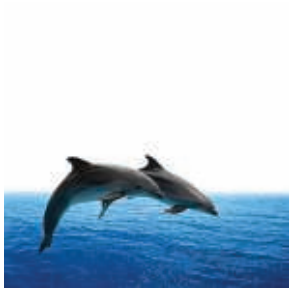


DYNAMIC

Pan Asia Banking Corporation PLC | Annual Report 2014





Humans have long studied echolocation and the sonar capabilities of dolphins and bats in an effort to develop dynamic new technologies in man-made radar and sonar engineering.

As a progressive corporate, Pan Asia Bank has always strived to evolve along with the fast changing customer expectations.

A Public Limited Liability Company incorporated in Sri Lanka on 6th March 1995 under the Companies Act No.17 of 1982 and re-registered under the Companies Act No.07 of 2007. A Licensed Commercial Bank under the Banking Act No.30 of 1988 and listed in the Colombo Stock Exchange.

Company Registration No. PQ 48

Lanka Rating 'BBB +' (Stable)

Fitch Rating 'BBB (lka)' (Stable)

DYNAMIC

The intricate design of a Honeycomb. The speed of a Cheetah. The agility of a Hummingbird. A Dolphin's extraordinary capabilities and dynamism. Ingenious and powerful, simple yet precise.

Pan Asia Bank has long been an icon of innovative thinking, outstanding design, adaptability and functionality inspired by the same principles of dynamism and innovation we see in nature's engineering.

We're building your bank to be resilient and strong; a dynamic and evolving organisation creating quantifiable value for the many stakeholders who place their faith in us.

Pan Asia Bank
The Dynamic Bank

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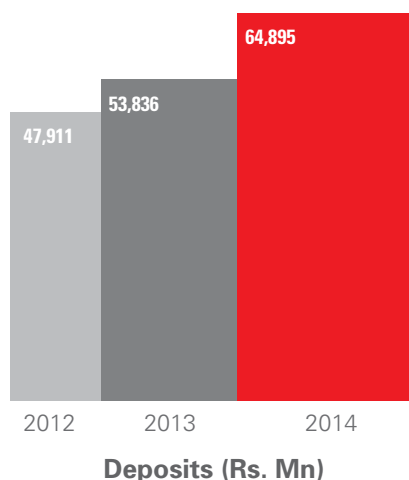
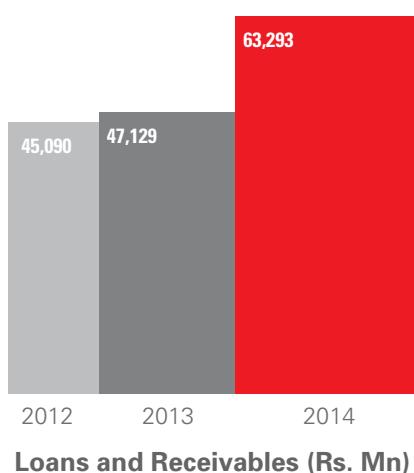
Vision

To become the most customer preferred commercial bank in Sri Lanka.

Mission

We will create the largest satisfied customer base by providing professional, personalised, secure, speedy, quality banking and financial services, using modern technology & innovative products. We will delight our customers, create a better future for employees and enhance stakeholder value.

Financial Highlights



We remain committed to grow shareholder value further and current strategies are formulated to position the Bank to deliver higher returns to our valued shareholders, who have been resilient and provided tremendous support during our challenging times.

	2014	2013	Change %
Results for the Year (Rs. Mn)			
Net Interest Income	2,739.98	2,095.30	30.77
Total Operating Income	4,026.95	3,163.43	27.30
Profit before VAT and NBT on Financial Services	754.51	228.44	230.29
Profit before Taxation	538.43	123.91	334.55
Profit for the Year	415.21	113.84	264.74
Position at the Year End (Rs. Mn)			
Shareholders' Funds	4,734.63	4,048.76	16.94
Gross Loans and Receivables to Other Customers	63,292.72	47,128.70	34.30
Due to Customers (Deposits)	64,895.22	53,835.90	20.54
Total Assets	79,605.27	64,918.45	22.62
Financial Ratios			
Net Interest Margin (%)	3.82	3.38	13.02
Return on Average Assets (%)	0.58	0.19	205.26
Return on Average Shareholders' Funds (%)	9.81	2.89	239.45
Cost to Income Ratio (%)	61.03	69.28	(11.91)
Non Performing Advances Ratio (%)			
Gross	5.73	8.01	(28.46)
Net	3.78	6.49	(41.76)
Investor Ratios			
Earnings per Share (Rs.)	1.41	0.39	262.19
Net Assets Value per Share (Rs.)	16.05	13.72	16.96
Market Price per Share (Rs.)	25.90	15.50	67.10
Statutory Ratios			
Capital Adequacy			
Core Capital Ratio (Minimum Requirement - 5%)	8.97	10.27	(12.56)
Total Capital Ratio (Minimum Requirement - 10%)	14.19	11.91	19.23
Liquid Assets			
DBU (Minimum Requirement - 20%)	21.88	23.79	(8.03)
FCBU (Minimum Requirement - 20%)	22.27	40.09	(44.45)

By reaching speeds of upto 70mph, the Cheetah remains the fastest animal in the world, with a lean, long-legged body built for speed.

At Pan Asia Bank, quick and responsive services are built into the way we work...

fast





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Chairman's Review

W. D. N. H. Perera
Chairman

I am immensely pleased to welcome you to the Twentieth Annual General Meeting of your Bank. It gives me distinct pride to state that the previous year's unsatisfactory financial performance is now a distant memory. Despite tremendous challenges, your Bank recorded a four-fold growth in Profit for the year amounting to Rs. 415 million for the financial year, making this the best ever YoY growth in financial results in its history. Our robust financial performance in the period under review is a reflection of our turnaround strategy based on lessons learnt in 2013 due to the gold debacle that impacted financial institutions in the country. However, during this year, we worked in a focused manner to mitigate potential threats and offset losses from the previous year by operating with strict performance targets, which were tirelessly pursued by a dynamic team of professionals. We are confident that our strategy will provide the right platform to deliver sustained and profitable growth.

During this eventful year, we have transformed the way that we run the business, exerting pressure on costs, honing our business models, reshaping management functions and creating a more lean enterprise to give staff greater responsibility and to improve decision-making. We now have a new CEO at the helm, Dimantha Seneviratne, who brings over 24 years of local and global banking expertise in his wake. He has exhibited a strong understanding of the vision for Pan Asia Bank, achieving many objectives during the short time he has been steering operations. I am buoyed to see the upbeat morale amongst the staff and a rejuvenated approach to customer service. I have no doubt that the new CEO and his team will lead from the front in positioning the Bank on a platform for growth. Already, we were able to better deploy our resources to deliver the sustainable, profitable growth and returns that drive shareholder value. Pan Asia Bank can now boast a robust Balance Sheet, sound client relationships and enhanced capabilities.

Meanwhile, we continue to lead the industry in several areas. Technology is helping us empower our clients and strengthen our relationship with them. We achieved core banking upgrade on the IT side by migrating to a new platform from 2nd February 2015, which necessitated a large investment. This system will help maximise operational efficiencies and enhance productivity.

we have transformed the way that we run the business, exerting pressure on costs, honing our business models, reshaping management functions and creating a more lean enterprise to give staff greater responsibility and to improve decision-making.

The macro economic outlook remained largely positive during 2014 as the Gross Domestic Product is expected to have grown over 7.5%, probably recording the highest economic growth in South Asian Region. The industry and service sectors were key contributors, although agriculture performed below par due to unstable climatic conditions. Inflation was low at 3.3% during the year while the balance of payments position improved. Exports grew whereas imports fell narrowing the trade deficit. Higher growth in credit to the private sector and investment in the second half of the year helped to achieve economic expansion. In view of these developments, the Monetary Board expects to maintain the current monetary policy stance, pegging the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank of Sri Lanka unchanged at 6.50% and 8.00%, respectively.

Our Vision

While our outlook for 2015 is one of sustainable growth, we remain hopeful that the interest rates will be recalibrated as due to the long standing low interest rate regime, the spread has diminished and net interest income declined. However, at the same time, personnel cost have gone up along with other overhead expenses across the Board. Cost management has become an important success factor for our business too, but this needs adequate support from the authorities to become a reality. Extending the tenure of Board of Directors would help companies to better enforce long term strategic imperatives. I am hopeful that the newly

Chairman's Review

elected Government will implement good governance and transparency in conjunction with Central Bank of Sri Lanka to streamline some of the issues facing the financial services industry to drive higher revenues.

In Appreciation

I would like to thank my fellow Board of Directors for their valuable contribution and bid farewell to Mr. H. K. Seneviratne, Senior Director who retires with effect from 13th February 2015. On behalf of my colleagues and the staff, I wish to thank him for his impressive contribution and wish him all the best for the future. I would also like to welcome two new Directors to the Board, namely, Mr. S. B. Rangamuwa and Mr. M. A. Abeynaike, who possess vast experience in the field of Banking and Finance. The Bank is on a position of strength and stability and we intend to improve on this with a single-minded focus. With a new leadership team in place, we will build on the remarkable progress we have made during the year under review. We have high optimism for even better prospects in 2015 and beyond.



W. D. N. H. Perera
Chairman

Colombo
12th February 2015

Pan Asia Bank Wins Prestigious International Awards



Most Innovative Banking
Product in Sri Lanka 2014 - 'Sammana'

Fastest Growing Commercial Bank
in Sri Lanka - 2014



A Nimble Organisation

Chief Executive Officer's Review

Dimantha Seneviratne
Director / Chief Executive Officer

Year 2014 turned out to be one with tremendous challenges and opportunities, also one in which Pan Asia Bank achieved many victories. The Banking sector was affected by pawning related setbacks, declining margins, low demand for credit, financial sector consolidation drive and tighter regulations. This required us to re-think our processes, re-strategise and embark on a self-consolidation process, improving governance and risk management strategies. A clear priority during the year was to maintain a well capitalised, highly liquid and diverse balance sheet with a focus on quality asset growth. I am happy to note that as a result of concerted efforts, we managed to overcome most of the challenges successfully and ended the year on a high note.

We remained focused on delivering a sustainable growth whilst strengthening operations, improving controls and maintaining a closer tab on costs, a strategy that enabled us to deliver a remarkable financial performance. In the final analysis, our revised strategy and process of consolidation paid rich dividends, and placed us on a strong platform to embark on an accelerated growth.

The year began on a low key, as our lending portfolio, which had a significant exposure to pawning related products, had taken a hit in 2013, as did the rest of the industry with the drop in global gold prices, resulting in muted profits and higher Non Performing Advances. We evolved our risk management strategies including hedging arrangements to manage the down side risk which enabled us to curtail losses and systematically reduce this exposure. The diversification of lending and focus on Retail and SMEs enabled us to record a 34% growth in advances, well above the industry average.

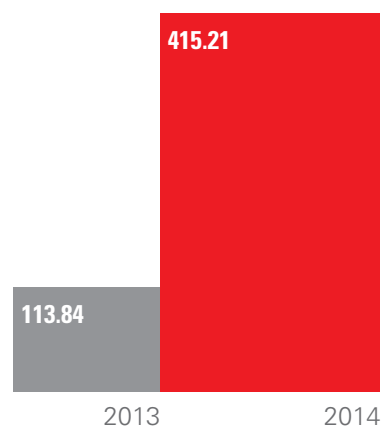
In this back drop, it was indeed a pleasure and honour to be recognised as the 'Fastest Growing Commercial Bank in Sri Lanka 2014' by London based Global Banking and Finance Review and also to win the award for the 'Most Innovative Banking Product in Sri Lanka 2014' for Pan Asia Bank's ground breaking product 'Sammana'.

Steep Rise in Profitability

Despite the challenges arising from many fronts, net interest income rose from Rs. 2.095 billion to Rs. 2.740

In this back drop, it was indeed a pleasure and honour to be recognised as the 'Fastest Growing Commercial Bank in Sri Lanka 2014' by London based Global Banking and Finance Review and also to win the award for the 'Most Innovative Banking Product in Sri Lanka 2014' for Pan Asia Bank's ground breaking product 'Sammana'.

billion in 2014, recording a growth of 31%. As a result, net interest margin improved by 13% to 3.82%. We were also successful in improving our Non Interest income by 21% to Rs. 1.302 billion, diversifying the revenue sources.



Profit for the Year (Rs. Mn)

Chief Executive Officer's Review

We remained focused on delivering a sustainable growth whilst strengthening operations, improving controls and maintaining a closer tab on costs, a strategy that enabled us to deliver a remarkable financial performance.

On the other hand, the Bank managed to contain the increase in overheads to 12%. Nevertheless we remain committed for further cost controls and productivity improvements to progress in a low margin regime.

Bank's Profit before tax and impairment losses witnessed an increase from Rs. 972 million to Rs. 1,569 million in 2014, an increase of 62% despite nearly Rs. 450 million losses booked on gold related lending.

During the year, credit quality significantly improved due to conscious recovery and credit risk management measures thereby reducing the Non-Performing Advance (NPA) ratio from 8.01% to 5.73%. With risk based provisioning, our net NPA ratio improved from 6.49% to 3.78%.

During 2014, we achieved a Profit for the year of Rs. 415 million, reflecting an almost four fold growth, a commendable achievement, in a challenging environment. We were able to record this performance despite making higher impairment loss provisions in excess of Rs. 800 million. This higher loan loss absorption capability puts the Bank in a better stead to withstand unexpected shocks which could arise in the financial system in times of stress.

During the year, we initiated a cost management drive along with productivity improvements. Enterprise-wide, we launched quantitative improvements and strategic campaigns to bring down cost, appointing cost and income champions. These measures to build efficiencies and create lean processes helped us to bring down cost

income ratio from high level of 69% to 61%. Another reason for the high cost to income ratio at the beginning of the year was the rapid branch expansion undertaken recently resulting in a higher fixed cost base. However with all these branches contributing, this ratio is expected to further improve.

Capital and Liquidity

Throughout the year, focus was on building up a strong capital base to support the on-going expansion as well as to form the basis for our future growth. With this intention, we issued a Rated Unsecured Subordinated Redeemable Debenture in October 2014. I am pleased to report that the debenture was oversubscribed on the opening day itself and we were successful in raising Rs 3 billion at a fixed annual effective interest rate of 9.75% for a period of five years, showing the confidence placed on us by the investment community. The funds raised have been used for medium and long term lending products locking in the interest rate volatility.

By the end of 2014, the Bank's Core Capital Ratio (Tier I) stood at 8.97% as against the statutory minimum requirement of 5%, whilst the Total Capital Ratio strengthened to 14.19% (from 11.91% in 2013) against the statutory minimum requirement of 10%.

Deposit Mobilisation and Credit Growth

We had over 20% growth in Deposits leading to a healthy Advance to Deposit ratio of 85.30% whilst growing our deposit base, our focus was on securing a more balanced, diversified deposit mix. An aggressive current and savings account (CASA) drive was launched, resulting in a significant improvement in CASA ratio from 19% in 2013 to 31% in 2014 thereby reducing our cost of funds.

Whilst Retail and SME sectors were the main driving factor in credit growth, personal loans and credit cards made a substantial contribution. Credit card customers tripled in 2014 while personal loans recorded a four-fold growth. Housing loans doubled while our leasing portfolio too expanded by a sizeable amount. Another area we focused on was the Corporate lending and Trade Finance activities, especially to improve fee based income.

Creating Value for Shareholders

Our Return on Equity improved from a low of 2.9% in 2013 to 9.8% in 2014. We were able to record a growth of 17% in shareholders' funds in excess of Rs. 685 million which is reflected in the share price and improved market capitalisation. We remain committed to grow shareholder value further and current strategies are formulated to position the Bank to deliver higher returns to our valued shareholders, who have been resilient and provided tremendous support during our challenging times.

Credit Rating

I am happy to note that during the year, Lanka Ratings Agency assigned Pan Asia Bank, a rating of BBB+, two notches above the investment grade rating whilst Fitch Ratings Lanka reaffirmed the rating at BBB with a stable outlook based on improved balance sheet strength. I am confident that with the improved performance and capital position, lower NPAs and diversified profitability avenues, our rating would improve further, going forward.

Strategic Realignment, Improved Governance and Focused Risk Management

Several changes were brought in to the management structure while infusing new blood into the team with the aim of building up a committed and professional management team and grooming the next generation of leaders.

The rapid branch expansion undertaken in previous years required us to consolidate and reflect on reaping the maximum benefits out of it. Attention was focused on turning around the branches by strengthening the Regional Management structure. Whilst consolidating our investment, we added one branch at the Gold Centre in September 2014. In 2015, we plan to expand this network further and relocate some of the branches for better customer accessibility.

A conscious exercise to build our brand image and brand presence in our focus segments was initiated during the year, which will continue with much vigor.

New Core Banking System

During 2014, we made substantial investments in our Technology and initiated migration to the new Core Banking system, which was successfully completed and launched in early 2015. Pan Asia Bank now has one of the most technologically advanced and versatile core banking platforms that can provide cutting edge banking solutions and superior customer service. I would like to record my appreciation to our IT and project teams, service providers and the entire Bank staff who were involved in this challenging but successful migration process. This system is expected to further improve productivity.

We would continue to invest on technology where necessary to improve our system capabilities to deliver greater services and value to our customers.

Our People Drive Profits

Apart from the key initiatives to improve management structure, a performance driven culture was introduced, with due recognition for meritocracy. A value based organisation culture is being established to enable employees to align themselves towards organisational goals and corporate values.

The Bank encourages staff to develop their professional and technical skills and various incentives are provided to motivate them to achieve such skills, thereby improving career prospects.

Our employees are optimistic about the future prospects of the Bank and are well aligned with the Bank's values, being dynamic and customer focused. Team Pan Asia takes every possible opportunity to reach out to customers to ensure their financial requirements are met in the most convenient manner.

Infusing Responsibility into Our Actions

We continue to move beyond the traditional approach to Corporate Social Responsibility (CSR) from 'nice to have' to a 'should have' approach by embracing CSR in our business activities and product development, keeping in mind the social needs.

Chief Executive Officer's Review

For instance, the product 'Sammana' was structured by identifying one of the most discerning segments of our society, 'senior citizens' to provide a means of fulfilling their much needed financial needs in a responsible manner. We further organise seminars and discussions for this target group to improve their financial literacy. This product went on to win the 'Most Innovative Banking Product in Sri Lanka in 2014' awarded by the Global Banking and Finance Review.

Recently launched education loan product, 'Aspire' offers hope for those who aspire to have a higher education but could not afford due to high cost. Through 'Aspire' the Bank assists the country's next wave of growth through creating a knowledge based economy and helping to create a talent pool which can add to the current skilled labour force.

In line with our commitment to support the environment conservation efforts, we have come up with the 'Green Loan Scheme' with funding arranged through Global Climate Partnership Fund (GCPF).

During the year, many other CSR activities were conducted, including blood donation campaigns, a medical camp for kidney patients conducted in Girandurukotte, rehabilitation of school buildings in several schools in the area etc.

Future Outlook

With low inflation, interest rates are expected to remain low during first half of 2015 with a possibility of a slight upwards adjustment in the short term curve. On the other hand, demand for consumption credit is expected to be stimulated by the increase in disposable incomes as a result of reduction in indirect taxes of many commodities, the reduction of administered energy prices and subdued inflation. This improved disposable income, coupled with low interest rates are expected to stimulate credit growth including the real estate sector and private consumption.

A conscious exercise to build our brand image and brand presence in our focus segments was initiated during the year, which will continue with much vigor.

Despite the recent volatility, the capital markets are expected to perform better, so that the banking sector would require innovative products to retain and attract deposits. Parallely, banks need to look for alternative ways to fund the asset growth thus the corporate debt market will continue to remain buoyant. On the other hand, the expected rise in the US treasury yields would open up more opportunities for banks to fund the borrowing needs of local corporates since there would be less likelihood of corporates raising funds from international capital markets.

In today's digital economy, the banks can leverage data and analytics and use technology to redefine customer experience. On the other hand, increased presence of non-traditional players in the payment and cash management space require banks to be agile and deliver smarter solutions. Going forward, identifying and delivering products that are easily accessible and match the requirements of the new generation of customers remains an imperative for the banking industry.

In today's environment, where differentiation is key, better customer service as well as improved internal processes including balance sheet management, risk and compliance would provide the Bank a definite competitive advantage. We would continue to focus on such differentiating opportunities and improve our customer service and internal procedures.

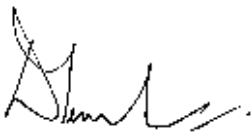
The three year strategic plan which is now ready for implementation has taken these new developments in to consideration.

Acknowledgements

I would like to place on record my sincere gratitude to the Chairman and the Board of Directors for their direction and support, and appreciation to our valued shareholders for placing their trust in us. I wish to thank our valued customers for their continued patronage of our services and mutually rewarding business relationship which is based on trust and service. I acknowledge the contribution made by the regulators and our External Auditors for their advice and guidance, and other stake holders for their continued support.

Last but certainly not the least; I must commend the dynamic Team Pan Asia for their hard work and commitment during the year, where we turned around a challenging year into a year of many achievements.

We will continue to pursue strategies to meet the financial needs of our customers while maintaining strong risk and governance frameworks, maintaining a strong balance sheet, and forging ahead towards meeting further excellence in 2015 and beyond.



Dimantha Seneviratne
Director / Chief Executive Officer

Colombo
12th February 2015

Board of Directors



W. D. N. H. Perera
Chairman

Mr. Nimal Perera is the Chairman of Pan Asia Bank with 32 years of experience in the fields of Finance, Capital Market Operations, Manufacturing, Marketing and Management Services. Mr. Perera first joined the Board of Pan Asia Bank as a Director in September, 2007 and was appointed as the Deputy Chairman in March, 2008 and as Chairman in April, 2012. He serves as a Director in several public quoted Companies. He is the Managing Director of Royal Ceramics Lanka PLC and Chairman of Horana Plantations PLC, Lanka Ceramics PLC, Swisstek Ceylon PLC, N P Capital Ltd, Lanka Floortiles PLC and Lanka Walltiles PLC. Deputy Chairman of Vallibel One PLC and holds the position of Director in several quoted companies which includes Amaya Leisure PLC, The Kingsbury PLC, LB Finance PLC, Hayleys PLC, Talawakelle Tea Estates PLC, Haycarb PLC. He is a member of the Sri Lanka Institute of Marketing.



R. E. U. De Silva
Deputy Chairman

Joined the Board of Pan Asia Bank in July, 2008. He is the Chairman of Esna Holdings (Pvt) Ltd., Shermans Logistics (Pvt) Ltd, Shermans Transport (Pvt) Ltd, Esna (Pvt) Ltd, Hanjin shipping Lanka (Pvt) Ltd and is a Director at Esna Power (Pvt) Ltd, Sherman De Silva & Co. (Pvt) Ltd, Mc Marine (Pvt) Ltd, Sherman Sons (Pvt) Ltd, Dimension X (Pvt) Ltd, Esna Ventures (Pvt) Ltd, Mountbatten Lands (Pvt) Ltd, Plumbago Lanka (Pvt) Ltd, Esna Zinc Journeys (Pvt) Ltd, Esna International (Pvt) Ltd, Esna Lubricants (Pvt) Ltd, Integrated Shipping Agencies (Pvt) Ltd and is the Honorary Consul General for Kazakhstan.



H. K. Seneviratne
Senior Director

Mr. Seneviratne is a LLB Graduate and an Attorney-at-Law by profession was the Legal Consultant and the Secretary to the Board, at the Board of Investment and presently advising foreign/local clients on investments, corporate law, commercial law, commercial contracts, arbitration, bilateral, regional and multilateral treaties relevant to cross-border investments etc.



M. D. S. Goonatileke
Director

Joined the Board of Pan Asia Bank in August 2008. He is a financial professional with over 30 years of post qualification experience has held Senior Managerial positions in Financial Management, Credit Management, Treasury, Export & Import Trade, General Management & Operations in leading private sector organisations in Sri Lanka. He is the Group Executive Director of Douglas & Sons (Pvt) Ltd. In addition, he serves as a Director in number of other Public Companies including, Royal Ceramics Lanka PLC, Colombo Land Development and Investment PLC, Hayleys PLC. Mr. Goonatileke possess Post Graduate Diploma in Business Administration, PIM, University of Sri Jayawardenapura and an Associate Member of Institute of Chartered Management Accountants (UK) and a passed finalist of Institute of Chartered Accountants, Sri Lanka.

Board of Directors

T. G. Thoradeniya
Director

Mr. Tharana Thoradeniya has over two decades of senior management experience in multi- industry scenarios. He sits on the Boards of several public quoted and privately held companies in Sri Lanka, including Lanka Ceramics PLC, Lanka Walltiles PLC, Lanka Floortiles PLC, Hayleys Fibre PLC, Delmege Ltd., Vallibel Plantation Management Ltd., Dipped Products (Thailand) Ltd., and several others. He is a Group Director of Royal Ceramics Lanka PLC and CEO/Director of Rocell Bathware Ltd. Tharana has been credited as a proven business innovator across industries. A marketer by profession, Tharana was in the pioneering batch of Chartered Marketers of the Chartered Institute of Marketing (UK).



G. A. R. D. Prasanna
Director

Mr. Prasanna who was appointed to Pan Asia Bank in May, 2012 is the Chairman of Grandmark (Pvt) Ltd, and serves as a Director on the Boards of Royal Ceramics Lanka PLC, Royal Porcelain (Pvt) Ltd, Rocell Bathware Ltd, Delmege Forsyth & Co. (Shipping) Ltd, Country Energy (Pvt) Ltd, La Fortresse (Pvt) Ltd, Delmege Forsyth & Co. (Exports) (Pvt) Ltd, Delmege Insurance Brokers (Pvt) Ltd, Rocell Properties Ltd, Delmege Coir (Pvt) Ltd, Delship Services (Pvt) Ltd, Delmege Freight Services (Pvt) Ltd, Delmege Air Services (Pvt) Ltd, Lewis Brown Air Services (Pvt) Ltd. He has wide experience in various businesses & business management.



T. Igarashi
Director

A Japanese national, Mr. Igarashi is an enterprising businessmen specialising in the re-structuring of unviable business, export of vehicles and heavy machinery from Japan, and development of IT systems. He served as the Chairman and Founder of ANZUK Legal Service based in Wellington.

He is the Chairman of Ramboda Falls Hotels PLC. He sits on the Boards of NWS Holdings (Pvt) Ltd, NWS Management Services (Pvt) Ltd, NWS Financial Services (Pvt) Ltd.



T. Murakami
Director

Mr. Toyohiko Murakami is a Chief Executive of Bansei Group, Japan. Mr. Murakami has over 31 years of experience in managing various business fields consisting of Securities, Finance, Insurance, Real Estate. Mr. Murakami has a Bachelors Degree in Law from Kyoto University, Japan. Mr. Murakami joined Bansei Securities Co., Ltd. in November 2005. He was appointed as the Executive Vice President in February 2006 and he was appointed the President and CEO of the company in June 2009. He is also the Chairman of Bansei Hoken (Insurance) Community Co.,Ltd. which is a sister company of Bansei Securities Co., Ltd. Formerly, Mr. Murakami was with Zenkoku Hosho Co., Ltd. from November 2005 - February 2006 and as a Director of H.S. Securities Co., Ltd. from October 2000 to August 2005. He is the Deputy Chairman of Bansei Royal Resorts Hikkaduwa PLC and Chairman of Bansei Holdings LK (Pvt) Ltd, Director of Bansei & NWS Consultancy (Pvt) Ltd and Vallibel Finance PLC.

Board of Directors

S. B. Rangamuwa
Director

Mr. Rangamuwa is an experienced professional in Management, Finance, credit and Marketing with over 21 years of senior management exposure having held key positions at strategic and operational levels.

Mr. Rangamuwa is the Managing Director of Vallibel Finance PLC since its relaunch and also serves as a Director of Hunnas Falls PLC and Style-Kraft Ltd (Orit Apparel). He is a former Director of Mercantile Investments PLC and also had stints at Central Finance and Ernst & Young.

A Fellow of the Chartered Institute of Marketing (UK), Mr. Rangamuwa is a member of the Institute of Management Accountants of Australia and has a MBA from the University of Southern Queensland.



M. A. Abeynaike
Director

Mr. Mohan Abeynaike is a Fellow of the Institute of Chartered Accountants of Sri Lanka. He was a Director of Sampath Bank from 1995 - 2011.

Mr. Abeynaike was President of the Institute of Chartered Accountants of Sri Lanka and a member of the Securities and Exchange Commission of Sri Lanka. He has been Chairman/Director of several companies and public sector organisations. Mr. Abeynaike is currently Chairman of Asia Pacific Investments (Pvt) Ltd and Deputy Chairman of Siyapatha Finance Ltd.



P. L. D. N. Seneviratne
Director / Chief Executive Officer

Mr. Dimantha Seneviratne joined Pan Asia Bank as Director / CEO on 01st March 2014. He counts more than 24 years of Banking of which 15 years was with the HSBC Group including several senior overseas postings covering Thailand, Bangladesh and Saudi Arabia. Mr. Seneviratne commenced his Banking career with Sampath Bank and thereafter moved on to Overseas Trust Bank, Colombo, prior to joining HSBC. He has extensive exposure in Corporate Banking, Retail Banking and Wealth Management, Credit Risk Management, Operations and Market Risk Management, Internal Control, Investment Banking and Finance. His last three postings with HSBC Group were as Chief Risk Officer, Sri Lanka / Maldives, Bangladesh and Thailand, where he was instrumental in setting high credit standards and directing quality asset growth, and was responsible for strategy and governance in these respective geographies as a member of the country leadership team.

Mr. Seneviratne holds a MBA from the Postgraduate Institute of Management, and BSc, from the University of Sri Jayawardenapura. He is a Fellow Member of the Institute of Bankers, Sri Lanka, and a post graduate Diploma holder in computer system design from the NIBM. Mr. Seneviratne is a Past President of The Association of Professional Bankers (APB) Sri Lanka.



N. Fernando
Company Secretary / Deputy General Manager

Joined the Bank in 1998 as Company Secretary. Has over 24 years of experience as an Attorney-at-Law.

Corporate Management



Dimantha Seneviratne
Director / Chief Executive Officer

Dimantha joined Pan Asia Bank as Director / CEO on 01st March 2014. He counts more than 24 years of Banking of which 15 years with the HSBC Group including several senior overseas postings. He has extensive exposure in Corporate Banking, Retail Banking and Wealth Management, Credit Risk Management, Operations and Market Risk Management, Internal Control, Investment Banking and Finance. His last three postings with HSBC Group were as Chief Risk Officer, Sri Lanka / Maldives, Bangladesh and Thailand, where he was instrumental in setting high credit standards and directing quality asset growth, and was responsible for strategy and governance in these respective geographies as a member of the country leadership team. He holds a MBA from the Postgraduate Institute of Management, and BSc, from the University of Sri Jayawardenapura. He is a Fellow Member of the Institute of Bankers Sri Lanka, and a Post Graduate Diploma holder in Computer System design from NIBM. He was a Past President of the Association of Professional Bankers.



Kamoor Sourjah
Chief Operating Officer

Kamoor has over 20 years of banking experience with 03 foreign banks namely State Bank of India, Deutsche Bank AG and Standard Chartered Bank. Prior to joining Pan Asia Bank in 2008, he held the position of Director / Head of Global Corporates at Standard Chartered Bank. He is an Associate Member of the Institute of Bankers (AIB) Sri Lanka, an Associate Member of the Association of Certified Chartered Accountants (ACCA) of UK and a Member of the Project Management Institute of USA with PMP status.



S. Umakanthan
Deputy General Manager
- Recoveries

Versatile and pragmatic Banker, counting over 32 years of experience in the Banking Industry at Operational and Tactical Management to Strategic / Corporate Managerial levels. Holds a M.Sc in Management. He is an Associate Member of the Institute of Bankers, Sri Lanka and also holds a Postgraduate Diploma in Assets and Liability Management from the Post Graduate Institute of Management, University of Sri Jayawardenapura.



Lalith Fernando
Deputy General Manager
- Chief Risk Officer

A Banker with over 40 years of experience has previously been attached to ANZ Grindlays, Peoples Bank and Nations Trust Bank in Corporate Management positions. He has exposure to global best practices in banking operations, credit appraisal/analysis and dealing with multinationals with global relationships. Prior to joining Pan Asia Bank he held the position of Head of Credit Risk Management at Nations Trust Bank from 2005 to 2009. He has also held the positions of Head of Corporate and Chief Operating Officer at ANZ Grindlays, Head of Personal banking/Corporate banking and Head of Branch Credit at Peoples Bank.



Richie Dias
Deputy General Manager
- Head of Treasury

Richie joined Pan Asia Bank from Barclays Bank, Dubai where he held the position of Head of Treasury Middle Office. He has also served Seylan Bank Limited as Assistant General Manager-International Financial Services and prior to that Grindlays Bank Limited as FX Dealer. He has 34 years of banking experience and has developed skills among others, in Fundamental Principles of market, Liquidity and Operational Risk Management techniques. He holds a Post Graduate Executive Diploma in Bank Management from Institute of Bankers, Sri Lanka and an MBA from University of North West, USA.



Lalith Jayakody
Deputy General Manager
- Chief Financial Officer

Lalith has more than 35 years experience in managing finances in commercial banks including Peoples Bank and Sampath Bank PLC. He was the Finance Officer of Peoples Bank and has also worked as the Senior Deputy General Manager of Sampath Bank PLC. He has excellent knowledge and skills in auditing, strategic planning, asset and liability management, finance and tax operations coupled with a strong business acumen. He is a Passed Finalist of the Institute of Chartered Accountants of Sri Lanka and the Institute of Bankers of Sri Lanka.

Corporate Management

Naleen Edirisinghe
Deputy General Manager
- Retail & SME

Naleen counts over 27 years banking experience including Commercial Bank of Ceylon and National Development Bank. He joined Pan Asia Bank in 2000 and has extensive experience in Retail and SME banking including Credit, Recoveries, Project financing and Branch Operations. He holds an MSc in Management from the University of Sri Jayewardenepura. He is also a Fellow member of the Institute of Bankers of Sri Lanka and a Fellow member of the Certified Professional Managers.



Nayantha Fernando
Deputy General Manager /
Company Secretary

Joined the Bank in 1998 as Company Secretary. Has over 24 years of experience as an Attorney-at-Law.



Nalaka Wijayawardana
Chief Marketing Officer

Nalaka is a marketing specialist with over 22 years experience in banking sector in Sri Lanka and Canada. During his banking career he has specialised in areas such as Strategic Marketing Planning, Brand Management, Corporate Image Building, Credit Card Marketing and Business Banking Product Management. Prior to joining Pan Asia Bank, he held the position of Product Manager for Cash Management Services at Canadian Imperial Bank of Commerce (CIBC) in Toronto. He has also previously worked as a Senior Marketing Officer at Sampath Bank PLC. He is a member of the Chartered Institute of Marketing (MCIM) UK.



Jeremy De Zilva
Head of Internal Audit

Jeremy accounts for over 25 years of banking experience in both local and foreign banks. His previous work experience includes Hong Kong Shanghai Banking Corporation, ABN AMRO and National Development Bank. He is a veteran in banking operations and audit, who holds an MBA from the University of Southern Queensland Australia, a Post Graduate Executive Diploma in Bank Management and Diploma in Banking from the Institute of Bankers of Sri Lanka. He is a Fellow member of the Institute of Certified Professional Managers and also Member of the Institute of Internal Auditors USA, Chartered Institute for Securities & Investment UK, Association of Business Executives UK, Association of Professional Bankers and Institute of Bankers of Sri Lanka.



Indrajith Gunasekara
Assistant General Manager
- SME & Pawning

Indrajith counts over 27 years of banking experience and has a thorough knowledge and experience in all areas of Banking with special emphasis on the SME & Retail segments with Commercial Bank, Seylan Bank and Nations Trust Bank. Prior to joining Pan Asia Bank, he held senior managerial positions in SME Banking, Retail Banking and Credit Risk Management areas at Nations Trust Bank. He holds an MBA from the University of Southern Queensland Australia, a Post Graduate Diploma in Business & Finance from the Institute of Chartered Accountants of Sri Lanka, a Post Graduate Executive Diploma in Bank Management from the Institute of Bankers of Sri Lanka. He is also a Member of the Institute of Certified Management Accountants - Australia and Association of Professional Bankers of Sri Lanka.



Varuni Egodage
Head of Legal

Varuni joined the Bank in 1998 and presently is the Head of Legal Department. She holds LL.B., MBA and LL.M. Degrees, all from the University of Colombo and also holds a Post Attorney Diploma in Banking and Insurance Law from the Sri Lanka Law College. She is also an Attorney-at-Law.

Corporate Management

Rohitha Amarapala
Head of Human Resources

Rohitha has over two decades of experience in Human Resource management and Administrative functions in Government Organisations, Blue Chip and Multinational Companies in Sri Lanka. He is a Fellow Member of the Institute of Personnel Management, Sri Lanka (IPM Sri Lanka), holds an MBA from the University of Western Sydney Australia and National Diploma in Human Resource Management. He is a Licensed Practitioner in Psychometric testing systems adopted by Thomas International. He was conferred the prestigious 'Pride of HR Profession Award' for his contribution to the HR profession at the World HRD Congress held in Mumbai, India in 2010. He is currently serving as President of IPM Sri Lanka, the premier HR professional body in the country.



Sajith Sameera
Head of Information Technology

Sajith has over 24 years experience in the Information Technology field including 22 years experience in the Banking Industry. He has involved in many IT development & implementation projects at Hatton National Bank and has led the IT systems implementation at Cargills Bank. He held the position of Head of IT Systems at Cargills Bank prior to joining Pan Asia Bank in August 2014. He holds an MBA in Information Technology from University of Moratuwa. He is a Chartered Engineer (C Eng), Chartered IT Professional (CITP) and Certified Management Accountant (CMA-Australia). He is also a Member of British Computer Society (MBCS) and a Member of Computer Society of Sri Lanka (MCS).



Chandrika Ranawaka
Head of Corporate Banking

Chandrika counts over 20 years of banking experience in both local and foreign banks. He has experience in all areas of Banking and is specialised in corporate Banking with over 10 years experience in credit analysis and managing local as well as multinational global relationships. Prior to Joining Pan Asia Bank he has worked in Hatton National Bank PLC, Union National Bank - UAE, BNP Paribas - UAE and DFCC Bank. He holds an MBA from the University of Southern Queensland Australia, a Post Graduate Diploma in Business and Finance from Institute of Chartered Accountants of Sri Lanka. He is also an Associate Member of Institute of Bankers of Sri Lanka and Sri Lanka Institute of Credit Management.

Senior Management



Prasanna Fernando
Head of Institutional Liability Sales



Shivan Perera
Head of Leasing



Jayanath Dias
Head of Cards



Harsha Kurukulasuriya
Head of Operations



Takura Abhayasinghe
Head of Branch Sales



Nimal Ratnayake
Head of Credit Control

Senior Management



Siva Sivarathikan
Head of Support Services



Udaya Thuduwegatta
Head of Margin Trading



Anil De Silva
Senior Manager - Branch Credit



Rajitha Silva
Senior Manager - Administration



Thilani Peiris
Area Manager - Colombo South



Prakash Selvarajah
Senior Manager - Branch Operations



Rangith Rajendran
Senior Manager - Branch Credit



Niroshima Wijesena
Area Manager - Colombo North



Umaharan Jeganathan
Senior Manager - Personal Credit Unit



Jehan Perera
Senior Manager - Trade Operations



Sameera Senerath
Senior Manager - Central Sales



Thushara Suraweera
Senior Manager - Branch

Senior Management



Gamini Jayaweera
Senior Manager - Credit Administration



Pali Jayasekera
Senior Manager - Consultant



Kapila Peiris
Senior Manager - Internal Audit



Saman Kottawatta
Senior Manager - SME



Anuradha Gamage
Senior Manager



Arun Beadle
Area Manager - North & East



Javana Atukorala
Senior Manager - Compliance



Milroy Perera
Area Manager - North Western & Central



Hiran Perera
Area Manager - Central



Chrysanthus Peiris
Area Manager - Southern

Key Product Offerings



Current Accounts

Experience everyday convenience

- A convenient payment method
- 24 hour access to account through SMS and Internet Banking
- Ability to access money from any ATM carrying the VISA logo



Savings Accounts

Higher returns with unlimited withdrawals

CHAMPION

S A V E R

Savings Account

- An attractive high interest rate
- Freedom to withdraw money any number of times while receiving interest
- Ability to access money from any ATM carrying the VISA logo



Children's Savings Accounts

Empower your child's future

- Daskam - An additional 10% deposit on top of each and every deposit
- Mithuru - Attractive gifts and a hospitalisation cover



Fixed Deposits

Enhanced returns on your deposits

- Attractive interest rates
- Guaranteed safety for deposits
- A range of maturity periods to choose from



Prime

A special banking services package for discerning customers



You deserve more!

- Personalised and specialised service
- A dedicated service support team



Sammana

Loans for government sector pensioners and retired bankers

Sammana

- Obtain loans of up to Rs.1,000,000/-
- Repayment periods up to 7 years
- Ability to repay until 70 years of age
- A special loan protection policy that also acts as a life insurance scheme



Education Loans

Unleash the power of knowledge



- Loans available for one's further education or children's / siblings' education
- Loan facilities from Rs. 50,000 to Rs. 7.5 Million to cover 100% of the cost
- Flexible loan repayment schemes of up to 7 years
- Convenient online approval process



Housing Loans

Live like a king under your own roof

- Ability to choose between variable or fixed (05 years) interest rates
- Loan amount up to Rs. 25 million with a repayment period of up to 25 years
- Hassle free documentation handling
- Can also be obtained for renovation, purchasing of land, investment properties and to settle other Housing Loans

Key Product Offerings



Solar Loans

Special loan scheme to purchase domestic solar energy systems



- Competitive interest rates
- Fast and courteous service
- Repayment periods of up to 7 years



Consumer Loans

Get what you deserve, now.

- Speedy processing
- Attractive interest rates
- Minimum documentation



Pawning

Highest value for your Gold

- Maximum value
- Assured security for gold
- Convenient access points



Budget+ Leasing

Get your dream vehicle



- Minimum documentation
- Lowest Lease rentals that enhance customer affordability
- Doorstep Service
- For professionals and salaried employees



SME Credit Facilities

Help your business thrive

- Competitive interest rates
- Fast and courteous service
- Repayment periods of up to 5 years



Western Union

The easiest way to receive money from abroad



moving money for better

- Receive money within minutes from anywhere across the world
- Available at all branches island wide
- Conveniently send money to your loved ones



Credit Cards

Amazing savings on your interest charges

- Lowest interest rate of 19.75% p.a.
- Free of charge balance transfers at low interest rates
- No joining fees or hidden charges



Safety Lockers

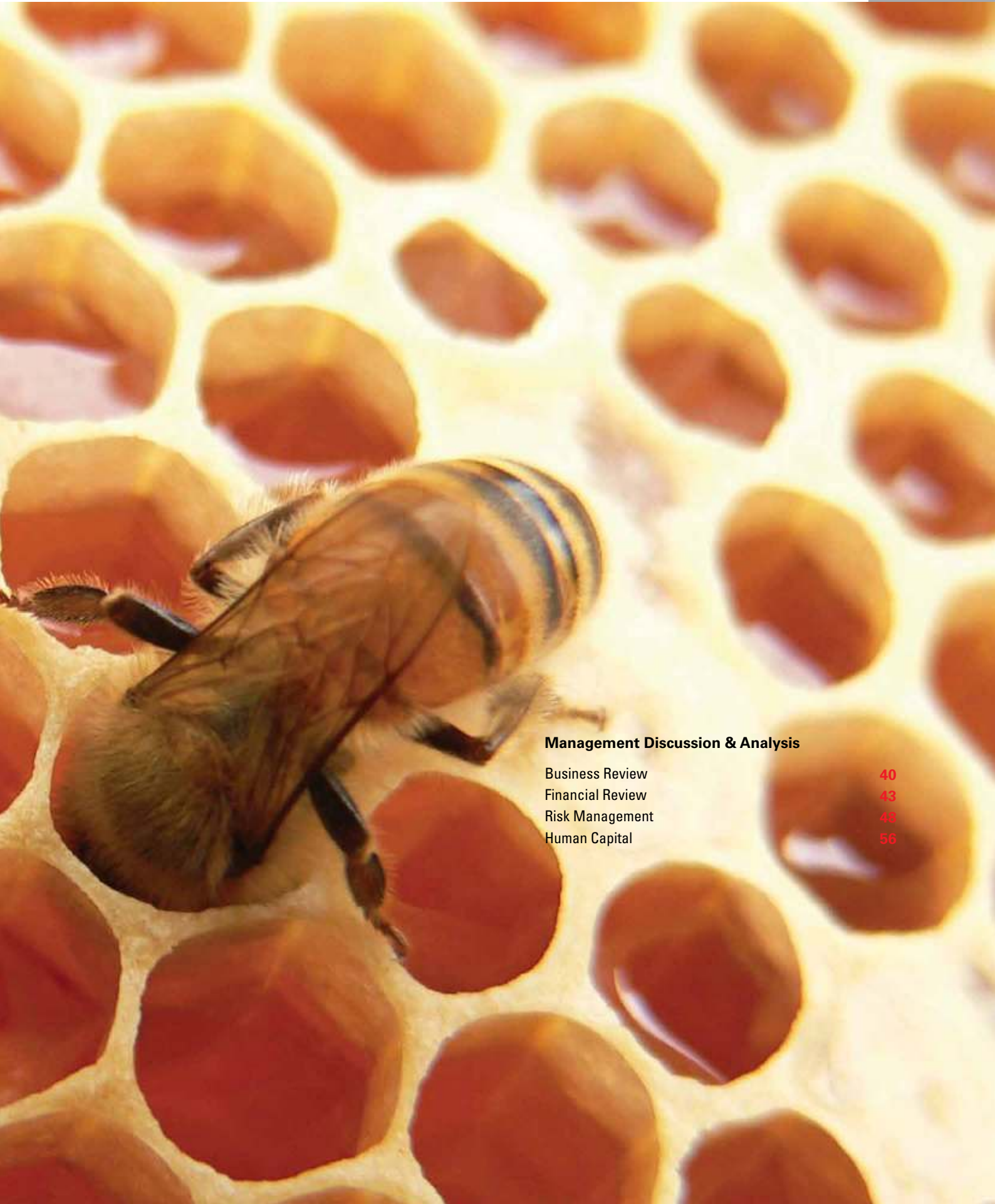
Exceptional security for your valuables

- Maximum security for your valuables
- Available in 3 sizes

Honeycombs have long been admired as a feat of innovative engineering and their design principles are often used when building geometrically shaped structures.

At Pan Asia Bank we emphasise innovation in all we do...leading to products and services which add value for everyone we serve.

innovative



Management Discussion & Analysis

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Business Review

2014 was a year of consolidation for Pan Asia Bank where focus was more on improving the quality rather than quantity of the products, service and accessibility offered to customers.

Overall, against a backdrop of improving yet challenging macro economic conditions, the Bank performed satisfactorily in all key fronts. Some of the key developments affecting banking industry during 2014 were, the lackluster demand for credit, shrinking margins and consolidation in the financial sector.

Portfolio Growth

The Bank grew its Loans and Receivables portfolio by 34% to Rs. 63 billion which is a noteworthy achievement, as it is well above the average advances growth in the banking industry during 2014. In fact, the Bank decided to raise additional funds from the corporate debt market to support the demand for lending.

During the same period Bank's deposit base also grew by 21% mainly due to the range of its innovative deposit products with true value additions.

Successful Debenture Issue

The Bank successfully raised Rs.3 billion through a 5-year Rated Unsecured Subordinated Redeemable Debentures issued in October 2014.

The issue received an Investment Grade Rating of BBB from Lanka Ratings Agency, one notch below the Bank's national long term rating of BBB+ due to its subordinated status.

The debenture issue was over-subscribed on the opening day itself demonstrating the strong confidence placed on Pan Asia Bank by the market at large.

The debenture proceeds were used to support the Bank's lending growth while minimising its balance sheet mismatches and to strengthen the Bank's regulatory Tier II capital.

Best Performers

Main contribution for the robust growth in customer lending came from Retail and SME advance products including "Sammana", "Budget Leasing", "Housing Loans".

Coming out of Pawning Debacle

Pawning which took a major hit the previous year due to the sharp decrease in global gold prices made a recovery in 2014 and we managed to come out from the gold exposure. In addition, Central Bank's Credit Guarantee Scheme provided much needed support to enhance the confidence of the banking sector to lend against the precious metal which remains the main source of access to credit among lower middle class and rural population.

Customer Accessibility

In 2014 the Bank added another branch to its network at the Colombo Gold Centre, bringing the total branches to 78. In addition, the Bank continued to enhance its presence in the digital space via internet banking and social media. One noteworthy achievement in this sphere was the Bank's Facebook page exceeding 50,000 fans in less than one year.

Pan Asia Bank also continued to provide unparalleled accessibility to customers via operating a 24/7 call centre to provide support to customers in their banking matters.

Continuous Innovation

The Bank continuing in its innovative ways, came up with a yet another new product, 'Aspire' which is a special loan scheme offered to customers who seek to finance their children's / siblings' higher education and also employed professionals who are interested in pursuing their own further education.

Credit Rating

In recognition of the Bank's robust performance, Pan Asia Bank's credit rating was assigned as BBB+ by Lanka Ratings Agency while the Fitch Ratings reaffirmed its BBB (lka) rating with a stable outlook.

Global Accolades

In recognition of its strong performance, Pan Asia Bank was bestowed with two prestigious global awards by London based Global Banking and Finance Review.

The two awards were "Fastest growing Commercial Bank in Sri Lanka 2014" and the "Most Innovative Banking Product in Sri Lanka 2014" for "Sammana", the specialised loan scheme for Government pensioners and retired bankers.

Key Product Offerings

Champion Saver

Champion Saver is a specialised savings account that offers a high interest with no limitations on number of withdrawals.

Children's Savings Accounts

Pan Asia Bank offers two types of unique Children's Savings Accounts to encourage the habit of savings from an early age.

Daskam - This account offers an additional 10% deposit on top of each and every deposit made to the account until the account holder reaches the age of 12. In addition, this account gives an enhanced interest rate of 8% (A.E.R. 8.33%) on the total balance.

Mithuru - Offers a high interest rate along with attractive gifts and a hospitalisation cover for the child.

Prime Banking

"Prime" is a special banking solutions package targeted at mass affluent segment of the country and has been a phenomenal success in terms of attracting and retaining deposits. "Prime" offers an enhanced level of service that is guaranteed to make clients feel special.

