the year. However, interest rates experienced some fluctuations during the year and saw an upward reversal towards the end of 2015.

Treasury Bill Rates and Policy Interest Rates



New Deposit and New Lending Rates



Based on the Colombo Consumer Price Index (CCPI), year-on-year headline inflation was 2.8% in December 2015, while annual average headline inflation was 0.9% in December 2015. Headline inflation based on the National Consumer price Index (NCPI) decelerated to 4.2% year-on-year in December 2015, from 4.8% in November 2015 on a year-on-year basis.

Rate of Inflation 2015

	Dec 2014	Sep 2015	Oct 2015	Nov 2015	Dec 2015
Headline inflation (%) based on CCPI					
Y-o-Y	2.1	-0.3	1.7	3.1	2.8
Annual average	3.3	0.7	0.7	0.9	0.9
Headline inflation (%) based on NCPI					
Y-o-Y	-	1.9	3.0	4.8	4.2

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BUSINESS ENVIRONMENT

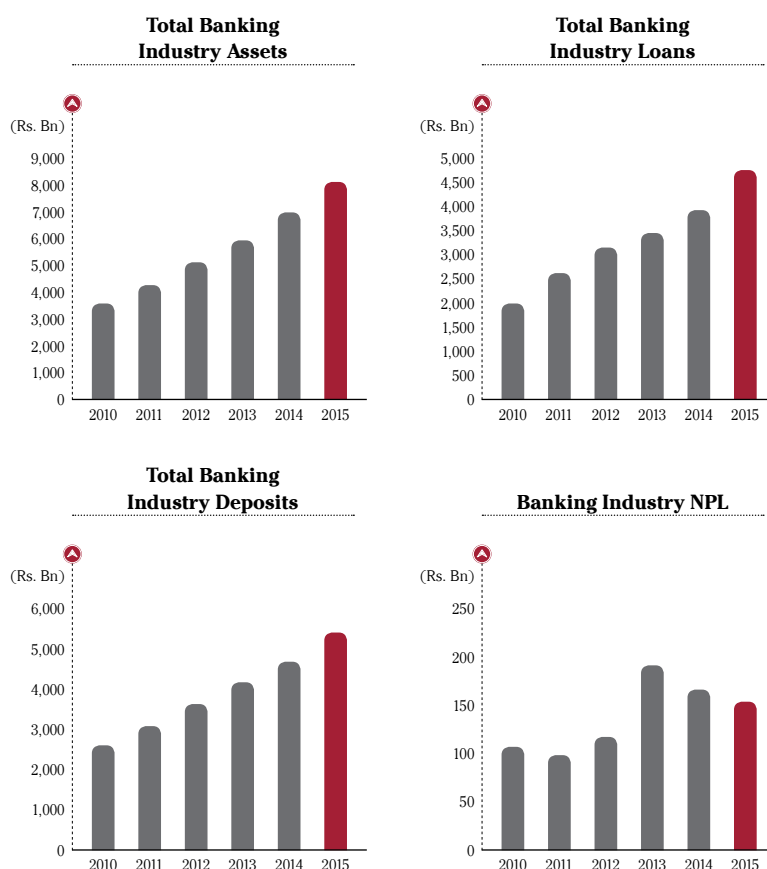
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People's Bank's Contribution to the Banking Industry

Total banking sector assets reached an estimated Rs. 8.07 Tn by end 2015, funded largely through deposits.

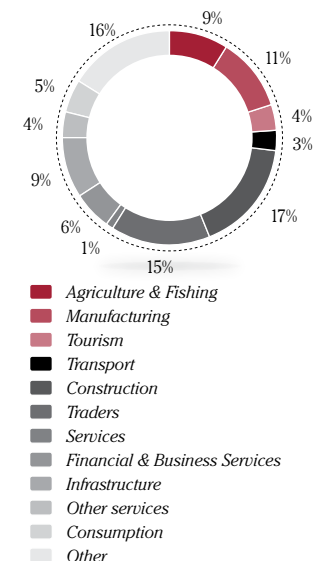
Industry Performance 2010-2015



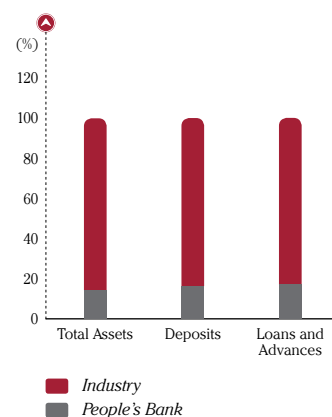
People's Bank represented 17.6% of all banking industry loans and advances during the year 2015. People's Bank assets swelled to Rs. 1.18 Tn, from Rs. 1.03 Tn, at the end of 2015. Total value of banking industry deposits increased from Rs. 4.68 Tn, to Rs. 5.40 Tn during the 12 month period of January 2015 to December 2015. People's Bank accounted for 16.6% of total banking industry deposits with a deposit base of Rs. 899.2 Bn.

While the banking industry's credit portfolios continued to expand in 2015, the rate of growth moderated against 2014 in the face of slower growth in credit demand. The construction sector accounted for 16.8% of the total loans disbursed by banks. Cumulatively, 51.5% of the total loans were distributed among the sectors of construction, trading, manufacturing and agriculture & fishing.

Sectoral Distribution of Banking Sector Credit 2015



People's Bank Vs Industry Assets, Deposits and Lending in 2015

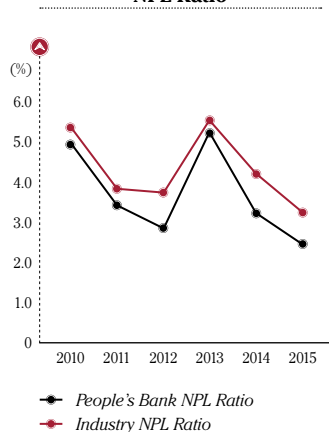


NPLs

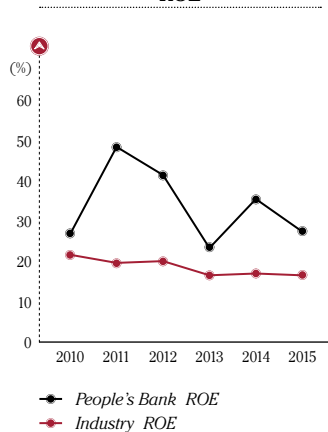
Banking industry NPLs decreased by Rs.12.7 Bn and the gross NPL ratio reduced from 4.2% in December 2014, to 3.2% by December 2015, leading to a healthier asset base. People's Bank's NPLs declined from 3.2 % in 2014 to 2.4% by end 2015.

2.0% in December 2014, to 1.9% by December 2015, while return on equity declined from 16.6% to 16.1%. The interest margin remained at 3.5%. People's Bank maintained its ROA at 1.8%, while the Bank's ROE was 27.1% and interest margin was at 4.0%, as at end December 2015.

**Industry Vs People's Bank
NPL Ratio**



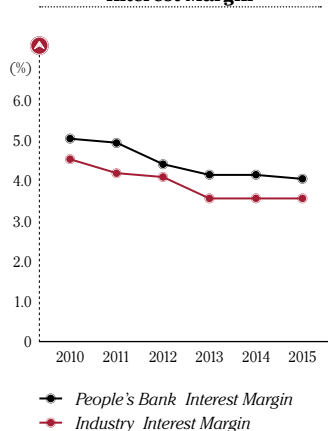
**Industry Vs People's Bank
ROE**



Profits

Banking sector profitability increased in 2015 compared to 2014. This was mainly due to the declining interest rates on deposits causing interest expenses to reduce at a rate higher than the reduction in bank lending rate coupled with exchange gains due to rupee movement, leading to higher net interest incomes. People's Bank share of industry profit before tax increasing from 13.6% to 13.9%.

**Industry Vs People's Bank
Interest Margin**

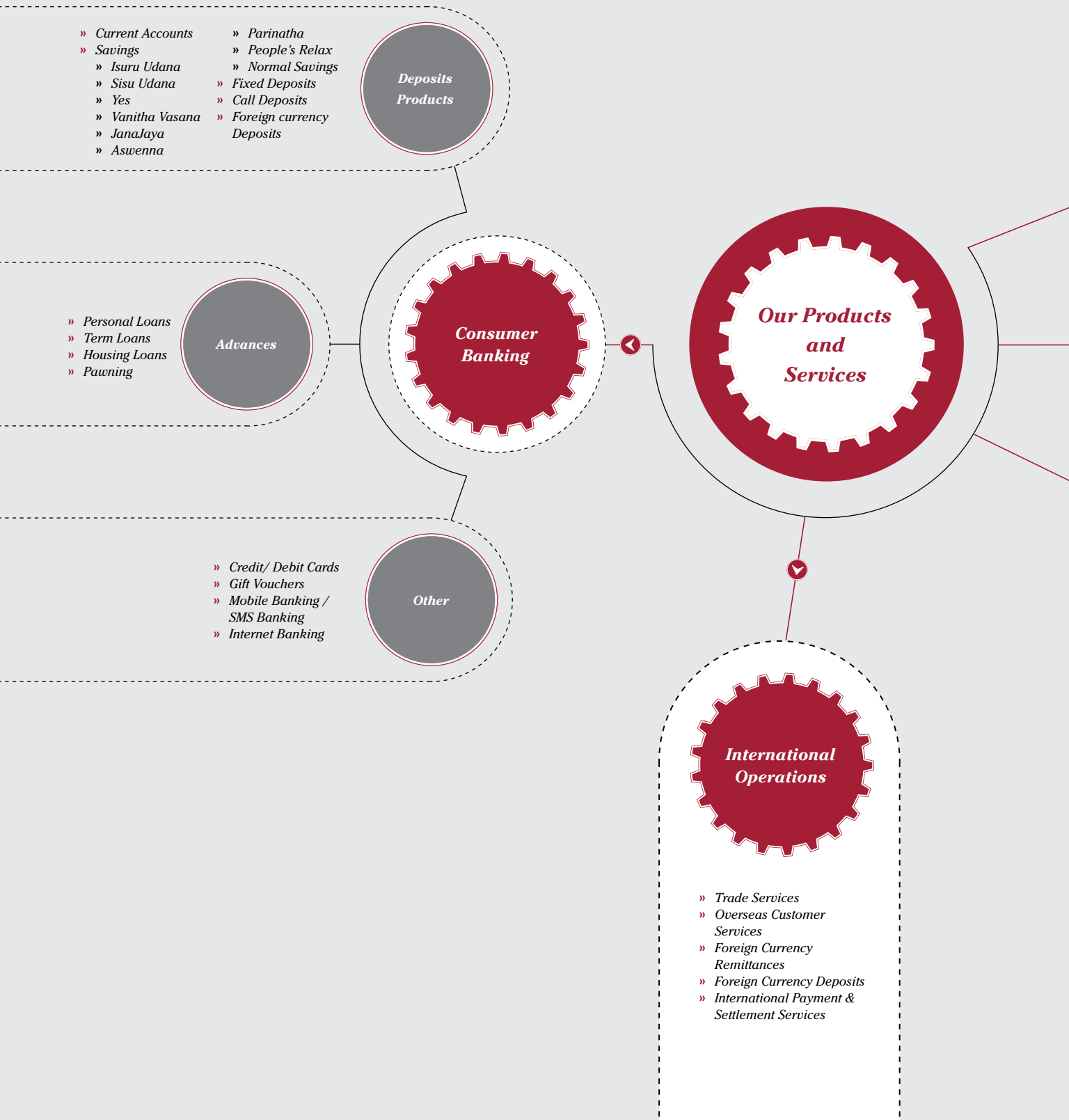


Banking Industry Profitability Ratios 2015

Although the banking sector recorded profit growth in 2015, the average profitability ratios declined marginally year-on-year. This was due to the increase in non interest expense of staff costs and operating costs. Average banking industry return on assets (before tax), declined from

VALUE CREATION

OUR PRODUCTS AND SERVICES



- » *Current Accounts*
- » *Savings Accounts*
- » *Fixed Deposits*
- » *Overdrafts*
- » *Term Loans*
- » *SME Loans*
- » *Development & Micro Finance Loans*
- » *Trade Finance*

Enterprise Banking

Wholesale Banking

- » *Current Accounts*
- » *Savings Accounts*
- » *Fixed Deposits*
- » *Overdrafts*
- » *Term Loans*
- » *Trade Finance*
- » *Import/ Export Financing*
- » *Shipping & Bank Guarantees*
- » *Facilities for International Trade Payments (Letter of Credit, Acceptances)*

Treasury & Investment Banking

- » *Money Market Activities*
- » *Trading of Government Securities*
- » *Repurchase Transactions on Government Securities*
- » *Foreign exchange transactions*
- » *Derivative Transactions (Forward Exchange Contracts, FX Swaps)*
- » *Investment Banking*
 - » *Debt Structuring, Advisory Services*
 - » *Trustee services*

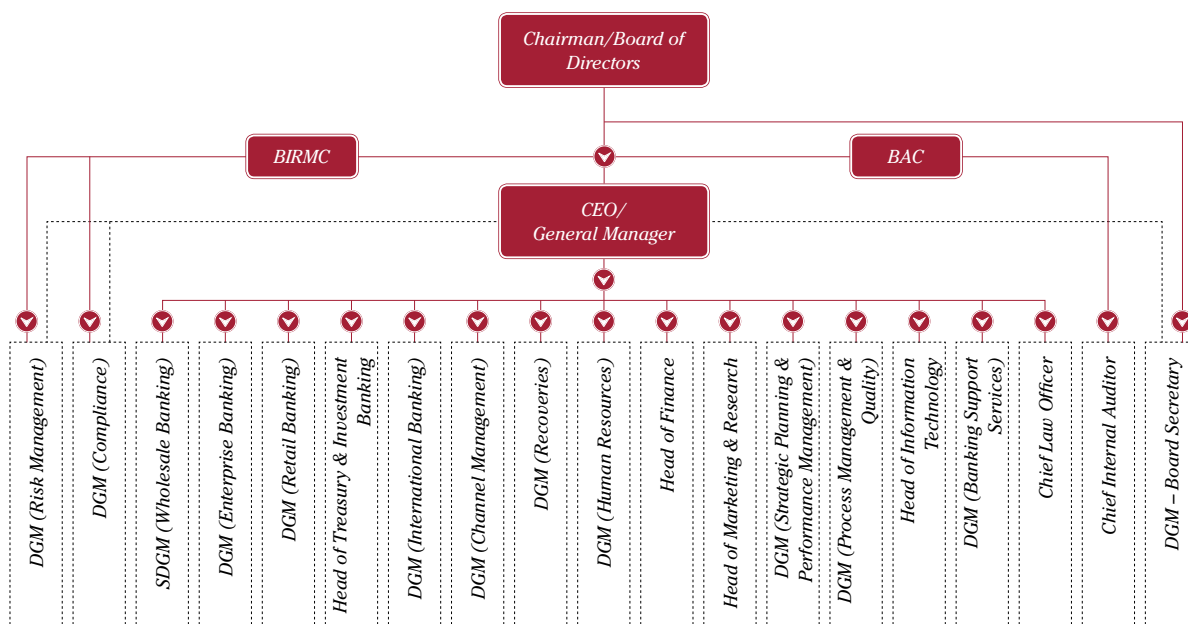
VALUE CREATION

ORGANIZATION STRUCTURE & SECTORAL PERFORMANCE

68 Organization Structure

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In line with the strategic plan, the Bank restructured its internal operations based on a market segmentation exercise linked to growth and diversification opportunities. The new business classification would enable the build-up of specializations by sector and would also facilitate more effective resource allocations based on target market requirements. It would enable clear identification of ownership of each customer relationship and facilitate better performance measurement of each business unit. All these will be integrated with the new technologies we are acquiring now.



A blueprint has already been developed and initiated to upgrade technology, processes and personnel, according to the above operational structure. These initiatives will be continually improved and transferred across the branch network starting from the new financial year.

Sectoral Performance

Wholesale Banking

The Wholesale Banking Division is equipped to serve the full range of mid-to-large businesses, including all listed companies, multinationals, offshore banking, State Owned Enterprises and limited liability companies with turnover exceeding Rs. 1,500 Mn and network in excess of Rs. 100 Mn. Due to its state ownership however, the Bank has

traditionally been a prime banker to State Owned Enterprises and to date, the state sector accounts for the major share of the Bank's corporate portfolio. Nevertheless, the Bank continues to actively engage in promoting banking facilities to the private sector, to diversify the portfolio and to increase its private sector footprint.

In 2015, total wholesale lending increased by 11% year-on-year, to reach Rs. 158 Bn. Demand from state owned energy enterprises and a few infrastructure projects continued to dominate the portfolio, accounting for almost of total advances. Credit to the private sector more than doubled in value terms but was lower than anticipated due to subdued economic activity.

Despite the focus on asset expansion, the Bank continued its quest towards improving asset quality, by enforcing more disciplined lending criteria, closer monitoring of loans, and employee training. We are pleased to report that our efforts have been successful with the Gross NPL ratio improving significantly from 3.2 % as at end 2014, to 2.4% as at end 2015.

Off Shore Banking Unit

Growth of the Off Shore Banking unit was driven by higher demand from both the state and private sector. The Off Shore Banking Unit provides services for companies registered under the BOI, Monetary Board approved state sector institutions, and off shore business ventures. These services include

designated foreign currency based trade financing facilities, credit facilities and deposits. In 2015, private sector demand for trade loans increased by 40% driven by the apparel and industrial export sectors while demand from the state sector increased by 23%. The demand for investments in large scale foreign projects in the country through off shore banking unit and tourism projects located outside the island also saw a positive trend.

Future Focus

- » Development of the corporate website with remote customer access. This corporate portal is to automate all our customer requirements assisted by the corporate Internet banking and corporate mobile banking facilities. The project started in 2015. The Wholesale banking customers will enjoy the new face of People's Bank wholesale banking coupled with much greater efficiency and customer convenience.
- » To establish a customer profitability measurement system for pricing decisions. This project (Data warehouse project) started in 2015 and is expected to be completed by the third quarter 2017.

Enterprise Banking

Enterprise Banking consist of commercial banking (businesses with annual turnover between Rs. 600 Mn – Rs. 1,500 Mn), SME banking (business with annual turnover of Rs. 15 Mn – Rs. 600 Mn) and development/ micro finance for the business with less than Rs. 15 Mn in annual turnover.

Commercial Banking

The commercial loan market in Sri Lanka is extremely competitive. Nevertheless, we are happy to report an 20% growth in loan portfolio during the year, to reach Rs. 431 Bn. As a growth strategy, the Bank focused on providing tailored and highly flexible credit lines, structured to meet the different cash requirements and repayment abilities of customers. We believe this approach increases access to credit for a sizable segment of the country's medium and large businesses. This unit provides customer access to loan funds based on cash-flows and better business planning, rather than the traditional, single focus on collateral.

SME Banking

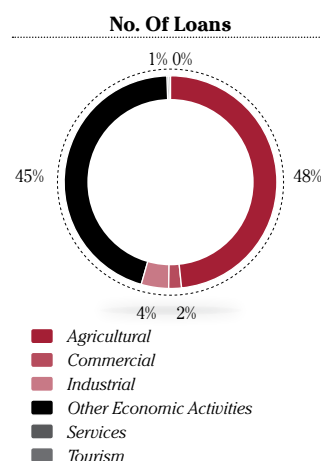
People's Bank operates 23 SME Centres located at the key SME business geographies in the country,. The objective of SME Centres is to provide dedicated financial services to SME requirements and to design financial support packages meeting specific SME business needs. Therefore, SME Centres maintain a different set of credit guidelines and products that are specifically designed to meet SME needs with specific SME related risk factors.

During the year the Bank increased accessibility to SME loans by looking into certain aspects of SME financing. The tenure of SME loans were extended up to 10 years, to support sustainable SME growth. The portfolio grew by 38% in value, to reach Rs. 7.5 Bn. The number of loans disbursed, Rs. 1.6 Bn during the year 2015. People's Bank is currently one of the country's largest SME lenders, and fully committed to the development of SME sector in Sri Lanka.

Development Banking/ Micro Finance

Development finance/ micro credit plays the role of development enabler in rural parts of Sri Lanka and is one of the main channels of rural development support delivered by the Bank. During the financial year 2015 the Development and Micro Finance Unit disbursed Rs. 9.6 Mn in 29,603 micro loans.

Disbursements by Sector



Agriculture credit accounted for the largest share of disbursements, while other economic activities collectively accounted for the second highest share of funding.

The Bank will focus on developing the cooperative sector and agro based businesses in the new financial year, to strengthen rural economies and rural employment creation.

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Consumer Banking

Personal Banking

The broad and diverse product portfolio that truly encompasses every demography, whether in age, location, knowledge levels or socio-economic perspectives, coupled with unparalleled service excellence has been the competitive edge that the bank has continued to develop in its over five decades of existence. Remaining true to the ethos of being a Bank with the people for the people, our personal banking product portfolio has a rich coterie of products that is renowned to partner a person from the cradle to their twilight years, whether in rural or urban surrounds, or hailing from various social strata, aligned to their needs and aspirations.

Our portfolio ranges from credit cards to personal loans, savings deposits to fixed term deposits and young saver's accounts to pension plans, supported ably with customer services that has over the decades become a hallmark of the Bank. Our focus has been on developing long-term relationships with our clients and on being proactive in meeting their different needs.

Our astute investment in technology over the years enables us to offer our customers technology savvy products for easy, efficient, accessible, penetrative and hassle free banking anytime anywhere.

People's Bank opened the doors of Green Banking for the new generation and currently they are experiencing the convenience of this concept. Time & energy saving environmental friendly banking solutions such as online account opening paperless banking and "YES E-statement accounts" are the key outcomes of Green Banking.

Mobile & Internet Banking, e-learning CD, Relax Calculator, PalmTop Banking, Debit & Credit Cards, People's Mail Inbox are some other Green products introduced by Personal Banking Department.

Isuru Udana

Aimed at new-born infants and up to 5 years of age, the 'Isuru Udana' savings account can be opened with a nominal deposit of Rs. 100/-, offering interest rates above the norm and exciting gifts. The 'Isuru Udana' gift certificates worth Rs. 500/-, Rs. 1,000/- and Rs. 2,000/- are available and also unique and can be used to open a new account or credit an existing account. Once the account holder reaches the age of five, the account automatically converts to a 'Sisu Udana' account.

Sisu Udana

For account holders between 6-18 years of age, this account can be opened with a nominal Rs.100/-. Exciting gifts, special cash awards and rewards for achievers in the Year

Five Scholarship and young achievers in Ordinary Level Examination and Advanced Level Examination added to the attractions. At 18, the account holder will have the 'Sisu Udana' account automatically converted to a YES account.

Yes

'Yes' is specifically designed for young people stepping out into the real world. Opened with a deposit of Rs. 2,000/-, the account offers free standing orders, credit card facilities, leasing facilities as well as loan facilities for housing, vehicle purchases and higher education. The account incorporates a 1% bonus interest when the balance exceeds Rs. 25,000/-.

Aswenna

'Harvest', as the name denotes is a product aimed specifically for farmers who work on seasonal incomes and can be opened with an initial deposit of Rs. 1,000/-. Entitled to a bonus interest rate of 1% once the balance exceeds Rs. 10,000/-, these account holders are also granted concessionary interest rates and agricultural loans.

The People's Bank Gift Voucher

Available in denominations of Rs. 500/- and Rs. 1,000/-, People's Bank Gift Voucher can be deposited into any account at any branch and is valid for six months from the date of issue.



Vanitha Vasana

Celebrating the myriad roles played by women in the country, the Vanitha Vasana account gives interest rates above the normal savings rate is also offer for this account and can be opened with an initial deposit of Rs. 500/- . It has the added advantage of loan facilities being granted for small entrepreneurship ventures, purchase of property or housing and higher education.

Parinatha

The 'Parinatha' account, which can be opened with Rs. 500/- and offers attractive interest rates, is customized for senior citizens and encompasses a range of attractive benefits offered at Lanka Hospitals (Pvt) Ltd.

JanaJaya

For those with a steady monthly income, this account which can be opened with a minimum deposit of Rs. 2,000/- offers special loan and leasing facilities, and attractive interest rates.

People's Net

Infusing the rudiments of Internet banking, the ease of managing several accounts and effecting a variety of banking transactions makes banking anytime anywhere a true possibility with People's Net.

People's Visa International Debit Card

Adding myriad conveniences with the added confidence of secure financial services, this Debit Card can be used at over 30 million merchant outlets and a network of 2 million ATMs globally.

People's Mobile Banking

The very versatile mobile phone adds amazing conveniences to our customers 24 x 365 banking environment by one touch at your fingertips. Checking account

balances, transaction histories, transferring funds to own accounts and third party People's Bank accounts as well as third party other bank Accounts in Sri Lanka, Credit Card & utility bill payments, Ordering Cheque books & statements, Inquiring Pawned Article details, inquiring interest rates & exchange rates, and Inquiring closest Bank Branches & ATMs are the comforts offered to our valuable customers.

People's Relax - Your Bright Future Begins Today

People's Relax Savings Planner – is a retirement benefit account introduced with the aim of providing a steady monthly income and financial independence after retirement. The account can be opened with an initial deposit of Rs. 500/- while the customer can deposit an agreed fixed amount periodically, a lump sum or any amount as and when he earns an extra income.

People's Nirogi

'People's Nirogi' medical benefit scheme was introduced to all People's Bank account holders, where all customers can enjoy a wide range of exclusive medical benefits at Lanka Hospitals. These special medical benefits can be entertained by using the People's Visa Credit or People's Visa Debit card when making medical payments at Lanka Hospitals.

Swarna Pradeepa

Swarna Pradeepa provides you with loan facilities at your any urgent cash requirements, securing your gold articles with trust & confidence.

Innovative personal loan schemes were implemented to cater to the personal financial requirements of customers. In addition, we established flexibility to the existing schemes to suit the changing

paradigms in demographics, social strata, income levels and current lifestyles.

Gurusetha, Suwa Sewana, Jaya Niwasa, Pahasu, People's Wisdom, Professional, people's Auto, Deya Wiru Pranama, GMOA/GDSA and People's Dream Home are some of the personal loan schemes offered by us with flexibility and attractive interest rates. As a state Bank, these products enable us to fulfil our social responsibilities by uplifting the living standards of our customers.

People's Wisdom Loan Scheme

People's Bank now offers a flexible Education Loan scheme to help young generation to overcome all the limitations.

The Education Purpose Loan scheme was branded as "People's Wisdom Loan Scheme". "People's Wisdom Loan Scheme" is now in a more flexible manner with relaxed conditions. Under this loan scheme any one can apply a loan for local and Foreign education purposes.

Loans can be considered jointly with parents/spouse/close relative in case where applicant is unemployed/ having insufficient repayment capacity/going abroad for education.

This Wisdom Loan Scheme is open for school leavers (with a joint applicant) a Degree/Diploma or Professional /Vocational qualification and for employed individuals pursuing higher education. Loan amount covers institute/University fees and living/medical/educational expenses etc.

Maximum loan amount is Rs.10Mn. and maximum repayment period is 7 years. There are flexible repayment methods to suit customer's requirements. Loans can be obtained

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on the security of personal guarantee or property mortgage.

Gurusettha Loan Scheme

Gurusettha Loan Scheme was designed and introduced in 1995 especially for teachers in Government schools, Government Technical colleges, Pirivena teachers paid by the Government and teachers in approved private schools.

Gurusettha Loan scheme for teachers is open for purchase of land for construction of houses, construction/ purchase of house, House repairs/ Renovations/Extension to house or any purpose.

Gurusettha Loan scheme has become the most popular loan scheme among the school teachers of the country.

Loan Scheme for Professionals

Loan scheme was introduced targeting high ranked officials of the Govt. sector, three Armed Forces Police and Private Sector personnel who earn relatively high salary/ income to fulfill their needs.

Under this professional Loan scheme high ranked officers can apply loans for purchasing or importation of motor vehicles and Housing or any others purposes.

Jaya Niwasa Housing Loan Scheme

The "Jaya Nivasa" housing loan helps to build dream home with much convenience, providing flexible loan terms and competitive interest rates to suit customer needs. Loans can be obtained to purchase land / house, build a house, an extension or to renovate a house. The loan scheme offers loans up to 75% of the value of the property.

Government & private sector employees, professionals, those

who work in abroad and reputed businessmen etc. are entitled for obtaining housing loans under this loan scheme.

Suwa Sewana Loan Scheme

Suwa Sewana loan scheme is designed especially for Government medical sector employees, both in western and Auyuredic sectors, with tailor – made facilities to suit each grade in the sector from Doctors to minor grades.

People's Auto Loan Scheme

People's Auto Loan Scheme is specially designed to provide credit facilities to purchase vehicles for personal purposes as well as for business purposes. It is uniquely designed to suit various requirements of our customers in upgrading lifestyles by purchasing their dream vehicle and value additions to businesses by owning their own vehicle.

Pahasu Loan Scheme

Pahasu loan scheme is designed to provide financial assistance for employees of Govt./Corporation and private sector to fulfill their personal financial requirements on flexible securities acceptable to the Bank.

Deya Viru Pranama Loan Scheme

Deya Viru Pranama Loan Scheme is a tailor-made loan scheme designed for the employees of Three Armed Forces to provide financial assistance to suit their personnel needs on flexible securities acceptable to the Bank.

Special Loan Scheme for Members of GMOA/GDSA

GMOA/GDSA loan scheme is designed to provide financial assistance to members of Government Medical Officers Association (GMOA) and Government Dental Surgeons Association (GDSA)

such as Specialists/Consultants, Medical Officers, Administrative Staff etc. to suit their personal needs on relaxed securities.

People's Dream Home

A housing loan designed to Professionals with high income levels who are employed abroad to meet their housing requirements which is similar to the Jaya Nivasa Loan.

Treasury Operations

Trading

The Bank faced a volatile trading environment that saw a significant rupee depreciation and rising interest rates. With stronger hints of a US recovery, the Sri Lankan stock market experienced an environment of capital flight and a market down turn. Furthermore there was a net outflow of foreign investments from the government securities market. The devaluation of the Chinese Yuan and other currencies reverberated across global foreign exchange markets, and the free-float of the Sri Lankan rupee during the latter part of the year saw the rupee reaching a record low.

In the wake of this exchange rate volatility experienced during the year, the Treasury Unit out performed targets with foreign exchange earnings increased significantly compared to 2014. Total trading income too increased. Noteworthy thereby contributing a significant share to the overall pre tax-profits of the Bank.

While the country had experienced historically low interest rates in 2014 and during the beginning of 2015, and the market sentiment was leaning towards increasing rates during the latter part of the year. People's Bank adopted a more cautious investment strategy by reducing the duration of its government securities portfolio. This strategy enabled us to book the

maturity proceeds at higher yields. This strategy also helped us to cushion the bank against unrealized losses as a result of the increase in the interest rate structure. Despite this hindrance for active trading, the bank was successful in booking a substantial amount as capital gains in 2015.

Investment Banking

The People's Bank Investment Banking Unit has completed 2015 by positioning itself among the top 5 investment banking services providers in the country. The unit was established in 2012 to cater to institutional and corporate demand for capital and debt market expertise, and has seen the structured value of offerings grow from Rs. 7 Bn to Rs. 13 Bn, within the four year period. In 2015, the unit managed two significant debt IPO's - the Rs. 4 Bn Pan Asia Bank debenture issue in September 2015 and the Rs. 6 Bn People's Leasing & Finance PLC debenture issue in November 2015. The unit also managed its first equity IPO with the Rs. 750 Mn equity IPO of People's Insurance Limited.

Primary Dealer Unit

The Bank's Primary Dealer Unit (PDU) functions as a part of Treasury Unit but is treated as a separate entity. PDU reported a substantial sum as profit for year 2015 fulfilling its responsibility to generate capital gains by actively participate in the Primary and Secondary Market of Government Securities and earning significant interest income via its strategic investment decisions on Government Securities. It has also managed the portfolio of government securities of the Bank and secured substantial revenue by way of the interest income

International Banking

The Overseas Customer Unit

The Overseas Customer Unit of the Bank continued to promote inward remittances through a network of exchange company partnerships and Bank representatives. The Bank is also the principal banker for Western Union money transfers. Despite the moderated remittance inflows to Sri Lanka (0.8% growth for 11 months) in 2015, the People's Bank was able to record a growth of 8.55% during the year mainly with our strong presence and partnership network.

The Bank is connected with more than 75 exchange companies around the world, some of those manned with our own representatives. . Our greatest share of remittances are from the Middle East. Remittance inflows contributed approximately 25% of the commission incomes of the Bank during the year.

Trade Services Department of the Corporate Banking Division is one of the main business points in the Bank. The Department is staffed with our most experienced staff to provide the best service. We are serving over 103 countries with more than 900 correspondent relationships. Our newest addition is the introduction of the online Payment of Custom Duty/Taxes and Port charges facility for our trade customers. We are accredited with the ISO - 9001 2008 Standard Certification for Quality Management System since 2013.

During the period under consideration we have reviewed our tariff structure competitively and re-engineered the processing to ensure efficient and consistent service.

Export and import financing during 2015 by our DBU and OBU units worked well despite heavy pressure on Rupee and sharp drop in prices of Petroleum related products and Middle East crisis.

	OBU	DBU
Export Financing	USD 306 M	USD 281 M
Import Financing	USD 1039 M	USD 2023 M

We are in the process of implementing new technologies to automate many of the processes in the Trade Finance business. Cutting edge technology will be available in the near future where our customers could transact with the Bank from their business premises without physically coming to the branch. This is going to revolutionize the way we do business in future.

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World Wide Partners

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Europe

Banca Nazionale del Lavoro SpA, (BNL) Rome
Bank of Ceylon, London
Bank of Cyprus Public Company Ltd., Nicosia
Barclays Bank PLC, London
BHF Bank Aktiengesellschaft, Frankfurt am Main
BNP Paribas SA, Paris
Budapest Bank RT, Budapest
Commerzbank AG, Frankfurt am Main
Credit Suisse, Zurich
Czechoslovenka 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
Komerční Bank NA, Prague
MKB Bank ZET, Budapest

National Westminster Bank PLC, London
Natixis, Paris
Nordea Bank AB (Publ), Stockholm
Nordea Bank Norge ASA, Oslo
Raiffeisen Bank, Vienna
SEB Bank, Tallinn
SEB Bank, Vilnius
Skandinaviska Enskilda Banken AB (Publ), Stockholm
Société Générale, Paris
Sparkasse KölnBonn, Cologne
Svenska Handelsbanken AB (Publ), Stockholm
UBA S.p.A, Rome
UBAF, Paris
UBS AG, Zurich
Ukrrexim Bank, Kiev
Unicredit Bank Austria AG, Vienna
Unicredit Bank, Sofia
UniCredito Italiano SpA, Milan
Zagrebacka Banka DD, Zagreb
Zürcher 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
 MashreqBank 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, Male
 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

MashreqBank PSC, Mumbai
 MCB Bank Ltd., Karachi
 Mizuho Corporate Bank Ltd., Tokyo
 Nepal Bank Ltd., Katmandu
 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, Suva

Middle East

Ahli United Bank, Kuwait City
 Al Rajhi Banking & Investment Corp - Riyadh
 Bank Dhofar, Ruwi
 Bank of Bahrain and Kuwait, Manama
 BankMuscat 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
 MashreqBank PSC, Dubai
 National Bank of Abu Dhabi, Abu Dhabi
 National Bank of Oman SAOG, Muscat
 UBAE S.P.A., Dubai
 United Bank Limited, Dubai

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People's Leasing & Finance PLC

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

Continuing to remain as the market leader in the leasing sector for 13 consecutive years, the Company now reaches its valuable customers through 92 branches and 110 window offices across the island. Through the five subsidiaries established under the wings of PLC, operations were diversified across the spheres of general insurance, micro finance, property development and fleet management services. These five subsidiaries are People's Insurance PLC, People's Leasing Fleet Management Limited, People's Leasing Property Development Limited, People's Leasing Havelock Properties Limited and People's Microfinance Limited and are well-suited to support the corporate mission of the Company. The subsidiary network is finely

intertwined to avail superior synergies to the Group.

People's Leasing Group recorded an impressive performance with profit before and after tax reaching to Rs. 6,820 Mn and Rs. 4,691 Mn respectively during the year 2015. Results implied 18% and 14% growth against the profit before and after tax recorded respectively in year 2014. Owing to the low interest rates maintained by the Central Bank of Sri Lanka during the year the Group experienced a decline in interest income compared to the year 2014. However, Group maintained its interest margins through effective management of borrowing sources to achieve net interest income of Rs. 10,548 Mn up by 8% in 2015 compared to the net interest income in year 2014. Improved recovery efforts curtailed impairment charges for loans and other losses by 53% against the amount recorded in previous year which positively contributed to the 9% growth in the net operating income of the Group.

Total assets of the Group as at 31st December 2015 increased to Rs. 129,194 Mn from the asset base as at 31st December 2014 amounted to Rs. 118,987 Mn reflecting a growth of 9%. The Company's total assets also reached to Rs. 121,559 Mn reflecting the healthy financial position whilst the loans and receivables which accounted for 88% of the total assets reached to Rs. 107,424 Mn as at 31st December 2015.

People's Travels (Pvt) Ltd.

The People's Bank Group's fully owned subsidiary of People's Travels recorded a Profit before Tax of Rs. 10.8 Mn during the year 2015 and record a 7% growth with compared to last year. The Profit after tax shows a 11% growth.

The company continues to benefit from its scale and diversity. People's Travels' Retail Corporate and Leisure travel businesses are now among the largest businesses, which means the company does not rely solely on one travel sector.

All sectors grew during 2015 but corporate and Leisure growth was stronger as we consolidated our position as reliable and dependable travel manager in the market.

People's Merchant Finance PLC

People's Merchant Finance PLC changed its status from associate company to subsidiary in the financial year 2015, with People's Bank acquiring controlling interest of 50.2% of the company and People's Bank and People's Leasing & Finance PLC (Subsidiary of People's Bank) jointly acquired up to 87.21% of its ordinary shares. Accordingly company's parent and ultimate controlling party is People's bank.

People's Merchant Finance PLC (PMF) recorded a Loss after tax of Rs. 297.1 Mn during year ended, 31st December 2015. PMF recorded net interest income of Rs. 151.2 Mn in 2015 while seizing business nearly for a period of one year till August 2015. Currently PMF is performing the business under the guidance of its managing agent People's Leasing & Finance PLC.

Total assets of the Group as at 31st December 2015 is recorded Rs. 3,660 Mn which loans and receivables accounted for 46% of the total assets of the Company's Financial Position amounting to Rs. 1720 Mn.

MANAGING OUR CAPITALS

Financial Capital

Financial Review

In 2015 we undertook a number of strategically important investments for the Bank's future growth. Out of which the investments in IT are very important for the Bank's future growth and market penetration.

The 2015 financial year is yet another triumphant year for the Bank with a record breaking pretax profit of Rs. 19.5 Bn. This is 13.3% better than the pretax profit of the previous year. The balance sheet reached Rs. 1.2 Tn by the end of 2015 indicating a 14.6% improvement since the previous year.

The Bank's revenues remained higher than the previous year despite a challenging market situation, mainly made up of a healthier net interest income. We were able to contain the operating expenditure but rising staff expenditure is noted in 2015. The staff expenditure increase is mainly due to the 'collective agreement' impact in 2015.

Key Financial Highlights:

- » Profit before tax Rs. 19.5 Bn in 2015, up Rs. 2.3 Bn versus 2014
- » Profit after tax Rs. 12.6 Bn in 2015.
- » Net operating income Rs. 51.0 Bn in 2015, up Rs. 7.7 Bn versus 2014;
- » Net interest income increased to Rs. 43.7 Bn in 2015; up Rs. 13.6 Bn versus 2014
- » Total operating expenses (Incl. VAT) increased to Rs. 31.5 Bn in 2015, up Rs. 5.4 Bn versus 2014
- » Cost/income ratio 57.5 %, down from 62.3 % in 2014
- » Net interest margin 4.0% which is 3.1 % better since 2014
- » Non fund income ratio 20.2% is 28.1% better since 2014

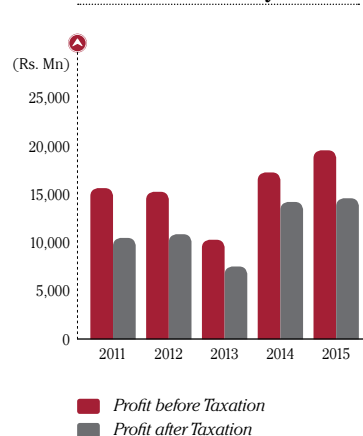
Significant growth in profit before tax was driven by solid performances in the core businesses, plus lower impairment charge supported by the greater recovery effort.

A Bigger Balance Sheet

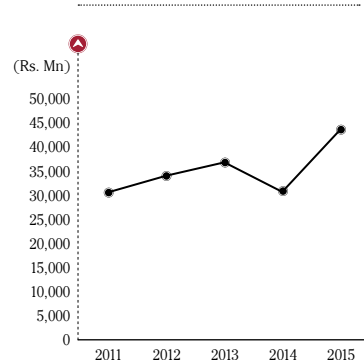
People's Bank closed the financial year with the balance sheet reaching Rs. 1.2 Tn, from 1.0 Tn in 2014, representing a 14.6% growth. This growth was mainly driven by net loans and receivables to other customers that expanded by nearly 22.5% year-on-year, on the back of significant deposit growth.

Total gross loans and receivables reached Rs. 829.2 Bn by 2015 indicating a 21.0% growth compared to 2014. This accounts for 70.4% of the total asset base of the Bank. The Bank continued to reduce pawing exposure in 2015 representing only 12.5% of the total loans and receivables.

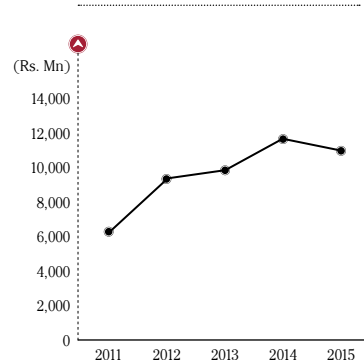
Profitability



Net Interest Income



Total Non Funded Income



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Despite the rapid expansion in almost all lending portfolios, the Bank has been able to successfully contain the NPL ratio due to more stringent lending criteria and a focused recoveries drive by the recovery department. People's Bank's NPL improvement over time is depicted in the comparison with industry NPLs, in page 65.

The total funding base of the Bank showed a significant growth in 2015 due to growth in customer deposits. The Bank was able to secure large volumes of low cost funds from island wide savings campaigns that resulted in the total savings base increasing by Rs. 53.3 Bn to reach Rs. 372.2 Bn. To date, this is one of the largest savings deposits held by any single financial entity in the country. The savings campaigns focused on children's savings that generate long term funds, savings for senior citizens and women, through a range of products customized to these demographics.

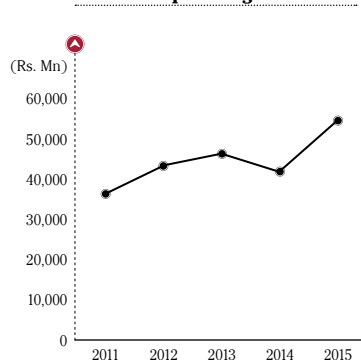
Profitability Ratios

The operating income of the Bank increased by 30.7% to reach Rs. 54.7 Bn with total gross income of the Bank growing by 7.5% to reach Rs. 103.6 Bn. SME, personal banking, trade finance activities of the Bank recorded excellent growth, providing interest incomes as well as other income streams, such as commission and exchange incomes to the Bank. The main source of interest income however, remained loans and receivables to customers which accounted for 76.1% of total interest incomes of the Bank.

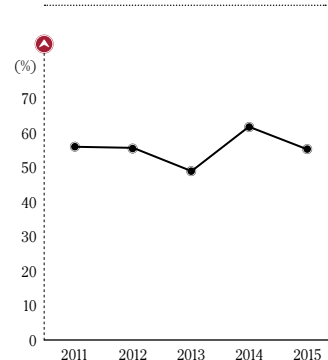
Total non funded income decreased by 6% to reach Rs. 11.1 Bn. The Bank has also paid Rs. 2.8 Bn as super gain tax in 2015.

While higher revenues contributed directly towards profit growth, cost management also played a significant role in 2015. All costs were managed well within budgets during the year, despite staff salaries increasing by an average of 20.5%, with the new collective agreement taking effect. The cost to income ratio declined from 62.3% in 2014 to 57.5% in 2015 indicative of better cost management. The bottom line also benefited from focused cost containment measures in conserving resources such as paper and electricity, in addition to controlling other overheads.

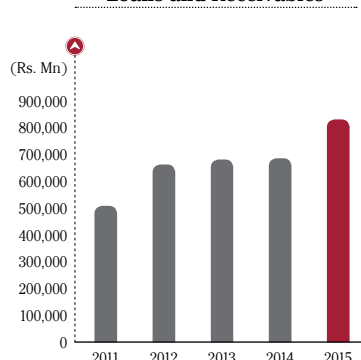
Total Operating Income



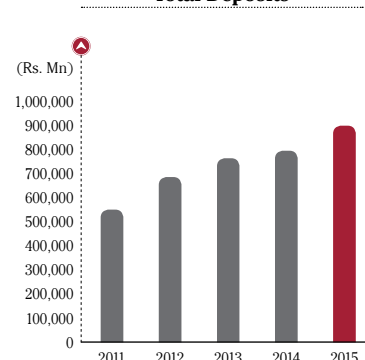
Cost Income Ratio



Loans and Receivables



Total Deposits



Liquidity Ratios

People's Bank's liquidity ratios improved in 2015 mainly due to lower demand for credit. The Bank reported liquidity ratios of DBU and FCBU stood at 25.9% and 21.7% respectively at the end of 2015.

Statutory Ratios

People's Bank met all statutory requirements in 2015. The core capital adequacy ratio and total capital adequacy ratios of the bank were 9.9% and 12.5% by end 2015, maintaining a sufficient buffer for future loan book expansion.

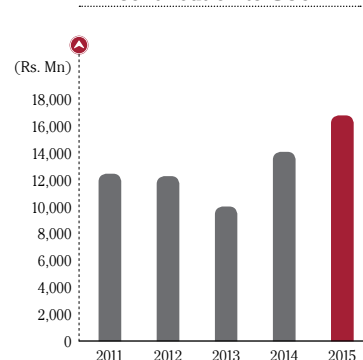
	2011	2012	2013	2014	2015
Core Capital	9.6%	9.8%	10.4%	10.9%	9.9%
Total Capital	14.8%	14.0%	15.0%	14.3%	12.5%

Investor Ratios

People's Bank's main investor, the government of Sri Lanka, received Rs. 16.8 Bn in total payments in 2015. Total special dividends paid out to the government came to Rs. 3.0 Bn, while income tax payments came to an all time high of Rs. 6.9 Bn.

The 2015 financial year is yet another triumphant year for the Bank with a record breaking pretax profit of Rs. 19.5 Bn. This is 13.3% better than the pretax profit of the previous year. The balance sheet reached Rs. 1.2 Tn by the end of 2015 indicating a 14.6% improvement since previous year.

Contribution to GOSL



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Economic Performance

(G4 - ECI)

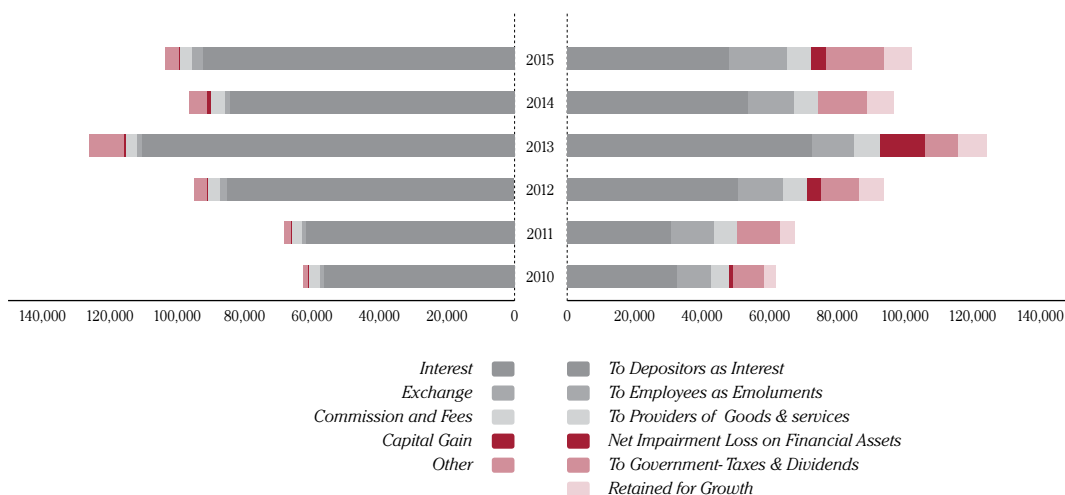
People's Bank is the second largest Bank in the Sri Lanka and holding 14.6% of the total assets of Banking Industry at the end of 2015. In 2015 Bank 's contribution to the Government was approximately Rs. 16.8 Bn as taxes & dividends.

Our Corporate Banking Division finances many large infrastructure projects that help to fuel the Sri Lanka's economic growth. End of the year 2015, Bank has Rs. 199 Bn loan portfolio under this category.

Direct Economic Value Generated and Distributed 2011-2015

For the year ended December 31,	2011 Rs.000	2012 Rs.000	2013 Rs.000	2014 Rs.000	2015 Rs.000
Sources of Income					
Interest	61,788,438	85,241,301	110,440,562	84,479,961	92,403,546
Exchange	1,207,902	2,126,109	1,418,430	1,598,506	3,050,646
Commission and Fees	2,929,812	3,541,589	3,478,015	3,820,242	3,712,147
Capital Gain	133,485	127,794	396,910	1,042,108	305,011
Other	2,238,616	3,740,606	10,135,606	5,436,664	4,177,616
Total	68,298,253	94,777,399	125,869,523	96,377,482	103,648,963
Utilization of Income					
To Depositors as Interest	31,470,220	51,523,506	73,791,102	54,362,126	48,731,974
To Employees as Emoluments	12,692,931	13,503,921	12,384,396	14,005,555	17,377,025
To Providers of Goods & services	6,507,736	6,916,917	7,719,560	7,414,998	7,166,999
Net Impairment Loss on Financial Assets	410,443	3,874,384	13,716,320	(1,430,440)	3,739,914
To Government- Taxes & Dividends	12,489,254	12,311,765	10,039,483	14,125,646	16,834,192
To Community	20,109	18,458	14,735	24,675	39,461
Retained for growth	4,707,560	6,828,448	8,203,927	7,874,923	9,765,398
Total	68,298,253	94,977,399	125,869,523	96,377,482	103,648,963

Sources and Utilization of Income (Rs. '000)



Economic Value Added

The economic value created by the Bank in 2015, increased by 25% against the previous year, reaching Rs. 28.3 Bn in value terms.

For the year ended December 31,	2015 Rs. '000	2014 Rs. '000	Change %
Invested Equity			
Shareholders' Funds	49,494,740	43,469,552	14
Add: Cumulative Provision for Loan Losses/ Provision for Impairment	60,719,312	58,100,867	5
Total	110,214,052	101,570,419	11
Earnings			
Profit after Taxation	12,597,843	14,218,812	-11
Add: Loan Losses and Provisions/Impairment Provision	3,739,914	(1,430,440)	-361
Less: Loans written off	(267,051)	(920,896)	-71
Total	16,070,706	11,867,476	35
Cost of Equity (Based on 12 months Weighted Average Treasury Bill + 2% for Risk Premium)	9.11%	8.73%	
Cost of Average Equity	9,646,783	8,718,843	11
Economic Value Added	25,717,489	20,586,318	25

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Human capital is the stock of skills that the Bank's employees possess. With regard to the banking business the two most important components of the human capital are training and development. Employee skills development requires investments by the Bank. Such investments in employees increase an individual's productivity.

New Human Resource Policy

To improve our human resource management processes, in October 2015, the Board of Directors formally approved a new Human Resource Policy for the Bank.

This comprehensive document sets out improved standards and procedures for recruitment, promotions, compensation, training and development, disciplinary action, transfers, termination of employment, service extension, leave and welfare.