Sammana

In recognition of the immense contribution made by Government Pensioners to the country, Pan Asia Bank offers 'Sammana', a guarantor free loan scheme with a special life insurance cover, especially designed for retired Government servants and bankers. The main objective of Sammana Loan scheme is to empower the increasing senior citizen population of the county by providing them an opportunity to uplift their lifestyle or initiate self-employment ventures.

Sammana Loans are now extended to the deserving family members of KIA / DIA / MIA personnel as well, thus empowering them to earn an enhanced livelihood.

A unique benefit of Sammana Loan scheme is that it can be repaid until the applicant reaches 70 years of age.

To provide a better and a broader service, the Bank joined hands with Janashakthi Insurance PLC this year, to provide loan protection insurance policies to Sammana customers.

Under the new insurance value addition, "Sammana" customers will be offered loan protection policies at comparatively low premiums and the Insurance will work as a life policy in that, in an event of a customer's demise prior to full settlement of the loan, not only his/her closest family members will be relieved of the loan liability but they also will receive balance amount left from the original sum assured. Further, the policy will be issued without any medical inspections regardless of their ages which is a rare privilege for senior citizens of the country.

Aspire

Aspire is a unique education loan scheme available for customers seeking to finance their children's / siblings' higher education and for employed professionals who wish to pursue their own higher education including professional studies.

Nivasa Housing Loan

Due to high public demand for housing loans, this loan scheme was revised and promoted with several benefits to the borrower. A "Nivasa" loan facility can be obtained up to a maximum of Rs. 25 million with a repayment period of up to 25 years or till the borrower turns 60 years of age.

Solar Consumer Loan

'Solar Consumer Loan' is an innovative product which provides financing to purchase Solar Net-Metering systems. This enables them to generate their own electricity and be free from electricity bills, while contributing towards the betterment of the environment.

With a repayment scheme up to 7 years and 100% funding offered, this product allows customers to conveniently switch to Solar and enjoy free electricity after the repayment of the loan.

Pawning

The Bank entered into an agreement with the Central Bank of Sri Lanka to participate in the new Credit Guarantee Scheme for pawning advances. This scheme helps borrowers to meet their financial requirements comfortably particularly in agricultural and business activities.

Business Review

Leasing

Leasing business recorded a steady growth of 12% during this year. With the newly introduced Budget+ Leasing, customers could expand their reach for higher value vehicles with a lower leasing installment. This special leasing scheme is available for both hybrid vehicles as well as other varieties.

Western Union

Inward remittances sent by Sri Lankan migrant workers continue to be an important pillar of Sri Lankan economy.

Pan Asia Bank, playing a key role in this process as a primary Western Union agent in Sri Lanka, recorded over 100% growth in Commission income from inward remittances as well as in number of migrant remittances transactions.

In addition, Pan Asia Bank joined hands with UAE Exchange Centre enabling its money transfers to be directly credited to a customer's Pan Asia Bank account.

Credit Cards

Pan Asia Black Credit Card offers true value to cardholders by way of offering a low interest rate of 19.75% p.a. Pan Asia Bank also offers two other card products targeted at distinct customer segments, namely World Master Card and Pan Asia Gold. In addition, Pan Asia Bank Credit Cards offer free of charge Balance Transfer facilities which allow customers to transfer their other Bank credit card balances to their Pan Asia Bank credit card and pay a lower interest rate on such balances.

Correspondent Banking Relationship

New relationships were formed with banks in Asia and South Asia where Pan Asia Bank signed up new correspondent Banking relationships with Bank of China, Beijing and Laxmi Bank, Nepal. This will enable the Bank to strengthen its outbound and inbound trade business.

Corporate Banking

The addition of new corporate entities to the portfolio facilitated significant growth of the Corporate Banking Division through 2014. Advances grew by over 22% while deposits growth remained flat, amidst intense competition and price wars. 30% of Bank's loan portfolio comprises of corporate entities, which also generates trade business.

In addition, the Bank invested in Corporate Debentures at attractive interest rates with tax free returns, which paid dividends through booking of capital gains amidst the falling interest rates. In 2015 the Bank will focus on consolidating the corporate portfolio with more focus on fee business.

Margin Trading

Margin Trading business grew by 16% in 2014, amidst a volatile stock market. Pan Asia Bank's Margin Trading gives customers additional liquidity to invest in the stock market and earn attractive returns. During 2015, the Bank will focus on growing the Margin Trading business to take advantage of the expected growth in the market.

Custodian Services

Pan Asia Bank is also a registered Custodian Service (Custodian Bank) provider with the Central Depository Service (CDS). As a Custodian Bank, we can provide core domestic custody services by opening accounts at the CDS for trading purposes, settling trades, investing cash balances as directed, collecting income, processing corporate actions, pricing securities positions and providing record keeping and reporting services. We provide custodian services to investors in keeping with the traditional global practices which enable the Bank to cater to the complex custodian needs of customers resulting in direct access to markets. Custodian services give the Bank an additional source of fee income as well as Foreign Exchange income. During 2014 the Bank was given license to act as Trustee for Unit Trust from Security Exchange Commission.

International and Trade Services

The Bank possesses a well experienced Trade Services department centralised at Head Office and Pettah Branch catering to all business segments with a range of fully fledged trade products. The Bank enjoys a major share in the vehicle import business due to its unique offerings. In 2014 the Bank was able to successfully achieve the budgeted trade volumes. With the implementation of new core Banking System (Finacle) in 2015, the Bank expects to automate some of the existing processes, further improve the turnaround times and cater to larger volumes with the existing staff cadre in line with the Bank's focus in growing the fee income base.

Financial Review

Industry Overview

The country's banking and the finance industry gained more attention than any other sectors in year 2014 due to many reasons. The sector grabbed the headlines for topics such as financial sector consolidation, sluggish private sector credit growth, narrowing margins and fluctuations in gold prices, all these turned 2014 an eventful year for the banking sector.

The industry was puzzled by the lackluster demand for bank credit despite the Central Bank's extremely accommodative monetary policy. This is in spite of the regulator even opting to certain unconventional monetary policy actions such as reducing the interest rate applicable on Standing Deposit Facility to 5% when accessing more than three times per calendar month.

Being more explicit to the tepid private credit growth was the halving of the pawning portfolio as the banks took a cautionary approach to such lending, what was not so apparent was the extremely high real interest rates remained in the economy which offered no real incentive for the borrower to seek bank credit.

However inflation fell to 2.1% in December (YoY) when the Average Weighted Lending Rate (AWLR) was 11.91% by end 2014, it resulted in a significantly higher interest rate providing no significant incentive for the borrower to turn to bank credit.

Meanwhile the banking and the financial sector consolidation steamed ahead with many Non-Bank Financial Institutions being acquired by the banks during the year raising questions over the increasing risk profile of the banks at a time when the banks are de-leveraging their balance sheets.

The extremely low interest rates forced down the lending rates and as a result the banking sector Net Interest Margins (NIMs) narrowed barring few exceptions.

The banking sector overall took a re-shaping in 2014 and learnt to embrace and live with a new banking order of operation in a lower interest rate environment. This led the industry to develop strategies to compete for more

non-fund based incomes and diversify its funding sources while enhancing the efficiency levels in delivering those services in a bid to fight the compressing margins.

For this, banks started leverage heavily on continuous innovation in its products offerings and internal processes, information technology and superior customer service to tap in to emerging segments which were seen not possible a few years ago.

Financial Performance

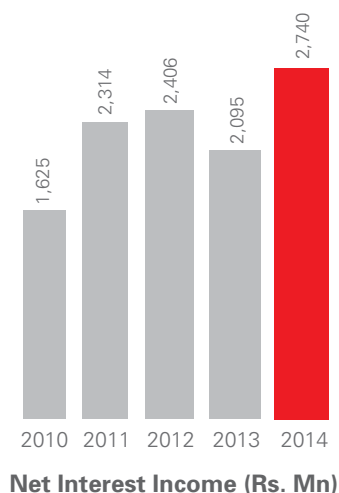
Net Interest Income

The reduction in interest rates were seen during the year across the industry for both asset and liability yields which was no exception to Pan Asia Bank. As a consequence, the interest income of the Bank declined by 5.5% whereas the interest expense declined by 18.4% reflecting rationalisation of interest rates for both asset and liability products to be competitive in the market. However, the drop in cost of deposits outweighed the drop in loan yields thereby contributing to improve Net Interest Income by 30.8% in 2014 demonstrating the prudent asset/liability management. The Bank persistently pursued strategies to improve the mix in higher yielding assets while pushing for growth in low cost deposits. This has been assisted by the increase in the Current and Savings Account base (CASA) which grew to 30.5% at the end of year 2014 from 19.3% a year ago.

The potential for further increase in interest income was to a certain degree was hindered by the contraction of the pawning portfolio to Rs. 1.3 billion from Rs. 3 billion a year ago. However, the better margin products such as Credit Card portfolio grew by 193.6% negating the impact from the pawning contraction to a greater extent.

Meanwhile the Bank was able to increase its Net Interest Margin to 3.8% by the end of 2014 which was above the industry average. Hence, this area demonstrates a lot of potential for Bank to improve as a Retail and Small and Medium Enterprise oriented bank.

Financial Review



Non Interest Income

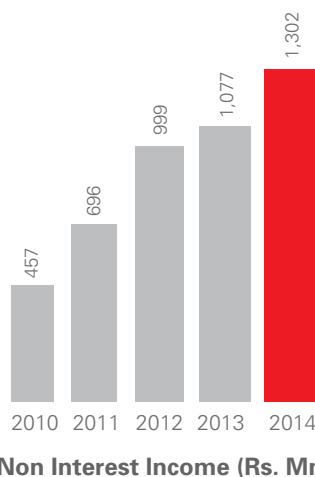
As a result of heightened focus on increasing non interest income, the Bank was able to increase its net fee and commission income, the main contributor to the non interest income by 17.4% to Rs. 643.87 Million. This growth was driven by the fees from loan documentation, card acquisitions, remittances, guarantees and trade income despite the slowdown of international trade activities. This growth was negated by a significant drop in cheque return charges by 16.63% over the previous period due to effective operational procedures implemented by the Bank.

Meanwhile the Net Gain from Trading rose by 44.5% to Rs. 344.26 million predominantly due to the gains from investments in unit trusts and gains from trading debentures which are earned from income tax free sources and also from investments in trading treasury bills and treasury bonds.

However, the gains from derivative financial instruments declined to Rs. 7.6 million from Rs. 40.4 million a year ago due to the losses on currency swaps to hedge exchange risk from foreign borrowings which is also netted off within the Net Forward Forex Gain of the year 2014. This is a reflection of higher swap cost during 2014 compared to 2013.

Meanwhile, Other Operating Income rose by a moderate 8.1% to Rs. 313.83 million supported by the gains made

by non-trading foreign exchange operations as result of revaluation gains on foreign currency denominated assets and liabilities. This is further driven by the growth in diverse range of other income sources such as legal income.



Operating Expenses

The rationalisation of overhead costs continued to be a key priority during the period under review. The continued focus on prudent cost management strategies, astutely coupled with a moderated expansion drive seen while our branch network augmented with one new branch and enhanced customer services seen our operating expenses increase, although we do believe this expenditure is a long term investment in meeting our goals.

Other expenses increased by 10.2% during the year largely due to increase in advertising costs, higher investments made to upgrade technology and insurance premiums including premium for deposit insurance. Apart from the aforementioned triggers inflation pressure also had its role in accelerating the other operating expenses.

Further the Bank made notable progress in its core banking system migration project in 2014 of which the full benefits will be seen only from the following year and is also expected to bring cost efficiencies.

Personnel expenses which constitute 44% of other operating expenses, increased by 14.7% to Rs. 1,080.88 million in 2014 due to new recruitments for expanded

operations and annual salary increments. This was in fact achieved as a result of rationalising the recruitment process and where the new recruitments were made only to support the business expansion and replacement were filled from the market unless a suitable candidate could be found from inside the Bank.

On a positive note the cost to income ratio declined to 61% from 69% a year ago predominantly due to increase total operating income and partly due to efforts on managing and optimising costs incurred at all levels in the Bank. However, the growth in total operating expense was lesser than the growth in total operating income which demonstrates an intentional efforts to control the costs.

The Bank has laid down strategies towards rationalisation of costs and is committed towards monitoring total operating expenses and strictly adhere to be in line with the strategies decided.

Impairment for Loans and Other Losses

The Bank persistently displayed a strong credit culture through its credit risk management framework, policies and processes. Impairment losses for loans and others for current year is Rs. 815 million compared to Rs. 743 million for the previous year.

The Bank emerged successfully out of the gold-backed loan crisis which eroded its Income Statement value in the previous year due to massive impairment losses. Hence, the impairment charge for 2014 rose by just 9.6% which is significantly below the growth in the loan book of the Bank which demonstrates the quality of the Bank's overall asset portfolio management.

The gross impaired asset ratio declined to 4.8% in year 2014 from 6.1% year ago whereas improved impairment cover Ratio of 62.8% reflecting the higher loan loss absorption capability which puts the Bank in better stead to withstand unexpected shocks which could arise in the financial system in times of stress.

Taxation

Expenses for VAT & NBT on Financial Services and Income tax expense increased to Rs. 216.07 million and to Rs. 123.91 million respectively in 2014 due to higher profits recorded in the year. However, the effective rates for VAT, NBT and Income tax has come down to 45% from 50.2% in 2013 due to effective tax planning strategies.

Asset Quality

The Bank made progress towards improving its asset quality and as a result its Gross Non Performing Advances Ratio declined to 5.73% from 8.01% at the beginning of the year.

The management is highly committed towards reducing the Non Performing Loans going forward and the approach to tackling Non Performing Loans was democratised than made concentrated in to a single department.

Profitability

The increase in the Bank's profit in the financial year ended 2014 demonstrates that the Bank was recovering from its temporary setback in 2013 it underwent due to the loan loss provisions it made against its gold-backed lending portfolio when the global gold prices plummeted.

The Bank recorded a profit of Rs. 415.2 million for the year ended 31st December 2014, up from the 113.8 million recorded a year ago despite considerable gold related losses being absorbed during the earlier part of the year. This records a growth of 265% over the year 2013.

Return on Assets improved to 0.58% in 2014 compared to 0.19% in the previous year with improved margins, higher non interest income and higher cost to income ratio due to strategies implemented towards rationalisation of costs.

Meanwhile, Return on Equity improved to 9.81% in 2014 from 2.89% in year 2013.

Financial Review

Financial Position

Assets

The overall increase in total assets of 22.6% during the year was predominantly driven by the growth of the loans and receivable and other interest earning asset books.

In spite of the lackluster credit growth remained throughout the financial year, the Bank emerged as an outlier in the industry recording a commendable 34.3% advances growth.

Being a retail and SME centered Bank, its advances portfolio weighed significantly towards the Retail and SME segment and the consumer segment and the banks portfolio of products geared just to support the same strategy.

The higher advances helped the Bank to grow its asset base to just under Rs. 80 billion, up by 22.6% in 2014 while marching towards its quest to achieve a Rs. 100 billion asset base by end 2015, which is also a requirement stipulated by the regulator.

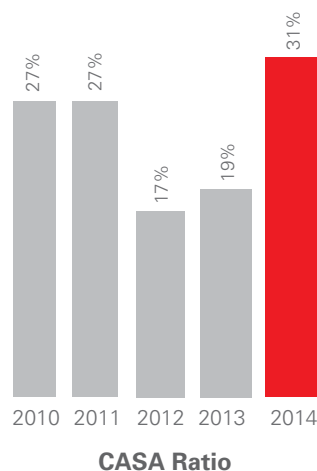
Liabilities

Large part of this asset growth was funded through its deposit franchise which grew by 20.5% to Rs. 64.9 billion demonstrating the continuously enhanced consumer confidence on the Bank though it did not keep pace with the growth in the Loans and Receivable book. Accordingly, the Advances to Deposit ratio for the Bank increased from 80.5% to 85.3% in 2014.

This deposit growth against the single digit industry deposit growth seen in 2014 as investing the hard earned money in banks was considered after the highly attractive portfolio returns from the Colombo Stock Exchange as the bourse remained an attractive alternative for risk takers throughout the year.

The Savings account base of the Bank showed a tremendous growth of 137.3% over the previous year amidst of prevailing low interest rate regime and uncertainty of behavior of interest rates in the market whilst Current Account base grew by 35.3% over previous year. These contributed to improve CASA up to 30.5% from 19.3% a year ago to offset compressing margins to a certain degree.

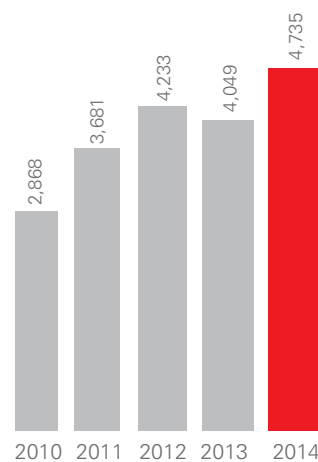
Meanwhile during the year the Bank raised Rs. 3 Billion through a Rated Unsecured Subordinated Redeemable Debenture issue at annual effective interest rate of 9.75% to strengthen the medium term funding base.



Shareholders' Funds

Total shareholders' funds rose by 16.9% to Rs. 4.73 billion by the end of 2014 whilst no dividends were declared focusing organic growth whilst complying with the capital requirements of the industry prudential regulator. This enabled the Bank to increase its Net Asset Value per Share to Rs.16.05 from Rs.13.72 in 2014.

However, optimising the return of shareholders in the form of appreciation of shares and dividends remains top in the Bank's agenda in years to come.



Shareholders' Funds (Rs. Mn)

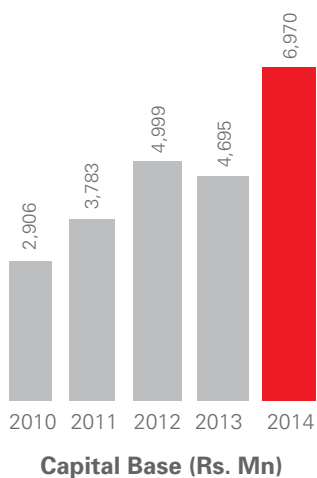
Liquidity

The Bank's liquidity is measured and evaluated at regular intervals based on stress tests in order to identify its adequacy under extreme scenarios. The Bank maintained a healthy Liquid Asset Ratio throughout the year at the Bank level and DBU and FCBU levels while meeting the requirements on the industry prudential regulator. The Statutory Liquid Asset Ratio of the Bank stood at 21.42% as the end of year 2014.

Capital Adequacy

Core Capital Ratio (Tier I) and Total Capital Ratio (Tier II) remains above the minimum requirements at 8.97% and 14.19% respectively. The Total Capital Ratio of the Bank improved to 14.19% level at the end of 2014 from 11.91% in 2013 due to funds raised from aforementioned Debentures and revaluation surplus on Freehold Land and Building. The Core Capital of the Bank stood at Rs. 4.41 billion while the Total Capital was Rs. 6.97 billion in absolute terms.

The enhanced capital levels enable the Bank to achieve its ambitious growth expectations and also provide a much needed cushion to withstand unexpected shocks which could arise.



Future Outlook

Interest rates are expected to remain low with a possibility of slight upwards adjustment in the short term curve and exchange rate volatility remains to threaten the

economic stability. Hence, the banks will continue to find it challenging to attract deposits in to the system as the investors will seek alternative investment opportunities for higher returns although at a slightly higher risk. In this backdrop, there is a higher incentive for people to invest other modes of investment such as property market given the excess banking sector liquidity available at extremely low interest rates.

Despite the recent volatility, the capital markets are expected to perform better, so the banking sector would require innovative products to retain and attract deposits. Parallely, Banks need to look for alternative ways to fund the asset growth thus the corporate debt market will continue to remain buoyant. On the other hand, there would be less likelihood of corporates raising funds from international capital markets unlike in previous years due to expected rise in the US treasury yields, thereby opening up avenues to grow the corporate book.

While the outlook for the banking sector remains challenging in 2015, the sector will continue to play a leading role in funding the economic development and also creating an inclusive growth in the country as it is the industry with most number of channels spread across all parts of the country.

Risk Management

Vision and Culture

Effective risk management allows the Bank to exploit opportunities for future growth while protecting the value already created. By aligning the risk management function to what the shareholders consider vital to the success of the banking business, the shareholders are assured that what they value is protected. Based on the overall business strategy and the next three year’s strategic plan of the Bank, the Board, Corporate and Senior Management develop the risk appetite, which is the acceptable balance between growth, risk and return on investments. The risk appetite of the Bank is determined by the risk capacity, i.e. how much of risks the Bank can bear and willing to take, i.e. Board’s approach to risk being risk averse or risk seeking. The factors such as risk attitude of the Board, sales culture, the nature of the market, and reputational considerations, affect the risk appetite of the Bank.

Risk culture which is the values concerning risk shared by all employees of the Bank, is a set of shared attitudes, values and practices that characterise how the Bank considers risk in day to day activities. The analysis of Bank’s practices, mainly rewards or sanctions for risk taking behavior will derive the risk culture. The Bank encourages employees to take calculated risks, which is seeking the upside while managing the downside. In order to sustain shareholder value the Bank uses varied techniques to maximise the upside and minimise the downside risk. Upside or speculative risk expects a bigger financial reward. Although there is a possibility of a loss in seeking upside risks, by employing appropriate controls the Bank could achieve reasonable gains.

The control techniques employed by the Bank for risk management are;

- introduction of risk management policies,
- organisation structure with required independence, authority, responsibilities and accountability,
- corporate governance systems with Board level sub committees constituted according to the industry best practices and regulatory guidelines,
- established independent risk management function led by the Chief Risk Officer and separate units to manage main risks in the Banks namely credit risk, operational risk and market risk supported by managers with required experience and exposure to such risk areas,
- continuous adherence to regulatory guidelines and management efforts to adapt to the dynamic market environment with appropriate risk assessments on an ongoing basis,
- risk based pricing for Bank’s products and services,
- adherence to the Internal Capital Adequacy Assessment Process in order to maintain adequate risk based capital buffers, and
- maintain a well balanced risk management function with required independence and effective support for decision making :



The responsibility of understanding the risks assumed by the Bank and ensuring that the risks are appropriately managed are vested with the Board of Directors. The Board ensures that the Bank has established a robust and acceptable risk culture with clear policies that define risk management as the responsibility of Bank's Corporate and Senior Management subject to the oversight of the Board establishing limits based on risk appetite of the Bank. The Senior Management has established an integrated risk management framework in order to assess and appropriately manage various risk exposures of the Bank, developed systems to monitor the Bank's risk exposures and relate them to Bank's capital on an ongoing basis, established methods to monitor the Bank's compliance with internal policies relating to risk management and effectively communicate all policies and procedures throughout the Bank by using the intranet and training programs.

Credit Risk

Credit risk is the risk of losses arising from the inability of a borrower or counter party to meet their obligations in accordance with the agreed terms. The losses can be incurred by the inability of the Bank to recover capital and/or interest and fees under the contractual obligations. Credit risk can arise from both on balance sheet and off balance sheet activities consisting contingent liabilities incurred by the Bank and due to the Bank from counterparties such as letters of credit, letters of guarantee, letters of comfort, etc.

In order to uphold proper and stringent credit risk management within the Bank, the following strategic initiatives have been adopted by the Bank:

- Credit risk management organisation structure incorporating a Credit Risk Management Unit reporting to Chief Risk Officer and the Board of Directors through Board Credit Sub Committee and Board Integrated Risk Management Committee.
- Written policies on credit granting and procedure, Bank wide risk management, credit risk management and review of such policies on a yearly basis.
- Instructions and guidance to employees in credit chain on annual/quarterly review of credit facilities, credit origination and maintenance procedures and guidelines for portfolio management.
- Established accountability with branch managers, relationship managers and business unit heads for managing risk within risk management framework of the Bank.

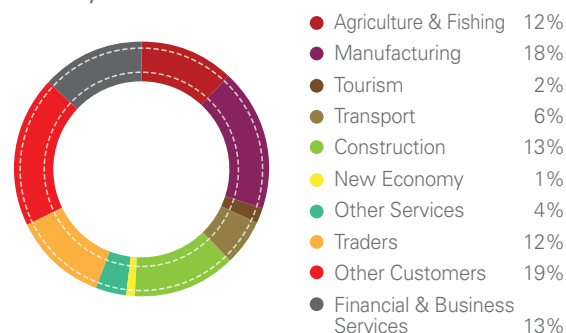
- Established a Credit Control Unit to peruse and monitor payment due loans and advances to initiate recovery, rescheduling and restructuring action to curtail new additions to non performing loans and advances, thereby ensuring quality of advances.
- Delegate authority on lending powers to officers in the credit chain based upon a predetermined consistent set of standards of experience, abilities and judgmental capabilities.
- Assignment of borrower risk rating for all general credit facilities.
- Requirement for higher level sanction for proposed credit facilities as risk rating deteriorates.
- Established dual responsibility in the credit proposals with independent review by Credit Risk Management Department for credit facilities other than small value retail and consumer loans.
- Established independent Credit Administration Unit to ensure accuracy and maintenance of security documentation of credit facilities and limit setting.
- Established credit risk limits for risk rating and concentration on industry and geography.

Credit Concentration

Industry Concentration

The industry analysis of the Bank's lending portfolio is in accordance with the widely accepted norms and on par with standard regulatory reports. Exposures to each industry is monitored by the Board Integrated Risk Management Committee under pre determined risk goals and regulatory limits in force, during regular meetings. Concentrations are extensively deliberated to initiate any further actions if required for better portfolio mix and to ensure least impact when changes take place in operating environment.

Industry wise Concentration



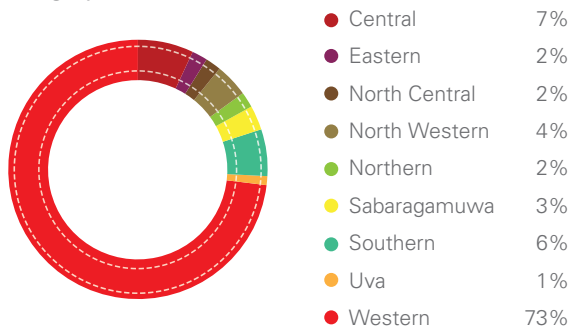
Risk Management

The segment tagged as ‘Other Customers’ in the chart consists of professionals, small and micro businesses and special categories such as pensioners, families of armed services personnel, credit cards and part of pawning advances and reflects the Bank’s focus on Retail and SME segment.

Geographical Concentration

Though higher concentration of the lending portfolio of the Bank is within the Western Province, a gradual decline in the concentration in the Western Province is visible year on year with the expansion of Bank’s branch network to other provinces. With the new strategic initiatives and creation of area offices led by an Area Manager with credit clusters coming under their purview, the Bank relentlessly focus on developing small and medium enterprises throughout the Island. Further, the Bank has introduced novel retail lending products to cater to deserving individuals and small businesses which have a high demand in all provinces.

Geographical Concentration



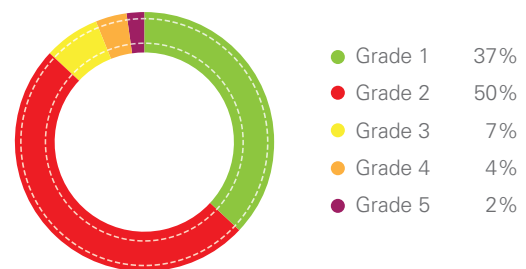
Credit Rating wise Concentration

The Bank’s lending portfolio management is performed on Risk Rating of customers of all segments. Both quantitative and qualitative measurements are taken in to consideration in developing and making changes to risk rating methodologies. Further, regulatory guidelines and industry best practices are considered in risk rating of customers with increased emphasis on Internal Capital Adequacy Assessment Process of Basel II, Pillar 2 guidelines.

When carrying out credit risk assessment and monitoring of lending activities, demographic changes, socio-cultural dynamics, overall economic development and changes, regional development initiatives of the Government, progress in new economic sectors such

as telecommunication and information technology and trends in the world economy, are adequately taken in to consideration.

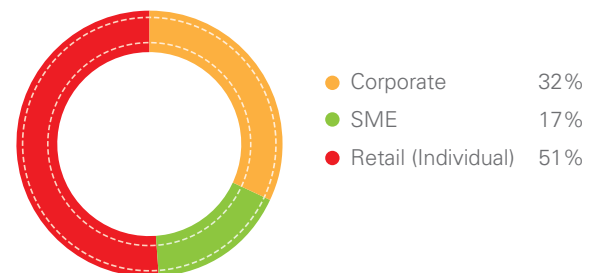
Credit Rating wise Concentration



Segment wise Concentration

The Bank is strategically more focused on Retail and Small & Medium Enterprise segments in lending activities while emphasis is given to develop the corporate banking portfolio as well. The Bank has effected changes to the organisation structure with additional area offices, credit clusters and a dedicated SME division with enhanced cadre and delegated authorities to develop the SME segment and also strengthened the corporate banking division.

Customer Segment Concentration



Market Risk

Market risk is the risk associated with movements in market factors, including foreign exchange rates, interest rates, equity prices and commodity prices have on the Bank’s income or the value of its portfolios.

Its effective recognition could minimise the potential loss of earnings or economic values arising principally from customer-driven transactions and the banks relevant investments.

The types of market related risks faced by the Bank include:

- Interest rate risk
- Foreign exchange risk
- Equity price risk
- Commodity price risk

Market Risk Governance

Market risk exposures arising from the trading book are managed by the Treasury whilst the non trading activities relating to market risks are managed through the Assets and Liabilities Committee.

The Board Integrated Risk Management Committee is responsible for policies and other standards for the control of market risk. It approves the limits within delegated authorities and monitors exposures against these limits the Bank has identified. Market Risk goals are closely monitored by Treasury Middle Office and discussed on a periodic basis for appropriate and timely action.

Value at Risk (VaR)

Bank measures the risk of losses arising from future potential adverse movements in market rates, prices and volatilities using a VaR methodology for selected portfolios using the following simulation techniques:

- **Historical simulation:** involves the revaluation of positions to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio.
- **Monte Carlo simulation:** this methodology is similar to historical simulation but with considerably more input risk factor observations. These are generated by random sampling techniques, but the results retain the essential variability and correlations of historically observed risk factor changes.

VaR, in general, is a quantitative measure of market risk that applies recent historical market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level. This exercise is carried out by the Treasury Middle Office with the help of the Bloomberg system. Results are reviewed periodically at the Board Integrated Risk Management Committee meetings.

VaR is calculated for expected movements over a horizon of one day, one week and one month with confidence levels of 95%, 97.5% and 99%.

Stress Testing

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward-looking scenarios. A consistent stress testing methodology is applied to trading and non trading books.

Regular stress tests are carried out on liquidity risk (both Bank specific and market specific scenarios), foreign exchange risk and equity risk.

Liquidity Risk

Liquidity risk is defined as the risk that the Bank will encounter in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It is the policy of the Bank to ensure that adequate liquidity is maintained in all currencies to meet its obligations. This is performed through cash flow management, maintenance of liquidity ratios such as statutory reserve ratio, statutory liquid asset ratio and advances/deposit ratio.

Assets and Liabilities Committee

The Bank's exposure is controlled by limits approved by the Board which are monitored by the Assets and Liabilities Committee. The Assets and Liabilities Committee overlooks the management of the Bank's overall liquidity position, and is responsible for Liquidity Risk and Interest Rate Risk Management of the Bank and implementation of liquidity management policies, procedures and practices approved by the Board of Directors. This is achieved through proper representation of key business heads, frequent Assets and Liabilities Committee meetings and continuous monitoring of the liquidity position of the Bank through reports submitted by Finance Department and Treasury Middle Office.

Treasury Risk Assessment Committee

The Treasury Risk Management Committee focuses on strengthening the risk management process with clear responsibilities. The Committee is responsible and accountable to the Board Integrated Risk Management

Risk Management

Committee. The Committee suggests appropriate action to improve the Treasury Risk Management Policies/ Procedures based on Key Risk Indicators. The Committee is required to report the identified loss events & key risk indicators to the Board Integrated Risk Management Committee on a quarterly basis.

The Committee consists of Head of Treasury, Chief Financial Officer, Chief Risk Officer, Manager - Treasury Settlements and Manager - Treasury Middle Office. The Committee shall work closely with Board Integrated Risk Management Committee and senior management and make recommendations on behalf of the Board Integrated Risk Management Committee within the frame work of authority and responsibilities assigned to the Committee.

Treasury Middle Office

The Market Risk management function which is separate from the Treasury is monitored by the independent Treasury Middle Office which consists of qualified staff members. This was further strengthened during the year under review. Key monitoring activities of Market Risk/Middle Office include:

- Daily monitoring of adherence to Board approved counterparty limits and exposure limits set by the Central Bank such as net open position limit.
- Monitoring activities prescribed by Central Bank such as Liquidity ratio, Reserve Requirements etc.
- Monitoring of trading platform conversations including take Profit and Loss limits and monitoring of voice conversations of dealing staff.
- Marked to market calculations of trading, investment and pawning/ran loan portfolios.
- Monitoring of Primary Dealer Unit (PDU) transactions including detail checks on transactions such as performing sanity checks in order to avoid adjusted trading.

The Board Integrated Risk Management Committee discusses in detail the key risk goals in relation to market risk at each Committee meeting.

During the year under review, corrective action has been taken where necessary to mitigate / avoid current and potential market risks envisaged. This is supported by a Board approved stress testing policy. In addition, Value-at-Risk (VaR) computations are done by the Treasury Middle Office on a monthly basis.

The Bank will continue to strengthen its Middle Office functions in 2015 by further strengthening its market risk assessment and monitoring with the expectation of implementing a sophisticated treasury risk management system.

Operational Risk

Operational Risk is the Risk of Loss arising through inadequate or failed internal processes, people, systems or from external events. Operational risk is relevant to every aspect of the Bank's business and covers a wide spectrum of issues. Losses arising through fraud, unauthorised activities, errors, omissions, inefficiency, system failure or from other external events fall within the operational risk definition.

Objectives and Benefits

Efforts on Operational Risk and Control Management are increasingly valuable to the business of the Bank. In addition to the regulatory need, these efforts are important to minimise losses and protect the Bank's capital. All Employees have a clear vision of the potential benefits. Some of the objectives and benefits of the Operational Risk Management framework of the Bank are as follows:

- **Identifies the Risk Exposures**
Operational Risk Management framework enables the Bank to identify, measure, monitor and control the inherent risk exposures of the operation of various business lines to mitigate the losses.
- **Develops Visibility**
The Operational Risk Management strategy provides visibility to the ongoing risk management efforts and brings high risk areas to the focus of management and enhances capability to compile and submit reports to appropriate risk management committees and forums and the regulator.

- **Risk Smart Workforce**

The application of Risk Management framework and strategy supports a cultural shift in the Bank to have risk-smart employees and a risk sensitive work environment, which helps the Bank to have a competitive edge in the market.

- **Personal Accountability of Employees**

Operational Risk Management framework allows the management to better incorporate accountability into the work environment and individual performance of employees.

- **Efficient allocation and Optimum usage of Bank's Capital**

Under the international and local regulatory directions, the banks are required to maintain capital on Operational Risk and further require banks to migrate to more advanced approaches to calculate the capital requirements. With streamlined risk management processes the Bank strives for efficient allocation of risk sensitive capital.

- **Brand Image of the Bank**

Better Operational Risk Management will enhance and improve the Bank's ratings, share price and market reputation since industry analysts perceive it as long term stability and performance of the Bank.

Philosophy and Principles

The following philosophy and principles govern the management of Operational Risk in the Bank:

- The internal operating policies of the Bank's Operational Risk Management framework are outlined in the Operational Risk Management Policy which is approved by the Board of Directors and annually reviewed and updated.
- Currently the Bank is contemplating to migrate to advanced approaches in calculation of capital of the Bank for operational risk management. In this regard the Bank is now working towards satisfying the local regulator on the criteria required to move in to the Standardised approach in calculating operational risk.
- The Bank's Operational Risk Management practices are subject to independent review by internal and External Auditors.
- The Bank has a separate Operational Risk Management Unit to manage and monitor operational risks and controls, Ensure loss data is accurately recorded and reported internally as well as externally. Operational Risk related incidents are closely investigated and recommendations given on required controls to avoid similar Operational Risk related incidents in the future.
- Based on the requirement to strengthen the Operational Risk Management process with clear responsibilities, an Operational Risk Management Sub Committee is established within the Bank, consisting of management personnel in operations and related activities chaired by the Chief Risk Officer of the Bank. The Sub Committee is responsible, accountable and answerable to the Board Integrated Risk Management Committee.

Methodologies and Strategy

For effective monitoring and mitigation of Operational Risk, the Bank has implemented following methodologies and strategies:

The Management of Operational Risk comprises;

Identification, Assessment, Monitoring and Control of Operational Risk and Reporting. The above is required to maintain losses within acceptable levels and to protect the Bank from foreseeable future losses. Acceptable losses are highlighted in the Bank's risk appetite statement.

- The Operational Risk Management unit is supervised by the Manager Operational Risk. The department is involved in completing Risk and Control Assessments (RCA) for business/operations units of the entire Bank.
- Operational Risk related incident reports are investigated and cause, remedial actions required are recommended and reported to relevant Key Management Personnel.
- Significant risk exposures are reported to business/ operations units as and when identified.

Risk Management

- Approved key risk indicators are managed through data gathering and report to IRMC on a quarterly basis.
- The Chief Risk Officer has an effective monitoring mechanism of operational risk by way of active communications and discussions with employees attached to the Operational Risk Management Unit and Manager - Operational Risk.
- Provide continuous training to employees of the branch network and operations related departments on Operational Risk Management Framework.
- Risk and Controls Assessments (RCA) are performed on new and existing products to minimise any losses that may be faced on identified risks.
- Risk and Control Assessments (RCA) are performed on activities to be outsourced and cost effective controls are recommended to relevant business/operations unit to minimise any future losses.
- Minimise the financial impact of operational losses through adequate monitoring, follow-up and utilisation of insurance cover.

Strategic Risk

Strategic risk of the Bank refers to the risk of its earnings and profitability that could arise strategic decisions, changes in the business conditions improper implementation of decisions. This type of risk is a function of the compatibility of the Bank's strategic objectives, business decisions developed to achieve these goals, resources deployed and quality of implementation.

In pursuing its strategic goals and business objectives, the Bank has established clear communication channels at all levels of the organisation, allocated resources for operating systems and delivery networks and increased managerial capacities and capabilities.

A formal framework was introduced to assess strategic risks arising from market trends / developments in competition, product, channel, process, human resources and technology. Specific risks are identified, impact on Bank's business plans assessed and mitigating actions reviewed periodically. A business/strategic risk template was developed for this purpose and is part of the input in the strategic management process.

Reputation Risk

Reputational risk results from damage to the Bank's image among stakeholders due to negative publicity regarding the Bank's business practices or management, and whether true or false, it can result in a loss of revenue or decline in shareholder confidence. The reputation of the Bank can be perceived as an intangible asset similar to goodwill.

The Bank considers reputational risk as a consequence of a failure to manage its key risks. The Bank is therefore committed to managing reputational risk by promoting strong corporate governance and risk management practices at all levels of the organisation, by understanding how different aspects of its business activities affect stakeholders' perception of the organisation, through effective communication in the form of timely and accurate financial reports and news bulletins, by maintaining strong media presence, valuable client service and investor relationships and by complying effectively with current laws and regulations.

Insurance

As part of a risk management approach the Bank uses insurance as a "risk transferring strategy" for low probability and high severity impact events that are beyond the control of the Bank such as damage to physical assets by natural disasters, fire etc. The Bank has also transferred the Insurance Risk by obtaining necessary insurance policies from leading insurance providers covering ; burglary, transits, forged cheques and securities, counterfeit currencies, infidelity and negligence of employees, teller cash shortages, pawned articles, fraudulent withdrawals and shortages from ATMs, electronic equipment, strikes and riots, terrorism etc. The adequacy of the insurance covers are reviewed and monitored by relevant department in the Bank.

The Business Continuity Plan (BCP)

The Business Continuity Plan (BCP) is an essential part of any organisation's response planning. It sets out how the business will operate following a disaster incident and how it expects to return to "business as usual" in the quickest possible time thereafter. The BCP of the Bank covers all areas of banking operations with agreed arrangements for bringing events under control. The necessary resources for maintaining critical business functions and staff required are also looked at in the plan. The BCP document is reviewed

annually and Disaster Recovery Drills are conducted once in six months by relevant departments to test the effectiveness of BCP.

Due Diligence Tests on Activities Outsourced

In the provision of banking services, the Bank outsources service providers to obtain services for activities directly related to the financial services and core banking activities, to meet the challenges of rapid changes and innovations in technology, increasing specialisation in the market, cost control of operations by minimising costs of directly handling such activities, and effectively compete in the market. The outsourcing activities are governed by the laws applicable to the banking industry and directions issued by the regulator. Further, the Bank has an Outsourcing Policy approved by the Board of Directors which clearly stipulates internal controls and due diligence in obtaining outsourced services. Under this policy, a Due Diligence Committee headed by the Chief Operating Officer and relevant Key Management Personnel including the head of the department for which the outsourced activity is obtained is in place. Due Diligence Committee ensures adherence to correct procedures and processes in the assessment of obtaining such services. A Risk and Control Assessment (RCA) is conducted on the finalised procedure of the outsourced activity to address the risks relevant to the particular outsourced activity and ensure adequate controls are in place to mitigate any future losses.

Way Forward in Risk Management for Foreseeable Risk which may have an Impact on the Bank

Current vigorous risk management techniques will continue together with advanced measures to monitor the impact on the Bank. Front level employees' engagement with elevated efficient and effective methods will be one of the main characteristics of future risk mitigating methods of the Bank. Prominence will be given to below mentioned categories for improved measurements.

- Observe the trends in the economy which may demand new sectorial growth with regard to the amended policies of the Government. Additional risk monitoring methods to be initiated if the Bank needs to venture into unknown territory.

- Review and improve the MIS system by fine tuning to cater to the macro and micro economic developments. Same will also be used to ascertain the scope of the Bank's business growth.
- Risk monitoring tools on risk to be developed with novel methodological ways to suit the future requirement of the business and the authorities. This will improve the specific measurement tools in risk mitigating techniques.
- Increase the frequency of monitoring to have a closer watch and to screen to enrich the risk measurement methods to predict and address the threats of economic turbulences vulnerability of the market conditions with the heavy competition and thin margins.
- To fully automate the risk rating methodologies with increased number of attributes of identified factors this would improve the Internal Risk Rating procedures.
- To deploy better risk management methods with sophisticated employee engagement methods for front level risk identification, measurements and mitigation with greater accuracy.
- Increase the determination on operational risk with additional indicators as specified by the regulator and according to the best practices of the market.

Trends in Key Indicators

As at	31st December 2014	31st December 2013
Net Loans to Total Assets	75.81%	68.90%
Loans to Customer Deposits	85.30%	80.49%
Liquid Assets to Short-term Liabilities	6.58	4.59
Large Liabilities to Earning Assets	0.61	0.70
Purchased Funds to Total Assets	85.21%	88.22%
Commitments to Total Loans	7.81%	9.24%

Human Capital

Talent Acquisition

2014 was a year of consolidation and the main focus of the Bank was to strengthen its presence in the Sri Lankan banking arena. The Bank increased its presence by adding one more branch to its network of 77 branches. The number of employees increased from 1,169 to 1,302 during the year. Efforts were made to attract the best talent in the market when filling vacancies while concentrating more on providing opportunities for internal staff members to realise their career aspirations. Consequently, 226 staff members were promoted during the year 2014 which is a significant increase compared to the previous year. Staff members were also given the opportunity to move laterally to the areas where they are most effective and interested in, which undoubtedly helped their career progression and to enhance their banking knowledge. Further, as a part of our ongoing Corporate Social Responsibility initiatives, the Bank has extended its Internship Program to accommodate interns in various disciplines not only recognising their tertiary studies but also providing them with attractive career choices.

The Bank re-vamped its Management Trainee program by focusing on attracting the best graduates in the market to groom them as potential future leaders who will take up the positions as Branch Managers within a period of 5 years. A batch of Management Trainees were recruited on 1st December 2014 after a rigorous evaluation process. They will undergo a structured two year training program and on successful completion of the training period they will be absorbed into the permanent cadre of the Bank.

Another significant initiative this year was the Bank's participation in many Job Fairs and arranging of Walk-in recruitment campaigns to identify and attract the young talent in the country and also as a measure of brand building activity which resulted in immense success.

People Development

The Training and Development Unit of the Bank recognises the need to proactively develop our resource and competence base to meet the requirements of a rapidly-changing business environment. The Training and Development Unit support, enables and challenges both

management and employees in aligning corporate and individual perspectives to drive this Bank towards its vision.

We completed 34,523 internal training hours and 5,712 external training hours. The total training hours completed in the year 2014 was 40,235. The figures indicate that in comparison with the previous year, we have increased our total training hours considerably during the year 2014 by recording 39% increase in internal and external training hours.

To enable the Bank to optimise its state of the art technology and to deliver an exceptional banking experience to our customers, the new core banking system has been implemented in February 2015. In order to align this new drive and staff adoptability, we implemented a series of change management programs in collaboration with renowned resource persons in the country. Further, as a key priority for the year 2014, we have trained all our staff in the new core banking system to enable them to continue to deliver uninterrupted service to the customers.

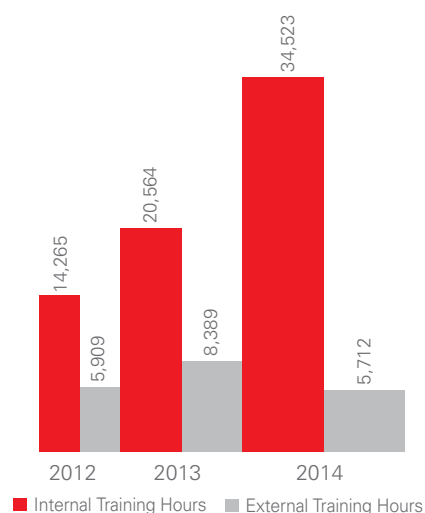
With the intention of forming a strong panel of resource persons to conduct internal training programmes more effectively, we have formed a senior panel of competent resource professionals. Therefore a new project was launched in redesigning and restructuring Branch Operations Training, Credit Training and Trade Training in order to have a more practical and a strategic approach. To ensure that staff members acquire the required level of knowledge, we have introduced assessments that should be completed after each course and staff members who complete the course and get through the assessment successfully are awarded a certificate. Simultaneously, we have directed our focus, not only developing technical knowledge of staff, but also developing the soft skills such as Business Writing, Effective use of language in communications etc. Training and Development unit formed the Bank's Quiz Team by choosing the right talent within and significant improvement has been seen during the Interbank Quiz 2014 & Trade Finance Quiz 2014.

To meet business requirements of our Bank and to face competition, we have widened our scope to train our sales

force to increase their knowledge and awareness on latest selling and business development techniques with the assistance of renowned marketing gurus in the industry.

In order to increase staff engagement, Training and Development Unit introduced a guest lecture series, where renowned and popular personalities in Sri Lanka are invited for short lectures to guide them through different disciplines of life. With this initiative, we not only aim to develop the career of our staff members but also to enrich their personal lives.

The year 2014 was a dynamic yet a challenging year for the unit in introducing new training interventions and initiatives. We continue to develop our staff to enable them to achieve a competitive edge in delivering the best banking experience to our customers while sustaining and developing the learning culture of our Bank. While the training and development unit supports our employees to become the best competent workforce in the banking industry, we also believe and expect that employees should also take the steps necessary to sharpen their skills to stay on top of their professions or fields of work.



Training Hours

	2012	2013	2014
Internal Training Hours	14,265	20,564	34,523
External Training Hours	5,909	8,389	5,712
Total	20,174	28,953	40,235

Performance Management

Overall performances of the employees were done utilising the standard Performance Management System adopted by the Bank. Accordingly the objectives of the Chief Executive Officer were set at the beginning of the year and cascaded down to all other grades of employees ensuring they understand and deliver their expectations in terms of performance and results generation.

Remuneration Policy

Acting as guardian of the Remuneration Policy, the Board Human Resource and Remuneration Committee ensures the application and transparency of this policy. Compensation Surveys from leading independent research agencies and recognised bodies were sought and the Bank takes part in such surveys to ensure the compensation and benefits offered to employees are on par with the industry standards. Apart from this other HR policies drawing external experience and industry best practices are also reviewed by the Human Resources & Remuneration Committee and adopted for implementation at the Bank.

Employee Relations and Engagement

At Pan Asia Bank, Employee Relations involves maintaining healthy employer-employee relationships which contribute towards enhanced productivity, motivation, engagement and improved morale. Essentially, we focus on resolving issues by encouraging our employees to deal with each other honestly, openly and with mutual trust and respect. Further, we take prompt action to address and resolve problems which may arise in relation to employee associations. We actively encourage and invite our employees to share the decision making process of the Bank by participating in activities such as setting goals, determining work schedules, making suggestions and emphasizing on employee concerns through the Joint Consultative Council.

The Joint Consultative Council (JCC) has made a valuable contribution towards fostering and furthering employee relations over the year. The JCC meetings held throughout the year enabled us to address matters of mutual interest through positive relations formed between the employees and the Management.

Human Capital

We actively encourage and invite our employees to share the decision making process of the Bank by participating in activities such as setting goals, determining work schedules, making suggestions and emphasizing on employee concerns through Joint Consultative Council.

The committee of the JCC is made up of employees from the grade of Assistant Manager and below, whilst the Corporate and Senior Management members participate by invitation to address matters of mutual interest.

Employee Engagement Programs

Each year several staff events are organised with the objective of boosting staff morale. These events are looked forward to by all employees and they contribute immensely towards improving performance and developing team spirit of the employees while promoting goodwill between the Management and staff.

Vesak Lantern Competition

Each year our Human Resources Department together with the Sports Club organises the Vesak Lantern Competition in keeping with National traditions and festivities. This year the event was a huge success and it provided an opportunity for staff to work together voluntarily to display their creativity and engage in a friendly competition.



Poson Bana Sermon

The Bana sermon organised to commemorate Poson, provided an ideal opportunity for staff to gather and interact in a relaxed frame of mind.

Programme on Healthy Living

A presentation by a consultant physician was organised giving employees the opportunity to improve their knowledge and awareness of a healthy diet and lifestyle.



Blood Donation Campaign

A blood donation campaign was organised at the Head Office basement in partnership with the National Blood Transfusion Service. The campaign was immensely successful with over 75 employees and Management donating blood.

Free Eye Clinic

A team of qualified optometrists from a reputable company conducted a day long eye clinic providing employees the opportunity of getting their eyes tested free of charge and obtaining spectacles and shades at discounted rates.



Long Service Awards

An Awards ceremony was held to mark the 19th Anniversary of the Bank to recognise employees who have been in service with the Bank for over 15 years. 42 employees who completed 15 years of service on the 27th of October 2014 were awarded a plaque, a certificate and a cash voucher in recognition of their valuable contribution and service to the Bank.



Beach Party 2014

This social event organised on the beach was a great success. Employees and Management enjoyed the evening to the fullest.



Year End Garage Party

This culminating event of the year, held in the Head Office car park was greatly appreciated and enjoyed by all Head Office and support department staff; ending the year on a cheerful and positive note.

Human Capital

With the intention of forming a strong panel of resource persons to conduct internal training programmes more effectively, we have formed a senior panel of competent resource professionals. Therefore a new project was launched in redesigning and restructuring Branch Operations Training, Credit Training and Trade Training in order to have a more practical and a strategic approach.



19th Anniversary Celebrations

An all night Pirith sermon and an almsgiving for Buddhist monks the following day, was held in the Head Office to commemorate the Bank's 19th Anniversary. In recognition of the Bank's multi religious work force, Hindu, Catholic and Islamic ceremonies were also held to mark this anniversary.



Indoor Cricket

Defending champions Pan Asia Bank successfully retained its championship title by beating HNB at the Mercantile Indoor Cricket Tournament held recently at the Austasia Sports Complex, Thalawathugoda. Thrishan Fernando of Pan Asia Bank team was awarded 'The Man of the Match'. The Mercantile Indoor Cricket Tournament was open to all mercantile sector organizations and was organised by Ceylon Indoor Cricket Association. Last year, Pan Asia Bank claimed the title by defeating HSBC at the final.



Motivational Speech by Aravinda De Silva

One of the best entertainers of the game of Cricket in the Sri Lankan test cricket history, Aravinda De Silva was invited to speak to the staff and Management on Teamwork and Motivation in Critical times. The programme was conducted successfully with the attendance of a large number of staff and the speaker convinced the audience on the importance of motivation and teamwork in the day today business in the mercantile sector to enhance productivity.



Our Staff Lahiru Thirimanne's Felicitation

Sri Lanka cricket's newly appointed vice captain Lahiru Thirimanne was felicitated by the corporate management and the senior staff of Pan Asia Bank at ceremony held at the head office recently. The Dynamic and exciting Lahiru who in the recent past has done Sri Lanka proud with his stylish approach and battling qualities on the field, is not only the Brand Ambassador for the Bank but also a member of the staff of Pan Asia Bank.



Kiddies Party

The Kiddies Christmas Party is an annual event looked forward by staff and their little bundles of joy. Kids and parents alike enjoyed the many games, prizes, cartoon characters and the arrival of Santa which were the highlights of this year’s Kiddies party, organised by the Sports Club.



Pan Asia Bank Newsletter

The Bank launched “Connect” the first ever internal newsletter of the Pan Asia Bank. It is envisaged that “Connect” will pave the way for improved communications amongst the members of the staff and serve as a ‘conduit’ in transmitting important news and information to the employees across all levels within the Bank.

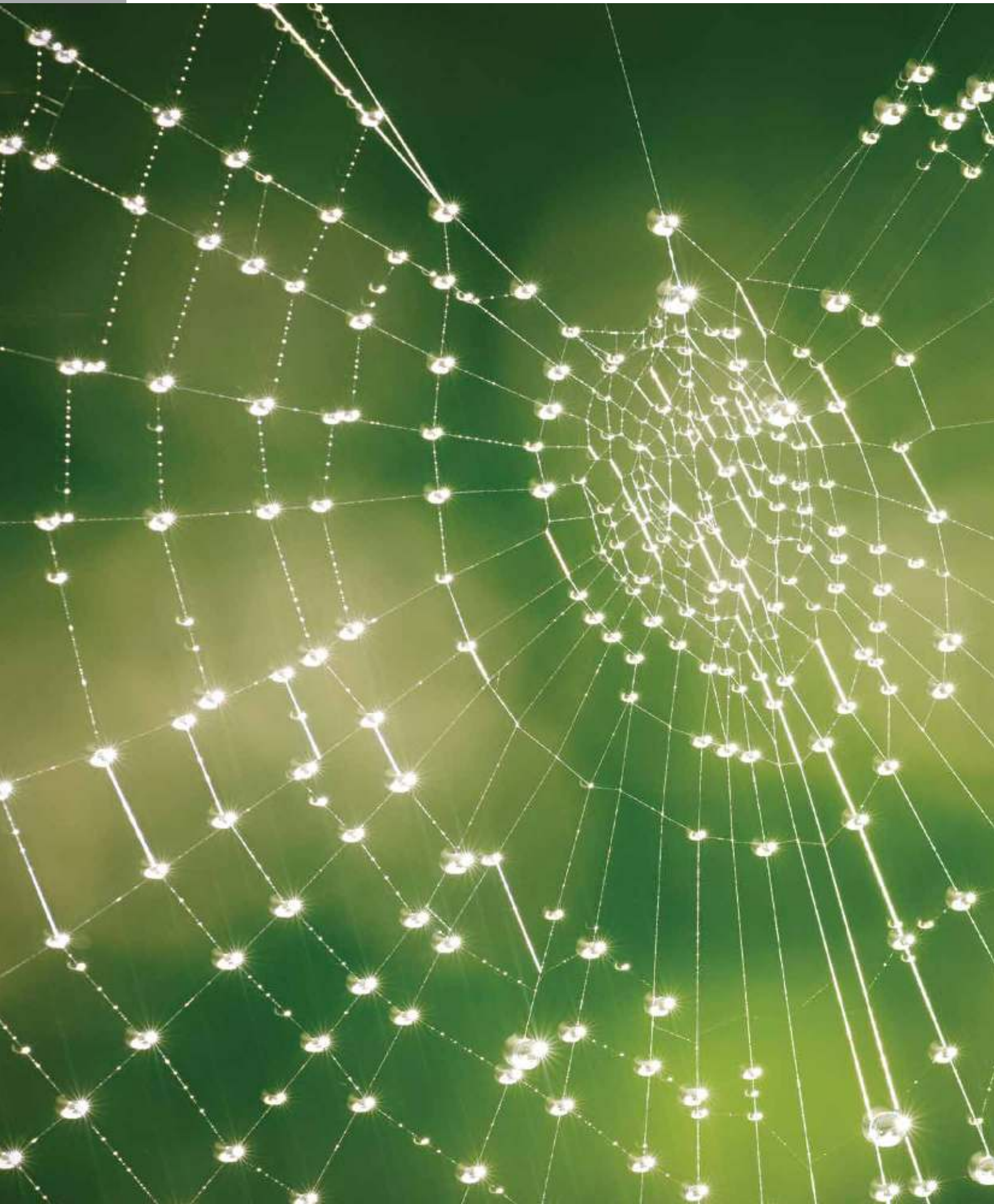
Connect is coordinated through a dynamic Editorial Committee comprising representatives from all key divisions of the Bank, through whom the staff can channel news and views.



Christmas Carols

The annual Christmas Carol Service was presented by the Bank’s choristers depicting the nativity story in song and mime. The service was held at the Kollupitiya Branch.





Spider silk is exceptional in resilience, strength and flexibility.

Flexibility and adaptability have always been core elements in our success. At Pan Asia Bank we want to be a Bank that serves our customers' needs best.

flexible

Governance & Sustainability

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Corporate Social Responsibility Report

Pan Asia Bank has long understood that a corporate's objectives and responsibilities extend well beyond just making profits and meeting shareholder expectations. Hence the Bank continued to embed its CSR philosophy into its core business activities in addition to providing support to external CSR initiatives.

CSR Programmes

Health & Welfare

As part of its wide ranging CSR activities, the Bank sponsored a health camp for a large number of participants to screen them for potential kidney ailments.

The health camp was held at the Girandurukotte National Hospital, a rural town in the Badulla District in the Uva

We build customer satisfaction not merely by demonstrating product and service responsibility, but also by engaging closely with local communities by integrating elements of social responsibility into our value chain.

Province in collaboration with the ongoing 'Manusath Derana' program conducted by Derana Powerhouse Limited.

Chronic Kidney Disease (CKDu) is a major health problem affecting the farming communities in the dry zone. According to a study by the World Health Organisation, the disease is prevalent among 15.3 percent of the population in areas such as North Central, North Western and Girandurukotte.

It is estimated at present that there are at least 10,000 CKDu patients receiving treatments in different parts of the country and at Girandurukotte hospital alone about 2,600 patients were undergoing treatment at one point.

The Bank having identified the seriousness of this health issue and its negative consequences on the society which in turn has affected the economy, decided to invest in uplifting the healthcare of this most crucial segment.

The health camp was held on November 29 and over 1,000 people were diagnosed. They are now being treated or advised for CKDu.



People of Girandurukotte at the health camp



At the health camp Girandurukotte



At the health camp Girandurukotte



Serving breakfast to the patients at the Cancer Hospital

The Bank having identified the seriousness of this health issue and its negative consequences on the society which in turn has affected the economy, decided to invest in uplifting the healthcare of this most crucial segment.

On a separate initiative, the Homagama branch conducted a CSR program at the National Cancer Hospital in Maharagama to mark the branch's first year anniversary by visiting the patients and serving them with breakfast.

Education

Alongside the health camp initiative, the Bank undertook another CSR project to uplift the standards of Millaththawa Maha Vidyalaya, a deserving school, situated in Mahiyangana District in Uva Province which lacked certain basic facilities. As a part of the school's infrastructure renovation program, the Bank staff were personally involved in colour-washing the entire school building. The Bank also donated about 1,000 library books, Computers etc.



Donating Sanitary items to Millaththawa Maha Vidyalaya - Girandurukotte

Corporate Social Responsibility Report



Colour washing of Millaththawa School buildings by the staff of Pan Asia Bank



Colour washing of Millaththawa School buildings by the staff of Pan Asia Bank



Pensioners' Day



Pensioners' Day

The Bank made use of this occasion to create awareness about its special loan scheme 'Sammana' which is designed exclusively for Government pensioners and retired bankers.

In addition, this year too, the Bank rewarded students who excelled at the Year 5 Scholarship examination conducted by the Department of Examinations. Under this Scheme children who maintained a Daskam, Mithuru or Siyadaru Children's Savings Account prior to the examination qualify for an attractive cash award if they are placed among the top ten performers in their respective district at the year 5 scholarship examination.

Financial Inclusion

The National Pensioners' Day was celebrated this year at the Holiday Resort of the Department of Pensions in Kelaniya. At this occasion the Chief Guest was the President His Excellency Mahinda Rajapaksa. The Bank made use of this occasion to create awareness about its unique loan scheme 'Sammana' and the special life insurance benefit offered with it, which is designed exclusively for Government pensioners and retired bankers. As a symbol of appreciation, the Bank donated a computer to the Pensions Department at this event.



"Sammana" Awareness Programme

In addition the Bank held numerous awareness programmes across the country throughout the year to educate the Government pensioners and retired bankers on how "Sammana" can add value to their lives.

Sports

The Bank continued its support once again to the differently abled children at the annual Sunshine games organised by the Rotary Club of Colombo Metropolitan for the fifth consecutive year.



Sunshine Games

This is an annual event which the Bank has been continuously co-sponsoring for several years and is aimed at bringing a little sunshine to the lives of physically challenged children with special needs by giving them a day of fun and entertainment. This also helps to instill confidence in them and help them understand they are not overlooked in society.



Sunshine Games

Almost 750 children participated in the games representing several schools and homes which care for them in all parts of the country. The games are also used to select contenders for future international events, where in the past such participants have won many accolades.

Corporate Governance Report

The Central Bank of Sri Lanka (CBSL) in pursuance of its role as the regulator of Commercial Banks, and in order to enhance effective Governance in Banks has issued a set of Directions on Corporate Governance.

The Institute of Chartered Accountants of Sri Lanka in assisting the Banks to comply with these Governance Rules has issued guidance for Banks and External Auditors setting out the following:

- Guidance for Directors of Banks on Directors' Statement on Internal Controls over Financial Reporting
- Assurance Report for Banks on the Directors' Statement on Internal Controls over Financial Reporting
- Engagement to Report on the compliance with the Corporate Governance Directive issued by Central Bank of Sri Lanka

Further to the above the "Code of Best Practice on Corporate Governance" issued by the Securities and Exchange Commission of Sri Lanka & The Institute of Chartered Accountants of Sri Lanka jointly is also followed by the Bank in order to achieve and maintain the highest standards of Corporate Governance to ensure greater transparency. Therefore, the following Board Committees have been appointed to cover the main

areas of Governance, and these reports are given in the pages stated below:

- Board Audit Committee - Pages 101 to 102
- Board Integrated Risk Management Committee - Page 103
- Board Human Resources and Remuneration Committee - Page 104
- Board Nomination Committee - Page 105
- Board Credit Committee - Page 106
- Board Strategic Planning Committee - Pages 107 to 108

All the Committees present their reports to the Board of Directors.

Statement by the External Auditors

The External Auditors have performed agreed upon procedures on the following Corporate Governance Principles from 3 (1) to 3 (9) specified in Banking Act Direction No.11 of 2007 as amended subsequently on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka.

The following table summarises the attempts made by the Bank to comply with the Corporate Governance Directions issued by the Central Bank of Sri Lanka (CBSL). The Bank will continuously attempt to enhance its compliance aspects, such as enhancing the documentary aspects of the requirements, which will be addressed in future by instituting Board-led initiatives on compliance.

Section	Principle	Compliance & Implementation
3 (1)	The Responsibilities of the Board	
3 (1) (i)	The Board has strengthened the safety and soundness of the Bank by ensuring the implementation of the following.	
(a)	Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank.	A Board approved strategic plan is in place and communicated to relevant staff.
(b)	Approve the overall business strategy of the Bank including the overall risk policy, and risk management procedures and mechanisms with measurable goals, for at least the next three years.	Overall business strategy and the risk management policies and procedures have been approved by the Board.
(c)	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.	A process is in place.

Section	Principle	Compliance & Implementation
(d)	Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.	A shareholder communication policy approved by the Board is in place.
(e)	Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	The Bank has a separate Internal Audit Department which directly reports to the Board Audit Committee. The Board Audit Committee relies on the Internal Audit Department to determine the adequacy and the integrity of the internal control systems and Management Information Systems.
(f)	Identify and designate Key Management Personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: <ul style="list-style-type: none"> i) significantly influence policy ii) direct activities and iii) exercise control over business activities, operations and risk management 	Identification of the Key Management Personnel is done in accordance with the requirements of Sri Lanka Accounting Standards. The Bank identified the members of the Board, the Chief Executive Officer and the members of the Corporate Management as "Key Management Personnel".
(g)	Define the areas of authority and key responsibilities for the Board of Directors themselves and for the Key Management Personnel.	The Board shares its responsibilities as a team and depending on specific skills and expertise they are appointed to different Committees to manage the affairs in the Bank. Defined areas of authority and the goals and targets for the Board have been approved by the Board. The Chief Executive Officer's responsibilities have been identified.
(h)	Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy.	Key Management Personnel are requested to attend Board Meetings as and when the need arises to explain matters relating to their respective areas. Affairs of the Key Management Personnel are monitored by the Board.
(i)	Periodically assess the effectiveness of the Board Directors' own governance practices, including: <ul style="list-style-type: none"> i) the selection, nomination and election of directors and Key Management Personnel ii) the management of conflicts of interests and iii) the determination of weaknesses and implementation of changes where necessary 	The Board has delegated the function of selection, nomination and election of Directors to the Board Nomination Committee. Self assessments of the Directors are made by the Directors annually. This document is called the Board performance evaluation checklist. Any weaknesses in the governance practices are also monitored.
(j)	Ensure that the Bank has an appropriate succession plan for Key Management Personnel.	A succession plan is in place for the Corporate Management team and Board of Directors who are currently defined as "Key Management Personnel".

Corporate Governance Report

Section	Principle	Compliance & Implementation
(k)	Meet regularly, on a needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Board Committees on Risk Management, Credit, Human Resources & Remuneration, Audit and Strategic Planning, meet regularly and the Key Management Personnel attend these meetings to review policies, establish communication lines and monitor progress towards corporate objectives. The minutes of these Committee meetings are tabled at Board Meetings. The Members of the corporate management team attend Board Meetings by invitation to make presentation on their respective areas.
(l)	Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	The Compliance Officer keeps abreast with the regulatory requirements while maintaining an effective relationship with the regulator.
(m)	Exercise due diligence in the hiring and oversight of External Auditors.	The Audit Committee is responsible for the hiring and oversight of the External Auditors. The Audit Committee Charter approved by the Board specifies these requirements.
3(1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3(5) of these Directions.	The Chairman and the Chief Executive Officer are appointed by the Board. Functions and responsibilities of the Chairman and the Chief Executive Officer have been defined and approved by the Board.
3 (1) (iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	12 Board Meetings were held during the year and the regulation has been complied accordingly. The attendance of the Board and Committee meetings are given on page 88.
3 (1) (iv)	The Board shall ensure that arrangements are 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.	Agenda, draft minutes and Board Papers are sent as per the Corporate Governance directive within the stipulated time frame, enabling Directors to submit their views, proposals and observations under any other business at Board Meetings.
3 (1) (v)	The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board Meetings, reasonable notice may be given.	Board Meeting Notice and Board Papers are circulated to Directors 7 days in advance of the Board Meeting providing all Directors an opportunity to attend.
3 (1) (vi)	The Board procedures shall ensure that a Director who has 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, shall cease to be a Director. Participation at the Directors' Meetings through an alternate Director shall, however, be acceptable as attendance.	Board Meetings have been duly attended by all the Directors as identified in page 88.

Section	Principle	Compliance & Implementation
3 (1) (vii)	The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	The Company Secretary appointed in line with the stipulated requirement.
3 (1) (viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	A Board approved policy is in place. All Directors have access to the advice and services of the Company Secretary.
3 (1) (ix)	The Company Secretary shall maintain the Minutes of Board meetings and such Minutes shall be open for inspection at any reasonable time, with reasonable notice by any Director.	The Minutes of the Board Meetings are maintained by the Company Secretary. Directors can inspect the Board Minutes as and when required.
3 (1) (x)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The Minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board Meetings. Therefore, the Minutes of a Board Meeting shall clearly contain or refer to the following: <ul style="list-style-type: none"> (i) a summary of data and information used by the Board in its deliberations (ii) the matters considered by the Board (iii) 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 (iv) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations (v) the Board's knowledge and understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (vi) the decisions and Board resolutions 	Board minutes contain a summary of data and information used by the Board in its deliberations, decisions and Board resolutions. Board minutes also contain and refer to the fact-finding discussions, matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations. The understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted too are contained in the Board minutes. The Minutes and the Board Papers are maintained to provide the details stipulated.
3 (1) (xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the Bank.	Approved Board procedure includes a provision to enable the Directors to seek independent professional advice at the Bank's expense.

Corporate Governance Report

Section	Principle	Compliance & Implementation
3 (1) (xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or Related Parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board Meeting, where independent Non-Executive Directors who have no material interest in the transaction, are present. Further, a Director shall abstain 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 and he/she shall not be counted in the quorum for the relevant agenda item at the Board Meeting.	The Board procedure includes provisions to manage conflicts of interest of Directors. The Bank follows guidelines issued by the Director Bank Supervision with regard to Related Party transactions and Directors abstain in voting and take part in discussions where issues or items pertaining to conflict of interest.
3(1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.	The Board has a formal schedule of mandatory matters specifically reserved for the Board, apart from the other Board Papers that are included in every Board meeting.
3(1) (xiv)	The Board shall, if it considers that 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, forthwith inform the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action.	The Board is aware of the requirement to inform the Director Banking Supervision of the situation of the Bank prior to taking any decisions or action, if the Bank 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. The Bank has not come across any situation as such during the year 2014.
3 (1) (xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	The Bank is in compliance with the Capital Adequacy requirements stipulated by the Central Bank of Sri Lanka.
3 (1) (xvi)	The Board shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction.	The Corporate Governance Report is published on pages 68 to 87 of Annual Report.
3 (1)(xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	Self assessment of each director is performed annually and filed with the Company Secretary.
3(2)	The Board's Composition	
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	11 Directors constitute the Board as at the year end.
3 (2) (ii) (a)	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years, and such period in office shall be inclusive of the total period of service served by such Director up to 01st January 2008.	The Company Secretary monitors the Directors' service period. To date there are no Directors serving for more than 9 years.

Section	Principle	Compliance & Implementation
(b)	In exemption to above following shall be applied. A Director who has completed nine years as at 1st January 2008, or who completes such term at any time prior to 31st December 2008, may continue for a further maximum period of 3 years commencing 1st January 2009.	Complied with. Currently, there are no Directors serving for more than 9 years and therefore the transitional provisions do not apply.
3 (2) (iii)	An employee of a Bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an "Executive Director") provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	10 out of 11 Directors are Non-Executive Directors, hence this does not exceed one-third of the number of Directors of the Board.
3 (2) (iv)	The Board shall have at least three Independent Non-Executive Directors or one third of the total number of Directors, whichever is higher. A Non-Executive Director shall not be considered independent if he/she:	There are 4 Independent Non- Executive Directors in the Board as identified on page 88.
(a)	has direct and indirect share holdings of more than 1 per cent of the Bank.	There are no directors holding more than 1% share holding in the Bank as at 31st December 2014.
(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.	The Bank has not come across any situation as such during the year 2014.
(c)	has been employed by the Bank during the two year period immediately preceding the appointment as Director	The Bank has not come across any situation as such during the year 2014.
(d)	has a close relation who is a Director or Chief Executive Officer or a member of Key Management Personnel or a material shareholder of the Bank or another Bank. For this purpose, a "Close relation" shall mean the spouse or a financially dependant child.	The Bank has not come across any situation as such during the year 2014.
(e)	represents a specific stakeholder of the Bank.	The Bank has not come across any situation as such during the year 2014.
(f)	is an employee or a Director or a material shareholder in a company or business organisation: <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 per cent 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 per cent of regulatory capital in the Bank 	None of the Independent Non-Executive Directors meet the criteria of (i), (ii) & (iii) and Independent Non-Executive Directors have been duly identified.

Corporate Governance Report

Section	Principle	Compliance & Implementation
3 (2) (v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director.	The Company Secretary ensures that the Alternate Director appointed to represent an Independent Director is also an Independent Director.
3 (2) (vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	Nomination Committee is in place to consider appointment of Non-Executive Directors.
3 (2) (vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non-Executive Directors.	Required quorum is been complied with.
3 (2) (viii)	The independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose 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.	Disclosed in the Annual Report in page 88 " Present Composition of the Directors".
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Nominations Committee has a procedure in place.
3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first General Meeting after their appointment.	02 Directors were appointed to fill casual vacancies during the year and will be elected at the next Annual General Meeting to be held in 2015.
3 (2) (xi)	If a Director resigns or is removed from office, the Board shall: <ul style="list-style-type: none"> (i) 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 (ii) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders' 	Director resignations and removals are duly communicated to the relevant regulatory authorities as per Colombo Stock Exchange regulations. Mr. J. D. N. Kekulawala resigned from the Board to take up an overseas assignment. Mr. J. A. S. S. Adhihetty completed nine (9) years and therefore, relinquished office as a Director during the year.

Section	Principle	Compliance & Implementation
3 (2) (xii)	A Director or an employee of a Bank shall not be appointed, elected or nominated as a director of another Bank except where such Bank is a subsidiary company or an associate company of the first mentioned Bank	None of the present Directors of the Bank act as a Director of another Bank. The Directors have been requested to inform the Board if the Director concerned is appointed, elected or nominated as a Director of another Bank.
3(3)	Criteria to Assess the Fitness and Propriety of Directors	
3 (3) (i)	The age of a person who serves as Director shall not exceed 70 years.	There are no Directors who are over 70 years of age. The Company Secretary maintains the records of the age of the Directors.
3 (3) (ii)	A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.	As per the declarations provided by the Directors, no Director holds Directorships in more than 20 Companies.
3(4)	Management Functions Delegated by the Board	
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Delegation arrangements have been approved by the Board.
3 (4) (ii)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied with. All delegations are made in a manner that would not hinder/reduce the Board's ability to discharge its functions.
3 (4) (iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank. Delegation arrangements are reviewed based on business requirements.	Based on the constantly changing internal and external operating environment of the Bank, the delegated authorities are appropriately reviewed to fit in to the situation.
3(5)	The Chairman and Chief Executive Officer	
3 (5) (i)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Complied with. The roles of Chairman and Chief Executive Officer are separate and not performed by the same individual.
3 (5) (ii)	The Chairman shall be a Non-Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Bank's Annual Report. The Chairman is a Non-Executive Director and since he is not independent, an Independent Director is appointed as the "Senior Director".	The Chairman is a Non-Executive Director. Since he is not independent, Mr. H. K. Seneviratne, Non-Executive Independent Director has been appointed as the "Senior Director".

Corporate Governance Report

Section	Principle	Compliance & Implementation
3 (5) (iii)	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship including financial, business, family or other material/ relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied with. The Board is aware that there are no relationships whatsoever, between the Chairman and Chief Executive Officer. Similarly no relationships prevail among the other than being common Directors of other companies.
3 (5) (iv)	The Chairman shall: <ul style="list-style-type: none"> (i) provide leadership to the Board (ii) ensure that the Board works effectively and discharges its responsibilities and (iii) Ensure that all key and appropriate issues are discussed by the Board in a timely manner. 	Complied with. The Chairman is responsible for conducting of the Board meetings, preserves order and ensure that the proceedings of the meetings are conducted in a proper manner.
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	The Company Secretary circulates a formal agenda prior to the Board Meeting. This agenda is approved by the Chairman of the Board.
3 (5) (vi)	The Chairman shall ensure that all directors are properly briefed on issues arising at Board Meetings and also ensure that Directors receive adequate information in a timely manner.	Complied with. Board Papers are sent seven days prior to the meeting in order for Directors to request any other information if necessary.
3 (5) (vii)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	Self evaluation process is in place.
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	Complied with. The Chairman ensures that the Non-Executive Directors actively contribute to make decisions at Board level.
3 (5) (ix)	The Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	The Chairman is a Non-Executive Director and therefore does not get involved in executive functions.
3 (5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with. Chairman communicates with shareholders at the Annual General Meeting. All Shareholders have access to the Company Secretary at any given time.

Section	Principle	Compliance & Implementation
3 (5) (xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Bank's operations and business.	The Chief Executive Officer functions as the apex executive in charge of the day to day management.
3(6)	Board Appointed Committees	
3 (6) (i)	The Bank shall have 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. Each Committee shall report directly to the Board. All committees shall appoint a secretary to arrange the meetings and maintain minutes, records, etc. under the supervision of the Chairman of the Committee. The Board shall present a report of the performance on each Committee, on their duties and roles at the Annual General Meeting.	The Board has established an Audit, Nomination, Human Resources & Remuneration, Integrated Risk Management, Credit and Strategic Planning Committees. All Board Committees submit minutes to the Board. Each Committee report is published in the Annual Report on pages 101 to 108.
3(6)(ii)	Audit Committee	
(a)	The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	The present Chairman the Audit Committee, who has been appointed on 10th October 2014, is an Independent Non-Executive Director whose qualifications and experience are disclosed in pages 18 to 23 of the annual report. The former Chairman of the Committee is also a qualified Chartered Accountant counting over 25 years of experience in financial services industry.
(b)	All members of the Committee shall be Non-Executive Directors.	Complied with, All four members of the Committee are Non-Executive Directors.
(c)	The Committee shall make recommendations on matters in connection with: <ul style="list-style-type: none"> (i) the appointment of the External Auditors for audit services to be provided in compliance with the relevant statutes (ii) the implementation of the Central Bank guidelines issued to Auditors from time to time (iii) the application of the relevant accounting standards and (iv) the service period, audit fee and any resignation or dismissal of the Auditors; 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. 	The Audit Committee has made it's recommendations on following and complied with the requirement accordingly: <ul style="list-style-type: none"> (i) the appointment of the External Auditors and services to be provided are in compliance with the relevant statutes (ii) the implementation of the Central Bank guidelines issued to Auditors from time to time (iii) the application of the relevant accounting standards (iv) the service period, audit fee and any resignation or dismissal of the Auditors The Committee ensures that the service period of the engagement of the External 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.

Corporate Governance Report

Section	Principle	Compliance & Implementation
(d)	The Committee shall review and monitor the external Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied with. The Committee has obtained representations from the External Auditors on their independence, and that the audit is carried out in accordance with Sri Lanka Auditing Standards.
(e)	<p>The Committee shall develop and implement a policy on the engagement of an external Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an External Auditors of non-audit services does not impair the external Auditor's independence or objectivity. When assessing the external Auditor's independence or objectivity in relation to the provision of non-audit services, the Committee shall consider</p> <ul style="list-style-type: none"> (i) whether the skills and experience of the audit firm make it a suitable provider of the non-audit services (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the External Auditors and (iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditors 	A policy is in place to ensure compliance with the requirements.
(f)	<p>The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including</p> <ul style="list-style-type: none"> (i) an assessment of the Bank's compliance with the relevant Directions in relation to Corporate Governance and the management's internal controls over financial reporting (ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations and (iii) the co-ordination between firms where more than one audit firm is involved 	The nature and scope of the audit and related engagements are discussed at the Board Audit Committee meeting.

Section	Principle	Compliance & Implementation
(g)	<p>The Committee shall 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 the significant financial reporting judgments contained therein. In reviewing the Bank's annual report and accounts and quarterly reports before submission to the Board, the committee shall focus particularly on</p> <ul style="list-style-type: none"> (i) major judgmental areas (ii) any changes in accounting policies and practices (iii) significant adjustments arising from the audit; (iv) the going concern assumption and (v) the compliance with relevant Accounting Standards and other legal requirements 	<p>The Annual and Quarterly Financial Statements prepared on going concern basis in accordance with Sri Lanka Accounting Standards and other legal requirements are presented to the Committee by the Chief Financial Officer.</p>
(h)	<p>The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditors may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.</p>	<p>Complied with. The Committee met External Auditors independently and discussed related matters.</p>
(i)	<p>The Committee shall review the external Auditor's Management Letter and the management's response thereto.</p>	<p>The Committee reviewed the External Auditors' Management Letter and the management response thereto.</p>
(j)	<p>The Committee shall take the following steps with regard to the internal audit function of the Bank:</p> <ul style="list-style-type: none"> (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 (ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function (v) Ensure that the Committee is appraised of resignations of senior staff members of the internal audit department including the chief internal Auditors 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; (vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care 	<p>Complied with,</p> <ul style="list-style-type: none"> (i) and (ii) the Audit Committee review and monitor the internal audit function and progress of the annual audit plan. The annual plan is reviewed and approved at beginning of the year. Internal audit reports are discussed with the Audit Committee and necessary actions are taken at its monthly meetings. (iii) Performance of the Head and Senior staff members of the Internal Audit Division are reviewed/ assessed annually. (iv) The Committee has reviewed the appointments of senior staff and outsourced service provider's reports. (v) The Committee has appraised of resignations of senior staff members of the internal audit department including the Chief Internal Auditors and any outsourced service providers. (vi) The Internal audit function is an independent function with direct reporting to the Board Audit Committee.

Corporate Governance Report

Section	Principle	Compliance & Implementation
(k)	The Committee shall consider the major findings of internal investigations and management's responses thereto.	Major findings of internal investigations and management's responses thereto are considered by the Committee and minuted.
(l)	The Chief Financial Officer, the Chief Internal Auditors and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the committee. However, at least twice a year, the Committee shall meet with the External Auditors without the Executive Directors being present.	The Chief Financial Officer, and the Chief Internal Auditors attends meetings as permanent members. The CEO, Corporate and Senior Management attend meetings upon invitation of the Committee. The Committee met External Auditors twice during the year without the executive management.
(m)	The Committee shall have: <ul style="list-style-type: none"> (i) explicit authority to investigate into any matter within its Terms of Reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary. 	The Terms of Reference of the Committee include this scope and the responsibility and the committee exercises the authority accordingly.
(n)	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	The Committee met 14 times in 2014.
(o)	The Board shall disclose in an informative way, <ul style="list-style-type: none"> (i) details of the activities of the Audit Committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual Director at such meetings 	The Committee details are disclosed in on pages 101 & 102 and Details of Attendance of Directors during the year on page 88 of the Annual Report.
(p)	The Secretary of the Committee shall record and keep detailed Minutes of the Committee Meetings.	The Secretary of the Committee is the Head of Internal Audit and shall record and keep Minutes of the Committee Meetings.
(q)	The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditors.	The Committee has reviewed and approved Whistle Blowing Policy which is in place.

Section	Principle	Compliance & Implementation
3 (6) (iii)	Human Resources and Remuneration Committee	
(a)	The Committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer and Key Management Personnel of the Bank.	The key functions of the Human Resources and Remuneration Committee are disclosed on page 104.
(b)	The Committee shall set goals and targets for the Directors, Chief Executive Officer and the Key Management Personnel.	The goals and targets for the Chief Executive Officer and the Key Management Personnel are documented. Not applicable to Non-Executive Directors.
(c)	The Committee shall evaluate the performance of the Chief Executive Officer 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.	Complied with.
(d)	The Chief Executive Officer shall be present at all meetings of the Committee, except when matters relating to the Chief Executive Officer are being discussed.	Complied with.
3 (6) (iv)	Nomination Committee	
(a)	The Committee shall implement a procedure to select/ appoint new Directors, Chief Executive Officer and Key Management Personnel.	Procedure for the selection/appointment of the Directors and Chief Executive Officer is in place.
(b)	The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.	Complied with. The Committee has considered and recommended Chief Executive Officer & the re-election of current Directors.
(c)	The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of Chief Executive Officer and the Key Management positions.	Criteria's of appointment or promotion to the post of Chief Executive Officer complied with.
(d)	The Committee shall ensure that Directors, Chief Executive Officer and Key Management Personnel 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.	Directors and Chief Executive Officer's affidavits & the Declarations are tabled at the Nomination Committee prior to forwarding to CBSL for approval to ensure that the Directors are fit & proper to hold office.
(e)	The Committee shall consider and recommend from time to time, the requirements of additional / new expertise and the succession arrangements for retiring Directors and Key Management Personnel.	A succession plan for the Corporate Management is in place. Succession arrangements for retiring Board of Directors is considered as and when it is necessary.

Corporate Governance Report

Section	Principle	Compliance & Implementation
(f)	The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The Chief Executive Officer may be present at meetings by invitation.	The Committee is chaired by an Independent Director and the majority of Directors are Independent. Chief Executive Officer attends meeting by invitation.
3 (6) (v)	Integrated Risk Management Committee (IRMC)	
(a)	The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	The Committee consists of three Non-Executive Directors appointed by the Board, the Chief Executive Officer/Director, Chief Risk Officer, Head of Credit Control, Senior Manger Credit Risk, Manager Market Risk, and Manager Operational Risk. The Committee invites any Key Management Personnel for participation at the meetings depending on the subject matters in the agenda.
(b)	The Committee shall 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.	Continuous assessments and monitoring are being carried out on credit, market, operational, compliance, reputation and legal risks, and other contingencies, based on pre determined risk indicators and goals/limits, reports are submitted to the Committee for deliberations and corrective actions if required.
(c)	The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset and Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied with. The Committee reviews reports submitted by the management level committees such as Credit Control Committee, Assets & Liabilities Committee, Treasury Review Committee, and Operational Risk Committee against pre determined quantitative and qualitative risk limits.
(d)	The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.	Risk indicators are reviewed against the risk goals and regulatory limits with adequate deliberations during the Committee meetings and corrective actions are initiated for any deviations.
(e)	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	The Committee had five meetings during the year. Further, the Committee has decided to meet once in every two months in future with minimum six meetings during a year in future.
(f)	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.	The Committee has taken appropriate actions through Human Resources Department for any failures to identify and monitor specific risks in managing the business of the Bank. No such instances reported during the period under review.

Section	Principle	Compliance & Implementation
(g)	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Risk assessment report along with the minutes of the each Committee meeting is placed before the Board at the Board meeting immediately following the Committee meeting for deliberations and concurrence.
(h)	The Committee shall establish 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. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	An independent compliance function is in place led by a dedicated compliance officer to assess and ensure Bank's business and activities are complied with laws, regulatory guidelines, internal policies and control procedures.
3(7)	Related Party Transactions	
3 (7) (i)	<p>The Board shall take the necessary steps 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 	A Board approved policy on Related Party Transactions is in place to avoid any conflicts of interest.
3 (7) (ii)	The type of transactions with Related Parties that shall be covered by this Direction shall include the following:	
(a)	The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation.	There is a documented policy approved by the Board on Related Party Transactions for Bank to avoid conflict of interest.
(b)	The creation of any liabilities of the Bank in the form of deposits, borrowings and investments,	There is a documented policy approved by the Board on Related Party Transactions for Bank to avoid conflict of interest.

Corporate Governance Report

Section	Principle	Compliance & Implementation
(c)	The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank.	There is a documented policy approved by the Board on Related Party Transactions for Bank to avoid conflict of interest.
(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.	There is a documented policy approved by the Board on Related Party Transactions for Bank to avoid conflict of interest.
3 (7) (iii)	The Board shall 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. In this context, "more favorable treatment" shall mean and include treatment, including the	
(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 (i) "Accommodation" shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation (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	There is a documented policy approved by the Board on Related Party transactions of the Bank to avoid conflict of interest.
(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 counter party.	The Bank treats all related parties as unrelated counter parties in deciding interest for credit facilities and deposit products.
(c)	Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties.	The Bank treats all Related Parties on the same basis as they would treat unrelated counter parties for all transactions.
(d)	Providing services to or receiving services from a Related-Party without an evaluation procedure.	A Board approved outsourcing policy is in place.

Section	Principle	Compliance & Implementation
(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.	Incorporated in the Staff Code of Conduct signed by the employees.
3 (7) (iv)	A Bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless 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 favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.	Complied with.
3 (7) (v) (a)	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, steps shall be 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.	The Bank follows guidelines issued by Central Bank of Sri Lanka for related party transactions.
(b)	Where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, the Bank shall take 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.	The Bank follows guidelines issued by Central Bank of Sri Lanka for related party transactions.
(c)	Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of Director and the Bank shall disclose such fact to the public.	The Bank follows guidelines issued by Central Bank of Sri Lanka for related party transactions.
(d)	This sub-direction, however, shall not apply to a 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.	The Bank follows guidelines issued by Central Bank of Sri Lanka for related party transactions.

Corporate Governance Report

Section	Principle	Compliance & Implementation
3 (7)(vi)	A Bank shall not grant 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.	No accommodation has been granted to any employee of the Bank on more favourable terms unless under general staff loan scheme applicable for all employees of the Bank.
3 (7) (vii)	No 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 shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	A process is in place. No such instances noted during the period under review.
3 (8)	Disclosures	
3 (8) (i)	The Board shall ensure that: (i) Annual Audited Financial Statements and Quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and (ii) Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English	Relevant Financial Statements are 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.
3 (8) (ii)	The Board has made the following minimum disclosures in the Annual Report:	
(a)	A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures	Relevant disclosures are included in page 110 & 111 of the Annual Report under “Directors Responsibility for Financial Reporting”.
(b)	A 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	“Directors’ Statement on Internal Controls over Financial Reporting” where the Board 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 are included in page 90 & 91 of the Annual Report.

Section	Principle	Compliance & Implementation
(c)	The external Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii) (b) above, in respect of any statements prepared or published after 31st December 2008.	The Board has obtained External Auditors' Assurance Report on Bank's Internal Controls which is published in page 92 of the Annual Report.
(d)	Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/ remuneration paid by the Bank.	Relevant Disclosures are included in the Annual Report with regard to fitness & propriety & the transactions with the Bank. Relevant disclosures are include in; (i) Profiles of Board of Directors on pages 18 to 23 (ii) Notes to the Financial Statements on "Directors Emoluments" on page 145 and "Related Party Disclosure" on pages 192 to 194 of the Annual Report
(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.	Relevant disclosures are included on page 194 of the Annual Report.
(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.	Relevant disclosures are included on page 193 of the Annual Report under "Related Party Disclosures (Compensation to Key Management Personnel).
(g)	The external Auditor's certification of the compliance with these Directions in the Annual Corporate Governance Reports published after 1st January 2010.	Relevant disclosures are included on page 68 of the Annual Report under "Corporate Governance Report".
(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.	Relevant disclosures are included on page 89 of the Annual Report under "Bank's Compliance with Prudential Requirements" and on page 110 under "Directors' Responsibility for Financial Reporting".
(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.	Complied with. There were no significant supervisory concerns on lapses in Bank's Risk Management or non compliance with this Direction that have been pointed out by the Director of Bank Supervision and requested by Monetary Board to be disclosed to the public.
3 (9)	Transitional and other General Provisions	
	Transitional and other General Provisions.	The Bank has complied with all Transitional Provisions.

Attendance of Directors During the Year

Name of Director	Board Meetings		Board Audit Committee		Board Credit Committee		Board Integrated Risk Management Committee		Board Human Resources & Remuneration Committee		Board Nomination Committee		Board Strategic Planning Committee	
	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance
W. D. N. H. Perera	12	12	-	-	11	11	-	-	09	09	04	04	-	-
R. E. U. De Silva	12	12	-	-	11	08	-	-	-	-	-	-	-	-
H. K. Seneviratne	12	12	14	14	-	-	05	04	09	07	04	04	-	-
J. A. S. S. Adihetty	05	05	-	-	05	05	-	-	-	-	-	-	-	-
M. D. S. Goonatilleke	12	12	14	14	-	-	05	05	-	-	-	-	01	01
T. G. Thoradeniya	12	12	-	-	11	10	-	-	09	09	-	-	01	01
G. A. R. D. Prasanna	12	12	-	-	-	-	-	-	-	-	-	-	-	-
T. Igarashi	12	12	-	-	-	-	05	02	-	-	-	-	-	-
T. Murakami	12	11	14	09	-	-	-	-	-	-	-	-	-	-
J. D. N. Kekulawala	06	05	08	07	-	-	-	-	-	-	02	-	-	-
S. B. Rangamuwa	05	05	-	-	04	03	-	-	-	-	-	-	-	-
M. A. Abeynaike	03	03	03	03	-	-	-	-	-	-	01	01	01	01

Present Composition of Directors

Name of the Director	Category
W. D. N. H. Perera	Non-Executive Director
R. E. U. De Silva	Independent, Non-Executive Director
H. K. Seneviratne	Independent, Non-Executive Director
M. D. S. Goonatilleke	Non-Executive Director
T. G. Thoradeniya	Non-Executive Director
G. A. R. D. Prasanna	Non-Executive Director
T. Igarashi	Independent, Non-Executive Director
T. Murakami	Non-Executive Director
S. B. Rangamuwa	Non-Executive Director
M. A. Abeynaike	Independent, Non-Executive Director
P. L. D. N. Seneviratne	Director / Chief Executive Officer

Bank's Compliance with Prudential Requirements

The Compliance Unit within the Bank is headed by the Compliance Officer (CO) who reports on relevant concerns pertaining to compliance directly to the Board Integrated Risk Management Committee (IRMC). The Bank has adopted a structured framework for compliance by formulating a Compliance Policy, which is approved by the Board of Directors and is reviewed periodically.

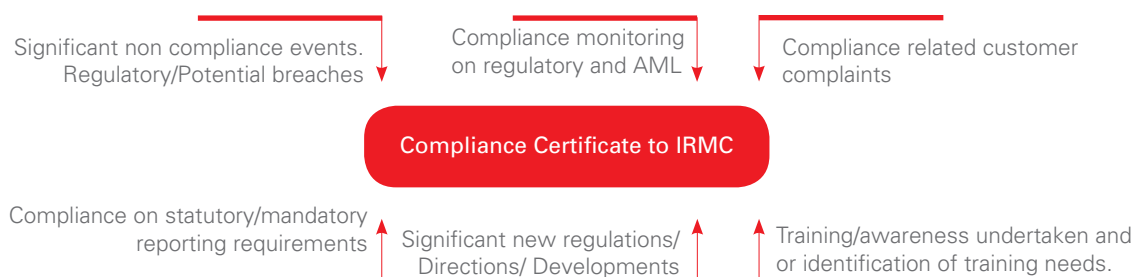
The Compliance Policy communicates the Bank's compliance philosophy, the basic principles governing the compliance function, as well as the broad structure and processes to ensure that Compliance Risks are addressed adequately and in a timely manner, by the relevant sections within the Bank.

The Compliance Unit functions as an independent Unit and addresses the Bank's compliance with regulations such as Know Your Customer (KYC) and Anti Money Laundering (AML) functions. The regulatory/internal requirements are disseminated to the business units for necessary action on a regular basis as the business units are responsible for embedding compliance requirements with its operations and ensuring that they operate within the boundaries set by the regulator and the Bank.

Monitoring of Compliance

The Bank has adopted an overview based approach to monitor compliance, while at times a detailed oriented approach is also undertaken, depending on the severity of the potential impact of the risk event. As part of the Bank's overview-based approach, the CO relies on the compliance reports generated, based on the sign-off given by the heads of business units, and focuses on exception reports to follow-up on non-compliance issues.

A monthly compliance certificate is submitted to the IRMC by the Compliance Unit which contains mainly the following,



Anti Money Laundering (AML) Compliance

The Bank has established a sound framework for AML compliance based on relevant laws enacted by the Government of Sri Lanka to combat money laundering/terrorist financing and in line with the rules governing the conduct of all account relationships issued by Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka.

A separate policy for AML has been approved by the Board of Directors and is reviewed periodically, while the Compliance Unit carries out sample testing bank-wide to ensure adherence.

The Bank's AML Policy establishes standards of AML compliance which applies to all branches/departments and ensures strict compliance with all existing laws and regulatory requirements.

The Bank takes all reasonable steps to verify the identity of our customers in accordance with the directions issued by the FIU. Systems are also in place to ensure that Know Your Customer (KYC) and Customer Due Diligence (CDD) information is collected and kept up-to date and that identification details are updated when changes occur. Accordingly accounts are categorised as High, Medium and Low risk and a higher level of due diligence and monitoring is carried out in high risk areas.

Monitoring and reporting of suspicious transactions which include large and Structured transactions above a specified threshold as per applicable regulatory and internal guidelines is also carried out.

New Product Development Framework

Prior to launching or formally approving new products or new procedures which form the operating instructions for various activities, the Bank ensures that they are reviewed and signed off by the Compliance, Risk Management, Legal, Finance, Internal Audit Departments.

Directors' Statement on Internal Controls over Financial Reporting

Responsibility

In line with the Banking Act Direction No 11 of 2007, section 3(8)(iii)(b), the Board of Directors present this Report on Internal Controls over Financial Reporting.

The Board of Directors ("the Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at the Pan Asia Banking Corporation PLC, ("the Bank"). In considering such adequacy and effectiveness, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or 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 accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Controls issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal controls over financial reporting taking into account principles for the assessment of internal control system as given in that guidance.

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

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

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

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

- Various Committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. 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 minutes of the Board Audit Committee meetings are forwarded to the Board on a periodic basis. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Audit Committee Report on pages 101 to 102.

- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis.
- The Bank adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012. The processes and procedures initially applied to adopt the aforementioned Accounting Standards were further strengthened during the years 2013 and 2014 based on the feedback received from the External Auditors, internal audit department, regulators and the Board Audit Committee. The Bank will continue to strengthen the processes on impairment provisioning for loans and advances in line with the industry practices and the Bank has also recognised the need to introduce an automated financial reporting process in order to comply with the requirements of recognition, measurement, classification and disclosure of the financial instruments more effectively and efficiently.
- The comments made by the External Auditors in connection with internal control system over financial reporting in previous years were reviewed during the year and appropriate steps have been taken to rectify them. The recommendations made by the External Auditors in 2014 in connection with the internal control system over financial reporting will be dealt with in the future.

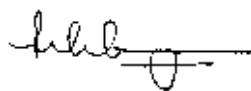
Confirmation

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 the Central Bank of Sri Lanka.

Review of the Statement by External Auditors

The External Auditors, Messrs Ernst & Young, have reviewed the above Directors Statement on Internal Control over Financial Reporting included in the Annual Report of the Bank for the year ended 31st December 2014 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 over financial reporting of the Bank. Their Report on the Statement of Internal Control over Financial Reporting is given on page 92 of this Annual Report.

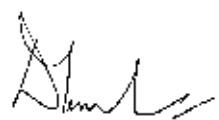
By Order of the Board



M. A. Abeynaike
Chairman - Board Audit Committee



W. D. N. H. Perera
Chairman



P. L. D. N. Seneviratne
Chief Executive officer

Colombo
12th February 2015

External Auditors' Assurance Report on Bank's Internal Controls over Financial Reporting



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eysl@lk.ey.com
ey.com

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF PAN ASIA BANKING CORPORATION PLC

Report on the Directors' Statement on Internal Control over Financial Reporting

We were engaged by the Board of Directors of Pan Asia Banking Corporation PLC ("Bank") to provide assurance on the Directors' Statement on Internal Controls over Financial Reporting ("Statement") included in the Annual Report for the year ended 31st December 2014.

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 Controls" issued in compliance with section 3(8)(ii)(b) of the Banking Act Direction No.11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

Our Responsibilities and Compliance with SLSAE 3050

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

Summary of Work Performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal controls over financial reporting of the Bank.

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

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Our Conclusion

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

12th February 2015
Colombo

Annual Report of the Board of Directors' on the Affairs of the Bank

Your Directors have pleasure in presenting to the members their report together with the Audited Financial Statements for the year ended 31st December, 2014.

The details set out herein provide the pertinent information required by the Companies Act No. 07 of 2007, the listing rules of the Colombo Stock Exchange and the best accounting practices recommended by the Institute of Chartered Accountants of Sri Lanka and necessary disclosures in the best interest of stakeholders of the Bank.

General

Pan Asia Banking Corporation PLC a Licensed Commercial Bank, is listed on the Colombo Stock Exchange was incorporated in Sri Lanka, as 'Pan Asia Bank Limited' on 06th March, 1995 under the Companies Act No. 17 of 1982 and Licensed as a Commercial Bank under the Banking Act No. 30 of 1998 changed its name to 'Pan Asia Banking Corporation Limited' on 23rd April, 2004 and has now been re-registered as per the requirement under the new Companies Act No. 07 of 2007 and changed its name to 'Pan Asia Banking Corporation PLC'.

The Report of the Board of Directors on the Affairs of the Bank and the Financial Statements were approved by the Board of Directors on the 12th of February 2015.

Principal Activities

The Bank's principal business activities are Commercial Banking and related financial services.