Employee Profile

(G4-10,11)

During the current financial year our total human resource base increased by 212 employees (from 8,156 as at end December 2014, to 8,368 by end December 2015) to meet additional resource requirements due to business expansion. These are mainly permanent employees. There are some functions such as security services, provided through outsourced service providers. All other banking functions are handled by the permanent staff of the Bank.

Total Number of Employees by Employment Contract and by Gender (2015)

Contract	Male	Female	Total
Permanent	2,794	3,805	6,599
Contract	649	1,120	1,769
Total	3,443	4,925	8,368

Total Number of Permanent Employees by Employment Type and Gender (2015)

Employment type	Male	Female	Total
Corporate Management	15	4	19
Executive Management	19	14	33
Officers (3-III - Gr. I)	1,432	2,002	3,434
Staff Assistant Grade	866	1,540	2,406
Other Categories	517	339	856
Customer Service Assistants	214	729	943
Other Contracted Employees	380	297	677
Total	3,443	4,925	8,368

Total workforce by Employees and Supervised Workers by Gender(2015)

Contract	Male	Female	Total
Employees	3,180	4,102	7,282
Supervised workers	263	823	1,086
Total	3,443	4,925	8,368

Total Workforce by Region and Gender (2015)

Province	Male	Female	Total
Western	1,251	2,007	3,258
Southern	339	527	866
Central	349	558	907
Northern	190	214	404
North Central	265	310	575
Uva	226	269	495
Sabaragamuwa	205	331	536
North Western	290	414	704
Eastern	328	295	623
Total	3,443	4,925	8,368

Employment

(G4-LA1, LA2, LA3)

The correct blend of competencies and attitudes are necessary to ensure quality and consistency of product and service standards. In addition, as a State owned institution, the Bank believes it is a national responsibility to generate high quality employment opportunities for the country. Therefore, the Bank attempts to recruit from local areas whenever possible.

To maintain transparency and quality of human resource base, the Bank is guided by a formal, Board approved, recruitment process, which was further strengthened in 2015, through the development of a comprehensive Human Resource Policy.

The recruitment process is aimed at meeting human resource needs in terms of skills and competencies, and also maintains equal opportunities and non discrimination principles. A human resource mapping is conducted to support the recruitment process by identifying human resource needs and skill gaps.

New Recruitments by Age (2015)

	Age Group				Total
	18-25	26-45	46-55	56+	
Males	43	244	15	2	304
Female	96	284	-	-	380
Total	139	528	15	2	684

New Recruitments by Region (2015)

Region	Male	Female	Total
Anuradhapura	7	15	22
Baddulla	12	21	33
Batticaloa	16	10	26
Colombo	127	139	266
Gampaha	9	20	29
Galle	6	10	16
Jaffna	9	4	13
Kandy	9	11	20
Kalutara	11	11	22
Kurunegala	10	5	15
Kegalle	10	17	27
Matara	8	9	17
Matale	3	0	3
Nuwaraeliya	5	13	18
Ratnapura	10	14	24
Ampara	4	16	20
Trincomalee	14	11	25
Polonnaruwa	12	16	28
Monaragala	5	11	16
Puttlam	2	5	7
Wanni	9	16	25
Hambantota	6	6	12
Total	304	380	684

Employee Turnover by Age (2015)

	Age Group				Total
	18-25	26-45	46-55	55+	
Males	-	8	5	277	290
Female	-	13	4	129	146
Total	-	21	9	406	436

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Employee Turnover by Region (2015)

Region	Male	Female	Total
Ampara	4	1	5
Anuradhapura	6	3	9
Badulla	10	5	15
Batticaloa	11	1	12
Colombo	93	76	169
Galle	15	7	22
Gampaha	21	7	28
Hambantota	6	1	7
Jaffna	5	1	6
Kalutara	13	8	21
Kandy	19	12	31
Kegalle	8	5	13
Kurunegala	19	8	27
Matale	5	3	8
Matara	10	2	12
Monaragala	3	2	5
Nuwara Eliya	10	1	11
Polonnaruwa	5	1	6
Puttalam	7	1	8
Rathnapura	12	3	15
Trincomalee	4	1	5
Wanni	1	-	1
Total	287	149	436

Maternity Leave

(G4 - LA3)

Provision of Maternity Leave (2015)

	2015	2014	2013
No of employees entitled to maternity leave	3,430	3,093	2,881
No. of employees who took maternity leave	566	773	424
No. of employees who returned to work after maternity leave	566	773	424
Return to work %	100%	100%	100%

Employee Benefits

(G4 - LA2)

Regardless of region/location of operation, the Bank extends employee benefits to all permanent employees, based on employment category. Contract and trainee employees do not have access to certain benefits.

Bank does not recruit part time employees. Following benefits are provided to our permanent employees;

1. Bonuses
2. Transport allowances for specific grades
3. Holiday bungalows
4. Staff loans
5. Medical benefits
6. Death gratuity
7. Personal accident insurance scheme
8. Disability & Invalide coverage
9. Maternity Leave
10. Retirement Benefits

Labor Management / Relations

(G4 - LA4)

Effective communication is essential to sound labour relations. Positive communication is vital for the bank and reduces the possibility of conflict and labour unrest. Harmonious labour relations are vital for business continuity, productivity and consistent service quality. In addition, given the increasing competitiveness in the local banking industry, good labour relations can be viewed as a competitive advantage in maintaining and growing market share.

At People's Bank, labour relations are managed through a dual process of negotiations with various stakeholders and a formal grievance handling mechanism. The combination of the two contributes towards stability.

The staff benefits such as salaries and other perks are negotiated and mutually agreed with the trade unions through a collective agreement. The collective agreement discussions are held in every three years.

Notice Regarding Significant Operational Changes

The Collective Agreement negotiation process starts at a define time period which is known to all employees.

Minimum Notice Period for Operational Changes

Type of Change	Notice Period
Transfers	2 weeks
Resignations	1 month
Retirements	3 months
Terminations	1-3 months

Training and Education

(G4 - LA9, LA10)

Under the new strategic plan, People's Bank is targeting digitization across all business processes and the development of new products in line with modern, technology based life styles. Therefore, training and skill upgrading was identified as a key strategic requirement to facilitate future growth of the Bank.

Given the strategic significance of developing and upgrading the Bank's human resource base, a systematic training needs mapping process was implemented during the current financial year to identify training needs.

The Training Needs Map was developed by:

1. Identifying strategic training needs based on the Strategic Plan
2. Conducting a training needs survey across all regions & departments
3. Market Trends

Effectiveness of the training & development programs are evaluated through performance reviews and employee feedback process.

The Bank invested a total of Rs. 120 Mn on employee training in 2015.

Training Programs for 2015

Type of training	No of programs	No of beneficiaries	Training hours
Internal training programs	293	18,323	168,176
External training programs	150	810	10,745
Foreign training	22	42	1,928
Total	465	19,175	180,849

Training Hours by Employee Category and Gender (2015)

Category	Avg hrs of training 2015	
	Male	Female
Corporate Management	39	34
Executive Management	29	68
Officers (3-III - Gr. I)	22	22
Staff Assistant Grade	15	15
Management Trainings	215	215
Customer Service Assistants & other	21	21
Total	341	375

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Transitional Training

(G4 - LA10)

Skill development is one of the essential ingredients for People's Bank future business growth as the bank transforms into a technologically advanced service and operational structure. Skill development is going to be the defining element in bank's growth strategy. Therefore, the Bank's training program for 2015, and for the future, has been designed to accommodate this transitional training need.

The training for the staff can be separated into three categories; internal training, external training with the help of the external training personnel and foreign training. All the standard and routine training programs are conducted internally with our internal training resource. The foreign training is provided for the senior staff on specific skill development areas.

Performance Evaluation

(G4 - LA11)

Annual performance evaluations are conducted at the Bank against KPIs and targets that are set at the beginning of the year. The KPIs are linked to the Bank's corporate objectives and targets are set in collaboration with individual employees/managers. Performance evaluations are linked to promotions and annual increments to enhance employee motivation.

The bank encourages the employees for obtaining professional qualification to assist their career development process. Further, having such professional qualifications are considered at the internal promotions thus encouraging the employees for career development.

Equal Remuneration for Women and Men

(G4 - LA13)

The Bank has always maintained a non-discriminatory remuneration policy. To ensure equal remuneration the Bank's remuneration policy is gender neutral at all operational locations and for all employee categories. As at end December 2015, the ratio of the basic salary and remuneration of women to men, for each employee category, was equal (1:1)

Within the past five years the male to female ratio of the Bank's workforce has shifted from a male majority to a female majority. As at end December 2015, 59% of the total workforce were women.

Ratio of the Entry Level Wage by Gender

(G4 - EC5)

There are no standard regulations that govern the minimum wage for employees in Sri Lanka's Shop & Office Employees Act. However, through collective bargaining and discussion with employee unions and the Ministry of Finance, the Bank decides wage rates of employees. The Bank's salary policy is mainly based on collective agreements, which cover staff categories of chief manager and below. For senior management categories (AGM and above), salaries are largely decided by considering the wage rates of peer banks and risk bearing by relevant employee category. The Bank's remuneration practices do not discriminate on the basis of race, gender or disability and employee category. The ratio of basic salary at entry level for men and women is 1:1.

The employees who serve as business promotion officers in UAE,

Qatar and Korea receive a special allowance to cover extraordinary expenses incurred abroad

Percentage of Senior Management Hired from the Local Community

(G4 - EC6)

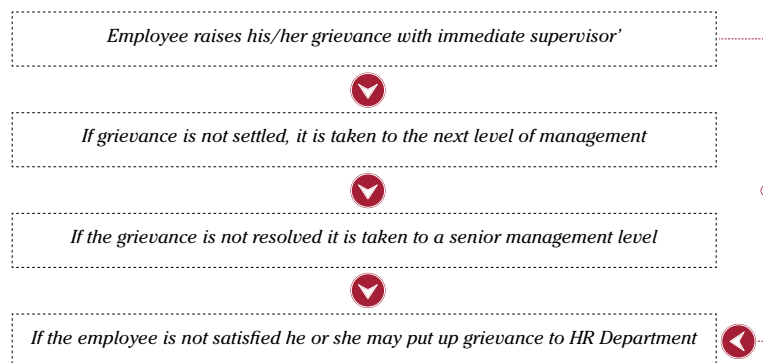
All recruits to the Bank's senior management categories (Executive Management and above grades) are citizens of Sri Lanka.

Labor Practices Mechanisms

(G4 - LA16)

Labour practices have a direct impact on business continuity and employee morale. Poor labour practices can result in financial losses due to work interruptions, low productivity and poor service quality. The Bank's main mechanisms to manage labour practices are through the code of conduct booklet. There is a formal grievance handling process and Grievances Code. The grievance handling process conforms to the standards set by the Central Bank of Sri Lanka.

Grievance Handling Process (G4 DMA (b))



Grievances About Labor Practices Filed Through Formal Grievance Mechanisms (2015)

Total number of grievances	4
Addressed during the reporting period	4
Resolved during the reporting period	3

Non-Discrimination

(G4 - HR3)

Discrimination can result in demotivation and labour disputes that could impact business activity and against the best practices. Therefore, the Bank does not encourage, or practice, discrimination based on any form of demographic.

Formal procedures are in place for all aspects of employee administration to prevent discriminatory practices. In addition, employees have the opportunity for redress through the grievance process and also through union representation.

To encourage communal harmony and a culture of tolerance the Bank has allowed employees to establish associations representing different religious denominations. The Bank also allocates funding annually for welfare and corporate social responsibility projects conducted by these associations. No discriminations are reported during 2015

Freedom of Association and Collective Bargaining

(G4 - HR4)

Freedom of association and collective bargaining are rights granted under Sri Lanka's labour laws, as a signatory to the International Labour Organization (ILO) convention on Freedom of Association and Collective Bargaining. Therefore, the Bank has a legal obligation to fulfill these rights.

As at end 2015, the Bank had five active trade unions. These are:

1. The Ceylon Bank Employees' union
2. Officers' Union
3. Sri Lanka Nidahas Banku Sevaka Sangamaya
4. Jathika Sevaka Sangamaya
5. All Ceylon Bank Employees' Union

In addition, the Bank has signed two collective agreements for salary and non salary benefits.

The Bank supports the rights of unions by allocating time and space for trade union meetings, both at the Bank head office and in branches.

Human Rights Grievance Mechanisms

(G4 - HR12)

As a public institution, People's Bank is bound by commitments made by the Government of Sri Lanka towards international human rights. Therefore, all policies, procedures and mechanisms are designed with the intention of complying with Constitutional Fundamental Rights and human rights defined by the United Nations conventions, to which the Government of Sri Lanka is a signatory.

There is a structured grievance mechanism is practiced by the bank. The employees are communicated about the procedure and how to lodge a complaint.

Grievances about human rights raised during 2015 were mainly on the termination of employment, interdiction of employment, dismissals and transfers from one location to another location.

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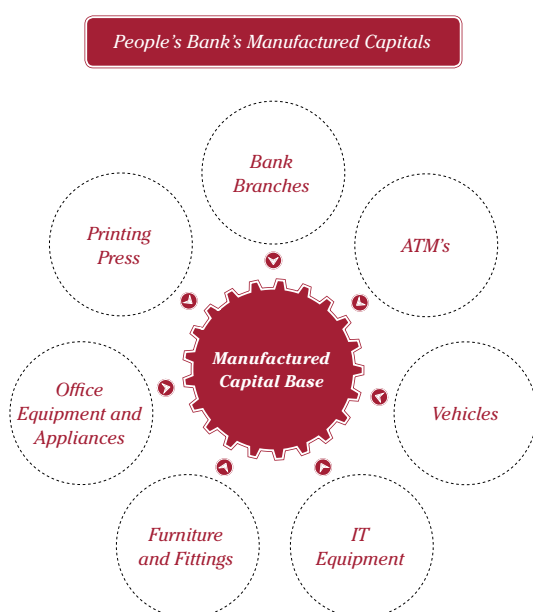
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Manufactured Capital

People's Bank has a large manufactured capital base comprising buildings, vehicles, and information technology infrastructure spread across the island, that play a vital role in facilitating uninterrupted business operations and business connectivity.

This manufactured capital base is maintained, managed and developed through a dedicated Banking Support Services Division. During the year under review, the People's Bank manufactured capital base increased by Rs. 1.9 Bn in value with the addition of new buildings, new vehicles and equipment upgrades.



Management of Our Manufactured Capitals During 2015

Buildings

The construction of new buildings in Matugama, Beruwala, Naula, Hatharaliyadda and Hakmana were done in 2015. The Bank made an investment of Rs. 523 Mn in these new building constructions in 2015. In addition over 25 branches were refurbished. As such the Bank is owning a total of over 130 buildings by the end of 2015.

Renovations to the front of the People's Bank head office building is underway and is expected to be completed in 2016.

Vehicles

The vehicle fleet of the Bank was enhanced by 63 new vehicles during the year to reach 220 vehicles as at end December 2015. These vehicles are used for business support, cash transport etc.

IT Infrastructure

The Bank IT infrastructure is a vital element of the Bank's new digitization strategy that will be implemented in 2016. Therefore the Bank allocated substantial sum for IT infrastructure upgrades and new equipment in 2015. These include the procurement of IBM servers to support the planned banking platform upgrade. The new system will cut down daily processing time by as much as four hours, which will allow the Bank to operate longer hours. Furthermore Bank's ATM switch hardware (HP TRNDEM Servers) was upgraded in order to use the latest technology to customise our ATM network with the vision of transforming it into a highly secure, scalable and efficient customer servicing point.

ATMs

The Bank's own ATM network reached 492 by the end of 2015. Also the Bank replaced some of the older ATMs with new ATMs with greater technical capabilities. The entire People's Bank ATM network will be upgraded to multi tasking standards as part of the Bank's digitalization program. ATMs are considered a new business channel that can be enhanced to handle some of the standard branch banking activities such as cash withdrawals, cash deposits, fund transfers, utility bill payments etc.

Intellectual Capital

(G4-PR8)

The Bank's intellectual capital mainly comprises the systems and process within the Bank, including information technology security systems, and research and development initiatives such as new products developed by the Bank based on market and customer studies.

Security Systems

As one of the largest financial institutions in the country accommodating thousands of electronic transactions on a daily basis, information technology system security is vital for the Bank's daily operations and for the Bank's reputational integrity. As the Bank prepares to expand its digital footprint by shifting manual process onto a digital platform, information system security has gained in importance.

Therefore, in 2015, the Bank focused strongly on this aspect by enhancing security systems such as firewalls and improving security checks. In line with Central Bank directives, the Bank commenced the process to qualify for the Baseline Security Standard for Information Security Management and is working towards ISO Certification for security systems. Further, a Network Monitoring System was established in order to monitor the entire IT Infrastructure which will enable Centralized management of multiple vendor equipment.

Preliminary steps were taken towards establishing a Disaster Recovery Center, which will commence operations in 2016.

Digital Initiatives

The Bank initiated a massive digitization process in 2015 that will transform the operations of the Bank and how it does business. A key element of this process has been investments in new, customized software that will support People's Bank's future growth as a technology based financial institution.

This investment will also benefit customers by sharply reducing transaction costs and time. Therefore, the key activity during 2015 was to initiated the process to develop a new enterprise architecture, that will be used to deploy a whole new set of software applications.

Research and Development

The Bank conducts regular market surveys to support new product development and marketing communications. In 2015 the Bank conducted a number of customer surveys. Please refer the section on Product and Service Labelling on page 91 for additional information.

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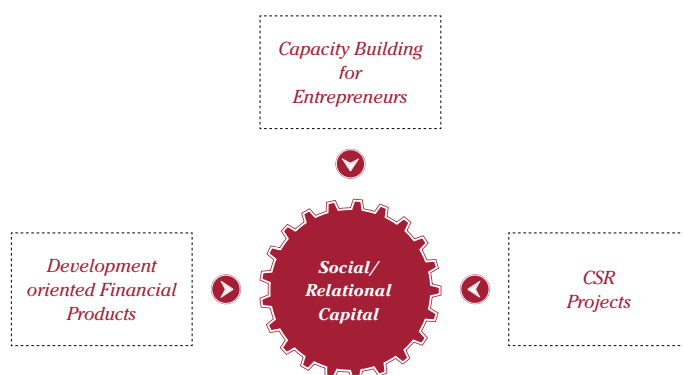
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Social and Relational Capital

The People's Bank brand is the most significant aspect of the Bank's social and relational capital. Although an intangible asset, we believe the goodwill associated with the brand translates into quantifiable financial gains in the form of savings deposits and demand for credit. As at end 2015, Peoples' Bank was the largest Rupee savings deposit holder in the country, with a large share of savings stemming from outside the Western Province, indicating the rural community's trust in the Bank. The Bank's long history of community development financing often translates into long term relationships, sometimes spanning generations, contributing towards the long term sustainability of the Bank.

Investing in Our Social and Relational Capital



We invest in our social and relational capital through:

- » Community development oriented banking services, provided mainly through our micro finance unit, refinance programs and also our SME financing tools
- » Capacity building programs for entrepreneurs
- » Community service projects (Corporate Social Responsibility (CSR) activities) channelled through the Bank's CSR Budget and at a smaller scale, through the Bank's employee associations.

Creating Value for Society

Our customer surveys highlighted customer demand for efficiency and convenience. Therefore, in 2015, we invested in taking technology based products, such as SMS/mobile banking and Internet banking, that enhanced convenience and accessibility, to our customers through a range of marketing and promotional activities. Our technology based product orientation also align with our future strategic focus on digital banking. Facilities such as mobile banking and internet banking are particularly beneficial for rural populations that have difficulty accessing bank branches due to travel and time costs. These new advance technology platform are highly beneficial to the SME and micro entrepreneurs. It also provides the remote accessibility with 24/7 ability to conduct and array of transaction.

We are proud to report that our mobile banking customers increased by 113% and internet banking customer base grew by 43% between January to end-December 2015, with over half this growth stemming from outside the Western Province.

Brand Strategies

Our customer base varies from the individual to large wholesale businesses. Developing a common brand for variety of customer segments is a difficult task. That is why we value our customer feedback and take the support of the market surveys to develop brands to suit the specific customer segments. According to the CMD/ media service surveys People's Bank is the second highest rated brand in Sri Lanka.

Adding Value to Products

As a means of adding value to our customers, we regularly update existing products and/or introduce new products, as per changing customer preferences. This year, we commemorated International Women's Day, by introducing an alternative product to the informal 'seettu' system. The Vanitha Money Planner allows women micro entrepreneurs to benefit from the security of formal banking support for their business ventures, giving them a stable foundation for growth.

Marketing Communications

(G4 - PR6, PR7)

All marketing communications are aligned with the Bank's growth strategy and corporate plan, to enable targeted communications and maximum impact. All communications are designed according to the Bank's Corporate Communication Policy in compliance with regulatory and ethical requirements, while maintaining consistent branding strategy.

Effectiveness of marketing communications is linked to broader growth KPIs of the Bank.

Sale of Banned Products

(G4 - PR6)

The Bank does not promote or sell products those are banned. In addition, the Bank's Credit Policy prohibits financing of illegal activities such as the sale of weapons and ammunition, gambling, casinos and equivalent businesses. The 100% compliance is strictly adhered by the bank.

Compliance with Marketing Communications Regulations

(G4 - PR7)

The Bank did not face incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotions, and sponsorships during the year under review.

Product and Service Labelling

(G4 - PR3, PR4, PR5)

The Bank's product and service labelling is required to conform to legal requirements and banking industry best practices. Non compliance could expose the Bank to risks of penalties and legal action. Therefore, the Bank has in place formal mechanisms to control the application of product and service labelling. The service labelling mainly come in the form of product promotion material and advertising.

- » A standard, Board approved, template is used in all People's Bank promotional materials. These materials comply with, internal ethical guidelines and consistent without brand image. This ensures consistency in use of colour, design and clarity of the message.

- » All advertising materials of the Bank comply with Central Bank directives by identifying as a 'licensed bank' and by providing contact information and clearly stating applicable rates.

Compliance with Labeling and Product Information

(G4 - PR4)

There were no incidents of non compliance with regulations and voluntary codes concerning product and service information and labeling during the financial year 2015.

Customer Satisfaction Surveys

(G4 - PR5)

In 2015, we conducted three customer surveys with the external expertise of Survey Research Lanka and in December 2015, we initiated a Perception, Attitude and Knowledge Survey at selected bank branches. Findings of all surveys are channelled towards strategy development and management decision making.

Customer Privacy

(G4 - PR8)

Customer confidentiality is both a legal and professional requirement of banking. Therefore, the Bank takes measures to protect customer privacy.

- » An oath of secrecy is sworn by all employees
- » Disclosure of account information to a 3rd party.
- » Assurance of email privacy
- » Maintaining accurate customer information
- » Preventing access to banking transactions for children unless a parent has given consent.
- » Limitations and controls on employees' access to personal information of customers.

Security procedures are observed in the disposal of sensitive and private documentation. Such documentation is incinerated under the supervision of an authorised bank official, to prevent leaks or abuse of information.

Complaints on Violation of Customer Privacy

There were few complaints of breaches of customer privacy by the Bank during the financial year 2015.

Legal Compliance on Products and Services

(G4 - PR9)

The Bank provides a range of financial products and services to consumers and business. The development and sale of these products and services are governed by a number of national regulations as set out in the Governance section of this annual report. Non compliance with regulatory obligations could result in penalties and loss of license. In addition, the quality of products and services impact the Bank's reputational integrity and brand image.

Therefore, the Bank has a formal Board approved procedure for the development and marketing of any new products. The legal compliance of all existing products are regularly monitored across the branch network. Please refer the Compliance Reports on page 138 for the status of regulatory compliance during the year under review.

During the year, there were no instances of non-compliance with regulation or voluntary codes on the provision of the Bank's products and services.

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Local Communities

(G4 - SO1, SO2)

The Bank's Development and Micro Finance Unit works closely with grassroots and rural communities across the island to encourage rural economic growth, entrepreneurship and quality of life advancements. This is done by:

1. Channelling refinance loans to underserved populations
2. Micro credit lending
3. Providing capacity building training for micro entrepreneurs and SMEs
4. Corporate Social Responsibility Projects

The effectiveness of the Bank's approach towards community relationship building is evidenced by the continuous growth in public deposits and demand for credit, despite the increasing competition in financial markets. As at end December 2015 People's Bank held the largest depository of rupee savings in the country.

Community Needs Based Development Programs

One of the most impactful ways of the Bank's engagement with local communities, is in the form of capacity building programs specially developed to support the growth needs of entrepreneurs. These programmes attempt to bridge the wide knowledge gap, particularly in the rural sector, in modern business and market knowledge.

Entrepreneur Glory for SMEs

People's Bank conducts this one-day program for SMEs, to develop financial literacy and business skills. The program is conducted

free of charge. It accommodates as much as 40% of its participants from other banks. Up to 2015, the bank conducted 11 such programs benefiting 1,821 persons.



One day program for SME entrepreneurs at Uthuwankanda, Kegalle District.

Social Mobilization Program

This is one of the Bank's most effective grass root development programs conducted in direct and continuous collaboration with communities. Under the program, regional bank offices identify villages to feature in the program. The selection criteria is the percentage of total population living below the national poverty line of Rs. 15,000 income per month. The villages with the highest poverty levels are earmarked. The Bank's micro finance officials and branches identify suitable persons to be targeted for assistance with local knowledge and inputs from key village figures. The selected persons are contacted and if willing to participate, are formed into groups of six and are exposed to different capacity building programs to enhance financial literacy and business skills. They are then provided with personal loans starting from Rs. 25,000 to begin or develop self employment ventures. The micro industries are continually monitored by Bank officials, supported by training and development programs.

As at end 2015, the Bank was supporting 6,270 micro credit groups where 90% of the recipients were women.



Microfinance loans for micro group members at Alawala village in the Gampaha District.

Initiatives to Improve Access to Financial Services for Disadvantaged People

(G4 - FS14)

Guided by the principle of inclusive finance, Peoples' Bank's branch network extends into many rural and underserved parts of the country, providing communities with access to formal banking services. In addition to the branch network, many services are provided to improve access to banking facilities. These include:

- » Deploying staff in the Northern and Eastern provinces who can communicate in all three languages.
- » Providing all advertising materials in all three languages.
- » Providing Bank's Annual Report in three languages.
- » Providing access for wheelchairs in branches.
- » Offering Specialized service for elderly and physically disable persons.

Access Points in Economically Disadvantaged Areas

(G4- FS13)

The Bank takes formal financial services to some of the poorest and most underserved parts of the country. For instance, the northern and eastern provinces are conflict recovering parts of the island, requires the social and economic development. Meanwhile the Uva province is seen as under developed due to high levels of poverty, compared to rest of the country. The following table summarizes the branches, ATMs, deposits and advances distributed to these areas.

	2015	2014
Northern Province		
No. of Branches	48	47
No. of ATMs	22	16
Deposits (Rs. Mn)	32,871	28,212
Advances (Rs. Mn)	16,591	13,186
Eastern Province		
No. of Branches	61	59
No. of ATMs	37	34
Deposits (Rs. Mn)	32,249	25,542
Advances (Rs. Mn)	29,099	20,984
Uva Province		
No. of Branches	49	49
No. of ATMs	28	27
Deposits (Rs. Mn)	33,095	27,931
Advances (Rs. Mn)	22,198	17,370

Percentage of the Portfolio for Business lines by Specific Region, Product Type and by Sectors (FS6)

(Refer page 112)

Products Designed to Deliver Social Benefits

The SME development unit and Development & Microfinance Unit of People's Bank provide specially designed financial packages to support sectors such as agriculture, livestock, small industries, tea and coconut cultivation. Financial assistance is provided through both Bank funded and refinance loan schemes. The following table summarizes the details of facilities granted under SME, development & microfinance.

For the year ended 31 Dec. 2015

Sector	As at 31.12.2015			
	Funded by the Bank		Funded through Refinance Schemes	
	No. of Loans	Outstanding Amount (Rs. Mn)	No. of Loans	Outstanding Amount (Rs. Mn)
Agriculture	4,752	6,450	9,482	858
Commercial	34	12	1,800	276
Consumption	5	7	11	1
Financial	-	-	39	3
Housing & Prperty Dev.	10	1	12	0
Industrial	2,626	92	989	144
Other Economic activities	31,860	3,912	10,095	629
Services	1	0	149	6
Tourism	-	-	14	8
Sub Total	39,288	10,474	22,591	1,925

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CSR Projects

During the year, we spent over Rs. 39 Mn on community welfare projects through the Bank's CSR budget and through welfare programs organized by the Bank's employee associations. The Bank's CSR initiatives focused on supporting the education of underserved children, cultural events and environmental initiatives. The Bank's employees associations – the Buddhist Society, the Hindu Society, the Christian Guild and the Muslim Majlis – conducted many community projects through the welfare funds provided by the Bank.



People's Bank has come forward as the Main Sponsor of the historic Kandy Esala Perahera this year too.



The maternity ward at Welikanda Government Hospital was completely modernized and opened for the benefit of the public by the Buddhist Society of the People's Bank.



The Christian Guild of People's Bank took a step to donate stationery and school items such as school bags and books to the children of Kattakadu Roman Catholic Tamil Maha Vidyalaya at Puttlam District.



Donation of books, lab equipment, library equipment & furniture to Sri Gowry Tamil Vidyalaya, Monaragala by the Hindu Society of the Bank.



A poor needy family at Nugaduwa, Galle District was gifted a house by the Muslim Majlis of People's Bank

Environmental Responsibility

(G4 - EN27)

The Bank's environmental impacts through the delivery of products and services are mainly in the form of resource consumption. Annually the Bank prints approximately 200 MTs of documentation for the use by its branches and head office. In addition, the Bank's head office and its network of branches consume water and energy. Other environmental impacts occur through the construction of bank branches.

Our Environmental Sustainability Strategy

In 2015, People's Bank set in motion a multi pronged strategy to manage environmental impacts in the future. We have designed a blueprint for a paperless and more interconnected business operation that will significantly reduce the Bank's environmental footprint in next five years. We envisage that our plans for extensive digitization will drastically reduce paper consumption and the need for printing physical documentation by 2020. Greater electronic connectivity will also reduce the need for physical travel for monitoring, supervision and training, which in turn, will reduce consumption of fossil fuels for transportation. We believe this benefit will also extend to our customers as Internet banking and mobile banking facilities will reduce the need for customers to physically travel to bank branches.

Plotting the Carbon Footprint

In 2015, People's Bank signed an MOU with the Carbon Consultation Company, to calculate the Bank's carbon footprint. The auditing process will commence in 2016. We believe this will be the first step towards understanding the Bank's carbon footprint and developing

sustainable methods to manage the carbon footprint, including waste management.

Waste Disposal

The Bank currently has in place different processes to dispose of waste materials such as paper, equipment and waste from the printing press. Board approved circulars provide guidance on the disposal of:

- » Damaged/unusable equipment, machinery, furniture and fittings, stationery and other inventory items
- » Garbage collected at the Bank premises

We have already minimized landfill waste by recycling the major share of used paper through three paper recycling companies that are registered with the Central Environmental Authority. Sensitive document are disposed through incineration. Electronic waste and furniture are disposed through tenders.

Under the new Sustainability Plan developed in 2015, the Bank will develop a comprehensive waste management program. This will include the acquisition of a mass shredding machine to destroy paper waste prior to recycling. A waste management audit will be conducted to develop more efficient and environmentally friendly waste management methodologies in future.

The shredded paper will be sold at the paper manufacturing companies as a way of recycle.

A formal documented procedure will be adopted for the safe disposal of environmentally hazardous items. The disposal of electrical bulbs,

computers, empty toner cartilages and plastics will be covered under this procedure.

Green Banking

People's Bank has initiated a paradigm shift to its traditional banking model through the introduction of green banking concepts. Currently the Bank provides Internet and mobile based banking facilities that reduce environmental impacts and all credit applications are screened for environmental impacts where such impact assessments are required by law. The Bank is also developing green products that will be delivered entirely on an electronic, paperless platform. The Bank hopes to gradually transfer the entire banking process onto a secure, electronic platform. Please read the section on intellectual capital on page 89 for more information.

Solar Powered People's Bank

The first solar power project will begin at the Nugegoda People's Bank branch in 2016. The project will then be gradually extended to all People's Bank branches to facilitate Net Metering.

The Bank is also looking into the possibility of solar powered ATM machines.

Green Building Concept

We plan to adopt a 'Green Building' concept (also known as green construction or sustainable building) for all our future constructions. From building design to the structure and processes used, the construction will be environmentally friendly and resource efficient. All our future roofing will be done with environmentally friendly material and the use of asbestos will be discontinued. Energy saving features will be incorporated into all new buildings.

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With the green building concept we expect to achieve the following;

- » Efficient use of energy and other resources.
- » Protecting employee health and improving productivity.
- » Recycle, Reduce waste.

Products and Services with an Environmental Focus

(G4 - FS8)

Under our Green Banking model we have begun a new way of doing business. As an integral aspect of this environmentally conscious approach to business, we have also started investing in 'green products' that will significantly lower environmental impacts.

People's Net: The People's Bank Internet Banking portal will improve with modern technology and service efficiency. This will one of our major banking channels in future. Migrating banking transactions to an electronic platform will see dramatic reductions in paper consumption.

People's Mobile App: The People's Bank mobile banking application is already emerging as a strong business growth channel and will also help reduce resource consumption.

YES youth savings account : This product is designed to be used through internet and email. Instead of traditional savings books, YES savers receive bank statements via email.

Monetary Value of Specific Environmental Products

Adopting environmental friendly product and services are expanded to cut down the cost associated mainly with stationary and electricity. We believe this is a significant saving in our cost.

Compliance with Environmental Regulations

The Bank did not face any regulatory actions and was not accused of any violations of environmental regulations during 2015 despite a number of building projects being conducted in different parts of the country during the year.



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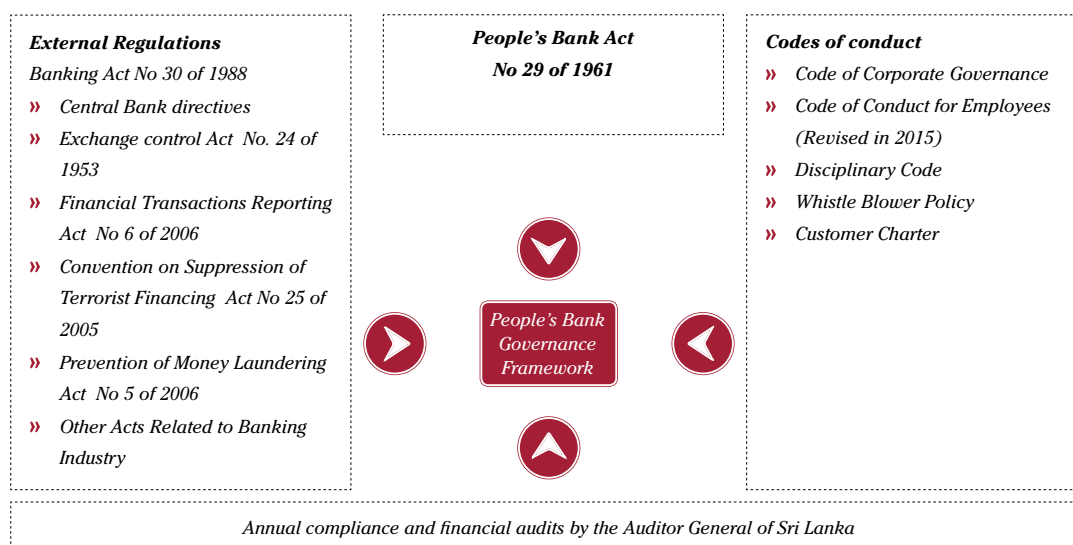
STEWARDSHIP GOVERNANCE AND ETHICS

At People's Bank the concept of governance is viewed as a holistic process that is vital for sustainable business operation. As a public entity and the second largest bank in the country, we are fully aware of the Bank's systemic importance as well as its potential social and economic impacts. Therefore, for People's Bank, good governance is not merely a business imperative, but a social responsibility. We are accountable not only to the Government of Sri Lanka, our major shareholder, but also to the public of Sri Lanka as the 'People's Bank'.

Our Governance Framework

(G4 - 34)

People's Bank's governance framework is for the most part defined by statute, and includes a number of laws applicable to the financial sector, in addition to the People's Bank Act. This legal structure is supported by formal internal codes of conduct that provide the ethical foundation for business operations. In addition, independent external audits, on regulatory compliance and financial integrity, are conducted annually by the Auditor General of Sri Lanka, as an external measure of good governance. Please refer the Compliance Reports on pages 138-139 and the Auditor general's report on pages 152-173 for additional information on the Bank's compliance status for the year under review.



Values and Ethics

(G4 - 56)

The ethical standards for all employees, management and Board, are defined by our Value Statement and codes of conduct. We believe our values are central to the ethical integrity of the Bank and also towards strengthening its future sustainability.

Code of Conduct

The Code of Conduct applies to all employees and sets the standard of institutional ethics to ensure integrity in all dealings. The Code was revised during the current financial year to strengthen its application.

Disciplinary Code

The Disciplinary Code defines what is construed as misconduct and sets out the formal disciplinary procedure applicable in such instances.

Whistleblower Policy

The Bank has a Whistleblower Policy as a further measure against misconduct and corruption. As an indication of the Bank's zero tolerance approach towards corruption, a Director has been designated to review such complaints.

Customer Charter

The People's Bank Customer Charter safeguards customer rights as stipulated by the Central Bank of Sri Lanka.

People's Bank Value Statement

» Being the pulse of the Nation

Our Bank from humble beginnings has become the pulse of every Sri Lankan by enhancing their living standards, whilst supporting State endeavours and socio economic development considering the aspirations of the nation.

» Continuous learning culture and team spirit

We seek to improve our knowledge base by enhancing the extrinsic knowledge, tracing and recording the tacit knowledge to improve our efficiency and effectiveness

We believe in our people for our success and everyone working together for a common goal with team spirit

» Empowerment and diversity

We empower our people and enable their creativity through innovative products, services and processes. We value our customers' differences, understanding that diversity makes us even stronger.

» Customer focus and agility

We provide customized solutions to satisfy our customers always placing them at the centre of decision making and striving to enhance value in our services. We are responsive and flexible to meet the unique needs of our customers by redefining ourselves to embrace change.

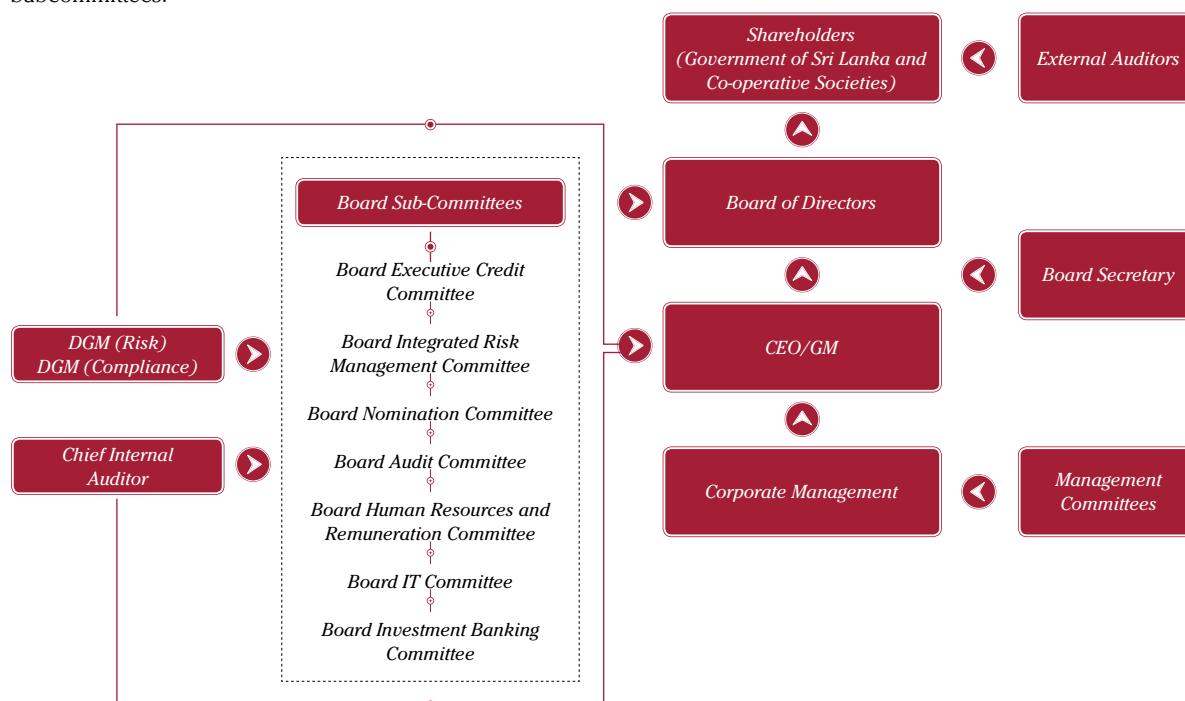
» Integrity and accountability

As a financial institute, Honesty and righteousness have been our strengths, which have been preserved in our culture from our very establishment, and we pride being who we are. As a responsible and dependable bank, we are liable to our key stakeholders for our conduct.

Governance Structure

(G4 - 34)

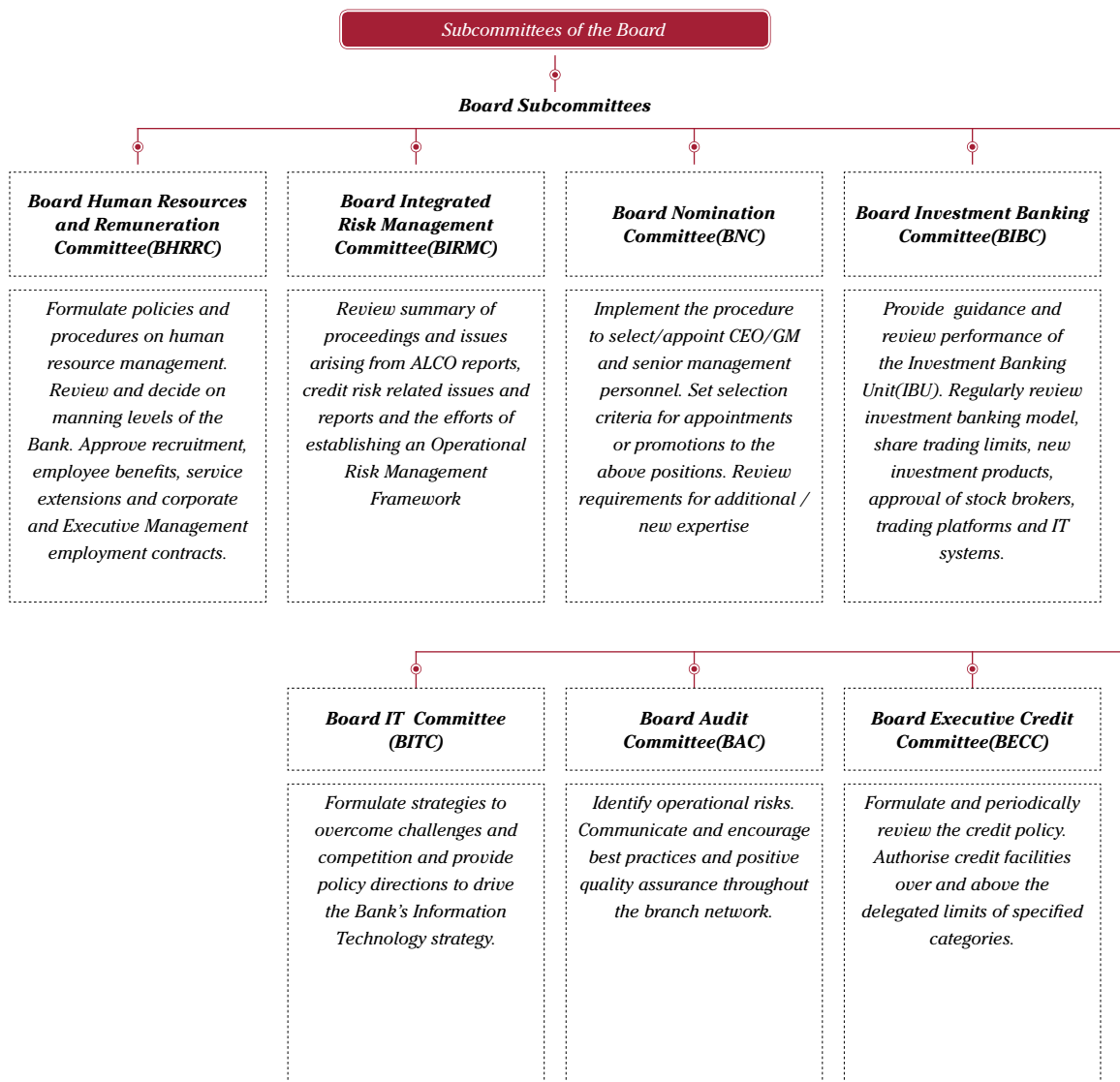
The highest governing body of Peoples' Bank is the Board of Directors which is supported by seven Board Subcommittees.



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Committees Responsible for Decision-making on Economic, Environmental and Social Impacts

The ALCO, BECC and the BIRMC have direct responsibilities in decision making regarding the financial sustainability of the Bank. Therefore such committees contribute towards the economic impacts of the Bank. The Bank does not have Board Subcommittee specifically entrusted with social and environmental decision making. However, the Bank's Corporate Social Responsibility (CSR) activities those include social and environmental projects are sometime require Board approval. Therefore, formal process is in place for the Board to review CSR projects for social and environmental impacts.

Attendance at Board Meetings in 2015

Board member	No. of Meetings Eligible to Attend	No. of Meetings Attended
Mr. Hemasiri Fernando	14	14
Mr. Jehan P. Amaratunga	14	13
Ms. G.D.C. Ekanayake	14	13
Mr. Felician Perera	13	10
Dr. Aminda Perera	3	3
Mr. M.H. Jamaldeen	3	2
Mr. Anton Hemantha	3	3
Mr.S.C.B. Seneviratne	3	3
Mr. Janaka Sugathadasa	10	9
Mr. A.C.S. Warnasuriya	9	6
Mr. S.A. Galaboda	8	8
Mr. K. Rajendran	8	7

Attendance at Board Subcommittee Meetings

Board Audit Committee Meetings held in 2015

Board Audit Committee (BAC)	No. of Meetings Eligible to Attend	No. of Meetings Attended
Mr. Jehan P. Amaratunga	5	5
Mr. G.D.C. Ekanayake	5	5
Mr. M.H. Jamaldeen	1	1
Mr. S.A. Galaboda	3	2

Board Executive Credit Committee Meetings held in 2015

Board Executive Credit Committee (BE CC)	No. of Meetings Eligible to Attend	No. of Meetings Attended
Mr. Janaka Sugathadasa	9	8
Mr. K. Rajendran	5	4
Mr. A. C. S. Warnasuriya	8	7

Board Human Resource & Remuneration Committee Meetings held in 2015

Board Human Resource and Remuneration Committee (BH RRC)	No. of Meetings eligible to Attend	No. of Meetings Attended
Mr. Hemasiri Fernando	5	5
Mr. Felician Perera	5	5
Mr. Anton Hemantha	1	1

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Board Integrated Risk Management Committee Meetings held in 2015

Board Integrated Risk Management Committee (BIRMC)	No. of Meetings Eligible to Attend	No. of Meetings Attended
Mr. Jehan P. Amaratunga	4	4
Ms. G.D.C. Ekanayake	4	4
Mr. Felican Perera	4	3
Dr. Aminda Perera	2	-

Board Investment Banking Committee Meetings held in 2015

Board Investment Banking Committee (BIBC)	No. of Meetings Eligible to Attend	No. of Meetings Attended
Mr. Jehan P. Amaratunga	3	3
Ms. G.D.C. Ekanayake	1	1
Mr. S.C.B. Seneviratne	1	1
Mr. Janaka Sugathadasa	2	2
Mr. Chrishmal Warnasuriya	2	2

Board Nomination Committee Meetings held in 2015

Board Nomination Committee (BNC)	No. of Meetings Eligible to Attend	No. of Meetings Attended
Mr. Hemasiri Fernando	3	3
Mr. Jehan P. Amaratunga	3	3
Ms. G.D.C. Ekanayake	3	3

Board Mechanisms and Independence

Board appointments are defined by the People's Bank Act. The Act stipulates that the Board comprise a maximum of 10 Director's appointed by the Minister in charge. (As at October 2015, People's Bank comes within the purview of the Ministry of State Enterprise Development). Two Directors should be nominated by the Minister in charge of the subject of cooperatives. Criteria for disqualification are also stipulated by the People's Bank Act.

All appointments for directorships are submitted to the Central Bank of Sri Lanka for assessment under the Fit and Proper Criteria for directors. All appointments are limited to a maximum term of nine years and an age limit of up to 70 years of age which ever comes first.

The board of directors are treated as 'related parties' by the banking act. Any such dealings are treated under the 'related party' governance and reported under the 'related party' section in the annual report.

Board Remuneration and Performance Evaluation

Board remuneration is decided according to guidelines set by the Ministry of Finance. Board members respond to an annual performance evaluation questioner as a performance appraisal.

Anti Corruption

(G4 - SO4)

The bank wide anti corruption activities are supported by the Internal Audit department, Investigations and Inquiries department, Risk Management department and independent audit staff placed at our branches. The Compliance department of the bank provides assurance in terms of meeting regulatory requirements and adhering to the operating guidelines issued by the regulators.

The bank believes raising awareness about the anti corruption coupled with properly structured training actively discourage wrongdoing. Both Internal Audit department and Investigations and Inquiry departments have organized training across the bank. The bank follows a strict policy with regard to the corruption related activities. A total of 18,464 trainee hours covered in 2015.

Communication of Anti-Corruption Policies 2015

(G4 - SO5)

Criteria	Number	%
Total number and percentage of governance body members that the organization's anti-corruption policies and procedures have been communicated to	All	100%
Total number and percentage of employees that the organization's anti-corruption policies and procedures have been communicated to	All	100%
Total number and percentage of business partners that the organization's anti-corruption policies and procedures have been communicated to	N/A	
Total number and percentage of governance body members that have received training on anti-corruption	N/A	
Total number and percentage of employees that have received training on anti-corruption,	2,308	28%
Total number and nature of confirmed incidents of corruption	136	
Total number of confirmed incidents in which employees were dismissed or disciplined for corruption.	111	N/A
Total number of confirmed incidents when contracts with business partners were terminated or not renewed due to violations related to corruption.	N/A	N/A

Compliance

(G4 - SO8)

During the financial year 2015, People's Bank was not penalized for non-compliance relate to regulatory, accounting workplace discrimination or corruption matters.

As one of the country's largest financial entities, the People's Bank has a strong governance framework, including external oversight from multiple sources to compel strict compliance with laws and regulations related to accounting fraud, workplace discrimination, and/or corruption.

Promoting Compliance (2015)

The Internal Audit Department conducts periodic audits to ensure compliance with financial standards. While the Compliance Department conducts audits on regulatory compliance. The Investigations and Inquiries Department investigates complaints of corruption. The Internal Audit Department of the Bank and the external auditors appointed by the Auditor General conduct routine independent audit reviews.

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Overall Risk Management Introduction

The People's Bank and its subsidiaries are involved in a number of business activities which can be segmented into Banking and Finance, Insurance, property development and Travel. Each of these entities have their own Boards of Directors who monitor and review the risk profiles of the individual companies which are again reviewed by the Board Integrated Risk Management Committee (BIRMC) of the People's Bank at least quarterly to ensure that they remain within set parameters.

People's Bank Group's comprise of three subsidiaries i.e. People's Leasing & Finance PLC, People's Travels (Pvt) Ltd and People's Merchant Finance PLC and five sub-subsidiaries i.e. People's Leasing Fleet Management Ltd, People's Leasing Property Development Ltd, People's Insurance PLC, People's Microfinance Ltd, People's Leasing Havelock Properties Ltd.

Group Risk Management Framework at People's Bank

In an environment of rapid market changes, growing uncertainty, increasing sophistication of customers, major technological progress and increasing regulatory involvement and oversight, major business decisions are ever more dependent on a robust and reliable assessment of potential risks. As a Financial group with a large customer base and a varied product portfolio in its Banking, Finance and Insurance sectors, People's Bank and its Subsidiary companies are exposed to a wide range of risks of varying severity. This gives rise to the need to identify and limit risks systematically at an early stage to prevent the People's Bank Group being

endangered. The aim is to maintain entrepreneurial flexibility and financial stability, to increase systematically the value of the Bank on a sustainable basis and thus to ensure the continued existence of the People's Bank Group in the long term.

Risk is identified and managed as part of a Group-wide Risk Management Framework that starts with the Board approved strategy, Risk Appetite, Capital, Funding and operational Plans. Risk Appetite is translated and cascaded to businesses qualitatively (through risk policies, standards and operating procedures) and quantitatively (through our risk limits, settings and decision authorities).

Objectives

The objective of People's Bank Group Risk Management Framework is to control and steer Group risks by:

1. Managing and optimizing Group-wide asset quality and the cost of risk;
2. Determining and monitoring the Group's risk appetite and evaluating its capital adequacy;
3. Making recommendations to the board regarding risk appetites and material risks.
4. Defining - in compliance with regulatory requirements - the Group rules, methodologies, risk limit types, policies and strategies for risk management;
5. Periodically reassessing the strategy to compete in the dynamic environment
6. Verifying the adequacy of the risk measurement systems adopted throughout the Group;
7. Creating a Group-wide risk culture.

Risk Identification

Major Risks faced by Peoples Bank group is classified below

Group Companies	MAJOR RISK CATEGORIES									
	Credit Risk	Market Risk	Int. Rate risk	Liquidity risk	Operational risk	Compliance Risk	Strategic risk	Reputation risk	Concentration risk	Insurance Risk
People's Bank	√	√	√	√	√	√	√	√	√	
People's Leasing & Finance PLC	√	√	√	√	√	√	√	√	√	
People's Merchant Finance PLC	√	√	√	√	√	√	√	√	√	
People's Insurance PLC	√			√	√	√	√	√	√	√

Group Risk Management Principles of the People's Bank Group

1. The risk policy is geared in particular towards both financial and non-financial risks. The Board of Directors of Peoples Bank determines the Group's risk strategy and overall risk appetite and defines accountabilities, reporting structures, documentation and management of identified risks, and thresholds.
2. Group wide risk management is carried out in a decentralized manner; Risk management, which is geared towards financial resources as well as strategic and operational planning, is considered a primary responsibility of the CEOs and Risk Management Units of the different operating entities.
3. Key Risk Indicators (KRI) and relevant thresholds, which broadly define the group's risk appetite, are formulated for each group entity to which People's Bank's exposure exceeds Rs. 500 Mn. These are intended to ensure that corporate decisions and ongoing business activities are kept within defined risk limits and comply with regulatory legal requirements while also ensuring that the group as a whole does not encounter any undue stress especially in terms of capital, liquidity or reputation.
4. Each of the group entities are required to manage and report risks on a quarterly basis to the BIRMC of the People's Bank in accordance with the prescribed KRIs.
5. The BIRMC is responsible to ensure that the measures introduced to manage risk are

closely monitored on an ongoing basis and adjusted to a new risk assessment where necessary. This is done on an ongoing basis in consultation with the CEOs and Risk management Divisions of the individual entities.

6. The BIRMC of Peoples Bank reviews these reports, especially with regard to exceptions and trends, and takes appropriate preventive, safeguarding and corrective measures to reduce the probability of occurrence of risks or restrict their potential level of damage. If necessary, additional measures are taken in order to further limit and reduce identified potential risks.
7. The BIRMC keeps the main Board of People's Bank and the Board Audit Committee (BAC) of People's Bank informed of any unforeseen significant changes to the risk situation or if any existing or potential risks exceed the overall risk appetite of the group.
8. The BAC of People's Bank will, in conjunction with the Internal Audit Department of People's Bank, periodically examines the adequacy and efficacy of controls in each of the group entities to ensure that they are in line with group risk standards.

Risk Governance at People's Bank Risk Appetite

The Board of Directors has ultimate responsibility for setting the risk appetite of the bank and ensuring that exposures and risks are maintained within that approved levels. They decide on policies for credit, market, liquidity and operational risks based on recommendations made by the Board Integrated Risk Management Committee (BIRMC), the Asset

Liability Committee (ALCO), the Board Audit committee (BAC) and the Board Executive Credit Committee (BECC). Internal and External Auditors provide assurance to the Board about the effectiveness of policies and procedures in place.

Risk Management Framework

People's Bank's risk management framework encompasses the full scope of risks to be managed, the processes/systems and procedures to manage risk and the roles and responsibilities of committees and individuals involved in risk management. The framework is comprehensive enough to capture all risks the bank is exposed to and has the flexibility to accommodate any change.

The individuals responsible for review functions (Risk review, internal audit, Compliance, etc) are independent from risk taking units and report directly to board or senior management who are also not involved in risk taking.

Material Risks

Counterparty Credit risk is the most significant risk that People's Bank is exposed to and on a somewhat lesser scale are Operational and Market risks.

Accordingly, the management of counterparty credit risk gets the most amount of attention with a Board Executive Credit Committee reviewing and approving the larger risk exposures in addition to monitoring portfolio quality and reviewing and approving policies related to credit risk. Training in the art of credit risk assessment, a hierarchy of approval authorities, well defined policies and procedures on credit risk assessment, risk acceptance criteria, risk rating systems, prudent limit setting, collateral and pricing form the basis of credit risk management.

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Monitoring and Controls

As one of the largest banks in Sri Lanka, providing a full spectrum of services to a wide clientele of clients scattered around the island, People's Bank is exposed to the full gamut of risks ranging from credit and market to reputational and operational. People's Bank is fully cognizant of the need for sound risk management practices to ensure its growth, stability and long term viability.

Risk Management is a discipline at the core of the Bank operations and includes all the activities that affect the Bank's risk profile. It involves identification, measurement, monitoring and controlling risks to ensure that:

- » The individuals who take or manage risks clearly understand it
- » The organization's Risk exposure is within the limits established by the Board of Directors
- » Risk taking decisions are in line with the business strategy and objectives set by the Board of Directors
- » The expected payoffs compensate for the risks taken
- » Risk taking decisions are explicit and clear
- » We comply with all applicable laws and regulations of the country and with the governance standards prescribed
- » We apply high and consistent ethical standards to our relationships with all customers, employees, and other stakeholders
- » Activities are undertaken in accordance with fundamental control standards. These controls

will employ the disciplines of planning, monitoring, segregation, authorization and approval, recording, safeguarding, reconciliation, and valuation

- » Sufficient capital buffer

Counterparty Credit risk is the most significant risk that People's Bank is exposed to and on a somewhat lesser scale are Operational and Market risks.

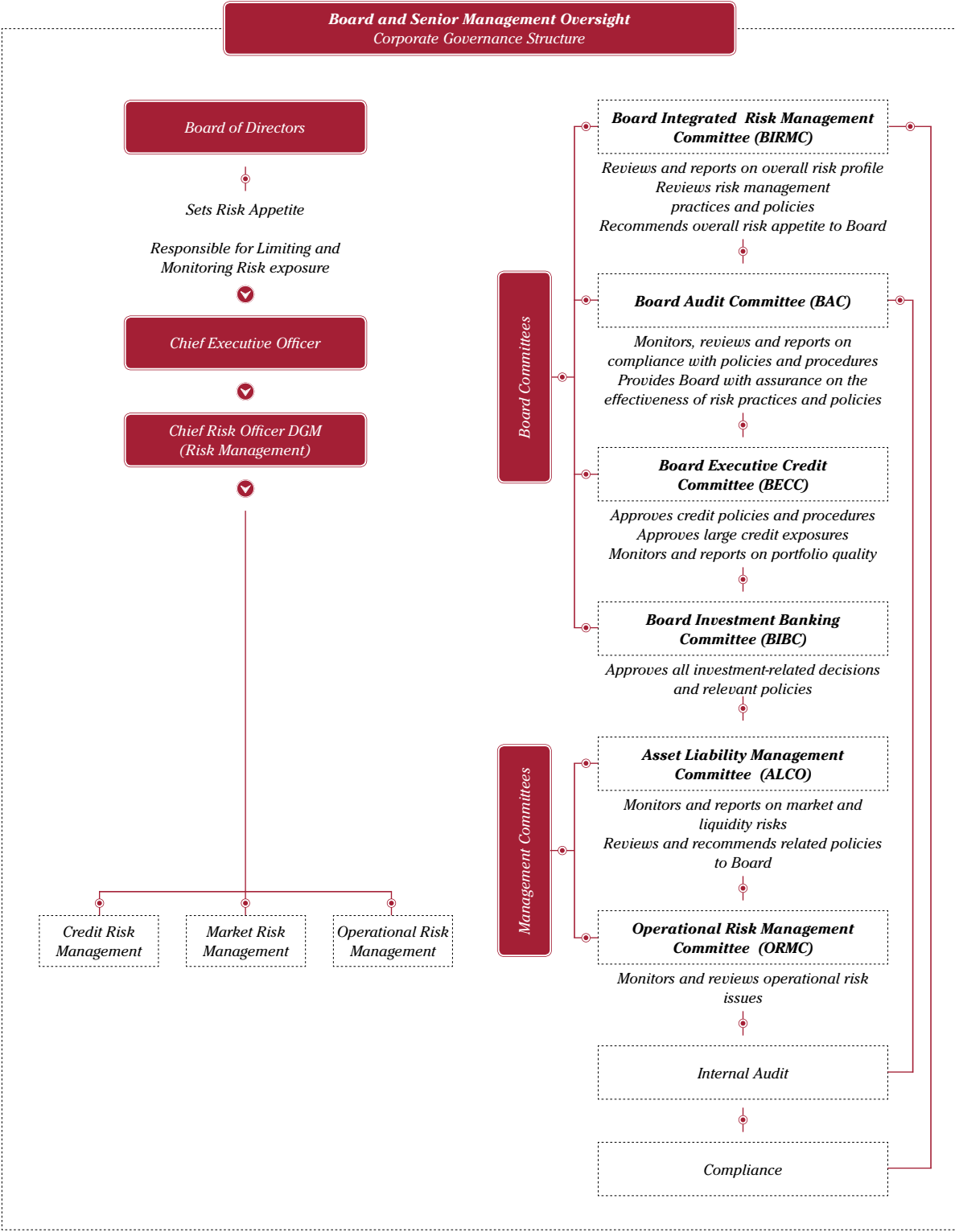
Accordingly, the management of counterparty credit risk gets the most amount of attention with a Board Executive Credit Committee (BECC) reviewing and approving the larger risk exposures in addition to monitoring portfolio quality and reviewing and approving policies related to credit risk. Training in the art of credit risk assessment, a hierarchy of approval authorities, well defined policies and procedures on credit risk assessment, risk acceptance criteria, risk rating systems, prudent limit setting, collateral and pricing form the basis of credit risk management.

While People's Bank recognizes that Operational Risk is inherent in its activities and cannot be fully eliminated, Policies, procedures (including DRP), structures, internal audit, tolerance limits, insurance, training and data form the core of the Operational Risk Management framework. Loss data is continuously gathered from across the network, which are then analyzed for trends and control lapses and reviewed quarterly by the (BIRMC) to ensure the adequacy and effectiveness of controls in place.

People's Bank is exposed to Market Risk on the positions it assumes on both its own account and from serving customer requirements. The Treasury department manages all market risks under the guidance of the Assets and Liabilities Committee (ALCO) which sets limits and formulates policies and procedures for approval by the Board. These are again reviewed periodically by ALCO and the BIRMC to ensure that exposures remain within the bank's overall risk appetite. The bank uses a suite of risk methodologies to measure, report and limit the market risks taken by it. These include a VaR model, Duration Gap Analysis as well as various stress tests and scenario analyses.

The vast majority of our exposure to SOEs comprises the strategically important CPC, CEB and State owned fertilizer import companies. These companies are of national importance and accordingly receive support from the Government to ensure their continuity. Accordingly, our exposures to them are either explicitly or implicitly guaranteed by the GOSL and therefore have not been considered as presenting any undue risk in terms of concentration.

Board and Senior Management Oversight Risk Management Framework



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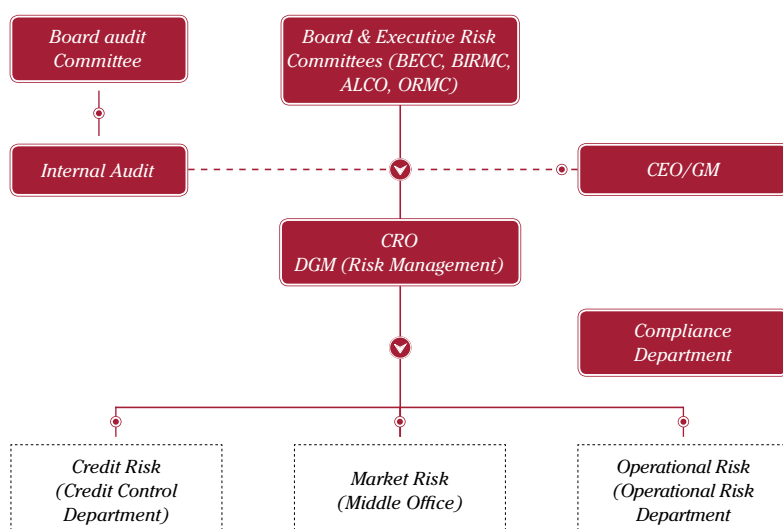
Board and Senior Management Oversight

The Board of People's Bank is responsible for setting the overall risk appetite and oversight of the risk management process and act through the Board Integrated Risk Management Committee (BIRMC).

Risk Management Department

The RM department functions completely independent from the business functions. Accordingly the head of RM reports directly to the BIRMC to maintain independence of action.

The Organization Structure of the Risk Management Division is Set Out Below:



The risk management department is responsible for:

Assisting in the preparation of the Risk Policies & Frameworks. Dissemination of risk management related circulars and guidelines coupled with periodic reviews.

The Bank businesses and operational units must always meet the Risk Management Framework of the Bank. The People's bank's operating model differentiates accountabilities using the Three Lines of Defense Model as follows:

Three Lines of Defense

First line: Management (who owns the risks)

Second line: Risk (who establish frameworks and provide insight, oversight and appetite)

Third line: Internal Audit (who provide independent assurance), Compliance Department.

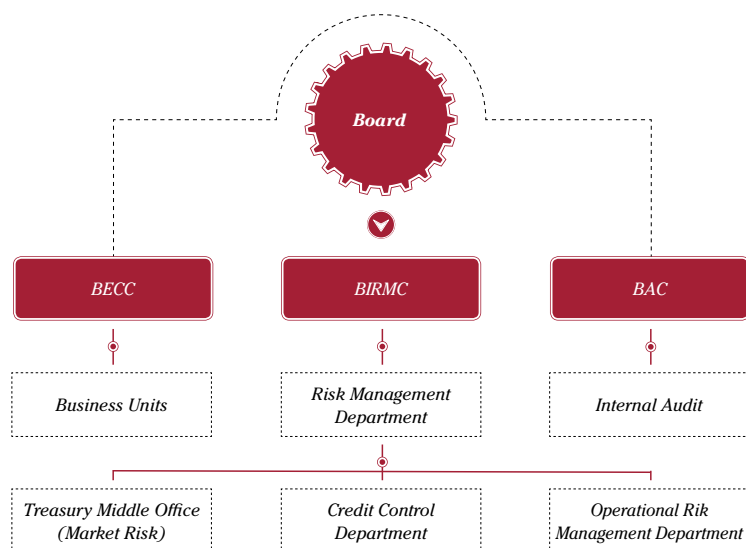
Credit Risk

Credit risk arises because the Bank's customers and counterparties may fail to meet their contractual obligations and derives principally from the loans and advances made to and due from them and counterparties. Credit risk also arises from financial guarantees, letters of credit and acceptances issued and made on behalf of the Banks' clients.

The Peoples bank's approach to credit risk management is designed to:

- » Inform future direction and broader strategic priorities
- » Achieve effective credit risk management through maintaining exposure to credit risk within acceptable parameters while maximizing the People's bank's risk-adjusted rate of return and ensuring alignment to risk appetite
- » Be embedded in every aspect of the People's bank's day-to-day business.

Organization Structure for Credit Risk Management



The Board has delegated to the BECC the responsibility of the oversight and management of credit risk, which includes:

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

In addition, Internal Audit Department conducts regular audits of the Branches and Business Units to provide assurance of the adequacy of controls and an independent assessment of the risks to Senior Management and the Board Audit Committee.

Management of Credit Risk

Key principles in relation to the management of credit risk include:

1. Independence of the credit risk management function from the business divisions.
2. The internal rating of each borrower which forms the basis for correct risk appetite as per Bank determination.
3. Credit approvals are based on credit authority assigned to the Committees and individuals.

Credit risk management process of People's bank include:

- » Reviewing, restructuring and highlighting the risks to ensure growth of a healthy portfolio.
- » Ensuring that credit policy guidelines are respected and highlighting deviations.
- » Developing/ improving credit scoring models.
- » Portfolio management – concentrations, adverse trends.
- » Providing inputs on economic and industry conditions (with assistance from the bank's Research Dept.).
- » Ongoing review and implementing Watch-list process for early identification of weak credits.
- » Post grant reviews of exposures on sample basis of proposals approved by branches.

The primary driver of credit risk management is in the initial assessment of client risk profiles. The basic principle adopted by the Bank in credit risk management is assessment of the borrower's capacity to repay the debt (customer creditworthiness). In addition to repayment capacity, the quality of credit exposures is also affected by the quality of the collateral held. Hence, the quality and value of the collateral taken is precisely and thoroughly assessed, based on clearly defined rules provided in the internal procedures. The important criterion for approving a facility is depend on the sustainable cash flow and quality of collateral.

Prudent client selection is achieved by the Bank's business line leaders who are the first line of defense, by applying stringent underwriting standards combined with prudent collateralization as deemed necessary. These extensions of

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credit are then periodically reviewed. Each of the business lines have clearly defined risk acceptance criteria, processes and principles which are consistently applied. The Bank actively aims to prevent undue concentration by ensuring a diversified credit portfolio, effectively protecting the bank's capital in varying market conditions. Every extension of credit or material change to a credit facility (such as its tenor, collateral structure or major covenants) to any counterparty requires credit approval at the appropriate authority level. The Bank assigns credit approval authorities to individuals according to their levels of grade, and reviews these periodically. The Bank measures and consolidates its overall credit exposures to each obligor across the entire network, in line with regulatory requirements. A basic and key element of the credit approval process is a detailed risk rating of each borrower above a certain level of exposure. Risk ratings assist in setting prudential exposure limits and appropriate pricing.

Bank's credit officers have been instructed to structure credit facilities according to the purpose of the facility requirement. Repayment schedule are generally aligned to the cash flow expected from the business. When financing Working Capital needs of businesses the Bank focuses on cash flows, self liquidating facilities with short to medium term maturities. Interest rate risk is also better managed in this manner.

When rating a borrower the Bank applies in-house assessment methodologies, scorecards and the Bank's 9-grade rating scale for evaluating the credit-worthiness. The Bank has developed different risk rating scorecards for large wholesale

Borrowers, corporate, SME borrowers. These rating scorecards are periodically reviewed and validated by the BIRMC.

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

The Bank has procedures in place to identify default credit exposures with increased risk of potential. The watch list that works as an early warning system provides advance notice of such potential defaults.

Credit Risk Mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as restructure, collateral, netting agreements, credit insurance, credit derivatives and guarantees.

Credit Risk Review

Pre and post reviews - All borrowers exposure over Rs. 500,000 are subjected to internal borrower risk rating and reviewed annually by the Board Integrated Risk Committee.

Credit Risk Appetite

The Board has articulated its appetite for credit risk in the form of the following tolerance levels:

Risk metric	Low Risk	Medium Risk	High Risk	Position as at 31/12/15
Classified loans /Total loans	< 4.0%	4 -5 %	> 5%	2.45%
Overdues /Total loans	< 5%	5 - 10%	> 10%	10.50%
Provision cover	> 90%	75 - 90%	< 75%	98.27%
HHI - name conc	< 0.15	0.15 - 0.25	> 0.25	0.05
HHI - Sector conc	< 0.15	0.15 - 0.25	> 0.25	0.13
Corporate Cross border exposure - Country risk	<10%	10 - 15%	> 15%	0.04%

Non Performing Loans & Provision Coverage Ratio

	2013	2014	2015
NP Loans	33,435	20,942	19,144
Provision Coverage Ratio (%)	61.8	84.3	98.3

Credit Concentration Risk

Concentration of exposures in credit portfolios is an important aspect of credit risk management. It may arise from two types of imperfect diversification. The first type, name concentration, relates to imperfect diversification of distinct risks in the portfolio either because of its small size or because of large exposures to specific individual obligors. The second type, sector concentration, relates to imperfect diversification across systematic components of risk, namely sectoral factors.

While the Bank is fully cognizant of the need to maintain a well diversified portfolio, it has nevertheless acquired degrees of concentrations in exposures to State Owned Enterprises (SOE), Pawning and Housing, arising from its position as a State owned bank, aligned to the Government's socio-economic development initiatives and its historical position as a pioneer of Pawning activities. Both Housing and Pawning exposures are spread over a large number of customers, mitigating credit concentration risk to a large extent. Suffice to say that, capital losses on either of these two products have been negligible to date. Notwithstanding, control procedures etc continue to be regularly refined in light of changing operating conditions.

On the other hand, the Bank's exposures to the SOEs comprise largely of the strategic Ceylon Petroleum Corporation, Ceylon Electricity Board and the two fertilizer import companies. While the former two enjoy a near monopolistic position, the latter also are the two largest in an industry that is vital to the growth and stability of the country. The exposures to the

SOEs are largely underpinned by explicit support from the Govt. Treasury. Accordingly exposures to the SOE are not considered at an undue exposure of risk.

Concentrations of large exposures (over Rs. 100M) as at 31/12/15

All figures in Rs. M.

	Number of Industry sectors	Number of individual customers	Direct Exposure	Indirect Exposure	Total	Direct Exposure as a % of Balance Sheet
With SOE	16	171	404,913	166,412	571,325	51%
Without SOE	15	147	56,109	24,186	80,295	7%

Position of the top 20 customers of the bank account at the end of the financial year in 5 in terms of their share of the large exposures

Share of Large Exposures	Top 3	Top 5	Top 10	Top 20
Name Concentration (with SOE)	63%	72%	83%	91%
Name Concentration (without SOE)	33%	45%	59%	70%
Share of Total Exposure				
Name Concentration (with SOE)	46%	53%	60%	66%
Name Concentration (without SOE)	3%	5%	6%	7%

Management of Concentration Risk

In addition to adherence to the Single Borrowing Limit, the bank also uses the Herfindahl-Hirschman Index (HHI) to monitor and control concentrations. This index is calculated for all exposures (the greater of limit or outstanding) above Rs. 100 Mn (direct and contingent) and the HHI calculated on both a name and sector basis. For purposes of the latter, the bank has further segmented its portfolio into 16 easily identifiable industry sectors (see below). The following tolerance levels have been set for the degree of concentration by the board;

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

People's Bank position throughout 2015 was as follows:

	31/3/15	30/6/15	30/9/15	31/12/15
Name Concentration (without SOE)	0.03	0.03	0.04	0.05
Name Concentration (with SOE)	0.20	0.21	0.22	0.22
Sector Concentration (without SOE)	0.20	0.18	0.19	0.13
Sector Concentration (with SOE)	0.26	0.26	0.26	0.29

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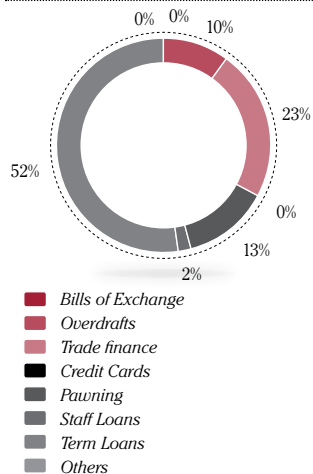
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Diversification of the Portfolio

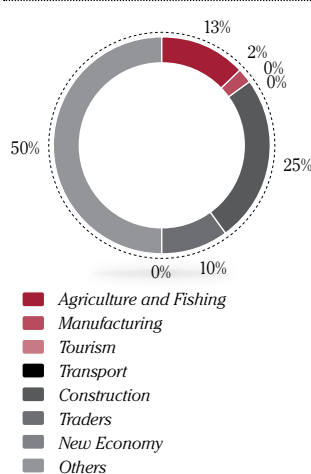
The level of diversification of the Bank's loans and receivables portfolio is regularly monitored by the Risk Management Division against following exposure parameters.

1. At product level
2. At Purpose/Industry sectors level

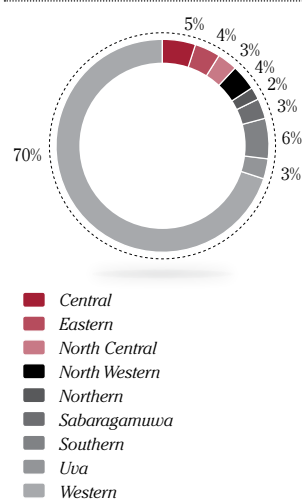
**Loans & Receivables
(By Products) 2015**



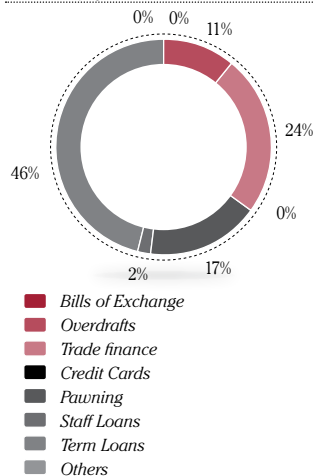
**Loans & Receivables
(By Industry) - 2015**



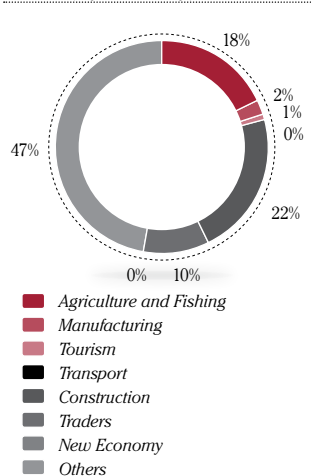
**Loans & Receivables
(Geographical Segmentation)
- 2015**



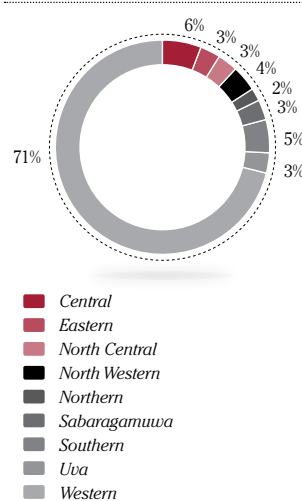
**Loans & Receivables
(By Products) 2014**



**Loans & Receivables
(By Industry) - 2014**



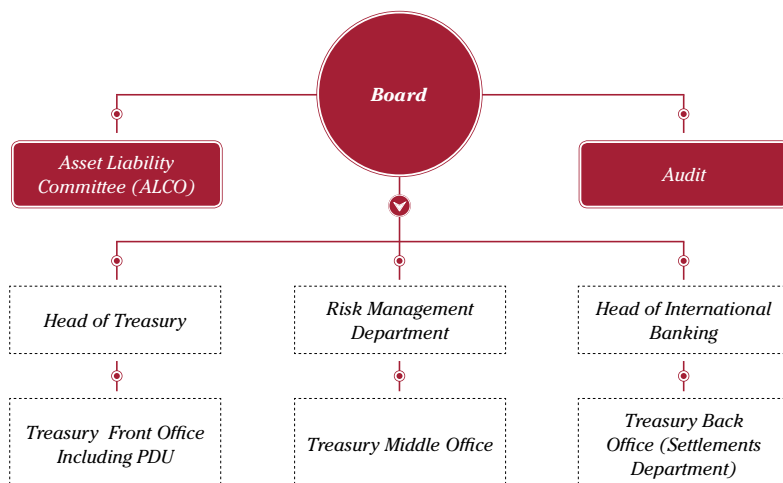
**Loans & Receivables
(Geographical Segmentation)
- 2014**



Market Risk

Market risk is the risk that changes in foreign exchange rates, interest rates and equity prices will adversely affect the Bank's income and or the value of any financial instruments that it may hold.

Organization Structure for Market Risk Management



For the management of market risks, the Board, on the recommendations of the ALCO, sets limits for the various Treasury and Investment related activities. These are closely monitored and reported on by the Middle Office, and discussed fortnightly by the ALCO. The ALCO is responsible for the development of market risk management policies while the Middle Office is responsible for the day to day monitoring of exposures against these policy guidelines.

The Treasury Middle Office (TMO) is a part of the Market Risk Management (MRM) unit consists of experts and independent from the risk-taking and operational units (e.g., trading and settlement) but has access to information to carry out the risk management and control function.

Stress testing is carried out quarterly to test the profit and loss implications of extreme but plausible, scenarios, and also to reveal hidden sensitivities in the portfolio that only become transparent when modeling extreme market moves.

Sensitivity and other market risk limits are approved by Board of directors to manage market risk at a more granular level. These limits are monitored by Product, sector, location and credit ratings independently by Market Risk division. The Treasury however is primarily responsible for the overall management of market risks on an ongoing basis, while ensuring compliance with all limits and policies.

Risk Culture

Peoples bank's Market Risk and Asset Liability Management involves the following

1. Setting limits for Treasury front office activities and reporting breaches.
2. Setting limits and benchmarks for ALM.
3. Independent verification of valuation rates and methodology.
4. Using VaR and Duration Gap to quantify and manage market risk and validating models used for their calculations.

Risk Appetite for Market Risk

The bank has a low risk appetite for market risk; proprietary trading is kept to a minimum and bulks of positions are taken on account of client related transactions. As a policy the bank does not deal in derivatives.

The overall framework of Market Risk Policy, Standards and the Risk Appetite Statement provide direction for the monitoring, oversight, escalation and governance of market risk including delegated authorities, risk measurement, and reporting and control standards

The limits for trading in Foreign Exchange, Fixed Income Securities and Equities as approved by the Board of Directors are given below:

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Limits and Positions for Market Risk during 2015

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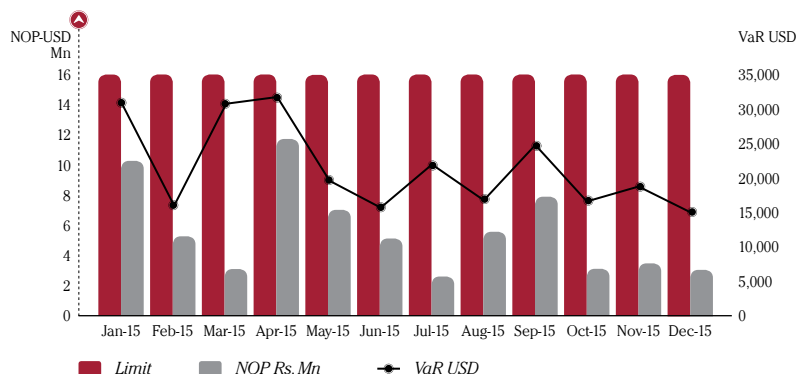
	Approved Limit	31.12.2015
Fx Net Open Position	USD+/- 16 Mn	Max: USD 11.69 Mn Min : USD 0.01 Mn
Value at Risk (VaR) (Conf. Level 99%, 1 day)	USD 250,000	Max: USD 33,532 Min : USD 1,696
Cumulative Losses 1. Fx Trading 2. FIS Trading (realized) (unrealized)	USD 175,000 Rs. 25 Mn Rs. 500 Mn	Max: USD 5,842 Max: Rs. 1.9 Mn Max: Rs. 282.7 Mn
Forward Fx Gap Limit	USD 210 months millions	Max : USD 208.8 months millions Min : USD 1.7 months millions
GOSL Securities - Trading - Investment - AFS	Rs. 150 Bn Rs. 155 Bn Rs. 10 Bn	Max Face value: Rs. 116.7 Bn Max Face Value: Rs. 97.7 Bn Max Face Value: Rs. 0.85 Bn
Sri Lanka Development Bonds (SLDB)	USD 750 Mn	Max: USD 460 Mn
Inter Bank Borrowings	Rs. 150 Bn	Max: Rs. 141.3 Bn Min : Rs. 99.3 Bn
DBU Foreign Currency Borrowings	USD 50 Mn	Max: USD 23 Mn Min : USD 6.5 Mn
Investment value of Share Trading Portfolio	Rs. 1,000 Mn	Max: Rs. 778 Mn (MV:Rs. 754 Mn)
% of shares on the S&P SL20 Index	Min 25%	Min : 27%
Gilt Unit Trust Limit	Rs. 2.5 Bn	Max: 2.5 Bn
Interest Rate Risk (DGap+VaR on Fwd FX)	Rs. 5 Bn	Max: Rs. 5.4 Bn

Foreign Exchange Risk

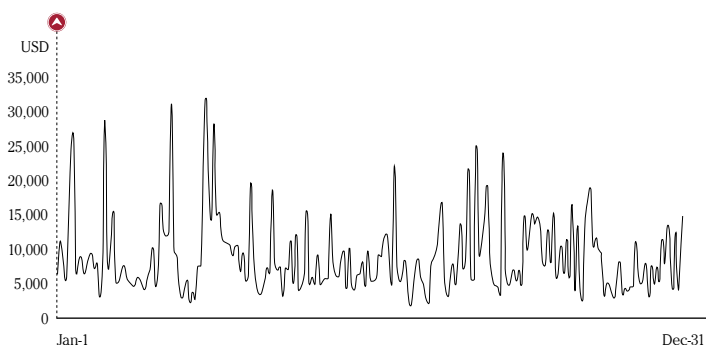
Foreign Exchange risk is being managed on a day to day basis by the bank's Treasury Department. Volume limits are set on open positions by currency and also for the overall open position, for both day light and overnight positions. These volume limits are whichever lower limit of those approved by ALCO or set by the Central Bank of Sri Lanka (CBSL). In addition Daily Value at Risk is also used and will, eventually, become the primary mechanism for controlling foreign exchange risk. Daily Value at Risk (DVaR) is an estimate, with a 99% confidence level, of the potential loss which might arise if the current positions were to be held unchanged for one business day. This means the bank estimates there is a 1 in 100 chance that a mark-to-market loss from the bank's trading positions will be at least as large as the reported value-at-risk. For internal capital assessment purposes, the holding period is taken as ten days.

VaR calculations are performed by the Banks Treasury Management system (Finacle) purchased from Infosys India and uses the Parametric Method (Variance-Covariance). In the absence of a formal model validation (the expertise for which is as yet not available locally), we also continue to use the VaR capability provided by the internationally accepted Bloomberg system and against which the outcomes from Finacle are compared and validated.

Month End FX NOP & Daily VaR During 2015



Daily Value at Risk for Year 2015



Foreign Exchange exposures arise both from proprietary trading and from undertaking foreign currency denoted transactions on behalf of clients on account of imports exports, remittances and other activities.

The risk arising out of foreign exchange maturity gaps are controlled by setting a forward maturity gap limit measured in months-millions USD.

The Middle Office monitors these exposures against the limits set by the ALCO or other regulatory guidelines and follow the most stringent.

The sensitivity of the FX exposures or the Net Open Position of the Bank calculate excluding the foreign currency banking unit. The foreign currency banking unit exposures are stress tested at 5%, 10%, 15% variations of the USD/ Rs. exchange rate. The results are daily viewed by Chief Risk Offices (CRO). The ALCO regularly monitor the same with BIRMC quarterly/ review.

Valuations

Mark-to-Market:

This is a process through which the treasury back-office values all outstanding positions at the current market rate to determine the current market value. The treasury back office gathers the market rates from an independent source for the mark to market valuation process. The Middle Office independently validate such calculations.

Foreign currency assets and liabilities are revalued at the mid-market rate and any gains or losses dealt through the profit and loss account.

Forward contracts are valued at forward market rates and the gains and losses dealt through the profit and Loss account.

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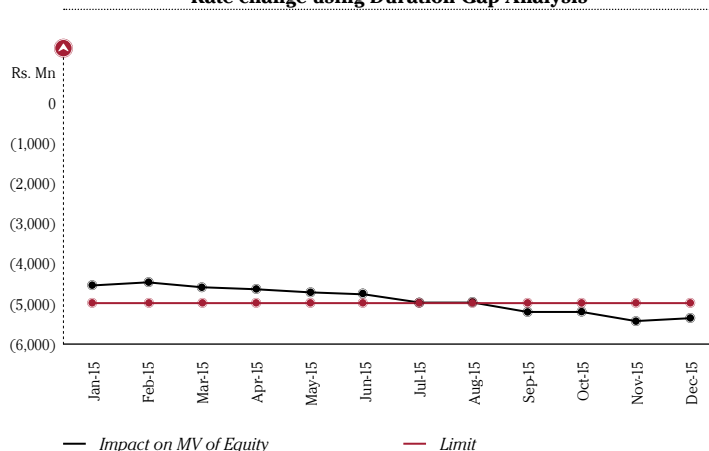
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Interest Rate Risk

Interest Rate risk is the possibility that changes in level of market interest rates will adversely affect the Bank's net interest income and the value of any financial instruments held. This risk should be managed by setting and monitoring limits for interest gaps and matching the reprising profile of the various interest sensitive asset and liability classes. The interest rate risk in both the Banking and Trading Books (including the risk in forward exchange contracts) are ascertained with Duration Gap Analysis and Value at Risk are utilized.

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



Interest Gaps are measured on both a contractual and behavioral basis.

Interest rate risk includes the following risks,

- » Repricing Risk, arising from changes to the overall level of interest rates and inherent mismatches in the repricing term of banking book items
- » Yield Curve Risk, arising from a change in the relative level of interest rates for different tenors and changes in the slope or shape of the yield curve
- » Basis Risk, arising from differences between the actual and expected interest margins on banking book items over the implied cost of funds of those items

Earnings at Risk over 1 year horizon

	(Rs. Mn)			
	Up to 1 month	1-3 months	3-6 months	6-12 months
Net Assets	(51,110)	(5,059)	(22,841)	(299,565)
Loss for change in 1%	(21.00)	(8.43)	(85.65)	(2,246.74)

Net Impact on change of 1% Rs. (2,361.83) Mn

Interest Rate Risk Management

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

The key elements of the management framework for IRR include:

- » The Policy that defines the compliance and management framework to ensure that all interest rate risk positions in the banking and trading books are identified, measured, managed and reported.
- » Treasury Department is responsible for managing the interest rate risk of the bank in line with the approved risk appetite.
- » The Middle office is responsible for IRR monitoring as an independent unit.

Interest Rate Risk in the Banking and Trading Books

The bank is subject to interest rate risk due to the re-pricing mismatch of its loans and deposits. This risk is managed by endeavoring to match the re-pricing tenors as far as possible. Further the relevant Assets and liabilities are placed into the maturity band where the contract or agreement is due to be repaid, or when the interest rate may be re-fixed or re-negotiated.

Measurement

Exposures are measured (in Rs. 000s) in each currency as an individual basis, and the net total of each maturity band is then calculated for each currency, and the totals for all currencies are then aggregated. Currencies that constitute in excess of 25% of total deposit liabilities are reported separately.

Monitoring and Reporting

Interest rate risk metrics are measured and monitored monthly as a minimum and discussed at ALCO.

Weighted Duration of the Government Security Portfolio (Duration in years)

Date as at	Trading	HTM
December 2014	0.8513 years	3.3016 years
March 2015	0.6219 years	3.2431 years
June 2015	0.3927 years	2.9765 years
September 2015	0.3630 years	3.1740 years
December 2015	0.4542 years	3.2468 years

Equity Risk

Equity Risk arises from changes in the prices of any equities held. This risk is managed by a combination of volume limits and stop loss limits. Specific policies on managing Market Risk are contained in the Bank's Investment Banking Policy Manual. In addition to the trading portfolio, the bank also has a portfolio of strategic investments.

Risk Appetite

The Board has approved only a maximum exposure of Rs. 1,000 Mn for trading equities. Coupled with sub limits for exposure concentrations. The stop loss limits are set to avoid losses after certain point.

Management of Equity Risk

The Equity Risk Standard defines the compliance and management framework in relation to undertaking, measurement, monitoring and reporting equity investments outside of the trading book.

Business units with a non-traded equity risk limit are responsible for managing equity risk in line with the requirements of the non-traded equity risk framework. Business units and their risk committees are responsible for monitoring of, and compliance with, all material risks, and ensuring that all commercial and risk aspects of the transactions are addressed.

The market risk department is responsible for maintaining independent oversight of the non-traded equity risk framework, including independent review of proposed equity transactions for compliance under the equity risk delegated authority, oversight of the periodic valuation and impairment assessments of investments, and monitoring and reporting of equity investment against limits

Pawning

Pawning provides a quick and easy access for customer finance. As at the end of 2015 the bank had around 12% of its balance sheet exposed to this business.

As the exposure is backed by gold, which is considered to be readily resalable, no risk weighting has been assigned by the regulator. However international gold price movements affect local prices such price movements have an impact at the business of pawing.

Management of Pawning

The bank uses the following to manage and mitigate risks in Pawning:

- » Maintain prudent Loan to Value (LTV) ratios. Gold market prices are periodically assessed and analyzed by the ALCO, along with competitor product features, and the LTV and other features are adjusted accordingly to optimize the risk reward relationship of this product
- » Densimeters and acid tests are used to determine the caratage (Gold content) and other quality features of the items being pawned
- » Basic customer due diligence
- » Regular training of staff involved
- » Insurance is taken to cover any losses arising from taking spurious and stolen articles
- » Regular independent validation of items pawned beyond set thresholds, including daily verification of a 5% of sample pawned items on any one day
- » Regular auctioning of items not redeemed on due dates
- » Increase the frequency of auction cycle
- » The Bank takes the view that pawning is product which is exposed to Market risk .The gold price volatility is measured and capital is allocated as per ICAAP Process.

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Liquidity Risk

Liquidity Risk is the risk that the Bank will not be able to meet its contractual obligations as and when they arise. It also encompasses the difficulty to fund liabilities at appropriate maturities inability to liquidate assets at a reasonable price with short notice.

Managing Liquidity

The Head of Treasury is responsible for the day to day treasury operations which include funding and liquidity management and ensuring these activities are done in accordance with the bank's policy and within the stipulated risk limits. The Head of Treasury is also responsible, in conjunction with the Head of Finance, for the reporting of the Bank's funding and liquidity management. The Head of Treasury is also responsible for bringing liquidity and other important related issues to the attention of the ALCO for decision making.

If any limits have been breached, this must be advised to ALCO together with a plan for bringing the positions back within limits. The Middle Office independently monitors the bank's liquidity position and reports any breaches.

The Bank manages its liquidity requirements in a number of ways:

- a) Appropriate matching of the maturities of assets and liabilities
- b) Holding an adequate stock of liquid assets.

- c) Having available, adequate borrowing facilities in the form of inter-bank lines
- d) Not being overly reliant on large wholesale deposits. It is the Bank's policy to strive to maintain at least 25% of its total deposits in the form of retail Current and Savings accounts

Contingency Planning

While it is the Bank's policy to ensure that it has sufficient liquidity to meet any emergency at times, it is possible that the Bank may experience liquidity problems due to both external and internal conditions. The bank also has in place a liquidity contingency plan to manage such situations.

Measuring Liquidity Risk - Maturity Mismatch Approach

The mismatch approach measures liquidity through the difference or mismatch between inflows and outflows in various time-bands. Mismatches are measured on a net cumulative basis on the predefined time buckets. Inflows and outflows are measured using behavioral method.

Key Control Guidelines

The following ratios will be used by the Bank to measure and manage its liquidity risk:

1. Loans to Deposits Ratio (in total and in Foreign Currency) = $\frac{\text{Total Loans and Advances}}{\text{Total Customer Deposits}}$
2. Commitments Ratio = $\frac{\text{Unutilized Portion of Overdrafts/ Unutilized Inter Bank Lines}}{\text{Total Commitments}}$ (This Ratio is to be calculated, both, with and without the DST Account balance)
3. Medium Term Mismatch = $\frac{\text{Liabilities over one year}}{\text{Assets over one year}}$ (Ratio to be calculated on both the Behavioral and Residual maturity methods)
4. Cumulative Mismatch to Total Liabilities across the time bands described above (Behavioral Maturity method)
5. Cumulative Mismatch to Unutilized Inter Bank lines across the time bands described above (Behavioral Maturity method)
6. Statutory Liquid Assets Ratio (SLAR) = $\frac{\text{Liquid Assets}}{\text{Total Liability Base}}$

Risk Appetite

The Board has articulated its appetite for Liquidity risk in the form of guidelines which along with the position as at 31/12/15 is shown below.

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Key Performance Measures & Control Guidelines

		Dec-15	Guideline
1.	Loans / Deposits Ratio Rs. (net)		
	(I) Rate based on existing basis	73.5%	<83%
	(II) Without DST A/c	66.5%	<80%
	(III) DST A/c - Utilized Balance is Rs. 5Bn.		
2.	Loans / Deposits Ratio Foreign Currency	186.3%	<90%
3.	Commitments Ratio to (interbank borrowing capacity)		
	(Unutilized Limits on O / D 's / (I) With DST A/c	13.4%	<100%
	(Unutilized Limits on O / D 's / (I) With DST A/c & Money Market	11.3%	<100%
	Unused Inter - Bank Limits) (II) Without DST A/c	6.4%	<75%
4.	Medium - Term Mismatch - Funding (MAL Method) (% of Liabilities over Assets of Total Balance Sheet over 1 year)	77.8%	>15%
5.	Medium - Term Mismatch - Funding (Behavioral Method) (% of Liabilities over Assets of Total Balance Sheet over 1 year)	82.3%	
6.	Cumulative Gap as a % of Total Liabilities (MAL Method)		
	- up to 1 month	-8.3%	-20%
	- 1 to 3 months	-12.6%	-40%
	- 3 months to 6 months	-12.5%	-50%
	- 6 months to 9 months	-16.7%	-50%
	- 9 months to 12 months	-19.9%	-25%
	- 1 to 3 years	-10.2%	-10%
	- 3 to 5 years	-5.6%	-10%
	- over 5 year	-4.4%	0%
7.	Cumulative Mismatch Over Unutilized Inter Bank Limits % (Behavioral Method)		
	- up to 1 month	-7.9%	75%
	- 1 to 3 months	-23.8%	25%
	- 3 months to 6 months	-32.2%	10%
	- 6 months to 9 months	-48.4%	5%
	- 9 months to 12 months	-65.5%	5%
	- 1 to 3 years	-37.0%	26%
	- 3 to 5 years	-22.2%	5%
	- over 5 year	-21.2%	0%
8.	Statutory Liquid Assets Ratio		
	- Domestic Banking Unit	25.9%	>20%
	- Off-Shore Banking Unit	21.7%	>20%

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		Dec-15	Guideline
9.	Liquidity Measurement		
	- Net Loans to Total Assets	65.0%	<70%
	- Liquid Assets to short-term liabilities	31.0%	>25%
	- Large liabilities (minus) temporary investments to earning assets (minus) temporary investments	18.5%	<25%
	- Purchased funds to total assets	16.1%	<25%
	- Commitments to total loans	16.8%	<30%
10.	SAL Gaps (Rs.)		
	- up to 1 month	-4.8%	
	- 1 to 3 months	-0.5%	
	- 3 months to 6 months	-2.1%	
	- 6 months to 12 months	-27.9%	
	- 1 to 2 years	4.1%	
	- 2 to 3 years	8.8%	
	- 3 to 4 years	3.5%	
	- 4 to 5 years	4.2%	
	- over 5 year	14.6%	
11.	Earnings at Risk Less than 1 year		
	Impact on change of 1% interest rate on P&L	(2,362)	2 Bn

Liquidity Coverage Ratio

» Recent banking act direction 01 of 2015 issued under section 46(1) and 76(J)(1) of the banking act, the LCR requirement is as follows.

Effective date	1 April 2015	1 Jan 2016	1 Jan 2017	1 Jan 2018	1 Jan 2019 onwards
Minimum requirement %	60%	70%	80%	90%	100%

People's Bank recorded LCR Ratio (Rupees) 96.57% and LCR Ratio (All currencies) 74.52% as at 31.12.2015

Operational Risk

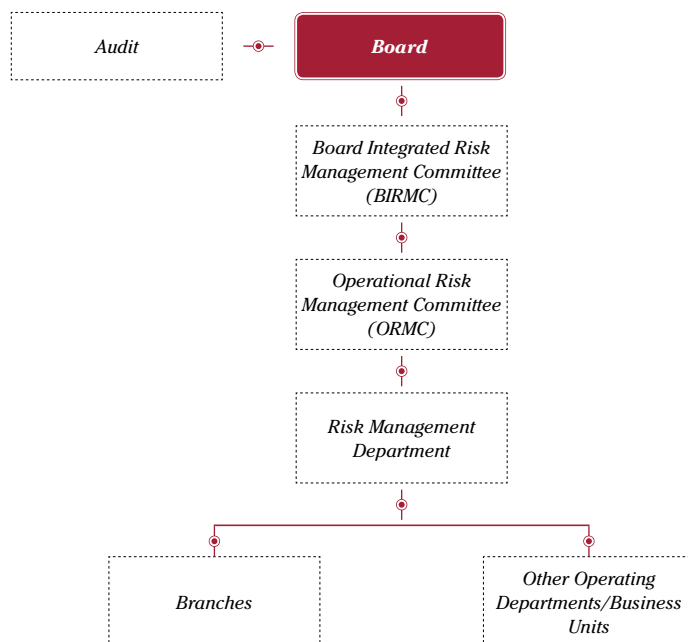
Operational Risk is inherent in all businesses and is the risk of direct or indirect impacts resulting from inadequate or failed internal processes or systems or from external events.

Operational risk covers the following causes of risk:

1. Internal & External fraud
2. Damage to physical assets
3. Business disruption and system failures
4. Execution, delivery & process management
5. Clients, products and business practices
6. Employment practices/ workplace safety

Fraud (both internal and external), error, IT system breakdowns natural disasters, terrorist action are some of the common sources of Operational Risk. The operational risk cannot be totally eliminated. The operational risk has to be managed and contained within acceptable risk levels as determined by the Board.

Organization Structure for Managing Operational Risk



The prime responsibility for the control of operational risk lies with in the Branches and business units where the risks originate. The Board has clearly defined the roles and responsibilities of all staff, branches business and functional units in the management of operational risk. This includes Risk identification and assessment, capturing and reporting of risk events, risk mitigation etc. The segregation of duties and business continuity planning (BCP) are important components of the operational risk management.

Business units and branches are required to periodically report of operational loss events to the Risk Management division who maintain a database of loss events and “near misses. This is analyzed on an ongoing basis to identify trends, if any and thereby review procedures and controls to minimize future risks. The Operational Risk Management Committee assists and coordinates this process.

Certain risks that have high probability and low impact and those of low probability and high impact are insured to minimize losses.

The Internal Audit function also periodically reviews the entire operational risk management process across the network to provide an assurance to the Board and Senior Management.

Specific policies to manage operational risk are contained in the Bank’s Operational Risk Policy document.

Management of Operational Risk

Operational Risk is basically managed by:

1. Ensuring clearly defined Operational Risk policies and procedures are in place. These include methodologies to help identify, assess, control, manage and report on key Operational Risks and include
 - » A Framework for the Bank to identify their major Operational Risks and mitigation plans
 - » Key control standards
 - » Key Risk indicators
 - » Incident and issues tracking mechanisms to identify causal factors and operational losses.
2. Ensure roles and responsibilities are agreed and clearly understood by all management levels specially the segregation of duties.
3. Ensure all staff, in business and support functions, are aware of their responsibilities for Operational Risk management. (Meetings and workshops)
4. Analyze the potential Operational Risk impact of activities and products prior to launch in order to minimize the negative impact.
5. Ensure control failures are properly reported and escalate material issues to the Operational Risk Committee and BIRMC as appropriate.
6. Ensure staff is given Operational Risk training appropriate to their roles.
7. Ensure staff and Bank assets are adequately protected.
8. Establish workable Business Continuity Plans (including Disaster Recovery and Crisis Management procedures) to minimize the impact of unplanned events on business operations and customer service.

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9. Minimize the financial impact of operational losses, through the utilization of insurance or other risk transfers where appropriate.
10. Record and review of "near misses" in order to prevent/limit those in future

The scope of the operational risk management will include.