Profit and Appropriation

The Bank's profits and appropriations were as follows;

	2014	2013
	Rs. 000	Rs. 000
Profit Before Taxation	538,434	123,906
Taxation	(123,223)	(10,067)
Profit for the Year	415,211	113,838
Other Comprehensive Income	(7,814)	(2,626)
Retained Profit brought forward	1,861,682	2,171,840
Transfer to Reserve Fund	(20,761)	(5,692)
Transfer from/(to) Investment Fund	468,906	(120,637)
Dividends Paid	-	(295,041)
Realisation of Revaluation Reserve	1,553	-
Un-appropriated Profit to be Carried Forward	2,718,777	1,861,682

Financial Statements

The Financial Statements of the Bank are given on pages 116 to 198 of this Annual Report.

Income

The Bank's main income consists of interest on Loans and Advances, Investments and Fee based income. The summarised income could be shown between the years as:

	31st December	31st December
	2014	2013
	Rs.	Rs.
Gross Income	8,843,956,476	9,054,036,569

Shareholders' Funds and Reserves

The Bank's total reserves as at 31st December 2014 stood at Rs. 3,185,663,225/-. This comprises a Statutory Reserve Fund of Rs. 189,970,219/-, Revaluation Reserve of Rs. 276,916,333/- and Revenue Reserves of Rs. 2,718,776,673/-. The movement in Reserve Fund, Revaluation Reserve and Investment Fund Reserve are shown in Note 35 & 36 to the Financial Statements.

Auditors' Report

The auditors of the Bank are M/s Ernst & Young, Chartered Accountants. Their report on the Financial Statements is given on page 115. They come up for re-election at the Annual General Meeting, with the approval of the Audit Committee and the Board of Directors.

Accounting Policies

The accounting policies adopted in preparation of the Financial Statements are given on pages 120 to 142.

Directors' Interest Register

Under the provisions of Section 192 of the Companies Act No. 07 of 2007, the Interest Register is maintained by the Bank. Directors have made the necessary declarations which are recorded in the Interest register and is available for inspection in terms of the Act. The entries made in the register with regard to Directors dealings with the Bank during the accounting period is given as a foot note to this report on page 97 & 98.

Annual Report of the Board of Directors' on the Affairs of the Bank

Donations

The Board of Directors have not approved any donations during the year.

Directorate

The names of the Directors of the Bank during the period 01.01.2014 to 31.12.2014 are given below and changes occurred in the composition of the Board during the period under review. The classification of Directors into Executive, Non-Executive and Independent Non-Executive Directors are given against the names as per the Central Bank mandatory rules on Corporate Governance under the Banking Act directions.

W. D. N. H. Perera	Non-Executive Director since September 2007, appointed as Deputy Chairman in March 2008 and as Chairman in April, 2012.
R. E. U. De Silva	Independent Non-Executive Director since July 2008. Appointed as Deputy Chairman in April 2012.
H. K. Seneviratne	Independent Non-Executive Director since April, 2010. Appointed as Senior Director in June 2013.
M. D. S. Goonatilleke	Non-Executive Director since August 2008.
T. G. Thoradeniya	Non-Executive Director since June 2010.
G. A. R. D. Prasanna	Non-Executive Director since May 2012.
T. Igarashi	Independent Non-Executive Director since October 2012.
T. Murakami	Non-Executive Director since, April 2013.

S. B. Rangamuwa	Non-Executive Director since, August 2014.
M. A. Abeynaike	Independent Non-Executive Director since October 2014.
P. L. D. N. Seneviratne	Director/ Chief Executive Officer since, March 2014.
J. A. S. S. Adhihetty	Non-Executive Director since 2005. Completed nine (9) years and relinquished office as a Director in June 2014.
J. D. N. Kekulawala	Independent Non- Executive Director, since August 2013. Resigned in June 2014 to take up an overseas assignment.
T. C. A. Peiris	Served as the Acting Chief Executive Officer from August 2009 and appointed as Director/ Chief Executive Officer in May 2010 and retired on the 31st of January 2014

Re-elections

In terms of Article No's. 82 and 83 of the Articles of Association of the Bank, G. A. R. D. Prasanna and T. Igarashi retire by rotation and being eligible offer themselves for re-election, on an unanimous recommendation by the Board of Directors.

In terms of Article 89 of the Articles of the Association of the Bank S. B. Rangamuwa and M. A. Abeynaike being eligible offer themselves for re-election, on an unanimous recommendation by the Board of Directors.

Directors' Interest

Related party transactions of the Bank are disclosed in Note 45 to the Financial Statements on pages 192 to 194. The Directors have no direct or indirect interest or proposed contract other than those disclosed.

The Directors have declared all material interest in contracts if any involving the Bank and have refrained in participating when decisions are taken.

Directors' Interest in Shares

	No. of Shares as at 31.12.2014	No. of Shares as at 01.01.2014
W. D. N. H. Perera	712,558	6,807,070
R. E. U. De Silva	1,288,639	1,288,639
H. K. Seneviratne	-	-
M. D. S. Goonatilleke	422	422
T. G. Thoradeniya	36	36
G. A. R. D. Prasanna	5,000	-
T. Igarashi	-	-
T. Murakami	-	-
S. B. Rangamuwa	-	-
M. A. Abeynaike	-	-
P. L. D. N. Seneviratne	14,000	-

Auditors

In accordance with the Companies Act No. 7 of 2007, a resolution for the re-appointment of M/s Ernst & Young Chartered Accountants, to the Bank is being proposed at the Annual General Meeting. Audit Fees and Non Audit Fees payable to Ernst & Young for the year under review amounted to Rs. 3,613,500/- and Rs. 1,200,000/- respectively.

Stated Capital

The Stated Capital of the Bank is Rs. 1,548,965,702/- the details are given in note 34 to the Financial Statements.

Internal Controls

The Board of Directors have put in place an effective and comprehensive system of internal controls covering financial operations, compliance and risk management which are required to carry on the business of banking prudently and ensure as far as possible, accuracy and reliability of records.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of Financial Statements of the Bank to reflect a true and fair

view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards and Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act No. 30 of 1998 and amendments thereto and the Listing Rules of the Colombo Stock Exchange.

Corporate Governance

Since the Commercial Banks have been totally exempted from the Colombo Stock Exchange, Corporate Governance Rules the Bank has complied with the Central Bank Banking Act directions on Corporate Governance and a detailed statement is given on pages 68 to 87.

Capital Expenditure

Expenditure on Property, Plant and Equipment at cost amounted to Rs. 61,679,732/- during 2014, details of which are given in Note 24 to the Financial Statements. Expenditure on Intangible Asset at cost amounted to Rs. 777,914/- during 2014, details of which are given in Note 25 to the Financial Statements.

Statutory Payments

The Directors are satisfied to the best of their knowledge and belief, that statutory payments to all authorities have been paid up to date, on a timely basis.

Shareholding

The number of registered shareholders of the Bank as at 31st December, 2014 was 4,234 compared to 4,838 as at 31st December 2013. The schedule indicating the shareholder's analysis is on pages 212 to 215.

Debt Capital

The Bank issued 30,000,000 Rated, Unsecured, Subordinated, Redeemable 5 year Debentures of Rs. 100/- each in October 2014, which are listed on the Colombo Stock Exchange.

The details of all Debentures of the Bank are given in note 33 to the Financial Statements.

Annual Report of the Board of Directors' on the Affairs of the Bank**Register of Directors and Secretaries**

The Bank maintains a Register of Directors and Secretaries which contains the relevant information of the Board of Directors and the Company Secretary.

Board Committees

In keeping line with the Corporate Governance rules, transparency and accountability, the Board has appointed the required Board Committees and the composition is given in the Governance report.

New Branches

One new branch was opened during the year under review, bringing the total number of branches to 78 at the end of 2014.

Provision for Taxation

Total taxable profit was charged at 28% in accordance with Income tax legislations. Deferred tax was calculated based on the Balance Sheet Liability Method in accordance with Sri Lanka Accounting Standards.

Annual General Meeting

In complying with the good governance practices, the Annual Report of the Bank is dispatched to Colombo Stock Exchange and shareholders as per the regulatory requirements after the end of the financial year and completion of the audit.

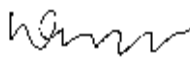
The Annual General Meeting will be held at "The Kingsbury" on 31st March, 2015. The Notice of Meeting can be found on page 229.

Going Concern

The Directors after making necessary inquiries and reviews including reviews of the Bank's ensuing year budget for capital expenditure requirements, future prospects and risk and cash flows have a reasonable expectation that the Bank has adequate resources to continue operations in the foreseeable future.



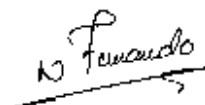
W. D. N. H. Perera
Chairman



R. E. U. De Silva
Deputy Chairman



P. L. D. N. Seneviratne
Director/CEO



N. Fernando
Company Secretary

Colombo
12th February 2015

Directors' Interest Register

Director/ Company Name	Relationship	Accommodation/Deposits and Borrowings	Balance Outstanding as at 31.12.2014 Rs.
W. D. N. H. Perera			
Amaya Leisure PLC	Director	Loans & Advances	9,091,932
		Deposits & Borrowings	298,879
L B Finance PLC	Director	Loans & Advances	1,851,210
		Deposits & Borrowings	565,666,782
		Off Balance Sheet Accommodation	140,791,457
Royal Ceramics Lanka PLC	Managing Director	Loans & Advances	300,000,000
		Deposits & Borrowings	13,180,192
Vallibel One PLC	Deputy Chairman	Deposits & Borrowings	637,355,186
R. E. U. De Silva			
Esna Power (Pvt) Ltd	Director	Deposits & Borrowings	22,326,100
Plumbago Lanka (Pvt) Ltd	Director	Deposits & Borrowings	403,918
M. D. S. Goonatileke			
Hayleys PLC	Director	Loans & Advances	73,100,000
		Deposits & Borrowings	29,843
Royal Ceramics Lanka PLC	Director	Loans & Advances	300,000,000
		Deposits & Borrowings	13,180,192
Royal Porcelain (Pvt) Ltd	Director	Loans & Advances	700,000,000
		Deposits & Borrowings	1,640,320
		Off Balance Sheet Accommodation	23,014,195
T. G. Thoradeniya			
Greener Water Ltd	Director	Deposits & Borrowings	4,173,525
Royal Ceramics Lanka PLC	Director	Loans & Advances	300,000,000
		Deposits & Borrowings	13,180,192
Royal Porcelain (Pvt) Ltd	Director	Loans & Advances	700,000,000
		Deposits & Borrowings	1,640,320
		Off Balance Sheet Accommodation	23,014,195

Directors' Interest Register

Director/ Company Name	Relationship	Accommodation/Deposits and Borrowings	Balance Outstanding as at 31.12.2014 Rs.
G. A. R. D. Prasanna			
Country Energy (Pvt) Ltd	Director	Deposits & Borrowings	105,362
Delmege Forsyth & Co. (Shipping) Ltd	Director	Deposits & Borrowings	46,548,073
Royal Ceramics Lanka PLC	Director	Loans & Advances Deposits & Borrowings	300,000,000 13,180,192
Royal Porcelain (Pvt) Ltd	Director	Loans & Advances Deposits & Borrowings Off Balance Sheet Accommodation	700,000,000 1,640,320 23,014,195
T. Igarashi			
Ideal Finance Ltd	Director	Deposits & Borrowings	3,492,732
NWS Management Services (Pvt) Ltd	Director	Deposits & Borrowings	5,946,699
T. Murakami			
Coral Rock Hotel (Pvt) Ltd (Presently known as 'Bansei Royal Resorts Hiikkaduwa PLC')	Director	Deposits & Borrowings	63,308,261
Bansei Securities Finance (Pvt) Ltd	Director	Deposits & Borrowings	14,737,511
Vallibel Finance PLC	Director	Deposits & Borrowings	1,576,858,552
S. B. Rangamuwa			
Vallibel Finance PLC	Managing Director	Deposits & Borrowings	1,576,858,552

Other Directorships

W. D. N. H. Perera - Chairman

Company Name	Position
1 Horana Plantations PLC	Executive Chairman
2 N P Capital Ltd	Chairman
3 Lanka Ceramics PLC	Chairman
4 Swisstek Ceylon PLC	Chairman
5 Lanka Floortiles PLC	Chairman
6 Lanka Walltiles PLC	Chairman
7 Vallibel One PLC	Deputy Chairman
8 Royal Ceramics Lanka PLC	Managing Director
9 Amaya Leisure PLC	Director
10 LB Finance PLC	Director
11 Hayleys PLC	Director
12 Haycarb PLC	Director
13 The Kingsbury PLC	Director
14 Talawakelle Tea Estates PLC	Director

M. D. S. Goonetilleke - Director

Company Name	Position
1 Douglas & Sons (Pvt) Ltd	Group Executive Director
2 Royal Ceramics Lanka PLC	Director
3 Colombo Land Development & Investment PLC	Director
4 Hayleys PLC	Director
5 Royal Porcelain Ltd	Director
6 Rocell Bathwear Ltd	Director
7 DSL Lanka (Pvt) Ltd	Director
8 Hayleys Consumers (Pvt) Ltd	Director
9 Hayleys Industrial Solutions (Pvt) Ltd	Director
10 DSL Toys (Pvt) Ltd	Director
11 Hayleys Air Line Services (Pvt) Ltd	Director

R. E. U. De Silva - Deputy Chairman

Company Name	Position
1 Esna Holdings (Pvt) Ltd	Chairman
2. Shermans Logistics (Pvt) Ltd	Chairman
3 Shermans Transport (Pvt) Ltd	Chairman
4 Esna (Pvt) Ltd	Chairman
5 Hanjin Shipping Lanka (Pvt) Ltd	Chairman
6 Esna Power (Pvt) Ltd	Director
7 Esna Zinc Journeys (Pvt) Ltd	Director
8 Sherman De Silva & Co. (Pvt) Ltd	Director
9 Mc Marine (Pvt) Ltd	Director
10 Sherman Sons (Pvt) Ltd	Director
11 Dimension X (Pvt) Ltd	Director
12 Esna Ventures (Pvt) Ltd	Director
13 Esna International (Pvt) Ltd	Director
14 Mountbatten Lands (Pvt) Ltd	Director
15 Plumbago Lanka (Pvt) Limited	Director
16 Esna Lubricants (Pvt) Ltd	Director
17 Integrated Shipping Agencies (Pvt) Ltd	Director

T. G. Thoradeniya - Director

Company Name	Position
1 Rocell Bathware Ltd	CEO
2 Royal Ceramics Lanka PLC	Director - Marketing & Business Development
3 Hayleys Fibre PLC	Director
4 Delmage (Pvt) Ltd	Director
5 Royal Porcelain (Pvt) Ltd	Director - Marketing & Business Development
6 Royal Ceramics Distributors (Pvt) Ltd	Director - Marketing & Business Development
7 Rocell Ceramics Ltd	Director
8 Dipped Products (Thailand) Limited	Director
9 Greener Water Limited	Director
10 Lankaal Industries (Pvt) Ltd	Director
11 Victoria Stores Ltd	Director
12 Rocell Properties Ltd	Director
13 Lanka Floortiles PLC	Director
14 Lanka Walltiles PLC	Director
15 Lanka Ceramics PLC	Director
16 Ceytea Plantation Management Services	Director

H. K. Seneviratne - Senior Director

Company Name	Position
NIL	NIL

Other Directorships**G. A. R. D. Prasanna - Director**

Company Name	Position
1 Grandmark (Pvt) Ltd	Chairman
2 Tekro Holdings (Pvt) Ltd	Director
3 Royal Ceramics Lanka PLC	Director
4 Royal Porcelain (Pvt) Ltd	Director
5 Rocell Bathware Ltd	Director
6 Delmege Forsyth & Co.(Shipping) Ltd	Director
7 Country Energy (Pvt) Ltd	Director
8 La Fortresse (Pvt) Ltd	Director
9 Delmege (Pvt) Ltd	Director
10 Delmege Forsyth & Co. (Exports) (Pvt) Ltd	Director
11 Delmege Insurance Brokers (Pvt) Ltd	Director
12 Rocell Properties Ltd	Director
13 Delmege Coir (Pvt) Ltd	Director
14 Delship Services (Pvt) Ltd	Director
15 Delmege Freight Services (Pvt) Ltd	Director
16 Delmege Air Services (Pvt) Ltd	Director
17 Lewis Brown Air Services (Pvt) Ltd	Director

T. Igarashi - Director

Company Name	Position
1 Ramboda Falls Hotels PLC	Chairman
2 NWS Holdings (Pvt) Ltd	Director
3 NWS Management Services (Pvt) Ltd	Director
4 NWS Financial Services (Pvt) Ltd	Director
5 Ideal Finance Ltd	Director

T. Murakami - Director

Company Name	Position
1. Coral Rock Hotel (Pvt) Ltd	Director
2. Bansei Royal Resorts (Pvt) Ltd.	Director
3. Bansei Securities Finance (Pvt) Ltd	Director
4. Vallibel Finance PLC	Director

S. B. Rangamuwa - Director

Company Name	Position
1. Vallibel Finance PLC	Managing Director
2. Hunnas Falls PLC	Director
3. Style-Kraft Ltd (Orit Apparels)	Director

M. A. Abeynaikie - Director

Company Name	Position
1. Asia Pacific Investments (Pvt) Ltd	Chairman
2. Siyapatha Finance Ltd	Deputy Chairman

P. L. D. N. Seneviratne - Director/CEO

Company Name	Position
NIL	NIL

These Other Directorships are given as at 31st December 2014.

Board Audit Committee Report

Composition of the Audit Committee

In accordance with the currently accepted best practice and Banking Act Direction No.11 of 2007, on Corporate Governance guidelines, the Board appointed Audit Committee comprises of the following Directors.

M. A. Abeynaike	Chairman-Independent Non-Executive Director (appointed in October 2014)
M. D. S. Goonatilleke	Non-Executive Director
H. K. Seneviratne	Independent Non-Executive Director
T. Murakami	Non-Executive Director

The Chairman of the Audit Committee, Mr. Abeynaike is an Independent Non-Executive Director and a Fellow Member of the Institute of Chartered Accountants of Sri Lanka.

Mr. Nihal Kekulawala was the previous Chairman of the Audit Committee and served the Board until his acceptance of an overseas assignment in June, 2014. In the interim period Mr. Goonatilleke acted as Chairman of the Committee.

The Committee wishes to place on record its sincere appreciation and gratitude to Mr. Kekulawala for his contribution and management expertise provided to the Audit Committee as the Chairman and a member.

Role of the Committee

The Charter of the Audit Committee clearly defines the role and responsibilities of the Audit Committee and is periodically reviewed and revised by the Board of Directors. The Committee is responsible to the Board of Directors and reports its activities regularly.

The main objective of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities in financial reporting, internal controls and risk management. The Committee is empowered to:

- Monitor the integrity of the Financial Statements and review of significant reporting judgments contained in them to be in compliance with Sri Lanka Accounting Standards.

- Review the internal financial and other controls and risk management systems.
- Review the Bank's compliance with legal and regulatory requirements.
- Monitor and review the effectiveness of the internal audit function.
- Make recommendations to the Board in relation to the appointment of the External Auditors and to approve the remuneration and terms of engagement of the External Auditors.
- Review and monitor the External Auditors' independence and objectivity and the effectiveness of the audit process.
- Ensure that Bank policies are firmly committed to the highest standards of good Corporate Governance Practices and operations conform to the highest ethical standards, in the best interest of all stakeholders.

Meetings

The Committee held 14 meetings during the period under review. Head of Audit Department functioned as the secretary to the Committee. The Chief Executive Officer, Chief Operating Officer, Chief Risk Officer, Chief Financial Officer and Deputy General Manager-Retail Banking and SME attend the meetings by invitation. Members of the Senior Management of the Bank were invited to participate at meetings as and when required. The proceedings of the Audit Committee meetings are regularly reported to the Board of Directors.

Activities

The Committee carried out the following activities.

Financial Statements

The Committee reviewed the effectiveness of the financial reporting system in place to ensure that information provided to the stakeholders is reliable and is in strict adherence and compliance with the requirements of Sri Lanka Accounting Standards and disclosure requirements.

Board Audit Committee Report

The Committee reviewed the quarterly and annual Financial Statements of the Bank prior to approval by the Board.

Regulatory Compliance

The procedures in place to ensure compliance with mandatory banking and other regulatory requirements were under close scrutiny by the committee.

Internal Audit

During the year under review, the Committee reviewed the independence, objectivity and performance of the Internal Audit Department. The annual audit plan for the year was based on a Risk Based Planning methodology for risk assessment of auditable areas. The Committee reviewed and monitored the internal audit coverage of the annual audit plan.

Taking the above said into consideration the Committee makes its recommendations to strengthen procedures and internal control systems with a view to managing overall risk and improving efficiency and effectiveness of key processes.

External Audit

The Bank had reviewed all its internal controls and ensured they provide adequate control over the business processes and effectively mitigate risk wherever it exists.

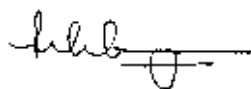
The Committee met with M/s Ernst & Young prior to commencement of the Annual Audit to discuss the audit scope, approach and methodology to be adopted. The Committee reviewed and ensured that the lead audit partner was rotated every five years in accordance with Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka. The Management Letter of the External Auditors and the responses of the management thereto were discussed at a Special Audit Committee Meeting. The auditors have assured that they have no cause to compromise their independence.

The Committee reviewed the non-audit services provided by the Auditors to ensure that such services were not falling within the restricted services or provision of such service will not impair the External Auditors' independence and objectivity.

The Audit Committee having evaluated the independence and performance of the External Auditors has recommended to the Board of Directors that M/s Ernst & Young, Chartered Accountants, be reappointed as the Auditors of the Bank for the Financial Year ending 31st December 2015, subject to the approval of the Shareholders at the Annual General Meeting.

Conclusion

The Board Audit Committee is of the view that adequate internal controls and procedures are in place at the Bank to provide reasonable assurance that its assets are safeguarded to ensure that the financial position and the results disclosed in the Audited Financial Statements are free from any material misstatements.



M. A. Abeynaik

Chairman

Board Audit Committee

Colombo

12th February 2015

Board Integrated Risk Management Committee Report

Members of the Board Integrated Risk Management Committee

The Board members of the Integrated Risk Management Committee comprise of the following;

M. D. S. Goonatileke	Chairman - Non-Executive Director
H. K. Seneviratne	Independent Non-Executive Director
T. Igarashi	Independent Non-Executive Director
P. L. D. N. Seneviratne	Director / Chief Executive Officer

In addition, the committee comprises of Chief Risk Officer, Head of Credit Control and personnel involved in managing credit, market and operational risks. The Committee invites any Key Management Personnel for participation at meetings depending on the subject matters under discussion as per the agenda.

Responsibilities and Meetings

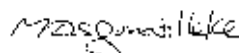
The Committee is established as per the regulatory guidelines on integrated risk management framework for Licensed Banks introduced by the Central Bank of Sri Lanka and the main scope of the Committee is review and monitor risk management policy framework of the Bank and regularly review and monitor the key risk indicators under credit, market, operational, compliance, reputational, legal risks and other contingencies. Directives are also given by the Board of Directors on risk assessment. The Committee had five meetings during the year including a special meeting to review the internal systems, processes and procedures for regulatory compliance. During the regular meetings, adequate deliberations are made to review the risk goals, and follow up action initiated through circulation of minutes of the meetings among Committee members and other responsible management personnel. Subsequent to each meeting, the minutes along with a report on risk assessment and risk commentary is submitted to the Board of Directors for review and guidance.

Functions of the Committee

The Committee carries out following functions in order to fulfill its duties and responsibilities:

- Review the Internal Capital Adequacy Assessment Process and assess the Bank's overall strategy, governance and oversight on risk based capital adequacy.
- Determine and review the risk goals on a regular basis on credit, market, operational and other risks faced by the Bank.
- To peruse and review the activities of the Committees set up for risk management in the Bank to manage broad risks identified. These Committees are,
 - i) Assets and Liabilities Committee (ALCO)
 - ii) Credit Control Committee
 - iii) Treasury Risk Assessment Committee
 - iv) Operational Risk Management Committee
- Regular review and update of all policies relating to risk management in the Bank.
- Review the regulatory compliance function of the Bank through regular reports and annual compliance plan.
- Recommendation of improvements to Bank's strategy for lending, business expansion and review mitigation factors for adverse impact on Bank's business strategies.
- Review the business continuity plan, business impact analysis and disaster recovery plan of the Bank.

The Committee ensures that adequate mechanisms are available to identify, transfer, manage and mitigate the risks recognised as per Bank's risk management policies and during the year the Committee has reviewed the process for identification, evaluation and management of all significant risk indicators of the Bank.



M. D. S. Goonatileke

Chairman

Board Integrated Risk Management Committee

Colombo

12th February 2015

Board Human Resources and Remuneration Committee Report

The Board Human Resources and Remuneration Committee comprise of following members of the Board;

W. D. N. H. Perera	Chairman - Non-Executive Director
H. K. Seneviratne	Independent Non Executive Director
T. G. Thoradeniya	Non-Executive Director
P. L. D. N. Seneviratne	Chief Executive Officer/ Director

The Committee held nine meetings during the year 2014.

Chief Operating Officer, Head of Human Resources and other members of the Management attend meetings by invitation.

The Key Functions of the Committee are as follows;

- Determine the remuneration relating to Chief Executive Officer and Key Management Personnel of the Bank.
- Set up goals and targets for the Chief Executive Officer and Key Management Personnel.
- Evaluate the performance of the Chief Executive Officer 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.
- Ensure that salaries are reviewed periodically and evaluated against industry norms.
- Approve the selection of the candidates for the positions of Manager and above Grades whilst providing their salary as well as other terms and conditions for the selected candidates.

- Approve interview panels for recruitment to other positions.
- Review key positions regularly and have a succession plan in place.

In addressing the principal task of the Committee relating to compensation and benefits, it ensures that all compensation and benefit decisions are consistently aligned with the overall compensation strategy, which focus and drive the performance of the Bank whilst being consistent with its performance culture.



W. D. N. H. Perera
Chairman

Board Human Resources and Remuneration Committee

Colombo
12th February 2015

Board Nomination Committee Report

The Board appointed Nomination Committee comprises of the following Directors;

H. K. Seneviratne	Chairman - Independent Non-Executive Director
W. D. N. H. Perera	Non-Executive Director
M. A. Abeynaike	Independent Non-Executive Director (Appointed w.e.f. 10th October 2014)
J. D. N. Kekulawala	Independent Non-Executive Director (Resigned w.e.f. 30th June, 2014)

The Company Secretary functions as the Secretary of the Committee.

Three Committee meetings were held during the year.

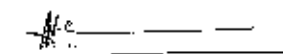
The main responsibilities of the Committee are:

- a) To formulate and implement the procedures to select / appoint new Directors, Chief Executive Officer and Key Management Personnel.

In the appointment of Directors, the Board proposes the names and seeks the Nomination Committee for recommendation of the suitability of the persons proposed. Nomination Committee after careful consideration submits their recommendation to the Board. The Board on receipt of the recommendation of the Nomination Committee submits the affidavit and the Declaration of the proposed Director to Central

Bank for their approval, and once approval is received the Board makes the formal appointment.

- b) To set eligibility criteria encompassing academic and professional qualifications, experience and other attributes essential for appointment and promotion to the post of Chief Executive Officer and Key Management positions.
- c) To review and recommend, from time to time, the additional/new expertise capabilities necessary and the succession plans for retiring directors and Key Management Personnel.
- d) To ensure, in text and action, that directors, Chief Executive Officer and Key Management Personnel are fit and proper persons to hold such positions in terms of the specified statues and other mandatory directives.



H. K. Seneviratne
Chairman
Board Nomination Committee

Colombo
12th February 2015

Board Credit Committee Report

The Board members of the Board Credit Committee comprise the following:

W. D. N. H. Perera	Chairman - Non-Executive Director
R. E. U. De Silva	Independent Non-Executive Director
T. G. Thoradeniya	Non-Executive Director
S. B. Rangamuwa	Non-Executive Director
P. L. D. N. Seneviratne	Director / Chief Executive Officer

The Chief Risk Officer is a member of the Committee and Senior Manager - Credit Risk or any other senior management personnel appointed by the Committee acts as the Secretary to the Committee. Corporate management members of the Bank in charge of credit recoveries, retail banking, SME and pawning, corporate banking and legal, attend meetings by invitation.

Responsibilities and Meetings

The Committee derives its scope and authority from the Board of Directors with following key responsibilities:

- Ensure a sound credit granting process in the Bank
- Maintain an appropriate credit administration, measurements and monitoring processes
- Ensure adequate controls over credit risk exposures
- Identification and administration of problem credit facilities
- Proper evaluation of new business opportunities in lending
- Monitor changes in economic and operating environment for adequate controls within the Bank
- Provide guidance and directives for credit originating

The Committee met 11 times during the year and minutes were circulated among Committee members and Key Management Personnel responsible for the issues deliberated credit approvals were subject to adequate deliberations among the members during the meetings.

Functions of the Committee

The Committee carries out following functions in order to fulfill its duties and responsibilities:

- Review and sanction credit proposals submitted to the Committee as per the delegated lending authorities and credit policy of the Bank
- Review the credit policy changes initiated by the management of the Bank and recommend them with or without modifications to the Board of Directors for approval
- Ensure compliance of lending activities of the Bank with Bank's credit policies and statutory and regulatory requirements and guidelines
- Credit portfolio reviews through watch list of accounts, non performing advances, new facilities granted, margin trading advances book, advances to special segments, exposure to pawning and gold loans
- Define credit approval framework and assign delegated limits for lending as per Bank's credit policy
- Review and recommend credit facilities to the Board of Directors for which Board approval is required
- Ensure credit risk exposures are kept within acceptable limits to maximise Bank's risk adjusted rate of return
- Monitor on an ongoing basis the Bank's credit portfolio quality, review periodic credit portfolio reports and assess credit portfolio performance
- Ensure all new lending products are reviewed from credit risk management perspective

The Committee ensures that the Bank adheres to the internal policies, regulatory guidelines and directions when granting credit and managing the lending portfolio.



W. D. N. H. Perera
Chairman

Board Credit Committee

Colombo
12th February 2015

Board Strategic Planning Committee Report

The Board Strategic Planning Committee of the Bank was established to assist the Board in setting strategic direction and defining the Bank's objectives to reach greater heights in the banking industry. The Board understands that effective strategic planning is the core foundation for the future of the Bank and the Strategic Plan is a powerful tool for monitoring the Bank's progress and for guiding the Bank to accomplish the goals expected by its stakeholders. The Bank has developed a Strategic Planning initiative that has evolved with the changes in the regulatory landscape, experience and execution.

Composition

The Committee comprises of three Non-Executive Directors. The Committee is chaired by an Independent Non-Executive Director. The following Directors serve in the Board Strategic Planning Committee.

M. A. Abeynaike	Chairman - Independent Non-Executive Director
M. D. S. Goonatileke	Non-Executive Director
T. G. Thoradeniya	Non-Executive Director

The profiles of the members are given on pages 18 to 23 of the Annual Report. Chief Executive Officer and Corporate Management team attend the meetings by invitation. The Chief Financial Officer acts as the Secretary to the Committee.

Role and Responsibilities

- Approving the periodic strategic plan and recommending the same to the Board, approving significant amendments to the existing strategic plan and recommending the same to the Board.
 - Vision and Mission of the Bank: Examine the Bank's current mission, vision, strategic positioning and provide guidelines to the Bank's Strategic Planning process.
 - Impact of external trends and issues: Examine the external challenges and opportunities relevant to the vision and key goals of the Bank.

- Internal Strengths and Weaknesses: Review internal strengths, resources, capabilities and weaknesses of the Bank and provide guidelines to the Management.
- Strategic Direction and Strategic Thinking: Providing the strategic direction and conveying strategic thinking of the Board to the management in the development and implementation of the Bank's strategic plan.
- Strategic Planning Process: Oversee and monitor the planning process that leads to the formulation of the Strategic Plan.
- Key Strategies: Examine the effectiveness of key strategies for achieving the goals and objectives and guiding management towards implementation of strategic decisions taken by the Board.

- Approving of all strategic decisions/investments and recommending the same to the Board.
- Review the adequacy and composition of the Bank's capital structure in the context of the growth targets.

Meetings

During the year the Committee met on one occasion and the Committee members worked with dedication to fulfill its obligations. The attendance of the Committee members is stated in the Corporate Governance Report on page 88 of the Annual Report.

Reporting to the Board

Minutes of the Committee meetings are circulated to the Committee members by the Secretary and the confirmed minutes are submitted to the Board of Directors for concurrence.

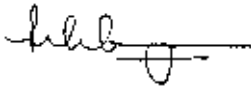
Performance

The Committee reviewed the Three Year Strategic Plan for 2015-17 period and Annual Budget for the year 2015 to identify areas of concern which needed changes in strategic direction. The Committee engaged in discussions

Board Strategic Planning Committee Report

with the Corporate Management and Strategic Planning Team to determine the strategic direction for the Bank for the period 2015 to 2017 which formed the basis for the development of the Strategic Plan for this period. The three year Strategic Plan was approved by the Committee and also recommended to the Board of Directors for their information and approval together with the Annual Budget for year 2015 which was developed in line with the strategy document.

The Committee reviews its own performance, constitution and scope of work to ensure that it is operating smoothly and efficiently. Its scope also extends to making recommendations to the Board when the need arises.



M. A. Abeynaike

Chairman

Board Strategic Planning Committee

Colombo

12th February 2015

CEO's & CFO's Responsibility for Financial Reporting

The Financial Statements of Pan Asia Banking Corporation PLC ("The Bank") for the year ended 31st December 2014 are prepared and presented in compliance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act No. 30 of 1988 and amendments thereto and the Directions, Determinations, and Guidelines issued by the Central Bank of Sri Lanka, and the Listing Rules of the Colombo Stock Exchange. The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Bank. There are no material departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation.

The significant accounting policies and estimates that involved a high degree of judgment and complexity were discussed with the Audit Committee and External Auditors. The Board of Directors and the Management of the Bank accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to the Financial Statements were made on a prudent and reasonable basis; in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and that the Bank's state of affairs is reasonably presented. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our Internal Audit Department has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting. Further the Board assessed the effectiveness of the Bank's Internal Controls over Financial Reporting during the year ended 31st December 2014, as required by the Banking Act Direction No. 11 of 2007, result of which is given on pages 90 & 91 in the Annual Report, the "Directors' Report on Bank's Internal Controls". "External Auditors' Assurance Report on the Bank's Internal Controls" is given on page 92 of the Annual Report.

The Financial Statements of the Bank were audited by Messrs Ernst & Young, Chartered Accountants, the independent External Auditors. Their report is given on page 115 of the Annual Report. The Audit Committee of the Bank meets periodically with the Internal Audit team and the independent External Auditors to review their audit plans, assess the manner in which these auditors are performing their responsibilities and to discuss their reports on internal controls and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance. The Audit Committee approves the audit and non audit services provided by External Auditors, Messrs Ernst & Young, in order to ensure that the provision of such services does not impair independence of the External Auditors and does not contravene the guidelines issued by Central Bank of Sri Lanka on permitted non-audit services.

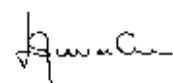
The Bank has taken appropriate action to implement New Sri Lanka Accounting Standards with effective from 1st January 2012 and all the processes are in place to address the requirements of the new Sri Lanka Accounting Standards.

We confirm to the best of our knowledge;

- The Bank has complied with all applicable laws, regulations and prudential requirements and there are no material litigations that are pending against the Bank other than those disclosed in the Note 43 to the Financial Statements.
- All taxes, duties, levies and all statutory payments by the Bank and all contributions, levies and taxes paid on behalf of and in respect of the employees of the Bank as at the Statement of Financial Position date have been paid or where relevant provided for.



P. L. D. N. Seneviratne
Chief Executive Officer



L. R. Jayakody
Chief Financial Officer

Colombo
12th February 2015

Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the Bank prepared in accordance with the Provisions of the Companies Act No 7 of 2007 is set out in the following statements. The responsibilities of the External Auditors in relation to the Financial Statements are set out in the Report of the Auditors given on page 115 of the Annual Report.

In terms of Sections 150 (1) and 151(1) of the Companies Act No. 7 of 2007, the Directors of the Bank are responsible for ensuring that the Bank prepares the Financial Statements that gives a true and fair view of the state of affairs of the Bank as at the date of the Statement of Financial Position and the profit of the Bank for the financial year ended on the date of the Statement of Financial Position and place them before a general meeting. The Financial Statements comprise the Statement of Financial Position as at 31st December 2014, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow for the year then ended and notes thereto.

Accordingly, the Directors confirm that the Financial Statements of the Bank give a true and fair view of;

- a) the state of affairs of the Bank as at the date of the Statement of Financial Position and
- b) the profit of the Bank for the financial year ended on the date of the Statement of Financial Position.

The Financial Statements of the Bank have been certified by the Bank's Chief Financial Officer, the person responsible for their preparation, as required by the Act. Financial Statements of the Bank have been signed by three Directors and the Company Secretary of the Bank on 12th February 2015 as required by the 150 (1) of the Companies Act.

Under 148 (1) of the Companies Act, it is the overall responsibility of the Directors to oversee and ensure to keep proper accounting records which correctly record and explain the Bank's transactions with reasonable accuracy at any time and to enable the Directors to prepare Financial Statements, in accordance with the said Act and also to enable the Financial Statements to be readily and properly audited.

The Directors in preparing these Financial Statements are required to ensure that;

- (i) The appropriate accounting policies have been selected and applied in a consistent manner and material departures if any have been disclosed and explained.
- (ii) Make judgments and estimates that are reasonable and prudent.
- (iii) All applicable accounting standards, as relevant, have been followed.

The Directors are also required to ensure that the Bank has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements. The Financial Statements prepared and presented in the report are consistent with the underlying books of account and are in conformity with the requirements of Sri Lanka Accounting Standards, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act of No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto and the continuing listing rules issued by the Colombo Stock Exchange.

In view of that Directors have taken adequate effort on inspecting financial reporting system through Audit Committee Meetings and granting approvals for issuing of interim Financial Statements

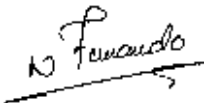
The Directors have also instituted effective and comprehensive system of internal controls. This comprises internal check, internal audit and the whole system of financial and other controls required to carry on the banking business in an orderly manner, safeguard assets, prevent and detect frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31st December 2014 is given on page 90 & 91 of the Annual Report, "Directors Statement on Internal Control". External Auditors' Assurance Report on the Bank's Internal Controls is given on page 92 of the Annual Report.

The Bank's External Auditors, Messrs Ernst and Young carried out reviews and sample checks on the system of Internal Controls as they considered appropriate and necessary for expressing their opinion on the Financial Statements and maintaining accounting records. They have examined the Financial Statements made available to them together with all financial records, related data and minutes of shareholders' and Directors meetings and expressed their opinion which appears as reported by them on page 115 of this Annual Report.

The Directors are satisfied that all statutory payments in relation to all regulatory and statutory authorities which were due and payable by the Bank were paid or where relevant provided for.

The Directors of the Bank are of the view that they have discharged their responsibilities as setout in this statement.

By Order of the Board

A handwritten signature in black ink, appearing to read 'N. Fernando', with a horizontal line underneath it.

N. Fernando
Company Secretary

Colombo
12th February 2015

Hummingbirds are one of the most agile creatures found in nature, with wing-flapping rates as high as 200 times per second. These tiny birds can fly at speeds exceeding 30 mph - straight, reverse, upwards, downwards or even upside down.

At Pan Asia Bank we emphasise the business agility that enables us to adapt to changing industry environments with ease.

agile





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Financial Information

Financial Calendar

2014

1st Quarter Results 2014	May 2014
2nd Quarter Results 2014	August 2014
3rd Quarter Results 2014	November 2014
Annual Report for 2014	March 2015
20th Annual General Meeting	March 2015

2015

1st Quarter Results 2015	May 2015
2nd Quarter Results 2015	August 2015
3rd Quarter Results 2015	November 2015
Annual Report for 2015	March 2016
21st Annual General Meeting	March 2016

Independent Auditors' Report



Ernst & Young
Chartered Accountants
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To the Shareholders of Pan Asia Banking Corporation PLC

Report on the Financial Statements

We have audited the accompanying Financial Statements of Pan Asia Banking Corporation PLC, ("the Bank"), which comprise the Statement of Financial Position as at 31st December 2014, and the Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement for the year then ended, and a Summary of Significant Accounting Policies and Other Explanatory Notes as set out on pages 120 to 198.

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 controls as Board determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain evidence and disclosures in the Financial Statements. The procedures selected depend on the Auditors' 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 Auditors' consider internal controls relevant to the entity's preparation of the Financial Statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls.

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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Bank as at 31st December 2014, 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

As required by Section 163(2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In our opinion :
 - We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank,
 - The Financial Statements of the Bank comply with the requirements of Section 151 of the Companies Act No. 07 of 2007.

12th February 2015
Colombo

Statement of Comprehensive Income

Year ended 31st December,	Notes	2014 Rs.	2013 Rs.
Gross Income		8,843,956,476	9,054,036,569
Interest Income		7,541,725,077	7,976,952,155
Interest Expense		(4,801,741,110)	(5,881,652,784)
Net Interest Income	4	2,739,983,967	2,095,299,371
Fees and Commission Income		643,868,612	548,298,304
Fees and Commission Expense		(15,266,803)	(8,950,701)
Net Fee and Commission Income	5	628,601,809	539,347,603
Net Gain from Trading	6	344,265,331	238,301,635
Net Gain from Financial Investments	7	267,390	211,250
Other Operating Income	8	313,830,066	290,273,225
Total Operating Income		4,026,948,563	3,163,433,084
Impairment for Loans and Other Losses	9	(814,854,354)	(743,261,202)
Net Operating Income		3,212,094,209	2,420,171,882
Personnel Expenses	10	1,080,880,941	942,166,929
Other Operating Expenses	11	1,376,704,632	1,249,564,424
Total Operating Expenses		2,457,585,573	2,191,731,353
Operating Profit Before Value Added Tax and Nation Building Tax on Financial Services		754,508,636	228,440,529
Value Added Tax and Nation Building Tax on Financial Services		216,075,298	104,534,804
Profit Before Tax		538,433,338	123,905,725
Income Tax Expense	12	123,222,628	10,067,396
Profit for the Year		415,210,710	113,838,329
Other Comprehensive Income Net of Tax			
Revaluation Surplus on Property Plant and Equipment		356,158,971	-
Deferred Tax Effect on Above		(77,690,208)	-
		278,468,763	-
Actuarial Losses on Defined Benefit Plans		(10,852,889)	(3,648,098)
Deferred Tax Effect on Above		3,038,809	1,021,467
		(7,814,080)	(2,626,631)
Other Comprehensive Income for the Year Net of Tax		270,654,683	(2,626,631)
Total Comprehensive Income for the Year		685,865,393	111,211,698
Earnings Per Share - Basic/Diluted	13	1.41	0.39

The Accounting Policies and Notes on pages 120 to 198 form an integral part of the Financial Statements.

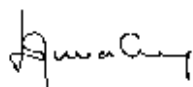
Statement of Financial Position

As at 31st December,	Notes	2014 Rs.	2013 Rs.
Assets			
Cash and Cash Equivalents	15	1,334,405,933	1,203,739,630
Balances with Central Bank	16	3,247,643,733	2,799,581,915
Placements with Banks	17	-	104,622,304
Derivative Financial Instruments	18	5,206,464	2,758,216
Financial Assets - Held for Trading	19	1,414,698,354	9,170,415,067
Loans and Receivables to Banks	20	7,597,250,330	12,002,143
Loans and Receivables to Other Customers	21	60,346,643,277	44,728,686,421
Financial Investments - Available for Sale	22	6,157,847	6,157,847
Financial Investments - Held to Maturity	23	2,563,357,188	2,849,475,281
Property, Plant and Equipment	24	1,458,545,033	1,204,302,416
Intangible Assets	25	50,606,360	65,804,221
Other Assets	26	1,580,751,555	2,770,900,087
Total Assets		79,605,266,074	64,918,445,548
Liabilities			
Due to Banks	27	1,134,163,317	1,861,565,058
Derivative Financial Instruments	18	-	24,634,054
Due to Other Customers	28	64,895,224,928	53,835,897,400
Term Debt and Other Borrowed Funds	29	3,160,306,402	2,881,945,943
Deferred Tax Liabilities	12	281,978,238	150,787,101
Other Provisions and Accruals	30	126,733,762	78,547,938
Other Liabilities	31	1,437,275,646	1,251,611,229
Subordinated Debentures	33	3,834,954,854	784,693,291
Total Liabilities		74,870,637,147	60,869,682,014
Equity			
Stated Capital	34	1,548,965,702	1,548,965,702
Retained Earnings		2,718,776,673	1,861,682,244
Revaluation Reserve	35	276,916,333	-
Other Statutory Reserves	36	189,970,219	638,115,588
Total Equity		4,734,628,927	4,048,763,534
Total Liabilities and Equity		79,605,266,074	64,918,445,548
Commitments and Contingencies	43	22,200,094,564	26,124,671,965

The Accounting Policies and Notes on pages 120 to 198 form an integral part of the Financial Statements.

Certification

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



L. R. Jayakody
Chief Financial Officer

The Board of Directors are responsible for the preparation and presentation of these Financial Statements. Signed for and on behalf of the Board by;



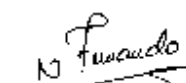
W. D. N. H. Perera
Chairman



R. E. U. De Silva
Deputy Chairman



P. L. D. N. Seneviratne
Director/Chief Executive Officer



N. Fernando
Company Secretary

Statement of Changes in Equity

	Stated Capital		Reserves			Total	
	Notes	Ordinary Voting Shares	Retained Earnings	Statutory Reserve Fund	Investment Fund		Revaluation Reserve
		Rs.	Rs.	Rs.	Rs.		Rs.
Balance as at 1st January 2013		1,548,965,702	2,171,840,674	163,517,767	348,268,779	-	4,232,592,922
Profit for the Year		-	113,838,329	-	-	-	113,838,329
Other Comprehensive Income for the Year		-	(2,626,631)	-	-	-	(2,626,631)
Dividends to Equity Holders		-	(295,041,086)	-	-	-	(295,041,086)
Transfer to Statutory Reserve Fund	36	-	(5,691,916)	5,691,916	-	-	-
Transfer to Investment Fund	36	-	(120,637,126)	-	120,637,126	-	-
Balance as at 31st December 2013		1,548,965,702	1,861,682,244	169,209,683	468,905,905	-	4,048,763,534
Profit for the Year		-	415,210,710	-	-	-	415,210,710
Other Comprehensive Income for the Year		-	(7,814,080)	-	-	278,468,763	270,654,683
Transfer to Statutory Reserve Fund	36	-	(20,760,536)	20,760,536	-	-	-
Transfers from Investment Fund	36	-	468,905,905	-	(468,905,905)	-	-
Realisation of Revaluation Reserve	35	-	1,552,430	-	-	(1,552,430)	-
Balance as at 31st December 2014		1,548,965,702	2,718,776,673	189,970,219	-	276,916,333	4,734,628,927

The Accounting Policies and Notes on pages 120 to 198 form an integral part of the Financial Statements.

Statement of Cash Flows

Year ended 31st December,	Notes	2014 Rs.	2013 Rs.
Cash Flows from Operating Activities			
Profit Before Tax		538,433,338	123,905,725
Adjustment for:			
Other Non Cash Items Included in Profit Before Tax	41	1,024,315,867	934,312,035
Change in Operating Assets	41	(15,496,756,576)	(11,908,748,078)
Change in Operating Liabilities	41	10,783,491,189	7,878,022,177
Interest Expense on Subordinated and Senior Debt		192,820,388	105,643,360
Defined Benefits Paid		(7,751,943)	(7,575,980)
Income Tax Paid		(90,182,464)	(334,488,816)
Net Cash Flows Used in Operating Activities		(3,055,630,201)	(3,208,929,577)
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment	24	(61,679,732)	(136,777,565)
Proceeds from the Sale of Property, Plant and Equipment		572,578	4,284,518
Net Proceeds from Financial Investments - Held to Maturity		286,118,093	2,046,578,305
Purchase of Intangible Assets	25	(777,914)	(6,020,598)
Net Cash Flows from Investing Activities		224,233,025	1,908,064,660
Cash Flows from Financing Activities			
Proceeds from the Issue of Subordinated Debentures		3,000,000,000	-
Proceeds from Term Borrowings		-	1,307,857,978
Interest Paid on Subordinated and Senior Debt		(142,558,825)	(106,776,954)
Dividends Paid to Equity Holders		-	(295,041,086)
Net Cash Flows from Financing Activities		2,857,441,175	906,039,938
Net Increase/(Decrease) in Cash & Cash Equivalents		26,043,999	(394,824,979)
Cash and Cash Equivalents at 1st January		1,308,361,934	1,703,186,913
Cash and Cash Equivalents at 31st December	41	1,334,405,933	1,308,361,934

The Accounting Policies and Notes on pages 120 to 198 form an integral part of the Financial Statements.

Notes to the Financial Statements

1. Corporate Information

1.1 Reporting Entity

Pan Asia Banking Corporation PLC ("the Bank") is a public quoted company incorporated on March 6, 1995 with limited liability and domiciled in Sri Lanka. It is a Licensed Commercial Bank registered under Banking Act No. 33 of 1988 and amendments thereto. The registered office of the Bank is situated at No. 450, Galle Road, Colombo 03. The staff strength of the Bank as at 31st December 2014 is 1,302 (2013:1,169). The Ordinary Shares and Subordinated Debentures of the Bank have a listing on the Colombo Stock Exchange.

The Bank does not have an identifiable parent of its own. Further, the Bank does not hold any investments in the form of subsidiary, joint venture or associate.

1.2 Principal Activities and Nature of Operations

The principal activities of the Bank continued to be Banking and related activities such as accepting deposits, personal Banking, trade financing, resident and non-resident foreign currency operations, travel related services, corporate and retail credit, project financing, lease and hire purchase financing, pawning and ran loans, issuing of local and international credit cards, tele-banking facilities, internet and SMS Banking.

2. Basis of Preparation

2.1 Statement of Compliance

The Financial Statements of the Bank for the year ended 31st December 2014 have been prepared in accordance with Sri Lanka Accounting Standards comprising LKASs and SLFRSs as issued by the Institute of Chartered Accountants of Sri Lanka and comply with requirements of Companies Act No.7 of 2007. The presentation of the Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988 and amendments thereto. These Financial Statements also provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange. The Financial Statements includes

Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows and Notes to the Financial Statements.