1. Coordinating with functional business heads to map business processes, identify risks and controls.
2. Implementing an incident reporting system to building a loss database to quantify operational risk across the bank.
3. Coordinating with Audit Dept. to continuously verify data captured for operational losses and to ascertain the effectiveness/implementation of the existing controls.
4. Direct the process of self assessment of operational risks in each operating department.
5. Assist to define Key Risk Indicators for each operational unit / product.
6. Coordinate with Business Units to ensure effective and up to date Contingency Planning / DRP measures are in place across the network.
7. Ensure that risks that have a High Impact and/or High Frequency are adequately transferred by means of appropriate insurance arrangements.

Measurement of Operational Risk

The main considerations in measuring the operational risk of people's bank are:

- » Risk of loss from inadequate process, people, system and external events
- » Financial loss due to errors and frauds
- » Near miss incidents
- » Processes include administration, documentation and valuation
- » People include fraud and employment law
- » System failures
- » External factors

Monitoring and Reporting

The success of the operational risk management processes is determined by the ability of management to articulate and consistently demonstrate behaviours that promote a strong risk awareness and culture throughout the bank. Risk management department provides the following reporting:

Quarterly reporting on significant loss events, emerging issues, oversight, monitoring, and review activity. This information is included in the Risk committee report which is provided to the Board integrated risk management committee.

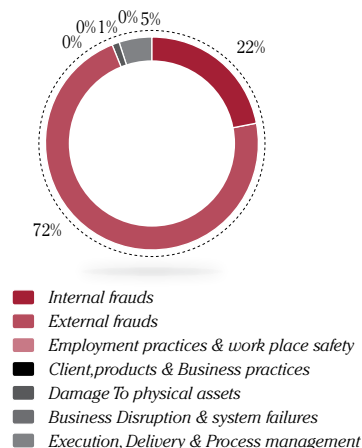
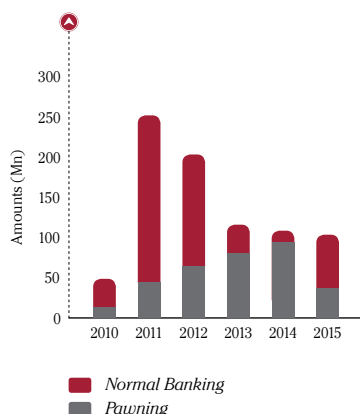
At times, risk committees may also report on topics of operational risk such as Business Continuity Management and physical security. Findings are reported to the requestor and, if material, escalated through the Risk Governance structure.

Risk Appetite

The Board has laid down the following thresholds for operational risk management.

Indicator	Low Risk	Medium Risk	High Risk	2015 Position
# Operational Losses-internal	< 10	10 – 25	> 25	5
# Operational Losses- external	< 400	400-1000	> 1000	248
Total Value of Operational Losses as % Operational Expenses	< 0.5%	0.5% - 1.0%	> 1.0%	0.41%
% of Branch Audits rated less than Satisfactory	Nil	15%	> 15%	78.76%

Branch Audits rated less than "Satisfactory" are subject to review by the Board Audit Committee and regular follow up until satisfactory resolution.

**2010-2015 Operational Losses
Events by Numbers****2010-2015 Operational Losses
by Amount****Operational losses from
2010-2015****Cumulative Operational Loss record for the period 2010 - 2015**

	Number	%	Value (Rs. Mn)	%
Internal frauds	64	1.56%	215.46	25.94%
External frauds	3,555	90.41%	560.5	67.49%
Employment practices & work place safety	-		-	
Client, Products & Business Practices	-		-	
Damage to physical Assets	50	1.27%	7.56	0.92%
Business disruption & system failures	19	0.48%	1.8	0.22%
Execution, Delivery & Process Management	244	6.21%	45.05	5.42%
Total	3,932	100%	830.47	100%

Most instances of “external fraud” are related to the pawning of spurious and stolen articles.

From these losses we recovered Rs. 282 Mn from Insurance claims for the period from 2010 to 2015.

**Operational Loss Record from 2010 - 2015 – , Segregated Between those
Arising from Pawning and those from Normal Banking Business:**

Year	Pawning	Normal Banking	Total
2010	12.5	36	48.5
2011	43.2	208.4	251.6
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

Pawning Losses have a much higher frequency, although impact is smaller.

IT Risks

As IT system availability is crucial to the banks continuity, service quality and control aspects, its management is a vital part of the overall Operational Risk Management framework of the Bank.

Accordingly the Bank has established the following norms to measure the availability of its most critical systems. These are monitored continuously and reviewed quarterly by the BIRMC.

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The IT key Risk Indicators of the Bank for the year 2015 is shown below.

Category	Systems	Availability as a % of total working hours	Risk level		Actual Availability
High critical (online real-time systems)	<ul style="list-style-type: none"> - Central ATM Switch - CORE Banking System - SWIFT - Credit/Debit Card Management System 	> 99.9%	Low Risk	●	100%
		99.8% - 97.5%	Moderate Risk	●	
		< 97.5	High Risk	●	
Medium critical	<ul style="list-style-type: none"> - Image Capturing and Presentment System - SMS Banking System - Web Remittance System - Internet Banking System - Finacle Treasury) - ATM 	> 97.5%	Low Risk	●	100%
		97.4% - 95%	Moderate Risk	●	
		< 95%	High Risk	●	98.5%
Low critical	IHRM System SLIPS System	> 90%	Low Risk	●	100%
		89.9% - 87%	Moderate Risk	●	
		< 87%	High Risk	●	

Overall there has been a high availability of the systems

Sound Stress Testing Processes

Stress testing is a simulation technique, which is used to determine the reactions of different financial portfolios under a set of exceptional, but plausible assumptions.

Stress testing is an integral part of the Bank's ICAAP process and also gives management a clear understanding of how the Bank's risk profile is affected by changes in the macro economy and market variables. (Impact on the bank's equity under different stress scenarios has been measured and shown in the proceeding section of this report.)

It is the bank's policy to devise and implement the stress testing framework in a manner which factors in the Pillar 2 requirements of Basel II. So it serves as an essential aspect of the banks' internal capital adequacy assessment processes.

The board recognizes that the environment in which banks are operating is quite dynamic; there are changes in macroeconomic environment, banks' instruments, trading strategies and regulatory policies. Accordingly it is the Bank's policy that the risk measurement methodologies and stress testing techniques that should evolve to accommodate these changes. As a starting point the following tests are mandatory:

- Credit Risk
- Exchange Rate risk
- Equity risk
- Liquidity risk
- Pawning
- Economic stress test

Stress test shall be carried out assuming three different hypothetical scenarios:

* Minor Level Shocks:	These represent small shocks to the risk factors. The level for different risk factors could, vary.
* Moderate Level Shocks:	It envisages medium level of shocks and the level is defined in each risk factor separately.
* Major Level Shocks:	It involves big shocks to all the risk factors and is also defined separately for each risk factor.

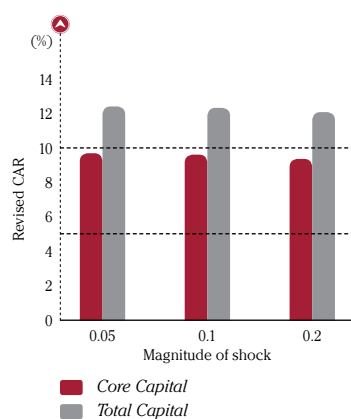
The goal of the stress test is a forward-looking capital assessment of how much capital is needed today to maintain a "well capitalized" status if the economy were to mirror the stress scenarios.

Stress Test for Credit Risk

The stress test for credit risk assesses the impact of increase in the level of nonperforming loans of the bank. This involves five types of shocks which have:

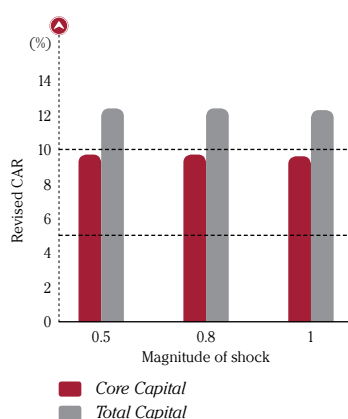
- Credit Shock - Increase in NPLs
- Credit Shock - Shift in NPLs categories
- Credit Shock - Fall in the FSV of Mortgaged Collateral
- Credit Risk - Slippage of performing loans to NPL
- Credit Risk - Increase in NPLs due to Top 10 large borrowers

Effect of Increase in NPLs on CAR



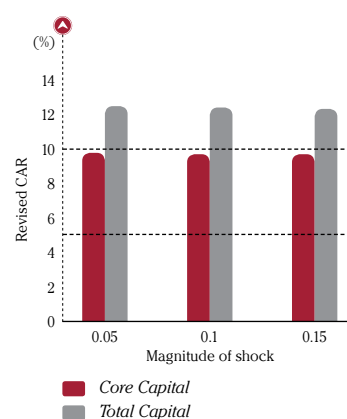
Conclusion: Even a 20% increase in NPL balance will have no major impact on our Capital Adequacy Ratio.

Effect of Negative Shifts in NPL Categories on CAR



Conclusion: Core Capital and Total Capital ratios remain above the minimum requirements in all 3 scenarios.

Effect of Fall in FSV of Mortgaged Collateral on CAR



Conclusion: Even if FSV of mortgaged collateral falls by 15% our CAR will not be affected.

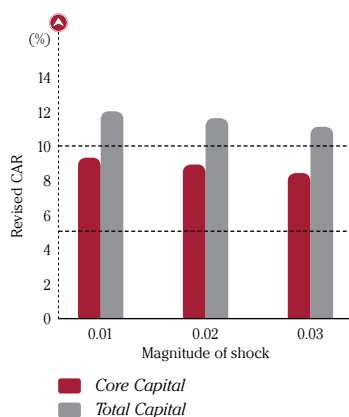
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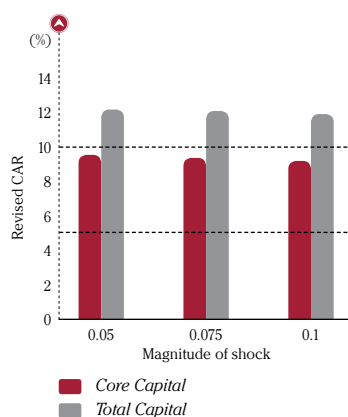
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Effect of Increase in NPLs (due to Transfer from Performance to Non Performance) on CAR



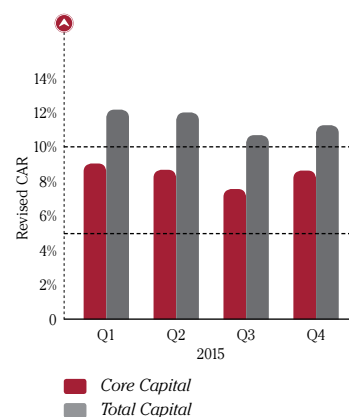
Conclusion: Even a 3% increase in NPLs will not affect the CARs; Performing Loans have to slip by 10.43% and 9.65% to NPL to affect our Core Capital Ratio and Total Capital Ratio respectively.

Effect of increase in NPLs due to top 10 borrowers on CAR



Conclusion: Even if NPLs increase by 10% due to top 10 borrowers our CAR will not be affected.

Effect of 1% Interest Rate increase on CAR



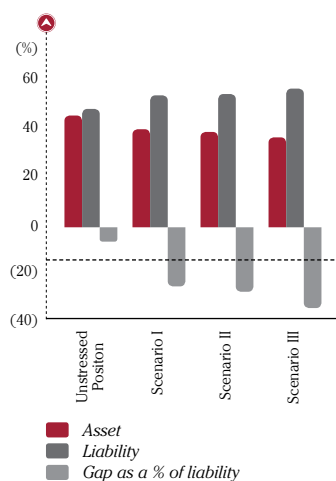
Stress Testing for Interest Rate Risk

Duration gap analysis method is utilized to measure the impact of an adverse interest rate change on the Equity of the Bank

Stress Testing For Liquidity Risk

A further stress test to see the effect of withdrawals of "Hot Money" (i.e. those deposits of over Rs. 50M and which are considered as being sensitive to interest rates) on the most critical time band shows that the Gaps will deteriorate below the bank's internally set limit of 20%.

Effect of Hot Money/Retail Fund Withdrawals on Gap in 'Up to 1 Month' Time Band



Compliance Risk

The excellent reputation enjoyed by People's Bank is a prime driver of the business success of the Bank. A sound reputation forms the basis for client confidence in the services offered by the Bank. This confidence goes hand in hand with confidence in the integrity and the specialized know how of Bank employees as well as in the high quality of our products. For this reason, key principles of compliance for the Bank are;

- » Ensuring employee integrity and
- » Maintaining service and product quality.

Compliance is primarily aimed at maintaining and continuously improving the reputation of the Bank. Ensuring the integrity of the Bank and that of its employees is accomplished by adhering to compliance relevant legislation. It is also achieved by conveying adequate knowledge of the compliance legislation to be adhered to as well as by monitoring the resultant compliance guidelines and principles.

Overlooking or losing sight of the current law pertaining to the duties of the Bank is a very high possibility with frequent changes and revisions in laws and regulations. To overcome this situation People's Bank has established the role of Compliance function within the Organization.

Compliance Structure of People's Bank



Since violation of Laws and Regulations could bring about sanctions and impair the good name and reputation of the Bank, the compliance function focuses on managing the risks arising from laws, regulations and standards which are specific to the financial services industry and which are issued by legislative and regular bodies relevant to the business of the Bank. The compliance function actively educates and supports the business in managing areas such as Anti-Money Laundering, Conflict of Interests, Sales and Trading Conduct, Customer Interest and Protection and Preventing Terrorist Financing.

In addition the compliance function at the Bank,

- a) Ensures that the Banks Business activities are conducted in accordance with the laws and regulations pertaining to the industry.
- b) Ensures that all employees at Bank, follow accepted ethical standards in discharging their duties

- c) Interprets the Laws and Regulations constructively so as to facilitate business but not to breach the spirit of such regulations or to endanger the reputation of the Bank.
- d) Protects the Bank's tangible and intangible assets, the financial security of the business and most importantly the good reputation of the Bank.
- e) Provides regular updates to staff when there are changes in legislations/ regulations pertaining to the Banking business, and conduct training throughout the branch network so as to ensure compliance awareness at all times.
- f) Ensures that there is an effective Corporate Governance culture across all levels of the Bank.
- g) Aligns the Bank's corporate activities and behavior to ensure that it operates in a safe and sound manner maintaining the trust and confidence of the public.
- h) Assesses the branches to ensure that the branch network is acting in compliance with the rules and regulations of the industry.
- i) Carries out periodic process of confirmation of compliance from respective departments and brings to the notice of the Board of Directors any breaches identified in order to take rectifying measures.
- j) Submits confirmation reports on compliance with Directives of Central Bank of Sri Lanka (CBSL) to the Bank Supervision Department.

STEWARDSHIP RISK MANAGEMENT

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Bank's Adherence to the Banking Act Direction No. 11 of 2007
CBSL, with an aim to maintaining high ethical values and accountability among Board of Directors and Senior Management in their commitment to good corporate governance, introduced Directions on Corporate Governance by Banking Act Direction No. 11 of 2007. The Compliance Department of the Bank and the Secretary to the Board ensure that the Board of Directors and the Senior Management of the Bank act in compliance with the rules stipulated therein. Apart from the Directions of CBSL, the Bank has taken steps to adopt the Corporate Governance practices recommended by The Institute of Chartered Accountants of Sri Lanka and The Securities and Exchange Commission of Sri Lanka.

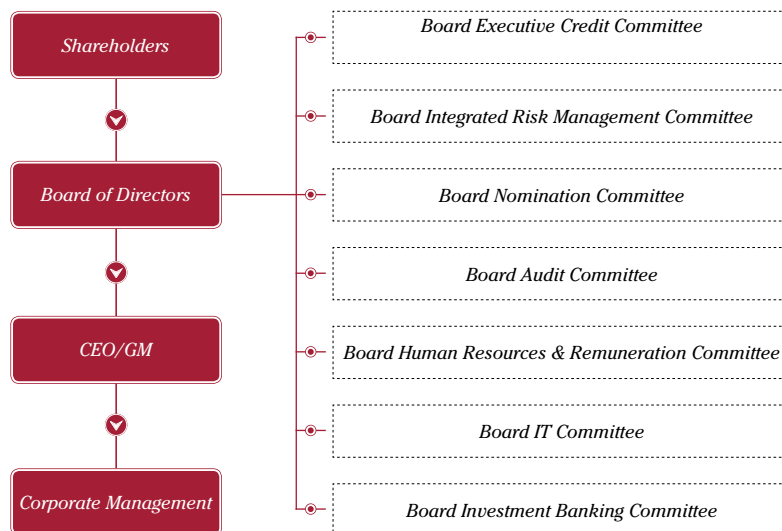
It is the duty and the responsibility of the Board of Directors and the Senior Management to have in place good corporate governance within the Bank.

Corporate Governance Framework

People's Bank is headed by an effective Board of Directors whose meet regularly and direct strategic direction of the Bank. There is a clear division of responsibility at the head of the Bank which ensures a balance of power and authority between the Chairman who controls and directs the Board Meetings and the Chief Executive Officer/ General Manager, who carries the responsibility of running the Business of the Bank. The Board is supplied through the Secretary to the Board with information required to allow it to discharge its responsibilities.

Acting in compliance with the Directions on Corporate Governance Seven sub-committees have been established under the guidance of the Board of Directors with authorities to monitor and evaluate areas pertaining to each committee.

The Score Card to assess the effectiveness of the compliance function was formulated and this indicates score of 82, which corresponds to the "Low Risk" category.



Combating Money Laundering & Terrorist Financing

Today, Money Laundering and Terrorist Financing has become a major issue worldwide creating a huge threat to the Banking & Finance Industry. As a country Sri Lanka has enacted laws pertaining to Money Laundering and Terrorist Financing identifying them as crimes which are punishable by fines or imprisonment.

People's Bank has internally developed the following effective Anti-Money Laundering procedures to reduce the risk of the Bank being used in Money Laundering transactions. The Bank is exercising its vigilance over the transactions carried out through this system.

- » Monitor unusual large transactions and unusual patterns of transactions which have no economic or visible lawful purpose, receiving internal suspicious transactions report from staff, analyze and investigate same.
- » Promptly report suspicious transactions (STR) to the Management and Financial Intelligence Unit (FIU)

Key Risk Indicators for Compliance

Compliance	Low Risk	Moderate Risk	High Risk	Position as at 31.12.2015	Position as at 31.12.2014
Number of Breaches Observed	NONE	< 16	> 16	3	13
Number of STRs filed at FIU	NONE	< 16	>16	21	39
Amount of Regulatory Fines imposed on the bank	NIL	< LKR 0.5M	>LKR 0.5M	Nil	Nil

In order to improve awareness on Money Laundering and Terrorist Financing and incorporate a good governance culture following steps have been taken by the Bank:

- » Training programs are conducted across the branch network on Anti Money Laundering/ Know Your Customer, Customer Due Diligence and Risk Categorization
- » E-learning modules have been developed on Anti Money Laundering/ Know Your Customer and Western Union Transactions
- » The Bank has put in place a Code of Best Practice in Corporate Governance, Anti-Money Laundering and Know Your Customer Policy, Code of Conduct, Compliance Policy and Customer Charter.

In order to mitigate Compliance and Reputation Risk, People's Bank has taken action and has fully complied with the compliance requirements of the country. The Bank has developed systems and procedures to give the fullest support needed to combat Money Laundering and Terrorist Financing. All applicable laws and regulations are strictly followed in this regard.

Strategic/Business Risk

This means the current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, or from the inability to respond to the changes in the business environment.

Typical sources of strategic risk are e.g. endeavors to achieve a growth rate or market share that does not harmonies with the market environment, lack of timely and proper adherence to environmental changes, assignment of inappropriate means to correctly chosen objectives, poorly timed alignment to changes in the business environment, or specific actions that do not comply with strategic objectives.

Risk Appetite

Business risk appetite is encapsulated in the Bank's budget and medium-term plan, which are sanctioned by the Board on an annual basis. Divisions' and business units' plans are aligned to the Bank's overall risk appetite.

The Bank's strategy is reviewed and approved by the Board.

Sources of Strategic Risk

Strategic risk can arises mainly from, external risk factors and internal risk factors.

- » Internal factors: resource capability and availability, customer treatment, products and funding and the risk appetite of other risk categories; and
- » External factors: economic, technological, political, social competitive behavior.

Mitigating Strategic Risk

In order to minimize strategic risk the bank adopts the following:

- » Involve all levels of management in formulating strategy
- » Establish a robust strategic planning process
- » Regular reviews incorporating changes to strategic environment

An annual budgeting process is undertaken by the Finance Dept. which includes a quantitative and qualitative assessment of the risks that could impact the Bank's plans. The exercise tries to take into account the current and expected socio-economic and regulatory environment.

A score card has been developed to measure and monitor strategic risk which indicate a medium level of strategic risk exposure. We have embarked on a strategic planning exercise during the year 2015 in order to address the strategic risk concern highlighted in our periodic surveys.

STEWARDSHIP RISK MANAGEMENT

Monitoring

As part of the annual business planning process, the Bank develops a set of management actions to prevent or mitigate the impact on earnings in the event that business risks materialize.

Additionally, business performance is tracked on weekly (balance sheet data) and monthly (profit and loss and other KPIs) basis by the ALCO and the Board. This results in developing corrective actions and plans to minimize adverse deviations in the future.

Starting from the year 2015 a score card has been developed to measure strategic risk

Capital Adequacy

Peoples bank asses the capital adequacy to support its overarching capital management objectives.

- » Meeting regulatory capital requirements
- » Meeting internal economic capital requirements
- » Maintaining flexibility to deal with unexpected events
- » Efficiency in the amount and type of capital
- » Effective deployment of capital.

Internal Capital Adequacy Assessment Process (ICAAP)

Regulatory capital management

The bank's approach for calculating internal capital requirement starts with the capital and risk weighted assets as reported for Pillar I to the CBSL. The other risks identified by the bank but not captured under CBSL reporting are added.

People's Bank uses the following methods to calculate risk-weighted assets for the three types of pillar I risks:

- » Credit risk: The standardized approach
- » Market risk: The standardized measurement method
- » Operational risk: Basic indicator approach

People's Bank does not take diversification effects between the risk types into account. The capital charge for each risk category is simply aggregated, and this method provides a more conservative picture of Capital Adequacy.

Capital and Dividend Plan and Ratio Management

As a State owned entity People's Bank has no access to the equity capital markets and must rely entirely on its own capital generation and infusions from the Government Treasury to augment its capital base as required. To this end, it has reached an informal agreement with the Govt. Treasury to limit dividend payouts to the extent that the bank's Tier 1 Capital Adequacy Ratio will not fall below minimum set requirements viz 6% on an internal assessment basis and 6.5% on a regulatory basis.

The bank is also committed to maintaining total Capital Adequacy Ratios of at least 11% and 12% respectively and to this end will consider raising funds through the issue of Tier II eligible instruments such as long term debentures.

Overall it is the bank's policy to always maintain a buffer, on an internal assessment basis, over and above the minimum set by the Regulator.

BOARD SUB COMMITTEE 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.

Mr. Jehan P. Amaratunga, Fellow Chartered Accountant/ Chairman of the BAC, Ms. G.D.C. Ekanayake the representative of the Treasury, Ministry of Finance and Planning and Mr. Sanjaya Galaboda, served the BAC to 24.11.2015. With the resignation of Mr. Sanjaya Galaboda, Director Mr. M.H. Jamaldeen Director of the Bank was appointed to the BAC with effect from 24th November 2015. The quorum for a BAC meeting is two (02) 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 it is in compliance with financial reporting requirements under the statute.
- » Examines the system of internal control and management of business risks.
- » Reviews the audit processes, both external and internal.

- » Reviews the procedures in place for monitoring compliance with laws and regulations and in particular the guidelines of the Central Bank of Sri Lanka.

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

- a. Approved the Annual Audit plan prepared based on risk profiles of the areas of the Bank for the year 2015.
- b. Reviewed and discussed the Management Letter and the Report of the Auditor General issued in terms of Section 13 (7) (a) of the Finance Act No. 38 of 1971 for the year 2014 and the management responses thereon.
- c. Reviewed quarterly financial performance of the Bank for the year 2015 and recommended to submit the same to the Board.
- d. Reviewed and discussed issues raised at CBSL Statutory Examinations and follow-up examinations in 2013/ 2014 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 progress of their implementation.

Five (05) meetings were held during the financial year ended 31st December 2015. 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 of information.

The BAC also followed up on corrective measures taken by the management during the year 2015 on matters raised by CBSL Statutory Examination Reports and by the Auditor General in the report for the year ended 31st December 2014.

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 the 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 in all material aspects.



Jehan P. Amaratunga
Chairman
Board Audit Committee

24th March 2016

STEWARDSHIP

BOARD SUB COMMITTEE REPORTS

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Board Human Resources and Remuneration 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 to at all circumstances.

The Committee plays a main role in recruitments, determining salaries and other benefits to the employees. The Committee has also been granted the authority to consider extensions of service of the Corporate 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/GM). The current members of BHRRC are;

- » Mr. Hemasiri Fernando (Chairman)
- » Mr. Felician Perera
- » Mr. Anton Hemantha
- » Mr. N Vasantha Kumar, CEO/GM

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/GM.



Chairman
Board Human Resources and Remuneration Committee

24th March 2016

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 and the DGM (Risk Management). The current members of BIRMC are;

- » Mr. Jehan P. Amaratunga (Chairman)
- » Ms. G.D.C Ekanayake
- » Mr. Felician Perera
- » Dr. Aminda Perera
- » Mr. N Vasantha Kumar, CEO/GM
- » 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/GM.



Chairman
Board Integrated Risk Management Committee (BIRMC)

24th March 2016

STEWARDSHIP

BOARD SUB COMMITTEE REPORTS

134 Board Executive Credit Committee (BECC) Report

Scope

The BECC has been authorized to approve all credit proposals to customers 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;

- » Mr. T M K B Thennakoon (Chairman)
- » Mr. Anton Hemantha
- » Mr. N Vasantha Kumar, CEO/GM
- » 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 twice a month. The quorum for the meeting of BECC is four members including two Directors of the Board.



Chairman
Board Executive Credit Committee (BECC)

24th March 2016

Board Nomination Committee (BNC) Report

Scope

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

The Committees is also responsible for the consideration and recommendation from time to time, the requirements of additional/new expertise and the succession arrangements for retiring directors and 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.C Ekanayake

The CEO/GM attends the meetings 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.



Chairman
Board Nomination Committee (BNC)

24th March 2016

STEWARDSHIP

BOARD SUB COMMITTEE REPORTS

136 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 authorized to grant approval for share trading limits, new investment products, and utilization 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, the SDGM (Wholesale Banking) and the DGM (Risk Management). The current members of BIBC are;

- » Mr. Jehan P. Amaratunga – Director (Chairman)
- » Ms. G.D.C Ekanayake – Director
- » Mr. N Vasantha Kumar, CEO/GM
- » Mr. Sabry Ibrahim, SDGM (Wholesale Banking)
- » Mr. Rasitha Gunawardana, DGM (Risk Management)

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.



Chairman
Board Investment Banking Committee (BIBC)

24th March 2016

Board IT Committee (BITC) Report

Scope

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

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

Composition

The Committee consists of two Directors of the Board, The current members of BITC are;

- » Mr. Hemasiri Fernando (Chairman)
- » Mr. Jehan P. Amaratunga

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

The quorum for the meeting of BITC is two members.



Chairman
Board Information Technology Committee (BITC)

24th March 2016

STEWARDSHIP

REGULATORY COMPLIANCE

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People's Bank
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Introduction

Compliance starts at top. It will be most effective in a corporate culture that emphasises standards of honesty and integrity and in which the Board of Directors and Senior Management lead by example. It concerns everyone within the Bank and should be viewed as an integral part of the Bank's business activities. The Bank should hold itself to high standards when carrying on business, and at all times strive to observe the spirit as well as the letter of the law. Failure to consider the impact of its actions on its shareholders, customers, employees and the markets may result in significant adverse publicity and reputational damage, even if no law has been broken.

The excellent reputation enjoyed by People's Bank is a main aspect of the business success of the Bank and it forms the basis for client confidence in the services offered by the Bank. This confidence goes hand in hand with confidence in the integrity and the specialized know how of Bank employees as well as in the high quality of our products.

Compliance is primarily aimed at maintaining and continuously improving the integrity and reputation of the Bank. Ensuring the integrity of the Bank and that of its employees is accomplished by

- i. adhering to compliance relevant legislation
- ii. conveying adequate knowledge of the compliance legislation to be adhered to and
- iii. monitoring the resultant compliance guidelines and principles.

Compliance Structure of People's Bank

With the aim of ensuring that the Bank is operated efficiently and in conformity with the rules and regulations applicable in the industry, the Bank has established the role of Compliance function with the following scope:

- » Freedom to investigate and examine whether the business activities of the Bank are conducted in accordance with the rules and regulations pertaining to the industry.
- » Independence of reporting to Board integrated Risk management committee and Board of Directors.
- » To interpret regulations constructively so as to facilitate business without breaching the spirit of such regulations to endangering the Bank's reputation with its regulators.

Board Integrated Risk Management Committee



Deputy General Manager/ Compliance



Compliance Officer

In addition the compliance function,

- a) Ensures that the Banks Business activities are conducted in accordance with the laws and regulations pertaining to the industry.
- b) Ensures that all employees of the Bank, follow accepted ethical standards in discharging their duties

- c) Interprets the Laws and Regulations constructively so as to facilitate business but not to breach the spirit of such regulations or to endanger the reputation of the Bank.
- d) Protects the Bank's tangible and intangible assets, the financial security of the business and most importantly the good reputation of the Bank.
- e) Provides regular updates to staff when there are changes in legislation/ regulations pertaining to the Banking business, and conduct training throughout the branch network so as to ensure compliance awareness at all times.
- f) Ensures that there is an effective Corporate Governance culture across all levels of the Bank.
- g) Aligns the Bank's corporate activities and behaviour to ensure that it operates in a safe and sound manner maintaining the trust and confidence of the public.
- h) Assesses the branches to ensure that the branch network is acting in compliance with the rules and regulations of the industry.
- i) Carries out a process of periodic confirmation of compliance from respective departments and brings to the notice of the Board of Directors any breaches identified in order to take rectifying measures.
- j) Submits confirmation reports on compliance with Directives of Central Bank of Sri Lanka (CBSL) to the Bank Supervision Department.

Legal Framework on Anti Money Laundering and Terrorist Financing

An important development was witnessed in the Banking Industry with the introduction of following Acts which deal with Money Laundering and Terrorist Financing.

- » Convention on the Suppression of Terrorist Financing Act No. 25 of 2005
- » Prevention of Money Laundering Act No. 05 of 2006
- » Financial Transaction Reporting Act No. 06 of 2006

As directed by the provisions of the above Acts the Financial Intelligence Unit (FIU) was established at the Central Bank of Sri Lanka with the authority to take steps to prevent financial institutions being used for money laundering and terrorist financing activities. Compliance function of the Bank has been entrusted with the task of taking necessary steps in this regard and People's Bank has internally developed the following effective Anti Money Laundering procedures to reduce the risk of the Bank unintentionally facilitating Money Laundering transactions. The Bank exercises its vigilance over the transactions carried out through the system by;

- » Monitor unusual large transactions and unusual patterns of transactions which have no economic or visible lawful purpose, receiving internal suspicious transactions report from staff, analyze and investigate same.
- » Promptly report Suspicious Transactions (STR) to the the Financial Intelligence Unit (FIU) of CBSL.

In order to improve awareness on Money Laundering and Terrorist Financing and incorporate a good governance culture within the Bank, following steps have been taken within the Bank:

- » Training programs are conducted across the branch network on Anti Money Laundering/ Know Your Customer, Customer Due Diligence, Customer Risk Categorization and reporting suspicious transactions.
- » E-learning modules have been developed on Anti Money Laundering/ Know Your Customer and Western Union Transactions
- » A Code of Best Practice in Corporate Governance, Anti-Money Laundering and Know Your Customer Policy, Code of Conduct, Compliance Policy and Customer Charter have been put in place.

In order to mitigate Compliance and Reputation Risk, People's Bank has taken action and has fully complied with the compliance requirements of the country. The Bank has developed systems and procedures to give the fullest support needed to combat Money Laundering and Terrorist Financing. All applicable laws and regulations are strictly followed in this regard.

Compliance Function of the Bank though established as an independent unit within the Bank, acts hand in hand with all other departments, especially, Risk Management, Internal Audit and Operations Departments in order to ensure that the Bank acts in compliance with all rules and regulations within the business while providing a fully compliant banking service to the customers.

As such, the compliance function of the Bank can be considered not only as a policing function but rather as one that is designed to assist all employees and the Bank in complying with the laws pertaining to the industry with the aim of maintaining and improving the integrity and reputation of the Bank.

STEWARDSHIP

COMPLIANCE WITH CODE OF BEST PRACTICE

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2015

Bank's Adherence with The Code of Best Practice on Corporate Governance Issued by The Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka.

Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by ICASL & SEC	Level of Compliance
A. General			
Chairman and CEO	If Chairman and CEO is one and the same person, disclose the name of the Chairman / CEO and Senior Independent Director appointed and justification of the decision to combine the positions.	A.2.1 & A.5.7	The posts of Chairman and CEO / GM are held by two individuals.
Board Balance	<p>» Should identify the independent Non-Executive Directors.</p> <p>» If a Non-Executive Director is identified as 'Independent', notwithstanding the existence of any of the following factors, the reason for such determination should be disclosed.</p> <p>» A Director is not considered independent if he / she :</p> <ul style="list-style-type: none"> • has been employed by the Company, subsidiary or parent of the Company during the period of two years immediately preceding appointment; • currently has or has had within last two years immediately preceding appointment as Director, a Material Business Relationship with the Company, whether directly or indirectly; • has a close family member who is a Director or Chief Executive Officer or Key Management Personnel (and/or an equivalent position); • is a significant shareholder of the Company or an officer of, or otherwise associated directly with, a significant shareholder of the Company; • has served on the Board of the Company continuously for a period exceeding nine years from the date of the first appointment; 	A.5.5	Under the People's Bank Act No. 29 of 1961, the Minister in charge of the subject is empowered to appoint Board of Directors.

Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by ICASL & SEC	Level of Compliance
Board Balance contd.	<ul style="list-style-type: none"> • is employed in another company or business: <ul style="list-style-type: none"> - in which a majority of the other Directors of the Company are employed or are Directors; or - in which a majority of the other Directors of the Company have a Significant Shareholding or Material Business Relationship; or - that has a Significant Shareholding in the Company or with which the Company has a Business Connection; • is a Director of another company: <ul style="list-style-type: none"> - in which a majority of the other Directors of the Company are employed or are Directors; or - that has a Business Connection with the Company or Significant Shareholding in the Company; • has a Material Business Relationship Shareholding in another company or business: <ul style="list-style-type: none"> - in which a majority of the other Directors of the Company are employed or are Directors; and/or - which has a Business Connection with the Company or Significant Shareholding in the same. 		
Nomination Committee	The Chairman and members of the Nomination Committee should be identified.	A.7.1	Compiled with.
Appointment of New Directors	<ul style="list-style-type: none"> » When new Directors are appointed, the following details should be disclosed. » A brief resume of each such Director » The nature of his expertise in relevant functional areas; » The names of companies in which the Director holds directorships or memberships in board committees; and » Whether such Director can be considered independent. 	A.7.3	Compiled with. The Directors are appointed as per the provisions under the People's Bank Act.

STEWARDSHIP

COMPLIANCE WITH CODE OF BEST PRACTICE

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People's Bank
Annual Report
2015

Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by ICASL & SEC	Level of Compliance
Appraisal of Board Performance	Should disclose how performance evaluation has been conducted.	A.9.3	The Board conducts appraisals to assess its performance and effectiveness as a whole annually.
Board Related Disclosures	<p>The following details pertaining to each Director should be disclosed.</p> <ul style="list-style-type: none"> » Name, qualification and brief profile; » The nature of his/her expertise in relevant functional areas; » Immediate family and/or material business relationships with other Directors of the Bank; » whether Executive, non-Executive and/or independent Director; » names of listed companies in Sri Lanka in which the Director concerned serves as a director; » names of other companies in which the Director concerned serves as a Director, provided that where he/she holds directorships in companies within a Group of which the Company is a part, their names need not be disclosed; it is sufficient to state that he/she holds other directorships in such companies; » number/percentage of Board Meetings of the Company attended during the year; » the total number of Board seats held by each Director indicating listed and unlisted Companies and whether in an Executive or Non-Executive capacity; » names of Board Committees in which the Director serves as the Chairman or a member; and » number/percentage of committee meetings attended during the year. 	A.10.1	Complied with. The 2015 Annual Report contains comprehensive information in this regard.

Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by ICASL & SEC	Level of Compliance
Disclosure of Remuneration	<ul style="list-style-type: none"> » A Statement of Remuneration Policy; » Details of remuneration of the Board as a whole; » Names of Directors (or persons in the parent company's committee in the case of a group company) comprising the remuneration committee, contain a statement of remuneration policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors. 	B.3 & B.3.1	The Ministry of Finance and Planning determines the fees / allowance payable to Directors.
Major and Material Transactions	All Material Transactions entered into by the Company should be disclosed. Further, prior to a Company engaging in or committing to a 'Major related party transaction' with a related party, the purpose and all material facts of such transaction should be disclosed.	C.3 & C.3.1	Complied with.
Audit Committee	<ul style="list-style-type: none"> » Names of the Members of the Audit Committee should be disclosed. » Basis for determining the independence of auditors. 	D.3.4	Names of members of the Audit Committee are given in the Board Audit Committee Report on page 131. The Auditor of the Bank is the Auditor General as enshrined in the Constitution of Sri Lanka. The independence of the Auditor General is ensured by the Constitution. The Auditor General has appointed KPMG auditors to carry out the Bank's external audit.
Code of Business Conduct and Ethics	<ul style="list-style-type: none"> » Should disclose whether the Bank has a Code of Business Conduct and Ethics for Directors and Key Management Personnel. » Should also disclose an affirmative declaration that they have abided by such Code. » The Chairman must certify that he/she is not aware of any violation of any of the provisions of this Code. 	D.4.1 & D.4.2	Complied with. Bank has Code of Ethics for Directors and a Code of Conduct for its Employees.

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Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by ICASL & SEC	Level of Compliance
Going Concern	Should report that the Bank is a going concern, with supporting assumptions and qualifications as necessary.	D.1.5	The Bank is a going concern.
Communication with shareholders	<p>The Company should disclose the policy and methodology for communication with shareholders.</p> <p>The Company should disclose how they implement the above policy and methodology.</p> <p>The Company should disclose the contact person for such communication.</p> <p>There should be a process to make all Directors aware of major issues and concerns of shareholders, and this process has to be disclosed by the Company.</p> <p>The Company should decide the person to contact in relation to shareholders' matters.</p> <p>The process for responding to shareholder matters should be disclosed.</p>	C.2.2 , C.2.3 , C.2.4 , C.2.5, C.2.6, C.2.7	Complied with. Bank has an approved communication policy.
B. Remuneration Committee Report			
Members of Remuneration Committee	The names of members of Remuneration Committee should be disclosed in the Remuneration Committee Report.	B.1.3	Complied with. Names of members of the Remuneration Committee are disclosed in the Board Human Resource and Remuneration Committee Report on page 132 of this Annual Report.

Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by ICASL & SEC	Level of Compliance
C. Directors' Report			
Directors' Report	<p>Should contain the following declarations made by Directors;</p> <ul style="list-style-type: none"> » The Company has not engaged in any activity, which contravenes laws and regulations; » The Directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested; » The Company has made all endeavours to ensure the equitable treatment of shareholders; » The business is a going concern, with supporting assumptions or qualifications as necessary; and » They have conducted a review of internal controls covering financial, operational and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and successful adherence therewith. 	D.1.2	Compiled with.
D. Financial Statements			
Financial Statements	<ul style="list-style-type: none"> » The Board of Directors should include a Statement of Responsibility for the preparation and presentation of Financial Statements. » Auditors should also have a statement about their reporting responsibility. 	D.1.3	Compiled with.
Related Party Transactions	Should disclose the related parties and related party transactions as specified by Sri Lanka Accounting Standards, SEC regulations and other related regulations.	D.1.7	Related Party transactions were disclosed according to LKAS

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Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by ICASL & SEC	Level of Compliance
E. Management Report			
Management Report	<p>Should include a 'Management Discussion and Analysis Report' discussing at least the following issues:</p> <ul style="list-style-type: none"> » Industry structure and developments; » Opportunities and threats; » Risks and concerns; » Internal control systems and their adequacy; » Social and environmental protection activities carried out by the Bank; » Financial performance; » Material developments in human resources/ industrial relations; and » Prospects for the future. 	D.1.4	Complied with.
F. Corporate Governance Report			
Corporate Governance Report	Should disclose the manner and extent to which the Bank has complied with as per the principles and provisions of the Code.	D.5.1	Compiled with.
G. Audit Committee Report			
Audit Committee Report	Should set out the work carried out by the Committee.	D.3.3	Compiled with.
H. Statement on Internal Control			
Statement on Internal Control	<p>Should disclose the following as a minimum.</p> <p>(a) The Board should summarize the process it has applied in reviewing the design and effectiveness of the system of internal control.</p> <p>(b) It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in the annual report.</p> <p>(c) An acknowledgement by the Board that it is responsible for the Company's system of internal control and for reviewing its design and effectiveness. It should also explain that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatements of loss.</p>	D.1.3 & D.2.3	Compiled with. Refer Director's Statement of Internal Control on pages 148-149.

Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by ICASL & SEC	Level of Compliance
	<p>(d) The Directors should disclose that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, whether it has been in place for the year under review and whether it is regularly reviewed by the Board.</p> <p>(e) The Board has to disclose if it has failed to conduct a review of design and effectiveness of the Company's system of internal control.</p> <p>(f) The Board should ensure that its disclosures provide meaningful, high level information and do not give a misleading impression.</p> <p>(g) Where material subsidiaries, joint ventures and associates have not been dealt with in applying this guidance, as part of the group, that fact should be disclosed.</p> <p>(h) The confirmation by the Board: The Board should confirm in its report that the financial reporting system has been designed to provide reasonable assurance regarding their liability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with applicable accounting standards and regulatory requirements.</p> <p>(i) Should be signed by the Directors who signed the financial statements and the chairman of the Audit Committee.</p>		
I. Sustainability Reporting			
Sustainability Reporting	<p>Disclose the policies and procedures adopted to develop a sustainable business in the context of;</p> <ul style="list-style-type: none"> » Sustainable economic performance; » The Environment; » Labor Practices; » Society; » Product Responsibility; » Stakeholder identification, engagement & effective communication; <p>Sustainable reporting and disclosure should be formalized as part of the Company's reporting processes and take place on a regular basis.</p>	G.1 to G.1.7	Compiled with. Refer Value Creation Section on pages 50-96.

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DIRECTORS' STATEMENT ON INTERNAL CONTROLS

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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 Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal controls mechanism in place at the Bank. In considering such adequacy and effectiveness, the Board recognizes 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 fraud.

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 is in accordance with the guidance for Directors of the Bank on the Directors Statement on Internal Controls 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 and 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 risks and controls 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 :

- » Board of Directors has appointed subcommittees to ensure the effective internal control mechanism within the Bank. Appointment of corporate management headed by CEO/ GM has enabled to delegate the authority from Board to other layers. The management assist the Board in the implementation of the Board's policies and procedures on risks and controls by identifying and assessing the risks faced and in the design, operation and monitoring of

suitable internal control to mitigate and control these risks.

- » Systems and procedures are in place to identify, control and report on the major risks including credit, market and operational risks. Exposure to these risks is monitored by Board Integrated Risk Management Committee (BIRMC).

The Committee assesses all risks to the Bank on a periodic basis through appropriate risk indicators and management information, review the adequacy and effectiveness of all management level committees to address specific risks and to manage those risks within quantitative and qualitative risk limits. This includes stress test and risk dashboard reviews. The BIRMC also takes corrective action to mitigate the effects of specific risks, where risks are at levels beyond the prudent limits decided by the Committee.

- » 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 Audits 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 for review at their periodic meetings.

- » The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Department, the external auditors, regulatory authorities and the 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 the same. The Board Audit Committee keeps under review the status of key risk areas which impact the Bank and considers whether the mitigating actions put in place are appropriate. All minutes of the Board Audit Committee meetings are forwarded to the Board.
- » In assessing the internal control system over financial reporting Internal Audit Department of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the them for suitability of design and effectiveness on an ongoing basis.
- » The Bank's financial reporting process for preparing the annual accounts is controlled using documented accounting policies developed based on Sri Lanka Accounting Standards and reporting formats and guidance on reporting requirements issued by the Central Bank of Sri Lanka. With the adoption of new Sri

Lanka Accounting Standards comprising LKAS and SLFRS, processes to comply with new requirements of recognition, measurement, classification and disclosure are being addressed.

- » Further, based on the Sri Lanka Standard on Assurance Engagements SLSAS 3050, comments made by us in the financial year ended 31st December 2015 in connection with Internal Control System have been taken into consideration by the management all procedures and controls that are connected with significant accounts and disclosures of financial statements of the Bank were collated and developed a detailed guideline by way of procedure manuals and control testing have also been initiated. Appropriate measures have been taken 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 2015 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.

For and on behalf of the Board.



Jehan P. Amaratunga
Director
Chairman of the Board Audit Committee

24th March 2016

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AUDITOR GENERAL'S ASSURANCE REPORT ON INTERNAL CONTROL

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My No. }

BAF/D/PB/IC/2015

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Your No. }

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திகதி
Date }

April 2016

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 2015. 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 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 us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.

H.M. Gamini Wijesinghe
Auditor General

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AUDITOR GENERAL'S REPORT OF FACTUAL FINDINGS AND CORPORATE GOVERNANCE

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My No. }

BAF/D/PB/CG/2015

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Your No. }

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Date }

1st April 2016

Auditor General's Report of Factual Findings of People's Bank to the Board of Directors of People's Bank on the compliance requirement of the Corporate Governance Direction issued by the Central Bank of Sri Lanka

I have performed the procedures and enumerated in Annexure to this report, with respect to the Corporate Governance Report of the Board of Directors prepared and presented to meet the compliance requirement of the corporate governance direction issued by the Central Bank of Sri Lanka (CBSL). This engagement has been performed in accordance with the principles set out in Sri Lanka Standards on Related Services 4400 (SLSRS 4400) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you to meet the compliance requirement of the corporate governance directive. To perform this agreed upon procedures, I was assisted by a firm of Chartered Accountants in public practice.

I report my findings in the attached Annexure to this report.

Because the above procedures do not constitute an audit or review made in accordance with Sri Lanka Auditing Standards, I do not express any assurance on the compliance with the directives of corporate governance issued by CBSL.

Had I performed additional procedures or had I performed an audit or review of the Financial Statements in accordance with Sri Lanka Auditing Standards, other matters might have come to my attention that would have been reported to you.

My report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties.

This report relates only to the items specified annexure and does not extend to any financial statements of People's Bank, taken as a whole.

H.M. Gamini Wijesinghe
Auditor General



Annexure - 1 to the Report on Factual Findings

Section	Procedure Performed	Degree of Compliance
3(1)	The responsibilities of the Board	
3(1)(i)	Procedures to be carried out to ensure the Board has strengthened the safety and soundness of the Bank.	
	a) Check the Board approval of the Bank's strategic objectives and corporate values.	Complied with There is an approved strategic plan to the Bank for the period of 2016 - 2020 at the Board Meeting 2015/2. This was prepared in collaboration with MTI Consultants.
	Check whether the Bank has communicated the Bank's strategic objectives and corporate values throughout the Bank.	Complied with Strategies are communicated to respective branch managers through circulars.
	b) Check the Board approval of the overall business strategy of the Bank.	Complied with There is an approved strategic plan to the Bank for the period of 2016 - 2020 at the Board Meeting 2015/2. This was prepared in collaboration with MTI Consultants.
	Check that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.	Complied with These aspects are addressed in the approved strategic plan and reviewed in the Board Integrated Risk Management Committee meetings.
	Check that the overall business strategy contains measurable goals, for at least the next three years.	Complied with Measurable goals are included in the strategic plan for the period of 2016 - 2020 and those are reviewed periodically.
	c) Check that the appropriate systems to manage the risks identified by the Board are prudent and are properly implemented.	Complied with Board Integrated Risk Management Committee has taken necessary steps to periodically review the Risk Management policy. The committee carries out all Risk Management procedures with regard to the Bank.
	d) Check that the Board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers;	Complied with There is an approved strategic policy on communication with stakeholders.
	e) Check that the Board has reviewed the adequacy and the integrity of the Bank's internal control systems and management information systems;	Complied with The adequacy and the integrity of Internal Control System over financial reporting and Management Information System has been reviewed by the Board Audit Committee (BAC). The BAC reports the findings to the Board periodically.

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Section	Procedure Performed	Degree of Compliance
	f) Check that the Board has identified and designated Key Management Personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: (i) Significantly influence policy; (ii) Direct activities; and (iii) Exercise control over business activities, operations and risk management;	Key Management personnel include the Board of Directors, and Chief Executive Officer/General Manager, Senior Deputy GM - Credit, Deputy GMs of Risk Management, Operations, Compliance, CC & SME divisions, Head of IT and Head of Finance.
	g) Check that the Board has exercised appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy;	The Board has exercised appropriate oversight of the affairs of the Bank through its sub-committees. Number of Board Meetings and Board sub-committee meetings during the year 2015 are as follows. Board Meetings - 14 Board Audit Committee - 05 Board Executive Credit Committee - 08 Board Human Resource & Remuneration Committee - 06 Board Integrated Risk Management Committee - 04 Board Nomination Committee - 03 Board Investment Banking Committee - 03
	h) Check that the Board has defined the areas of authority and key responsibilities for the Board of Directors themselves and for the Key Management Personnel;	Complied with Directors are allocated to the sub-committees. In the Terms of References of each committee, areas of authority and the key responsibilities are defined.
	i) Check that the Board has periodically assessed the effectiveness of the Board Directors' own governance practices, including: * The selection, nomination and election of Directors and Key Management Personnel; * The management of conflicts of interests; * The determination of weaknesses and implementation of changes where necessary.	Appointment of Board of Directors are made by the Minister in charge of the subject, under section 8 of the People's Bank act. Assessment of effectiveness of the Board of Directors done through the self evaluation process and by the process of obtaining declarations from the Directors. However the self evaluation for the year 2015 will be carried out during March 2016. The Code of the Best Practice on Corporate Governance of the Bank includes a provision on management on conflicts of interest of the Directors. However the process of identifying/disclosure of Conflicts of Interest needs to be further strengthened.

Section	Procedure Performed	Degree of Compliance
	j) Check that the Board has a succession plan for Key Management Personnel.	Complied with The Bank has a succession plan approved by Board paper No 09/2015. The succession plan is designed for the CEO, DGMs, AGMs and Grade 1 officers. The Bank uses development plans to ensure their readiness.
	k) Check that the Board has scheduled regular meetings with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied with Executive Operations Committee which is represented by CEO/GM and selected DGMs meet once a week to make significant operational decisions of the Bank. More over Board appointed committees meet with the CEO/GM and respective DGMs regularly to monitor progress.
	l) Check that the Board has taken measures and processes in place to understand the regulatory environment and that the Bank maintains a relationship with regulators.	Complied with Board Audit Committee assists the Bank in this regard. Statutory examination reports are submitted to the CBSL on quarterly basis. The Board has appointed a compliance officer in this regard.
	m) Check that the Board has a process in place for hiring and oversight of external auditors.	Complied with According to Section 34 (1) of People's Bank Act No 29 of 1961 the Auditor General may employ the service of any qualified auditor or auditors who shall act under his direction and control.
3(1)(ii)	Check that the Board has appointed the Chairman and the Chief Executive Officer (CEO).	Complied with The Chairman has been appointed by the Minister in charge of the subject. The CEO/GM has been appointed by the Board.
	Check that the functions and responsibilities of the Chairman and the CEO are in line with Direction 3(5) of these Directions.	Complied with Please refer the results observed under direction 3(5) of the direction.
3(1)(iii)	Check that the Board has met regularly and held Board Meetings at least twelve times a year at approximately monthly intervals.	Complied with The Board has met 14 times for the year 2015.
3(1)(iv)	Check that the Board has a procedure in place to enable all Directors to include matters and proposals in the agenda for regular Board Meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Complied with The agenda is set with consultation of the Chairman. A schedule of Board Meetings is being set at the beginning of the year.

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Section	Procedure Performed	Degree of Compliance
3(1)(v)	Check that the Board has given notice of at least 7 days for a regular Board Meeting to provide all Directors an opportunity to attend. And for all other Board Meetings, notice has been given.	Complied with This is done through a letter signed by the secretary to the Board. This letter is emailed one week prior to the date of the meeting.
3(1)(vi)	Check that the Board has taken required action on Directors who have not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the Directors' meetings through an alternate Director, however, to be acceptable as attendance.	Complied with The Directors have attended the meetings as required.
3(1)(vii)	Check that the Board has appointed a Bank secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	Complied with Name of the appointed Bank secretary is Mr. Rohan Pathirage, a lawyer by profession. Board paper No 406/2010 Meeting No 13/2010.
3(1)(viii)	Check the process to enable all Directors to have access to advice and services of the Bank secretary.	Complied with All Directors have unlimited access to advice and for the service of the Board secretary. This is mentioned in the approved Code of Best Practice of the Bank.
3(1)(ix)	Check that the Bank secretary maintains the minutes of Board Meetings and there is a process for the Directors to inspect such minutes.	Complied with Meeting minute books are kept with the secretary for inspection of any Director.
3(1)(x)	Check that the minutes of a Board Meeting contain or refer to the following: (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 which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) The matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) The understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; (g) The decisions and Board resolutions.	Complied with These requirements were observed during the review of Board Minutes

Section	Procedure Performed	Degree of Compliance
3(1)(xi)	Check that there are procedures agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense.	Complied with There is a procedure to seek independent professional advices by the Directors.
3(1)(xii)	Check that there is a procedure to determine, report, resolve and to take appropriate action relating to Directors avoid conflicts of interests, or the appearance of conflicts of interest.	The Code of the Best Practice on Corporate Governance of the Bank includes a provision on management on Conflicts of Interest of the Directors. However the process of identifying/disclosure of Conflicts of Interest needs to be further strengthened.
	Check that a Director has abstained from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested	Complied with This requirement was observed during the review of Board Minutes
	Check that has he/she been not counted in the quorum for the relevant agenda item at the Board Meeting	Complied with
3(1)(xiii)	Check that the Board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the Bank is firmly under its authority.	Complied with
3(1)(xiv)	Check that the Board has forthwith informed the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action, if it considers that the procedures to identify when the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.	No such situations have arisen.
3(1)(xv)	Check that the Board has the Bank capitalized at levels as required by the Monetary Board.	Complied with The Bank is maintain sufficient amount of capital and has duly complied with capital adequacy requirements and requirements under other prudential grounds throughout the year
3(1)(xvi)	Check that the Board publishes, in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	Complied with This report serves the said requirement

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AUDITOR GENERAL'S REPORT OF FACTUAL FINDINGS AND CORPORATE GOVERNANCE

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Section	Procedure Performed	Degree of Compliance
3(1)(xvii)	Check that the Board adopts a scheme of self-assessment to be undertaken by each Director annually, and maintains records of such assessments.	Complied with Bank follows a scheme of self-assessment during the first quarter of each year to evaluate individual Director's performance of preceding year.
3(2)	The Board's Composition	
3(2)(i)	Check that the Board comprise of not less than 7 and not more than 13 Directors.	Complied with The Board consists of 8 Directors and composition has been maintained during the period.
3(2)(ii)	<p>(a) Check that the total period of service of a Director other than a Director who holds the position of CEO, does not exceed nine years.</p> <p>(b) In the event of any Director serving more than 9 years, check that the transitional provisions have been applied with.</p>	<p>Complied with Directors have not exceeded 9 years of services in the capacity of Directors. 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 the year 2015, except for Mr. Jehan P. Amarathunga, who was first appointed in 2010 by the Minister.</p> <p>Directors have not exceeded 9 years of services in the capacity of Directors.</p>
3(2)(iii)	Check that the number of Executive Directors, including the CEO does not exceed one-third of the number of Directors of the Board.	Complied with All Directors are Non-Executive Directors and appointed by the Minister in charge of the subject, under the Section 8 of People's Bank Act No 29 of 1961.

Section	Procedure Performed	Degree of Compliance
3(2)(iv)	<p>Check that the Board has at least three independent Non-Executive Directors or one third of the total number of Directors, whichever is higher</p> <p>Check if Non-Executive Directors can be considered independent if he/she:</p> <ul style="list-style-type: none"> a) Holds a direct and indirect shareholdings of more than 1 percent of the Bank; b) Currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the Bank as described in Direction 3(7) hereof, exceeding 10 percent of the regulatory capital of the Bank. c) Has been employed by the Bank during the two year period immediately preceding the appointment as Director. d) Has had a close relation; who is a Director, CEO, a member of Key Management Personnel, a material shareholder of the Bank or another Bank. (For this purpose, a "close relation" means the spouse or a financially dependent child) e) Represents a specific stakeholder of the Bank f) Is an employee or a Director or a material shareholder in a company or business organization: <ul style="list-style-type: none"> I. Which currently has a transaction with the Bank as defined in Direction 3(7) of these Directions, exceeding 10 percent of the regulatory capital of the Bank, or II. In which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or III. In which any of the other Directors of the Bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 percent of regulatory capital in the Bank. 	<p>All Directors are Non-Executive, Non independent Directors and appointed by the Minister in charge of the subject, under the Section 8 of People's Bank Act No 29 of 1961.</p> <p>Non of the Directors hold a direct/ indirect shareholding of the Bank. However, since they have been appointed by the Minister in charge of the subject, it is considered that they represent the major shareholding of the Bank. Hence are designated as Non Independent.</p>
3(2)(v)	In the event an alternate Director was appointed to represent an independent Director, Check the person so appointed meet the criteria that applies to the independent Director.	All the Directors are appointed by the Minister in charge of the subject, under People's Bank Act. There is no provision to appoint alternative Directors as per the Act.
3(2)(vi)	Check that the Bank has a process for appointing independent Directors.	All Directors are Non-Executive, Non independent Directors and appointed by the Minister in charge of the subject, under the Section 8 of People's Bank Act No 29 of 1961.
3(2)(vii)	Check that the stipulated quorum of the Bank includes more than 50% of the Directors and out of this quorum more than 50% should include non-Executive Directors.	Complied with According to the Code of best practice of the Bank the stipulated quorum is five. All the Directors are Non-Executive Directors.

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3(2)(viii)	Check that the Bank discloses the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, non-Executive Directors and independent non-Executive Directors in the annual corporate governance report.	<p>Composition of the Board as at the reporting date is given below;</p> <p>Mr. Hemasiri Fernando - Chairman</p> <p>Mr. Jehan P. Amaratunga</p> <p>Ms. G.D.C. Ekanayake</p> <p>Mr. Felician Perera</p> <p>Dr. Aminda .M .Perera</p> <p>Mr. M H Jamaldeen</p> <p>Mr. T.D. Anton S. Hemantha</p> <p>Mr. S.C.B. Senevirathne</p> <p>(All the Directors are Non Independent, Non-Executive Directors)</p>
3(2)(ix)	Check the procedure for the appointment of new Directors to the Board.	Complied with Appointment of the Directors is done by the Minister in charge of the subject, under section 08 of the People's Bank Act No 29 of 1961.
3(2)(x)	Check that all Directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.	Not Applicable The Directors are appointed by the Minister in charge of the subject, in compliance with the People's Bank Act.
3(2)(xi)	Check if a Director resigns or is removed from office, the Board: (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Not Applicable According to People's Bank Act, Section 08, a Director can resign by writing a letter to the Minister in charge of the subject. The Minister can also remove a Director.
3(2)(xii)	Check if there is a process to identify whether a Director or an employee of a Bank is appointed, elected or nominated as a Director of another Bank	Directors are appointed by the Minister in charge of the subject,. The Bank obtains declarations from the Directors at the time of appointment as a Director of the Bank.
3(3)	Criteria to assess the fitness and propriety of Directors	
3(3) (i)	Check that the age of a person who serves as Director does not exceed 70 years.	Complied with. None of the Directors of the Bank are over 70 years of the age as at 31 December 2015.
	(a) Check that the transitional provisions have been complied with.	Not Applicable.

Section	Procedure Performed	Degree of Compliance
3(3)(ii)	Check if a person holds office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.	Complied with. As per the declaration made by the Directors at the time of appointment, there are no Directors who hold office as a Director of more than 20 companies.
3(4)	Management functions delegated by the Board	
3(4)(i)	Check that the delegation arrangements have been approved by the Board.	Complied with. Delegation arrangements have been done through the "Terms of References" of the sub committees.
3(4)(ii)	Check that the Board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	Complied with. Refer the results reported under 3 (1) (i)
3(4)(iii)	Check that the Board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Complied with. The Board has reviewed the delegation process in sub committee meetings periodically and ensure that they remain relevant to the needs of the Bank.
3(5)	The Chairman and CEO	
	3(5)(i) Check that the roles of Chairman and CEO is separate and not performed by the same individual	Complied with. Roles of Chairman and CEO are clearly separated and not performed by the same individual. Thereby preventing unfettered powers for decision making being vested towards a single individual.
3(5)(ii)	Check that the Chairman is a Non-Executive Director.	Complied with. The Chairman is a Non-Executive Director and he is appointed by the Minister in charge of the subject, under the People's Bank Act.
	In the case where the Chairman is not an independent Director, check that the Board designate an independent Director as the senior Director with suitably documented terms of reference.	Chairman and the Board of Directors consist of Non-Executive Directors, who are appointed by the Minister in charge of the subject.
	Check that the designation of the senior Director be disclosed in the Bank's Annual Report.	Not Applicable
3(5)(iii)	Check that the Board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the CEO and Board members and the nature of any relationships including among members of the Board.	The Directors to the Board is appointed by the Minister in charge of the subject, under section 08 of the People's Bank Act No 29 of 1961. And the Bank gets details through Directors self evaluations and declarations. The Bank intends to further strengthen of the process.

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3(5)(iv)	Check that the Board has a self evaluation process where the Chairman:	
	(a) Provides leadership to the Board;	Bank has a process of self-assessment which is carried out during the first quarter of each year to evaluate individual Director's performance of preceding year and the findings are put forth to the Board for ratification.
	(b) Ensures that the Board works effectively and discharges its responsibilities; and	
	(c) Ensures that all key and appropriate issues are discussed by the Board in a timely manner.	
		Self-evaluation has not been carried out for 2014 due to changes occurred in the Board of Directors and for 2015, the Self-evaluation is in the process of being documented.
3(5)(v)	Check that a formal agenda is circulated by the Bank secretary approved by the Chairman.	Complied with.
3(5)(vi)	Check that the Chairman ensures, through timely submission that all Directors are properly briefed on issues arising at Board Meetings.	Complied with.
3(5)(vii)	Check that the Board has a self evaluation process that encourages all Directors to make a full and active contribution to the Board's affairs and the Chairman taking the lead to act in the best interest of the Bank.	Bank has a process of self-assessment which is carried out during the first quarter of each year to evaluate individual Director's performance of preceding year and the findings are put forth to the Board for ratification. Self-evaluation has not been carried out for 2014 due to changes occurred in the Board of Directors and for 2015, the Self-evaluation is in the process of being documented.
3(5)(viii)	Check that the Board has a self evaluation process that assesses the contribution of non-Executive Directors.	Complied with.
3(5)(ix)	Check that the Chairman does not engage in activities involving direct supervision of Key Management Personnel or any other Executive duties whatsoever.	No such instances have come to our attention.
3(5)(x)	Check that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with.
3(5)(xi)	Check that the CEO functions as the apex executive-in charge of the day-to-day management of the Bank's operations and business.	Complied with. Under the Section 3 of the Code of best Practice in corporate governance of People's Bank, the CEO should function as the person in charge of day to day management of the Bank's business with the support of the Corporate Management.

Section	Procedure Performed	Degree of Compliance
3(6)	Board appointed committees	
3(6)(i)	Check that the Bank has established at least four Board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions.	Complied with.
	Check that each Board committee report is addressed directly to the Board.	Complied with. Refer pages 128-133 in the Annual Report for the report of the sub committee duties, roles and performance.
	Check that the Board presents in its annual report, a report on each committee on its duties, roles and performance.	
3(6)(ii)	Audit Committee:	
	a) Check that the Chairman of the committee is an independent Non-Executive Director and possesses qualifications and related experience.	The Chairman of the Board Audit Committee is Mr. Jehan P. Amarathunga who is a Non Independent, Non-Executive Director. The Chairman possess necessary qualifications and experience based on Directors declaration.
	b) Check that all members of the committee are Non-Executive Directors.	Complied with. All members of the committee are Non Independent Non-Executive Directors who are members of the Board.
	c) Check that the committee has made recommendations on matters in connection with:	Not Applicable
	(i) The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;	The external auditor has been appointed as per the provision contained in the section 34 of People's Bank Act No 29 of 1961. As per such provisions, "Auditor General" is the external auditor and he can appoint any other qualified auditor as the external auditor.
	(ii) The implementation of the Central Bank guidelines issued to auditors from time to time;	
	(iii) The application of the relevant accounting standards	Complied with. The Board evaluates the requirements consulting the Chief Internal Auditor and Head of Finance of relevant accounting standards.
	(iv) The service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Not Applicable The external auditor has been appointed as per the provision contained in the section 34 of People's Bank Act No 29 of 1961. As per such provisions, "Auditor General" is the external auditor and he can appoint any other qualified auditor as the external auditor.

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	d) Check that the committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with SLAuS.	Not Applicable
	e) Check that the committee has implemented a policy on the engagement of an external auditor to provide non - audit services in accordance with relevant regulations.	This is mentioned in the Terms of Reference as a key function of the Audit committee regards to external auditors.
	f) Check that the committee has discussed and finalized, the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.	Nature and scope of the audit is determined by the Auditor General.
	g) Check that the committee has a process to review the financial information of the Bank, in order to monitor the integrity of the financial statements of the Bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following: (i) Major judgmental areas; (ii) Any changes in accounting policies and practices; (iii) The going concern assumption; and (iv) The compliance with relevant accounting standards and other legal requirements, and; (v) In respect of the annual financial statements the significant adjustments arising from the audit.	Complied with. There is a continuing process carried out in reviewing monthly, quarterly and annual financials of the Bank by the committee. Further these aspects are addressed in the Terms of Reference of the Audit Committee.
	h) Check that the committee has met the external auditors relating to any issue in the absence of the Executive Management with relation to the audit.	Complied with.
	i) Check that the committee has reviewed the external auditor's management letter and the management's response thereto.	Complied with. The committee has reviewed the management letter in the Board Audit Committee meeting under BAC No 18/2015.

Section	Procedure Performed	Degree of Compliance
	<p>j) Check that the committee shall take the following steps with regard to the internal audit function of the Bank:</p> <p>i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;</p> <p>ii) Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;</p> <p>iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</p> <p>iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p> <p>v) Check that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;</p> <p>vi) Check that the internal audit function is independent of the activities it audits.</p>	<p>Complied with.</p> <p>Appraisal of the performance of the head and senior staff members of the internal audit department is generally carried out at the time of promotion / extension to service.</p> <p>Complied with.</p> <p>Outsourced services used by the internal audit function was approved by the committee.</p> <p>No such situation has arisen during the year 2015.</p> <p>Complied with.</p> <p>The Internal audit function is independent according to the "Terms of Reference "of Board Audit Committee. The Internal Audit Department reports directly to the Board Audit Committee.</p>
	k) Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	Complied with.
	l) Check whether the committee has had at least two meetings with the external auditors without the Executive Directors being present.	The Auditor General is the auditor of the Bank and his representative was present at Audit Committee meetings.
	<p>m) Check the terms of reference of the committee to ensure that there is;</p> <p>(i) Explicit authority to investigate into any matter within its terms of reference;</p> <p>(ii) The resources which it needs to do so;</p> <p>(iii) Full access to information; and</p> <p>(iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</p>	<p>Complied with.</p> <p>These aspects are covered in the Terms of reference of the audit committee.</p>

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	n) Check that the committee has met, at least four times and maintained minutes.	Complied with. As per the Board Audit Committee minutes, The Board Audit Committee has met 6 times for the year 2015.
	o) Check that the Board has disclosed in the annual report, i) Details of the activities of the audit committee; ii) The number of audit committee meetings held in the year iii) Details of attendance of each individual Director at such meetings	Complied with. Please Refer "Board Audit Committee Report" on page 127.
	p) Check that the secretary of the committee is the Bank secretary or the head of the internal audit function.	Complied with. The Secretary of the Board Audit Committee is the Board Secretary, Mr. Rohan Pathirage.
	q) Check that the "whistle blower" policy covers the process of dealing with; i) The improprieties in financial reporting, internal control or other matters. ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and iii) Appropriate follow-up action.	Complied with. The "Whistle Blower Policy" of the People's Bank was approved by the Board B.P.No 138/2013.
3(6)(iii)	Does the following rules apply in relation to the Human Resources and Remuneration Committee:	
	(a) Check that the committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to Directors, CEO and Key Management Personnel of the Bank by review of the "Terms of reference" and minutes.	Complied with. The remuneration for Directors determined by the Ministry of Finance. The Human Resource and Remuneration committee will determine the remuneration (salaries, allowances and other financial payments) relating CEO and DGMs on the basis of the collective agreement.
	(b) Check that the goals and targets for the Directors, CEO and the Key Management Personnel are documented.	Complied with.
	(c) Check that the committee has considered evaluations of the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	The Bank is in the process of developing a performance based rewards scheme.
	(d) Check that the "Terms of Reference" provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.	Complied with. "Terms of Reference" provides that "CEO should be present at all meetings of the committee, except when matters relating to the CEO are discussed.

Section	Procedure Performed	Degree of Compliance
3(6)(iv)	Does the following rules apply in relation to the Nomination Committee:	
	a) Check that the committee has implemented a procedure to select/appoint new Directors, CEO and Key Management Personnel.	Complied with. Directors are appointed by the Minister in charge of the subject as per provisions of the People's Bank Act. Main functions of the Board Nomination Committee are to implement a procedure to select/appoint CEO/GM and senior management personnel, to set the criteria such as qualifications, experience and key attributes required for the eligibility to be considered for the appointment or promotion to the post of CEO/GM and senior management positions, to consider and recommend from time to time the requirements of additional/new expertise required for the progress of the Bank.
	b) Check that the committee has considered and recommended (or not recommended) the re-election of current Directors.	The Directors are appointed by the Minister in charge of the subject under the section 8 of People's Bank Act .No.29 of 1961.
	c) Check that the committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the Key Management Personnel, by review of job descriptions.	The General Manager is appointed based on the Bank's accepted procedure with the approval of the Board. The Board approved promotion schemes stipulate the attributes required to be eligible to be selected or promoted to the other key management positions.
	d) Check that the committee has obtained from the Directors, CEO and Key Management Personnel signed declarations 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.	Complied with. Bank has obtained signed declarations from the CEO/GM and Directors at the time of appointment stating that they are fit and proper persons to hold office.
	e) Check that the committee has considered a formal succession plan for the retiring Directors and Key Management Personnel.	The Directors are appointed by the Minister in charge of the subject under the section 8 of People's Bank Act .No 29 of 1961. A succession plan for the General Manager and DGMs are in place for which the Board has granted approval.
	f) Check that the Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	Complied with. Members of the committee include Non-Executive, Non-Independent Directors who are appointed by the Minister in charge of the subject and also the CEO/ GM.

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3(6)(v)	Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC):	
	a) The committee shall consist of at least three Non-Executive Directors, CEO and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	Complied with. The BIRMC committee consists of three Non- Executive Directors, CEO/GM, SDGM (Risk and Compliance) and other DGMs by invitation.
	b) Check that the committee has a process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and group basis.	Complied with. The risk categories are assessed through 'stress testing report' prepared on quarterly basis by Board Integrated Risk Committee. The stress testing report was presented to the Board under the following Board papers and Board minutes. BIRMC No - 04/2015, BIRMC No - 22/2015 , BIRMC No - 39/2015.
	c) Check that the committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the credit committee and the asset-liability committees, and report any risk indicators periodically.	Complied with. BIRMC reviewed specific quantitative and qualitative risk limits for all management level committees. The review is carried out annually. But if any special situation arises then it has to be considered in the immediate Board Meeting.
	d) Check that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	Complied with.
	e) Check how many times the committee has met at least quarterly.	Complied with. The Committee has met four times during the year on quarterly basis.
	f) Check that the committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	Terms of Reference of BIRMC include committee members' responsibility to take disciplinary action for failure to identify specific risks.
	g) Check that the committee submits a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied with. Risk Assessment reports submitted to the BIRMC. These reports are submitted to the immediate Board Meeting following the committee meeting.
	h) Check that the committee has established a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from Key Management Personnel to carry out the compliance function and report to the committee periodically.	Complied with. The Bank has appointed DGM (Compliance) Ms. Srma Arsakularathne for the compliance function B.P.No 156/2012. Compliance officer has submitted the compliance report to the Board once in two months.

Section	Procedure Performed	Degree of Compliance
3(7)	Related party transactions	
3(7)(i)	<p>Check that there is a established and documented process by the Board to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction:</p> <ul style="list-style-type: none"> (a) Any of the Bank’s subsidiary companies; (b) Any of the Bank’s associate companies; (c) Any of the Directors of the Bank; (d) Any of the Bank’s Key Management Personnel; (e) A close relation of any of the Bank’s Directors or Key Management Personnel; (f) A shareholder owning a material interest in the Bank; (g) A concern in which any of the Bank’s Directors or a close relation of any of the Bank’s Directors or any of its material shareholders has a substantial interest 	The Bank follow the direction in the Code of Best Practice on the process with regard to Related Party Transactions. The Bank is taking initiatives to further strengthen the monitoring mechanism.
3(7)(ii)	<p>Check that there is a process to identify and report the following types of transactions been identified as transactions with related parties that is covered by this Direction.</p> <ul style="list-style-type: none"> (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.

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3(7)(iii)	<p>Does the Board have a process to ensure that the Bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the Bank carrying on the same business.</p> <p>a) Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board. For purposes of this sub-direction:</p> <p>I. "Accommodation" shall mean accommodation as defined in the Banking Act Directions, No. 7 of 2007 on Maximum Amount of Accommodation.</p> <p>II. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of 5 years or more.</p> <p>(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.</p> <p>(c) Providing of preferential treatment, such as favorable 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;</p> <p>(d) Providing services to or receiving services from a related-party without an evaluation procedure;</p> <p>(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.</p>	A Board approved process is in place to ensure compliance. Bank is in the process of further strengthen the monitoring mechanism in this regard.
3(7)(iv)	Check that the Bank has a process for granting accommodation to any of its Directors and Key Management Personnel, and that such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favor of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary Board as well.	Complied with.

Section	Procedure Performed	Degree of Compliance
3(7)(v)	<p>(a) Check that the Bank has a process, where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, that steps have been taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.</p> <p>(b) Check where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, has the Bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.</p> <p>(c) Check that there is a process to identify any Director who fails to comply with the above sub-directions be deemed to have vacated the office of Director and has the Bank disclose such fact to the public</p> <p>(d) Check the process in place to ensure clause 3 (7) (v) c) does not apply to any Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank</p>	No such situations have arisen during the year.
3(7)(vi)	Check that there is a process in place to identify when the Bank grants any accommodation or "more favorable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3(7)(v) above.	Accommodation specified in the Direction was granted to employees only under "Staff Benefit Schemes" of the Bank.
3(7)(vii)	Check that there is a process to obtain prior approval from the Monetary Board for any accommodation granted by a Bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary Board and any remission without such approval is void and has no effect.	Not applicable due to the reasons mentioned above in 3 (7) (V) and 3 (7) (Vi)

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Section	Procedure Performed	Degree of Compliance
3(8)	Disclosures	
3(8)(i)	Check that the Board has disclosed: <ul style="list-style-type: none"> (a) Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English. (b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English. 	Complied with.
3(8)(ii)	Check that the Board has made the following minimum disclosures in the Annual Report: <ul style="list-style-type: none"> (a) The 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. b) The report by the Board on the Bank's internal control mechanism that confirms 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 c) Check that the Board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above. d) Details of Directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the Bank and the total of fees/ remuneration paid by the Bank. e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital. 	<p>Complied with. Disclosures on the compliance with the applicable accounting standards and regulatory requirements have been made in the "Directors Responsibilities for Financial Reporting". Please refer page 177.</p> <p>Complied with. Report by the Board on the effectiveness of the Bank's internal control mechanism that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting is given on the Directors Statement of Internal Control. Please refer page 148.</p> <p>Complied with. The Bank has obtained an assurance report from the External Auditors on the effectiveness of the Internal Control mechanism. Please refer page 150.</p> <p>Complied with. The Profiles of the Directors are given on pages 32-33 and the total of fees/ remuneration paid to Directors by the Bank given in Note 45 to the Financial Statements on page 242.</p> <p>Disclosure needs to be improved.</p>

Section	Procedure Performed	Degree of Compliance
	f) The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	Complied with. The aggregate value of the transactions of the Bank with its Key Management Personnel is given in Note 45 to the Financial Statements in page 242.
	g) Check that the Board has obtained the external auditor's report on the compliance with Corporate Governance Directions.	Complied with. The factual findings report has been issued by the External Auditors on the level of compliance with the requirements of these directions.
	h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances	Complied with. Please Refer pages 138-139.
	i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns	The draft report of supervisory concerns as at 30.09.2015 issued by the Bank Supervision Department of the CBSL has been submitted to the Board. (B. P. No. 82/2016)
3.(9)	Transitional and other general provisions:	Complied with. The Bank has complied with the transitional and other general provisions with regard to People's Bank Act No 29 of 1961 and other provisions and guidelines issued by the Central Bank of Sri Lanka.

SERVING DIVERSE REQUIREMENTS



We combine our capabilities with deep local knowledge to provide innovative products and services to meet the needs of our customers. People's Bank is investing in modern technology to provide customer services in an efficient and cost-effective way with 24/7 capabilities.





1
**TRILLION
ASSET BASE**





FINANCIAL REPORTS »



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DIRECTORS RESPONSIBILITIES FOR FINANCIAL REPORTING

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The Board of Directors of the Bank has responsibility for ensuring that the Bank keeps proper books of account of all the transactions and prepares Financial Statements that give a true and fair view of the state of affairs and of the profit / loss for the year.

Accordingly, the Board of Directors oversees the Managements' responsibilities for financial reporting through their regular meeting reviews and the Board Audit Committee. The Board Audit Committee Report is given on page 131.

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 2015 exhibited on pages 180 - 262.

The Bank's Financial Statements for the year ended December 31, 2015 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

24th March 2016

AUDITOR GENERAL'S REPORT ON FINANCIAL STATEMENTS

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විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No.

BAF1/D/PB/1/15/1

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

30 March 2016

Report of the Auditor General on the Financial Statements of the People's Bank and its Subsidiaries for the year ended 31 December 2015

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 2015 comprising the statement of financial position as at 31 December 2015, 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 2015, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.





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 2015, 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 Wijesinghe
Auditor General

INCOME STATEMENT

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	Note	Bank		Group			
For the year ended 31st December		2015	2014	Change	2015	2014	Change
		Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
Gross Income	5	103,648,962	96,377,482	7.5	123,830,806	118,640,810	4.4
Interest Income		92,403,546	84,479,961	9.4	110,278,180	104,180,951	5.9
Interest Expenses		(48,731,974)	(54,362,126)	(10.4)	(56,020,994)	(64,211,046)	(12.8)
Net Interest Income	6	43,671,572	30,117,835	45.0	54,257,186	39,969,905	35.7
Fee and Commission Income		3,712,146	3,820,242	(2.8)	4,037,408	4,129,540	(2.2)
Fee and Commission Expenses		(174,479)	(121,627)	43.5	(174,479)	(121,627)	43.5
Net Fee and Commission Income	7	3,537,667	3,698,615	(4.4)	3,862,929	4,007,913	(3.6)
Net Gains from Trading	8	3,115,216	2,508,352	24.2	3,115,573	2,648,889	17.6
Other Operating Income (Net)	9	4,418,055	5,568,927	(20.7)	6,399,646	7,681,429	(16.7)
Total Operating Income		54,742,510	41,893,729	30.7	67,635,334	54,308,136	24.5
Net Impairment Loss on Financial Assets	10	(3,739,914)	1,430,440	(361.5)	(5,167,881)	117,979	(4,480.3)
Net Operating Income		51,002,596	43,324,169	17.7	62,467,453	54,426,115	14.8
Personnel Expenses	11	(17,056,303)	(13,083,142)	30.4	(19,045,558)	(14,849,137)	28.3
Other Expenses	12	(8,577,333)	(8,840,209)	(3.0)	(12,929,760)	(13,419,236)	(3.6)
Operating Profit before							
Value Added Tax (VAT) & Nation Building							
Tax (NBT) on Financial Services		25,368,960	21,400,818	18.5	30,492,135	26,157,742	16.6
VAT & NBT on Financial Services		(5,849,440)	(4,169,761)	40.3	(6,370,969)	(4,510,317)	41.3
Operating Profit after VAT &							
NBT on Financial Services		19,519,520	17,231,057	13.3	24,121,166	21,647,425	11.4
Share of Profits/(Loss) of Associates (Net of Tax)		-	-	-	-	(19,872)	(100.0)
Profit before Tax		19,519,520	17,231,057	13.3	24,121,166	21,627,553	11.5
Tax Expenses	13	(6,921,677)	(3,012,245)	129.8	(9,053,173)	(4,674,355)	93.7
Profit for the Period		12,597,843	14,218,812	(11.4)	15,067,993	16,953,198	(11.1)
Profit Attributable to :							
Equity Holders of the Bank		12,597,843	14,218,812	(11.4)	13,898,052	15,896,077	(12.6)
Non-Controlling Interests		-	-	-	1,169,941	1,057,121	10.7
		12,597,843	14,218,812	(11.4)	15,067,993	16,953,198	(11.1)
Earnings Per Share on Profit	14						
Basic Earnings per Ordinary Share (Rs.)	14.1	12,598	14,219	(11.4)	13,898	15,896	(12.6)
Diluted Earnings per Ordinary Share (Rs.)	14.2	87	99	(11.4)	96	110	(12.6)

The Notes appearing on pages 186 to 262 form an integral part of these Financial Statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Profit for the Year Ended	12,597,843	14,218,812	15,067,993	16,953,198
Other Comprehensive Income Net of Tax				
Items that will never be reclassified to profit or loss				
Actuarial Gains and Losses on Defined Benefit Plans	(635,394)	(1,066,589)	(635,372)	(1,124,163)
Deferred Tax Effect on Defined Benefit Plan Liability	(1,884)	(77,795)	(1,953)	(58,094)
Gains on Revaluation of Land and Buildings	-	-	672,574	(10,439)
Tax Expense Relating to Components of Other Comprehensive Income	-	-	(188,321)	-
	(637,278)	(1,144,384)	(153,072)	(1,192,696)
Items that are or may be reclassified to profit or loss				
Gains and Losses on Re-Measuring Available-for-Sale Financial Assets	54,433	77,970	198,846	148,829
Gains and Losses on Derivative Financial Assets	-	-	30,594	(21,062)
	54,433	77,970	229,440	127,767
Other Comprehensive Income for the Year, Net of Taxes	(582,845)	(1,066,414)	76,368	(1,064,929)
Total Comprehensive Income for the Year	12,014,998	13,152,398	15,144,361	15,888,269
Attributable to :				
Equity Holders of the Bank	12,014,998	13,152,398	13,809,600	14,830,776
Non-Controlling Interests	-	-	1,334,761	1,057,493
	12,014,998	13,152,398	15,144,361	15,888,269

The Notes appearing on pages 186 to 262 form an integral part of these Financial Statements.


STATEMENT OF FINANCIAL POSITION

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As at 31st December	Note	2015 Rs. '000	Bank 2014 Rs. '000	Change %	2015 Rs. '000	Group 2014 Rs. '000	Change %
Assets							
Cash and Cash Equivalents	16	27,963,708	37,355,549	(25.1)	30,692,205	39,418,068	(22.1)
Balances with Central Bank of Sri Lanka	17	42,947,711	43,584,872	(1.5)	42,947,711	43,584,872	(1.5)
Placements with Banks	18	8,097,147	13,681,425	(40.8)	8,097,147	13,681,425	(40.8)
Derivative Financial Instruments	19	4,109	22,233	(81.5)	24,853	22,233	11.8
Other Financial Assets Held-for-Trading	20	93,400,763	59,888,466	56.0	93,973,351	60,310,150	55.8
Loans and Receivables to Banks	21	114,606,980	129,488,851	(11.5)	115,519,933	133,005,677	(13.1)
Loans and Receivables to Other Customers	22	768,514,659	627,209,062	22.5	869,780,503	722,099,483	20.5
Financial Investments - Available-for-Sale	23	3,533,745	3,387,770	4.3	5,661,807	5,011,892	13.0
Financial Investments - Held-to-Maturity	24	86,604,889	82,720,707	4.7	91,089,198	87,930,254	3.6
Investments in Subsidiaries	25	1,475,766	1,045,908	41.1	-	-	-
Investments in Associates	26	-	273,100	(100.0)	-	426,502	(100.0)
Goodwill and Intangible Assets	27	126,888	114,548	10.8	462,355	462,073	0.1
Property, Plant and Equipment	28	16,303,750	14,946,764	9.1	22,695,989	19,364,133	17.2
Investment Properties	29	185,713	187,420	(0.9)	185,713	187,420	(0.9)
Prepaid Leases	30	536,321	558,877	(4.0)	536,321	558,877	(4.0)
Deferred Tax Assets	31	480,901	1,440,924	(66.6)	562,471	1,475,879	(61.9)
Other Assets	32	12,359,723	10,862,382	13.8	13,136,823	11,719,016	12.1
Total Assets		1,177,142,773	1,026,768,858	14.6	1,295,366,380	1,139,257,954	13.7
Liabilities							
Due to Banks	33	143,923,634	143,754,943	0.1	162,687,453	162,433,372	0.2
Derivative Financial Instruments	34	112,149	17,377	545.4	112,149	148,243	(24.3)
Due to Other Customers	35	899,237,879	793,341,733	13.3	932,905,835	829,018,697	12.5
Other Borrowings	36	48,159,101	13,442,898	258.2	63,107,816	31,391,206	101.0
Current Tax Liabilities		3,845,472	459,612	736.7	4,505,841	1,052,831	328.0
Deferred Tax Liabilities	31	842,007	1,060,634	(20.6)	3,494,727	2,936,209	19.0
Other Liabilities	37	16,495,249	16,189,567	1.9	24,844,690	23,331,984	6.5
Subordinated Term Debts	38	15,032,542	15,032,542	-	30,907,240	24,883,132	24.2
Total Liabilities		1,127,648,033	983,299,306	14.7	1,222,565,751	1,075,195,674	13.7
Equity							
Stated Capital/Assigned Capital	39	7,201,998	7,201,998	-	7,201,998	7,201,998	-
Statutory Reserve Fund	40	4,152,518	3,522,626	17.9	4,152,518	3,522,626	17.9
Other Reserves	41	21,846,751	19,947,366	9.5	23,012,662	20,477,609	12.4
Retained Earnings	42	16,293,473	12,797,562	27.3	32,209,593	27,536,628	17.0
Total Shareholders' Equity		49,494,740	43,469,552	13.9	66,576,771	58,738,861	13.3
Non-Controlling Interests		-	-	-	6,223,858	5,323,419	16.9
Total Equity		49,494,740	43,469,552	13.9	72,800,629	64,062,280	13.6
Total Equity and Liabilities		1,177,142,773	1,026,768,858	14.6	1,295,366,380	1,139,257,954	13.7
Contingent Liabilities and Commitments	43	181,532,583	182,573,201	(0.6)	181,545,417	182,597,120	(0.6)

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.


G.G. Mangala
Head of Finance


N. Vasantha Kumar
Chief Executive Officer / General Manager


Hemasiri Fernando
Chairman

23rd March 2016
Colombo

STATEMENT OF CHANGES IN EQUITY - BANK

For the year ended 31 st December	Stated Capital/Assigned Capital			Reserves					Total Rs. '000
	Ordinary Shares	Assigned Capital	Statutory Reserve Fund	Revaluation Reserve	Other Reserves	Investment Fund	Available For Sale Reserve	Retained Earning	
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Bank									
Balance as at 01.01.2014	49,998	7,152,000	2,811,685	10,876,547	6,953,873	6,415,357	163,976	2,113,408	36,536,844
Profit for the Year	-	-	-	-	-	-	-	14,218,812	14,218,812
Other Comprehensive Income									
Changes in Fair Value in AFS Investments	-	-	-	-	-	-	77,970	-	77,970
Net Defined Benefit Obligation	-	-	-	-	-	-	-	(1,066,589)	(1,066,589)
Deferred Tax Effect on Defined Benefit Plans	-	-	-	-	-	-	-	(77,795)	(77,795)
Tax on Other Comprehensive Income	-	-	-	-	-	-	-	-	-
Total Other Comprehensive Income	-	-	-	-	-	-	77,970	(1,144,384)	(1,066,414)
Total Comprehensive Income	-	-	-	-	-	-	77,970	13,074,428	13,152,398
Transactions with equity holders, Recognized directly in equity									
Transfer to Reserve During the Period	-	-	710,941	-	1,875,000	157,096	-	(2,743,037)	-
Transfers to Retained Earnings During the Period	-	-	-	-	-	(6,572,453)	-	6,572,453	-
Dividend Paid to GOSL	-	-	-	-	-	-	-	(219,690)	(219,690)
Special Dividend to Treasury	-	-	-	-	-	-	-	(6,000,000)	(6,000,000)
Total Transactions with Equity Holders	-	-	710,941	-	1,875,000	(6,415,357)	-	(2,390,274)	(6,219,690)
Balance as at 31.12.2014	49,998	7,152,000	3,522,626	10,876,547	8,828,873	-	241,946	12,797,562	43,469,552
Balance as at 01.01.2015	49,998	7,152,000	3,522,626	10,876,547	8,828,873	-	241,946	12,797,562	43,469,552
Adjustment of Super Gain Tax (Note 42.1)	-	-	-	-	-	-	-	(2,770,120)	(2,770,120)
Balance as at 01.01.2015 - Adjusted	49,998	7,152,000	3,522,626	10,876,547	8,828,873	-	241,946	10,027,442	40,699,432
Profit for the Year	-	-	-	-	-	-	-	12,597,843	12,597,843
Other comprehensive income									
Changes in Fair Value in AFS Investments	-	-	-	-	-	-	54,433	-	54,433
Net Defined Benefit Obligation	-	-	-	-	-	-	-	(635,394)	(635,394)
Deferred Tax Effect on Defined Benefit Plans	-	-	-	-	-	-	-	(1,884)	(1,884)
Reversal of Revaluation Gain on Disposed Property	-	-	-	(30,048)	-	-	-	30,048	-
Total Other Comprehensive Income	-	-	-	(30,048)	-	-	54,433	(607,230)	(582,845)
Total Comprehensive Income	-	-	-	(30,048)	-	-	54,433	11,990,613	12,014,998
Transactions with Equity Holders, Recognized Directly in Equity									
Transfers to Reserves During the Period	-	-	629,892	-	1,875,000	-	-	(2,504,892)	-
Transfers to Retained Earnings During the Period	-	-	-	-	-	-	-	-	-
Dividend Paid to GOSL (Note: 41.6)	-	-	-	-	-	-	-	(219,690)	(219,690)
Special Dividend to Treasury (Note: 41.7)	-	-	-	-	-	-	-	(3,000,000)	(3,000,000)
Total Transactions with Equity Holders	-	-	629,892	-	1,875,000	-	-	(5,724,582)	(3,219,690)
Balance as at 31.12.2015	49,998	7,152,000	4,152,518	10,846,499	10,703,873	-	296,379	16,293,473	49,494,740

STATEMENT OF CHANGES IN EQUITY - GROUP

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People's Bank
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	Stated Capital/Assigned Capital			Reserves			Total			Total Equity	
	Ordinary Shares Rs. '000	Assigned Capital Rs. '000	Statutory Reserve Fund	Revaluation Reserve Rs. '000	Other Reserves Rs. '000	Investment Fund Rs. '000	Available For Sale Reserve Rs. '000	Cash Flow Hedge Reserve Rs. '000	Retained Earnings Rs. '000	Non Controlling Interest Rs. '000	Total Rs. '000
Group											
Balance as at 01.01.2014	49,998	7,152,000	2,811,685	11,401,147	6,953,873	7,463,936	140,101	-	14,168,284	4,947,385	55,088,409
Profit for the Year	-	-	-	-	-	-	-	-	15,896,077	1,057,121	16,953,198
Other Comprehensive Income											
Changes in Fair Value in AFS Investments	-	-	-	-	-	-	131,114	-	-	17,715	148,829
Net Defined Benefit Obligation	-	-	-	-	-	-	-	-	(1,109,769)	(14,394)	(1,124,163)
Gain on Revaluation of Land and Building	-	-	-	(7,829)	-	-	-	-	(7,829)	(2,610)	(10,439)
Gains and Losses on Derivative Financial Assets	-	-	-	-	-	-	-	(15,797)	(15,797)	(5,265)	(21,062)
Deferred Tax Effect on Defined Benefit Plans	-	-	-	-	-	-	-	-	(63,019)	4,925	(58,094)
Tax on Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-
Total Other Comprehensive Income	-	-	-	(7,829)	-	-	131,114	(15,797)	(1,172,788)	371	(1,064,929)
Total Comprehensive Income	-	-	-	(7,829)	-	-	131,114	(15,797)	14,723,289	1,057,492	15,888,269
Transactions with Equity Holders,											
Recognized Directly in Equity											
Transfer to Reserve During the Period	-	-	710,941	-	1,875,000	157,096	-	-	(2,743,787)	(250)	(1,000)
Transfers to Retained Earnings During the Period	-	-	-	-	-	(7,621,032)	-	-	7,621,032	-	-
Dividend Paid to GOSL	-	-	-	-	-	-	-	-	(219,690)	-	(219,690)
Special Dividend to Treasury	-	-	-	-	-	-	-	-	(6,000,000)	-	(6,000,000)
Movement in Deemed Disposal Profit	-	-	-	-	-	-	-	-	(12,500)	(187,500)	(200,000)
Dividends Paid	-	-	-	-	-	-	-	-	(493,708)	-	(493,708)
Total Transactions with Equity Holders	-	-	710,941	-	1,875,000	(7,463,936)	-	-	(1,354,945)	(681,458)	(6,912,398)
Balance as at 31.12.2014	49,998	7,152,000	3,522,626	11,393,318	8,828,873	-	271,215	(15,797)	27,536,628	5,323,419	64,062,280
Balance as at 01.01.2015	49,998	7,152,000	3,522,626	11,393,318	8,828,873	-	271,215	(15,797)	27,536,628	5,323,419	64,062,280
Adjustment of Super Gain Tax (Note 42.1)	-	-	-	-	-	-	-	-	(3,413,319)	(214,400)	(3,627,719)
Balance as at 01.01.2015 - Adjusted	49,998	7,152,000	3,522,626	11,393,318	8,828,873	-	271,215	(15,797)	24,123,309	5,109,019	60,434,561
Profit for the Year	-	-	-	-	-	-	-	-	13,898,052	1,169,941	15,067,993
Other Comprehensive Income											
Changes in Fair Value in AFS Investments	-	-	-	-	-	-	162,726	-	-	36,120	198,846
Net Defined Benefit Obligation	-	-	-	-	-	-	-	-	(635,377)	5	(635,372)
Reversal of Revaluation Gain on Disposed Property	-	-	-	(30,048)	-	-	-	-	30,048	-	-
Revaluation Surplus of Land and Building	-	-	-	504,430	-	-	-	-	-	168,144	672,574
Gains and Losses on Derivative Financial Assets	-	-	-	-	-	-	-	22,945	(1,935)	7,649	30,594
Deferred Tax Effect on Defined Benefit Plans	-	-	-	-	-	-	-	-	(18)	(1,953)	(2,062)
Tax on Other Comprehensive Income	-	-	-	-	-	-	-	-	(141,241)	(47,080)	(188,321)
Total Other Comprehensive Income	-	-	-	474,382	-	-	162,726	22,945	(748,505)	164,820	76,368
Total Comprehensive Income	-	-	-	474,382	-	-	162,726	22,945	13,149,547	1,334,761	15,144,361
Transactions with Equity Holders,											
Recognized Directly in Equity											
Transfer to Reserve During the Period	-	-	629,892	-	1,875,000	-	-	-	(2,504,892)	-	-
Share Issue	-	-	-	-	-	-	-	-	609,561	140,439	750,000
Dividend Paid to GOSL (Note 41.6)	-	-	-	-	-	-	-	-	(219,690)	-	(219,690)
Special Dividend to Treasury (Note 41.7)	-	-	-	-	-	-	-	-	(3,000,000)	-	(3,000,000)
Acquired During the Year	-	-	-	-	-	-	-	-	-	133,346	133,346
Dividends Paid	-	-	-	-	-	-	-	-	-	(493,707)	(493,707)
Change of Holding of Associate	-	-	-	-	-	-	-	-	51,758	-	51,758
Total Transactions with Equity Holders	-	-	629,892	-	1,875,000	-	-	-	(5,063,263)	(219,922)	(2,778,293)
Balance as at 31.12.2015	49,998	7,152,000	4,152,518	11,867,700	10,703,873	-	433,941	7,148	32,209,593	6,223,858	72,800,629

STATEMENT OF CASH FLOWS

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For the year ended 31st December	Note	2015 Rs. '000	Bank 2014 Rs. '000	2015 Rs. '000	Group 2014 Rs. '000
Cash flows from operating activities					
Profit before Tax		19,519,520	17,231,057	24,121,166	21,627,553
Adjustment for					
Non-Cash Items Included in Profits before Tax	49	5,332,075	(417,875)	7,534,618	1,154,022
Changes in Operating Assets	50	(159,548,878)	(68,905,022)	(162,772,110)	(77,940,172)
Changes in Operating Liabilities	51	138,914,804	86,697,864	132,999,699	93,785,221
Net Gains from Investing Activities		-	-	-	-
Share of Profits in Associates and Joint Ventures		-	-	-	19,872
Dividend Income from Subsidiaries and Associates and Others		(1,659,531)	(1,648,601)	(219,051)	(98,589)
Interest Expense on Subordinated Debt		1,987,500	2,014,583	1,987,500	2,014,583
Contribution Paid to Defined Benefit Plans/ Gratuity		1,526,525	1,443,255	1,563,511	1,472,620
Tax paid		(5,566,426)	(3,217,949)	(7,990,113)	(4,578,472)
Net Cash Generated from Operating Activities		505,589	33,197,313	(2,774,780)	37,456,638
Cash Flows from Investing Activities					
Purchase of Property, Plant and Equipment		(2,079,622)	(1,124,878)	(2,378,217)	(2,161,371)
Proceeds from the Sale of Property, Plant and Equipment		93,379	59,055	104,264	50,608
Purchase of Financial Investments		(4,173,564)	(7,067,599)	(3,448,325)	(9,738,534)
Proceeds from the Sale and Maturity of Financial Investments					
Net Purchase of Intangible Assets		(43,206)	(97,275)	(44,684)	(104,801)
Net Cash Flow from Acquisition of Investment in Subsidiaries and Associates		(346,758)	-	(726,385)	-
Net Cash Flow from Preference Shares of Subsidiaries		200,000	200,000	-	-
Proceeds from Disposal of Associates and Joint Ventures		-	-	-	-
Dividends Received from Investment in Subsidiaries and Associates		1,659,531	1,648,601	219,051	98,589
Net Cash (used in) from Investing Activities		(4,690,240)	(6,382,096)	(6,274,296)	(11,855,509)
Cash Flows from Financing Activities					
Net Proceeds from the Issue of Subordinated Debt		-	-	6,024,110	1,741,681
Repayment of Subordinated Debt		-	-	-	-
Interest Paid on Subordinated Debt		(1,987,500)	(2,014,583)	(1,987,500)	(2,014,583)
Dividend Paid to GOSL		(219,690)	(219,690)	(219,690)	(219,690)
Dividend Paid to Non-Controlling Interest		-	-	(493,707)	(493,708)
Dividend Paid to Holders of Other Equity Instruments		(3,000,000)	(6,000,000)	(3,000,000)	(6,000,000)
Share Issue Expenses		-	-	-	-
Disposal of Changes of Holdings		-	-	-	-
Net Cash from Financial Activities		(5,207,190)	(8,234,273)	323,213	(6,986,300)
Net Increase/(Decrease) in Cash & Cash Equivalents		(9,391,841)	18,580,944	(8,725,863)	18,614,828
Cash and Cash Equivalents at the Beginning of the Year		37,355,549	18,774,605	39,418,068	20,803,240
Exchange Difference in Respect of Cash & Cash Equivalent		-	-	-	-
Cash and Cash Equivalents at the end of the Year		27,963,708	37,355,549	30,692,205	39,418,068

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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 1 July 1961 and is domiciled in Sri Lanka. The Consolidated Financial Statements of the Bank for the year ended 31 December 2015 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 mobilization of public deposits.
People's Travels (Pvt) Limited	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 Limited	Fleet management, vehicle valuation & operations of a service station.
People's Leasing Property Development Limited	Carrying out a mixed development project & property development activities.
People's Insurance Limited	Carrying out general insurance business.
People's Microfinance Limited	Providing financial services excluding banking to low income earners and micro enterprises.
People's Leasing Havelock Properties Limited	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 31 December 2015 were authorized for issue on 23rd March 2016 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 recognized as the present value of the defined benefit obligation less the net total of the plan assets.

- » Lands & 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 recognized 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 recognized 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 recognized 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 46.

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 37.1.5 & 37.2.1 for the assumptions used.

3.6 Fair Value of Property, Plant and Equipment

The freehold land and buildings and

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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 Life time 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

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 Group comprise the Financial Statements of the Bank and its Subsidiaries for the year ended 31 December 2015. 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 recognized 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 recognized 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 recognized in profit or loss.

4.1.2 Non-Controlling Interests ("NCI")

NCI are measured at their proportionate share of the acquiree'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 derecognizes the assets and liabilities of the subsidiary,

and any related NCI and other components of equity. Any resulting gain or loss is recognized 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 unrealized income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized 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.

Unrealized losses are eliminated in the same way as unrealized 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 percent of the voting power of another entity. Investments in associate's entities are accounted for using the equity method (equity-accounted investees) and are recognized 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 resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognized.

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 recognized 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 recognized on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument.

A regular purchase is a purchase of a financial asset under a contract whose terms require delivery of the assets within the timeframe established generally by a regulation or convention in the market place concerned.

4.3.2 Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus significant transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

4.3.3 Classification and Subsequent Measurement of Financial Assets and Financial Liabilities

Financial Assets

At inception a financial asset is classified in one of the following categories:

- » At Fair Value through profit or loss Held for trading, or Designated at fair value through profit or loss
- » Available-for-sale

- » Loans and receivables
- » Held to Maturity

The subsequent measurement of financial assets depends on their classification.

Financial Liabilities

The Group initially recognizes all financial liabilities on the date that they are originated and classifies its financial liabilities as measured at amortized 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 recognized 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

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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.

Unrealized gains and losses are recognized in the other comprehensive income. In the event of disposal of such an investment, the cumulative gain or loss previously recognized in equity is recognized in the income statement in 'Other operating income'. Dividends earned whilst holding available for sale financial investments are recognized 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 recognized 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 amortization is included in 'Interest

income' in the income statement. The losses arising from impairment of such investments are recognized 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 amortization is included in 'Interest income' in the income statement. The losses arising

from impairment are recognized 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 recognized 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 recognized 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 recognized at fair value. The difference between the fair value and the amount disbursed were treated as day one difference and amortized 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 De-recognition 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 derecognized 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 derecognized 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 recognized in profit or loss.

4.5 Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not derecognized from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognized 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 recognized 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

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discounted cash flow method, comparison with similar instruments for which market observable prices exist, and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 46.