2.2 Basis of Measurement

The Financial Statements have been prepared on a historical cost basis except for Financial Assets Held for Trading, Available for Sale Financial Investments, Derivative Financial Instruments, Defined Benefit Obligations and Freehold Land and Building stated at revalued amounts which are the fair values at the date of revaluation as explained in Note 24 to the Financial Statements, all of which have been measured at fair value. The Financial Statements are presented in Sri Lankan Rupees except when otherwise indicated.

2.3 Responsibility for Financial Statements

The Board of Directors are responsible for the preparation and presentation of the Financial Statements of the Bank as per the Provisions of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards.

2.4 Approval of Financial Statements by Directors

The Financial Statements for the year ended 31st December 2014 were authorised for issue in accordance with a resolution of the Board of Directors on 12th February 2015.

2.5 Presentation of Financial Statements

The Bank presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 42.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability

simultaneously. Income and expenses are not offset in the Statement of Comprehensive Income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2.6 Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the Bank's accounting policies, management has exercised judgments and estimates in determining the amounts recognised in the Financial Statements. The most significant uses of judgments and estimates are as follows:

2.6.1 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, the 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.

2.6.2 Classification of Financial Assets and Liabilities

The Bank's Accounting Policies provide scope for assets and liabilities to be classified, into different accounting categories. The classification of financial instruments is given in Note 37, 'Analysis of Financial Instruments by Measurement Basis'.

2.6.3 Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on 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, but if this is not available, judgement is required to establish fair values. The judgments include and model inputs such as volatility

for discount rates. The valuation of financial instruments is described in more detail in Note 38.

2.6.4 Impairment Losses on Loans and Receivables

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 Profit or Loss in the Statement of Comprehensive Income. 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, resulting in future changes to the allowance.

Loans and Receivables that have been assessed individually and found not to be impaired and all individually insignificant Loans and Receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether 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 and judgments on the effect of concentrations of risks and economic data.

The impairment losses on Loans and Receivables are disclosed in more detail in Note 9 and Note 21 and further described in Note 39.

2.6.5 Impairment of Financial Investments- Available for Sale

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 judgement. In making this judgement, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

Notes to the Financial Statements

The impairment losses on Financial Investments - Available for Sale are disclosed in Note 9.

2.6.6 Fair Value of Property, Plant and Equipment

The Freehold Land and Buildings of the Bank are reflected at fair value. The Management determined that these constitute classes of assets under SLFRS 13, based on the nature, characteristics and risks of the properties. The Bank engages independent valuers to determine fair value of Land and Building. When current market prices of similar assets are available, such evidence is considered in estimating fair values of these assets using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

2.6.7 Useful Lives, Methods of Depreciation and Residual Values of the Property, Plant and Equipment

The Bank reviews the useful lives, methods of depreciation and residual values, 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.

2.6.8 Defined Benefit Plan Obligation

The cost of the Defined Benefit Plan Obligation is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used are reviewed at each reporting date and disclosed in Note 32.

2.6.9 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon

the likely timing and level of future taxable profits, together with the future tax-planning strategies.

2.6.10 Provisions, Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

2.6.11 Distinction between Investment Properties and Property, Plant and Equipment

Management requires using its judgment to determine whether a property qualifies as an investment property or a Property, Plant and Equipment. The Bank has developed criteria so it can exercise its judgment consistently. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Bank are accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a stand alone asset are accounted for as Property, Plant and Equipment. The Bank assesses on an annual basis the accounting classification of its properties taking into consideration the current use of such properties. Currently the Bank does not have any Investment Property.

2.7 Changes in Accounting Policy and Reclassification

2.7.1 Revaluation of Freehold Land and Buildings

The Bank re-assessed its accounting for Property, Plant and Equipment with respect to measurement of certain classes of Property, Plant and Equipment after initial recognition. The Bank has previously measured all Property, Plant and

Equipment using the cost model as set out in LKAS 16: Property, Plant and Equipment, whereby after initial recognition of the asset classified as Property, Plant and Equipment, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

The Bank elected to change the method of accounting for Land and Buildings classified in Property, Plant and Equipment during the year, since the Bank believes that revaluation model more effectively demonstrates the financial position of Land and Buildings and is more aligned to practices adopted by its competitors.

After initial recognition, the Bank uses the revaluation model, whereby Land and Buildings will be measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The Bank applied the revaluation model prospectively.

Except for above, the accounting policies adopted by the Bank are consistent with those of the previous financial year. The presentation and classification of the Financial Statements of the previous years have been amended, where relevant, for better presentation and to be comparable with those of the current year.

2.7.2 Recognition of Deferred Tax Charge on Actuarial Losses of Defined Benefit Plans

The Bank accounted for the deferred impact of Actuarial Losses on Defined Benefit Plans recognised in Other Comprehensive Income during the year as described in Note 49 to the Financial Statements.

2.8 Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these Financial Statements are set out below.

2.8.1 Foreign Currency Translation

The Financial Statements are presented in Sri Lankan Rupees (Rs.) which is also the functional currency.

Transactions and Balances

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the reporting date. All differences arising on non-trading activities are taken to 'Other Operating Income' in the Statement of Comprehensive Income (Profit or Loss).

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.

Forward foreign exchange contracts and currency swaps are valued at the forward market rate ruling on the date of the Statement of Financial Position. Unrealised gains and losses are dealt under 'Net Gain/(Loss) from Trading' in the Statement of Comprehensive Income (Profit or Loss).

2.8.2 Financial Instruments - Initial Recognition and Subsequent Measurement

(i) Date of Recognition

All financial assets and liabilities are initially recognised on the trade date, i.e. the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades, purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Notes to the Financial Statements

(ii) 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 transaction costs, except in the case of financial assets and financial liabilities recorded at Fair Value through Profit or Loss. Transaction cost in relation to Financial Assets and Financial Liabilities at Fair Value through Profit or Loss are dealt with through Statement of Comprehensive Income (Profit or Loss).

(iii) 'Day 1' Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' Profit or Loss) in 'Net Gain from Trading'.

(iv) Classification and Subsequent Measurement of Financial Assets

At the inception a financial asset is classified into one of the following:

- a.) Financial Assets at Fair Value through Profit or Loss
 - i.) Financial Assets Held for Trading
 - ii.) Financial Assets Designated at Fair Value through Profit or Loss
- b.) Held to Maturity Financial Assets
- c.) Loans and Receivables
- d.) Financial Assets Available-for-Sale

The subsequent measurement of financial assets depends on their classification.

(v) Derivatives Recorded at Fair Value through Profit or Loss

The Bank uses derivatives such as forward foreign exchange contracts and currency swaps.

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 Gain from Trading' in Statement of Comprehensive Income (Profit or Loss).

(vi) Financial Assets at Fair Value through Profit or Loss

A Financial Asset is classified as Fair Value through Profit or Loss if it is Held for Trading or is Designated at Fair Value through Profit or Loss.

(vi) (a) Financial Assets Held for Trading

Financial Assets Held for Trading are recorded in the Statement of Financial Position at fair value. Changes in fair value, results of buying and selling and dividend income are recognised in 'Net Gain from Trading' according to the terms of the contract, or when the right to the payment has been established. Included in this classification are debt securities, equities and unit trusts that have been acquired principally for the purpose of selling or repurchasing in the near term.

(vi) (b) Financial Assets Designated at Fair Value through Profit or Loss

The Bank designates Financial Assets at Fair Value through Profit or Loss in the following circumstances:

- Such designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring the assets
- The assets are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The asset contains one or more embedded derivatives that significantly modify the cash flows that would otherwise have been required under the contract.

Financial assets at Fair Value through Profit or Loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net Gain or Loss on Financial Instruments Designated at Fair Value through Profit or Loss' in the Statement of Comprehensive Income (Profit or Loss). Interest earned is accrued in 'Interest Income', using the Effective Interest Rate (EIR) method, while dividend income is recorded in 'Other Operating Income' when the right to receive the payment has been established.

The Bank has not designated any financial assets upon initial recognition as Designated at Fair Value through Profit or Loss.

(vii) Financial Investments - Available for Sale

Available for Sale investments include unquoted equity. Equity investments classified as 'Available for Sale' are those which are neither classified as Held for Trading nor Designated at Fair Value through Profit or Loss. The Bank has not designated any loans or receivables as 'Available for Sale'. After initial measurement, Financial Investments - Available for Sale are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity (Other Comprehensive Income). When the investment is disposed off, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Comprehensive Income (Profit or Loss) in 'Net Gain from Financial Investments'. Where the Bank holds more than one investment in the same security, they are deemed to be disposed off on a first-in first-out basis. Dividends earned whilst holding Available for Sale Financial Investments' are recognised in the Statement of Comprehensive Income (Profit or Loss) as 'Net Gain from Financial Investments' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in 'Impairment for Loans and Other Losses' in the Statement of Comprehensive Income (Profit or Loss) and removed from Equity.

(viii) Financial Investments- Held to Maturity

Financial Investments - Held to Maturity 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. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the Effective Interest Rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the Effective Interest Rate. The amortisation is included in 'Interest income' in the Statement of Comprehensive Income (Profit or Loss). The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income (Profit or Loss) in 'Impairment for Loans and Other Losses' and detailed under Note 9.

If the Bank were to sell or reclassify more than an insignificant amount of Financial Investments - 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, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

(ix) Placement with Banks and Loans and Receivables to Banks and Other Customers

'Placement with Banks, Loans and Receivables to Banks and Loans and Receivables to Other Customers' 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'

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- Those for which the Bank may not recover substantially all of its initial investment, other than because of Credit deterioration

After initial measurement, 'Placements with Banks', 'Loans and Receivables to Banks' and 'Loans and Receivable to Other Customers' are subsequently measured at amortised cost using the Effective Interest Rate 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 Effective Interest Rate. The amortisation is included in 'Interest income' in the Statement of Comprehensive Income (Profit or Loss). The losses arising from impairment are recognised in the Statement of Comprehensive Income (Profit or Loss) in 'Impairment for Loans and Other Losses' and detailed under Note 9.

(x) Subordinated Debentures and Unsecured Term Debt

These represent the funds borrowed by the Bank for long term funding requirements. Unsecured Term Debt and Subordinate Debentures are recognised, where the substance of the contractual arrangement results in the Bank having an obligation to deliver cash. After initial measurement, Debentures and Term Debt are subsequently measured at amortised cost using the Effective Interest Rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the Effective Interest Rate.

2.8.3 De-recognition of Financial Assets and Financial Liabilities

(i) Financial Assets

A financial asset is de-recognised 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 and 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

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

(ii) Financial Liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in Profit or Loss.

2.8.4 Repurchase and Reverse Repurchase Agreements

Securities Sold under agreements to repurchase at a specified future date are not de-recognised from the Statement of Financial Position as the Bank retains substantially all of the risks and rewards

of ownership. The corresponding cash received is recognised in the Statement of Financial Position as a liability 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 Effective Interest Rate.

Conversely, Securities Purchased under Agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within '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 Effective Interest Rate.

2.8.5 Impairment of Financial Assets

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter Bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash

flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial Assets Carried at Amortised Cost

For financial assets carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income (Profit or Loss). 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. The interest income is recorded as part of 'Interest income'.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after then impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the

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allowance account. If a future write off is later recovered, the recovery is credited to the 'Other Operating Income'.

The present value of the estimated future cash flows is discounted at the financial asset's original Effective Interest Rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current Effective Interest Rate. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new Effective Interest Rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral 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.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in

the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Details of impairment losses on financial assets carried at amortised cost are given in Note 9 and, an analysis of the impairment allowance on Loans and Receivables are given in Note 21.

(ii) Financial Investments - Available for Sale

For Financial Investments - Available for Sale, 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. The Bank treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Other Comprehensive Income is removed from equity and recognised in the Profit or Loss in Statement of Comprehensive Income. Impairment losses on equity investments are not reversed through the Profit or Loss in Statement of Comprehensive Income. Increases in the fair value after impairment are recognised in Other Comprehensive Income.

(iii) Renegotiated Loans

Where possible, the Bank seeks to restructure 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 Effective Interest Rate 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 Effective Interest Rate.

(iv) Write off of Financial Assets Carried at Amortised Cost

Financial assets (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

(v) 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, gold, securities, property, letters of credit/ guarantees, receivables, inventories and other movable and non movable assets. The fair value of collateral is generally assessed, at a minimum, at inception and thereafter value changes are monitored in accordance with policies and procedures of the Bank. However, some collateral, for example, cash or securities relating to margining requirements, are valued on daily basis. To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as freehold property is valued based on valuation reports and other independent sources.

2.8.6 Re-classification of Financial Instruments

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurement categories are not permitted following initial recognition.

A non derivative financial asset Held for Trading that would have met the definition of Loans and Receivables (if the financial asset had not been required to be classified as 'Held for Trading' at initial recognition) may be reclassified out of the

Fair Value through Profit or Loss category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Financial assets are transferred out of the Available-for Sale category to the Loans and Receivables category where they would have met the definition of a Loans and Receivable at the date of reclassification and the Bank has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held to Maturity assets are reclassified to the Available-for Sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of Held to Maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the Available-for-Sale category into Loans and Receivables, any gain or loss on those assets recognised in Shareholders' Equity prior to the date of reclassification is amortised to Profit or Loss over the remaining life of the financial asset, using the Effective Interest Method.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The details of financial instruments re-classified during the year are disclosed in Note 38.3.

2.8.7 Fair Value Measurement

The Bank measures financial instruments such as Financial Assets Held for Trading, Financial Derivatives, and non-financial assets such as certain classes of Property, Plant and Equipment at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised under the respective notes.

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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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Financial Statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as properties and significant liabilities, such as Defined Benefit Plan Obligations. Involvement of external valuers is decided upon annually after discussion with and approval by the Bank's Board Audit Committee wherever necessary. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Board Audit Committee whenever necessary after discussions with the Bank's external valuers decide which valuation techniques and inputs to use for each case.

At each reporting date the Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Management in conjunction with the Bank's external valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 38.2.

2.8.8 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.8.9 Leases

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.8.9.1 Operating Leases

Bank as a Lessee

Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income (Profit or Loss) on a straight line basis over the lease term.

Bank as a Lessor

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

2.8.9.2 Finance Leases

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as 'Finance Leases'. Amounts receivable under finance leases are included under 'Loans and Receivables to Customers' in the Statement of Financial Position after deduction of initial rentals received, unearned lease income and the accumulated impairment losses. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods reflect a constant periodic rate of return.

2.8.10 Recognition of Income and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest Income and Expense

For all financial instruments measured at amortised cost and financial instruments at Fair Value Through Profit or Loss, interest income or expense is recorded using the Effective Interest Rate. Effective Interest Rate 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 and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the Effective Interest Rate, but not future credit losses.

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The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original Effective Interest Rate and the change in carrying amount is recorded as 'Interest income' for financial assets and 'Interest expense' for financial liabilities. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the Effective Interest Rate from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and Commission Income and Expense

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fees and Commission Income comprise mainly of fees received from customers for guarantees and other services provided by the Bank together with foreign and domestic tariffs. Such income is recognised as revenue as the services are provided. Fee income can be divided into the following two categories:

Fee Income Earned from Services that are provided Over a Certain Period of Time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Fee Income from Providing Transaction Services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Dividend Income

Dividend income is recognised when the Bank's right to receive the payment is established.

(iv) Net Gain from Trading

Results arising from trading activities include all gains and losses from buying and selling, changes in fair value and dividend income for 'Financial Assets Held for Trading' transactions.

(v) Expenditure Recognition

Expenses are recognised in Profit or Loss in the Statement of Comprehensive Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the Property, Plant and Equipment in a state of efficiency has been charged to the Statement of Comprehensive Income. For the purpose of presentation of the Statement of Comprehensive Income, the "Function of Expenses" method has been adopted, on the basis that it presents fairly the elements of the Bank's performance.

(vi) Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided and are included under Personnel Expenses in the Statement of Comprehensive Income (Profit or Loss). A liability is recognised for the amounts expected to be paid under short-term bonus if the Bank has a present legal or constructive obligation to pay this amount as a result past service rendered by the employee and the obligation can be measured reliably.

2.8.11 Cash and Cash Equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises local and foreign currency, amounts due from Foreign Banks on demand or with an original maturity of three months or less and Placements with Banks with original maturities of three months or less from the date of placement with insignificant risk of changes in value.

2.8.12 Property, Plant and Equipment

Property, Plant and Equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period.

2.8.12.1 Basis of Recognition

Property, Plant and Equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Bank and cost of the asset can be reliably measured.

2.8.12.2 Measurement

An item of Property, Plant and Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding cost of day to day servicing) as explained 2.8.12.5 below. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of Computer Hardware. When parts of an item of property or equipment have different useful lives, they are accounted for as separate Items (major components) of Property, Plant and Equipment.

2.8.12.3 Cost Model

The Bank applies cost model to Property, Plant and Equipment except for Freehold Land and Buildings

and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

2.8.12.4 Revaluation Model

The Bank applies the revaluation model to the entire class of Freehold Land and Buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold Land and Buildings of the Bank are revalued every three years on a roll over basis or more frequently if the fair values are substantially different from the carrying amounts to ensure that the carrying amounts do not differ materially from the fair values at the reporting date.

When asset's carrying amount is increased as a result of a revaluation the increase shall be recognised in Other Comprehensive Income and accumulated in equity under the heading of 'Revaluation Reserve'. However, the increase shall be recognised in Profit or Loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in Profit or Loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in Profit or Loss. However, the decrease shall be recognised in Other Comprehensive Income to the extent of any credit balance existing in the Revaluation Reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under the heading of 'Revaluation Reserve'.

A transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is

Notes to the Financial Statements

restated to the revalued amount of the asset. Any revaluation reserve relating to the particular asset being sold/disposed off is transferred to retained earnings upon de-recognition.

2.8.12.5 Subsequent Costs

The subsequent cost of replacing a component of an item of Property, Plant and Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Bank and its cost can be reliably measured. The costs of day to day servicing of Property, Plant and Equipment are charged to Profit or Loss as incurred. Costs incurred in using or redeploying an item is not included under carrying amount of an item.

2.8.12.6 De-recognition

The carrying amount of an item of Property, Plant and Equipment is de-recognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of Property, Plant and Equipment which is calculated as the difference between the carrying amount and the net disposal proceeds is included in Profit or Loss when the item is de-recognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is de-recognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is de-recognised.

2.8.12.7 Depreciation

The Bank provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are expected to

be consumed by the Bank of the different types of assets, except for which are disclosed separately. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is de-recognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

Depreciation is calculated using the straight line method to write down the cost of Property, Plant and Equipment to their residual values over their estimated useful lives. Freehold Land is not depreciated. The estimated useful lives are as follows:

Buildings	-	40 Years
Office Equipment	-	1-6 Years
Computer Hardware	-	1-6 Years
Furniture, Fittings and Fixtures	-	2-10 Years
Motor Vehicles	-	5 Years

The depreciation method and residual values of assets are reviewed at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern.

2.8.13 Intangible Assets

An intangible asset is an identifiable non monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or for administrative purposes. The Bank's intangible assets include the value of computer software.

2.8.13.1 Basis of Recognition

An intangible asset is recognised only when it is probable that the expected future economic benefits that are attributable to it will flow to the Bank and its cost can be measured reliably.

2.8.13.2 Measurement

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in these assets. All other expenditure is expensed as incurred.

2.8.13.3 Subsequent Expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

2.8.13.4 Amortisation

Intangible assets are amortised on a straight line basis in Profit or Loss from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Bank. The estimated useful life of software is 8 years.

Expenditure on an intangible item that was initially recognised as an expense by the Bank in previous financial years are not recognised as a part of the cost of an intangible asset at a later date. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

2.8.13.5 Retirement and Disposal

An intangible asset is de-recognised on disposal or when no future economic benefits are expected from its use. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in Profit or Loss.

2.8.14 Other Assets

All other assets are stated at cost less accumulated impairment losses.

2.8.15 Impairment of Non Financial Assets

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 fair value less costs to sell and its Value in Use. Where the carrying amount of an asset or cash generating unit 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.

An assessment is made for assets at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or cash generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of

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depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Profit or Loss in the Statement of Comprehensive Income.

2.8.16 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in Profit or Loss in the Statement of Comprehensive Income net of any reimbursement.

2.8.16.1 Operational Risk Events

Provisions for operational risk events are recognised for losses incurred by the Bank which do not relate directly to amounts of principal outstanding for loans and advances. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

2.8.17 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured.

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of Credit and Guarantees commit the Bank to make payments on behalf of customers in the event of a specific

act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. Operating lease commitments of the Bank (as a lessor and as a lessee) and pending legal claims against the Bank too form part of commitments of the Bank. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote. But these contingent liabilities do contain credit risk and are therefore form part of the overall risk of the Bank.

Details of Commitments and Contingencies are given in Note 43

2.8.17.1 Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the Financial Statements within 'Other Liabilities' at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Profit or Loss in the Statement of Comprehensive Income, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in Profit or Loss in the Statement of Comprehensive Income under 'Impairment for Loans and Other Losses'. The premium received is recognised in the Profit or Loss in the Statement of Comprehensive Income in 'Net Fee and Commission Income' on a straight line basis over the life of the guarantee.

2.8.17.2 Legal Claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the

amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. There were no pending litigations against the Bank as at 31st December 2014 which would have a material impact on the Financial Statements other than those disclosed under Note 43.

2.8.18 Employee Retirement Benefits

2.8.18.1 Defined Contribution Plan Costs

Defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to a defined contribution plan are recognised as 'a Personnel Expenses' in the Profit or Loss in the Statement of Comprehensive Income in the periods during which services are rendered by employees. Employees are eligible for Employees' Provident Fund and Employees' Trust Fund contributions in line with the respective Statutes and Regulations. Accordingly, the Bank contributes 12% - 15% and 3 % of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively and is recognised as an expense under "Personnel Expenses".

2.8.18.2 Defined Benefit Plan Costs

A defined benefit plan is a post employment benefit plan other than a defined contribution plan. The liability recognised in the Statement of Financial Position in respect of defined benefit plans is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated using the 'Projected Unit Credit Method'. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating to the terms of the liability. Provision has been made in the Financial Statements for retiring gratuities

from the first year of service for all employees, in conformity with LKAS 19: "Employee Benefits".

However, according to the Payment of Gratuity Act No. 12 of 1983, the liability for payment to an employee arises only after the completion of 5 years continued service. The liability is not externally funded.

2.8.19 Other Liabilities

Other liabilities are recorded at the cash value to be realised when settled.

2.8.20 Taxes

Current Tax

The provision for income tax is based on the elements of the income and expenditure as reported in the Financial Statements and computed in accordance with the Provisions of the Inland Revenue Act No. 10 of 2006 as amended subsequently.

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred Tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

Notes to the Financial Statements

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Statement of Comprehensive Income (Profit or Loss).

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Economic Service Charge

As per provisions of the Economic Service Charge (ESC) Act No.13 of 2006 and amendments thereafter, ESC is payable at 0.25% on Bank's liable turn over and is deductible from income tax payable. With effect from 1st April 2012, ESC is payable only on exempted turnover of the Bank and is deductible from income tax payable. ESC is not payable on turnover on which income tax is payable.

Value Added Tax on Financial Services

Value Added Tax on Financial Services is calculated at the rate of 12% in accordance with the provisions of the Value Added Tax Act No.14 of 2002 and amendments thereto.

Nation Building Tax on Financial Services

Nation Building Tax on Financial Services is calculated at the rate of 2% in accordance with the provisions of the Nation Building Tax Act No.09 of 2009 and amendments thereto with effective from 1st January 2014.

Crop Insurance Levy

Crop Insurance Levy is calculated at the rate of 1% of the profit after tax in accordance with Finance Act No. 12 of 2013.

2.8.21 Other Statutory Reserves

The reserves recorded in Equity on the Bank's Statement of Financial Position include;

"Statutory Reserve Fund" represents the statutory requirement in terms of Section 20 (1) and (2) of the Banking Act No 30 of 1988.

"Investment Fund Account" consists of 8% of the profits calculated for the payment of Value Added Tax on Financial Services and 5% of the Profit before Tax calculated for payment of Income Tax.

2.8.22 Dividends on Ordinary Shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.8.23 Materiality and Aggregation

Each material class of similar items are presented in the Financial Statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

2.8.24 Related Party Transactions

Disclosure has been made in respect of the transactions in which one party has the ability to

control or exercise significant influence over the financial and operating policies/decisions of the other, irrespective of whether a price is being charged.

2.8.25 Events after the Reporting Period

All the material events after end of the reporting period have been considered and appropriate adjustments/disclosures have been made in Note 46 to the Financial Statements.

2.9 Segment Reporting

The Bank's segmental reporting is based on the following operating segments: Corporate Banking, Retail Banking and Treasury functions.

Corporate Banking segment includes loans, overdrafts, other credit facilities, deposits, current accounts and other services offered to corporate customers.

Retail banking segment includes loans, overdrafts, credit card facilities, deposits, current accounts and other services offered to retail customers.

Treasury function includes trading function, financing and other central functions, use of derivative for risk management purpose, investment products and services to institutional investors and intermediaries.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Financial Statements. Income taxes and overhead expenses are managed on an entity basis and are not allocated to operating segments. Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income and expense.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue.

2.10 Regulatory Provisions

2.10.1 Investment Fund Account

As proposed in the Budget Proposals of 2011 every person or partnership who is in the business of banking or financial services is required to establish and operate an Investment Fund Account.

As and when taxes are paid after 1st January 2011 Licensed Commercial Banks are required to transfer the funds to the Investment Fund Account and build a permanent fund in the Bank as explained below.

- 8% of the profits calculated for the payment of Value Added Tax (VAT) on Financial Services on dates as specified in the VAT Act for payment of VAT
- 5% of the profit before tax calculated for payment of income tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self-assessment payments of tax

The Bank utilised the funds in the Investment Fund Account in the following manner;

- Invest in long term Government securities and/or bonds with maturities not less than 7 years
- Lend on maturities not less than five years at interest rates not exceeding 5 year Treasury bond rate plus 2% for the following purposes:
 - a) Long term loans for cultivation of plantation crops/agriculture crops including fruits, vegetables, cocoa and spices and for livestock and fisheries

Notes to the Financial Statements

- b) Factory/mills modernisation/establishment/expansion
- c) Small and medium enterprises (Loans up to Rs. 200 Mn to enterprises with annual turnover less than Rs. 600 Mn)
- d) Information technology related activities and business process outsourcing
- e) Infrastructure development
- f) Education - vocational training and tertiary education
- g) Housing up to Rs. 2 Mn per customer for construction of a house for residential purposes
- h) Construction of hotels and for related purposes
- i) Restructuring of loans extended for the above purposes

Banks invested funds in short-term Government securities until the commencement of utilisation of funds as stated above.

The operation of the Investment Fund Account was ceased with effect from 1st October 2014. Accordingly the Bank transferred the balance remaining in the IFA as at 1st October 2014 to Retained Earnings.

2.10.2 Deposit Insurance and Liquidity Support Scheme

In terms of the Banking Act Direction No. 05 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. The said scheme was renamed as the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" as per the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulation No 1 of 2013.

Deposits to be insured include demand, time and savings deposit liabilities and exclude the following;

- a) deposit liabilities to member institutions
- b) deposit liabilities to Government of Sri Lanka
- c) 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
- d) deposit liabilities held as collateral against any accommodation granted
- e) 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 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 calculated on the total amount of eligible deposits as at the end of the quarter within a period of 15 days from the end of the quarter

3. New Accounting Standards

3.1 New Accounting Standards Became Effective During the Year

The following Sri Lanka Accounting Standards were issued by the Institute of Chartered Accountants of Sri Lanka and is effective for the periods commencing on or after of 1st January 2014.

SLFRS 10 - Consolidated Financial Statements

SLFRS 10 replaces the portion of LKAS 27 (Consolidated and Separate Financial Statements) that addresses the accounting for consolidated Financial Statements. It also addresses the issues raised in SIC 12 (Consolidation of Special Purpose Entities).

SLFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by SLFRS 10 will require the management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent.

The new standard did not have any effect on the Financial Statements of the Bank as at the reporting date.

SLFRS 11 - Joint Arrangements

SLFRS 11 replaces LKAS 31 (Interests in Joint Ventures) and SIC 13 (Jointly Controlled Entities).

SLFRS 11 removed the option to account for jointly controlled entities (JCEs) using proportionate consolidation method. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

The new standard did not have any effect on the Financial Statements of the Bank as at the reporting date.

SLFRS 12 - Disclosure of Interests in Other Entities

SLFRS 12 includes all of the disclosures that were previously in LKAS 27 (Consolidated and Separate Financial Statements) related to consolidated Financial Statements, as well as all of the disclosures that were previously included in LKAS 31 (Interests in Joint Ventures) and LKAS 28 (Investments in Associates). These disclosures relate to an entity's interest in subsidiaries, joint arrangements, associates and structured entities.

The new standard did not have any effect on the Financial Statements of the Bank as at the reporting date.

SLFRS 13 - Fair Value Measurement

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under SLFRS when fair value is required or permitted.

The Bank did not have any material impact from the implementation of SLFRS 13. Necessary disclosures required by the new Standard have been included in the Notes to the Financial Statements.

3.2 Standards Issued but not yet Effective at the Reporting Date

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31st December 2014.

SLFRS 14 - Regulatory Deferral Accounts

The objective of this Standard is to specify the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation.

Notes to the Financial Statements

SLFRS 14 will become effective on 01st January 2016. The impact on the implementation of the above Standard has not been quantified yet.

SLFRS 15 - Revenue from Contracts with Customers

The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of Financial Statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

SLFRS 15 will become effective on 01st January 2017. The impact on the implementation of the above Standard has not been quantified yet.

SLFRS 09 - Financial Instruments

This standard will replace LKAS 39, Financial Instruments, Recognition and Measurement. The improvements introduced by SLFRS 9 includes a logical model for classification and measurement, a single, forward-looking 'Expected Loss' impairment model and a substantially-reformed approach to hedge accounting which are detailed below.

Phase 1: Classification and Measurement

Classification determines how financial assets and financial liabilities are accounted for in the Financial Statements and, in particular, how they are measured on an ongoing basis. SLFRS 9 introduces a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are complex and difficult to apply.

Phase 2: Impairment

SLFRS 09 introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and it lowers the threshold for recognition of full lifetime expected losses.

Phase 3: Hedge Accounting

SLFRS 9 introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity. The new model represents a substantial overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their Financial Statements. In addition, as a result of these changes, users of the Financial Statements will be provided with better information about risk management and the effect of hedge accounting on the Financial Statements.

SLFRS 09 will become effective on 1st January 2018. The impact on the implementation of the above Standard has not been quantified yet.

4. Net Interest Income

	2014	2013
	Rs.	Rs.
Interest Income		
Placements with Banks	9,497,508	170,718,419
Loans and Receivables to Banks	208,657,214	22,678,047
Loans and Receivables to Other Customers	6,588,877,663	6,890,542,819
Financial Investments - Held to Maturity	208,395,472	374,396,510
Financial Assets - Held for Trading	314,122,217	369,121,984
Interest Income Accrued on Impaired Loans and Receivables	212,175,003	149,494,376
	7,541,725,077	7,976,952,155
Interest Expense		
Due to Banks	27,464,411	22,752,739
Due to Other Customers	4,438,849,190	5,585,967,990
Other Borrowings	200,718,669	167,288,695
Subordinated Debentures	134,708,840	105,643,360
	4,801,741,110	5,881,652,784
Net Interest Income	2,739,983,967	2,095,299,371

The presentation and classification of the previous year have been amended for better presentation and to be comparable with those of the current year.

4.1 Net Interest Income from Sri Lanka Government Securities and Related Financial Instruments

	2014	2013
	Rs.	Rs.
Interest Income	894,255,011	888,987,091
Interest Expense	(141,380,666)	(152,430,397)
Net Interest Income	752,874,345	736,556,694

The Net Income from Sri Lanka Government Securities includes Interest Income from Treasury Bills/Bonds, Sri Lanka Development Bonds, Securities Purchased under Re-Sale Agreements net of Interest Expenses for Securities Sold under Re-Purchase Agreements.

4.2 Net Interest Income from Financial Instruments not Measured at Fair Value through Profit or Loss

	2014	2013
	Rs.	Rs.
Interest Income	7,227,602,860	7,607,830,171
Interest Expense	(4,801,741,110)	(5,881,652,784)
Net Interest Income	2,425,861,750	1,726,177,387

Notes to the Financial Statements**5. Net Fee and Commission Income**

	2014	2013
	Rs.	Rs.
Net Fee and Commission Income		
Fee and Commission Income	643,868,612	548,298,304
Fee and Commission Expense	(15,266,803)	(8,950,701)
	628,601,809	539,347,603
Comprising		
Loans	154,529,713	104,485,749
Cards	46,765,345	18,844,547
Trade and Remittance	297,742,284	276,806,709
Deposits	97,457,403	107,744,914
Guarantees	32,107,064	31,465,684
	628,601,809	539,347,603

6. Net Gain from Trading

	2014	2013
	Rs.	Rs.
Equities and Unit Trusts		
Realised	200,032,542	49,283,230
Unrealised	5,061,859	36,047,653
Debt Securities		
Realised	158,003,150	85,774,666
Unrealised	(26,479,400)	26,846,000
Foreign Exchange - Net Forward Forex Gain	7,647,180	40,350,086
	344,265,331	238,301,635

Equities and Unit Trust Income include the results of buying and selling, dividend income and changes in the fair value of equity securities and Unit Trusts. Debt securities income includes the results of buying and selling and changes in the fair value of debt securities. Foreign exchange income includes gains and losses from spot and forward contracts and other currency derivatives.

7. Net Gain from Financial Investments

	2014	2013
	Rs.	Rs.
Financial Investments Available for Sale - Equities	267,390	211,250
	267,390	211,250

8. Other Operating Income

	2014	2013
	Rs.	Rs.
Non Trading Foreign Exchange Gain	291,062,295	273,033,311
Gain on Sale of Property, Plant and Equipment	-	1,832,839
Others	22,767,771	15,407,075
	313,830,066	290,273,225

9. Impairment for Loans and Other Losses

	2014	2013
	Rs.	Rs.
Loans and Receivables to Other Customers (Note 21.4)		
Individual Impairment Losses	(396,209,953)	(193,408,204)
Collective Impairment Losses	(276,965,839)	(389,373,806)
	(673,175,792)	(582,782,010)
Other Impairment Losses	(141,678,562)	(160,479,192)
	(814,854,354)	(743,261,202)

There are no impairment losses recognised in the Statement of Comprehensive Income (Profit or Loss) with regard to Placements with Banks, Loans and Receivables to Banks, Financial Investments - Held to Maturity and Financial Investments - Available for Sale.

10. Personnel Expenses

	2014	2013
	Rs.	Rs.
Salaries, Wages and Other Related Expenses	908,990,901	789,281,265
Defined Contribution Plan Expenses - Employees Provident Fund	94,131,705	85,563,148
Defined Contribution Plan Expenses - Employees Trust Fund	21,853,265	19,619,552
Defined Benefit Plan Expenses (Note 32.1)	30,462,226	24,822,295
Amortisation of Prepaid Staff Expenses	25,442,844	22,880,669
	1,080,880,941	942,166,929

11. Other Operating Expenses

	2014	2013
	Rs.	Rs.
Directors' Emoluments	31,663,225	27,836,541
Auditors' Remuneration	3,613,500	3,285,000
Non Audit Fees to Auditors	1,200,000	600,000
Professional and Legal Expenses	15,958,137	17,248,418
Depreciation of Property, Plant and Equipment	162,867,662	154,263,099
Amortisation of Intangible Assets	15,975,775	13,798,278
Operating Lease Expenses	173,167,129	164,576,384
Administration and Establishment Expenses	358,233,786	327,607,968
Advertising and Promotional Expenses	155,331,600	136,355,410
Other Expenses	458,693,818	403,993,326
	1,376,704,632	1,249,564,424

Notes to the Financial Statements**12. Income Tax Expense**

The major components of income tax expense for the years ended 31st December 2014 and 31st December 2013 are:

	2014	2013
	Rs.	Rs.
Current Income Tax		
Current Income Tax Charge (Note 12.1)	66,682,890	35,389,339
Deferred Tax		
Relating to Origination and Reversal of Temporary Differences (Note 12.2)	56,539,738	(25,321,943)
Income Tax Expense Reported in the Statement of Comprehensive Income (Profit or Loss)	123,222,628	10,067,396

Prior year figures have been amended to conform with the current year presentation. Details of Re-classification are given in Note 49.

12.1 Reconciliation of the Total Tax Expense

A reconciliation between the tax expense and the accounting profit multiplied by the Statutory Income tax rate for the years ended 31st December 2014 and 31st December 2013 is as follows:

	2014	2013
	Rs.	Rs.
Accounting Profit Before Tax	538,433,338	123,905,725
At Statutory Income Tax Rate of 28%	150,761,335	34,693,603
Non Deductible Expenses	627,692,798	595,628,004
Deductible Expenses	(661,367,070)	(553,061,575)
Income not Subject to Tax	(71,408,402)	(67,179,011)
Tax Effect of Business of Finance Leasing (Tax Losses)	21,004,229	25,308,318
Current Income Tax Charge	66,682,890	35,389,339
Effective Tax Rate	12%	29%

12.2 Deferred Tax

The following table shows deferred tax liabilities recorded on the Statement of Financial Position and changes recorded in the Statement of Comprehensive Income (Profit or Loss).

	2014			2013		
	Deferred Tax Liabilities (Statement of Financial Position)	Statement of Comprehensive Income		Deferred Tax Liabilities (Statement of Financial Position)	Statement of Comprehensive Income	
		Profit or Loss	Other Comprehensive Income		Profit or Loss	Other Comprehensive Income
		Rs.	Rs.		Rs.	Rs.
Lease Rentals Receivable	196,341,098	25,359,534	-	170,981,564	37,705,264	-
Property, Plant and Equipment	176,062,854	5,284,963	77,690,208	93,087,683	17,112,871	-
Intangible Assets	10,965,049	(1,013,973)	-	11,979,022	4,980	-
Defined Benefit Plan Obligation	(35,818,867)	(6,358,880)	(3,038,809)	(26,421,178)	(4,828,968)	(1,021,467)
Impairment of Assets	(19,259,349)	54,272,323	-	(73,531,672)	(50,007,772)	-
Tax Losses	(46,312,547)	(21,004,229)	-	(25,308,318)	(25,308,318)	-
Total	281,978,238	56,539,738	74,651,399	150,787,101	(25,321,943)	(1,021,467)

Prior year figures have been Re-Classified to conform with the current year presentation. Details of Re-classification are given in Note 49.

13. Earnings Per Share

Basic Earnings Per Share is calculated by dividing the profit for the year attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year.

Diluted Earnings Per Share is calculated by dividing the profit attributable to ordinary equity holders of Bank by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. As there were no potential ordinary equity outstanding at year end Diluted Earnings per Share is also equal to the Basic Earnings per Share for the year.

The income and share data used in the Basic/Diluted Earnings Per Share calculations are detailed below;

	2014	2013
Profit Attributable to Ordinary Shareholders (Rs.)	415,210,710	113,838,329
Weighted Average Number of Ordinary Shares in Issue	295,041,086	295,041,086
Basic/Diluted Earnings Per Share (Rs.)	1.41	0.39

There were no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these Financial Statements which would require the Re-Statement of Earnings per Share.

Notes to the Financial Statements**14. Dividends Per Share**

	2014	2013
	Rs.	Rs.
Gross Dividends Paid/Payable to Ordinary Shareholders (Rs.)	-	-
Dividends Per Share (Rs.)	-	-

There were no dividends paid or payable in respect of financial years 2013 and 2014.

15. Cash and Cash Equivalents

	2014	2013
	Rs.	Rs.
Cash in Hand (Note 41)	1,110,099,943	802,959,815
Balances with Foreign Banks (Note 41)	224,305,990	400,779,815
	1,334,405,933	1,203,739,630

16. Balances with Central Bank

	2014	2013
	Rs.	Rs.
Statutory Deposit with the Central Bank of Sri Lanka	3,247,643,733	2,799,581,915
	3,247,643,733	2,799,581,915

As required by the Provisions of Section 93 of Monetary Law Act, a cash balance is required to be maintained with the Central Bank of Sri Lanka according to statutory requirements. Minimum cash reserve requirement as at the Statement of Financial Position Date is 6% (2013 - 6%) of the Rupee deposit liabilities of the Domestic Banking Unit. Statutory Deposit with the Central Bank of Sri Lanka is not available for use in the Bank's day-to-day operations.

17. Placements with Banks

	2014	2013
	Rs.	Rs.
Placements with Banks	-	104,622,304
	-	104,622,304

18. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	2014			2013		
	Assets	Liabilities	Notional Amount	Assets	Liabilities	Notional Amount
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Forward Foreign Exchange						
Contracts and Currency Swaps	5,206,464	-	8,107,485,923	2,758,216	24,634,054	6,463,859,597
	5,206,464	-	8,107,485,923	2,758,216	24,634,054	6,463,859,597

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the Profit or Loss of the Bank. The Bank's exposure under derivative contracts is closely monitored as part of the overall management of the Bank's market risk.

Forward Foreign Exchange Contracts

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over the counter market and are subject to credit risk and liquidity risk and result in market exposure. The Bank has credit exposure to the counterparties of forward contracts which are settled on gross basis therefore, considered to bear a higher liquidity risk than the futures contracts that are settled on a net basis.

Currency Swaps

Currency Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying foreign currency rate. In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Fair Values

Disclosures concerning the fair value of derivatives are provided in Note 38.

19. Financial Assets - Held for Trading

	2014 Rs.	2013 Rs.
Quoted Equities (Note 19.1)	16,348,437	11,286,578
Unit Trusts	-	4,515,666,225
Quoted Debentures	-	1,056,343,374
Sri Lanka Government Securities - Treasury Bills and Bonds (Note 19.2)	1,398,349,917	3,587,118,890
	1,414,698,354	9,170,415,067

19.1 Quoted Equities

	2014			2013		
	No. of Shares	Cost Rs.	Carrying Amount/Fair Value Rs.	No. of Shares	Cost Rs.	Carrying Amount/Fair Value Rs.
Vallibel One PLC	684,035	17,100,875	16,348,437	684,035	17,100,875	11,286,578
		17,100,875	16,348,437		17,100,875	11,286,578
Carrying Value			16,348,437			11,286,578

19.2 Sri Lanka Government Securities - Treasury Bills and Bonds

	2014 Rs.	2013 Rs.
Sri Lanka Government Securities - Treasury Bills and Bonds	1,398,349,917	3,587,118,890
	1,398,349,917	3,587,118,890

Notes to the Financial Statements**19.2.1 Financial Assets Held for Trading Pledged as Securities**

Sri Lanka Government Securities - Treasury Bills and Bonds (Trading) amounting to Rs. 605,660,000/- (31st December 2013 - 1,481,343,078/-) are pledged as collateral against the Borrowings under Repurchase Agreements as at the date of the Statement of Financial Position.

20. Loans and Receivables to Banks

	2014	2013
	Rs.	Rs.
Securities Purchased Under Resale Agreements - Banks	7,597,250,330	12,002,143
	7,597,250,330	12,002,143

21. Loans and Receivables to Other Customers

	2014	2013
	Rs.	Rs.
Gross Loans and Receivables	63,292,721,291	47,128,702,204
Less: Individual Impairment (Note 21.4)	(1,923,964,610)	(1,655,010,750)
Collective Impairment (Note 21.4)	(1,022,113,404)	(745,005,033)
	60,346,643,277	44,728,686,421

21.1 Product wise Analysis

	2014	2013
	Rs.	Rs.
Loans and Advances		
Overdrafts	14,418,732,200	13,927,292,366
Trade Finance	1,991,724,082	1,588,559,759
Credit Cards	625,292,112	213,001,356
Pawning & Ran Loans	1,308,198,965	2,997,534,263
Staff Loans	362,297,493	347,212,305
Term Loans		
Short - term	5,343,519,478	3,281,074,543
Long - term	23,047,998,118	11,932,825,549
Lease Rentals Receivable	5,767,025,737	5,149,444,647
Margin Trading Advances	2,110,592,746	1,830,968,787
Others	945,508,572	2,693,632,098
	55,920,889,503	43,961,545,673
Other Receivables		
Sri Lanka Government Securities - Sri Lanka Development Bonds	5,195,616,198	1,984,458,625
Securities Purchased Under Resale Agreements - Other Customers	1,000,175,824	1,182,697,906
Debentures - Quoted	1,176,039,766	-
	7,371,831,788	3,167,156,531
	63,292,721,291	47,128,702,204

The presentation and classification of the previous year have been amended for better presentation and to be comparable with those of the current year.

21.2 Currency wise Analysis

	2014	2013
	Rs.	Rs.
Sri Lankan Rupee	54,267,574,756	43,159,702,796
United States Dollar	8,906,718,948	3,882,484,282
Great Britain Pound	11,203,813	43,069,098
Others	107,223,774	43,446,028
	63,292,721,291	47,128,702,204

Industry wise analysis of the Loans and Receivables to Other Customers are given in Note 39.2. Details of Lease Rentals Receivable are given in Note 44.

21.3 Individually Impaired Loans and Receivables

	2014	2013
	Rs.	Rs.
Gross amount of Loans and Receivables individually determined to be impaired, before deducting the Individual Impairment Losses	3,061,403,383	2,858,481,492
Less: Individual Impairment Losses (Note 21.4)	(1,923,964,610)	(1,655,010,750)
Net Exposure	1,137,438,773	1,203,470,742
Impairment Cover Ratio (Individual Impairment Losses to Gross Individually Impaired Loans and Receivables)	62.85%	57.90%
Impaired Loans and Receivable Ratio (Individually Impaired Loans and Receivables to Gross Loans and Receivables)	4.84%	6.07%

21.4 Movements in Individual and Collective Impairment During the Year

	Individual Impairment	Collective Impairment	Total Impairment
	Rs.	Rs.	Rs.
At 1st January 2013	1,418,357,891	457,783,053	1,876,140,944
Charge to Profit or Loss (Note 09)	193,408,204	389,373,806	582,782,010
(Write off)/Recoveries during the Year	-	(102,151,826)	(102,151,826)
Interest Accrued on Impaired Loans and Receivables	(149,494,376)	-	(149,494,376)
Other Movements	192,739,031	-	192,739,031
At 31st December 2013	1,655,010,750	745,005,033	2,400,015,783
At 1st January 2014	1,655,010,750	745,005,033	2,400,015,783
Charge to Profit or Loss (Note 09)	396,209,953	276,965,839	673,175,792
(Write off)/Recoveries during the Year	(56,989,640)	142,532	(56,847,108)
Interest Accrued on Impaired Loans and Receivables	(212,175,003)	-	(212,175,003)
Other Movements	141,908,550	-	141,908,550
At 31st December 2014	1,923,964,610	1,022,113,404	2,946,078,014

22. Financial Investments - Available for Sale

	2014	2013
	Rs.	Rs.
Equities - Unquoted (Note 22.1)	6,157,847	6,157,847
	6,157,847	6,157,847

All unquoted Available for Sale Equities are recorded at cost since its fair value cannot be reliably estimated. There is no market for these investments and the Bank intends to hold these for long term.

Notes to the Financial Statements**22.1 Equities - Unquoted**

	2014		2013	
	No. of Shares	Amount Rs.	No. of Shares	Amount Rs.
Credit Information Bureau of Sri Lanka	300	30,000	300	30,000
Society for Worldwide Interbank Financial Telecommunication (SWIFT)	8	4,127,847	8	4,127,847
Lanka Clear (Private) Limited	100,000	1,000,000	100,000	1,000,000
Lanka Financial Services Bureau Limited	100,000	1,000,000	100,000	1,000,000
		6,157,847		6,157,847

23. Financial Investments - Held to Maturity

	2014 Rs.	2013 Rs.
Sri Lanka Government Securities - Treasury Bills/Bonds	2,563,357,188	2,849,475,281
	2,563,357,188	2,849,475,281

23.1 Financial Assets Held to Maturity Pledged as Collateral

Sri Lanka Government Securities - Treasury Bills and Bonds (Held to Maturity Portfolio) amounting to Rs.1,505,200,000/- (31st December 2013 - Rs. 1,242,833,361/-) are pledged as collateral against the Borrowings under Repurchase Agreements as at the date of the Statement of Financial Position.

24. Property, Plant and Equipment**24.1 Cost/Fair Value**

	Freehold Land Rs.	Freehold Buildings Rs.	Office Equipments Rs.	Computer Hardware Rs.	Furniture & Fittings Rs.	Motor Vehicles Rs.	Total Rs.
At 1st January 2014	413,652,558	223,252,527	305,411,758	322,773,323	451,180,099	10,997,620	1,727,267,885
Additions	-	-	15,528,929	13,527,784	32,623,019	-	61,679,732
Revaluation Effect	78,693,942	242,800,973	-	-	-	-	321,494,915
Disposals/Transfers	-	-	(443,093)	(806,000)	(1,534,584)	-	(2,783,677)
At 31st December 2014	492,346,500	466,053,500	320,497,594	335,495,107	482,268,534	10,997,620	2,107,658,855

24.2 Depreciation and Impairment

At 1st January 2014	-	30,479,186	146,498,958	188,069,047	154,005,658	3,912,620	522,965,469
Depreciation Charge for the Year	-	7,796,603	43,801,205	41,291,883	67,797,971	2,180,000	162,867,662
Revaluation Effect	-	(34,664,056)	-	-	-	-	(34,664,056)
Disposals/Transfers	-	-	(422,093)	(508,319)	(1,124,841)	-	(2,055,253)
At 31st December 2014	-	3,611,733	189,878,070	228,852,611	220,678,788	6,092,620	649,113,822

24.3 Net Book Value

At 31st December 2013	413,652,558	192,773,341	158,912,800	134,704,276	297,174,441	7,085,000	1,204,302,416
At 31st December 2014	492,346,500	462,441,767	130,619,524	106,642,496	261,589,746	4,905,000	1,458,545,033

24.4 There were no capitalised borrowing costs related to Property, Plant and Equipment acquired during the year.

24.5 The details of the Land and Building owned by the Bank are as follows;

Location/Address	Extent		2014 Cost/Valuation		2013 Cost/Valuation	
	Land	Building	Land	Building	Land	Building
	(Perches)	(Square Feet)	Rs.	Rs.	Rs.	Rs.
No: 450, Galle Road, Colombo 03	23.66	43,317	213,000,000	455,400,000	183,969,895	212,332,737
No: 08, Sea Avenue, Colombo 03	18.55	-	111,300,000	-	106,166,453	-
No: 10, Sea Avenue, Colombo 03	19.80	-	118,800,000	-	82,437,000	-
No: 12 & 12 1/1, Sea Avenue, Colombo 03	10.00	3,874	49,246,500	10,653,500	41,079,210	10,919,790
			492,346,500	466,053,500	413,652,558	223,252,527

24.6 All Freehold Land and Building owned by the Bank have been revalued by M/s Sunil Fernando Associates (Pvt) Ltd, an independent incorporated valuer and having recent experience in the location and category of the Land and Building during the year. Details of Revalued properties are disclosed in Note 24.8. Revaluation surplus arising out of revaluation has been transferred to Revaluation Reserve.