4.7 Impairment of Financial Assets

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter Bankruptcy or other financial reorganization; 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 Amortized 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, recognized 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 recognized 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 realized 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 recognized, the previously recognized 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 collateralized 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 recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognized 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 recognized amounts and there is an intention to settle on a net basis, or to realize 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 recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized 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

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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 recognized asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognized 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 OCI as the hedged item).

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 amortized 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 recognized asset or liability that could affect profit or loss, the effective

portion of changes in the fair value of the derivative is recognized in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

The amount recognized 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 OCI.

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 recognized in OCI and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative is recognized immediately in profit or loss. The amount recognized 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 recognized 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 recognized 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 & 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 & 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 7 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 recognized in profit or loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized 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 & Equipment is recognized 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 & 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 capitalization. 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

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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 & Leasehold Motor vehicles	25% p.a.
Prepaid Leases	over the period of lease

Derecognition

Property, Plant and equipment is derecognized 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 recognized in 'Other operating income' in the income statement in the year the asset is derecognized.

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 recognized if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured.

Measurement

An investment property is measured initially at its cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure. The cost of a self constructed investment property is its cost at the date when the construction or development is complete.

The Group applies the cost model for investment properties in accordance with Sri Lanka Accounting Standard 40 (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 amortization and any accumulated impairment losses.

Expenditure on internally developed software is recognized 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 capitalized costs of internally developed software include all costs directly attributable to developing the software and capitalized borrowing costs, and are amortized over its useful life. Internally developed software is stated at capitalized cost less accumulated amortization and any impairment.

Subsequent expenditure on software assets is capitalized 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 Amortization

Software is amortized 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.

Amortization 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 recognized 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 recognized 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 recognized. 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 recognized for the asset in prior years. Such reversal is recognized 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 recognized 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

recognized 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 recognized less cumulative amortization recognized 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 recognized 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 recognized 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 recognized and less the fair value of plan assets out of which the obligations are to be settled directly, less actuarial losses not yet recognized. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognized and the present

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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 2015, by Mr. Piya 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 2015 are as follows:

Interest/ Discount Rate 9.5 % 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 Auditors Report are tabled and reviewed by the Board of Trustees. These statements of Accounts and Auditor's Report are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at required levels. Pension is payable monthly as long as the participant is alive.

4.17.1.2 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 finalized a new pension scheme for permanent employees who joined the Bank post 1 January 1996. Total fund balance as at end December 2015 was Rs. 1,804 Mn

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 recognized 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 recognized 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 recognized 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 recognized 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 utilized, 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 recognized 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 utilized.

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 utilized. Unrecognized deferred tax asset are reassessed at each Balance Sheet date and are recognized 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 realized or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the Balance Sheet date.

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4.20.3 Value Added Tax on Financial Services (FSVAT)

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 Nation Building Tax on Financial Services (FSNBT)

The value addition attributable to the supply of financial services as computed in accordance with section 25 A of the VAT Act, for the purpose of determining the VAT on financial services would be liable to NBT on financial services, at 2% under section 8 of the Nation Building Tax Act No. 09 of 2009 and amendments thereto.

4.20.5 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 11%.

4.20.6 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.

4.20.7 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.

4.20.8 Corp Insurance Levy (CIL)

As per the provision of the Section 14 of the Finance Act No. 12 of 2013, the Corp 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.

4.20.9 Nation Building Tax (NBT)

As per the provisions of the Nation Building Tax Act, No. 9 of 2009 and the subsequent amendments thereto, Nation Building Tax should be payable at the rate of 2% with effect from 1 January 2011 on the liable turnover as per the relevant provisions of the Act.

4.21 Recognition of Income and Expenses

Revenue is recognized 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 recognized.

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 recognized 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 recognized 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 recognized 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 recognized 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 & treasury bonds are amortized over the period to reflect a constant

periodic rate of return. The coupon interest on treasury bonds is recognized on an accrual basis. The interest income on securities purchased under resale agreements is recognized in the Income Statement on an accrual basis over the period of the agreement.

4.21.7 Rental Income

Rental income arising on operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the Income Statement in 'other operating income'.

4.22 Segmental Reporting

The Bank's segmental reporting is based on the following operating segments: Banking, Leasing, and Travels and others. Information relating to above is disclosed in Note 47.

4.23 Cash Flow Statement

The Cash Flow Statement has been prepared using the "Indirect Method" of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard (LKAS 7) "Statement of Cash Flows". Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalent include cash in hand, balances with banks and money at call and short notice.

4.24 Deposit Insurance Scheme

In terms of the Banking Act Direction No 5 of 2010 "Insurance of Deposit Liabilities" issued on 27th September 2010 and subsequent amendments there to, all Licensed Commercial Banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme

Regulations No 1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1st October 2010. Deposits to be insured include demand, time and savings deposit liabilities and exclude the following,

- » Deposit liabilities to member institutions
- » Deposit liabilities to Government of Sri Lanka
- » Deposit liabilities to Directors, key management personnel and other related parties as defined in Banking Act Direction No 11 of 2007 on Corporate Governance of Licensed Commercial Banks
- » Deposit liabilities held as collateral against any accommodation granted
- » Deposit liabilities falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act funds of which have been transferred to Central Bank of Sri Lanka.

Licensed Commercial Banks are required to pay a premium of 0.10% on eligible deposit liabilities if the Bank maintains a capital adequacy ratio (CAR) of 14% or above as at the end of the immediately preceding financial year and a premium of 0.125% on eligible deposit liabilities for all other Licensed Commercial Banks (with CAR below 14%) calculated on the total amount of eligible deposits as at the end of the quarter payable within a period of 15 days from the end of the quarter.

4.25 Subsequent Events

Events occurring after the Reporting Date are those events, favorable and unfavorable, that occur between the reporting date and the date of the Financial Statements are authorized for issue.

All material and important events which occur after reporting date have been considered and disclosed in note 44 to the Financial Statements as adjusted as applicable.

4.26 Comparative Information

The comparative information is reclassified wherever necessary to conform with the current year's presentation in order to provide a better presentation.

4.27 Policies Specific to Insurance Sector

4.27.1 Significant Accounting Estimates and Assumptions Non-life Insurance Contract Liabilities

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter -Ferguson methods and frequency/severity method.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of

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earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed 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 amortization 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 recognized 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 recognized 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 recognized 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 recognized when the related gross insurance claim is recognized 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 derecognized 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 recognized 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 recognized 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 recognized as an expense when incurred. Subsequent to initial recognition, DAC for non life insurance is amortized over the period on the basis UPR is amortized.

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 amortization period and are treated as a change in an accounting estimate.

DAC are derecognized when the related contracts are either expired or cancelled.

Reinsurance Commissions

Commissions receivable on outwards reinsurance contracts are deferred and amortized 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 recognized 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.

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The liability is not discounted for the time value of money. No provision for equalization or catastrophe reserves is recognized. The liabilities are derecognized 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 recognized 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 recognized 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 recognized. 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, with early adoption permitted.

	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
5. Gross Income				
Interest Income (Note 06)	92,403,546	84,479,961	110,278,180	104,180,951
Fee and commission Income (Note 07)	3,712,146	3,820,242	4,037,408	4,129,540
Net Gain from Trading (Note 08)	3,115,216	2,508,352	3,115,573	2,648,889
Other Operating Income (Net) (Note 09)	4,418,054	5,568,927	6,399,645	7,681,430
Total Gross Income	103,648,962	96,377,482	123,830,806	118,640,810

6. Net Interest Income

Interest Income				
Cash And Cash Equivalents	242,357	131,830	854,116	1,151,366
Placements with Banks	153,415	210,714	153,415	210,715
Other Financial Assets Held-for-Trading	6,813,259	5,334,623	6,813,259	5,334,622
Loans and Receivables - To Banks	5,528,956	8,505,256	5,528,956	8,505,256
Loans and Receivables to Other Customers	70,341,462	61,930,546	87,603,874	80,611,981
Financial Investments - Held-to-Maturity	7,426,618	7,461,705	7,426,618	7,461,705
Financial Investments - Available-for-Sale	2,154	-	2,154	-
Day One Difference on Staff Loans	1,895,326	905,287	1,895,326	905,287
Others	-	-	462	19
Total Interest Income	92,403,546	84,479,961	110,278,180	104,180,951

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 & 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. 1,399,146,336 for the Year 2015.(Rs. 1,758,737,694 for 2014).

	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest Expenses				
Due to Banks	(2,935,935)	(2,238,661)	(6,216,837)	(6,716,711)
Due to Other Customers	(41,652,782)	(49,029,935)	(43,934,559)	(52,856,901)
Other Borrowings	(2,155,757)	(1,078,947)	(3,882,097)	(2,622,851)
Debt Securities Issued	(1,987,500)	(2,014,583)	(1,987,501)	(2,014,583)
Total Interest Expenses	(48,731,974)	(54,362,126)	(56,020,994)	(64,211,046)
Net Interest Income	43,671,572	30,117,835	54,257,186	39,969,905

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	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
7. Net Fee and Commission Income				
Fee and Commission Income				
Loans	66,690	26,239	66,690	26,239
Cards	301,659	252,428	301,659	252,428
Trade and Remittances	1,375,023	1,387,899	1,375,023	1,387,899
Investment Banking	37,333	23,580	37,333	23,580
Deposits	1,431,823	1,490,945	1,431,823	1,490,945
Guarantees	373,623	503,771	373,623	503,771
Others	125,995	135,381	451,257	444,679
	3,712,146	3,820,242	4,037,408	4,129,540
Fee and Commission Expenses				
Loans	-	-	-	-
Cards	(84,297)	(66,077)	(84,297)	(66,077)
Trade and Remittances	(2,014)	(2,470)	(2,014)	(2,470)
Investment Banking	(11,661)	(8,992)	(11,661)	(8,992)
Guarantees	(5,139)	(4,403)	(5,139)	(4,403)
Others	(71,368)	(39,686)	(71,368)	(39,686)
	(174,479)	(121,627)	(174,479)	(121,627)
Net Fee and Commission Income	3,537,667	3,698,615	3,862,929	4,007,913
8. Net Gain From Trading				
Foreign Exchange	3,050,646	1,598,506	3,050,646	1,598,506
Equities	(89,465)	292,363	(91,064)	432,900
Others				
Capital Gain Treasury Bills/Bonds	305,011	1,042,108	305,011	1,042,108
Change in Fair Valuation of Treasury Bills	(57,336)	(452,120)	(57,336)	(452,120)
Change in Fair Valuation of Treasury Bonds	(129,120)	13,535	(129,120)	13,535
Others	35,480	13,960	37,435	13,960
Total	3,115,216	2,508,352	3,115,573	2,648,889
9. Other Operating Income				
Gain on Sale of Property, Plant and Equipment	62,145	34,505	68,455	43,805
Gain/ (Loss) on Revaluation of Foreign Exchange	(112,897)	185,308	(112,897)	185,308
Dividend from Investment				
- Quoted	45,902	36,480	64,791	63,588
- Unquoted	73,008	35,026	154,260	35,003
- Subsidiaries and Associate Companies	1,540,621	1,577,096	-	-
Recovery of Bad Debts Written Off and Provision Reversals	1,334,058	1,351,166	1,452,246	1,425,795
Others	1,475,218	2,349,346	4,772,791	5,927,930
Total	4,418,055	5,568,927	6,399,646	7,681,429

	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
10 Net Impairment (Gain)/ Loss				
Loans and Receivables				
To Other Customers (Note 22 (b))	3,739,914	(1,364,908)	3,768,281	(803,202)
- Individual Impairment	1,839,718	1,560,111	1,643,161	1,891,100
- Collective Impairment (Note 10.1)	1,900,196	(2,925,019)	2,125,120	(2,694,302)
Financial Investments				
Held-to-Maturity	-	-	-	-
Available-for-Sale	-	-	-	25,000
Investment Properties	-	-	-	-
Investments in Associates and Joint Ventures (Note 26 (a))	-	(65,532)	-	(171,908)
Others	-	-	1,399,600	832,131
Total	3,739,914	(1,430,440)	5,167,881	(117,979)

10.1 Collective Impairment

Loans and Receivables To Customers Excluding Pawning	4,068,822	3,260,444	4,293,746	3,491,161
Pawning (Note 22 (c))	(2,168,626)	(6,185,463)	(2,168,626)	(6,185,463)
	1,900,196	(2,925,019)	2,125,120	(2,694,302)

11. Personnel Costs

Salaries , Bonus & Related Expenses	9,054,533	7,512,806	11,006,802	9,249,436
Contribution to Defined Benefit Plan -				
Pre 1996 Pension Fund (Note 37.1.3)	1,476,772	1,362,872	1,476,772	1,362,872
Contribution to Defined Benefit Plan-Gratuity (Note 11.1)	49,753	80,384	86,739	109,749
Amortization of Pre Paid Staff Cost	1,895,326	905,287	1,895,326	905,287
Others	4,579,919	3,221,793	4,579,919	3,221,793
Total	17,056,303	13,083,142	19,045,558	14,849,137

11.1. Contribution to Defined Benefit Plan-Gratuity

Current Service Cost	23,631	32,606	60,617	61,971
Interest Cost	26,122	47,778	26,122	47,778
Net expense	49,753	80,384	86,739	109,749

12. Other Expenses

Directors' Emoluments	3,521	2,100	6,381	2,885
Auditors' Remunerations	12,933	15,766	20,551	23,667
Non Audit Fees to Auditors	2,070	2,450	9,513	5,519
Professional and Legal Expenses	81,185	80,418	105,727	104,176
Depreciation of Property, Plant and Equipment	847,135	844,293	1,125,098	1,115,749
Amortization of Leasehold Property	67,737	74,174	72,319	80,908
Depreciation of Investment Property	1,707	2,354	1,707	2,354
Amortization of Intangible Assets	30,867	16,262	45,325	37,540
Amortization of Prepayment Leases	24,350	7,485	24,350	7,485
Office Administration and Establishment Expenses	5,706,060	6,038,157	9,687,578	7,602,745
Others	1,799,768	1,756,750	1,831,211	4,436,208
Total	8,577,333	8,840,209	12,929,760	13,419,236

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	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
13. Tax Expenses				
Current Tax Expense				
Current Year	6,022,761	946,085	7,280,028	2,420,608
Deemed Dividend Tax	154,500	2,351,553	154,500	2,351,553
Prior Years'(Over)/ Under Provision	4,904	(13,458)	4,096	(18,334)
Deferred Tax Expense	739,512	(271,935)	1,614,549	(79,472)
Total	6,921,677	3,012,245	9,053,173	4,674,355
Effective Tax Rate	31.6%	19.1%	30.8%	22.1%
a) Reconciliation of Tax Expenses				
Profit Before Tax	19,519,520	17,231,057	24,121,166	21,627,553
Income Tax for the Period (Accounting Profit @Applicable Tax Rate)	5,465,466	4,824,696	6,753,927	6,055,715
Adjustment in Respect of Current Income Tax of Prior Periods	4,904	(13,458)	4,136	(18,334)
Add :				
Tax Effect of Expenses that are not Deductible for Tax Purposes	2,194,839	1,636,935	6,257,053	6,746,437
(Less) :				
Tax Effect of Expenses that are Deductible for Tax Purposes	(1,637,544)	(5,515,546)	(5,730,992)	(10,381,543)
Deemed Dividend Tax	154,500	2,351,553	154,500	2,351,552
Tax Expense for the Period	6,182,165	3,284,180	7,438,624	4,753,827
b) The Deferred Tax (Credit)/Charge in The Profit/(Loss) Comprise of the Following.				
Deferred Tax Assets	958,139	(447,337)	911,524	(458,322)
Deferred Tax Liabilities	(218,627)	175,402	703,025	378,850
Other Temporary Difference - Revaluation of Assets				
Deferred Tax (Credit) /Charge to Profit or Loss	739,512	(271,935)	1,614,549	(79,472)
Income Tax Expenses	6,921,677	3,012,245	9,053,173	4,674,355
c) The Deferred Tax (Credit)/Charge in Other Comprehensive Income Comprise of the Following.				
The Deferred Tax (Credit)/Charge in Other Comprehensive Income	1,884	77,795	(186,507)	58,094
	1,884	77,795	(186,507)	58,094
Net Deferred Tax for the Year	741,396	(194,140)	1,428,042	(21,378)

Applicable rates exemptions, concessions or holidays granted on income tax

	2015	2014
Domestic Operation of the Bank	28%	28%
On-Shore Banking Operations of the Off-Shore Banking Unit	28%	28%
Off-Shore Banking Operations of the Off-Shore Banking Unit	28%	28%
People's Leasing and Finance PLC	28%	28%
People's Travels (Pvt) Ltd.	15%	15%
People's Merchant Finance PLC	28%	28%

The tax liabilities of the group are computed at the above rates except for the following companies which enjoy exemptions and concessions.

People's Leasing Property Development Limited

Pursuant to the agreement dated 3rd December 2008 entered into by People's Leasing Property Development Limited 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 2 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 Limited

Pursuant to the agreement dated 16th December 2010 entered into by People's Leasing Havelock Properties Limited 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 2 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.

	Bank		Group	
	2015	2014	2015	2014
Net profit Attributable to Ordinary Equity Holders (Rs 000')	12,597,843	14,218,812	13,898,052	15,896,077
Weighted Average no of Ordinary Shares in Issue (000')	1,000	1,000	1,000	1,000
Basic Earnings Per Share (Rs)	12,598	14,219	13,898	15,896

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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 after adjustment for the effects of all dilutive potential ordinary shares.

	Bank		Group	
	2015	2014	2015	2014
Net profit Attributable to Ordinary Equity Holders (Rs 000')	12,597,843	14,218,812	13,898,052	15,896,077
Weighted Average no of Ordinary Shares in Issue (Rs 000')	1,000	1,000	1,000	1,000
Number of Ordinary Shares in Capital Pending Allotment (Rs 000')	143,040	143,040	143,040	143,040
Total Number of Shares in Issue and Pending Allotment (Rs 000')	144,040	144,040	144,040	144,040
Diluted Earnings per Share (Rs)	87	99	96	110

15. Measurement of Financial Instruments

Bank - 2015

	HFT	Designated at FVTPL	HTM	Amortized Cost	AFS	Rs 000' Total
Assets						
Cash and Cash Equivalents	-	-	-	27,963,708	-	27,963,708
Balances with Central Bank	-	-	-	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	-	-	-	114,606,980	-	114,606,980
Loans and Receivables to Other Customers	-	-	-	768,514,659	-	768,514,659
Financial Investments	-	-	86,604,889	-	3,533,745	90,138,634
Total financial assets	93,400,763	4,109	86,604,889	962,130,205	3,533,745	1,145,673,711

	Designated at FVTPL	Amortized Cost	Total
Liabilities			
Due to Banks	-	-	143,923,634
Derivative Financial Instruments	112,149	-	112,149
Due to Other Customers	-	-	899,237,879
Other Borrowings	-	-	48,159,101
Subordinated Term Debts	-	-	15,032,542
Total Financial Liabilities	112,149	1,106,353,156	1,106,465,305

Bank - 2014**Rs 000'**

	HFT	Designated at FVTPL	HTM	Amortized Cost	AFS	Total
Assets						
Cash and Cash Equivalents	-	-	-	37,355,549	-	37,355,549
Balances with Central Bank	-	-	-	43,584,872	-	43,584,872
Placements with Banks	-	-	-	13,681,425	-	13,681,425
Derivative Financial Instruments	-	22,233	-	-	-	22,233
Financial Assets Held-for-Trading	59,888,466	-	-	-	-	59,888,466
Loans and Receivables to Banks	-	-	-	129,488,851	-	129,488,851
Loans and Receivables to Other Customers	-	-	-	627,209,062	-	627,209,062
Financial Investments	-	-	82,720,707	-	3,387,770	86,108,476
Total Financial Assets	59,888,466	22,233	82,720,707	851,319,759	3,387,770	997,338,934

	Designated at FVTPL	Amortized Cost	Total
Liabilities			
Due to Banks	-	143,754,943	143,754,943
Derivative Financial Instruments	17,377	-	17,377
Due to Other Customers	-	793,341,733	793,341,733
Other Borrowings	-	13,442,898	13,442,898
Subordinated Term Debts	-	15,032,542	15,032,542
Total Financial Liabilities	17,377	965,572,116	965,589,492

Group - 2015

	HFT	Designated at FVTPL	HTM	Amortized Cost	AFS	Total
Assets						
Cash and Cash Equivalents	-	-	-	30,692,205	-	30,692,205
Balances with Central Bank	-	-	-	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	93,973,351	-	-	-	-	93,973,351
Loans and Receivables to Banks	-	-	-	115,519,933	-	115,519,933
Loans and Receivables to Other Customers	-	-	-	869,780,503	-	869,780,503
Financial Investments	-	-	91,089,198	-	5,661,807	96,751,005
Total financial assets	93,973,351	24,853	91,089,198	1,067,037,498	5,661,807	1,257,786,708

	Designated at FVTPL	Amortized Cost	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

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	HFT	Designated at FVTPL	HTM	Amortized Cost	AFS	Total
Assets						
Cash and Cash Equivalents	-	-	-	39,418,068	-	39,418,068
Balances with Central Bank	-	-	-	43,584,872	-	43,584,872
Placements with Banks	-	-	-	13,681,425	-	13,681,425
Derivative Financial Instruments	-	22,233	-	-	-	22,233
Financial Assets Held-for-Trading	60,310,150	-	-	-	-	60,310,150
Loans and Receivables to Banks	-	-	-	133,005,677	-	133,005,677
Loans and Receivables to Other Customers	-	-	-	722,099,483	-	722,099,483
Financial Investments	-	-	87,930,254	-	5,011,892	92,942,146
Total Financial Assets	60,310,150	22,233	87,930,254	951,789,526	5,011,892	1,105,064,055

	Designated at FVTPL	Amortized Cost	Total
Liabilities			
Due to Banks	-	-	162,433,372
Derivative Financial Instruments	148,243	-	148,243
Due to Other Customers	-	-	829,018,697
Other Borrowings	-	-	31,391,206
Debt Securities Issued	-	-	-
Subordinated Term Debts	-	-	24,883,132
Total Financial Liabilities	148,243	1,047,726,407	1,047,874,650

	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '00

16. Cash and Cash Equivalents

Cash in Hand	21,144,154	15,386,808	22,029,495	15,751,665
Cash at Banks	1,806,272	15,959,741	3,649,428	17,657,403
Money at Call and Short Notice	5,013,282	6,009,000	5,013,282	6,009,000
	27,963,708	37,355,549	30,692,205	39,418,068

17. Balances with Central Bank

Statutory Balances with Central Bank of Sri Lanka	42,947,711	43,584,872	42,947,711	43,584,872
	42,947,711	43,584,872	42,947,711	43,584,872

The Balance with the Central Bank of Sri Lanka in the Statutory Cash Reserve is 6% 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.

	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
18. Placements with Banks				
Placements	8,097,147	13,681,425	8,097,147	13,681,425
	8,097,147	13,681,425	8,097,147	13,681,425
19. Derivative Financial Instruments				
Foreign Currency Derivatives				
Currency Swaps	499	3,455	21,243	3,455
Forward Foreign Exchange Contracts	3,610	18,778	3,610	18,778
Total	4,109	22,233	24,853	22,233
20. Other Financial Assets Held-For-Trading				
20.1 Sri Lanka Government Securities				
Treasury Bills	73,952,476	53,047,428	73,952,476	53,047,428
Treasury Bonds	17,306,915	5,460,503	17,306,915	5,460,503
20.2 Equity Securities	1,214,660	1,034,516	1,787,249	1,456,200
20.3 Unit Trusts	179,713	187,085	179,713	187,085
20.4 Debt Securities	746,999	158,934	746,999	158,934
	93,400,763	59,888,466	93,973,351	60,310,150

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	No of Shares/ Unit	Cost 2015 Rs '000	Market Value as at 31.12.2015	No of Shares/ Unit	Cost 2014 Rs '000	Market Value as at 31.12.2014
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20.2.1 Held For Trading

Equity Securities - Bank Quoted

Overseas Reality (Ceylon) PLC	21,813,003	341,046	506,062	20,722,353	317,052	544,998
Access Engineering PLC	1,900,000	51,985	43,890	-	-	-
Aitken Spence PLC	450,000	51,634	43,515	450,000	51,634	46,575
Asiri Hospital Holdings PLC	-	-	-	2,325,000	53,190	50,220
Cargills (Ceylon) PLC	-	-	-	295,968	47,426	45,283
Colombo Dockyard PLC	249,362	56,825	37,429	249,362	56,839	48,127
Chevron Lubricants Lanka PLC	139,999	51,200	48,160	-	-	-
Diesel Engineering Motor Company PLC	-	-	-	28,469	14,251	18,106
Dialog Axiata PLC	3,800,000	40,858	40,660	-	-	-
Distilleries Company PLC	200,000	53,000	49,200	-	-	-
Expolanka PLC	6,000,000	49,777	48,600	2,739,892	24,776	23,563
Hayleys PLC	-	-	-	61,650	18,643	20,955
Hemas Holdings PLC	526,642	39,875	48,925	170,000	11,760	12,631
Janashakthi Insurance PLC	-	-	-	-	-	-
John Keels Holdings PLC	512,858	115,358	91,340	300,000	74,999	75,000
Kelani Tyres PLC	-	-	-	213,948	16,332	16,859
Lanka IOC PLC	784,995	28,231	29,123	-	-	-
MTD Walkers PLC	440,658	26,771	22,562	-	-	-
Nawaloka Hospitals PLC	-	-	-	-	-	-
Pelawatta Sugar	58,100	1,829	-	58,100	1,829	-
Piramal Glass PLC	5,650,066	36,790	34,465	-	-	-
Renuka Shaw PLC	-	-	-	450,000	9,870	12,015
Renuka Agri Foods PLC	4,557,361	20,508	18,685	-	-	-
Richard Pieris Company PLC	1,672,197	13,982	14,213	-	-	-
Singer Sri Lanka PLC	200,000	18,400	27,580	350,000	32,047	41,265
Textured Jersey PLC	925,000	32,753	32,838	1,710,228	32,753	35,231
Tokyo Cement PLC	1,264,598	51,966	49,952	-	-	-
The Finance Company PLC	2,080,400	83,400	27,461	2,080,400	83,400	43,688
Total Value of the Quoted Equity Securities		1,166,188	1,214,660	-	846,801	1,034,516

20.3 Investment in Unit Trusts - Bank

National Equity Fund	5,112,735	161,000	179,713	5,112,735	161,000	187,085
Total Value of the Unit Trusts		161,000	179,713	-	161,000	187,085

	No of Shares/ Unit	Cost 2015 Rs '000	Market Value as at 31.12.2015	No of Shares/ Unit	Cost 2014 Rs '000	Market Value as at 31.12.2014
20.2.2 Held for Trading						
Equity Securities - Group Quoted						
Overseas Reality (Ceylon) PLC	21,813,003	317,052	506,062	20,722,353	317,052	544,998
Access Engineering PLC	1,900,000	51,985	43,890	-	-	-
ACL Cables PLC	4,700	451	569	-	-	-
Aitken Spence PLC	532,800	67,921	51,522	312,800	67,921	55,145
Asiri Hospital Holdings PLC	500,000	11,260	12,000	2,825,000	64,780	61,020
Cargills (Ceylon) PLC	-	-	-	295,968	-	45,283
Chevron Lubricants Lanka PLC	139,999	51,200	48,160	-	-	-
CIC Holdings PLC	50,000	8,928	5,015	263,799	15,004	15,004
Colombo Dockyard PLC	249,362	56,825	37,429	249,362	56,839	48,127
Commercial Bank PLC -Voting	395,049	39,646	55,386	391,134	38,936	66,884
Commercial Bank PLC - Non Voting	167,419	13,928	20,593	165,279	13,624	20,676
Diesel Engineering Motor Company PLC	-	-	-	28,469	14,251	18,106
Dialog Axiata PLC	3,800,000	40,858	40,660	-	-	-
Distilleries Company of Sri Lanka PLC	400,000	77,133	98,400	200,000	24,133	42,000
Expo lanka PLC	6,000,000	49,777	48,600	2,739,892	24,776	23,563
Hayleys PLC	3,800	1,249	1,168	61,650	18,643	20,955
Hemas holdings PLC	651,642	50,571	60,538	170,000	11,760	12,631
Hatton National Bank PLC Non Voting	110,183	12,021	19,602	110,183	12,021	16,847
Horana Plantation PLC	20,000	768	427	20,000	768	482
John Keels Holdings PLC	1,126,306	227,131	200,594	458,067	108,821	114,517
John Keels Holdings PLC - Warrants - 22	3,515	222	114	3,076	197	209
John Keels Holdings PLC - Warrants - 23	-	-	-	3,076	222	223
Keells Hotels PLC	107,085	2,151	1,649	100,000	2,001	1,700
Kelani Tyres PLC	-	-	-	213,948	16,332	16,859
Kelani Cables PLC	35,000	4,406	4,487	-	-	-
Kingsbury Hotels PLC	43,500	1,320	330	-	-	-
Lanka IOC PLC	784,995	28,231	29,123	-	-	-
Lanka Hospitals Co- Operation PLC	25,000	1,363	1,508	-	-	-
Mackwoods Energy Limited PLC	100,000	1,400	500	100,000	1,400	640
MTD Walkers PLC	440,658	26,771	22,562	-	-	-
National Development Bank PLC	60,855	8,651	11,812	60,855	8,651	15,214
Nations Trust Bank PLC	464,871	27,333	35,686	392,871	25,877	38,108
Pelawatta Sugar PLC	58,100	1,829	-	58,100	1,829	-
Piramal Glass PLC	5,650,066	36,790	34,465	-	-	-
Renuka Shaw PLC	-	-	-	450,000	9,870	12,015
Renuka Agri Foods PLC	4,557,361	20,508	18,685	-	-	-
Richard Pieris Company PLC	1,672,197	13,982	14,213	-	-	-
Sampath Bank PLC - Voting	766,872	148,109	184,479	393,555	69,775	92,997
Seylan Bank PLC - Voting	75,000	5,783	7,131	167,421	12,343	15,905
Seylan Bank PLC - Non Voting	165,000	5,292	12,045	403,122	12,484	23,180
Singer Sri Lanka PLC	200,000	18,400	27,580	350,000	32,047	41,265
Textured Jersey PLC	1,025,000	35,959	36,386	1,710,228	32,753	35,231
Tokyo Cement PLC - Non Voting	1,374,598	56,616	54,297	110,000	4,650	5,159
The Finance Company PLC	2,080,400	83,400	27,461	2,080,400	83,400	43,688
Vallibel One PLC	350,000	8,769	7,525	100,000	2,196	2,390
United Motors Lanka PLC	50,000	5,000	4,595	50,000	5,000	5,179
		1,620,989	1,787,249		1,110,356	1,456,200

20.3 Investment in Unit Trusts - Group

National Equity Fund	5,112,735	161,000	179,713	5,112,735	161,000	187,085
Total Value of the Unit Trusts		161,000	179,713		161,000	187,085

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	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
21. Loans and Receivables to Banks				
Gross Loans and Receivables	114,606,980	129,488,851	115,519,933	133,005,677
Net Loans and Receivables	114,606,980	129,488,851	115,519,933	133,005,677
<i>a) Analysis</i>				
By product				
Sri Lanka Development Bonds	67,028,410	44,664,675	67,028,410	44,664,675
Restructuring Bond (Note 21.1)	7,689,150	7,689,150	7,689,150	7,689,150
Securities Purchased Under Resale Agreements	36,688,888	77,135,022	37,601,841	80,651,848
Others	3,200,532	4	3,200,532	4
Gross Total	114,606,980	129,488,851	115,519,933	133,005,677

21.1 Government of Sri Lanka Restructuring Bonds

21.1.a In April 1993, the Bank received restructuring bonds amounting to Rs. 10,541 Mn, from the Government of Sri Lanka (GOSL) for the following purposes;

	Rs. Mn	
(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 Mn and Rs. 233.5 Mn respectively.
(iii)	4,355.00	To finance pension liabilities.
(iv)	3,231.00	To provide for loan loss provision
(v)	102.50	For loans to be transferred to Special Recovery Unit (RACA)
	10,541.00	

21.1.b The above value of Bonds granted by GOSL effectively relates to accounting entries that were booked to clear carrying values of advances granted under State recommendation, which were deemed as irrecoverable.

21.1.c The agreement underlying the granting of these Bonds, stipulates the following:

- a) A tenor of 30 years, where the Bonds could be redeemed through the recovery of any of the specific loan losses for which the Bonds were issued.

As at Statement of Financial Position date, no recoveries have been made of those specific loan losses.

- b) As per the initial agreement an interest rate of 12% p.a. would apply, with half yearly payment of interest.
c) A value of 25% of income derived from (b) above would be refunded to the GOSL annually.

21.1.d As indicated in 21.1. a sum of Rs. 4,355 Mn of this tranche of Bonds was assigned to the Pension Fund (Rs. 3,218 Mn) and to the W & OP Fund (Rs. 1,137 Mn).

Accordingly, the carrying balance of Bonds reflected on the Statement of Financial Position does not include the value assigned to the Pension Fund, which is managed as an independent Trust Fund.

21.1.e The financial implications of these Bonds in year 2015 are as follows;

- a) A value of Rs. 7,689 Mn. is reflected on the Statement of Financial Position as Loans and Receivables to Banks.
b) A value of Rs. 879 Mn. is received during the year as income and is reflected under Interest Income.

	2015	Bank	2015	Group
	Rs. '000	2014	Rs. '000	2014
		Rs. '000		Rs. '000

22. Loans and Receivables to Other Customers

Gross Loans and Receivables	829,233,971	685,309,929	933,289,767	782,301,028
Impairment Allowance for Loans & Receivables				
(Less) : Individual Impairment (Note 22 b)	(42,741,371)	(40,901,653)	(43,065,241)	(41,422,080)
Collective Impairment (Note 22 b)	(17,977,941)	(17,199,214)	(20,444,023)	(18,779,465)
Net Loans and Receivables	768,514,659	627,209,062	869,780,503	722,099,483

a) Analysis

By product

Loans and Advances

Bills of Exchange	728,529	1,068,366	728,529	1,068,366
Overdrafts	86,834,679	72,722,968	86,409,132	71,953,215
Trade Finance	191,248,615	167,631,931	191,248,615	167,631,931
Credit Cards	1,500,927	1,405,769	1,500,927	1,405,769
Pawning	103,945,309	113,946,014	103,945,309	113,946,014
Staff Loans	14,595,898	11,526,012	15,101,167	11,929,494
Term Loans				
Short-Term	68,559,370	49,780,009	68,559,370	49,780,009
Medium Term	182,278,131	159,141,517	205,872,772	178,211,872
Long-Term	178,214,577	106,809,306	178,214,577	106,809,306
Securities Purchased Under Resale Agreements	-	-	-	-
Others	1,327,936	1,278,037	2,980,032	2,313,194
Lease Rental Receivable	-	-	78,729,337	77,251,858
Gross Total	829,233,971	685,309,929	933,289,767	782,301,028

Staff Loans	23,608,345	19,384,633	24,113,614	19,788,115
(Less) : Allowance for Day One Difference	(9,012,447)	(7,858,621)	(9,012,447)	(7,858,621)
Net Staff Loans	14,595,898	11,526,012	15,101,167	11,929,494

By currency

Sri Lankan Rupee	638,069,879	542,971,340	742,125,675	639,962,439
United States Dollar	187,565,125	139,043,533	187,565,125	139,043,533
Great Britain Pound	5,091	4,433	5,091	4,433
Others	3,593,876	3,290,623	3,593,876	3,290,623
Gross Total	829,233,971	685,309,929	933,289,767	782,301,028

By industry

Agriculture and Fishing	103,504,692	124,938,736	106,165,391	127,378,501
Manufacturing	14,358,077	10,867,165	14,382,603	10,876,326
Tourism	3,823,977	4,317,318	4,331,385	4,675,061
Transport	894,315	1,026,866	15,088,372	16,089,637
Construction	205,690,363	152,492,193	210,078,414	156,048,506
Traders	84,226,596	72,037,024	102,239,475	92,128,756
New Economy	6,846	5,543	6,846	9,525,354
Others	416,729,105	319,625,084	480,997,282	365,578,887
Gross Total	829,233,971	685,309,929	933,289,768	782,301,028

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	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>b) Movements in Individual and Collective Impairment During the Year</i>				
Allowance for Individual impairment				
Opening Balance as at 1st January	40,901,653	39,341,542	41,422,080	39,530,980
Charge (Write-back) to Income Statement				
Write-Off During the Year				
Movement in Individual Impairment	1,839,718	1,560,111	1,643,161	1,891,100
Closing Balance as at 31st December	42,741,371	40,901,653	43,065,241	41,422,080

Around 80% of the individual impairment is pertaining to non performing which is over 10 years advances.

Allowance for Collective Impairment

Balance as at 1st January	17,199,214	22,295,587	18,779,465	23,645,119
Subsidiary Acquired During the Year	-	-	660,907	-
Gross Charge/ (Reversal) for Impairment	1,900,196	(2,925,019)	2,125,120	(2,694,302)
Reversals Made During the year	(1,106,993)	(1,279,442)	(1,106,993)	(1,279,442)
Exchange Rate Variance on Foreign Currency Provision	252,575	28,984	252,575	28,986
Write Off During the year	(267,051)	(920,896)	(267,051)	(920,896)
Balance as at 31st December	17,977,941	17,199,214	20,444,023	18,779,465

Collective Impairment

Movement in Impairment Allowance for Loans & Receivables

Balance as at 01st January	58,100,867	61,637,129	60,201,545	63,176,099
Subsidiary Acquired During the Year	-	-	660,907	-
Gross Charge/ (Reversal) for Impairment	3,739,914	(1,364,908)	3,768,281	(803,202)
Reversals Made During the Year	(1,106,993)	(1,279,442)	(1,106,993)	(1,279,442)
Exchange Rate Variance on Foreign Currency Provision	252,575	28,984	252,575	28,986
Write Off During the Year	(267,051)	(920,896)	(267,051)	(920,896)
Balance as at 31st December	60,719,312	58,100,867	63,509,264	60,201,545

c) Pawning

Write back of the Pawning (gold back loan exposures) related impairment is due to the downsizing of the Pawning balances (2013 - Rs. 197.1 billion, 2014 Rs. 113.9 billion) coupled with the movement of the international gold prices.

	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
23. Financial Investments-Available-for-Sale				
Equity securities (Note 23.1)	238,058	238,058	415,800	398,068
(Less) : Impairment	-	-	-	-
Loss on Fair Valuation	-	(180)	-	(180)
Gain on Fair Valuation	287,064	242,125	402,511	241,200
	525,122	480,003	818,311	639,088
Investment in Unit Trusts (Note 23.2)	2,000,000	2,507,767	2,550,000	3,057,767
Gain on Fair valuation	9,315	-	62,110	24,038
	2,009,315	2,507,767	2,612,110	3,081,805
Sri Lanka Government Securities	-	-	1,232,078	890,999
Debt Securities	999,310	400,000	999,310	400,000
Others	-	-	-	-
Net Available-for-sale Investments	3,533,745	3,387,770	5,661,807	5,011,892

	No Of	Fair value	Cost	No Of	Fair value	Cost
	Shares	as at	as at	Shares	as at	as at
	31.12.2015	31.12.2015	31.12.2015	31.12.2014	31.12.2014	31.12.2014

23.1 Equity Securities - Available for Sale- Bank

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	449,364	162,300	16,448,448	404,425	162,300
Lanka Financial Services Bureau	225,000	2,250	2,250	225,000	2,070	2,250
Fitch Ratings 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
Magpeck Limited	125,000	-	-	125,000	-	-
		525,122	238,058		480,003	238,058

	No Of	Fair value	Cost	No Of	Fair value	Cost
	Units	as at	as at	Units	as at	as at
	31.12.2015	31.12.2015	31.12.2015	31.12.2014	31.12.2014	31.12.2014

23.2 Investment in Unit Trusts - Available for Sale- Bank

Gilt Unit Trust Fund - No of Units	189,414,903	2,009,315	2,000,000	237,653,656	2,507,767	2,507,767
		2,009,315	2,000,000		2,507,767	2,507,767

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	No Of Shares 31.12.2015	Fair value as at 31.12.2015	Cost as at 31.12.2015	No Of Shares 31.12.2014	Fair value as at 31.12.2014	Cost as at 31.12.2014
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23.1 Equity Securities -

Available for Sale - Group

Credit Information Bureau of Sri Lanka	47,500	50,748	50,748	47,500	50,725	50,725
Society for Worldwide Inter Bank Fund Transfer	14	1,168	1,168	14	1,168	1,168
Regional Development Bank	16,448,448	449,364	162,300	16,448,448	404,425	162,300
Lanka Financial Services Bureau	225,000	2,250	2,250	225,000	2,070	2,250
Fitch Ratings 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
Sanasa Development Bank Ltd	1,000,000	293,156	177,709	1,000,000	159,075	160,000
Magpeck Limited	125,000	-	-	125,000	-	-
		818,311	415,800		639,088	398,068

	No Of Units 31.12.2015	Fair value as at 31.12.2015	Cost as at 31.12.2015	No Of Units 31.12.2014	Fair value as at 31.12.2014	Cost as at 31.12.2014
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23.2 Investment in Unit Trusts -

Available for Sale- Group

Gilt Unit Trust Fund	189,414,903	2,009,315	2,000,000	237,653,656	2,507,767	2,507,767
Cey Bank Unit Trust Management Finance Ltd	1,893,222	52,537	50,000	1,893,222	61,151	50,000
Orient Gilt Edge	42,955,326	550,258	500,000	42,955,326	512,887	500,000
		2,612,110	2,550,000		3,081,805	3,057,767

	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000

a) Movements in Impairment During the Year

Balance as at 1st January	-	1,137,000	-	1,159,600
Charge/(Reversal) to Profit or Loss	-	(1,137,000)	-	(1,159,600)
Balance as at 31st December	-	-	-	-

	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
24. Financial Investments-held-to-Maturity				
Sri Lanka Government Securities				
Treasury Bills	8,067,918	-	12,528,266	4,567,793
Treasury Bonds	77,906,739	82,090,475	77,930,700	82,732,229
Long Term Treasury Bonds (Note 24.a)	630,232	630,232	630,232	630,232
Net Held-to-Maturity Investments	86,604,889	82,720,707	91,089,198	87,930,254

24.a 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 Mn. 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.

	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
25. Investments in Subsidiaries				
25.1 Quoted Equity Share	1,470,816	1,040,958	-	-
25.2 Unquoted Equity Share	4,950	4,950	-	-
(Less) : Impairment	-	-	-	-
Net Total	1,475,766	1,045,908	-	-

	No of Shares	Holding % as at 31.12.15	Cost 2015 Rs. '000	No of Shares	Holding % as at 31.12.14	Cost 2014 Rs. '000
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Quoted

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	35,000,000		350,000

People's Merchant Finance PLC

- Ordinary Shares	33,856,246	50.16	619,858	-	-	-
- Preference Shares	1,000,000	-	10,000	-	-	-

People's Travels (Pvt) Ltd.	495,000	99	4,950	495,000	99	4,950
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Total			1,475,766			1,045,908
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25.3 Business Combinations and Loss of Control in Subsidiaries**Acquisition of Subsidiaries****Acquisition of People's Merchant Finance PLC**

During the year People's Bank and People's Leasing & Finance PLC has jointly invested in the People's Merchant Finance PLC. Values of identifiable assets acquired and liabilities assumed are as follows,

	Total Rs. '000
Assets	
Cash and Cash Equivalents	19,258
Investment in Fixed Deposits	3,356
Financial Investments - Held for Trading	3,037
Loans and Advances to Customers	1,894,836
Financial Investments – Available for Sale	700,500
Property, Plant and Equipment	1,059,097
Goodwill and Intangible Assets	922
Other assets	40,537
	3,721,543
Liabilities	
Due to Banks - Overdraft	17,618
Due to Banks - Borrowings	14,595
Deposits from Customers	2,943,098
Debt Securities Issued	10,000
Deferred Taxation	43,885
Other Liabilities	87,605
	3,116,801
Total Net Assets at Acquired	604,742
Controlling Interest (%)	77.95%
(Rs.)	471,396
Non Controlling Interest (%)	22.05%
(Rs.)	133,346
Goodwill on Acquisition	
Goodwill on acquisition is recognized as a result of the acquisition as follows;	
Cash Consideration Transferred	728,025
Transferred from Equity Accounted Investments	478,260
Net Assets Acquired	(471,396)
Goodwill	734,889
Net Cash Outflow from the Business Combinations	
Paid in cash	(728,025)
Cash and cash Equivalents of subsidiaries Acquired	1,640
Net Cash Outflow	(726,385)

25.4 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	
			2015	2014
People's Leasing & Finance PLC	No: 1161, Maradana Road, Colombo 08, Sri Lanka	Leasing & Finance	25%	25%

The following is summarized 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	
	2015	2014
Revenue	22,658,782	24,767,948
Profit	4,690,881	4,121,823
Profit attributable to NCI	1,172,720	1,030,456
Other Comprehensive Income	640,027	127,612
Total Comprehensive Income	5,330,908	4,249,433
Total Comprehensive Income Attributable to NCI	1,332,727	1,062,358
Total Assets	129,193,653	118,987,470
Total Liabilities	(104,633,689)	(97,675,987)
Net Assets	24,559,964	21,311,483
Net assets attributable to NCI	6,139,991	5,327,871
Cash Flows from Operating Activities	(9,398,593)	352,088
Cash Flows from Investing Activities	(770,582)	(1,201,847)
Cash Flows from Financing Activities	9,237,150	(3,641,462)
Net Increase in Cash and Cash Equivalents	(932,025)	(4,491,221)
Dividends Paid to NCI During the Year	493,707	493,708

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	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '00

26. Investment in Associates

Associates

Quoted Equity Share	-	273,100	-	478,260
Unquoted Equity Share	25,000	25,000	25,000	75,000
Less : Share of Profit/(Loss) From Associate	-	-	-	(51,758)
(Less): Impairment	(25,000)	(25,000)	(25,000)	(75,000)
Sub Total	-	273,100	-	426,502

	Bank				Group			
	Cost	Cost	Holding %	Holding %	Cost	Cost	Holding %	Holding %
	2015	2014	as at	as at	2015	2014	as at	as at
	(Rs. '000)	(Rs. '000)	31.12.15	31.12.14	(Rs. '000)	(Rs. '000)	31.12.15	31.12.14

Quoted

People's Merchant Bank PLC

- Ordinary Shares (17,639,984 Shares)	263,100	26.13		
- Preference Shares (1000,000 Shares)	10,000			
- Ordinary Shares (26,459,976 Shares)	468,260	39.2		
- Preference Shares (1000,000 Shares)	10,000			

Unquoted

Smart Net Lanka (pvt) Ltd

(Non - Operational)	25,000	25,000	37.3	37.3	25,000	25,000	37.3	37.3
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City Finance Corporation Ltd

(50,000,000 Ordinary Shares)	-	-			-	50,000	21.4	21.4
	25,000	298,100			25,000	553,260		

Less : Share of Profit/(Loss) From Associate - - - (51,758)

Less : Impairment

Smart Net Lanka (pvt) Ltd

(Non - Operational)	(25,000)	(25,000)	(25,000)	(25,000)
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City Finance Corporation Ltd

	-	-	-	(50,000)
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Total Value of Investment at the year end - 273,100 - 426,502

	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000

a) Movement in Impairment During the Year

Associates

Balance as at 1st January	25,000	90,532	75,000	246,908
Charge/(Reversal) to Profit or Loss	-	(65,532)	(50,000)	(171,908)
Balance as at 31st December	25,000	25,000	25,000	75,000

	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
27. Goodwill and Intangible Assets				
27.1 Intangible Assets				
Cost				
As at Beginning of the Year	1,011,402	914,126	1,163,781	1,061,791
Subsidiary Acquired During the Year	-	-	17,958	-
Acquired During the Year	43,208	97,276	44,989	104,802
Disposals / Reversals During the Year	-	-	-	(6,033)
Transfers	-	-	-	3,221
As at End of the Year	1,054,610	1,011,402	1,226,728	1,163,781
Accumulated Amortization				
As at Beginning of the Year	896,854	880,591	1,010,253	978,263
Subsidiary Acquired During the Year	-	-	17,339	-
Amortization for the Year	30,868	16,263	45,326	37,540
Disposals During the Year	-	-	-	(6,033)
Transfers	-	-	-	483
As at End of the Year	927,722	896,854	1,072,918	1,010,253
Net Book Value	126,888	114,548	153,810	153,528
27.2 Goodwill				
As at Beginning of the Year	-	-	308,545	308,545
Goodwill on Acquisition (Note 25.3)	-	-	734,889	-
Disposals / Reversals During the Year	-	-	-	-
As at End of the Year	-	-	1,043,434	308,545
Accumulated Impairment				
As at Beginning of the Year	-	-	-	-
Impairment for the Year (Note 27.2.1)	-	-	(734,889)	-
As at End of the Year	-	-	-	-
	-	-	(734,889)	-
Net Book Value	-	-	308,545	308,545
Total Net Book Value	126,888	114,548	462,355	462,073

27.2.1 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 recognized an impairment loss of Rs. 734.9 Mn on the Goodwill which is recognized during the year at the acquisition of People's Merchant Finance PLC.

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28. Property, Plant and Equipment a) Property, Plant and Equipment - Bank

	Freehold Land	Freehold Building	Leasehold Building	Motor Vehicles	Leasehold Motor Vehicles	Furniture	Machinery & Equipment	Computer	Total	Total
	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 at 01.01.2015	7,004,816	4,168,501	2,141,242	653,388	386,261	680,666	3,212,241	6,497,205	24,744,320	23,652,421
Additions	24,934	671,499	169,227	327,112	-	29,874	165,119	691,856	2,079,621	1,124,878
Disposals	-	-	(33,000)	(21,990)	-	-	-	-	(54,990)	(20,750)
Transfers/Adjustments	-	-	-	-	-	-	-	-	-	(12,229)
Closing Balance at 31.12.2015	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
Accumulated Depreciation										
Opening Balance at 01.01.2015	-	150,355	110,795	508,743	360,571	605,454	2,395,313	5,960,518	10,091,749	9,181,711
Charge for the Year	-	106,694	67,737	116,424	25,690	26,486	285,349	286,491	914,871	918,467
Disposals	-	-	(1,765)	(21,990)	-	-	-	-	(23,755)	(18,605)
Transfers/Adjustments	-	-	-	-	-	-	-	-	-	10,176
Closing Balance at 31.12.2015	-	257,049	176,767	603,177	386,261	631,940	2,680,662	6,247,009	10,982,864	10,091,749
(Less) : Impairment Charges	-	-	-	-	-	-	-	-	-	-
Net Book Value at 31.12.2015	7,029,750	4,582,952	2,100,702	355,333	-	78,600	696,698	942,052	15,786,087	14,652,571
Capital Work in Progress at Cost	-	-	-	-	-	-	-	-	456,020	227,952
Furniture Equipment and Machinery at Store	-	-	-	-	-	-	-	-	61,643	66,241
									16,303,750	14,946,764

b) 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.

c) 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 31.12.2015
	Rs 000'	Rs 000'	Rs 000'
Freehold Land & Building	6,479,803	1,440,663	5,039,140
Leasehold Land & Building	1,240,718	651,031	589,687
	7,720,521	2,091,694	5,628,827

b) Property, Plant and Equipment - Group

	Freehold Land	Freehold Building	Leasehold Building	Motor Vehicles	Leasehold Motor Vehicles	Furniture	Machinery & Equipment	Computer	Total	Total
	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 at 01.01.2015	9,095,426	5,312,221	2,198,929	1,073,018	386,261	1,035,154	3,849,841	6,968,210	29,919,060	27,862,377
Subsidiary Acquired During The Year	1,029,500	21,098	-	30,182	-	17,956	25,141	31,795	1,155,672	-
Additions	183,933	678,104	169,403	360,724	-	53,245	212,018	725,927	2,383,355	2,161,373
Disposals	-	-	(33,690)	(43,990)	-	(4,833)	(1,169)	-	(83,682)	(57,547)
Transfers/Adjustments	-	(9,265)	(301)	-	-	(718)	8,062	1,921	(301)	(15,451)
Revaluation Gain	546,405	103,600	-	-	-	-	-	-	650,005	(31,692)
Closing Balance at 31.12.2015	10,855,264	6,105,758	2,334,341	1,419,934	386,261	1,100,804	4,093,893	7,727,853	34,024,108	29,919,060

(Less) : Accumulated Depreciation

Opening Balance at 01.01.2015	-	150,355	163,420	656,302	360,571	823,125	2,710,328	6,278,614	11,142,715	10,007,393
Subsidiary Acquired During the Year	-	9,351	-	27,940	-	15,161	19,054	30,207	101,713	-
Charge for the Year	-	129,263	72,319	167,441	25,690	84,100	366,398	352,208	1,197,419	1,196,657
Disposals	-	-	(2,455)	(40,392)	-	(4,181)	(988)	-	(48,016)	(50,742)
Transfers/Adjustments	-	-	(157)	-	-	(573)	(495)	1,068	(157)	10,660
Remeasurement	-	-	-	-	-	-	-	-	-	-
Revaluation Adjustment on Accumulated Depreciation	-	(22,569)	-	-	-	-	-	-	(22,569)	(21,253)
Closing Balance at 31.12.2015	-	266,400	233,127	811,291	386,261	917,632	3,094,297	6,662,097	12,371,105	11,142,715

Net Book Value at	10,855,264	5,839,358	2,101,214	608,643	-	183,172	999,596	1,065,756	21,653,003	18,776,345
Capital Work in Progress at Cost	-	-	-	-	-	-	-	-	981,343	521,547
Furniture Equipment and Machinery at Store	-	-	-	-	-	-	-	-	61,643	66,241
	-	-	-	-	-	-	-	-	22,695,989	19,364,133

c) The Carrying amount of revalued assets, in the financial statements if carried at Net Book Value is as follows;

Class of Assets	Accumulated		Net Book	
	Cost	Depreciation	Value as at	
	Rs 000'	Rs 000'	31.12.2015	Rs 000'
Freehold Land & Building	9,165,017	1,544,749	7,620,268	
Leasehold Land & Building	1,240,718	651,031	589,687	
	10,405,735	2,195,780	8,209,955	

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	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
29. Investment Properties				
Opening Balance as at 1 st January	217,186	217,186	217,186	217,186
Additions	-	-	-	-
Disposals	-	-	-	-
Closing Balance as at 31 st December	217,186	217,186	217,186	217,186
(Less) : Accumulated Depreciation				
Opening Balance as at 1 st January	29,766	27,412	29,766	27,412
Charge for the Year	1,707	2,354	1,707	2,354
Disposals	-	-	-	-
Closing Balance as at 31 st December	31,473	29,766	31,473	29,766
Net Book Value as at 31 st December	185,713	187,420	185,713	187,420

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

	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
30 Prepaid Leases				
Opening Balance as at 1 st January	1,008,790	738,464	1,008,790	738,464
Additions	1,794	271,191	1,794	271,191
Disposals	-	(865)	-	(865)
Closing Balance as at 31 st December	1,010,584	1,008,790	1,010,584	1,008,790
(Less) : Accumulated Amortization				
Opening Balance as at 1 st January	449,913	442,732	449,913	442,732
Charge for the Year	24,350	7,485	24,350	7,485
Disposals	-	(304)	-	(304)
Closing Balance as at 31 st December	474,263	449,913	474,263	449,913
Net Book Value as at 31 st December	536,321	558,877	536,321	558,877

	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
31 Deferred Tax Assets /Liabilities				
Differed Tax Liabilities (Note 31 a)	842,007	1,060,634	3,494,727	2,936,209
Deferred Tax Assets (Note 31 b)	(480,901)	(1,440,924)	(562,471)	(1,475,879)
	361,106	(380,290)	2,932,258	1,460,330

31.a Deferred Tax liabilities

	Bank 2015		Bank 2014	
	Temporary	Tax	Temporary	Tax
	Difference	Effects	Difference	Effects
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1 st January	3,787,979	1,060,634	3,161,543	885,232
Originating During the Year	(780,811)	(218,627)	626,436	175,402
Balance As at 31 st December	3,007,168	842,008	3,787,979	1,060,634

	Group 2015		Group 2014	
	Temporary	Tax	Temporary	Tax
	Difference	Effects	Difference	Effects
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1 st January	10,486,461	2,936,209	9,133,425	2,557,359
Acquired During the Year	156,732	43,885	-	-
Originating During the year	1,837,974	514,633	1,353,036	378,850
Balance As at 31 st December	12,481,171	3,494,727	10,486,461	2,936,209

31.b Deferred tax Assets

	Bank 2015		Bank 2014	
	Temporary	Tax	Temporary	Tax
	Difference	Effects	Difference	Effects
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1 st January	5,146,157	1,440,924	3,826,361	1,071,381
Originating During the Year	(3,428,653)	(960,023)	1,319,796	369,543
Balance As at 31 st December	1,717,504	480,901	5,146,157	1,440,924

	Group 2015		Group 2014	
	Temporary	Tax	Temporary	Tax
	Difference	Effects	Difference	Effects
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1 st January	5,270,997	1,475,879	3,841,611	1,075,651
Originating During the Year	(3,262,170)	(913,408)	1,429,386	400,228
Balance As at 31 st December	2,008,828	562,471	5,270,997	1,475,879

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	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
32 Other Assets				
Deposits and Prepayments	463,694	191,292	463,694	604,084
Un Amortized Day one Difference Staff Loans	9,012,447	7,858,621	9,012,447	7,858,621
Others	2,883,582	2,812,469	3,660,683	3,256,311
Total	12,359,723	10,862,382	13,136,823	11,719,016

33 Due to Banks

Money Market Borrowings	142,006,056	136,939,204	142,006,056	136,939,204
Call Money Borrowing	-	5,780,435	-	5,780,435
Other Borrowings	1,917,578	1,035,304	20,681,397	19,713,733
Total	143,923,634	143,754,943	162,687,453	162,433,372

34 Derivative Financial Instruments

Foreign Currency Derivatives				
Foreign Currency Swaps	88,912	13,786	88,912	144,652
Forward Foreign Exchange Contracts	23,237	3,591	23,237	3,591
Total	112,149	17,377	112,149	148,243

35 Due to Other Customers

Total Amount Due to Other Customers	899,237,879	793,341,733	932,905,835	829,018,697
Total	899,237,879	793,341,733	932,905,835	829,018,697

a) Analysis

Product Wise Analysis

Demand Deposit (Current Accounts)	57,484,277	48,155,509	54,801,282	46,150,575
Savings Deposits	372,199,892	318,947,100	376,808,309	324,228,574
Fixed Deposits	465,171,669	423,369,750	496,914,202	455,770,174
Other Products	4,382,042	2,869,374	4,382,042	2,869,374
Total	899,237,879	793,341,733	932,905,835	829,018,697

By Currency

Sri Lanka Rupee	796,827,137	725,311,579	830,495,093	760,988,543
United State Dollar	93,739,641	59,779,820	93,739,641	59,779,820
Great Britain Pound	3,152,413	3,017,669	3,152,413	3,017,669
Others	5,518,688	5,232,665	5,518,688	5,232,665
Total	899,237,879	793,341,733	932,905,835	829,018,697

	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
36 Other Borrowings				
Central Bank of Sri Lanka	1,855,411	2,535,055	1,855,412	2,335,464
Other Financial Institutions	1,347,016	1,093,534	17,057,864	19,339,951
Borrowing Under Repurchase Agreement (Note 36.1)	44,956,674	9,814,309	44,194,540	9,715,791
Total	48,159,101	13,442,898	63,107,816	31,391,206

36.1 The following assets have been pledged as security for repurchase liabilities.

		Bank		Group	
		2015	2014	2015	2014
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Nature of liabilities	Nature of Assets				
Borrowings Under Repurchase Agreements	Treasury Bills	9,864,699	-	-	-
	Treasury Bonds	40,947,697	10,637,049	40,185,563	10,538,531

	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
37 Other Liabilities				
Deferred Income in Respect of Off-Balance Sheet Items	394,572	348,790	394,572	348,789
Sundry Creditors	3,982,362	3,309,830	6,370,353	6,272,033
Net Defined Benefit Obligation - Pre 1996 Pension Plan (note 37.1)	5,993,176	5,234,602	5,993,176	5,234,602
Provision For Gratuity (note 37.2)	298,852	274,969	483,280	428,947
Other Payables	5,826,287	7,021,376	11,603,309	11,047,613
Total	16,495,249	16,189,567	24,844,690	23,331,984

37.1 Net Defined Benefit Obligation- Pre 1996 Pension Plan

Fair Value of Plan Assets (note 37.1.1)	(43,771,564)	(43,479,745)	(43,771,564)	(43,479,745)
Present Value of Obligations (note 37.1.2)	49,764,740	48,714,347	49,764,740	48,714,347
Net Defined Benefit Obligation	5,993,176	5,234,602	5,993,176	5,234,602

37.1.1. Fair Value of Plan Assets

Plan Assets Comprise:

Fixed Deposits	1,806,875	24,530,814	1,806,875	24,530,814
Government Securities	26,938,973	3,948,000	26,938,973	3,948,000
Debentures	15,000,000	15,000,000	15,000,000	15,000,000
Net Current Assets	25,716	931	25,716	931
Total	43,771,564	43,479,745	43,771,564	43,479,745
Actual Return on Plan Assets	4,007,438	4,703,251	4,007,438	4,703,251

Movement in the Fair Value of Plan Assets

Fair Value of Plan Assets as at 1 st January	43,479,745	41,185,152	43,479,745	41,185,152
Expected Return on Plan Assets	3,883,533	3,896,605	3,883,533	3,896,605
Benefit Paid by the Plan	(4,800,543)	(4,096,560)	(4,800,543)	(4,096,560)
Actual Employer Contribution	1,360,320	1,289,206	1,360,320	1,289,206
Actuarial Gain /(Losses)	(151,491)	1,205,342	(151,491)	1,205,342
Fair value of Plan Assets as at 31st December	43,771,564	43,479,745	43,771,564	43,479,745

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	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
37.1.2 Movement in the Present Value of the Defined Benefit Obligations				
Defined Benefit Obligations as at 1 st January	48,714,347	45,001,660	48,714,347	45,001,660
Benefit Paid by the Plan	(4,800,543)	(4,096,560)	(4,800,543)	(4,096,560)
Current Service Cost	732,442	665,043	732,442	665,043
Interest Cost	4,627,863	4,594,434	4,627,863	4,594,434
Actuarial (Gain) /Losses	490,632	2,549,770	490,632	2,549,770
PV of Defined Benefit Obligation as at 31st December	49,764,740	48,714,347	49,764,740	48,714,347

37.1.3 Net Expenses Recognized in Income Statement

Current Service Cost	732,442	665,043	732,442	665,043
Interest Cost	4,627,863	4,594,434	4,627,863	4,594,434
Expected Return	(3,883,533)	(3,896,605)	(3,883,533)	(3,896,605)
Net Expenses	1,476,772	1,362,872	1,476,772	1,362,872

37.1.4 Actuarial Gains/ Losses Recognized in

Other Comprehensive Income

Amount Accumulated in Retained Earnings at 1st January	(5,507,698)	(4,163,270)	(5,507,698)	(4,163,270)
Recognized During the Year	(642,123)	(1,344,428)	(642,123)	(1,344,428)
Amount Accumulated in Retained Earnings as at 31st December	(6,149,821)	(5,507,698)	(6,149,821)	(5,507,698)

37.1.5 Actuarial Assumptions

The following are the principal actuarial assumptions at the reporting date

	2015	2014	2015	2014
Discount Rate	9.5%	9.5%	9.5%	9.5%
Expected Return on Plan Assets	9.5%	9.5%	9.5%	9.5%
Future Salary Increase	7.0%	7.0%	7.0%	7.0%

37.1.6 Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible changes in the key assumptions employed with all other variables held constant in the employment benefit liability measures. The sensitivity of the Comprehensive Income Statement and the Statement of Financial Position is the assumed changes in discount rate & salary increment rate as follow;

	Bank				Group			
	2015		2014		2015		2014	
	Effect on Comprehensive Income Statement Increase/(reduction)	Rs. '000	Effect on employee benefit obligation Increase/(reduction) in the Liability	Rs. '000	Effect on Comprehensive Income Statement Increase/(reduction)	Rs. '000	Effect on employee benefit obligation Increase/(reduction) in the Liability	Rs. '000
Increase/ (Decrease) in Discount rate								
1%	3,419,098	(3,419,098)	3,377,470	(3,377,470)	3,419,098	(3,419,098)	3,377,470	(3,377,470)
-1%	(3,921,522)	3,921,522	(3,879,630)	3,879,630	(3,921,522)	3,921,522	(3,879,630)	3,879,630
Increase/ (Decrease) in Salary Increment								
1%	(537,085)	537,085	(625,339)	625,339	(537,085)	537,085	(625,339)	625,339
-1%	500,805	(500,805)	576,918	(576,918)	500,805	(500,805)	576,918	(576,918)

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	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
37.2 Provision For Gratuity				
Opening Balance	274,969	477,778	428,947	549,455
Current Service Cost	23,631	32,606	60,617	61,971
Interest Cost	26,122	47,778	26,122	47,778
Benefits Paid During Year	(19,141)	(5,354)	(19,164)	(9,993)
Actuarial Losses/(Gains) on Obligations	(6,729)	(277,839)	(13,242)	(220,264)
Closing Balance	298,852	274,969	483,280	428,947

37.2.1 The Principal financial assumptions used in the valuations are as follows;

	Bank	
	2015	2014
Discount Rate	9.5% 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

37.2.2 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 & salary increment rate as follow;

	Bank			
	2015		2014	
	Effect on Statement of Profit or Loss Increase/ (reduction) Rs. '000	Effect on employee benefit obligation Increase/ (reduction) in the Liability Rs. '000	Effect on Statement of Profit or Loss Increase/ (reduction) Rs. '000	Effect on employee benefit obligation Increase/ (reduction) in the Liability Rs. '000
Increase/ (Decrease) in Discount rate				
1%	17,830	(17,830)	31,627	(31,627)
-1%	(20,418)	(20,418)	(37,817)	37,817
Increase/ (Decrease) in Salary Increment				
1%	(23,709)	23,709	(47,055)	47,055
-1%	21,001	(21,001)	39,175	(39,175)

38 Subordinated Term Debts

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	Interest Rate and Repayment Terms	Issue Date	Maturity Date	Bank		Group	
				2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000

Issued by the Bank

(i) Tranch 1	16.0% - Biannually	2008.12.30	2016.12.29	2,500,814	2,500,814	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 Subsidiary

Listed debentures

(i) Option 1	16.5% - Biannually	2013.03.27	2017.03.26	-	-	2,138,214	2,127,841
(ii) Option 2	16.75% - Biannually	2013.03.27	2018.03.26	-	-	1,651,624	1,646,017
(iii) Option 3	17.0% - Annually	2013.03.27	2018.03.26	-	-	2,768,598	2,757,717
(iv) Type A	8.75 % - Annually	2014.09.15	2017.09.14	-	-	1,624,066	1,524,834
(v) Type B	9.63% - Annually	2014.09.15	2018.09.14	-	-	1,637,192	1,527,839
(vi) Type A	9.60% - Semi Annually	2015.11.13	2019.11.12	-	-	2,195,553	-
(vii) Type B	9.95% - Annually	2015.11.13	2020.11.12	-	-	3,859,451	-

Non Listed Debentures

				-	-	-	266,342
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Total				15,032,542	15,032,542	30,907,240	24,883,132
Due within 1 year				2,500,814	-	2,500,814	-
Due after 1 year				12,531,728	15,032,542	28,406,426	24,883,132
Total				15,032,542	15,032,542	30,907,240	24,883,132

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000

39. Stated Capital / Assigned Capital

Ordinary Shares (Note 39.1)	49,998	49,998	49,998	49,998
Assigned Capital (Note 39.2)	7,152,000	7,152,000	7,152,000	7,152,000
	7,201,998	7,201,998	7,201,998	7,201,998

39.1 Stated Capital

39.1.1 Movement of Stated Capital

Authorized

20,000,000 Ordinary shares of Rs.50/= each	1,000,000	1,000,000	1,000,000	1,000,000
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Issued & Fully Paid

999,960 Ordinary Shares of Rs. 50/= each	49,998	49,998	49,998	49,998
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All issued shares of 1Mn are fully paid except for 40 shares for which calls have been made, but remain unpaid.

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39.1.2 Principal Share Holders of the Bank are as follows;

	2015 %	2014 %
Government of Sri Lanka	92.27	92.27
Corporative Societies	7.73	7.73
	100.00	100.00

39.2 Assigned Capital (Capital Pending Allotment)

39.2.1 The Government of Sri Lanka has injected Rs. 7,152 Mn 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.

39.2.2 The increase in paid up capital requires an amendment to the People's Bank Act and it is yet to be finalized.

39.2.3 The Ministry of Finance of the Government of Sri Lanka infused capital to the Bank as follows. Four tranches of Rs. 1 Bn, Rs. 2 Bn, Rs. 1.5 Bn and Rs. 1.5 Bn for the years 2005, 2006, 2007 and 2008 to meet the stipulated minimum capital requirement by the Central Bank of Sri Lanka.

40. Statutory Reserve Fund

The Statutory Reserve Fund is maintained as required by the Banking Act No. 30 of 1988. Accordingly, the Bank should, out of profits after taxation but before any dividend is declared, transfer to the Statutory Reserve Fund a sum equivalent to not less than 5% of the Bank's paid-up capital until the Permanent Reserve is equal to 50% of the paid-up capital and not less than 2% until the Permanent Reserve equals the paid-up capital.

Accordingly, Bank has transferred Rs. 629 Mn for the current year.

41. Other Reserves

41.1 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.

41.2 Capital Reserve

This reserve has been created in 1987 and increased in 1998, has no transferred to date.

41.3 Special Risk Reserve

In terms of Central Bank directives, 25% of Primary Dealer Unit (PDU) profit has been transferred to Special Risk Reserve in order to promote the safety, soundness and the stability of the Primary Dealer System and to build up Primary Dealer Capital Base.

According to Central Bank Direction 08/11/011/0019/001 dated 14.02.2013 Bank is exempted from the requirement of maintaining the reserve. Therefore No transfer is made to the reserve this year based on the direction from the Central Bank of Sri Lanka.

41.4 General Reserve

This reserve has been created under Section 22(2) of the People's Bank Act No.29 of 1961. The General Reserve represents accumulated unallocated retained Profits & Losses which are available for distribution and for settlement of debentures issued.

41.5 Investment Fund Reserve

As per Central Bank of Sri Lanka guidelines, this fund is created using the nominal tax savings from the reduced taxation rates applicable on Financial VAT, and mainstream taxation from 2011.

As per the central Bank circular Ref No 02/17/800/0014/02, the requirement to transfer an amount equal to 8% of the profit calculated for the payment of VAT on financial service to IFA has been ceased with effect from 31/12/2013 and hence the Bank has made the last payment to IFA based on the payment which was due on 20th January 2014.

Further, the requirement to transfer an amount equal to 5% of the profit before tax calculated for income tax purpose on dates specified in section 113 of the Inland Revenue Act to IFA in the Y/E 2013/2014 expired on 31 March 2014. Hence the Bank made the last payment to IFA based on the final tax payment on income tax for the Y/E 2013/2014 which was due on 30 September 2014.

Therefore the full operations of IFA has been ceased with effect from 1 October 2014. Accordingly, The Bank has transferred the remaining balance in IFA to retained earnings through the Statement of Changes in Equity.

41.6 Dividend Paid to GOSL

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.c

41.7 Special Dividend to Treasury

This pertains to a special dividend paid to the consolidated fund of the Government of Sri Lanka as determined by the Ministry of Finance. The amount paid for 2015 is Rs. 3,000 Mn.

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42 Movement in Retained Earnings and Other Reserves

Bank

	Statutory Reserve (Rs. '000)	Revaluation Reserve (Rs. '000)	Capital Reserve (Rs. '000)	Special Risk Reserve (Rs. '000)	General Reserve (Rs. '000)	Investment Fund (Rs. '000)	Available For Sale Reserve (Rs. '000)	Retained Earnings (Rs. '000)	Total (Rs. '000)
Balance as at 01.01.2014	2,811,685	10,876,547	5,663	1,633,710	5,314,500	6,415,357	163,976	2,113,408	29,334,846
Profit for the Year	-	-	-	-	-	-	-	14,218,812	14,218,812
Changes in Fair Value in AFS Investments	-	-	-	-	-	-	77,970	-	77,970
Net Defined Benefit Obligation	-	-	-	-	-	-	-	(1,066,589)	(1,066,589)
Revaluation Surplus	-	-	-	-	-	-	-	-	-
Transfer to Reserve During the Period	710,941	-	-	-	1,875,000	157,096	-	(2,743,037)	-
Transfer to Retained Earnings During the Period	-	-	-	-	-	(6,572,453)	-	6,572,453	-
Dividend Paid to GOSL	-	-	-	-	-	-	-	(219,690)	(219,690)
Special Dividend to Treasury	-	-	-	-	-	-	-	(6,000,000)	(6,000,000)
Deferred Tax Effect on Defined Benefit Plans	-	-	-	-	-	-	-	(77,795)	(77,795)
Balance as at 31.12.2014	3,522,626	10,876,547	5,663	1,633,710	7,189,500	-	241,946	12,797,562	36,267,554
Adjustment of Super Gain Tax (Note 42.1)								(2,770,120)	(2,770,120)
Balance as at 01.01.2015 Adjusted	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	-	-	-	-	-	-	-	12,597,843	12,597,843
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)	-
Transfer to Retained Earnings During the Period	-	-	-	-	-	-	-	-	-
Dividend Paid to GOSL (Note 41.6)	-	-	-	-	-	-	-	(219,690)	(219,690)
Special Dividend to Treasury (Note 41.7)	-	-	-	-	-	-	-	(3,000,000)	(3,000,000)
Deferred Tax Effect on Defined Benefit plans	-	-	-	-	-	-	-	(1,884)	(1,884)
Balance as at 31.12.2015	4,152,518	10,846,499	5,663	1,633,710	9,064,500	-	296,379	16,293,473	42,292,742
Notes	40	41.1	41.2	41.3	41.4	41.5	-	-	-

42 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)	Investment Fund (Rs. '000)	Cash Flow Hedge Reserve (Rs. '000)	Available For Sale Reserve (Rs. '000)	Retained Earnings (Rs. '000)	Total (Rs. '000)	Non Controlling Interest (Rs. '000)	Total (Rs. '000)
Balance as at 01.01.2014	2,811,685	11,401,147	5,663	1,633,710	5,314,500	7,463,936	-	140,101	14,168,284	42,939,026	4,947,385	47,886,411
Profit for the Year	-	-	-	-	-	-	-	-	15,896,075	15,896,075	1,057,121	16,953,196
Changes in Fair Value in AFS Investments	-	-	-	-	-	-	-	131,114	-	131,114	17,715	148,829
Net Defined Benefit Obligation	-	-	-	-	-	-	-	-	(1,109,769)	(1,109,769)	(14,394)	(1,124,163)
Revaluation Surplus	-	(7,829)	-	-	-	-	-	-	-	-	(2,610)	(10,439)
Transfer to Reserve During the Period	710,941	-	-	-	1,875,000	157,096	-	-	(2,743,037)	-	-	-
Transfer to Retained Earnings During the Period	-	-	-	-	-	(7,621,032)	-	-	7,621,032	-	-	-
Dividend Paid to GOSL	-	-	-	-	-	(219,690)	-	-	(219,690)	(219,690)	-	(219,690)
Special Dividend to Treasury	-	-	-	-	-	-	-	-	(6,000,000)	(6,000,000)	-	(6,000,000)
Movement in Deemed Disposal Profit	-	-	-	-	-	-	-	-	(12,500)	(12,500)	(187,500)	(200,000)
Deferred Tax Effect on Defined Benefit Plans	-	-	-	-	-	-	-	-	(63,019)	(63,019)	4,925	(58,094)
Gains and Losses on Derivative Financial Assets	-	-	-	-	-	-	(15,797)	-	-	(15,797)	(5,265)	(21,062)
Transfer to Reserves	-	-	-	-	-	-	-	-	(750)	(750)	(250)	(1,000)
Dividend Payment	-	-	-	-	-	-	-	-	-	-	(493,708)	(493,708)
Tax on Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31.12.2014	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
Adjustment of Super Gain Tax (Note 42.1)									(3,413,319)	(3,413,319)	(214,400)	(3,627,719)
Balance as at 01.01.2015 Adjusted	3,522,626	11,393,318	5,663	1,633,710	7,189,500	-	(15,797)	271,215	24,123,309	48,123,544	5,109,019	53,232,563
Profit for the Year	-	-	-	-	-	-	-	-	13,898,052	13,898,052	1,169,941	15,067,993
Changes in Fair Value in AFS Investments	-	-	-	-	-	-	-	162,726	-	162,726	36,120	198,846
Net Defined Benefit Obligation	-	-	-	-	-	-	-	-	(635,377)	(635,377)	5	(635,372)
Reversal of Revaluation Gain on Disposed Property	-	(30,048)	-	-	-	-	-	-	30,048	-	-	-
Revaluation Surplus	-	504,430	-	-	-	-	-	-	-	-	-	-
Transfer to Reserve During the Period	629,892	-	-	-	1,875,000	-	-	-	(2,504,892)	504,430	168,144	672,574
Transfer to Retained Earnings During the Period	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Paid to GOSL (Note 41.6)	-	-	-	-	-	-	-	-	(219,690)	(219,690)	-	(219,690)
Special Dividend to Treasury (Note 41.7)	-	-	-	-	-	-	-	-	(3,000,000)	(3,000,000)	-	(3,000,000)
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	30,595
Dividend payment	-	-	-	-	-	-	-	-	-	-	(493,707)	(493,707)
Share Issue	-	-	-	-	-	-	-	-	609,561	609,561	140,439	750,000
Retransferred the Loss of Associate	-	-	-	-	-	-	-	-	51,758	51,758	-	51,757
Tax on Other Comprehensive Income	-	-	-	-	-	-	-	-	(141,241)	(141,241)	(47,080)	(188,321)
Balance as at 31.12.2015	4,152,518	11,867,700	5,663	1,633,710	9,064,500	-	7,149	433,941	32,209,593	59,374,773	6,223,858	65,598,631
Notes	40	41.1	41.2	41.3	41.4	41.5					43	

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42.1 Super Gain Tax

As per the amendments to provisions of the Finance Act from the Finance Bill passed on 20 October 2015, the Group and the Bank was liable for Super Gain Tax (SGT) amounting to Rs. 3.4 Bn and Rs. 2.7 Bn. respectively. According to the Act, the SGT shall be deemed to be an expenditure in the Financial Statements relating to the year of assessment commenced on 1 April 2013. Since the Act supersedes the requirements of the Sri Lanka Accounting Standards, The Institute of Chartered Accountants of Sri Lanka recommended the accounting treatment on SGT by issuing the Statement of Alternative Treatment (SoAT) dated 24 November 2015 and SGT has been recorded in the Financial Statements accordingly.

43 COMMITMENTS AND CONTINGENCIES

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.

	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '00
43.1 Contingent Liabilities				
Acceptances	43,434,794	43,502,800	43,434,794	43,502,800
Documentary Credit	57,179,170	57,471,640	57,179,978	57,484,307
Guarantees	32,193,164	36,863,667	32,205,189	36,874,919
Forward Exchange Contracts	11,145,916	5,674,078	11,145,916	5,674,078
Total	143,953,044	143,512,185	143,965,877	143,536,104
43.2 Commitments				
Non Disbursed Overdrafts	37,579,540	39,061,016	37,579,540	39,061,016
Total	37,579,540	39,061,016	37,579,540	39,061,016
Total Commitments and Contingencies	181,532,583	182,573,201	181,545,417	182,597,120

43.3 Other Capital Commitments

Capital Expenditure approved by the Board of Directors for which provisions has not been made in theses Financial Statements amounted to;

	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Approved and contracted for	2,940,620	3,051,944	3,668,014	4,017,534
Approved but not contracted for	5,700	1,900	140,610	10,130
	2,946,320	3,053,844	3,808,624	4,027,664

43.4 Assessment Received by the Bank

Assessment number ITA 13291100319v1 for income Tax for 2010/2011 to Rs. 2,422,289,525 and the assessment number ITA 14271100064v1 for income tax for 2011/2012 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.

43.5 Litigation Against the Bank and Companies within the Group

In the normal course of business, the Bank is involved in various types of litigation, including litigation with borrowers who are in default under terms of their loan agreements. In certain circumstances, borrowers have asserted or threatened counter claims 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. 9.54 Billion, of which details are given below.

Zone/ Division	Region (Rs)	Value
Legal Department		1,668,285,896
Western 1	Western Zone 1	102,000,000
	Gampaha	15,950,000
Central	Kandy	59,613,080
	Matale	665,000
	Nuwara Eliya	883,750
Eastern	Batticaloa	154,000
North Central	Anuradhapura	1,515,000
Southern	Galle	207,100,000
	Hambantota	5,000,000
	Matara	1,850,000
Uva	Badulla	8,267,259
	Monaragala	15,000,000
Wayamba	Kurunegala	24,491,202
	Puttalam	7,000,000
Sabaragamuwa	Kegalle	4,127,861
	Rathnapura	1,500,000
Western 11	Western 11	19,000,000
	Kalutara	1,500,000
Special Assets Unit/Corporate Banking Division		7,404,431,747
Total		9,548,334,796

44. Subsequent Events

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements, other than those disclosed below.

On 12th January 2016, shares of People's Insurance Limited (PIL) was listed on the Main Board of the Colombo Stock Exchange (CSE) by the way of an Initial Public Offering of 50 million ordinary shares at Rs. 15 per share. However, People's Leasing & Finance PLC retained a 75% stake of PIL.

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45. Related Party Disclosures

The Bank has carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as Related parties as per the Sri Lanka Accounting Standard - LKAS 24 'Related Party Disclosures', except for the transactions that Key Management Personnel (KMPs) have availed under schemes uniformly applicable to all staff at concessionary rates. Those transactions include lending activities, acceptance of deposits, off balance sheet transactions and provision of other banking and finance services.

45.1 Parent and the Ultimate Controlling party

People's Bank is a Government owned Bank

45.2 Key Management Personnel (KMPs) and their Close Family Members (CFMs)

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Such Key Management Persons include Chairman, Executive and Non Executive Directors, Chief Executive Officer/General Manager and Corporate Management of the Bank. Close family members of an Individual are those family members who may be expected to influence, or to be influenced by, that individual in their dealings with the entity. They may include individual's domestic partner and children, children of the individual's domestic partner and dependants of the individual or the individual's domestic partner.

45.2.1. Compensation of Key Management Personnel (KMPs)

For the year ended 31 st December	2015 Rs. '000	2014 Rs. '000
Short-term Employee Benefits	59,824	15,820
Post-Employment Pension	-	-
Termination Benefits	-	-
Share-Based Payments	-	-

45.2.2. Transactions with Key Management Personnel (KMPs) and their Close Family Members (CFMs)

For the year ended 31 st December	2015 Rs. '000	2014 Rs. '000
a. Items in income statement		
Interest Income	169	1
Interest Expenses	1,802	-

As at 31 st December	2015 Rs. '000	2014 Rs. '000
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b. Items in statement of financial position

Residential Mortgages	-	-
Credit Cards	268	-
Cash Margin Loans	1,452	-
Deposits	50,547	-
Guarantees	-	-

Definition Changes in KMP - Bank has extended KMP definition by considering Corporate Management of the Bank as KMP during the year 2015. Last year KMP disclosures are not presented Corporate Management transactions

45.3 Transactions with Group Entities

The Group entities include the Subsidiaries and Associates of the Bank

45.3.1 Transactions with subsidiaries, sub-subsidiaries and associate companies of the Bank

The aggregate amount of income and expenses arising from the transactions during the year, amount due to and due from the relevant related party and total contract sum of off balance sheet transactions at the year end are summarized below.

For the year ended 31 st December	Subsidiary Companies of the Bank		Sub- subsidiary Companies of the Bank		Associate Company of the Bank	
	2015	2014	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000

a. Items in income statement

Interest Income	334,949	77,574	250	243	-	7,169
Interest Expense	282,932	331,362	17,893	18,300	-	9
Dividend Income	1,540,621	1,575,859	-	-	-	-
Other Income	32,832	28,364	306,373	252,781	-	2
Other Expenses	5,847	11,440	127,850	227,866	-	-

As at 31 st December	Subsidiary Companies of the Bank		Sub- subsidiary Companies of the Bank		Associate Company of the Bank	
	2015	2014	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000

b. Items in statement of financial position**Assets**

Investments	1,475,766	1,045,908	-	-	-	273,100
Loans	6,747,758	-	-	9,905	-	31,195
Overdrafts	460,432	756,008	77,895	3,840	-	-
Assets Backed Securities	1,052,000	1,050,000	-	-	-	-
Other Receivables	4,004	3,396	171,853	301,045	-	-
	9,739,960	2,855,312	249,748	314,790	-	304,295

Liabilities

Deposits	2,060,165	4,145,000	836,091	299,334	-	43,672
Securities Sold Under Repurchase Agreements	3,548,213	3,723,799	762,134	98,518	-	184,000
Other Payables	49,965	85,315	608,684	954,472	-	-
	5,658,343	7,954,114	2,206,909	1,352,324	-	227,672

As at 31 st December	Subsidiary Companies of the Bank		Sub- subsidiary Companies of the Bank		Associate Company of the Bank	
	2015	2014	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000

c. Off balance sheet items

Guarantees	32,600	29,500	-	-	2,500	2,500
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Note: Bank has paid to People's Leasing Property Development Ltd. amounting to Rs. 803.9 Mn during the year 2015 on account of construction of building projects handled by People's Leasing Property Development Ltd.

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45.4 Transactions with Government of Sri Lanka (GOSL) and State- Owned Enterprises (SOEs).

Transactions and arrangements entered in to by the Bank with the Government of Sri Lanka and State Owned Enterprises as follows:

For the year ended 31 st December	2015 Rs. '000	2014 Rs. '000
a. Items in income statement		
Interest Income	28,098,736	20,178,389
Other Income	682,987	757,720
Interest Expenses	2,170,665	2,391,395
Dividend Paid	219,690	219,690
Special Dividend	3,000,000	6,000,000
As at 31st December	2015 Rs. '000	2014 Rs. '000
b. Items in statement of financial position		
Assets		
Loans	298,484,183	251,986,793
Overdrafts	57,795,209	46,075,832
Bills	605,813	1,071,215
	356,885,205	299,133,840
Liabilities		
Deposits - Demand	20,826,045	15,675,889
- Savings	1,381,955	1,568,637
- Time	29,000,759	41,942,081
	51,208,759	59,186,608
As at 31st December	2015 Rs. '000	2014 Rs. '000
c. Off balance sheet items		
Acceptances	40,475,644	39,877,715
Documentary Credit	39,868,527	41,598,423
Guarantees	1,536,672	2,678,034
	81,880,842	84,154,172

45.5 Transactions with Post Employment Benefit plans for Bank's employees.

Transactions and arrangements entered in to by the post employment benefit plans for Bank's employees as follows;

For the year ended 31 st December	2015	2014
	Rs. '000	Rs. '000

a. Items in income statement

Interest Expenses	3,715,109	4,376,142
Contribution Made	1,476,772	1,362,872

As at 31 st December	2015	2014
	Rs. '000	Rs. '000

b. Items in statement of financial position**Liabilities**

Deposits	1,855,611	25,026,747
Securities Sold Under Repurchase Agreements	27,483,865	731,554
Subordinated Term Debts	15,032,542	15,032,542

46. 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

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The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31st December 2015	Bank				Group			
	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
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	91,259,391	-	-	91,259,391	91,259,391	-	-	91,259,391
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
	94,220,360	2,193,137	525,122	96,938,619	96,025,027	2,816,676	818,311	99,660,014

Financial Liabilities

Derivative Financial Instruments								
Forward Foreign Exchange Contracts	-	112,149	-	112,149	-	112,149	-	112,149

31st December 2014	Bank				Group			
	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Financial Assets								
Derivative Financial Instruments								
Forward Foreign Exchange Contracts	-	22,233	-	22,233	-	22,233	-	22,233
Other Financial Assets Held for Trading								
Treasury Bills and Bonds	58,507,931	-	-	58,507,931	58,507,931	-	-	58,507,931
Quoted - Equity Securities	1,034,516	-	-	1,034,516	1,456,200	-	-	1,456,200
- Debt Securities	158,934	-	-	158,934	158,934	-	-	158,934
Investment in Unit Trust	-	187,085	-	187,085	-	187,085	-	187,085
Financial Investments Available for Sale								
Treasury bills and Bonds	-	-	-	-	891,000	-	-	891,000
Unquoted Equity Securities	-	-	480,003	480,003	-	-	639,088	639,088
Investment in Unit Trust	-	2,507,767	-	2,507,767	-	3,081,805	-	3,081,805
Debt Securities	400,000	-	-	400,000	400,000	-	-	400,000
	60,101,381	2,717,085	480,003	63,298,469	61,414,065	3,291,123	639,088	65,344,276

Financial Liabilities

Derivative Financial Instruments								
Forward Foreign Exchange Contracts		17,377		17,377		148,243		148,243

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					
	As at 1 Jan-15	Total Gains/ (losses) recorded in profit or loss	Total Gains/ (losses) recorded in OCI	Purchases/ (sales)	As at 31 Dec-15	As at 1 Jan-15	Total Gains/ (losses) recorded in profit or loss	Total Gains/ (losses) recorded in OCI	Purchases/ (sales)	As at 31 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	-	-	-	-	-	-	-	-	-	-
Financial Assets/(Liabilities)										
Total Net Level 3 Financial Assets/(Liabilities)	480,003	-	45,119	-	525,122	639,088	-	161,311	17,912	818,311

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	Bank				Group			
	As at 1 Jan-14	Total Gains/ (losses) recorded in profit or loss	Total Gains/ (losses) recorded in OCI	Purchases/ (sales)	As at 31 Dec-14	As at 1 Jan-14	Total Gains/ (losses) recorded in profit or loss	Purchases/ (sales)
	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	311,733	1,137,000	77,970	(1,046,700)	480,003	389,143	1,111,854	(986,700)
Total Level 3 Financial Assets	311,733	1,137,000	77,970	(1,046,700)	480,003	389,143	1,111,854	(986,700)
Financial Liabilities	-	-	-	-	-	-	-	-
Total Level 3 Financial Liabilities	-	-	-	-	-	-	-	-
Total Net Level 3 Financial Assets/(liabilities)	311,733	1,137,000	77,970	(1,046,700)	480,003	389,143	1,111,854	(986,700)
								639,088

Set out below is a comparison by class, of the carrying amount and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non financial assets and non financial liabilities.

	Bank				Group			
	2015		2014		2015		2014	
	Carrying	Fair	Carrying	Fair	Carrying	Fair	Carrying	Fair
	amount	value	amount	value	amount	value	amount	value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets								
Cash and Cash Equivalents	27,963,708	27,963,708	37,355,549	37,355,549	30,692,205	30,692,205	39,418,068	39,418,068
Balances with Central Banks	42,947,711	42,947,711	43,584,872	43,584,872	42,947,711	42,947,711	43,584,872	43,584,872
Placements with Banks	8,097,147	8,097,147	13,681,425	13,681,425	8,097,147	8,097,147	13,681,425	13,681,425
Loans and Receivables to Banks	114,606,980	114,606,980	129,488,851	129,488,851	115,519,933	115,519,933	133,005,677	133,005,677
Loans and Receivables to Other Customers	768,514,659	770,950,189	627,209,062	628,334,968	869,780,503	874,139,280	722,099,483	728,220,493
Financial Investments – Held-to-Maturity	86,604,889	83,331,585	82,720,707	84,238,248	91,089,198	87,816,475	87,930,254	89,471,452
Financial Liabilities								
Due to Banks	143,923,634	143,923,634	143,754,943	143,754,943	162,687,453	162,539,358	162,433,372	162,701,154
Due to Other Customers	899,237,879	899,461,817	793,341,733	794,198,285	932,905,835	933,053,769	829,018,697	830,144,158
Other Borrowings	48,159,101	48,159,101	13,442,898	13,442,898	63,107,816	63,107,816	31,391,206	31,391,206
Subordinated Term Debts	15,032,542	15,032,542	15,032,542	15,032,542	30,907,240	30,907,240	24,883,132	24,883,132

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 receivables with fixed interest rates were fair valued using market rates at the 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.

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47. FINANCIAL REPORTING BY SEGMENT

	Banking		Leasing		Travels		Finance		Elimination's		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Interest	91,988,391	84,419,796	6,415,476	6,272,958	462	17	129,497	-	(704,981)	(455,785)	97,828,844	90,236,986
Exchange	3,050,646	1,598,506	-	-	-	-	-	-	-	-	3,050,646	1,598,506
Leasing	-	-	11,744,354	13,488,180	-	-	-	-	(5,847)	(11,440)	11,738,507	13,476,740
Share Trading/Dividend	178,410	167,480	40,643	27,108	-	-	-	-	-	-	219,053	194,588
Commissions and Fees	3,712,146	3,820,242	324,051	3,890,910	-	-	1,210	-	(193,256)	(219,225)	3,844,152	7,491,927
Other	2,693,224	4,642,375	3,505,461	268,944	42,244	44,289	4,590	-	(272,113)	(288,899)	5,973,405	4,666,709
Total revenue from												
External Customers	101,622,817	94,648,400	22,029,985	23,948,100	42,706	44,306	135,297	-	(1,176,197)	(975,349)	122,654,607	117,665,457
Inter-Segment revenue												
Interest	415,154	60,165	293,298	403,518	2,376	3,541	-	-	-	-	710,828	467,224
Commission and Fees	-	-	193,256	197,079	-	-	-	-	-	-	193,256	197,079
Share Trading/Dividend	1,481,121	1,577,121	-	-	-	-	-	-	-	-	1,481,121	1,577,121
Other	129,871	91,795	142,242	219,250	-	-	-	-	-	-	272,113	311,045
Unallocated Income	-	-	-	-	-	-	-	-	(1,481,121)	(1,577,121)	(1,481,121)	(1,577,121)
Total Revenue	103,648,963	96,377,481	22,658,781	24,767,947	45,082	47,847	135,297	-	(2,657,318)	(2,552,470)	123,830,804	118,640,805
Segment Result	19,519,520	17,231,057	6,836,061	5,779,831	12,365	13,780	(30,773)	-	-	-	26,337,172	23,024,668
Unallocated Expenses											(2,216,010)	(1,377,244)
Income from Associates	-	-	-	-	-	-	-	-	-	-	-	(19,872)
Income Tax Expenses	(6,921,678)	(3,012,245)	(2,129,573)	(1,658,010)	(1,924)	(4,101)	-	-	-	-	(9,053,173)	(4,674,355)
Profit For the Period	-	-	-	-	-	-	-	-	-	-	15,067,990	16,953,197
Non Controlling Interest	-	-	-	-	-	-	-	-	-	-	(1,169,941)	(1,057,121)
Profit for Equity Holders of the Bank	-	-	-	-	-	-	-	-	-	-	13,898,049	15,896,076
Profit for the Year	-	-	-	-	-	-	-	-	-	-	15,067,993	16,953,198
Other Comprehensive Income Net of Tax	-	-	-	-	-	-	-	-	-	-	76,368	(1,064,929)
Total Comprehensive Income	-	-	-	-	-	-	-	-	-	-	15,144,361	15,888,270
Non Controlling Interest	-	-	-	-	-	-	-	-	-	-	(1,334,761)	(1,057,493)
Profit for the Equity Holders of the Bank	-	-	-	-	-	-	-	-	-	-	13,809,600	14,830,777
Segment Assets	1,177,142,773	1,026,495,759	129,290,378	118,797,106	107,554	87,842	3,655,522	-	(14,829,847)	(6,549,253)	1,295,366,380	1,138,831,453
Investment in associates	-	273,100	-	205,160	-	-	-	-	(51,758)	-	-	426,501
Total Assets	1,177,142,773	1,026,768,859	129,290,378	119,002,266	107,554	87,842	3,655,522	-	(14,829,847)	(6,601,011)	1,295,366,380	1,139,257,954
Segment Liabilities	1,127,648,033	983,299,305	104,714,808	97,710,532	48,457	39,186	3,082,113	-	(12,927,652)	(5,853,346)	1,222,565,751	1,075,195,673
Total Equity and Liabilities	1,177,142,772	1,026,768,858	129,290,378	119,002,266	107,554	87,842	3,655,518	-	(14,829,847)	(6,601,011)	1,295,366,380	1,139,257,954

48. Financial Risk Management

48.1 Introduction and Overview

The Bank has exposure to the following risks from financial instruments:

- » Credit risk
- » Liquidity risk
- » Market risks
- » Operational risks

This note presents information about the Bank's objectives, policies and processes for measuring and managing risk.

48.2 Risk Management Framework

The Bank's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has ultimate responsibility for defining the group's risk appetite. The Board is assisted and advised in its Risk Management endeavors by a number of sub- committees ,namely the BIRMC (Board Integrated Risk Management committee), BECC (Board Executive Credit Committee), BAC (Board Audit Committee), BIC (Board Investment Committee) comprising of both independent Board members and Senior executives. ALCO (Assets and Liabilities Management Committee) and the ORMC (Operational Risk Management Committee) which also play significant roles in the Risk management process of the Bank are comprised of senior executives of the Bank.

The Bank recognizes the Business Units as owners of the risk and the first line of defense in risk management. They are required to

identify, manage, mitigate and report on the different risks that arise from their business activities on a day to day basis.

The Risk Management department functions completely independent from the business functions. Accordingly the head of RM reports directly to the BIRMC to maintain independence of action and acts as an effective second line of defense

The third and last line of defense is Internal Audit which provides independent testing and verification of the effectiveness of the risk management framework, including policies and procedures and compliance with these policies and also assesses management assurance processes. The Internal Audit dept., should report directly to the Board Audit Committee (BAC) so as to ensure its independence.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

48.3 Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial

instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment debt securities.

Management of Credit Risk

The board of directors has delegated responsibility for the oversight of credit risk to the Board Executive Credit Committee (BECC). The Credit Control department, under the guidance of Risk Management Division is responsible for managing the Bank's credit risk, including the following.

- » Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- » Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Credit Officers. Larger facilities require establishing credit approval structures so as to ensure that the larger and higher risk exposures are reviewed and approved at the appropriate levels of seniority. All credit decisions require the sanctioning by at least two officers.
- » Reviewing and assessing credit risk: Credit Control Department assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

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- » Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures)
- » A basic and key element of the credit approval process is a detailed risk rating of each borrower above a certain level of exposure. Risk ratings assist in setting prudential exposure limits as well as determining pricing parameters. When rating a borrower the Bank applies in-house assessment methodologies, scorecards and the Bank's 9-grade rating scale for evaluating the credit-worthiness of the borrower. The Bank has developed different risk rating scorecards for large Corporate Borrowers, Middle size/SME borrowers and Financial Institutions. These rating scorecards are periodically reviewed and validated by the BIRMC.
- » Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are monitored by the Credit control dept, which may require appropriate corrective action to be taken.
- » Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Regular audits of business units and Credit processes are undertaken by Internal Audit.

The Bank also has procedures in place intended to identify at an early stage credit exposures for which there may be an increased risk of loss. In instances where the Bank has identified exposures where problems might arise, the respective exposure is generally placed on a watch list. The objective of this early warning system is to address potential problems while adequate options for action are still available.

In addition to the principles discussed above, following policy guidelines are in place to ensure uniformity in management of credit risk.

- i. Credit origination and maintenance procedure.
- ii. Portfolio management guidelines, such as, maximum exposure limits for industries and individual borrowers.
- iii. Remedial/Rehabilitation management guidelines.
- iv. Credit review policy.
- v. High value credit extensions are authorized by at least two or more credit officers including an independent officer from Credit Risk Management Department for exposures beyond a certain pre determined limit.
- vi. We have set up a loan review mechanism. Discriminatory time schedules for review are imposed for lower rated borrower (6 months/ 1 year reviews). A percentage of quarterly loan disbursements at Branch/ Regional/Zonal authority levels is selected on a random basis and subjected to post-grant reviews at regional as well as Head Office level to monitor and ensure quality of lending decisions, and also to ensure timely remedial action.

Stress Testing**i. Increase in NPL,**

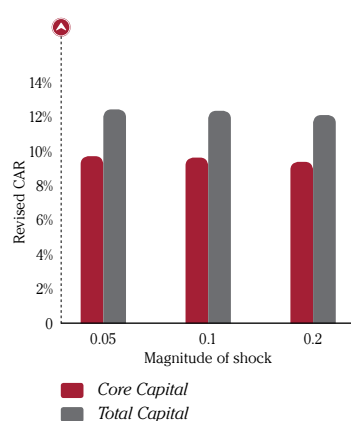
Magnitude of Shock	Revised CAR	
	Core Capital	Total Capital
5%	9.75%	12.44%
10%	9.65%	12.34%
20%	9.44%	12.13%

ii. Negative Shifts in NPL Categories,

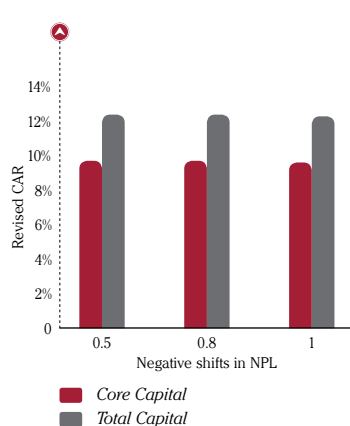
Negative shifts in NPL	Revised CAR	
	Core Capital	Total Capital
50%	9.77%	12.46%
80%	9.72%	12.41%
100%	9.69%	12.38%

iii. Fall in Forced Sale Value of Mortgaged Collateral

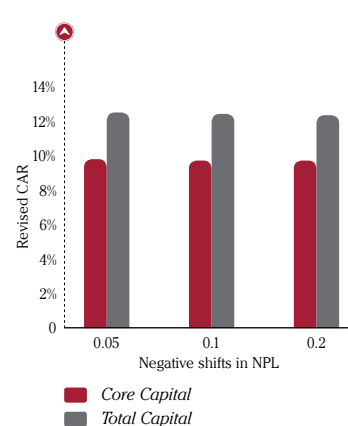
Magnitude of Shock	Revised CAR	
	Core Capital	Total Capital
5%	9.80%	12.49%
10%	9.75%	12.44%
20%	9.69%	12.38%

Effect of Increase in NPL's on CAR

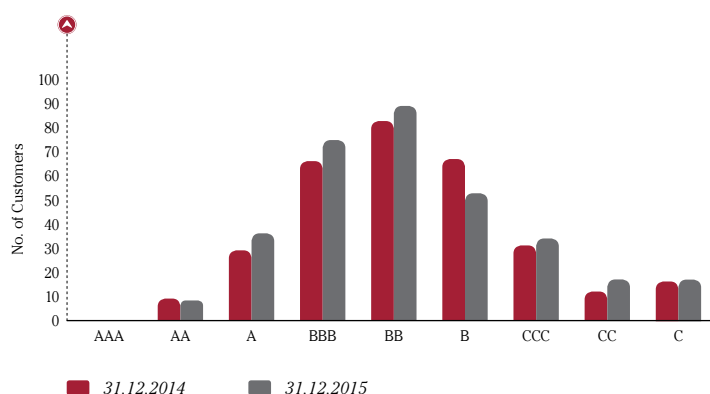
Conclusion: Even a 20% increase in NPL balance will have no major impact on our Capital Adequacy Ratio.

Effect of Negative Shifts in NPL Categories on CAR

Conclusion: Core Capital and Total Capital ratios remain above the minimum requirements in all 3 scenarios.

Effect of Fall in FSV of Mortgaged Collateral on CAR

Conclusion: Even if FSV of mortgaged collateral falls by 15% our CAR will not be affected.

Rating Profile**Risk Profile of Corporate Customers -2015**

	AAA	AA	A	BBB	BB	B	CCC	CC	C
31 st December 2014	-	9	29	66	83	67	31	12	16
31 st December 2015	-	8	36	75	89	53	34	17	17

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Ongoing active monitoring and management of credit risk positions is an integral part of the Bank's credit risk management activities. Monitoring tasks are primarily performed by the Business Units in close co-operation with the Credit Control Department. The individual credit officers within the business units have the relevant expertise and experience to manage the credit risks associated with their borrowers. It is the responsibility of each credit officers to undertake ongoing credit monitoring for their allocated portfolio of Borrowers.