The Bank determined that the Revalued Land and Building constitute classes of assets under SLFRS 13 based on the nature, characteristics and risks of the properties.

Reconciliation of Fair Value

	Rs.
As at 1st January 2013 and 31st December 2013	-
Revaluation Surplus Recognised due to Change in Accounting Policy to Revaluation Model (Level 3 valuation)*	356,158,971
As at 31st December 2014	356,158,971

The Bank changed the Accounting policy with respect to measurement of Land and Buildings from Cost Model to Revaluation Model with effective from 30th September 2014. Therefore, the fair value of the Land and Buildings were not measured at 1st January 2013 and 31st December 2013.

*Significant Unobservable Valuation Input,

Land : Price per Perch Rs. 6,000,000 - Rs. 9,000,000

Building : Monthly rent per square feet Rs. 100 - Rs. 200

Significant increase/decrease in estimated price per perch/square feet would result in a significantly higher/lower fair value.

Other fair value measurement related disclosures on Revalued Land and Buildings are provided in Note 38.2.

Notes to the Financial Statements

24.7 The Carrying amount of revalued Land and Building, if they were carried at cost less depreciation, would be as follows;

	2014			2013		
	Cost Rs.	Accumulated Depreciation Rs.	Carrying Value Rs.	Cost Rs.	Accumulated Depreciation Rs.	Carrying Value Rs.
Freehold Land	413,652,558	-	413,652,558	413,652,558		413,652,558
Freehold Building	223,252,527	36,059,384	187,193,143	223,252,527	1,395,328	221,857,199
Total	636,905,085	36,059,384	600,845,701	636,905,085	1,395,328	635,509,757

24.8 Details of the Land and Building stated at revalued amounts are given below;

Location/Address	Valuer Name	Date of Valuation	Method of Valuation	Land		Building	
				Cost Rs.	Revalued Amount Rs.	Cost Rs.	Revalued Amount Rs.
No: 450, Galle Road, Colombo 03	Sunil Fernando Associates (Pvt.) Ltd	22nd September 2014	Investment Method	183,969,895	213,000,000	212,332,737	455,400,000
No: 08, Sea Avenue, Colombo 03	Sunil Fernando Associates (Pvt.) Ltd	22nd September 2014	Comparison Method of Valuation	106,166,453	111,300,000	-	-
No: 10, Sea Avenue, Colombo 03				82,437,000	118,800,000	-	-
No: 12 & 12 1/ 1, Sea Avenue, Colombo 03				41,079,210	49,246,500	10,919,790	10,653,500

24.9 A classwise analysis of the cost value of fully depreciated Property, Plant and Equipment of the Bank which are still in use at the date of the Statement of Financial Position are as follows;

	2014 Rs.	2013 Rs.
Office Equipment	57,990,412	42,233,340
Computer Hardware	114,380,876	67,637,299
Furniture & Fittings	21,563,584	139,303
Motor Vehicles	97,620	97,620
	194,032,492	110,107,562

24.10 There were no Property, Plant and Equipment identified as temporarily idle as at the date of the Statement of Financial Position.

24.11 There were no Property, Plant and Equipment retired from active use as at the date of the Statement of Financial Position.

24.12 There were no restrictions on the title of Property, Plant and Equipment as at the date of the Statement of Financial Position.

24.13 There were no items of Property, Plant and Equipment pledged as securities against liabilities as at the date of the Statement of Financial Position.

25. Intangible Assets**Computer Software**

Cost	Total Rs.
At 1st January 2014	216,929,475
Additions	777,914
Disposals	-
At 31st December 2014	217,707,389
Amortisation and Impairment	
At 1st January 2014	151,125,254
Amortisation Charge for the Year	15,975,775
Disposals	-
At 31st December 2014	167,101,029
Net Book Value	
At 31st December 2013	65,804,221
At 31st December 2014	50,606,360

Nature and Amortisation Method

Intangible assets represent acquisition of computer software from third parties. These software are amortised over the estimated useful life of 8 years on a straight line basis. There were no intangible asset items pledged as securities for liabilities. Further there were no capitalised borrowing costs related to the acquisition of intangible assets during the year.

26. Other Assets

	2014 Rs.	2013 Rs.
Deposits, Prepayments and Advances	462,561,048	377,751,084
Prepaid Staff Cost	176,683,092	192,727,536
Outward Clearing Control Receivable	668,057,452	454,877,465
Gold Stock (Note 26.1)	539,086	1,445,032,322
Income Tax Receivables	173,732,290	147,784,648
Other Receivables	99,178,587	152,727,032
	1,580,751,555	2,770,900,087

26.1 Gold Stock

	2014 Rs.	2013 Rs.
Cost	648,700	1,605,511,514
Less : Accumulated Impairment Losses	(109,614)	(160,479,192)
	539,086	1,445,032,322

Notes to the Financial Statements

27. Due to Banks

	2014	2013
	Rs.	Rs.
Call Money Borrowings	1,058,273,213	998,956,752
Re-finance Borrowings	42,379,467	33,885,610
Securities Sold under Repurchase Agreements - Banks	-	825,157,239
Balances with Foreign Banks	33,510,637	3,565,457
	1,134,163,317	1,861,565,058

28. Due To Other Customers

	2014	2013
	Rs.	Rs.
Total Amount Due to Customers	64,895,224,928	53,835,897,400
	64,895,224,928	53,835,897,400

Product wise Analysis

Demand Deposits	6,456,819,512	4,773,215,040
Savings Deposits	13,360,712,195	5,629,926,572
Time Deposits	39,743,567,880	38,188,235,176
Certificates of Deposits	4,820,759,571	4,558,118,153
Margin Deposits	513,365,770	686,402,459
	64,895,224,928	53,835,897,400

	2014	2013
	Rs.	Rs.
Currency wise Analysis		
Sri Lanka Rupee	59,943,967,541	50,475,100,522
United States Dollar	4,069,125,639	2,317,691,931
Great Britain Pound	373,923,478	306,725,672
Euro	75,441,346	434,051,080
Others	432,766,924	302,328,195
	64,895,224,928	53,835,897,400

The presentation and classification of the previous year have been amended for better presentation and to be comparable with those of the current year.

29. Term Debt and Other Borrowed Funds

	2014	2013
	Rs.	Rs.
Securities Sold Under Repurchase Agreements - Other Customers	1,838,846,473	1,574,087,965
Unsecured Loan Facility Borrowings (Note 29.1)	1,321,459,929	1,307,857,978
	3,160,306,402	2,881,945,943

29.1 Unsecured Loan Facility Borrowings

Lender	Receipt Date	Maturity Date	Rate of Interest	Amount	
				Foreign Currency	Rs.
Global Climate Partnership Fund S.A. SICAV-SIF	30th September 2013	30th September 2020	6 Month LIBOR + 4%	USD 10,000,000	1,321,459,929

30. Other Provisions and Accruals

	2014 Rs.	2013 Rs.
Utility Payables	52,022,826	67,866,329
Other Accruals	74,710,936	10,681,609
	126,733,762	78,547,938

31. Other Liabilities

	2014 Rs.	2013 Rs.
Cheque Pending Realisation	666,682,186	455,005,455
Claims Payable	283,082,924	328,889,760
Defined Benefit Plan - Retiring Gratuity Obligation (Note 32.2)	127,924,523	94,361,351
Other Creditors	359,586,013	373,354,663
	1,437,275,646	1,251,611,229

32. Defined Benefit Plan - Retiring Gratuity Obligation

Amounts recognised in Statement of Comprehensive Income in respect of Defined Benefit Plan Expenses are as follows;

32.1. Defined Benefit Plan Expense

	2014 Rs.	2013 Rs.
Service Cost		
Current Service Cost	20,082,477	16,006,262
Interest Cost	10,379,749	8,816,033
Components Recognised in the Profit or Loss	30,462,226	24,822,295
Re-measurement of Net Defined Benefit Obligations		
Actuarial Losses	10,852,889	3,648,098
Components Recognised in Other Comprehensive Income	10,852,889	3,648,098

Notes to the Financial Statements

32.2 Defined Benefit Plan - Retiring Gratuity Obligations

Movements in the present value of the Defined Benefit Plan Obligation are as follows:

	2014 Rs.	2013 Rs.
Balance at the Beginning of the Year	94,361,351	73,466,938
Current Service Cost	20,082,477	16,006,262
Interest Cost	10,379,749	8,816,033
Actuarial Losses Due to Changes in Assumptions	10,852,889	3,648,098
Benefits Paid during the Year	(7,751,943)	(7,575,980)
Balance at the End of the Year	127,924,523	94,361,351

Actuarial Valuation of Retiring Gratuity Obligation as at 31st December 2014 was carried out by Messrs. Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries using 'Projected Unit Credit Method' as recommended by LKAS 19 - 'Employee Benefits'.

The principal assumptions used in determining the Retiring Benefit Obligation are given below;

	2014	2013
Discount Rate	9.50% p.a	11.00% p.a
Salary Increment Rate	9.00% p.a	9.00% p.a

The demographic assumptions underlying the valuation are retirement age (55 years), staff turnover rate, early withdrawal from service, retirement on medical grounds, death before and after retirement, etc. Assumptions regarding future mortality are based on 1967 - 70 Mortality Table issued by the Institute of Actuaries, London.

Defined Benefit Plan Obligation is not externally funded hence, no contributions are expected for year 2015. The Defined Benefit Plan Obligation is recorded under 'Other Liabilities' in the Statement of Financial Position. Actuarial Loss of Defined Benefit Plan is recognised in Other Comprehensive Income for the year.

32.3 Sensitivity of Assumptions in Actuarial Valuation of Retiring Gratuity Obligation

The following table demonstrates the sensitivity to a possible changes in key assumptions employed with all other variables held constant in the Retiring Gratuity Obligations measurement as at 31st December 2014. The sensitivity of the Statement of Financial Position and Statement of Comprehensive Income is the effect of the assumed changes in the discount rate and salary increment rate on the Profit or Loss and Retiring Gratuity obligation for the year.

Increase/(Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	2014		2013	
		Sensitivity Effect on Statement of Comprehensive Income	Sensitivity Effect on Defined Benefit Obligation	Sensitivity Effect on Statement of Comprehensive Income	Sensitivity Effect on Defined Benefit Obligation
		Rs.	Rs.	Rs.	Rs.
1%	-	6,247,843	(6,247,843)	4,188,975	(4,188,975)
(1%)	-	(6,903,614)	6,903,614	(4,601,590)	4,601,590
-	1%	(7,489,840)	7,489,840	(5,094,912)	5,094,912
-	(1%)	6,891,187	(6,891,187)	4,709,247	(4,709,247)

32.4 Maturity Profile of the Defined Benefit Obligation Plan

Maturity Profile of the Defined Benefit Obligation Plan as at the reporting date is given below;

	2014	2013
Weighted Average Duration of Defined Benefit Obligation (Years)	4.94	4.72
Average Time to Benefit Pay out (Years)	4.41	4.44

32.5 Distribution of Defined Benefit Obligation Over Future Lifetime

The following table demonstrates distribution of the future working lifetime of the Defined Benefit Obligation as at the date of the Statement of Financial Position.

	2014 Rs.	2013 Rs.
Less than 1 year	2,763,933	2,496,669
Between 1 - 2 years	1,887,320	4,652,227
Between 2 - 5 years	53,898,424	40,772,543
Over 5 years	69,374,846	46,439,912
	127,924,523	94,361,351

33. Subordinated Debentures**33.1 Amortised Cost**

	2014 Rs.	2013 Rs.
Unsecured Subordinated Redeemable Debentures	3,834,954,854	784,693,291
	3,834,954,854	784,693,291

33.2 Debentures Capital

	Fixed Rs.	Floating Rs.	Total Rs.
At 1st January 2014	140,000,000	610,000,000	750,000,000
Issued during the Year	3,000,000,000	-	3,000,000,000
At 31st December 2014	3,140,000,000	610,000,000	3,750,000,000

Notes to the Financial Statements

- 33.3** Debentures outstanding as at 31st December 2014, consisted of 750,000 Rated, Unsecured, Subordinated Redeemable Debentures of Rs. 1,000/- each issued by the Bank in 2012 and, details of which is given below:

Debentures Categories	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	2014 Rs.
Fixed Rate Debentures					
2012/2017 - 11.25% p.a.	Listed	Semi Annually	19.03.2012	19.03.2017	35,000,000
2012/2017 - 11.50% p.a.	Listed	Annually	19.03.2012	19.03.2017	55,300,000
2012/2017 - 14.50% p.a.	Listed	Maturity	19.03.2012	19.03.2017	49,700,000
					140,000,000
Floating Rate Debentures					
2012/2017 - 6 Month Treasury Bill Rate (Gross) + 2.95% p.a.	Listed	Semi Annually	19.03.2012	19.03.2017	610,000,000
					610,000,000
					750,000,000

Debentures outstanding as at 31st December 2014, consisted of 30,000,000 Rated, Unsecured, Subordinated Redeemable Debentures of Rs. 100/- each issued by the Bank in 2014, details of which is given below:

Debentures Categories	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	2014 Rs.
Fixed Rate Debentures					
2014/2019 - 9.75% p.a	Listed	Annually	30.10.2014	30.10.2019	1,912,000,000
2014/2019 - 9.5233% p.a	Listed	Semi Annually	30.10.2014	30.10.2019	1,088,000,000
					3,000,000,000

The Bank has not had any defaults of principal, interest or other breaches with regard to any liability during the year.

34 Stated Capital
Voting Ordinary Shares

	No. of Shares	Amount Rs.
At 1st January 2014	295,041,086	1,548,965,702
Shares Issued During the Year	-	-
At 31st December 2014	295,041,086	1,548,965,702

35 Revaluation Reserve

	Rs.
At 1st January 2014	-
Revaluation of Freehold Land and Building	278,468,763
Realisation of Revaluation Reserve	(1,552,430)
At 31st December 2014	276,916,333

The Bank changed the Accounting policy with respect to measurement of Land and Buildings from Cost Model to Revaluation Model during the year 2014.

36 Other Statutory Reserves

	Statutory Reserve Fund Rs	Investment Fund Rs.	Total Rs.
At 1st January 2013	163,517,767	348,268,779	511,786,546
Transferred During the Year 2013	5,691,916	120,637,126	126,329,042
At 1st January 2014	169,209,683	468,905,905	638,115,588
Transferred During the Year 2014	20,760,536	(468,905,905)	(448,145,369)
At 31st December 2014	189,970,219	-	189,970,219

36.1 Statutory Reserve Fund

The Statutory Reserve Fund is maintained as required by Section 20 (1) of the Banking Act No. 30 of 1988. A sum equivalent to 5% of the Profit for the year should be transferred to the Reserve until the reserve is equal to 50% of the paid up capital of the Bank and thereafter a sum equivalent to 2% of such profits until the amount of reserve is equal to the paid up capital of the Bank. This Reserve Fund will be used only for the purpose specified in Section 20 (2) of the Banking Act No. 30 of 1988.

36.2 Investment Fund

In terms of Budget Proposals 2011 and subsequent guideline dated 29th April 2011 of Central Bank of Sri Lanka, the Bank has made transfers to the investment fund to build up a permanent fund within the Bank in the following manner.

- (i) 8% of the profits calculated for the payment of Value Added Tax on Financial Services on dates as specified in the Value Added Tax No. 14 of 2002 for the payment of taxes.
- (ii) 5% of the profits before tax calculated for the payment of Income Tax purposes on dates specified in Section 113 of the Inland Revenue Act No. 10 of 2006 for the Self Assessment payment of taxes.

According to the Circular Ref. No.02/17/800/0014/02 issued by Central Bank of Sri Lanka, the operations of Investment Fund Account ceased with effective from 1st October 2014. As per the Circular, the requirement to transfer further funds ceased upon final tax payment dates for Value Added Tax on Financial Services and Income Tax in respect of the year 2013 and Year of Assessment 2013/14 respectively. Further, the Bank transferred the capital through loan repayments and maturity proceeds of long term Government Securities gradually until 30th September 2014 and the remaining funds were transferred to Retained Earnings through Statement of Changes in Equity on 1st October 2014 in accordance with the said Circular.

Notes to the Financial Statements**37 Analysis of Financial Assets and Liabilities by Measurement Basis**

Financial assets and financial liabilities are measured on an ongoing basis at either fair value or amortised cost. The summary of significant accounting policies describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following table analyse the carrying amount of financial assets and liabilities by category as defined in LKAS 39 - 'Financial Instruments : Recognition and measurement' and by Statement of Financial Position heading:

As at 31st December 2014	Financial Assets Held for Trading at Fair Value	Financial Assets Available for Sale Financial Assets at Fair Value	Financial Assets and Liabilities at Amortised Cost	Derivative Financial Instruments at Fair Value	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets					
Cash and Cash Equivalents	-	-	1,334,405,933	-	1,334,405,933
Balances with Central Bank	-	-	3,247,643,733	-	3,247,643,733
Derivative Financial Instruments	-	-	-	5,206,464	5,206,464
Financial Assets - Held for Trading	1,414,698,354	-	-	-	1,414,698,354
Loans and Receivables to Banks	-	-	7,597,250,330	-	7,597,250,330
Loans and Receivables to Other Customers	-	-	60,346,643,277	-	60,346,643,277
Financial Investments - Available for Sale	-	6,157,847	-	-	6,157,847
Financial Investments - Held to Maturity	-	-	2,563,357,188	-	2,563,357,188
Total Financial Assets	1,414,698,354	6,157,847	75,089,300,461	5,206,464	76,515,363,126
Financial Liabilities					
Due to Banks	-	-	1,134,163,317	-	1,134,163,317
Due to Other Customers	-	-	64,895,224,928	-	64,895,224,928
Term Debt and Other Borrowed Funds	-	-	3,160,306,402	-	3,160,306,402
Subordinated Debentures	-	-	3,834,954,854	-	3,834,954,854
Total Financial Liabilities	-	-	73,024,649,501	-	73,024,649,501

As at 31st December 2013	Financial Assets Held for Trading at Fair Value	Available for Sale Financial Assets at Fair Value	Financial Assets and Liabilities at Amortised Cost	Derivative Financial Instruments at Fair Value	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets					
Cash and Cash Equivalents	-	-	1,203,739,630	-	1,203,739,630
Balances with Central Bank	-	-	2,799,581,915	-	2,799,581,915
Placements with Banks	-	-	104,622,304	-	104,622,304
Derivative Financial Instruments	-	-	-	2,758,216	2,758,216
Financial Assets - Held for Trading	9,170,415,067	-	-	-	9,170,415,067
Loans and Receivables to Banks	-	-	12,002,143	-	12,002,143
Loans and Receivables to Other Customers	-	-	44,728,686,421	-	44,728,686,421
Financial Investments - Available for Sale	-	6,157,847	-	-	6,157,847
Financial Investments - Held to Maturity	-	-	2,849,475,281	-	2,849,475,281
Total Financial Assets	9,170,415,067	6,157,847	51,698,107,694	2,758,216	60,877,438,824
Financial Liabilities					
Due to Banks	-	-	1,861,565,058	-	1,861,565,058
Derivative Financial Instruments	-	-	-	24,634,054	24,634,054
Due to Other Customers	-	-	53,835,897,400	-	53,835,897,400
Term Debt and Other Borrowed Funds	-	-	2,881,945,943	-	2,881,945,943
Subordinated Debentures	-	-	784,693,291	-	784,693,291
Total Financial Liabilities	-	-	59,364,101,692	24,634,054	59,388,735,746

38. Fair Value of Financial Instruments

38.1 Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

(a) Derivatives

Derivative products valued with market-observable inputs are mainly currency swaps and forward foreign exchange contracts. Such valuations incorporate various inputs such as foreign exchange spot and forward rates.

(b) Financial Investments - Available for Sale

Available for Sale Financial Assets valued using valuation techniques or pricing models primarily consist of unquoted equities.

(c) Financial Assets - Held for Trading

Quoted Equities and Sri Lanka Government Securities - Treasury Bills and Bonds included in Financial Assets Held for Trading are valued using market prices.

Notes to the Financial Statements**38.2 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

a) The following table shows an analysis of financial instruments and non financial assets recorded at fair value by level of fair value hierarchy.

As at 31st December 2014	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	-	5,206,464	-	5,206,464
Financial Assets - Held for Trading				
- Equities	16,348,437	-	-	16,348,437
- Sri Lanka Government Securities - Treasury Bills and Bonds	1,398,349,917	-	-	1,398,349,917
Financial investments - Available for Sale	-	6,157,847	-	6,157,847
	1,414,698,354	11,364,311	-	1,426,062,665

Non Financial Assets

Land - Revalued	-	-	492,346,500	492,346,500
Building - Revalued	-	-	466,053,500	466,053,500
	-	-	958,400,000	958,400,000

As at 31st December 2013	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	-	2,758,216	-	2,758,216
Financial Assets - Held for Trading				-
- Equities	11,286,578	-	-	11,286,578
- Unit Trusts	4,515,666,225	-	-	4,515,666,225
- Debentures	1,056,343,374	-	-	1,056,343,374
- Sri Lanka Government Securities - Treasury Bills and Bonds	3,587,118,890	-	-	3,587,118,890
Financial investments - Available for Sale	-	6,157,847	-	6,157,847
	9,170,415,067	8,916,063	-	9,179,331,130

Financial Liabilities

Derivative Financial Instruments	-	24,634,054	-	24,634,054
	-	24,634,054	-	24,634,054

- b) The following table shows the total gains and losses (excluding interest) recognised in Profit or Loss during the year relating to assets and liabilities held at the year end.

	Net Trading Income	
	2014	2013
	Rs.	Rs.
Financial Assets		
Derivative Financial Instruments	7,647,180	40,350,086
Financial Assets - Held for Trading		
- Equities	5,061,859	(1,094,456)
- Unit Trusts	-	37,142,109
- Sri Lanka Government Securities - Treasury Bills and Bonds	(26,479,400)	26,846,000
	(13,770,361)	103,243,739

- c) Set out below is a comparison, by class, of the carrying amounts 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.

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Rs.	Rs.	Rs.	Rs.
Financial Assets				
Cash and Cash Equivalents	1,334,405,933	1,334,405,933	1,203,739,630	1,203,739,630
Balances with Central Bank	3,247,643,733	3,247,643,733	2,799,581,915	2,799,581,915
Placements with Banks	-	-	104,622,304	104,622,304
Loans and Receivables to Banks	7,597,250,330	7,597,250,330	12,002,143	12,002,143
Loans and Receivables to Other Customers	60,346,643,277	60,337,910,926	44,728,686,421	44,728,686,421
Financial Investments - Held to Maturity	2,563,357,188	2,563,702,124	2,849,475,281	2,842,141,098
Total Financial Assets	75,089,300,461	75,080,913,046	51,698,107,694	51,690,773,511
Financial Liabilities				
Due to Banks	1,134,163,317	1,134,163,317	1,861,565,058	1,861,565,058
Due to Other Customers	64,895,224,928	64,423,452,860	53,835,897,400	53,835,897,400
Term Debt and Other Borrowed Funds	3,160,306,402	3,160,306,402	2,881,945,943	2,881,945,943
Subordinated Debentures	3,834,954,854	3,836,458,566	784,693,291	784,693,291
Total Financial Liabilities	73,024,649,501	72,554,381,145	59,364,101,692	59,364,101,692

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 it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity, floating rate instruments, fixed rate instruments having maturities within 12 months and unquoted shares.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities (other than assets and liabilities with maturities within 12 months) carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

Notes to the Financial Statements**38.3 Re-Classification of Financial Assets**

The Bank undertook a review of assets that were classified as Held for Trading and the Bank no longer intends to trade quoted debentures and expect to hold for a longer period. The management reviewed the instruments to determine whether it was appropriate to reclassify it to Loans and Receivables.

The following tables shows the carrying amounts and fair values of financial assets reclassified from Held for Trading to the Loans and Receivables category. All transfers were made on 1st October 2014 at the fair value as at that date. There have been no further reclassifications since that date.

	Re-Classified Amount Rs.	As at 31st December 2014	
		Carrying Amount Rs.	Fair Value Rs.
Debentures - Quoted	1,187,895,104	1,176,039,766	1,167,721,687
Expected Undiscounted Cash Recoveries, as Assessed at the Date of Re-Classification (Rs.)			395,015,883
Anticipated Average EIR over the Remaining Life of the Assets (%)			9.51%

The following table shows the total fair value gains or losses and net interest income that would have been recognised during the year, if the Bank had not reclassified financial assets from the Held for Trading to the Loans and Receivables category. This disclosure is provided for information purposes only; it does not reflect what has actually been recorded in the Financial Statements of the Bank.

	2014 Rs.
Fair value gains and losses which would otherwise have been recorded after reclassification, during the current period	(20,173,417)
Interest Income which would otherwise have been recorded after reclassification, during the current period	12,269,611
Total Profit or Loss which would otherwise have been recorded during the year since reclassification	(7,903,806)

Profit or Loss actually recorded on assets reclassified to Loans and receivables since the date of reclassification are given below.

	2014 Rs.
Interest Income	25,883,015
Impairment Charges	(5,400,766)
Profit or Loss	20,482,249

39. Risk Management

39.1 Introduction

Risk is inherent in Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls as per the risk appetite of the Bank. The process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank's exposure to Risk could be broadly categorised into credit risk, market risk, liquidity risk and operational risk. In addition, the impact of other risks such as strategic risk, reputational risk, compliance risk and legal risk are also monitored to avoid any additional impact on the Bank. The impact on Risk could be externally and internally segregated according to the nature of the business. External Risk which may be due to changes in Political, Regulatory, and other changes in industry could impact the strategic processes of the Bank.

Risk Management Objectives, Policies and Processes

The foremost objective of the risk management is to assess the uncertainty of the future in order to make the best possible decision at present ensuring a return with the minimum impact on the financial position and profitability. The Bank's all risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Further, all risk management policies are updated regularly to reflect changes in market conditions, products and services offered by the Bank and requirements of the regulators.

Measurement of financial instruments is done with proper assessment of expectation in future cash flows. The most imperative methods of ascertaining the risk of such instruments is done by way of assessing the future settlement plan. Early identification of any issues had been the key factor to arrest and addresses the challenges of the environment and the expectation of the Bank. Having identified the categories of the measurements, the mitigating controls were introduced for better portfolio management. Separate management methods were introduced as per collateral, risk rating, and cash flow attached to each instruments. Stringent measures were introduced for products which needed close monitoring.

Risk Management Structure

The Bank's overall responsibility for Risk Management falls on the Board of Directors. Accordingly, the Bank has established a robust and pervasive risk culture and clear policies that define the responsibilities of Corporate and Senior Management personnel, subject to the oversight of the Board. There are Committees at both Board and Management levels to ensure that all risks are appropriately managed and risk limits are established based on the appetite of the Bank.



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Board Audit Committee

The Board Audit Committee assists the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal controls and risk management systems, internal audit process, and the Bank's process for monitoring compliance with legal and regulatory compliance, appointment of External Auditors, their remuneration and their objectivity and independence and maintaining high standards of good Corporate Governance practices to conform to highest ethical standards. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both adhoc and regular reviews of risk management controls and procedures in accordance with Audit Plan, the results of which are reported to the Audit Committee.

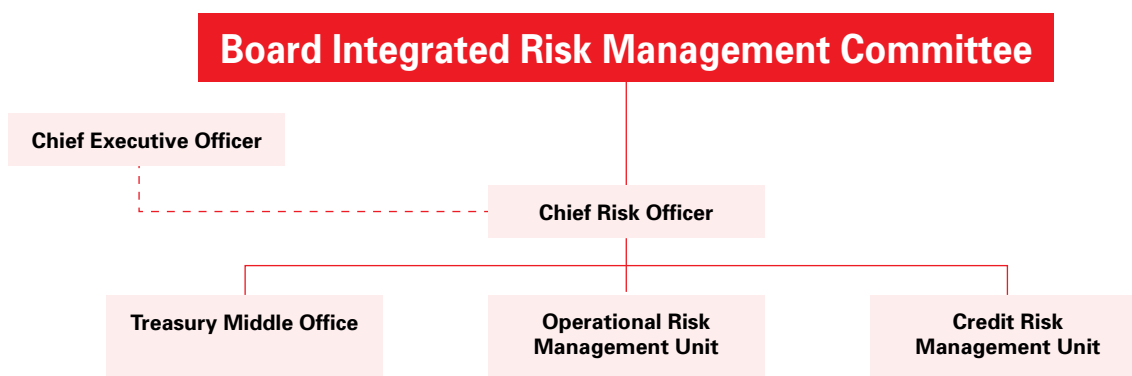
Board Credit Committee

The Board of Directors has delegated the responsibility for the oversight of credit risk to Board Credit Committee. The Board Credit Committee discharges its main responsibilities to operate a sound credit granting process, maintain an appropriate credit administration, maintain adequate controls over credit risk, identification and administration of problem advances, proper evaluation of new business opportunities, cyclical aspects of internal and external economy and review of facilities sanctioned by the Committee and issue of further instructions, if necessary.

Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee mainly looks into the overall Risk Management aspects of the Bank. The Committee adopts Risk strategies, frameworks, and policies and is also responsible for implementation of these strategies and plans. The Committee meets on quarterly basis and discusses the predetermined Risk goals implemented as per the Bank Wide Risk Management Policy adopted by the Board and review the performances of the management committees.

Risk Management function which is independent of the business units, performs the role of implementing risk management policies and procedures. Risk Management Unit headed by the Chief Risk Officer is responsible and accountable for controlling of risks, compliance of risk policies and procedures of the Bank. The structure of the risk management unit is as follows;



Each unit monitors the impact on separate risks as specified. These units function independent of each respective business unit and submits its observations to the Chief Risk Officer. Reports are generated daily, weekly, monthly and quarterly basis as per the requirements and breaches, if any, are notified for relevant action. Exceptions are also reported to the Board Integrated Risk Management Committee with action taken.

Board Strategic Planning Committee

The Board Strategic Planning Committee is formed to ensure that sufficient attention is devoted to the strategic planning process at the Board level. The Committee discharges its main responsibilities by examining the Bank's current mission, vision, strategic positioning, challenges and opportunities, reviewing internal strengths, resources, capabilities and weaknesses of the Bank and provide guidelines to the management, providing the strategic direction and strategic thinking of the Board to the management in the development and implementation of the Bank's strategic plan, oversee and monitor the planning process that leads to the formulation of the strategic plan. Further, its responsibilities includes making recommendations to the Board on all strategic decisions and reviewing the adequacy and composition of the Bank's capital structure in the context of the growth targets.

The Compliance function is also an independent function which performs the role of safeguarding the Bank against regulatory and reputational risks. It does this through appropriate policies and procedures for compliance with all applicable laws and regulations and embedding them into the internal control system. The policies set out the procedures for safeguarding the Bank from being sanctioned or fined for regulatory non-compliance. Compliance Department also conducts training to familiarise staff with their compliance obligations.

Bank's Risks are recorded according to the breaches that have taken place, expected /predicted losses and unexpected cases which may arise in future. The estimated figures of cases are weekly monitored for prevention and mitigations. These events mainly are taken into account according to the internal risk management process established by the Bank. Monitoring of Risks is done on predetermined limits as per policies. Management Information System reports are generated to the Corporate Management based on these risks indicators. Certain industries are specially highlighted for close monitoring. The overall aggregate impact is then computed to oversee the full impact on the Bank's financial position.

These indicators are aggregated and recorded as per reporting criteria of the Risk Committees. The reports are submitted based on their daily, weekly and monthly monitoring to the Board/Management Committees to measure the risk exposure across all types of risks and activities. This contains the distribution and the vulnerable areas of risks to be vigilant about and which also need extra attention. These reports will indicate aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios. Further elaborations will be done on industry, concentration, customer and geographic risk etc. Early warnings will be indicated to the business units for precautionary action and same is monitored weekly for adherence. Delegated authority limits have been imposed to each business units to control exposure to risks. Those outwith such limits are referred to Head office Credit Committee/Board Credit Committee for approval.

39.2 Credit Risk

Credit Risk is the loss that the Bank will incur due to failure of a customer or a counterparty to meet their contractual obligations towards the Bank. The Bank manages and controls the risk by establishing limits via proper evaluation for borrowers, counterparties, industries and portfolio. The Bank's risk appetite is based on economic conditions and regulatory requirements.

Management of Credit Risk

The primary objective of credit risk management is to enable the Bank to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with approved credit appetite. The Bank has a well defined credit policy approved by the Board of Directors which spells out the credit culture of the Bank, specifying target

Notes to the Financial Statements

markets for lending and areas to avoid. The policy is implemented through the credit process, which is set out with clear guidelines and procedures. As a further step towards improving and maintaining uniformity of credit submissions, the Bank has established credit clusters with well trained and experienced staff to evaluate and carry out periodic review of credit facilities.

The Bank's credit risk management process broadly encompasses the following;

- a) Loan origination and risk appraisal comprises initial screening and credit appraisal focused on borrowers' ability to meet their commitments in a timely manner. The internal risk rating is an important part of the risk assessment of the customers and incorporated in the credit decision process. This numerical rating denotes the borrower's strength relating to repayment ability, financial condition, industry/business outlook and management quality. A separate alphabetical rating is assigned to customers as the security indicator based on Bank's approved policy on security. The Bank minimises risk by granting credit facilities for high rated customers.
- b) Loan approval and sanction of credit facilities - Clear guidelines and policies have been established for loan approvals/renewals within delegated credit approval authorities
- c) Credit administration and disbursement is performed by Credit Administration Unit, independently reporting to Chief Executive Officer to ensure clear segregation of duties from business units and ensures origination and disbursement of credit are made only after stipulated conditions have been met and relevant security documents are obtained.
- d) Credit Measurement and Monitoring - Credit Risk Management Unit measures and tracks the early warning signals pertaining to deterioration of financial health of the borrowers and customers who need special attention/ monitoring is identified and their financial behaviour is discussed at Head Office Credit Committee and Board Credit Committee levels.
- e) Credit Controlling Mechanism - Credit Control Unit peruse and monitor payment due loans and advances to initiate recovery, rescheduling and restructuring action to curtail new additions to Non Performing Loans and Advances.
- f) Non performing advances are managed by the Legal and Recoveries divisions. These units are responsible for all aspects of the non performing credit, restructuring of the credit, monitoring the value of the applicable collateral and liquidation, scrutiny of legal documents and liaising with the customer until all legal recovery matters are finalised, effective integration with Credit Risk and Credit Administration Unit for follow-up action.

The Bank's credit risk management process is articulated in credit policies, which are approved by the Board of Directors. Credit policies lay down the conditions and guidelines for the granting, maintenance, monitoring and management of credit, at both individual transaction and portfolio levels. These policies are documented, well defined, consistent with prudent practices and regulatory requirements and adequate for the nature and complexity of bank's activities. Limits have been prescribed for Bank's exposure to any single borrower, group of specific borrowers or specific industries/sectors in order to avoid concentration of credit risk.

A well structured loan review mechanism is in place and a comprehensive review is carried out at least annually for individually significant loans and identification of customers that require special attention are identified and more frequent updates are carried out for "Watch list" exposures.

The Bank uses collateral for credit risk mitigation. The requirements for collateral is set forth in the credit policies and procedures of the Bank. Collateral is evaluated independently by a valuation panel and significant exposures are vetted through special panel valuation committee for opinion.

Impairment Assessment

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment
- Where the Bank grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter Bankruptcy or other financial reorganisation
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans

This approach differs from the expected loss model used for regulatory capital purposes in accordance with Basel II.

Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant Loan or Receivable on an individual basis, including any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should Bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively Assessed Allowances

Allowances are assessed collectively for losses on Loans and Receivables that are not individually significant and for individually significant Loans and Receivables that have been assessed individually and found not to be impaired.

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The Bank generally bases its analyses on historical experience. However, when there are significant market developments, the Bank would include macro-economic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment unemployment rates, current levels of bad debts, changes in laws, changes in regulations, Bankruptcy trends, and other consumer data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances. Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio or economic data. The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. The management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed in a similar manner as for loans.

Credit - related Commitment Risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

Analysis of Maximum Exposure to Credit risk and Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The Bank obtains cash, gold, securities, property, guarantees, other movable and immovable property as collateral against lending. An approved list of acceptable securities and the applicable percentage of cash security category are defined as per the Credit Policy. These Collateral are evaluated independently by a valuation panel and all significant collateral are vetted through a special panel valuation committee for opinion. The Management monitors the market value of collateral, and will request additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose off repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The following table shows the maximum exposure to credit risk by class of financial asset and the value of financial assets covered by the collateral.

Maximum Exposure to Credit risk

	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
As at 31st December 2014		
Balances with Central Bank	3,247,643,733	3,247,643,733
Derivative Financial Instruments	5,206,464	5,206,464
Financial Assets - Held for Trading	1,414,698,354	1,414,698,354
Loans and Receivables to Banks	7,597,250,330	-
Loans and Receivables to Other Customers - Gross	63,292,721,291	7,989,291,488
Financial Investments - Available for Sale	6,157,847	6,157,847
Financial Investments - Held to Maturity	2,563,357,188	2,563,357,188
	78,127,035,207	15,226,355,074
As at 31st December 2013		
Balances with Central Bank	2,799,581,915	2,799,581,915
Placements with Banks	104,622,304	104,622,304
Derivative Financial Instruments	2,758,216	2,758,216
Financial Assets - Held for Trading	9,170,415,067	9,170,415,067
Loans and Receivables to Banks	12,002,143	-
Loans and Receivables to Other Customers - Gross	47,128,702,204	2,884,231,967
Financial Investments - Available for Sale	6,157,847	6,157,847
Financial Investments - Held to Maturity	2,849,475,281	2,849,475,281
	62,073,714,977	17,817,242,597

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Credit Quality by Class of Financial Assets

The Bank manages the credit quality of financial assets using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk. The amounts presented are gross of impairment allowances.

As at 31st December 2014	Neither Past Due Nor Impaired		Past Due But Not Impaired				Individually Impaired		Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		
								Upto 90 Days	
Cash and Cash Equivalents	1,334,405,933	-	-	-	-	-	-	1,334,405,933	
Balances with Central Bank	3,247,643,733	-	-	-	-	-	-	3,247,643,733	
Derivative Financial Instruments	5,206,464	-	-	-	-	-	-	5,206,464	
Financial Assets - Held for Trading	1,414,698,354	-	-	-	-	-	-	1,414,698,354	
Loans and Receivables to Banks	7,597,250,330	-	-	-	-	-	-	7,597,250,330	
Loans and Receivables to Other Customers	52,688,507,191	5,281,414,773	619,235,815	512,915,024	311,157,830	818,087,275	3,061,403,383	63,292,721,291	
Financial Investments - Available for Sale	6,157,847	-	-	-	-	-	-	6,157,847	
Financial Investments - Held to Maturity	2,563,357,188	-	-	-	-	-	-	2,563,357,188	
Total	68,857,227,040	5,281,414,773	619,235,815	512,915,024	311,157,830	818,087,275	3,061,403,383	79,461,441,140	

As at 31st December 2013	Neither Past Due Nor Impaired		Past Due But Not Impaired				Individually Impaired		Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		
								Upto 90 Days	
Cash and Cash Equivalents	1,203,739,630	-	-	-	-	-	-	1,203,739,630	
Balances with Central Bank	2,799,581,915	-	-	-	-	-	-	2,799,581,915	
Placements with Banks	104,622,304	-	-	-	-	-	-	104,622,304	
Derivative Financial Instruments	2,758,216	-	-	-	-	-	-	2,758,216	
Financial Assets - Held for Trading	9,170,415,067	-	-	-	-	-	-	9,170,415,067	
Loans and Receivables to Banks	12,002,143	-	-	-	-	-	-	12,002,143	
Loans and Receivables to Other Customers	38,381,562,589	3,936,315,759	907,711,664	390,939,550	181,886,171	471,804,979	2,858,481,492	47,128,702,204	
Financial Investments - Available for Sale	6,157,847	-	-	-	-	-	-	6,157,847	
Financial Investments - Held to Maturity	2,849,475,281	-	-	-	-	-	-	2,849,475,281	
Total	54,530,314,992	3,936,315,759	907,711,664	390,939,550	181,886,171	471,804,979	2,858,481,492	63,277,454,607	

SLFRS 7 : Financial Instruments : Disclosures specifically require the disclosure of quality of loans that are neither impaired nor past due and an analysis of the age of financial assets that are past due but not impaired as at the reporting date. The Bank consider any amounts uncollected for one day or more beyond their contractual due date as 'past due'.

Individually Impaired Loans and Receivables/ Financial Assets

All individually significant and Loans and Receivables/Financial Assets which the Bank determines that there is objective evidence of impairment loss and therefore, may not be able or unable to collect all principal and interest due according to the contractual terms are classified as 'Impaired Loans and Receivables/Financial Assets'.

Past Due But Not Impaired Loans and Receivables/Financial Assets

Past Due But Not Impaired Loans and Receivables/Financial Assets are those with contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the stage of collection of amounts owed, level of security/collateral available and significance of the financial asset.

Credit Risk Exposure for Each Internal Credit Risk Rating

The Bank's policy is to maintain accurate and consistent risk ratings across the lending portfolio. This facilitates focused management of the applicable risks and comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of quantitative and qualitative factors to provide the main inputs for the measurement of counterparty risks.

Risk Rating Grade	Description	2014 Rs.	2013 Rs.
Risk Rating Grade 1	High Safety	20,690,729,116	21,032,835,891
Risk Rating Grade 2	Moderate Safety	27,960,444,752	16,321,533,772
Risk Rating Grade 3	Needs Monitoring	3,914,462,265	2,426,448,392
Risk Rating Grade 4	Substandard Risk	2,236,835,580	2,002,410,362
Risk Rating Grade 5	Very High Risk	1,118,417,790	2,178,317,256
		55,920,889,503	43,961,545,673

Securities Purchased under Resale Agreements, Sri Lanka Development Bonds and Debentures are not rated under Bank's Internal Risk Ratings.

Analysis of Risk Concentration

The Bank's concentration of risks are managed by client/counter party and by industry sector. The maximum credit exposure to any customer or a group counter party as of 31st December 2014 was Rs. 1,338,635,520/- (2013: Rs. 1,650,220,000/-), before taking account of collateral.

Notes to the Financial Statements**Industry Analysis****As at 31st December 2014**

	Government	Agriculture & Fishing	Manufacturing	Tourism	Transport
	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	1,110,099,943	-	-	-	-
Balances with Central Bank	3,247,643,733	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-
Financial Assets - Held for Trading	1,398,349,917	-	-	-	-
Loans and Receivables to Banks - Gross	-	-	-	-	-
Loans and Receivables to Other Customers - Gross	5,195,616,198	7,269,715,635	12,209,320,568	1,118,417,790	3,914,462,265
Financial Investments - Available for Sale	-	-	-	-	-
Financial Investments - Held to Maturity	2,563,357,188	-	-	-	-
	13,515,066,979	7,269,715,635	12,209,320,568	1,118,417,790	3,914,462,265

As at 31st December 2013

	Government	Agriculture & Fishing	Manufacturing	Tourism	Transport
	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	802,959,815	-	-	-	-
Balances with Central Bank	2,799,581,915	-	-	-	-
Placements with Banks	-	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-
Financial Assets - Held for Trading	3,587,118,890	-	-	-	-
Loans and Receivables to Banks - Gross	-	-	-	-	-
Loans and Receivables to Other Customers - Gross	1,984,458,625	4,523,358,996	9,236,746,337	2,198,644,546	2,370,625,428
Financial Investments - Available for Sale	-	-	-	-	-
Financial Investments - Held to Maturity	2,849,475,281	-	-	-	-
	12,023,594,526	4,523,358,996	9,236,746,337	2,198,644,546	2,370,625,428

The presentation and classification of the previous year have been amended for better presentation and to be comparable with those of the current year.

Construction	Traders	New Economy	Financial and Business Services	Infrastructure	Other Services	Other Customers	Total
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
-	-	-	224,305,990	-	-	-	1,334,405,933
-	-	-	-	-	-	-	3,247,643,733
-	-	-	5,206,464	-	-	-	5,206,464
-	-	-	16,348,437	-	-	-	1,414,698,354
-	-	-	7,597,250,330	-	-	-	7,597,250,330
7,828,924,530	8,156,292,183	559,208,895	8,652,629,802	1,118,417,790	2,236,835,580	5,032,880,055	63,292,721,291
-	-	-	6,157,847	-	-	-	6,157,847
-	-	-	-	-	-	-	2,563,357,188
7,828,924,530	8,156,292,183	559,208,895	16,501,898,870	1,118,417,790	2,236,835,580	5,032,880,055	79,461,441,140

Construction	Traders	New Economy	Financial and Business Services	Infrastructure	Other Services	Other Customers	Total
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
-	-	-	400,779,815	-	-	-	1,203,739,630
-	-	-	-	-	-	-	2,799,581,915
-	-	-	104,622,304	-	-	-	104,622,304
-	-	-	2,758,216	-	-	-	2,758,216
-	73,128,539	-	4,873,915,957	-	636,251,681	-	9,170,415,067
-	-	-	12,002,143	-	-	-	12,002,143
4,755,223,670	7,498,379,257	605,525,198	7,187,725,388	458,925,292	1,203,339,382	5,105,750,085	47,128,702,204
-	-	-	6,157,847	-	-	-	6,157,847
-	-	-	-	-	-	-	2,849,475,281
4,755,223,670	7,571,507,796	605,525,198	12,587,961,670	458,925,292	1,839,591,063	5,105,750,085	63,277,454,607

Notes to the Financial Statements

39.3 Liquidity Risk

Liquidity Risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Hence, the Bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of continuously managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis.

Management of Liquidity Risk

The Bank manages liquidity risk in accordance with regulatory guidelines and accepted best practices. The objective of the Bank's liquidity and funding framework is to ensure that funding commitments and deposit withdrawals can be met when due and that market access remains cost effective. The Bank's liquidity risk management framework is designed to identify measure and manage the liquidity position in a timely manner. The Asset and Liabilities Committee is responsible for managing this risk through continuous monitoring of the set benchmarks and controlling risks by adopting appropriate strategies through advances, deposits and investment products. Contractual Maturities of Assets and Liabilities, Sensitivity of Assets and Liabilities, key liquidity ratios and monthly liquidity gaps are also reviewed by ALCO as measures to liquidity. The Bank maintains a portfolio of highly marketable and diverse assets assumed to be easily liquidated in the event of an unforeseen interruption of expected cash flow.

The Bank's Liquidity Contingency Plan is a detailed action plan document approved by the Board of Directors of the Bank indicating possible warning indicators, monitoring mechanism and the process for escalation. The plan details the specific action steps and identifies key individuals responsible for the specific action tasks. To limit liquidity risk, the Bank has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. Intraday liquidity management is about managing the daily payments and cash flows. The Bank has policies to ensure that sufficient cash is maintained during the day to make payments through local payment systems.

The contractual maturities of assets and liabilities of the Bank as at reporting date is detailed on pages 180 & 181.

The policy of the Bank is to maintain adequate liquidity at all times, at all locations and for all currencies and hence to be in a position in the normal course of business, to meet obligations, repay depositors and fulfill commitments. As a part of liquidity management, the Bank maintains borrowing relationships to ensure the continued access to diverse market of funding sources. The Bank's sound credit rating together with excellent market reputation has enabled the Bank to secure ample call lines with local and foreign banks.

In addition, the Bank maintains a Statutory Deposit with the Central Bank of Sri Lanka equal to 6% of Rupee deposit liabilities of the Domestic Banking Unit. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of Statutory Liquid Asset Ratio to Customer Liabilities to reflect market conditions. The significant liquidity ratios during the year were as follows:

Liquidity Ratios**Advances to Deposit Ratios**

	2014	2013
Average	82.34%	83.70%
Year-end	85.30%	80.49%

The Bank stresses the importance of maintaining an adequate deposit base as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers (excluding receivables) as a percentage of customer deposits. Cheques and drafts purchased which are deemed to be liquid, are excluded from the advances to deposit ratio.

Statutory Liquid Asset Ratio

	2014	2013
Average	23.33%	22.44%
Year-end	21.42%	23.77%

The Bank maintains a healthy Statutory Liquid Asset Ratio (SLAR) at Bank level and at Domestic and Foreign Banking Unit levels. The Bank considers Cash balances, Balances with Licensed Commercial Banks, Money at Call in Sri Lanka, Balances with Banks Abroad, Treasury Bills/Bonds and Securities issued or guaranteed by the Government of Sri Lanka, Sri Lanka Development Bonds, Investments in Standing Deposit Facility, Gilt Edged Securities, Approved Commercial Papers, Import Bills, Export Bills, Inland Bills and Items in the Process of Collection as 'Liquid Assets' for the purpose of Statutory Liquid Asset Ratio Calculation.