It is the Bank's policy to be in full compliance with Central Bank Guidelines and Directions especially with regard to:

- » Recognition and classification of delinquent loans
- » Provisioning of delinquent loans
- » Single Borrower limit restrictions

The Bank has adopted LKAS 32 and LKAS 39, and impairment of assets is booked in accordance with statutory requirements. .

Loans and Receivables to Other Customers

Loans & receivables to other customers have been classified in to individually significant exposure and collective exposure as required by the Sri Lanka Accounting Standards (LKAS 39).

	2015 Rs. '000	2014 Rs. '000
Individually Significant Impaired Loans		
Amortized Cost	56,942,293	46,423,220
Allowances for Impairment	(42,741,371)	(40,901,653)
Carrying Amount as at 31st December	14,200,922	5,521,567
Collectively Assessed Loans		
Amortized Cost	772,291,678	638,886,709
Allowances for Impairment	(17,977,941)	(17,199,214)
Carrying Amount as at 31st December	754,313,737	621,687,495

The Bank reviews its individually significant loans and receivables at each Statement of Financial Position date to assess whether an impairment loss should be recorded in the Income Statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ.

If impairment is not required based on the individual assessment all such individually significant loans and receivables are then assessed collectively, in groups of assets with similar risk characteristics. This is required to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as loan ownership types, levels of arrears, industries, etc.), and judgements on the effect of concentration of risks and economic data.

Concentrations of Credit Risk

An analysis of concentration of credit risk from loans and receivables as at the 31st December as follow;

	2015		2014	
	Rs. '000	%	Rs. '000	%
Agriculture and Fishing	103,504,692	12.5	124,938,736	18.2
Manufacturing	14,358,077	1.7	10,867,165	1.6
Tourism	3,823,977	0.5	4,317,318	0.6
Transport	894,315	0.1	1,026,866	0.2
Construction	205,690,363	24.8	152,492,193	22.3
Traders	84,226,596	10.2	72,037,024	10.5
Others	416,735,951	50.2	319,630,627	46.6
Gross Total	829,233,971	100.0	685,309,929	100.0

Adherence to credit concentration risk limits

	Q4 - 2015	HHI Threshold
Individual Customer (with GOSL)	0.22	
Individual Customer (without GOSL)	0.05	0.15
Industry Segment (with GOSL)	0.29	
Industry Segment (without GOSL)	0.13	0.20

48.4 Liquidity Risk

'Liquidity risk' is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The inevitable trade-off between liquidity and profitability is recognized by the Bank and incorporated in the Bank's liquidity risk management policies and guidelines.

Management of Liquidity Risk

The Bank's Board of directors sets the strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. ALCO approves the Group's liquidity policies and procedures. The Treasury Dept manages the Group's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The key elements of the Bank's liquidity strategy are as follows.

- » Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities.
- » Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- » Carrying out stress testing of the Bank's liquidity position. Central Treasury receives information from other business units regarding the liquidity profile of their financial assets and financial liabilities and details of other projected cash flows arising from projected future business. The Treasury Dept. maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank.

Regular liquidity stress testing is conducted by the Risk Management Dept. under a variety of scenarios covering both normal and more severe market conditions.

The Bank uses following tools for the liquidity risk monitoring and management:

- » Cash flow maturity gap statements of asset-liabilities and monitoring same against set limits.
- » Monitoring of liquidity indicators such as loans to customer deposits ratio, statutory liquid assets ratio, unutilized inter-bank borrowing lines, and unutilized limits available to customers.
- » Stress testing of liquidity positions for extreme scenarios such as substantial and sudden increase in non-performing assets, flight of hot money or a rating downgrade leading to high cost of liquidity etc.

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Liquidity Indicators	2015 %	2014 %
Loans/Customer Deposits	92.2	86.4
Unutilized Interbank Borrowing Lines	13	19
Medium Term Funding	78	85
Statutory Liquid Assets Ratio - DBU	25.9	30.3
- FCBU	21.7	21.8

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturity Maturity Profile of Assets and Liabilities as at 31st December 2015

	Up to 3 Months Rs. '000	3-12 Months Rs. '000	1-3 Years Rs. '000	3-5 Years Rs. '000	Over 5 Years Rs. '000	2015 Rs. '000	Total 2014 Rs. '000
Assets							
Cash and Cash Equivalents	27,963,708	-	-	-	-	27,963,708	37,355,549
Balances with Central Bank	11,906,293	14,742,388	5,377,146	5,089,546	5,832,338	42,947,711	43,584,872
Placements with banks	8,097,147	-	-	-	-	8,097,147	13,681,425
Derivative with banks	4,109	-	-	-	-	4,109	22,233
Other Financial Assets Held-for-Trading	62,267,175	31,133,588	-	-	-	93,400,763	59,888,466
Loans and Receivables to Banks	26,027,460	26,059,723	15,681,803	15,337,349	31,500,645	114,606,980	129,488,851
Loans and Receivables to Other Customers	174,416,989	174,633,198	105,087,971	102,779,690	211,596,810	768,514,659	627,209,062
Financial Investments - Available-for-Sale	-	3,533,745	-	-	-	3,533,745	3,387,770
Financial Investments - Held-to-Maturity	5,726,000	15,302,865	36,308,024	21,945,000	7,323,000	86,604,889	82,720,707
Investments in Subsidiaries	-	-	-	-	1,475,766	1,475,766	1,045,908
Investments in Associates	-	-	-	-	-	-	273,100
Goodwill and Intangible Assets	-	-	-	-	126,889	126,889	114,548
Property, Plant and Equipment	-	-	-	-	16,303,750	16,303,750	14,946,764
Investment Properties	-	-	-	-	185,712	185,712	187,420
Prepaid Leases	-	-	-	-	536,321	536,321	558,877
Deferred Tax Assets	-	-	-	-	480,901	480,901	1,440,924
Other Assets	8,188,723	1,181,000	1,297,000	1,256,000	437,000	12,359,723	10,862,382
Total Assets 2015	324,597,604	266,586,507	163,751,945	146,407,585	275,799,132	1,177,142,773	-
Total Assets 2014	340,459,805	222,918,803	114,331,552	168,035,432	181,023,266	-	1,026,768,858
Liabilities							
Due to Banks	93,001,906	50,921,728	-	-	-	143,923,634	143,754,943
Derivative with Banks	112,149	-	-	-	-	112,149	17,377
Due to Other Customers	256,720,933	272,090,921	94,027,186	89,162,441	187,236,398	899,237,879	793,341,733
Other Borrowings	31,119,894	17,039,207	-	-	-	48,159,101	13,442,898
Debt Securities Issued	-	-	-	-	-	-	-
Current Tax Liabilities	3,845,472	-	-	-	-	3,845,472	459,612
Deferred Tax Liabilities	-	-	-	-	842,007	842,007	1,060,634
Other Provisions	-	-	-	-	-	-	-
Other Liabilities	11,063,060	4,796,009	371,636	264,544	-	16,495,249	16,189,567
Due to Subsidiaries	-	-	-	-	-	-	-
Subordinated Term Debts	-	32,542	5,000,000	5,000,000	5,000,000	15,032,542	15,032,542
Stated Capital	-	-	-	-	7,201,998	7,201,998	7,201,998
Statutory Reserve Fund	-	-	-	-	4,152,518	4,152,518	3,522,626
Retained Earnings	-	-	-	-	16,293,473	16,293,473	12,797,562
Revaluation Reserve	-	-	-	-	10,846,499	10,846,499	10,876,547
Other Reserve	-	-	-	-	11,000,252	11,000,252	9,070,819
Total Equity and Liabilities 2015	395,863,413	344,880,406	99,398,822	94,426,986	242,573,145	1,177,142,773	-
Total Equity and Liabilities 2014	340,459,805	222,918,803	114,331,552	168,035,432	181,023,266	-	1,026,768,858

Stress Testing**i. Liquidity Shock - Fall in Liquid Liability (SLRs)**

DBU	Balance as at 31.12.2015	Scenario 1	Scenario 2	Scenario 3
Magnitude of shock		5%	10%	15%
Liquid Assets (Rs. Mn)	228,488	228,488	228,488	228,488
Total Liabilities (Rs. Mn)	883,494	883,494	883,494	883,494
Fall in the Liabilities (Rs. Mn)		44,175	88,349	132,524
Revised Liquid Liabilities (Rs. Mn)		839,319	795,145	750,970
Revised Liquid Assets (Rs. Mn)		184,313	140,139	95,964
Liquid Asset Ratio after shock	25.86%	21.96%	17.62%	12.78%

ii. Liquidity Shock - Fall in Liquid Liability (USD)

OBU	Balance as at 31.12.2015	Scenario 1	Scenario 2	Scenario 3
Magnitude of shock		5%	10%	15%
Liquid Assets (USD '000)	290,560	290,560	290,560	290,560
Total Liabilities (USD '000)	1,337,013	1,337,013	1,337,013	1,337,013
Fall in the Liabilities (USD '000)		66,851	133,701	200,552
Revised Liquid Liabilities (USD '000)		1,270,162	1,203,312	1,136,461
Revised Liquid Assets (USD '000)		223,709	156,859	90,008
Liquid Asset Ratio after shock	21.73%	17.61%	13.04%	7.92%

iii. Stress Test hot Money and Retail Money Withdrawal

Scenario I – 5% “Retail” funds and 5% “Hot money” withdrawn

Scenario II – 5% “Retail” funds and 10% “Hot money” withdrawn

Scenario III – 10% “Retail” funds and 10% “Hot money” withdrawn

Unstressed Position was created based on the assumptions given in CBSL guidelines.

	Up to 1 month	1 – 3 month	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	-7%	-12 %	-11%	-16%	-17%	-5%	0 %	0%
Scenario I	-26%	-21%	-16%	-19%	-19%	-7%	-2%	0%
Scenario II	-28%	-22%	-17%	-20%	-19%	-7%	-2%	0%
Scenario III	-35%	-27%	-20%	-22%	-20%	-7%	-3%	0%

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48.5 Market Risks

'Market risk' is the risk that changes in market prices – such as interest rates, equity prices, foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Bank's solvency while optimizing the return on risk.

Management of Market Risks

The Bank separates its exposure to market risks between trading and non-trading portfolios. Trading portfolio is held by the Treasury unit, which include positions arising from market making and proprietary position taking, together with financial assets and financial liabilities that are managed on a fair value basis.

Overall authority for Management of market risk is vested in The Board Integrated Risk management Committee, assisted by the ALCO. The Board Integrated Risk management Committee is responsible for the development of risk management policies. The Head of Risk management reports direct to the BIRMC. ALCO sets up limits for each type of risk in aggregate and for portfolios and for the day-to-day review of their implementation.

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is 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.

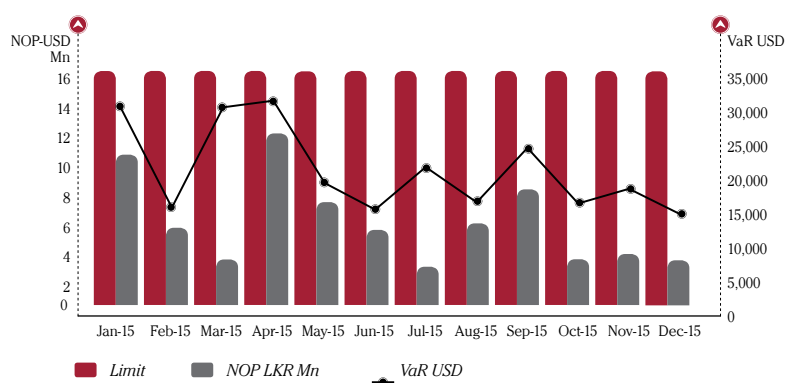
The Bank uses VaR limits for market risks, specifically foreign exchange, interest rate, and other price risks. The overall structure of VaR limits is subject to review and approval by BIRMC. VaR limits are allocated to trading portfolios. VaR is measured and monitored against VaR limits at least daily by treasury Middle office, under the direction of the Risk Management Dept. Regular summaries are submitted to ALCO.

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. (Currency wise limits on exposures and maturity wise limits on exposures to fixed income yielding assets). In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall financial position. Economic stress testing carried out by the Risk Management Dept. consider potential macroeconomic events – e.g. periods of prolonged market illiquidity, reduced fungibility of currencies, GDP contraction etc. The analysis of scenarios and stress tests is reviewed by BIRMC.

Exchange Rate Risk

1. The Daily Value at Risk (DVaR) has been maintained well below the internal limit throughout the year with the maximum level of less than US\$ 32000.

Month End FX NOP & Daily VaR During 2015

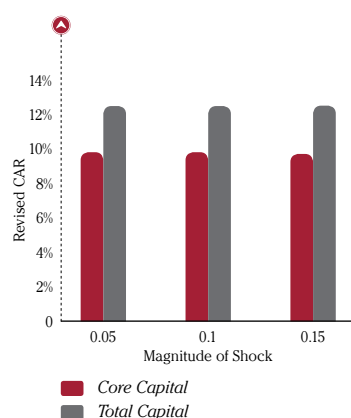


Stress tests measure impact of exchange rate movements on capital adequacy ratio.

2. Exchange Rate Shock Stress Test

Magnitude of Shock	Revised CAR	
	Core Capital	Total Capital
5%	9.84%	12.53%
10%	9.82%	12.51%
15%	9.81%	12.50%

Effect of Adverse Movements in Exchange Rates on CAR



Interest Rate Risk

Trading Portfolio

Following tools are used to manage interest rate risk in the trading portfolio;

1. We use daily VaR model at 99% confidence level to monitor Interest rate risk in the Trading portfolio of fixed Income bearing Securities. VaR limits are strictly observed.
2. The portfolio is marked to market on a daily basis and stop loss limits are established.

Exposure to Market Risk – Non-Trading Portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest

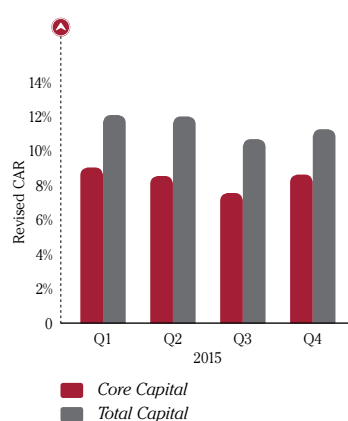
rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits. Equity price risk is subject to regular monitoring by Risk Management Dept.

Stress Test for Interest Rate Risk

Duration gap analysis method was applied to the entire Balance Sheet (both the Banking Book and the Trading Books) to determine the effect of interest rate changes on the capital of the Bank.

2015	Revised CAR	
	Core Capital	Total Capital
Q1	9.08%	12.12%
Q2	8.61%	12.01%
Q3	7.60%	10.74%
Q4	6.93%	10.47%

Effect of 1% Interest Rate increase on CAR



48.6 Operational Risks

'Operational risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors.

Management of Operational Risk

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness. In all cases, Bank policy requires compliance with all applicable legal and regulatory requirements.

The board of directors has delegated the responsibility for Management of operational risk to the BIRMC. The BAC and the Operational risk management committee (ORMC), assisted by the Internal Audit dept., is responsible for monitoring the compliance to operational control standards set by the Board.

Compliance with standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the Operational Risk management Committee, and thereafter submitted to the Board, through the Board Audit Committee.

This development of overall standards for the management of operational risk encompasses the following areas:

- » requirements for appropriate segregation of duties, including the independent authorization of transactions;
- » requirements for the reconciliation and monitoring of transactions;
- » compliance with regulatory and other legal requirements;
- » documentation of controls and procedures;
- » requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;

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- » requirements for the reporting of operational losses and proposed remedial action;
- » development of contingency plans;
- » training and professional development;
- » risk mitigation, including insurance where this is cost effective.

Capital Management

The Bank's lead regulator Central Bank of Sri Lanka sets and monitors capital requirements for the Bank. The Bank is required to comply with the provisions of the Basel II framework in respect of regulatory capital.

The details of the computation of the capital and the ratios as at 31st December 2014 and 31st December 2015 are given below:

On Balance Sheet Exposures

	Balance		Risk	Risk weighted Balance	
	2015	2014	Weight	2015	2014
As at 31 st December	Rs '000	Rs '000	%	Rs '000	Rs '000
Assets					
Claims on Government of Sri Lanka and					
Central Bank of Sri Lanka	219,495,737	252,476,983	-	-	-
Claims on Foreign Sovereigns and their Central Banks	-	-	0-150	-	-
Claims on Public Sector Entities (PSEs)	64,674,803	64,066,560	20-150	64,674,803	64,066,560
Claims on Official Entities and Multilateral					
Development Banks(MDBs)	-	-	0-150	-	-
Claims on Banks	37,226,258	28,913,629	20-150	12,678,030	6,002,222
Claims on Financial Institutions	10,285,202	4,238,349	20-150	3,832,711	877,394
Claims on Corporates	44,731,140	36,406,473	20-150	42,242,704	31,506,764
Retail Claims	181,115,899	106,464,378	75-100	167,099,753	96,680,348
Claims Secured by Residential Property	84,791,851	68,673,792	50-100	42,395,926	34,336,896
Claims Secured by Commercial Real Estate	-	-	100	-	-
Non-Performing Assets (NPAs)	5,479,814	6,892,750	50-150	7,354,505	9,210,282
Cash Items	21,872,683	16,842,700	0-20	145,706	137,600
Property, Plant & Equipment	17,025,783	15,693,064	100	17,025,783	15,693,064
Other Assets	3,703,127	4,268,799	100	3,703,127	4,268,799
Total	690,402,298	604,937,477		361,153,048	262,779,929

Off Balance Sheet Exposures

	Balance		Credit	Credit Equivalent	
	2015	2014	Conversion	2015	2014
	Rs '000	Rs '000	Factor %	Rs '000	Rs '000
Instruments					
Direct Credit Substitutes	9,109,861	18,168,418	100	9,109,861	18,168,418
Transaction-Related Contingencies	18,936,531	15,481,494	50	9,468,266	7,740,747
Short-Term Self-Liquidating Trade-Related Contingencies	74,395,196	66,662,753	20	14,879,039	13,332,551
Sale and Repurchase Agreements and Assets Sale with					
Recourse where the Credit Risk Remains with the Bank	-	-	100	-	-
Obligations Under an On-going Underwriting Agreement	-	-	50	-	-
Other Commitments with an Original Maturity of Up to One Year					
or which can be Unconditionally Cancelled at any Time	6,597,534	19,942,368	0-20	1,319,507	3,988,474
Commitments with an Original Maturity up to 1 Year	-	-	20	-	-
Other Commitments with an Original Maturity of Over One Year	-	-	50	-	-
Foreign Exchange Contracts	6,897,760	6,703,245	0-5	137,955	134,065
Interest Rate Contracts			0-3		
Total	115,936,882	126,958,278		34,914,628	43,364,255

Computation of Capital

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	2015 Rs '000	2014 Rs '000
Tier I : Core Capital		
Paid-up Ordinary Shares/Common Stock/Assigned Capital	7,201,998	7,201,998
Statutory Reserve Fund	4,152,518	3,522,626
Published Retained Profits	22,374,460	18,271,319
General and Other Reserves	10,703,873	8,828,873
Deductions-Tier 1	882,178	885,720
Net Deferred Tax Assets	-	186,149
Other Intangible Assets	126,889	114,548
50% of Investments in Unconsolidated Banking and Financial Subsidiary Companies	660,408	345,479
50% Investments in the Capital of Other Banks and Financial Institutions	94,881	239,544
Total Eligible Core Capital (Tier I)	43,550,671	36,939,096
Tier II : Supplementary Capital		
Revaluation Reserves (as Approved By Central Bank of Sri Lanka)	5,179,916	5,179,916
General Provisions	5,524,594	3,537,854
Approved Subordinated Term Debt	1,940,000	3,420,000
Deductions-Tier II		
50% of Investments in Unconsolidated Banking and Financial Subsidiary Companies	660,408	345,479
50% Investments in the Capital of Other Banks and Financial Institutions	94,881	239,544
Total Eligible Supplementary Capital (Tier II)	11,889,222	11,552,747
Total Capital Base	55,439,893	48,491,843

Computation of Ratios

	2015 Rs '000	2014 Rs '000
Total Risk Weighted Assets for Credit Risk	361,153,048	262,779,929
Total Risk Weighted Assets for Market Risk	10,016,183	11,888,148
Total Risk Weighted Assets for Operational Risk	70,798,307	65,083,185
Total Risk Weighted Assets (RWA)	441,967,537	339,751,262
Core Capital Ratio - Tier 1 (Minimum Requirement 5%)	9.9%	10.9%
Core Capital Total Risk Weighted Assets	x 100	
Total Capital Ratio (Minimum Requirement 10%)	12.5%	14.3%
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

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	Bank		Group	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
49 Non Cash Items Included in Profit Before Tax				
Depreciation of Property Plant & Equipment	847,134	844,293	1,125,098	1,115,750
Amortization of Leased Hold Properties	67,737	74,174	72,319	80,908
Amortization of Prepayment Leases	24,350	7,485	24,350	7,485
Amortization of Intangible Assets	30,867	16,262	45,325	37,540
Depreciation of Investment Property	1,707	2,354	1,707	2,354
Impairment Losses on Loans & Advances	3,739,914	(1,364,908)	3,768,281	(803,202)
Other Impairments	-	(65,532)	2,004,499	685,222
Share Based Payment Expenses	-	-	-	-
Profit on Sale of Fixed Assets	(62,145)	(34,504)	(68,455)	(43,804)
Changes in Derivative Financial Instruments	112,896	(185,309)	(8,120)	(75,506)
Changes in Fair Value of Trading Securities	280,232	156,631	280,232	16,095
Premium Amortization of Held to Maturity Investments	289,381	131,180	289,381	131,180
	5,332,075	(417,875)	7,534,618	1,154,022
50 Changes in Operating Assets				
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	(33,792,529)	3,703,760	(33,940,396)	3,730,846
Net Increase in Balance with Central Bank	637,161	(3,213,980)	637,161	(3,213,980)
Net Increase in Placement with Bank	5,584,278	(11,130,210)	5,584,278	(11,130,210)
Net Increase in Loans and Receivable to Banks	14,881,872	(47,265,771)	17,485,745	(50,668,284)
Net Increase in Loans an Receivable to Customers	(145,045,512)	(6,014,420)	(149,554,464)	(11,221,777)
Net Increase /(Decrease) in Financial Investments Available for Sale	(91,543)	(2,998,067)	249,430	(3,150,888)
Changes in Other Assets	(1,722,605)	(1,986,334)	(3,233,863)	(2,285,879)
	(159,548,878)	(68,905,022)	(162,772,110)	(77,940,172)
51 Changes in Operating Liabilities				
Changes in Due to Banks	168,691	61,960,926	239,486	60,446,370
Changes in Deposits from Banks ,Customers and Debt Securities Issued	105,896,147	31,093,203	100,944,040	39,793,383
Changes in Other Borrowings	34,716,203	(6,911,088)	31,716,610	(7,486,811)
Changes in Other Provisions	-	-	-	-
Changes in Other Liabilities	(1,866,236)	554,823	99,563	1,032,279
Changes in Due to Subsidiaries	-	-	-	-
Total	138,914,804	86,697,864	132,999,699	93,785,221



OTHER INFORMATION»»

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INCOME STATEMENT US \$

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	Bank			Group		
	2015	2014	Change	2015	2014	Change
	US\$'000	US\$'000	%	US\$'000	US\$'000	%
Gross Income	718,686	729,166	(1.4)	858,624	897,604	(4.3)
Interest Income	640,712	639,152	0.2	764,652	788,205	(3.0)
Interest Expenses	(337,900)	(411,289)	(17.8)	(388,441)	(485,803)	(20.0)
Net Interest Income	302,812	227,863	32.9	376,211	302,401	24.4
Fee and Commission Income	25,739	28,903	(10.9)	27,995	31,243	(10.4)
Fee and Commission Expenses	(1,210)	(920)	31.5	(1,210)	(920)	31.5
Net Fee and Commission Income	24,530	27,983	(12.3)	26,785	30,323	(11.7)
Net Gains from Trading	21,600	18,978	13.8	21,603	20,041	7.8
Other Operating Income (net)	30,634	42,133	(27.3)	44,374	58,116	(23.6)
Total Operating Income	379,576	316,957	19.8	468,973	410,881	14.1
Net Impairment for Loans and Other Losses	(25,932)	10,822	(339.6)	(35,833)	893	(4,114.5)
Net Operating Income	353,644	327,779	7.9	433,140	411,773	5.2
Personnel Expenses	(118,266)	(98,983)	19.5	(132,059)	(112,345)	17.5
Other Expenses	(59,474)	(66,883)	(11.1)	(89,653)	(101,526)	(11.7)
Operating Profit before Value Added						
Tax (VAT) & Nation Building Tax (NBT)						
on Financial Services	175,905	161,913	8.6	211,428	197,902	6.8
VAT & NBT on Financial Services	(40,559)	(31,547)	28.6	(44,175)	(34,124)	29.5
Operating Profit after						
VAT & NBT on Financial Services	135,345	130,365	3.8	167,253	163,779	2.1
Share of Profits/ (Losses) of Associates (Net of Tax)	-	-	-	-	(150)	-
Profit Before Tax	135,345	130,365	3.8	167,253	163,628	2.2
Tax Expenses	(47,994)	(22,790)	110.6	(62,773)	(35,365)	77.5
Profit for the Year	87,352	107,576	(18.8)	104,479	128,263	(18.5)
Profit Attributable to:						
Equity Holders of the Bank	87,352	107,576	(18.8)	96,367	120,265	(19.9)
Non-controlling Interests	-	-	-	8,112	7,998	1.4
	87,352	107,576	(18.8)	104,479	128,263	(18.5)

Exchange Rate :1 US\$ was Rs. 144.22 as at 31st December 2015 (Rs. 132.175 as at 31st December 2014)

The Income Statement and the Statement of Financial Position given on Pages 264 and 265 are solely for the convenience of share holders, investors, bankers, and other users of financial statements.

STATEMENT OF FINANCIAL POSITION US \$

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	Bank			Group		
	2015	2014	Change	2015	2014	Change
	US\$'000	US\$'000	%	US\$'000	US\$'000	%
Assets						
Cash and Cash Equivalents	193,896	282,622	(31.4)	212,815	298,226	(28.6)
Balances with Central Bank of Sri Lanka	297,793	329,751	(9.7)	297,793	329,751	(9.7)
Placements with Banks	56,144	103,510	(45.8)	56,144	103,510	(45.8)
Derivative Financial Instruments	28	168	(83.1)	172	168	2.3
Other Financial Assets Held-for-Trading	647,627	453,100	42.9	651,597	456,290	42.8
Loans and Receivables to Banks	794,668	979,677	(18.9)	800,998	1,006,285	(20.4)
Loans and Receivables to Other Customers	5,328,766	4,745,293	12.3	6,030,928	5,463,208	10.4
Financial Investments - Available-for-Sale	24,502	25,631	(4.4)	39,258	37,919	3.5
Financial Investments - Held-to-Maturity	600,505	625,842	(4.0)	631,599	665,256	(5.1)
Investments in Subsidiaries	10,233	7,913	29.3	-	-	-
Investments in Associates	-	2,066	(100.0)	-	3,227	(100.0)
Goodwill and Intangible Assets	880	867	1.5	3,206	3,496	(8.3)
Property, Plant and Equipment	113,048	113,083	(0.0)	157,371	146,504	7.4
Investment Properties	1,288	1,418	(9.2)	1,288	1,418	(9.2)
Prepaid Leases	3,719	4,228	(12.1)	3,719	4,228	(12.1)
Deferred tax Assets	3,334	10,902	(69.4)	3,900	11,166	(65.1)
Other Assets	85,700	82,182	4.3	91,089	88,663	2.7
Total Assets	8,162,133	7,768,253	5.1	8,981,878	8,619,315	4.2
Liabilities						
Due to Banks	997,945	1,087,611	(8.2)	1,128,051	1,228,927	(8.2)
Derivative Financial Instruments	778	131	491.5	778	1,122	(30.6)
Due to Other Customers	6,235,182	6,002,207	3.9	6,468,630	6,272,129	3.1
Other Borrowings	333,928	101,705	228.3	437,580	237,497	84.2
Debt Securities Issued	-	-	-	-	-	-
Current tax Liabilities	26,664	3,477	666.8	31,243	7,965	292.2
Deferred Tax Liabilities	5,838	8,024	-	24,232	22,215	9.1
Other Liabilities	114,376	122,486	(6.6)	172,269	176,523	(2.4)
Subordinated Term Debts	104,233	113,732	(8.4)	214,306	188,259	13.8
Total Liabilities	7,818,944	7,439,374	5.1	8,477,089	8,134,637	4.2
Equity						
Stated Capital/Assigned Capital	49,938	54,488	(8.4)	49,938	54,488	(8.4)
Statutory Reserve Fund	28,793	26,651	8.0	28,793	26,651	8.0
Other Reserves	151,482	150,916	0.4	159,566	154,928	3.0
Retained Earnings	112,977	96,823	16.7	223,337	208,335	7.2
Total Shareholders' Equity	343,189	328,879	4.4	461,633	444,402	3.9
Non-controlling Interests	-	-	-	43,155	40,276	7.2
Total Equity	343,189	328,879	4.4	504,789	484,678	4.1
Total Equity and Liabilities	8,162,133	7,768,253	5.1	8,981,878	8,619,315	4.2
Contingent Liabilities and Commitments	1,258,720	1,381,299	(8.9)	1,258,809	1,381,480	(8.9)

Exchange Rate :1 US\$ was Rs. 144.22 as at 31st December 2015 (Rs. 132.175 as at 31st December 2014)

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PERFORMANCE REVIEW 2006 - 2015

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	2006	2007	2008	2009	2010	Based on New SLASs				
						2011	2012	2013	2014	2015
(Sri Lanka Rs. Mn)										
Assets										
Cash & Short Term Funds	47,191	57,090	39,663	83,973	87,062	52,510	67,814	59,143	80,940	70,911
Investments	62,682	61,095	80,109	84,807	82,688	129,977	175,491	226,075	290,486	307,719
Loans & Receivables (Net)	207,138	238,293	248,626	283,760	357,336	461,656	611,414	619,830	627,209	768,515
Property,Plant & Equipments	8,936	8,414	8,362	7,939	8,385	7,523	8,235	14,706	14,947	16,304
Other Assets	12,608	15,691	20,787	15,766	12,144	10,412	10,343	10,832	13,186	13,694
Total Assets	338,555	380,584	397,547	476,245	547,616	662,077	873,296	930,585	1,026,769	1,177,143
Liabilities										
Customer Deposits	269,947	300,956	324,489	396,158	462,140	550,226	683,951	762,249	793,342	899,238
Borrowing from Banks and Others	35,840	49,063	33,714	36,884	39,132	64,053	135,150	102,148	157,198	192,083
Other Liabilities	22,496	17,670	20,965	20,404	20,505	14,709	14,991	14,619	17,727	21,295
Debentures	-	-	2,500	5,000	5,000	10,000	10,000	15,033	15,033	15,033
Total Liabilities	328,283	367,689	381,668	458,445	526,778	638,988	844,092	894,048	983,299	1,127,648
Total Equity	10,271	12,895	15,880	17,800	20,838	23,089	29,205	36,537	43,470	49,495
Total Equity & Liabilities	338,555	380,584	397,548	476,245	547,616	662,077	873,296	930,585	1,026,769	1,177,143
Commitments & Contingencies	39,450	74,222	138,989	100,867	131,751	190,732	207,021	197,119	182,573	181,533
Operations										
Gross Income	35,131	47,984	58,948	69,050	62,532	68,298	94,777	120,456	96,377	103,649
Total Operating Income	19,509	21,442	24,456	30,635	31,897	36,431	43,310	46,530	41,894	54,743
Total Overheads	15,038	15,736	17,159	19,719	21,305	20,421	24,186	22,509	26,093	31,483
Profit before Taxation	4,079	5,002	5,664	6,076	8,771	15,600	15,249	10,304	17,231	19,520
Provision for Taxation	922	2,628	2,959	2,755	3,565	5,154	4,355	2,816	3,012	6,922
Profit after Taxation	3,157	2,374	2,705	3,320	5,206	10,446	10,894	7,488	14,219	12,598
Performance Indicators										
Number of Employees (Permanent)	9,645	8,416	8,587	8,863	8,399	8,249	7,823	7,409	8,156	8,368
Per Employee										
(Sri Lanka Rs. '000)										
Deposits	27,988	35,760	37,788	44,698	55,023	66,702	87,428	102,881	97,271	107,462
Loans & Receivables	21,476	28,314	28,954	32,016	42,545	55,965	78,156	83,659	76,902	91,840
Gross Earnings	3,642	5,702	6,865	7,791	7,445	8,280	12,115	16,258	11,817	12,386
Profit after Tax	327	282	315	375	620	1,266	1,393	1,011	1,743	1,505
Per Share										
(Sri Lanka Rs.)										
Profit after Taxation	3,157	2,374	2,705	3,320	5,206	10,446	10,894	7,488	14,219	12,598
Total Assets	338,555	380,584	397,547	476,245	547,616	662,077	873,296	930,585	1,026,769	1,177,143
Net Worth	10,271	12,895	15,880	17,800	20,838	23,089	29,205	36,537	43,470	49,495
Return on Assets % (Before Tax)	1.3	1.4	1.5	1.4	1.7	2.6	2.0	1.1	1.8	1.8
Return on Equity %	44.2	20.5	18.8	19.7	26.9	49.2	41.7	22.8	35.5	27.1
Cost/Income Ratio %	73.8	68.7	65.4	60.6	60.2	56.1	55.8	48.4	62.3	57.5
Capital Adequacy Ratio (CAR) %	5.6	6.9	10.5	13.4	12.8	14.8	14.0	15.0	14.3	12.5
Based on Previous SLASs										
Non Performing Loan (NPL)										
Ratio (Gross) %	7.1	5.9	6.8	6.7	5.0	3.4	2.8	5.3	3.2	2.4
Non Performing Loan (NPL)										
Coverage Ratio %	87.1	88.0	75.7	70.6	73.6	81.5	84.0	61.8	84.3	98.3
Fitch Rating	A-	A-	A-	A	AA-	AA	AA+	AA+	AA+	AA+

EXTERNAL ASSURANCE ON SUSTAINABILITY REPORT



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Independent Assurance Report to People's Bank

We have been engaged by the directors of People's Bank ("the Bank") to provide reasonable assurance and limited assurance in respect of the Assured Sustainability Parameters as identified below for the year ended 31 December 2015. The Assured Sustainability Parameters are included in the People's Bank's annual report for the year ended 31 December 2015 (the "Report").

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

Assured Sustainability Parameters	Sustainability Report Page
Key Financial Highlights	06

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

Limited Assurance Sustainability Parameters	Sustainability Report Page
Non-Key Financial Highlights	07
Stakeholder Engagement	58 - 61
Information provided on following capitals	
» Financial Capital	77 - 81
» Human Capital	82 - 87
» Manufactured Capital	88
» Intellectual Capital	89
» Social and Relationship Capital	90 - 94
» Our Environmental Sustainability Strategy	95 - 96

Our conclusions:

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Reasonable Assurance Sustainability Parameters

In our opinion, the Reasonable Assurance Sustainability Parameters, as defined above, for the year ended 31 December 2015 are, in all material respects,

are prepared and presented in accordance with the Global Reporting Initiative(GRI) G4 Content Index Guidelines.

Limited Assurance Sustainability Parameters

Based on the limited assurance procedures performed and the evidence obtained, as described below, nothing has come to our attention that causes us to believe that the Limited Assurance Sustainability Parameters, as defined above, for the year ended 31 December 2015, have not in all material respects, been prepared and presented in accordance with the GRI G4 Content Index Guidelines.

Management's Responsibility

Management is responsible for the preparation and presentation of the Reasonable Assurance Sustainability Parameters and the Limited Assurance Sustainability Parameters in accordance with the GRI G4 Content Index Guidelines.

These responsibilities includes establishing such internal controls as management determines are necessary to enable the preparation of the Reasonable Assurance Sustainability Parameters and the Limited Assurance Sustainability Parameters that are free from material misstatement whether due to fraud or error.

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

M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jaysekara ACA
G.A.U. Karunaratne ACA
R.H. Rajan ACA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne ACA
R.M.D.B. Rajapakse ACA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo ACA
Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

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Management is responsible for preventing and detecting fraud and for identifying and ensuring that the Company complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Report are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

Our Responsibility

Our responsibility is to express a reasonable assurance conclusion on the Company's preparation and presentation of the Reasonable Assurance Sustainability Parameters and a limited assurance conclusion on the preparation and presentation of the Limited Assurance Sustainability Parameters included in the Report, as defined above.

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka.

The Firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of

Ethics issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

SLSAE 3000 requires that we plan and perform the engagement to obtain reasonable assurance about whether the Reasonable Assurance Sustainability Parameters are free from material misstatement and limited assurance about whether the Limited Assurance Sustainability Parameters are free from material misstatement.

Reasonable Assurance Over Reasonable Assurance Sustainability Parameters

The procedures selected in our reasonable assurance engagement depend on our judgment, including the assessment of the risks of material misstatement of the Reasonable Assurance Sustainability Parameters whether due to fraud or error.

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

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Parameters, the suitability of

the criteria, being the GRI G4 Content Index Guidelines, used by the Company in preparing and presenting the Reasonable Assurance Sustainability Parameters within the Sustainability Report, obtaining an understanding of the compilation of the financial and non-financial information to the sources from which it was obtained, evaluating the reasonableness of estimates made by the Company, and re-computation of the calculations of the Reasonable Assurance Sustainability Parameters.

Limited Assurance on the Assured Sustainability Parameters

Our limited assurance engagement on the Limited Assurance Sustainability Parameters consisted of making enquiries, primarily of persons responsible for the preparation of the Limited Assurance Sustainability Parameters, and applying analytical and other procedures, as appropriate. These procedures included:

- » interviews with senior management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- » enquiries of management to gain an understanding of the Company's processes for determining material issues for the Company's key stakeholder groups;
- » enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Parameters;
- » comparing the Limited Assurance Sustainability Parameters to relevant underlying sources on a sample basis



to determine whether all the relevant information has been appropriately included in the Report;

- » reading the Limited Assurance Sustainability Parameters presented in the Report to determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of the Company;
- » Reading the remainder of the Report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

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

Purpose of Our Report

In accordance with the terms of our engagement, this assurance report has been prepared for the Bank for the purpose of assisting the Directors in determining whether the Bank's Reasonable and Limited Assurance Sustainability Parameters are prepared and presented in accordance with the GRI G4 Content Index Guidelines and for no other purpose or in any other context.

Restriction of Use of Our Report

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Bank, for any purpose or in any other context. Any party other than the Bank who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Bank for our work, for this independent assurance report, or for the conclusions we have reached.

Chartered Accountants

Colombo
23rd March 2016

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Disclosure	GRI Index	Page No.	External Assurance
General Standard Disclosures			
Strategic & Analysis			
Statement from the most senior decision-maker of the organization	G4-1	22	Yes
Organizational Profile			
Name of the organization	G4-3	Inner Back Cover	Yes
Primary brands, products, and services	G4-4	66	Yes
Report the location of the organization's headquarters	G4-5	Inner Back Cover	Yes
Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	G4-6	14	Yes
Nature of ownership and legal form	G4-7	Ownership - 5 Legal Form - Inner Back Cover	Yes
Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	G4-8	57	Yes
Scale of the organization	G4-9	6 and 7	Yes
Total number of employees by type	G4-10	82	Yes
Percentage of total employees covered by collective bargaining agreements	G4-11	87	Yes
Supply chain	G4-12	55	Yes
Significant changes during the reporting period	G4-13	14	Yes
Precautionary approach	G4-14	14	Yes
External charters, principles, or other initiatives	G4-15	14	Yes
Membership associations	G4-16	14	Yes

Disclosure	GRI Index	Page No.	External Assurance
General Standard Disclosures			
Identified Materials Aspects and Boundaries			
Entities included in the organization's consolidated financial statements	G4-17	14	Yes
Process for defining report content and the aspect Boundaries	G4-18	14	Yes
Material aspects	G4-19	15	Yes
Material aspect boundaries within the organization	G4-20	15	Yes
Material aspect boundaries outside the organization	G4-21	15	Yes
Effects of any restatements	G4-22	14	Yes
Significant changes during the reporting period	G4-23	14	Yes
Stakeholder Engagement			
Stakeholder groups engaged by the organization	G4-24	58 - 61	Yes
Basis for identification and selection of stakeholders	G4-25	58 - 61	Yes
Approach to stakeholder engagement	G4-26	58 - 61	Yes
Key topics raised during stakeholder engagements	G4-27	58 - 61	Yes
Report Portfolio			
Reporting period	G4-28	14	Yes
Date of most recent previous report	G4-29	14	Yes
Reporting cycle	G4-30	14	Yes
Contact point for questions regarding the report	G4-31	14	Yes
In accordance option chosen	G4-32	14	Yes
Policy regarding report assurance	G4-33	14	Yes
Governance			
Governance structure of the organization	G4-34	99	Yes
Ethics & Integrity			
Organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	G4-56	98	Yes

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	Disclosure	GRI Index	Page No.	External Assurance
Specific Standard Disclosure				
Economic				
Economic Performance	Direct economic value generated and distributed	EC1	80	Yes
	Coverage of the organization's defined benefit plan obligations	EC3	197	Yes
Market Presence	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	EC5	86	Yes
	Proportion of senior management hired from the local community at significant locations of operation	EC6	86	Yes
Indirect Economic Impacts	Development and impact of infrastructure investments and services supported	EC7	80	Yes
Environment				
Energy Effluents and Waste	DMA		95	Yes
	Total weight of waste by type and disposal method	EN27	95	Yes
Social				
Employment	DMA		82	Yes
	Total number and rates of new employee hires and employee turnover by age group, gender and region	LA1	83	Yes
	Benefits provided to full-time employees that are not provided to temporary or parttime employees, by significant locations of operation	LA2	84	Yes
	Return to work and retention rates after parental leave, by gender	LA3	84	Yes
Labor/ Management Relation	DMA		85	Yes
	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	LA4	85	Yes
Training and Education	DMA		85	Yes
	Average hours of training per year per employee by gender, and by employee category	LA9	85	Yes
	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	LA10	86	Yes
	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	LA11	86	Yes

	Disclosure	GRI Index	Page No.	External Assurance
Specific Standard Disclosure				
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	86	Yes
Labor Practices Grievance Mechanisms	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms	LA16	86	Yes
Human Rights				
Non Discrimination	Total number of incidents of discrimination and corrective actions taken	HR3	87	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	87	Yes
Human Rights Grievance Mechanism	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms.	HR12	87	Yes
Society				
Local Communities	DMA		92	Yes
	Percentage of operations with implemented local community engagement, impact assessments, and development programs	SO1	92	Yes
	Operations with significant actual or potential negative impacts on local communities	SO2	92	Yes
	FS13		93	Yes
	FS14		92	Yes
Anti-Corruption	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	SO3	103	Yes
	Communication and training on anti-corruption policies and procedures	SO4	103	Yes
	Confirmed incidents of corruption and actions taken	SO5	103	Yes
Compliance	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	SO8	103	Yes

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	Disclosure	GRI Index	Page No.	External Assurance
Specific Standard Disclosure				
Product Responsibility				
Product and Service Labelling	DMA	DMA	90	Yes
	Type of product and service information required by the organization's procedures for product and service information and labeling, and percentage of significant product and service categories subject to such information requirements	PR3	91	Yes
	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	PR4	91	Yes
	Results of surveys measuring customer satisfaction	PR5	91	Yes
Market Communications	Sale of banned or disputed products	PR6	91	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	91	Yes
Customer Privacy	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	PR8	91	Yes
Compliance	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	PR9	91	Yes
	FS8		96	Yes
Product Portfolio	FS6		93	Yes

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A >>

Accounting Policies

Principles, rules and procedures selected and consistently followed by the management of an entity in preparing and reporting the Financial Statements.

Accrual Basis

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

Amortization

Systematic allocation of the depreciable amount of an intangible asset over its useful life. Depreciation and amortization 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 amortization using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

Associate Company

A company other than a subsidiary in which a holding company has a participating interest and exercise a significant influence over its operating and financial policies.

Available-for-Sale Financial Asset

Those financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit and loss.

B >>

Bill Discounted

A promissory Note or Bill of Exchange that has been purchased for less than face value, the difference representing interest on the unexpired term of the bill. At maturity, the holder collects the face value of the bill for its own account.

Bill of Exchange

A signed, written, unconditional order addressed by one person (the drawer) directing another person (the drawee) to pay a specified sum of money to the order of a third person (the payee). The terms bill of exchange and draft are often used interchangeably.

C >>

Call Deposits or Call Money

Deposits or funds lent out which are repayable on demand.

Capital Adequacy

The ability of a Bank to meet the needs of their depositors and other creditors in terms of available funds. As per requirement of Bank for International Settlements (SIBS) and Central Bank of Sri Lanka, local banks should maintain a stipulated minimum capital.

Capital Adequacy Ratio

The percentage of the risk-adjusted assets supported by capital, as defined under the framework of risk based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

Credit Risk

The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

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 utilized by the clients as at the Balance Sheet date.

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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.

H >>**Hedging**

A methodology used to cover against risk of unfavorable price movements (interest rates, prices, commodities, etc).

Held-to-Maturity Investments

A financial asset with fixed or determinable payments and fixed maturity that an entity has the positive intent and ability to hold to maturity, other than those that the entity on initial recognition elects to designate as held-for-trading or available-for-sale, or that meet the definition of loans and receivables.

I >>**Impairment**

This arises due to decline in recoverable amount below carrying amount.

Indemnity

An agreement whereby a person agrees to bear any loss that is suffered by a party to a contract to which he himself is not a party. The person giving the indemnity assumes primarily liability, unlike a guarantor who assumes secondary liability.

Interest Rate Risk

The risk that the fair value of future cash flows of a financial instrument

will fluctuate because of changes in market interest rates.

Interest in Suspense

The interest due on non-performing assets.

Interest Margin

Net interest income as a percentage of average interest-earning assets.

K >>**Key Management Personnel**

Those persons who have the authority and responsibility for planning, directing and controlling the activities of the entity.

Key Performance Indicators (KPIs)

KPIs are quantifiable measurements, agreed beforehand that reflects the critical success factors of a company.

L >>**Letter of Credit (LC)**

A document issued by a Bank, requesting another Bank or banks to advance money to a third person, up to a certain amount, in accordance with the terms and conditions set out in the document.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquid Assets Ratio

Liquid assets expressed as a percentage of total liabilities other than shareholders' funds.

M >>**Mark to Market**

The policy to periodically revaluing positions up or down to their current market or fair value.

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Market Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risks: currency risk, interest rate risk and other price risk.

Minority Interest

The proportion of the profit or loss and net assets of a subsidiary attributable to equity interest that are not owned, directly or indirectly through subsidiaries, by the Parent.

Mortgage

A lien on real property used to secure a borrowing.

N >>

Negotiable Instrument

A security or other financial instrument which can be freely sold to a third party (i.e. negotiated). Bank notes, bearer bonds, Bills of Exchange and cheques are normally negotiable instruments.

Net Interest Margin

Interest income as a percentage of Average Interest Earning Assets.

Non-performing Loan

A loan where principal or interest payments are not being made on the due dates or where the borrower is failing to meet some other term or condition of the loan. Non-performing loans are frequently allocated non-accrual status.

Nostro Account

A foreign currency current account maintained with another Bank, usually but not necessarily a foreign correspondent Bank. At the other Bank, the deposit is called a nostro account.

O >>

Objective Evidence

Information based on facts that can be proved through analysis, measurement, observation and other such means of research.

Off-Balance Sheet Transactions

Transactions not recognized as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

P >>

Position

The netted total commitments in a given currency or interest rate. A position can be either flat or square (no exposure), long (more currency bought than sold overbought) or short (more currency sold than bought oversold).

Prime Rate

The interest rate which a Bank charges its most credit worthy corporate customers.

Promissory Note

An unconditional promise in writing made by one person to another, signed by the promisor, engaging to pay on demand or at a fixed or determinable future time a fixed sum to or to the order of, a specified person or to bearer.

R >>

Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Repo

Jargon for sale and repurchase agreement.

Reserve Assets

Assets of a financial institution which form part of its reserve requirements with the Central Bank.

Reverse Repo

The opposite of a repo, i.e. a purchase and resale agreement.

Revolving Credit

A line credit that has terms permitting successive drawings and payments at the borrower's discretion. The funds available to the borrower are replenished by any repayments of principal.

Risk-Weighted Assets

On Balance Sheet assets and the credit equivalent of Off-Balance Sheet assets multiplied by the relevant risk-weighting factors.

S >>

Securitization

This involves the transfer of a block of income producing assets to a vehicle company that finances the purchase through the issue of debt (usually notes of commercial paper).

Segmental Analysis

Analysis of financial information by segments of an enterprise specifically, the different geographical areas in which it operates.

Segment Reporting

Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealings, property and insurance.

Settlement Date

The date on which a securities transaction is completed by actual exchange of securities for cash.

Short Position

An excess of liabilities (and/or forward sale contracts) over assets (and/or forward purchase contracts). A dealer's position when the net of purchases and sales leaves a net sold or oversold position.

Subsidiary Company

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

Suspense Account

An account used to record items temporarily which are held subject to clarification and transfer to the appropriate account.

Syndication Loan

A loan arrangement in which a number of banks, in a form of joint venture, provides funds which they would individually be unwilling or unable to provide. Syndications are used for customers whose scale of financing is too great for any single Bank to accommodate without distorting its loan portfolio.

T >>**Time Deposit**

An interest bearing deposit account which is subject to withdrawal only after a fixed term.

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 if it is: (a) Acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (b) Part of a portfolio of identified financial instruments that are managed together for which there is evidence of a recent actual pattern of short-term profit-taking; or (c) A derivative (except for a derivative that is designated and effective hedging instrument).

Transaction Costs

Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Treasury Bonds (T-Bond)

A long-dated security issued by the Central Bank of Sri Lanka. T-Bonds carry a coupon rate of interest.

V >>**Value Added**

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital to Government by way of taxes and retained for expansion 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.

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CORPORATE INFORMATION

Name of the Bank

People's Bank

Legal Status

A Licensed Commercial Bank under the Banking act no. 30 of 1988 incorporated as a Commercial bank by People's Bank act no. 29 of 1961.

Head Office (Registered Office)

No. 75, Sir Chittampalam
A. Gardiner Mawatha,
Colombo 02, Sri Lanka.
Cable JANABANK
Tel.: +9411 232 7841 (6 Lines),
+9411 244 6316 (4 Lines),
+9411 248 1481
e-mail: 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,
P.O. Box 186,
Colombo 00300, 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.
Tel.: +9411 232 0651-6,
+9411 243 7239-41, +94 112392101-3
e-mail: infocbd@peoplesbank.lk
SWIFT PSBKLKLX

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
e-mail : 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
e-mail: 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
e-mail: ptravel@peoplesbank.lk
Web: www.peoplestravels.com

People's Leasing & Finance PLC

No. 1,161, Maradana Road, Borella,
Colombo 08.
Tel: +9411 263 1631
Fax: +9411 263 1000

People's Merchant Finance PLC

No. 21, Nawam Mawatha,
Colombo 02, Sri Lanka.
Tel.: +9411 230 0191-4
Fax: +9411 230 0190

Sub-Subsidiaries of People's Bank

(Subsidiaries of People's Leasing & Finance PLC)

People's Insurance Ltd.

No. 53, Dharmapala Mawatha,
Colombo 03.
Tel: +9411 220 6406
Fax: +9411 220 6399

People's Leasing Property Development Ltd.

No. 1,161, Maradana Road, Borella,
Colombo 08.
Tel: +9411 263 1631
Fax: +9411 263 1000

People's Leasing Fleet Management Ltd.

No. 1,161, Maradana Road, Borella,
Colombo 08.
Tel: +9411 263 1631
Fax: +9411 263 1000

People's Microfinance Ltd.

No. 1,161, Maradana Road, Borella,
Colombo 08.
Tel: +9411 263 1631
Fax: +9411 263 1000

People's Leasing Havelock Properties Ltd.

No. 1,161, Maradana Road, borella,
Colombo 08.
Tel: +9411 263 1631
Fax: +9411 263 1000



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