Analysis of Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's assets and liabilities as at the end of the reporting period. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Notes to the Financial Statements

Contractual Maturities of Undiscounted Cash Flows of Assets and Liabilities

As at 31st December 2014	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets					
Cash and Cash Equivalents	1,334,405,933	-	-	-	1,334,405,933
Balances with Central Bank	3,247,643,733	-	-	-	3,247,643,733
Derivative Financial Instruments	5,206,464	-	-	-	5,206,464
Financial Assets - Held for Trading	1,414,698,354	-	-	-	1,414,698,354
Loans and Receivables to Banks	7,597,250,330	-	-	-	7,597,250,330
Loans and Receivables to Other Customers	30,700,842,480	6,340,576,939	20,864,954,044	2,440,269,814	60,346,643,277
Financial Investments - Available for Sale	-	-	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	518,820,605	2,044,536,583	-	-	2,563,357,188
Total Undiscounted Financial Assets	44,818,867,899	8,385,113,522	20,864,954,044	2,446,427,661	76,515,363,126
Non Financial Assets					
Property, Plant and Equipment	-	-	-	1,458,545,033	1,458,545,033
Intangible Assets	-	-	-	50,606,360	50,606,360
Other Assets	1,050,723,960	271,726,271	139,345,405	118,955,919	1,580,751,555
Total Undiscounted Non-Financial Assets	1,050,723,960	271,726,271	139,345,405	1,628,107,312	3,089,902,948
Total Undiscounted Assets	45,869,591,859	8,656,839,793	21,004,299,449	4,074,534,973	79,605,266,074
Financial Liabilities					
Due to Banks	1,091,783,850	16,623,226	25,756,241	-	1,134,163,317
Derivative Financial Instruments	-	-	-	-	-
Due to Other Customers	37,312,102,746	22,091,267,370	5,489,344,264	2,510,548	64,895,224,928
Term Debt and Other Borrowed Funds	1,125,446,721	713,559,681	-	1,321,300,000	3,160,306,402
Subordinated Debentures	-	84,954,854	3,750,000,000	-	3,834,954,854
Total Undiscounted Financial Liabilities	39,529,333,317	22,906,405,131	9,265,100,505	1,323,810,548	73,024,649,501
Non Financial Liabilities					
Deferred Tax Liabilities	-	-	-	281,978,238	281,978,238
Other Provisions and Accruals	126,733,762	-	-	-	126,733,762
Other Liabilities	1,293,318,663	12,262,026	65,119,837	66,575,120	1,437,275,646
Total Undiscounted Non-Financial Liabilities	1,420,052,425	12,262,026	65,119,837	348,553,358	1,845,987,646
Total Undiscounted Liabilities	40,949,385,742	22,918,667,157	9,330,220,342	1,672,363,906	74,870,637,147
Net Undiscounted Financial Assets/ (Liabilities)	5,289,534,582	(14,521,291,609)	11,599,853,539	1,122,617,113	3,490,713,625
Net Undiscounted Assets/(Liabilities)	4,920,206,117	(14,261,827,364)	11,674,079,107	2,402,171,067	4,734,628,927

As at 31st December 2013	Less than 3	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	Months				
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets					
Cash and Cash Equivalents	1,203,739,630	-	-	-	1,203,739,630
Balances with Central Bank	2,799,581,915	-	-	-	2,799,581,915
Placements with Banks	104,622,304	-	-	-	104,622,304
Derivative Financial Instruments	2,758,216	-	-	-	2,758,216
Financial Assets - Held for Trading	5,022,559,336	3,091,512,357	1,056,343,374	-	9,170,415,067
Loans and Receivables to Banks	12,002,143	-	-	-	12,002,143
Loans and Receivables to Other Customers	27,040,034,993	6,050,801,274	10,543,716,897	1,094,133,257	44,728,686,421
Financial Investments - Available for Sale	-	-	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	51,271,396	2,798,203,885	-	-	2,849,475,281
Total Undiscounted Financial Assets	36,236,569,933	11,940,517,516	11,600,060,271	1,100,291,104	60,877,438,824
Non Financial Assets					
Property, Plant and Equipment	-	-	-	1,204,302,416	1,204,302,416
Intangible Assets	-	-	-	65,804,221	65,804,221
Other Assets	2,058,818,107	166,149,860	262,037,709	283,894,411	2,770,900,087
Total Undiscounted Non-Financial Assets	2,058,818,107	166,149,860	262,037,709	1,554,001,048	4,041,006,724
Total Undiscounted Assets	38,295,388,040	12,106,667,376	11,862,097,980	2,654,292,152	64,918,445,548
Financial Liabilities					
Due to Banks	1,827,679,448	12,127,000	21,758,610	-	1,861,565,058
Derivative Financial Instruments	24,634,054	-	-	-	24,634,054
Due to Other Customers	31,167,067,375	19,662,142,085	2,980,782,588	25,905,352	53,835,897,400
Term Debt and Other Borrowed Funds	826,231,911	747,856,054	-	1,307,857,978	2,881,945,943
Subordinated Debentures	-	-	784,693,291	-	784,693,291
Total Undiscounted Financial Liabilities	33,845,612,788	20,422,125,139	3,787,234,489	1,333,763,330	59,388,735,746
Non Financial Liabilities					
Deferred Tax Liabilities	-	-	-	150,787,101	150,787,101
Other Provisions and Accruals	78,547,938	-	-	-	78,547,938
Other Liabilities	1,157,249,878	-	-	94,361,351	1,251,611,229
Total Undiscounted Non-Financial Liabilities	1,235,797,816	-	-	245,148,452	1,480,946,268
Total Undiscounted Liabilities	35,081,410,604	20,422,125,139	3,787,234,489	1,578,911,782	60,869,682,014
Net Undiscounted Financial Assets/ (Liabilities)	2,390,957,145	(8,481,607,623)	7,812,825,782	(233,472,226)	1,488,703,078
Net Undiscounted Assets/(Liabilities)	3,213,977,436	(8,315,457,763)	8,074,863,491	1,075,380,370	4,048,763,534

Notes to the Financial Statements**Contractual Maturities of Commitments and Contingencies**

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

As at 31st December 2014	Less than 3	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	Months				
	Rs.	Rs.	Rs.	Rs.	Rs.
Contingencies					
Guarantees	1,020,543,881	1,751,778,274	382,673,316	-	3,154,995,471
Documentary Credit	1,763,574,469	1,632,234,410	-	880,474	3,396,689,353
Forward Foreign Exchange	8,107,485,923	-	-	-	8,107,485,923
Collection Bills	624,423,628	1,830,684,947	370,623,257	-	2,825,731,832
	11,516,027,901	5,214,697,631	753,296,573	880,474	17,484,902,579

Commitments

Undrawn Credit Lines	4,715,191,985	-	-	-	4,715,191,985
	4,715,191,985	-	-	-	4,715,191,985
Total	16,231,219,886	5,214,697,631	753,296,573	880,474	22,200,094,564

As at 31st December 2013	Less than 3	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	Months				
	Rs.	Rs.	Rs.	Rs.	Rs.
Contingencies					
Guarantees	1,094,503,419	1,209,627,157	194,349,454	-	2,498,480,030
Documentary Credit	9,426,460,185	1,316,439,921	-	-	10,742,900,106
Forward Foreign Exchange	3,736,159,597	2,727,700,000	-	-	6,463,859,597
Collection Bills	209,941,277	124,386,808	1,951,869,769	-	2,286,197,854
	14,467,064,478	5,378,153,886	2,146,219,223	-	21,991,437,587

Commitments

Undrawn Credit Lines	4,133,234,378	-	-	-	4,133,234,378
	4,133,234,378	-	-	-	4,133,234,378
Total	18,600,298,856	5,378,153,886	2,146,219,223	-	26,124,671,965

39.4 Market Risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices and credit spreads will affect the Bank's income or the value of its holdings of financial instruments. The Bank has placed a special emphasis on the effect of market risk on fixed income securities, investments and forex positions.

Management of Market Risk

The primary objective of market risk management is to ensure that the Bank optimises that the risk reward relationship and does not expose to unacceptable losses outside its risk appetite.

The Board Integrated Risk Management Committee reviews the risk goals set for market risk management on a quarterly basis and provides valuable input and direction. These goals are compared with results achieved and are subject to a comprehensive discussion for decision making for way forward. In particular, the limits imposed by the regulator and control measures adopted for compliance are carefully monitored.

The Assets and Liabilities Committee (ALCO), in keeping with its Terms of Reference (TOR) approved by the Board, decides on short term and long term strategies of the Bank for the overall management of Assets and Liabilities based on specific needs and prevailing market situation. In the process, ALCO reviews interest rate risk, liquidity risk, the Bank's view on interest rates with competitor rates, exchange forecasts etc.

The Board approved comprehensive policy documents on Market and Liquidity Risk management, Investments, and Stress Testing in place at Bank to mitigate the market risks. In addition, a policy document defining the responsibilities of each treasury units i.e. front, back and middle office is in place. The Strategies and policies are being continuously updated according to the evolving business requirements of the Bank as well as regulatory requirements. Treasury Middle Office functions as an independent unit reporting to Chief Risk Officer.

Treasury Middle Office of the Bank monitors the comprehensive framework of Treasury operating limits approved by the Board, including open position limits, dealer limits, counter party limits, gap limits, Foreign Currency Banking Unit and Domestic operation limits on a daily basis and takes prompt action when necessary. Separate risk goals are set for market risk management and on a quarterly basis, the Board Integrated Risk Management Committee reviews these risk goals and provides valuable input and direction.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Interest Rate Risk results from the differences in the way interest rate changes affect the values of assets, liabilities, and off balance sheet instruments.

The interest rate sensitivity of banks portfolio depends on the characteristics of the financial instruments that make up the portfolio. The interest rate sensitivity of a financial instrument depends on maturity and repricing characteristics of the financial instruments.

The Bank presently prepares the Sensitivity of Assets and Liabilities (SAL) according to CBSL guideline for Interest Rate sensitive assets and liabilities in prescribed time bands which is presented to Bank's Assets and Liabilities Committee on a monthly basis. Gaps are identified between assets and liabilities and the same is used to prepare the Interest Rate Report.

	2014	2013
Increase in interest rates	2%	2%
Effect on Profit or Loss and Equity (Rs.)	29,194,962	45,601,366
Decrease in interest rates	(2%)	(2%)
Effect on Profit or Loss and Equity (Rs.)	(11,907,273)	(41,142,523)

Notes to the Financial Statements

Interest Rate Sensitivity Analysis

The table below analyses the Bank's interest rate risk exposure on Financial Assets and Liabilities. The Bank's Financial Assets and Liabilities are included at carrying amount and categorised by earlier of contractual re-pricing or maturity dates.

As at 31st December 2014

	Interest Bearing				Total
	Non Interest Bearing		Interest Bearing		
	Rs.	Rs.	Rs.	Rs.	
	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets					
Cash and Cash Equivalents	-	-	-	-	1,334,405,933
Balances with Central Bank	-	-	-	-	3,247,643,733
Derivative Financial Instruments	-	-	-	-	5,206,464
Financial Assets - Held for Trading	1,398,349,917	-	-	-	1,414,698,354
Loans and Receivables to Banks	7,597,250,330	-	-	-	7,597,250,330
Loans and Receivables to Other Customers	45,262,342,469	6,881,881,353	7,465,529,657	666,643,649	60,346,643,277
Financial Investments - Available for Sale	-	-	-	-	6,157,847
Financial Investments - Held to Maturity	518,820,605	2,044,536,583	-	-	2,563,357,188
Total Undiscounted Financial Assets	54,776,763,321	8,926,417,936	7,465,529,657	666,643,649	76,515,363,126
Financial Liabilities					
Due to Banks	1,058,273,213	16,623,226	25,756,241	-	1,134,163,317
Due to Other Customers	30,341,917,464	22,091,267,370	5,489,344,264	2,510,548	64,895,224,928
Term Debt and Other Borrowed Funds	1,125,446,721	2,034,859,681	-	-	3,160,306,402
Subordinated Debentures	-	694,954,854	140,000,000	3,000,000,000	3,834,954,854
Total Undiscounted Financial Liabilities	32,525,637,398	24,837,705,131	5,655,100,505	3,002,510,548	73,024,649,501
Total Interest Rate Sensitivity Gap	22,251,125,923	(15,911,287,195)	1,810,429,152	(2,335,866,899)	3,490,713,625

Interest Rate Sensitivity Analysis
As at 31st December 2013

	Interest Bearing				Non Interest Bearing		Total
	Less than 3 Months		1 to 5 Years		Over 5 Years		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
Financial Assets							
Cash and Cash Equivalents	-	-	-	-	1,203,739,630	-	1,203,739,630
Balances with Central Bank	-	-	-	-	2,799,581,915	-	2,799,581,915
Placements with Banks	104,622,304	-	-	-	-	104,622,304	104,622,304
Derivative Financial Instruments	-	-	-	-	2,758,216	-	2,758,216
Financial Assets - Held for Trading	495,606,535	3,091,512,357	1,056,343,374	-	4,526,952,801	-	9,170,415,067
Loans and Receivables to Banks	12,002,143	-	-	-	-	-	12,002,143
Loans and Receivables to Other Customers	35,199,902,034	4,292,397,396	4,868,976,008	323,870,806	43,540,177	44,728,686,421	44,728,686,421
Financial Investments - Available for Sale	-	-	-	-	6,157,847	-	6,157,847
Financial Investments - Held to Maturity	51,271,396	2,798,203,885	-	-	-	-	2,849,475,281
Total Undiscounted Financial Assets	35,863,404,412	10,182,113,638	5,925,319,382	323,870,806	8,582,730,586	60,877,438,824	60,877,438,824
Financial Liabilities							
Due to Banks	1,824,113,991	12,127,000	21,758,610	-	3,565,457	1,861,565,058	1,861,565,058
Derivative Financial Instruments	-	-	-	-	24,634,054	-	24,634,054
Due to Other Customers	25,707,449,876	19,662,142,085	2,980,782,588	25,905,352	5,459,617,499	53,835,897,400	53,835,897,400
Term Debt and Other Borrowed Funds	826,231,911	2,055,714,032	-	-	-	2,881,945,943	2,881,945,943
Subordinated Debentures	638,217,210	-	146,476,081	-	-	784,693,291	784,693,291
Total Undiscounted Financial Liabilities	28,996,012,988	21,729,983,117	3,149,017,279	25,905,352	5,487,817,010	59,388,735,746	59,388,735,746
Total Interest Rate Sensitivity Gap	6,867,391,424	(11,547,869,479)	2,776,302,103	297,965,454	3,094,913,576	1,488,703,078	1,488,703,078

Notes to the Financial Statements

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. This represents exposures the Bank has due to changes in the values of current holdings and future cash flow positions denominated in currencies other than the home currency.

Management of Currency Risk

The Bank's foreign exchange exposure is affected by movements in exchange rates. A Sensitivity analysis is used to measure the potential impact on Bank's adverse movement in exchange rate by giving adverse shocks for Net Open Position (NOP) of the Bank including the on balance sheet and off balance sheet exposures and assess the results thereafter according to the policy. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

Equity Price Risk

Equity price risk arises from the possibility that equity prices will fluctuate affecting the value of quoted equities.

Management of Equity Price Risk

The Bank does not hold any investment for strategic purposes other than the unquoted investments which are held for regulatory purposes. The value of quoted securities held in Bank's trading portfolio are directly linked to equity prices of Colombo Stock Exchange with increases/decreases being monitored and marked to market. A Sensitivity analysis is carried out by a stress testing exercise that assesses the impact of the fall in the stock market index which is according to Bank's policy. However, the Bank does not hold a significant investment in quoted or unquoted shares as at the reporting period date.

All investments held for trading are valued at market prices as at the reporting period date and resulting gains and losses are taken into 'Profit or Loss' as unrealised gain. Unquoted investments classified as 'Available for Sale' are carried at fair value in the Statement of Financial Position.

39.5 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and external events. The Bank recognises the significance of operational risk, which is inherent in all areas of business. This includes legal risk but excludes strategic and reputation risk. Operational risks are inherent in the Bank's activities are managed within acceptable levels through an appropriate level of management focus on resources.

Management of Operational Risk

The Bank has a operational risk management policy approved by Board of Directors which clearly demonstrates the objectives and procedures in managing operational risks. The policy manual outlines the internal operating policies of the Bank's Operational Risk Management framework. The Board Integrated Risk Management Committee oversees the implementation of the operational risk management framework.

40 Net Asset Value Per Ordinary Share

	2014	2013
Total Equity Holders Funds (Rs.)	4,734,628,927	4,048,763,534
Number of Ordinary Shares in Issue	295,041,086	295,041,086
Net Assets Value Per Share (Rs.)	16.05	13.72

41 Additional Cash Flow Information

Cash and Cash Equivalents for Cash Flow Purpose	2014	2013
	Rs.	Rs.
Cash in Hand (Note 15)	1,110,099,943	802,959,815
Balances with Foreign Banks (Note 15)	224,305,990	400,779,815
Placements with Banks (Note 17)	-	104,622,304
	1,334,405,933	1,308,361,934

The Statutory Deposit with the Central Bank of Sri Lanka is not available to finance the Bank's day-to-day operations and therefore, is not considered as a part of cash and cash equivalents.

Change in Operating Assets	2014	2013
	Rs.	Rs.
Net Change in Statutory Deposit with Central Bank of Sri Lanka	(448,061,818)	717,289,128
Net Change in Derivative Financial Instruments	(2,448,248)	(2,706,523)
Net Change in Financial Assets Held for Trading	7,755,716,713	(9,158,034,033)
Net Change in Loans and Receivables to Banks	(7,585,248,187)	(12,002,143)
Net Change in Loans and Receivables to Other Customers	(16,291,132,648)	(2,098,105,182)
Net Change in Other Assets	1,074,417,612	(1,355,189,325)
	(15,496,756,576)	(11,908,748,078)

Change in Operating Liabilities	2014	2013
	Rs.	Rs.
Net Change in Due to Banks	(727,401,741)	966,239,126
Net Change in Other Borrowed Funds	278,360,459	1,347,767,397
Net Change in Derivative Financial Instruments	(24,634,054)	24,002,391
Net Change in Due to Other Customers	11,059,327,528	5,924,810,019
Net Change in Other Provisions and Accruals	48,185,824	(4,209,805)
Net Change in Other Liabilities	149,653,173	(380,586,951)
	10,783,491,189	7,878,022,177

Notes to the Financial Statements

Other Non Cash Items Included in Profit Before Tax	2014	2013
	Rs.	Rs.
Depreciation of Property, Plant and Equipment	162,867,662	154,263,099
Amortisation of Intangible Assets	15,975,775	13,798,278
Loss/(Profit) on Disposal of Property, Plant and Equipment	155,850	(1,832,839)
Impairment Losses on Loans and Receivables	673,175,792	582,782,010
Other Impairment Losses	141,678,562	160,479,192
Defined Benefit Plan Expenses	30,462,226	24,822,295
	1,024,315,867	934,312,035

Operational Cash Flows from Interest and Dividends	2014	2013
	Rs.	Rs.
Interest Paid	4,862,262,979	5,158,969,216
Interest Received	7,537,482,760	7,774,238,255
Dividends Received	541,004	690,075

42 Maturity Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

As at 31st December 2014	Within 12 months	After 12 months	Total
	Rs.	Rs.	Rs.
Assets			
Cash and Cash Equivalents	1,334,405,933	-	1,334,405,933
Balances with Central Bank	3,247,643,733	-	3,247,643,733
Derivative Financial Instruments	5,206,464	-	5,206,464
Financial Assets - Held for Trading	1,414,698,354	-	1,414,698,354
Loans and Receivables to Banks	7,597,250,330	-	7,597,250,330
Loans and Receivables to Other Customers	37,041,419,419	23,305,223,858	60,346,643,277
Financial Investments - Available for Sale	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	2,563,357,188	-	2,563,357,188
Property, Plant and Equipment	-	1,458,545,033	1,458,545,033
Intangible Assets	-	50,606,360	50,606,360
Other Assets	1,322,450,231	258,301,324	1,580,751,555
Total Assets	54,526,431,652	25,078,834,422	79,605,266,074
Liabilities			
Due to Banks	1,108,407,076	25,756,241	1,134,163,317
Due to Other Customers	59,403,370,116	5,491,854,812	64,895,224,928
Term Debt and Other Borrowed Funds	1,839,006,402	1,321,300,000	3,160,306,402
Deferred Tax Liabilities	-	281,978,238	281,978,238
Other Provisions and Accruals	126,733,762	-	126,733,762
Other Liabilities	1,305,580,689	131,694,957	1,437,275,646
Subordinated Debentures	84,954,854	3,750,000,000	3,834,954,854
Total Liabilities	63,868,052,899	11,002,584,248	74,870,637,147
Net	(9,341,621,247)	14,076,250,174	4,734,628,927

As at 31st December 2013	Within 12 months Rs.	After 12 months Rs.	Total Rs.
Assets			
Cash and Cash Equivalents	1,203,739,630	-	1,203,739,630
Balances with Central Bank	2,799,581,915	-	2,799,581,915
Placements with Banks	104,622,304	-	104,622,304
Derivative Financial Instruments	2,758,216	-	2,758,216
Financial Assets - Held for Trading	8,114,071,693	1,056,343,374	9,170,415,067
Loans and Receivables to Banks	12,002,143	-	12,002,143
Loans and Receivables to Other Customers	33,090,836,267	11,637,850,154	44,728,686,421
Financial Investments - Available for Sale	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	2,849,475,281	-	2,849,475,281
Property, Plant and Equipment	-	1,204,302,416	1,204,302,416
Intangible Assets	-	65,804,221	65,804,221
Other Assets	2,224,967,967	545,932,120	2,770,900,087
Total Assets	50,402,055,416	14,516,390,132	64,918,445,548
Liabilities			
Due to Banks	1,839,806,448	21,758,610	1,861,565,058
Derivative Financial Instruments	24,634,054	-	24,634,054
Due to Other Customers	50,829,209,460	3,006,687,940	53,835,897,400
Term Debt and Other Borrowed Funds	1,574,087,965	1,307,857,978	2,881,945,943
Deferred Tax Liabilities	-	150,787,101	150,787,101
Other Provisions and Accruals	78,547,938	-	78,547,938
Other Liabilities	1,157,249,878	94,361,351	1,251,611,229
Subordinated Debentures	-	784,693,291	784,693,291
Total Liabilities	55,503,535,743	5,366,146,271	60,869,682,014
Net	(5,101,480,327)	9,150,243,861	4,048,763,534

43 Contingent Liabilities and Commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

Documentary Credit and Guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. Details of Commitments and Contingencies are given below;

43.1 Contingencies

	2014 Rs.	2013 Rs.
Guarantees	3,154,995,471	2,498,480,030
Documentary Credit	3,396,689,353	10,742,900,106
Forward Foreign Exchange Contracts and Currency Swaps	8,107,485,923	6,463,859,597
Collection Bills	2,825,731,832	2,286,197,854
	17,484,902,579	21,991,437,587

Notes to the Financial Statements**43.2 Commitments**

	2014	2013
	Rs.	Rs.
Undrawn Credit Commitments	4,715,191,985	4,133,234,378
	4,715,191,985	4,133,234,378
Total	22,200,094,564	26,124,671,965

Capital expenditure approved by the Board of Directors for which provision has not been made in the Financial Statements amounts to Rs. 103,426,758/-

43.3 Material Litigation Against the Bank

Litigation is a common occurrence in the Banking Industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year-end, the Bank had several unresolved legal claims.

a) SC CHC Appeal 36/2006

The appeal lodged by the Bank against an order of the Commercial High Court to honour a claim on a Bank Guarantee issued by the Bank for Rs. 8,964,428/-, which the claim has not been honoured by the Bank due to a suspicion of collusion between the beneficiary and the customer to defraud the Bank. Argument fixed is for 11th June 2015.

b) Court of Appeal Case No.CALA 455/2005

The Appeal was lodged by the Bank against an Interim Injunction issued by the District Court restraining the Bank from claiming and receiving monies on a Bank Guarantee issued by another Bank to secure credit facilities of a customer. The case has been fixed before a special Bench (of three judges) for Argument on 7th May 2015.

c) DC Colombo Case No.00002/08/DTR

The case filed by the previous owner of the mortgaged property on the basis of a constructive trust. Interim injunction has been issued restraining the parate sale. Further trial is fixed for 11th May 2015.

d) HC (Civil) Case No. 493/2009

The case filed by the previous owners claiming adverse title denying that they transferred the subject property to our customer. Interim injunction has been issued restraining the parate sale. Further trial is fixed on 20th February 2015. The Bank has also made a complaint to the CID to inquire into the purported forgery which is alleged to have been committed by our customer.

e) HC (Civil) Case No. 670/09/MR

A property vested in the Bank under parate sale was claimed by another commercial Bank through a Mortgage Bond action. The case is due to be called on 06th May 2015 for a settlement or for the said commercial Bank to file extracts of title where their mortgage bond is registered.

f) DC Negombo Case No. 7261/L

A third party claiming an adverse title on the basis of a forgery committed at the time the property has been transferred to the previous owner obtained an interim injunction restraining the parate sale. The said party has also made a complaint to the CID and a case is pending against the former owner of the property in the Magistrate's Court of Negombo and the same is to be called for Attorney General's report on 17th March 2015. The insurance company that issued the title insurance is defending the case on behalf of the Bank. The case is due to be called on 17th March 2015.

g) DC Colombo Case No. 00020/10/DLM

The previous owner obtained an interim injunction restraining the parate sale on the basis of a constructive trust. Trial is fixed for 23rd March 2015.

h) DC Colombo Case No 17/99/CO-Court of Appeal Case No. CALA -05/2014

The property taken as a mortgage for the facilities now vested in the State under the Revival of Under Performing Enterprises and under utilised Assets Act. The Compensation Tribunal has rejected the claim lodged by the Bank and the Bank appealed to the court of Appeal. The same is to be mentioned on 13th February 2015 for filing of objections by the Respondents.

i) HC (Civil) Case No 657/10/MR

The Case was filed for the recovery of the total balance outstanding due to the Bank. Trial is fixed on 19th May 2015.

44 Lease Arrangements**44.1 Operating Lease Commitments - Bank as Lessee**

The Bank has entered into commercial leases for branch premises. These lease agreements have an average life of between five and ten years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at reporting period are as follows:

	2014	2013
	Rs.	Rs.
Within one year	163,604,766	154,312,439
After one year but not more than five years	579,643,145	497,892,499
More than five years	289,063,809	352,434,356
	1,032,311,720	1,004,639,294

The Bank has not entered into any agreements with third parties in the capacity of lessor of a operating lease asset.

Notes to the Financial Statements**44.2 Finance Lease Receivables**

The Bank leases a variety of assets to third parties under finance leases. At the end of the lease terms assets may be sold to third parties or leases for further terms. The lease terms are fixed. Rentals are calculated to recover the cost of the assets less their residual values and earn finance income.

As at 31st December 2014	Total Future Minimum Payment Rs.	Unearned Finance Income Rs.	Present Value of Minimum Lease Payment Rs.
Lease Receivable			
Within one year	2,756,324,421	713,412,539	2,042,911,882
After one year but not more than five years	4,512,830,232	788,862,186	3,723,968,046
More than five years	150,338	4,529	145,809
	7,269,304,991	1,502,279,254	5,767,025,737

As at 31st December 2013	Total Future Minimum Payment Rs.	Unearned Finance Income Rs.	Present Value of Minimum Lease Payment Rs.
Lease Receivable			
Within one year	2,492,329,100	716,635,343	1,775,693,757
After one year but not more than five years	4,143,510,847	769,759,957	3,373,750,890
More than five years	-	-	-
	6,635,839,947	1,486,395,300	5,149,444,647

Accumulated allowance for uncollectible minimum lease payments are included in impairment for loans and other losses.

45 Related Party Disclosure

The Bank carries out transactions in the ordinary course of business with parties who are defined as 'Related Parties' in LKAS 24 - 'Related Party Disclosures'. The terms and conditions of such transactions are disclosed under 45.4 and 45.5.

45.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

45.2 Transactions with Key Management Personnel of the Bank

The Bank has identified and disclosed personnel those having authority and responsibility for planning, directing and controlling the activities of the Bank as 'Key Management Personnel' in accordance with LKAS 24 : 'Related Party Disclosures'. Accordingly, Chief Executive Officer and Board of Directors have been identified as 'Key Management Personnel' (KMP). The Board has already nominated the members of the Corporate Management team as 'Key Management Personnel' (Nominated KMP).

45.3 Compensation of Key Management Personnel of the Bank

The following represents the compensation paid to Key Management Personnel of the Bank.

	2014	2013
	Rs.	Rs.
Short-term Benefits		
- KMP	31,663,225	27,836,541
- Nominated KMP	67,414,707	59,907,012
	99,077,932	87,743,553

The presentation and classification of the previous years have been amended for better presentation and to be comparable with those of the current year.

45.4 Transactions with Key Management Personnel of the Bank

The Bank enters into transactions, arrangements and agreements with Key Management Personnel and Close family members of Key Management Personnel in the ordinary course of business. The transactions below were made in the ordinary course of business and on substantially the same terms, including interest/commission rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features. The Bank has not made any provision for specific impairment losses on amounts owed by Key Management Personnel and Close Family Members.

	2014		2013	
	KMP	Nominated KMP	KMP	Nominated KMP
	Rs.	Rs.	Rs.	Rs.
Assets				
Loans and Advances	16,769,263	45,603,694	36,456,641	37,563,390
Liabilities				
Deposits and Borrowings	228,344,185	42,055,142	196,983,350	21,692,735
Commitments and Contingencies				
Guarantees, Letter of Credit and Others	-	3,901,144	-	3,619,269
Income and Expenses				
Interest Income	951,956	3,237,808	3,721,065	2,725,562
Interest Expense	24,783,247	1,906,936	14,229,528	220,109
Fee and Commission Income	-	14,856	37,725	250

The presentation and classification of the previous years have been amended for better presentation and to be comparable with those of the current year.

Notes to the Financial Statements**45.5 Transactions with Significant Investors and Other Related Parties of the Bank**

In addition to transactions with Key Management Personnel and their Close Family Members, the Bank enters into transactions, arrangements and agreements with entities that have a significant influence over the Bank in the ordinary course of business. The transactions below were made in the ordinary course of business on substantially the same terms, including interest/commission rates and security, as for comparable transactions with unrelated counterparties. The Bank has not made any provision for impairment losses on amounts owed by related parties.

	2014	2013
	Rs.	Rs.
Assets		
Loans and Advances	1,604,406,809	589,383,654
Investment in Quoted Shares	16,348,437	11,286,578
Liabilities		
Deposits and Borrowings	3,591,651,210	4,701,420,306
Commitments and Contingencies		
Guarantees, Letter of Credit and Others	328,840,444	87,379,988
Income and Expenses		
Interest Income	94,805,106	88,586,558
Interest Expense	187,582,769	221,397,131
Fee and Commission Income	7,590,861	1,814,856

The presentation and classification of the previous years have been amended for better presentation and to be comparable with those of the current year.

45.6 Net Accommodation to Key Management Personnel and Related Parties

Net direct and indirect accommodation granted to Key Management Personnel and Companies having a substantial interest as at 31st December 2014 amounted to Rs. 71,639,000/- (2013- Rs. 95,986,599/-) and Rs. 3,200,849,580/- (2013 - Rs. 1,008,166,452/-), which represent 1.03% (2013 -2.02%) and 45.92% (2013- 21.29%) of the total regulatory capital of the Bank respectively.

46 Events After the Reporting Date

There were no events after the reporting date which require adjustments to or disclosures in the Financial Statements.

47 Capital

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital adequacy requirements of the local prudential regulator, Central Bank of Sri Lanka. The adequacy of the Bank's Capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Sri Lanka.

As required by the circular issued by Central Bank of Sri Lanka on “Enhancement of Minimum Capital Requirement of Banks”, Licenced Commercial Banks are required to increase its capital as specified below in the interest of a strong and sound Banking system.

- (a) Rs. 3 Billion by 31st December 2011
- (b) Rs. 4 Billion by 31st December 2013
- (c) Rs. 5 Billion by 31st December 2015

However, as per the Master Plan on Consolidation announced by Central Bank of Sri Lanka, Minimum Capital Requirement of Licenced Commercial Banks has been increased up to Rs. 10 Billion commencing 1st January 2016 in view of strong and dynamic banking sector.

Capital Management

The primary objectives of the Bank’s capital management policy are to ensure that the Bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. However, they are under constant review by the Board of Directors.

Regulatory Capital consists of Core (Tier I) Capital, which comprises Stated Capital, Statutory Reserve Fund, Published Retained Earnings and General and Other Reserves less 50% of Investments in the Capital of Other Banks and Financial Institutions and Cost of Intangible Assets. The other component of Regulatory Capital is Supplementary (Tier II) Capital, which includes Approved Subordinated Term Debt, Approved Revaluation Reserves and General Provisions less 50% of investments in the Capital of Other Banks and Financial Institutions and Cost of Intangible Assets

The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for Licensed Banks in Sri Lanka based on the Basel Framework. Thus the Bank’s operations are directly supervised by the CBSL and the Bank is required to comply with the Provisions of the Basel II framework in respect of Regulatory Capital. Licensed Commercial Banks in Sri Lanka need to maintain a minimum Capital Adequacy Ratio (CAR) of 10% and a Core Tier 1 Capital Ratio of at least 5%. As of 31st December 2014, the Bank reported a Tier 1 ratio of 8.97 % and a Capital Adequacy Ratio of 14.19% which remain above the CBSL capital requirements. Detailed Capital Adequacy Computation is given on pages 203 & 204.

In arriving at the above ratios, the Bank has used profits as per Sri Lanka Accounting Standards (LKAS/SLFRSs) for the purpose of Tier I Capital. However, all other balances including the risk weighted assets are the balances used for regulatory reporting with the Central Bank of Sri Lanka.

Notes to the Financial Statements

48 Segment Reporting

	2014			
	Retail Banking	Corporate Banking	Treasury	Total
	Rs.	Rs.	Rs.	Rs.
Operating Income				
Third Party	5,069,203,469	2,162,708,402	1,612,044,605	8,843,956,476
Inter Segment	1,216,676,479	(404,792,823)	(811,883,656)	-
Total Operating Income	6,285,879,948	1,757,915,579	800,160,949	8,843,956,476
Extract of Results				
Interest Income	4,610,663,021	1,954,071,463	976,990,593	7,541,725,077
Interest Expense	(3,687,035,651)	(947,797,130)	(166,908,329)	(4,801,741,110)
Inter Segment	1,216,676,479	(404,792,823)	(811,883,656)	-
Net Interest Income	2,140,303,849	601,481,510	(1,801,392)	2,739,983,967
Fees and Commission Income	435,772,677	208,095,935	-	643,868,612
Fees and Commission Expense	(5,770,951)	-	(9,495,852)	(15,266,803)
Net Fee and Commission Income/(Expense)	430,001,726	208,095,935	(9,495,852)	628,601,809
Net Gain from Trading	-	273,614	343,991,717	344,265,331
Net Gain from Available for Sale Financial Investments	-	267,390	-	267,390
Other Operating Income	22,767,771	-	291,062,295	313,830,066
Impairment for Loans and Other Losses	(698,499,647)	(115,929,283)	(425,424)	(814,854,354)
Net Operating Income	1,894,573,699	694,189,166	623,331,344	3,212,094,209
Depreciation of Property, Plant and Equipment	114,007,362	32,573,533	16,286,767	162,867,662
Amortisation of Intangible Assets	11,183,041	3,195,155	1,597,579	15,975,775
Segment Result	1,769,383,296	658,420,478	605,446,998	3,033,250,772
Unallocated Expenses				2,278,742,136
VAT and NBT on Financial Services				216,075,298
Profit Before Tax				538,433,338
Income Tax Expense				123,222,628
Profit for The Year				415,210,710
Other Comprehensive Income for the Year Net of Tax				270,654,683
Total Comprehensive Income for the Year				685,865,393
Segment Assets	35,257,031,330	20,044,920,511	18,134,355,465	73,436,307,306
Unallocated Assets	-	-	-	6,168,958,768
Total Assets	35,257,031,330	20,044,920,511	18,134,355,465	79,605,266,074
Segment Liabilities	54,191,175,986	15,902,843,191	2,930,630,324	73,024,649,501
Unallocated Liabilities	-	-	-	6,580,616,573
Total Liabilities	54,191,175,986	15,902,843,191	2,930,630,324	79,605,266,074

	2013			Total Rs.
	Retail Banking Rs.	Corporate Banking Rs.	Treasury Rs.	
Operating Income				
Third Party	4,838,370,555	2,610,532,111	1,605,133,903	9,054,036,569
Inter Segment	1,511,472,261	(656,310,980)	(855,161,281)	-
Total Operating Income	6,349,842,816	1,954,221,131	749,972,622	9,054,036,569
Extract of Results				
Interest Income	4,462,979,197	2,420,385,252	1,093,587,706	7,976,952,155
Interest Expense	(4,799,632,888)	(907,876,097)	(174,143,799)	(5,881,652,784)
Inter Segment	1,511,472,261	(656,310,980)	(855,161,281)	-
Net Interest Income	1,174,818,570	856,198,175	64,282,626	2,095,299,371
Fees and Commission Income	358,151,445	190,146,859	-	548,298,304
Fees and Commission Expense	(2,774,081)	-	(6,176,620)	(8,950,701)
Net Fee and Commission Income/(Expense)	355,377,364	190,146,859	(6,176,620)	539,347,603
Net Gain from Trading	-	-	238,301,635	238,301,635
Net Gain from Available for Sale Financial Investments	-	-	211,250	211,250
Other Operating Income	17,239,913	-	273,033,312	290,273,225
Impairment for Loans and Other Losses	(711,830,841)	(31,430,361)	-	(743,261,202)
Net Operating Income	835,605,006	1,014,914,673	569,652,203	2,420,171,882
Depreciation of Property, Plant and Equipment	107,984,169	38,565,775	7,713,155	154,263,099
Amortisation of Intangible Assets	9,658,795	3,449,570	689,913	13,798,278
Segment Result	717,962,042	972,899,328	561,249,135	2,252,110,505
Unallocated Expenses				2,023,669,976
VAT on Financial Services				104,534,804
Profit Before Tax				123,905,725
Income Tax Expense				(10,067,396)
Profit for the Year				113,838,329
Other Comprehensive Income for the Year Net of Tax				(2,626,631)
Total Comprehensive Income for the Year				111,211,698
Segment Assets	25,157,404,970	15,835,890,763	19,256,718,290	60,250,014,023
Unallocated Assets				4,668,431,525
Total Assets	25,157,404,970	15,835,890,763	19,256,718,290	64,918,445,548
Segment Liabilities	42,288,176,007	10,424,461,349	7,884,374,855	60,597,012,211
Unallocated Liabilities				4,321,433,337
Total Liabilities	42,288,176,007	10,424,461,349	7,884,374,855	64,918,445,548

The presentation and classification of the previous years have been amended for better presentation and to be comparable with those of the current year.

Notes to the Financial Statements**49 Changes in Accounting Policy and Reclassification****49.1 Changes in Accounting Policy**

The Bank elected to change the Accounting Policy with respect to measurement of Land and Buildings from Cost Model to Revaluation Model with effective from 30th September 2014 since the Bank believes that Revaluation Model more effectively demonstrates the financial position of Land and Buildings and is more aligned to practices adopted by the competitors. The Bank applied the revaluation model prospectively. Therefore, the fair value of the Land and Buildings were not measured at 1st January 2013 and 31st December 2013.

	Rs.
As at 1st January 2013 and 31st December 2013	-
Revaluation Surplus Recognised due to Change in Accounting Policy to Revaluation Model	356,158,971
As at 31st December 2014	356,158,971

49.2 Reclassification

Deferred tax impact of Actuarial Losses on Defined Benefit Plans were recognised in Other Comprehensive Income during the year. Each Financial Statement line item affected and related note have been reclassified accordingly.

	2013		
	As Reported Previously Rs.	Reclassification Rs.	Current Presentation Rs.
Statement of Comprehensive Income			
Profit or Loss			
Profit Before Tax	123,905,725	-	123,905,725
Income Tax Expense	(9,045,929)	(1,021,467)	(10,067,396)
Profit for the Year	114,859,796	(1,021,467)	113,838,329
Other Comprehensive Income			
Actuarial Losses on Defined Benefit Plans	(3,648,098)	-	(3,648,098)
Deferred Tax Effect on Above	-	1,021,467	1,021,467
Other Comprehensive Income for the Year	(3,648,098)	1,021,467	(2,626,631)

Statement of Financial Position and Statement of Changes in Equity

Retained Earnings	1,861,631,170	51,074	1,861,682,244
Statutory Reserve Fund	169,260,757	(51,074)	169,209,683
	2,030,891,927	-	2,030,891,927

Statement of Cash Flows

The above reclassification did not have an impact on the Bank's operating, investing and financing cash flows.

Compliance with Disclosure Requirements Specified by the Central Bank of Sri Lanka

The following explains the Other Disclosure Requirements under the Prescribed format issued by the Central Bank of Sri Lanka for the Preparation of Annual Financial Statements of Licensed Commercial Banks.

1. Information about the Significance of Financial Instruments for Financial Position and Performance		
1.1 Statement of Financial Position		
1.1.1	Disclosures on categories of financial assets and financial liabilities.	Note 37 to the Financial Statements - Analysis of Financial Assets and Liabilities by Measurement basis
1.1.2	Other Disclosures	
(i)	Special disclosures about financial assets and financial liabilities designated to be measured at Fair Value through Profit or Loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Note 38 to the Financial Statements - Fair Value of Financial Instruments
(ii)	Reclassifications of financial instruments from one category to another.	Note 38.3 to the Financial Statements - Reclassification of Financial Assets
(iii)	Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Note 19.2.1 to the Financial Statements - Financial Assets Held for Trading Pledged as Collateral and Note 23.1 - Financial Assets Held to Maturity Pledged as a Collateral
(iv)	Reconciliation of the allowance account for credit losses by class of financial assets.	Note 21.4 - Movement in Individual and Collective Impairment during the Year
(v)	Information about compound financial instruments with multiple embedded derivatives.	Not Applicable
(vi)	Breaches of terms of loan agreements.	None
1.2 Statement of Comprehensive Income		
1.2.1	Disclosures on items of income, expense, gains and losses.	Notes 04 - 11 to the Financial Statements
1.2.2	Other Disclosures	
(i)	Total interest income and total interest expense for those financial instruments that are not measured at Fair Value through Profit or Loss.	Notes 4.2 to the Financial Statements - Net Interest Income from Financial Instruments not Measured at Fair Value through Profit or Loss.
(ii)	Fee income and expense.	Note 05 to the Financial Statements - Net Fee and Commission Income
(iii)	Amount of impairment losses by class of financial assets.	Note 09 to the Financial Statements - Impairment for Loans and Other Losses
(iv)	Interest income on impaired financial assets.	Note 04 to the Financial Statements - Net Interest Income

Compliance with Disclosure Requirements Specified by the Central Bank of Sri Lanka

1.3 Other Disclosures		
1.3.1	Accounting policies for financial instruments.	Note 02 to the Financial Statements - Significant Accounting Policies
1.3.2	Information on hedge accounting	Not Applicable
1.3.3	Information about the fair values of each class of financial asset and financial liability, along with:	
(i)	Comparable Carrying Amounts.	Note 38 to the Financial Statements - Fair Value of Financial Instruments
(ii)	Description of how fair value was determined.	
(iii)	The level of inputs used in determining fair value.	
(iv)	(a) Reconciliations of movements between levels of fair value measurement hierarchy.	Not Applicable
	(b) Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	Not Applicable
(v)	Information if fair value cannot be reliably measured.	Note 22 to the Financial Statements - Financial Investments - Available for Sale
2. Information about the Nature and Extent of Risks Arising from Financial Instruments		
2.1 Qualitative Disclosures		
2.1.1	Risk exposures for each type of financial instrument.	Note 39 to the Financial Statements - Risk Management
2.1.2	Management's objectives, policies, and processes for managing those risks.	Note 39 to the Financial Statements - Risk Management
2.1.3	Changes from the prior period.	Not Applicable
2.2 Quantitative Disclosures		
2.2.1	Summary of quantitative data about exposure to each risk at the reporting date.	Note 39 to the Financial Statements - Risk Management
2.2.2	Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.	Note 39 to the Financial Statements - Risk Management
(i)	Credit Risk	Note 39.2 to the Financial Statements - Credit Risk
(a)	Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets.	
(b)	For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset	
(c)	Information about collateral or other credit enhancements obtained or called.	
(d)	Other disclosures as per the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	

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| <p>(ii) Liquidity Risk</p> <p>(a) A maturity analysis of financial liabilities.</p> <p>(b) Description of approach to risk management.</p> <p>(c) Other disclosures as per the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).</p> | } | <p>Note 39.3 to the Financial Statements - Liquidity Risk and Risk Management on pages 48 to 55 of the Annual Report.</p> |
| <p>(iii) Market Risk</p> <p>(a) A sensitivity analysis of each type of market risk to which the entity is exposed.</p> <p>(b) Additional information, if the sensitivity analysis is not representative of the entity's risk exposure.</p> <p>(c) Other disclosures as per the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).</p> | } | <p>Note 39.4 to the Financial Statements - Market Risk</p> |
| <p>(iv) Operational Risk disclosures as per the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).</p> | | <p>Note 39.5 to the Financial Statements - Operational Risk and Risk Management on pages 48 to 55 of the Annual Report.</p> |
| <p>(v) Equity Risk in the Banking Book</p> <p>(a) Qualitative Disclosures</p> <p>- Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.</p> <p>- Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.</p> <p>(b) Quantitative Disclosures</p> <p>Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value, the types and the nature of investments and the cumulative realised gains/(losses) arising from sales and liquidations in the reporting period.</p> | | <p>Note 39.4 to the Financial Statements - Market Risk and Risk Management on pages 48 to 55 of the Annual Report.</p> <p>Note 39.4 to the Financial Statements - Market Risk</p> <p>Note 19.1 to the Financial Statements - Financial Assets Held for Trading (Quoted Equities) and Note 6 - Net Gain from Trading</p> |

Compliance with Disclosure Requirements Specified by the Central Bank of Sri Lanka

<p>(vi) Interest Rate Risk in the Banking Book</p> <p>(a) Qualitative Disclosures Nature of Interest Rate Risk in the Banking Book (IRRBB) and key assumptions.</p> <p>(b) Quantitative Disclosures The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant)</p>	}	<p>Note 39.4 to the Financial Statements - Market Risk</p>
<p>2.2.3 Information on concentrations of risk</p>		<p>Note 39 to the Financial Statements - Risk Management</p>

3. Other Disclosures

3.1 Capital

<p>3.1.1 Capital Structure</p> <p>(i) Qualitative Disclosures Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.</p> <p>(ii) Quantitative Disclosure</p> <p>(a) The amount of Tier 1 capital, with separate disclosure of</p> <ul style="list-style-type: none"> - Paid-up share capital/common stock - Reserves - Non-controlling interests in the equity of subsidiaries - Innovative instruments - Other capital instruments - Deductions from Tier 1 capital <p>(b) The total amount of Tier 2 and Tier 3 capital</p> <p>(c) Other deductions from capital</p> <p>(d) Total eligible capital</p>	}	<p>Note 47 to the Financial Statements - Capital and Capital Adequacy Computation on pages 203 and 204 of the Annual Report.</p> <p>Capital Adequacy Computation on pages 203 and 204 of the Annual Report.</p>
<p>3.1.2 Capital Adequacy</p> <p>(i) Qualitative Disclosures A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.</p> <p>(ii) Quantitative Disclosures</p> <p>(a) Capital requirements for credit risk, market risk and operational risk</p> <p>(b) Total and Tier 1 Capital Ratio</p>	}	<p>Capital Adequacy Computation on pages 203 and 204 of the Annual Report.</p>

Capital Adequacy Computation

Capital Base as at 31st December,	2014 (Basel II) Rs. 000	2013 (Basel II) Rs. 000
Tier I: Core Capital		
Paid up Ordinary Shares	1,548,966	1,548,966
Share Premium	-	-
Statutory Reserve Fund	189,970	169,210
Published Retained Profits	2,718,777	1,861,682
General & Other Reserves	-	468,906
Deductions/Adjustments:		
Intangible Assets	(50,607)	-
Total Eligible Core Capital (Tier I Capital)	4,407,106	4,048,764
Tier II : Supplementary Capital		
Revaluation Reserves	138,458	-
General Provisions	221,317	158,290
Approved Subordinated Term Debt	2,203,552	487,500
Total Eligible Supplementary Capital (Tier II Capital)	2,563,327	645,790
Capital Base	6,970,433	4,694,554
Computation of Ratios		
Total Risk Weighted Assets		
Risk Weighted Assets for Credit Risk	43,642,212	32,449,325
Risk Weighted Assets for Market Risk	179,575	2,188,756
Risk Weighted Assets for Operational Risk	5,290,290	4,774,952
Total Risk Weighted Assets	49,112,077	39,413,033
Core Capital Ratio (Minimum Requirement 5%)		
Total Eligible Core Capital (Tier - I Capital)	4,407,106	4,048,764
Total Risk Weighted Assets	49,112,077	39,413,033
	8.97%	10.27%
Total Capital Ratio (Minimum Requirement 10%)		
Total Capital Base	6,970,433	4,694,554
Total Risk Weighted Assets	49,112,077	39,413,033
	14.19%	11.91%

Capital Adequacy Computation**Computation of Risk Weighted Assets - (Basel II)****Credit Risk****On Balance Sheet Exposure for Credit Risk****As at 31st December 2014**

	Balance	Risk Weights %	Risk Weighted Assets
	Rs. 000		Rs. 000
Assets - Exposure			
To Central Government and CBSL	20,561,481	-	-
To Banks	224,306	20 - 150	44,861
To Financial Institutions	3,163,929	20 - 150	1,777,358
To Corporates	8,442,090	20 - 150	7,654,129
To Retail Sector	31,568,401	75 - 100	26,094,356
Secured on Residential Property Mortgages	1,576,192	50 - 100	788,096
Classified as Non Performing Advances	2,221,406	50 - 150	3,093,637
Claims Secured by Commercial Real Estate	73,585	100	73,585
Cash Items	8,581,023	0 - 20	3,957
Other Assets	1,955,482	100 - 150	1,958,562
Total On Balance Sheet Exposure	78,367,895		41,488,541

Off Balance Sheet Exposure for Credit Risk**As at 31st December 2014**

	Principal Amount of Off Balance Sheet Items	Credit Conversion Factor	Credit Equivalent Amount	Risk Weights	Credit Equivalent of Off Balance Sheet items
	Rs. 000	%	Rs. 000	%	Rs. 000
Financial Guarantees, Bank Acceptances and Other Guarantees	1,437,069	100	1,437,069	100	1,437,069
Performance related Guarantees and Warranties, Stand by Credit Lines	297,447	50	148,724	100	148,724
Shipping Guarantees	183,416	20	36,683	100	36,683
Documentary Letter of Credit	1,845,226	20	369,045	100	369,045
Undrawn Overdrafts and Other Credit Facilities	4,715,192	0 - 50	-	100	-
Foreign Exchange Contracts	8,107,486	2 - 5	162,150	100	162,150
Foreign Interest Rate Contracts	-	0.5 - 1	-	100	-
Total Off Balance Sheet Exposure	16,585,836		2,153,671		2,153,671

Market Risk**As at 31st December 2014**

	Capital Charge	Risk Weighted Assets
	Rs. 000	Rs. 000
Interest Rate	706	7,066
Equity	3,270	32,697
Foreign Exchange & Gold	13,981	139,812
Total Risk Adjusted Balance for Market Risk	17,957	179,575

Operational Risk**As at 31st December 2014**

	Capital Charge	Risk Weighted Assets
	Rs. 000	Rs. 000
Average Gross Income	3,526,860	
15% of Average Gross income	529,029	
Total Risk Adjusted Balance for Operational Risk	529,029	5,290,290

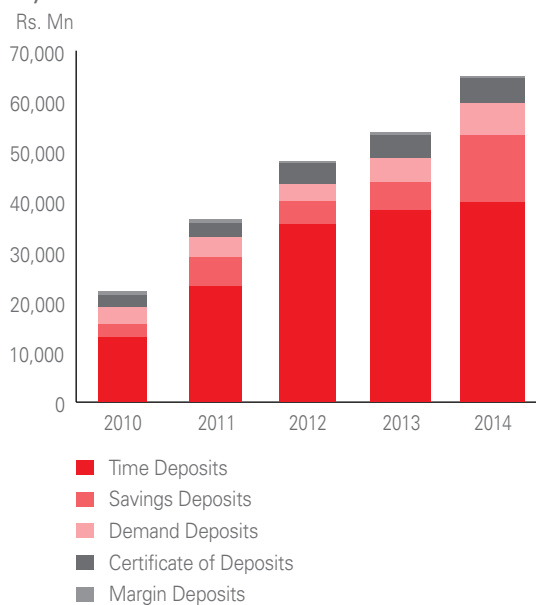
Quarterly Statistics

For the Quarter ended	2014				2013			
	31st	30th	30th	31st	31st	30th	30th	31st
	December	September	June	March	December	September	June	March
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Extract of Statement of Financial Position								
Total Assets	79,605,266	73,831,167	69,386,371	67,607,211	64,918,446	65,758,261	63,299,728	58,660,231
Loans and Receivables to Other Customers	60,346,643	52,376,003	50,481,962	47,251,716	44,728,686	43,846,376	43,697,089	44,077,883
Due to Other Customers	64,895,225	62,672,222	56,792,436	55,619,806	53,835,897	52,281,179	54,131,755	50,769,770
Subordinated Debentures	3,834,955	767,190	779,849	761,575	784,693	762,129	780,047	757,168
Total Equity	4,734,629	4,604,312	4,224,655	4,134,707	4,048,764	4,128,440	4,099,519	4,089,002
Average Total Assets	71,680,030	69,390,586	68,017,724	66,340,453	61,927,438	61,074,093	59,909,769	57,329,591
Extract of Statement of Comprehensive Income								
Net Interest Income	850,139	635,430	547,621	706,794	188,895	644,155	724,736	537,513
Other Income	369,495	298,993	329,094	289,383	310,672	254,659	291,813	210,990
Total Operating Income	1,219,634	934,423	876,715	996,177	499,567	898,814	1,016,549	748,503
Impairment for Loans & Other Losses	(303,181)	(86,515)	(124,377)	(300,781)	(61,057)	(244,643)	(399,247)	(38,314)
Non-Interest Expenses	(723,983)	(691,610)	(644,290)	(613,778)	(574,664)	(609,713)	(543,958)	(567,931)
Income Tax Expense	(54,339)	(55,109)	(18,100)	4,325	59,105	(15,537)	(62,827)	9,192
Profit for the Period	138,131	101,189	89,948	85,943	(77,050)	28,921	10,517	151,450

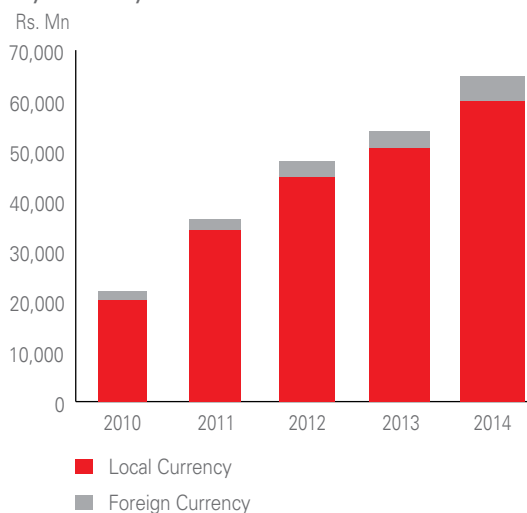
Analysis of Due to Other Customers

	2014 Rs. 000	2013 Rs. 000	2012 Rs. 000	2011 Rs. 000	2010 Rs. 000
By Product					
Demand Deposits	6,456,819	4,773,215	3,559,094	3,826,492	3,268,339
Savings Deposits	13,360,712	5,629,927	4,533,010	5,919,497	2,610,779
Time Deposits	39,743,568	38,188,235	35,425,977	23,016,908	12,935,902
Certificate of Deposits	4,820,760	4,558,118	3,990,847	2,899,155	2,519,467
Margin Deposits	513,366	686,402	402,160	691,337	617,338
Total	64,895,225	53,835,897	47,911,088	36,353,389	21,951,825
By Currency					
Sri Lanka Rupee	59,943,968	50,475,100	44,692,636	34,212,619	20,264,188
United State Dollar	4,069,126	2,317,692	2,021,617	1,648,313	1,311,039
Great Britain Pound	373,923	306,726	217,796	205,647	213,473
Others	508,208	736,379	979,039	286,810	163,125
Total	64,895,225	53,835,897	47,911,088	36,353,389	21,951,825

By Product



By Currency



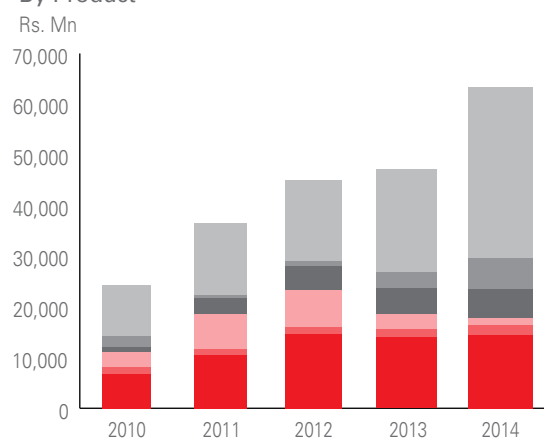
Analysis of Loans & Receivables to Other Customers

	2014 Rs. 000	2013 Rs. 000	2012 Rs. 000	2011 Rs. 000	2010 Rs. 000
By Product					
Overdrafts	14,418,732	13,927,292	14,644,630	10,551,588	6,708,888
Trade Finance	1,991,724	1,588,560	1,319,974	1,082,081	1,464,828
Credit Cards	625,292	213,001	94,683	266,506	312,207
Pawning & Ran Loans	1,308,199	2,997,534	7,412,047	7,000,929	2,867,781
Staff Loans	362,297	347,212	325,278	257,147	195,491
Term Loans	28,391,517	15,213,900	9,556,463	7,272,443	6,126,572
Lease Rentals Receivable	5,767,026	5,149,445	4,591,944	2,992,612	1,061,576
Margin Trading	2,110,593	1,830,969	2,131,805	1,924,657	3,408,470
Reverse Repurchase Agreements	1,000,176	1,182,698	-	250,096	1,400,435
Sri Lanka Development Bonds	5,195,616	1,984,459	1,168,674	460,054	703,201
Debentures	1,176,040	-	12,897	11,485	11,182
Others	945,509	2,693,632	3,831,111	4,434,890	105,393
Total	63,292,721	47,128,702	45,089,506	36,504,488	24,366,024

By Currency

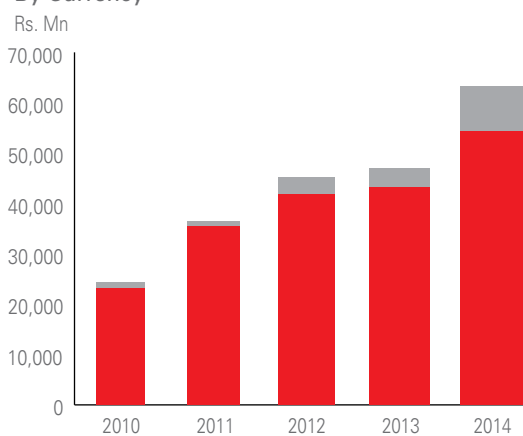
Sri Lankan Rupee	54,267,574	43,159,703	41,702,645	35,407,132	23,132,158
United State Dollar	8,906,719	3,882,484	3,191,257	1,068,411	1,219,957
Great Britain Pound	11,204	43,069	48,702	13,327	12,739
Others	107,224	43,446	146,902	15,618	1,170
Total	63,292,721	47,128,702	45,089,506	36,504,488	24,366,024

By Product



- Overdrafts
- Trade Finance
- Pawning & Ran Loans
- Lease Rentals Receivable
- SLDB & Reverse Repos
- Term & Other Loans

By Currency



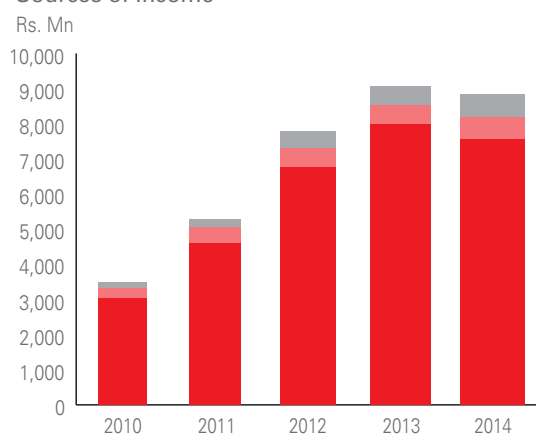
- Local Currency
- Foreign Currency

Sources & Distribution of Income

	2014 Rs. 000	2013 Rs. 000	2012 Rs. 000	2011 Rs. 000	2010 Rs. 000
Sources of Income					
Interest Income	7,541,725	7,976,952	6,766,833	4,582,661	3,027,659
Fee and Commission Income	643,869	548,298	540,197	473,409	293,513
Other Operating Income	658,362	528,786	459,189	222,144	163,239
	8,843,956	9,054,036	7,766,219	5,278,214	3,484,411
Distribution of Income					
To Depositors / Debenture Holders as Interest	4,801,741	5,881,653	4,360,678	2,268,624	1,402,263
To Employees as Emoluments	1,080,881	942,167	894,064	644,787	452,748
Depreciation set aside	178,843	168,061	140,943	94,144	89,111
Provision for Impairment and Other Losses	814,854	743,261	47,881	121,918	34,386
To Providers of Suppliers and Services	1,213,128	1,090,453	967,939	799,392	558,437
To Government as Taxation	339,298	114,602	494,663	537,583	585,672
Income Tax (Including Deferred Tax)	123,223	10,067	285,357	342,206	332,133
Value Added Tax on Financial Services	216,075	104,535	209,306	193,087	240,342
Debit Tax	-	-	-	2,290	13,197
To Reserves	415,211	113,838	860,051	811,766	361,794
	8,843,956	9,054,036	7,766,219	5,278,214	3,484,411

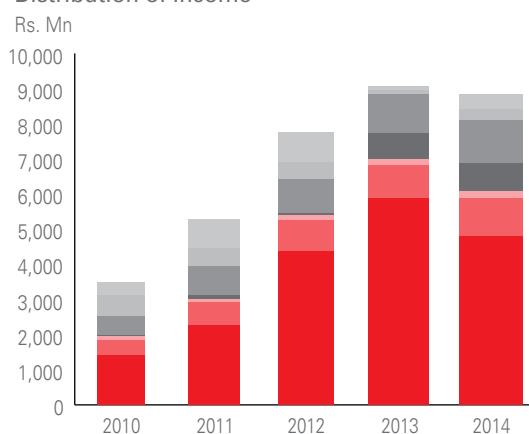
Note: Financial data of previous years have been re-classified / re-stated to conform with SLFRSs / LKASs requirements.

Sources of Income



- Interest Income
- Fee and Commission Income
- Other Operating Income

Distribution of Income

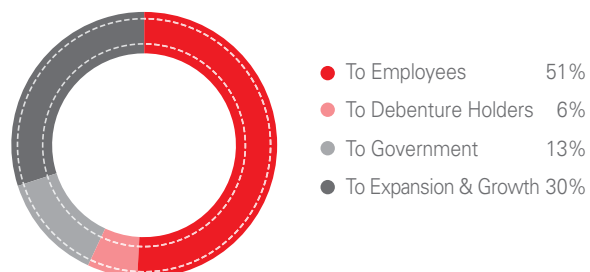


- To Depositors / Debenture Holders as Interest
- To Employees as Emoluments
- Depreciation set aside
- Provision for Impairment and Other Losses
- To Providers of Suppliers and Services
- To Government as Taxation (Including Deferred Tax)
- To Reserves

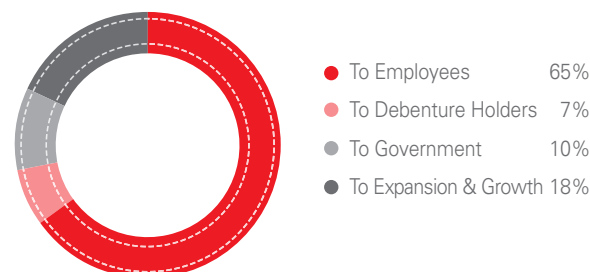
Value Added Statement

	2014 Rs. 000	%	2013 Rs. 000	%
Value Added				
Income from Banking Services	8,843,956		9,054,036	
Cost of Funds and Services	(5,880,160)		(6,866,463)	
Value Added by Banking Services	2,963,796		2,187,573	
Impairment for Loans and Other Losses	(814,854)		(743,261)	
	2,148,942		1,444,312	
Distribution of Value Added				
To Employees				
Salaries & Other Benefits	1,080,881	51%	942,167	65%
To Debenture Holders				
Interest to Debenture Holders	134,709	6%	105,643	7%
To Government				
Income Tax	66,683		35,389	
Value Added Tax and Nation Building Tax on Financial Services	216,075		104,535	
	282,758	13%	139,924	10%
To Expansion & Growth				
Retained Profit	415,211		113,838	
Depreciation & Amortisation	178,843		168,061	
Deferred Taxation	56,540		(25,321)	
	650,594	30%	256,577	18%
	2,148,942	100%	1,444,312	100%

Distribution of Value Added - 2014



Distribution of Value Added - 2013



Ten Year Statistical Summary

Rs. Mn

For the Year ended 31st December, 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014

Operating Results

Income	1,224.66	1,580.84	2,317.14	3,241.16	3,862.07	3,484.41	5,278.21	7,766.22	9,054.04	8,843.96
Interest Income	993.03	1,289.08	1,968.55	2,864.60	3,159.66	3,027.66	4,582.66	6,766.83	7,976.95	7,541.73
Interest Expense	565.95	754.00	1,223.53	1,798.44	1,878.01	1,402.26	2,268.62	4,360.68	5,881.65	4,801.74
Net Interest Income	427.08	535.08	745.02	1,066.16	1,281.65	1,625.40	2,314.04	2,406.15	2,095.30	2,739.98
Other Income	231.63	291.76	348.60	376.55	702.40	456.75	695.55	999.39	1,077.08	1,302.23
Operating Expenses & Provisions	506.48	576.67	776.83	1,020.88	1,318.90	1,388.22	1,855.62	2,260.13	3,048.48	3,503.78
Profit before Income Tax	152.23	250.17	316.79	421.84	665.15	693.93	1,153.97	1,145.41	123.91	538.43
Income Tax	43.90	86.43	100.71	198.21	277.33	332.14	342.20	285.36	10.07	123.22
Profit for the Year	108.33	163.74	216.08	223.63	387.82	361.79	811.77	860.05	113.84	415.21

As at 31st December,

Assets

Cash and Cash Equivalents	521.57	424.32	612.33	843.93	588.33	1,110.07	2,430.15	1,203.05	1,203.74	1,334.41
Balances with Central Bank	609.08	704.06	856.28	704.59	807.21	1,060.32	2,250.43	3,516.87	2,799.58	3,247.64
Placements with Banks	259.23	440.15	422.17	59.18	96.81	-	-	500.13	104.62	-
Derivative Financial Instruments	-	-	-	-	-	1.14	1.51	0.05	2.76	5.21
Financial Assets - Held for Trading	-	-	-	2,964.53	3,829.34	3,432.63	190.98	12.38	9,170.42	1,414.70
Loans and Receivables to Banks	-	-	-	-	-	-	-	-	12.00	7,597.25
Loans and Receivables to Customers	7,833.28	9,265.88	11,431.77	12,776.96	12,693.80	22,792.38	34,619.64	43,213.37	44,728.69	60,346.64
Financial Investments - Available for Sale	1.14	1.14	3.14	2.14	2.14	2.14	2.14	6.16	6.16	6.16
Financial Investments - Held to Maturity	992.14	855.91	1,144.71	551.93	2,270.81	1,210.12	5,260.63	4,896.05	2,849.48	2,563.36
Property, Plant and Equipment	202.68	511.10	552.38	587.17	595.56	614.65	1,026.34	1,224.24	1,204.30	1,458.55
Intangible Assets	-	18.83	16.56	31.72	36.13	48.67	52.15	73.58	65.80	50.61
Other Assets	432.22	404.49	486.36	462.19	638.71	969.63	1,164.93	1,428.41	2,770.90	1,580.75
Total Assets	10,851.34	12,625.88	15,525.70	18,984.34	21,558.83	31,241.74	46,998.89	56,074.29	64,918.45	79,605.27

Liabilities

Borrowings & Due to Banks	1,142.51	1,281.92	505.25	1,399.60	1,326.78	4,470.46	4,916.09	1,121.65	4,743.51	4,294.47
Derivative Financial Instruments	-	-	-	-	-	3.23	1.26	0.63	24.63	-
Due to Other Customers	8,269.36	9,189.09	12,523.47	14,951.09	16,914.26	21,951.82	36,353.39	47,911.09	53,835.90	64,895.22
Current Tax Liabilities	25.22	44.76	58.81	121.57	245.56	262.37	227.90	151.31	-	-
Deferred Tax Liabilities	-	34.08	41.83	55.61	10.53	83.49	121.69	177.13	150.79	281.98
Other Liabilities and Provisions	620.49	537.12	641.36	753.82	1,032.04	1,552.03	1,697.87	1,694.06	1,330.16	1,564.01
Subordinated Term Debts	253.79	303.79	303.79	110.81	50.00	50.00	-	785.83	784.69	3,834.95
Total	10,311.37	11,390.76	14,074.51	17,392.49	19,579.17	28,373.41	43,318.20	51,841.70	60,869.68	74,870.64

Shareholders' Funds

Stated Capital	555.72	1,106.40	1,106.40	1,106.40	1,106.40	1,548.97	1,548.97	1,548.97	1,548.97	1,548.97
Reserves	(15.75)	128.72	344.79	485.44	873.26	1,319.37	2,131.72	2,683.63	2,499.80	3,185.66
Total	539.97	1,235.12	1,451.19	1,591.84	1,979.66	2,868.34	3,680.69	4,232.59	4,048.77	4,734.63

Total Liabilities & Shareholders' Funds 10,851.34 12,625.88 15,525.70 18,984.34 21,558.83 31,241.74 46,998.89 56,074.29 64,918.45 79,605.27

Commitments & Contingencies 1,769.47 1,733.70 2,296.66 2,772.80 3,151.96 10,887.66 15,331.43 13,743.92 26,124.67 22,200.09

Share Information

Earnings per Share (Rs.)	0.98	1.32	0.98	1.01	1.61	1.31	2.75	2.92	0.39	1.41
Net Assets Value per Share (Rs.)	4.86	5.58	6.56	7.20	8.95	9.44	12.48	14.35	13.72	16.05

Other Information

No of Employees	394	433	546	507	511	670	1096	1153	1169	1302
No of Branches	18	19	27	32	35	41	64	73	77	78

Note: Financial data of previous years have been re-classified / re-stated to conform with SLFRSs / LKAs requirements.

Investor Relations

Compliance Report on the Contents of Annual Report in terms of the Listing Rules of the Colombo Stock Exchange

The table below summarises the Bank's degree of compliance with section 7.6 of the Listing Rules issued by Colombo Stock Exchange;

Rule No.	Disclosure Requirements	Section Reference	Page/s
7.6 (i)	Names of persons who during the financial year were Directors of the Entity.	Annual Report of Board of Directors on the affairs of the Bank	93
7.6 (ii)	Principal activities of the entity during the year and any changes therein.	Notes to the Financial Statements (Note 1)	120
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Item 02 of the Investor Relations	212
7.6 (iv)	The Public Holding percentage and Number of Shares Held by Public	Item 02 of the Investor Relations	213
7.6 (v)	A statement of each Director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of financial year.	Annual Report of Board of Directors on the Affairs of the Bank	93
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity.	Item 05 of the Investor Relations	216
7.6 (vii)	Details of material issues pertaining to employees and industrial relations.	Item 06 of the Investor Relations	216
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties.	Notes to the Financial Statements (Note 24)	152
7.6 (ix)	Number of shares representing the Entity's Stated Capital.	Notes to the Financial Statements (Note 34)	160
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings.	Item 03 of the Investor Relations	214
7.6 (xi)	Ratios and Market Price information		
	Equity Ratios	Item 04 of the Investor Relations	
	Market Value	Item 04 of the Investor Relations	215
	Debenture Information	Item 04 of the Investor Relations	
	Any Changes in Credit Rating	Business Review	40
7.6 (xii)	Significant changes in the Entity's fixed assets and the market value of land, if the value differs substantially from the book value.	Notes to the Financial Statements (Note 24)	152
7.6 (xiii)	Details of funds raised through Public Issues, Right Issues, and Private Placements during the year.	Notes to the Financial Statements (Note 34)	160
7.6 (xiv)	Information in respect of Employee Share Option Scheme.	Not Applicable	
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Rules.	Exempted under section 7.10 of Listing Rules since the Bank complies with direction laid down in the Banking Act Direction No. 11 of 2007 on Corporate Governance	-

Investor Relations

1. Stock Exchange Listing

The Issued Ordinary Shares and Debentures of Pan Asia Banking Corporation PLC are listed in the Colombo Stock Exchange.

	Type	Security Code
Shares	Ordinary	PABC N0000
Debentures		
2012/2017 – 11.25% p.a.	Fixed Rate	PABC D0166
2012/2017 – 11.50% p.a.	Fixed Rate	PABC D0167
2012/2017 – 6 Month Gross T-Bill Rate + 2.95%	Floating Rate	PABC D0168
2012/2017 – 14.50% p.a.	Fixed Rate	PABC D0169
2014/2019 – 9.75% p.a.	Fixed Rate	PABC D0300
2014/2019 – 9.5233% p.a.	Fixed Rate	PABC D0301

The Audited Statement of Financial Position as at 31st December 2014 and Audited Statement of Comprehensive Income for the year ended 31st December 2014 of the Bank will be submitted to the Colombo Stock Exchange within 03 months from the Statement of Financial Position date.

2. The Names, Number and Percentage of Shares held by Twenty Largest Shareholders

As at 31st December 2014

	Name of Shareholder	Number of Shares	Holding as a%
1	K. D. D. Perera	88,482,820	29.99
2	Bansei Securities Co., Ltd	44,256,164	15.00
3	CHH Food (Pvt) Ltd	28,021,081	9.50
4	D. C. C. Joseph	17,010,202	5.77
5	K. D. H. Perera	15,537,332	5.27
6	P. J. Tay	14,611,996	4.95
7	N P Capital Ltd	12,860,603	4.36
8	K. D. A. Perera	12,800,000	4.34
9	Samurdhi Authority of Sri Lanka	11,114,376	3.77
10	Sri Lanka Savings Bank Ltd	6,865,666	2.33
11	Favourite Garments (Pvt) Ltd	1,850,000	0.63
12	HSBC Int'l Nominees Ltd-KAS Depository Trust Company	1,638,582	0.56
13	M. F. Hashim	1,582,702	0.54
14	Deshabandu D. M. I. Dissanayake	1,475,100	0.50
15	Sampath Bank Ltd – Account No.3	1,380,532	0.47
16	R. E. U. De Silva	1,288,639	0.44
17	Navara Capital Ltd	1,052,000	0.36
18	HSBC Int'l Nominees Ltd-SSBT-Deustche Bank AG Singapore A/C 01	1,000,000	0.34
19	H. Beruwalage	874,432	0.30
20	Alfred Edirisinghe (Pvt) Ltd	800,000	0.27
	Sub Total	264,502,227	89.69
	Balance held by 4,214 shareholders	30,538,859	10.31
	Total Number of Shares	295,041,086	100.00

As at 31st December 2013

	Name of Shareholder	Number of Shares	Holding as a%
1	K. D. D. Perera	88,482,820	29.99
2	Bansei Securities Co., Ltd	44,256,164	15.00
3	Seylan Bank PLC/ T. Senthilverl - 26,803,985 T. Senthilverl - 2,150	26,806,135	9.08
4	D. C. C. Joseph	17,010,202	5.77
5	K. D. H. Perera	15,537,332	5.27
6	P. J. Tay	14,611,996	4.95
7	K. D. A. Perera	12,800,000	4.34
8	Samurdhi Authority of Sri Lanka	11,114,376	3.77
9	Sri Lanka Savings Bank Ltd	6,865,666	2.33
10	Seylan Bank PLC / W. D. N. H. Perera	6,807,070	2.31
11	Favourite Garments (Pvt) Ltd	2,000,000	0.68
12	Deshabandu D. M. I. Dissanayake	1,538,600	0.52
13	M. F. Hashim	1,469,003	0.49
14	Sri Lanka Insurance Corporation Ltd - Life Fund	1,394,666	0.47
15	Sampath Bank Ltd – Account No.3	1,380,532	0.47
16	R. E. U. De Silva	1,288,639	0.44
17	HSBC Int’l Nominees Ltd–KAS Depository Trust Company	1,238,582	0.42
18	Navara Capital Ltd	1,052,000	0.36
19	Employees Trust Fund Board	924,266	0.31
20	H. Beruwalage	874,432	0.29
	Sub Total	257,452,481	87.26
	Balance held by 4,818 Shareholders	37,588,605	12.74
	Total Number of Shares	295,041,086	100.00

As per Rule No. 7.6 (IV) of the Listing Rules of the CSE, percentage of public holding as at 31st December 2014 was 54.31% in the hands of 4,223 public shareholders. (31st December 2013 – 52.22%)

Investor Relations

3. Distribution Schedule of the Number of Shareholders and Percentage of Share Holding

The total numbers of registered Shareholders as at 31st December 2014 were 4,234 (31st December 2013: 4,838).

Analysis 1

Range of Shareholding	Resident			Non- resident			Totals		
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
1 - 100	798	32,043	0.01	2	68	0.00	800	32,111	0.01
101 - 1,000	1,617	845,928	0.29	9	4,900	0.00	1,626	850,828	0.29
1,001 - 5,000	1,085	2,861,587	0.97	9	25,300	0.01	1,094	2,886,887	0.98
5,001 - 10,000	269	2,109,356	0.71	8	67,664	0.02	277	2,177,020	0.74
10,001 - 50,000	292	6,813,967	2.31	9	238,900	0.08	301	7,052,867	2.39
50,001 - 100,000	51	3,740,352	1.27	3	219,250	0.07	54	3,959,602	1.34
100,001 - 500,000	52	9,764,849	3.31	7	1,761,737	0.60	59	11,526,586	3.91
500,001 - 1,000,000	5	3,727,390	1.26	1	1,000,000	0.34	6	4,727,390	1.60
1,000,001 & Above	14	201,321,053	68.24	3	60,506,742	20.51	17	261,827,795	88.74
	4,183	231,216,525	78.37	51	63,824,561	21.63	4,234	295,041,086	100.00

Analysis 1.1

	2014			2013		
	No. of Shareholders	No. of Shares	% of Shareholding	No. of Shareholders	No. of Shares	% of Shareholding
Resident Share Holders	4,183	231,216,525	78.37	4,770	232,048,751	78.65
Non Resident Share Holders	51	63,824,561	21.63	68	62,992,335	21.35
Total	4,234	295,041,086	100.00	4,838	295,041,086	100.00

Analysis 2

Range of Shareholding	Individual			Company			Totals			
	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding	
1	100	790	31,680	0.01	10	431	0.00	800	32,111	0.01
101	1,000	1,591	830,029	0.28	35	20,799	0.01	1,626	850,828	0.29
1,001	5,000	1,058	2,766,665	0.94	36	120,222	0.04	1,094	2,886,887	0.98
5,001	10,000	254	1,984,411	0.67	23	192,609	0.07	277	2,177,020	0.74
10,001	50,000	282	6,628,335	2.25	19	424,532	0.14	301	7,052,867	2.39
50,001	100,000	41	2,937,676	1.00	13	1,021,926	0.35	54	3,959,602	1.34
100,001	500,000	42	8,022,844	2.72	17	3,503,742	1.19	59	11,526,586	3.91
500,001	1,000,000	3	2,214,832	0.75	3	2,512,558	0.85	6	4,727,390	1.60
1,000,001	& Above	8	152,788,791	51.79	9	109,039,004	36.96	17	261,827,795	88.74
		4,069	178,205,263	60.40	165	116,835,823	39.60	4,234	295,041,086	100.00

Analysis 2.1

	2014			2013		
	No. of Shareholders	No. of Shares	% of Shareholding	No. of Shareholders	No. of Shares	% of Shareholding
Individuals	4,069	178,205,263	60.40	4,670	182,399,560	61.82
Company	165	116,835,823	39.60	168	112,641,526	38.18
Total	4,234	295,041,086	100.00	4,838	295,041,086	100.00

4. Information on Ratios and Market Prices**4.1 Ordinary Shares****i) Ratios**

Year	2014 Rs.	2013 Rs.
Dividend Per Share	-	-
Net Asset Value Per Share	16.05	13.72

ii) Market Price

Year	Highest Rs.	Lowest Rs.	Year End Rs.
2014	27.20	21.80	25.90
2013	23.30	15.40	15.50

(iii) Market Capitalisation

Market Capitalisation as at 31st December 2014 Rs. 7,641,564,127/- (31st December 2013 Rs. 4,573,136,833/-)

Investor Relations**4.2 Debentures****(i) Market Value**

The Debentures of the Bank have not been traded during the year ended 31st December 2014.

(ii) Interest Rate

	Interest Rate %	Interest Rate of Comparable Govt. Security %
Debenture 2012/2017		
Fixed Rate - Interest Semi Annually	11.25	7.61
Fixed Rate - Interest Annually	11.50	7.61
Floating Rate - Interest Semi Annually (2.95% Above the average of 06 months Gross Treasury Bill Rate)	9.91	6.33
Fixed Rate - Interest at maturity	14.50	7.61
Debenture 2014/2019		
Fixed Rate - Interest Annually	9.75	8.02
Fixed Rate - Interest Semi Annually	9.5233	8.02

(iii) Ratios

Year	2014	2013
Subordinated Borrowings / Equity (%)	81.00	19.38
Subordinated Borrowings Interest Cover (Times)	5.00	2.17
Liquid Assets Ratio (%)	21.42	23.77

5. Information pertaining to the material foreseeable risk factors that require disclosures as per the Rule 7.6(vi) of the Listing Rules of the CSE are discussed in the section on Risk Management on page 55.
6. There were no material issues pertaining to employees and industrial relations pertaining to the Bank that occurred during the year under review which need to be discussed as per the Rule No. 7.6 (vii) of the Listing Rules of the CSE.

Branch Network

1	Head Office & Kollupitiya Branch (Ground Floor) No.450, Galle Road, Colombo 03 Tel: 011-4667777 Fax: 011-2301150	10	Negombo Branch 90, St. Joseph's Street Negombo Tel: 031-4976777 Fax: 031-2231259	19	Dam Street Branch 22, Dam Street, Colombo 12 Tel: 011-4374130 Fax: 011-2346052
2	Metro Branch Level 2, East Tower, World Trade Center Echelon Square, Colombo 01 Tel: 011-4976777 Fax: 011-2346053	11	Gampaha Branch 95, Colombo Road, Gampaha Tel: 033-4976777 Fax: 033-2220048	20	Katugastota Branch 161, Madawala Road, Katugastota Tel: 081-4946135 Fax: 081-2500362
3	Panchikawatta Branch 262 & 266, Sri Sangaraja Mawatha, Colombo 10 Tel: 011-4374011 Fax: 011-2447457	12	Kurunegala Branch 22, Suratissa Mawatha, Kurunegala Tel: 037-4976777 Fax: 037-2221731	21	Narahenpita branch 526, Elvitigala Mawatha, Colombo 05 Tel: 011-4374141 Fax: 011-2368667
4	Pettah Branch 64, Keyzer Street, Colombo 11 Tel: 011-4374022 Fax: 011-2441231	13	Matara Branch 45B, Anagarika Dharmapala Mawatha, Matara Tel: 041-4976777 Fax: 041-2231362	22	Maharagama Branch 173/1, High Level Road, Maharagama Tel: 011-4374163 Fax: 011-2838397
5	Kandy Branch 123, D.S Senanayake Veediya, Kandy Tel: 081-4976777 Fax: 081-2232994	14	Dehiwala Branch 104, Galle Road, Dehiwala Tel: 011-4374077 Fax: 011-2730624	23	Kirulapone Branch 100, High Level Road, Kirulapone, Colombo 06 Tel: 011-4374152 Fax: 011-2515227
6	Rajagiriya Branch 468, Kotte Road, Rajagiriya Tel: 011-4374033 Fax: 011-2866823	15	Kotahena Branch 215A, George R De Silva Mawatha, Colombo 13 Tel: 011-4374066 Fax: 011-2346066	24	Moratuwa Branch 18, New Galle Road, Moratuwa Tel: 011-4374174 Fax: 011-2641354
7	Ratnapura Branch 198, Main Street, Ratnapura Tel: 045-4976777 Fax: 045-2231848	16	Wattala Branch 134, Old Negombo Road, Wattala Tel: 011-4374088 Fax: 011-2945104	25	Galle Branch 32, Old Matara Road, Galle Tel: 091-4976777 Fax: 091-2226835
8	Nugegoda Branch 132 C, High Level Road, Nugegoda Tel: 011-4374044 Fax: 011-2828228	17	Panadura Branch 506, Galle Road, Panadura Tel: 038-4976777 Fax: 038-2243053	26	Kadawatha Branch 138, Kandy Road, Kadawatha Tel: 011-4374185 Fax: 011-2925192
9	Bambalapitiya Branch 329, Galle Road, Colombo 04 Tel: 011-4374055 Fax: 011-2506825	18	Old Moor Street Branch 314, Old Moor Street, Colombo 12 Tel: 011-4374099 Fax: 011-2392897	27	Kegalle Branch 72 & 74, Main Street, Kegalle Tel: 035-4976777 Fax: 035-2221018

Branch Network

28	Wennappuwa Branch 6, Chilaw Road, Wennappuwa Tel: 031-4934870 Fax: 031-2249556	37	Jaffna Branch 570, Hospital Road, Jaffna Tel: 021-4976777 Fax: 021-2221485	46	Kuliyapitiya Branch 74/3, Kurunegala Road, Kuliyapitiya Tel: 037-4943733 Fax: 037-2284141
29	Wellawatte Branch 135, Galle Road, Wellawatte Tel: 011-4374196 Fax: 011-2362399	38	Embilipitiya Branch 49, New Town, Embilipitiya Tel: 047-4976777 Fax: 047-2261624	47	Kalubowila Branch 46A, S D S Jayasinghe Mawatha, Kalubowila Tel: 011-4374254 Fax: 011-2828338
30	Gampola Branch 73E, Nuwara-Eliya Road, Gampola Tel: 081-4944625 Fax: 081-2353998	39	Matale Branch 165, Trincomalee Street, Matale Tel: 066-4976777 Fax: 066-2223007	48	Bandarawela Branch 340/1A, Badulla Road, Bandarawela Tel: 057-4976777 Fax: 057-2233554
31	Borella Branch 996A, Maradana Road, Colombo 08 Tel: 011-4374207 Fax: 011-2696461	40	Batticaloa Branch 291, 293 & 295, Trincomalee Road, Batticaloa Tel: 065-4976777 Fax: 065-2228486	49	Dambulla Branch Jayalanka Building, Kandy Road, Dambulla Tel: 066-4928970 Fax: 066-2284844
32	Anuradhapura Branch 49, Main Street, Anuradhapura Tel: 025-4976777 Fax: 025-2234763	41	Ambalangoda Branch 103, Galle Road, Ambalangoda Tel: 091-4943164 Fax: 091-2258064	50	Ratmalana Branch 446, Galle Road, Ratmalana Tel: 011-4374261 Fax: 011-2738840
33	Kalutara Branch 264, Main Street, Kalutara Tel: 034-4976777/034-4947175 Fax: 034-2221258	42	Kalmunai Branch 100 & 104, Batticaloa Road, Kalmunai Tel: 067-4976777 Fax: 067-2225590	51	Peradeniya Branch 767, 769 & 769/1/1 Sirimawo Bandaranayake Mawatha, Kandy Tel: 081-4951180 Fax: 081-2232441
34	Vauniya Branch 14, 2nd Cross Street, Vauniya Tel: 024-4976777 Fax: 024-2225444	43	Kilinochchi Branch 161, A9 Road, Kilinochchi Tel: 021-4925952 Fax: 021-2280075	52	Kaduruwela Branch 918, Batticaloa Road, Kaduruwela Tel: 027-4976777 Fax: 027-2224474
35	Malabe Branch 410/2, Athurugiriya Road, Malabe Tel: 011-4374218 Fax: 011-2744405	44	Kandy City Centre Branch 05A, Lower Ground Floor, Kandy City Centre, 5, Dalada Veediya, Kandy Tel: 081-4951034 Fax: 081-2205776	53	Ambalanthota Branch 155/1, Tissa Road, Ambalanthota Tel: 047-4931850 Fax: 047-2225056
36	Chilaw Branch 15 & 17, Bazaar Street, Chilaw Tel: 032-4976777 Fax: 032-2224756	45	Badulla Branch 22A, Bank Road, Badulla Tel: 055-4976777 Fax: 055-2225771	54	Kiribathgoda Branch 67, Makola Road, Kiribathgoda Tel: 011-4376061 Fax: 011-2911041

55	Piliyandala Branch 107, Horana Road, Mampe, Piliyandala Tel: 011-4376251 Fax: 011-2604070	63	Battaramulla Branch 123 C, Pannipitiya Road, Battaramulla Tel: 011-4343259 Fax: 011-2885622	71	Galewela Branch 201, Kurunegala Road, Galewela Tel: 066-4929970 Fax: 066-2288320
56	Nelliady Branch 208A, Jaffna Road, Nelliady Tel: 021-4923164 Fax: 021-2262969	64	Puttalam Branch 116A, Kurunegala Road, Puttalam Tel: 032-4929662 Fax: 032-2267967	72	Akuressa Branch 54, Matara Road, Akuressa Tel: 041-4935855 Fax: 041-2284677
57	Kattankudy Branch 365, New Kalmunai Road, Kattankudy Tel: 065-4926901 Fax: 065-2248468	65	Pilimathalawa Branch 207, Colombo Rd, Pilimathalawa Tel: 081-4951870 Fax: 081-2575335	73	Trincomalee Branch 459, Dockyard Road, Trincomalee Tel: 026-4925525 Fax: 026-2225700
58	Kundasale Branch 248, Digana Road, Kundasale Tel: 081-4951644 Fax: 081-2424624	66	Ja- Ela Branch 71A, Negombo Road, Ja-Ela Tel: 011-4344166 Fax: 011-2232824	74	Tangalle Branch 03, Annapitiya Road, Tangalle Tel: 047-4929626 Fax: 047-2241215
59	Monaragala Branch 25, Bus Stand Road, Monaragala Tel: 055-4929313 Fax: 055-2277223	67	Kekirawa Branch 91 & 93, Main Street, Kekirawa Tel: 025-4928934 Fax: 025-2264598	75	Hatton Branch 68, Co-Operative Square Building, Hatton Tel: 051-4932040 Fax: 051-2225665
60	Akkaraipattu Branch No .280, Kaiyoom Complex Building, Main Street, Akkaraipattu Tel: 067-4924071 Fax: 067-2279576	68	Thalawathugoda Branch 351/E, Pannipitiya Road, Thalawathugoda Tel: 011-4344650 Fax: 011-2796016	76	Homagama Branch 381, High Level Road, Homagama Tel: 011-4385740 Fax: 011-2098484
61	Chunnakam Branch 92, Dr. Subramaniam Road Chunnakam Tel: 021-4923422 Fax: 021-2241889	69	Minuwangoda Branch 42, Veyangoda Road, Minuwangoda Tel: 011-4335770 Fax: 011-2295929	77	Horana Branch 95, Rathnapura Road, Horana Tel: 034-4941060 Fax: 034-2266566
62	Balangoda Branch 84, Barns Rathwatte Mawatha, Balangoda Tel: 045-4928310 Fax: 045-2289081	70	Warakapola Branch 139, Kandy Road, Warakapola Tel: 035-4928777 Fax: 035-2267544	78	Gold Center Branch No.48 GF & 53 UF, Colombo Gold Center, Central Super Market, Pettah Tel: 011-4061241 Fax: 011-2339383

Correspondent Banks

Australia

ANZ Banking Group Ltd
Citibank NA, Sydney
Commonwealth Bank of Australia
National Australia Bank Ltd
St. George Bank Ltd

Austria

Bank Austria Creditanstalt AG
Reichische Volksbanken AG

Bahrain

Standard Chartered Bank

Bangladesh

Bank Asia Ltd
Standard Chartered Bank

Belgium

Fortis Bank SA/NV Brussels

Brazil

Banco ABN Amro Real SA

Brunei

Standard Chartered Bank

Cambodia

ANZ Royal Bank of Cambodia Ltd

Canada

Bank of Montreal
Bank of Nova Scotia
Royal Bank of Canada

Chile

Banco Santander Chile

China

ABN Amro Bank
Bank of China
Calyon
Commonwealth Bank of Australia
Deutsche Bank
Jinan City Commercial Bank
Laishang Bank Co. Ltd
Oversea-Chinese Banking Corporation

Standard Chartered Bank
Zhejiang Tailong Commercial Bank

Cyprus

Hellenic Bank Public Co. Ltd
National Bank of Greece (Cyprus) Ltd

Czech Republic

HVB Bank Czech Republic A.S.

Denmark

Danske Bank A/S
Joh. Berenberg, Gossler UND CO. KG

France

Commerzbank AG
Union De Banques Arabes ET
Francaises

Germany

American Express Bank GMBH
Bayerische HYPO – UND Vereins Bank
AG
Commerz Bank AG
Deutsche Bank AG
Deutsche Bank Privat UND
Geshaeftskunden AG
Dresdner Bank AG
Landesbank Hessen – Thueringen
Girozentrale
Sparkasse Essen

Hong Kong

Australia and New Zealand Banking
Group Ltd
Banca Intesa S.P.A.
CITIBANK NA
Deutsche Bank AG
HBZ Finance Ltd
Mashreq Bank PSC
Oversea-Chinese Banking Coporation
Limited
Standard Chartered Bank (Hong Kong)
Limited
UBAF (Hong Kong) Ltd
Unicredito Italiano SPA
Wachovia Bank, NA

Hungary

Kereskedelmi ES Hitelbank RT
Raiffeisen Bank ZRT

India

Bank of Ceylon
Bank of Nova Scotia
CitlBank NA
Deutsche Bank AG
Development Credit Bank Ltd
HDFC Bank Limited
ICICI Bank Ltd
Mashreq Bank
Standard Chartered Bank
Tamilnad Mercantile Bank Ltd
YES Bank Ltd.

Indonesia

Bank Negara Indonesia - PT
Bank NISP
Bank OCBC Indonesia, PT
CITIBANK N.A
Deutsche Bank AG
Standard Chartered Bank

Ireland

National Irish Bank

Israel

Israel Discount Bank Ltd
Mercantile Discount Bank Ltd

Italy

Banca Intesa Spa
Banca Lombarda E Piemontese S.P.A.
Banca Nazionale Del Lavoro S.P.A.
Banca Popolare Di Vicenza Scparl
Cassa Di Risparmio Di Carrara
Cassa Di Risparmio DI Padova E Rovigo
S.P.A.
UBAE Arab Italian Bank S.P.A

Japan

UBAE Arab Italian Bank S. P. A
Bank of Tokyo Mitsubishi UFJ Ltd
CitiBank NA
Daishi Bank Ltd
Commerzbank AG

Deutsche Bank AG
National Bank of Pakistan Tokyo Japan
Okazaki Shinkin Bank
Overseas Chinese Banking Corp. Ltd
Resona Bank, Ltd
Standard Chartered Bank
UBAF - Union De Banques Arabes ET
Francaises
Wachovia Bank, NA

Jordan

Standard Chartered Bank

Kenya

Dubai Bank Kenya Ltd
EABS Bank Ltd
Standard Chartered Bank Kenya Ltd

Korea

Citibank Korea INC
Deutsche Bank AG,
Kookmin Bank
Korea Exchange Bank
Shinhan Bank
Standard Chartered First Bank Korea Ltd
UBAF - Union De Banques Et Francaises
Woori Bank, Seoul

Kuwait

Burgan Bank
National Bank of Kuwait

Malaysia

Deutsche Bank (Malaysia) Berhad
OCBC Bank (Malaysia) Berhad
Standard Chartered Bank Malaysia
Berhad

Maldives

Bank of Ceylon
Bank of Maldives PLC

Mauritius

Mauritius Commercial Bank Ltd

Mexico

ABN Amro Bank (Mexico), S.A.

Nepal

Himalayan Bank Ltd
Laxmi Bank Ltd
Standard Chartered Bank Nepal Ltd

Netherlands

ABN-Amro Bank NV
Habib Bank Ltd
ING Bank N.V.

New Zealand

ANZ National Bank Ltd
Bank of New Zealand
CitiBank N.A

Norway

Skandinaviska Enskilda Banken

Oman

Standard Chartered Bank

Pakistan

Dawood Bank Ltd
MCB Bank Ltd
Standard Chartered Bank
Summit Bank Ltd
Habib Metropolitan Bank Limited

Peru

Banco Wiese Sudameris

Philippines

CitiBank NA
Standard Chartered Bank

Poland

ING Bank Slaski S.A.

Qatar

Standard Chartered Bank
Mashreq Bank

Romania

HVB bank Romania SA

Russia

International Moscow Bank

Saudi Arabia

Al-Rajhi Bank
Saudi Hollandi Bank Ltd
Bank of Al- Jazira

Serbia

Unicredit Bank SRBIJA A.D

Seychelles

Bank of Ceylon

Singapore

Bank of America,N.A. Singapore
Calyon
CitiBank N.A.
Commerzbank AG,
DBS Bank Ltd
Deutsche Bank AG
Fortis Bank S.A./ N.V., Singapore
JP Morgan Chase Bank, N.A.
Malayan Banking Berhad
National Australia Bank
Nordea Bank Finland Plc, Singapore
Overseas Chinese Banking Corporation Ltd
Skandinaviska Enskilda Banken AB
Standard Chartered Bank
U.B.A.F. - Union De Banques Arabes Et
Francaises
United Overseas Bank Ltd

Slovenia

Bank Austria Creditanstalt D.D.

South Africa

HBZ Bank Ltd
State Bank of India

Correspondent Banks**Spain**

Deutsche Bank Sociedad Anonima
Espanola

Sweden

Danske Bank AS, Sverige Filial
Svenska Handelsbanken
Swedbank

Switzerland

BNP Paribas (Suisse) SA
Credit Suisse

Taiwan

ABN Amro Bank N.V.
Bank of New York
CitiBank NA
CitiBank Taiwan Ltd
Deutsche Bank AG,
Standard Chartered Bank
Wachovia Bank, NA
DBS Bank Ltd

Thailand

CitiBank NA
Kasikornbank Public Company Ltd
Oversea-Chinese Banking Corporation Ltd
Standard Chartered Bank (Thai) Plc
United Overseas Bank (Thai) Public
Company Ltd

Turkey

Tekstil Banksai A.S.
Turkiye Garanti Bankasi A.S.

U.A.E

Commerz Bank AG Dubai branch
Emirates Bank International PJSC
Emirates Islamic Bank
Habib Bank AG Zurich
Habib Bank Ltd.
Mashreq Bank PSC
Standard Chartered Bank
UAE Exchange Centre

UK

Arab National Bank
Bank of Ceylon
Deutsche Bank AG
Habib Bank AG Zurich
Mashreq Bank PSC
Shinhan Bank, London Branch
Standard Chartered Bank

USA

Standard Chartered Bank
ABN Amro Bank N.V.
American Express Bank Ltd
Bank of New York
Calyon
CitiBank NA
Deutsche Bank AG
Deutsche Bank Trust Company
Americas
Habib American Bank
Israel Discount Bank of New York
JP Morgan Chase Bank N.A.
Mashreq Bank PSC
Wells Fargo Bank N.A.

Vietnam

Australia and New Zealand Banking
Group Ltd
CitiBank NA
Standard Chartered Bank

Zimbabwe

ABSA Bank Limited
NEB Bank Limited
Standard Chartered Bank Zambia Ltd
Standard Chartered Bank Zimbabwe Ltd

Glossary of Financial & Banking Terms

Acceptance

Promise to pay created when the drawee of a time draft stamps or writes the words 'accepted' above his signature and a designated payment date.

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalent.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised Cost

Amount at which the Financial Asset or Financial Liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or un-collectability.

Asset and Liability Committee (ALCO)

A risk-management committee in a Bank that generally comprises the corporate and senior-management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, market risk, foreign exchange risk and external events that may affect the Bank's forecast and strategic balance-sheet allocations.

Available-for-Sale Financial Assets

Available for sale Financial Assets are those non derivative Financial Assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at Fair Value through Profit or Loss.

Bills for Collection

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his Bank with a request to collect the proceeds.

B

Bill of Exchange

A signed, written, unconditional order one person (the drawer) directing another person (the drawee) to pay a specified sum of money to the order of the third person (the Payee). The terms bills of exchange and drafts are often used interchangeably.

Call Deposits or Call Money

Deposits or funds lent out which are repayable on demand.

Capital Adequacy Ratio

The relationship between capital and risk weighted Assets as defined in the framework developed by the Bank for International Settlements and as modified by the Central Bank of Sri Lanka to suit local requirements.

Capital Reserve

Reserves identified for specific purposes and considered not available for distribution.

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.

C

Collective Impairment Provisions

Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date.

Commercial Paper

An unsecured, short-term debt instrument issued by a company, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

Glossary of Financial & Banking Terms**Commitments**

Credit Facilities approved but not yet utilised by the clients at the end of the Reporting Period.

Contingencies

A condition or situation existing at the end of the Reporting Period where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Contractual Maturity

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent Bank

A Bank in a foreign country that offers banking facilities to the customers of a Bank in another country.

Cost to Income Ratio

A ratio expressing Bank's cost effectiveness which sets operating expenses excluding Loan Loss Provision and taxes in relation to operating income.

Credit Ratings

An evaluation of a corporate ability to repay its obligations or likelihood of not defaulting carried out by an independent rating agency.

Credit Risk

Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

Currency Swaps

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

Country Risk

The credit risk associated with lending to borrowers within a particular country, sometimes taken to include sovereign risk.

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 allocation of the depreciable amount of an asset over its useful life.

Derecognition

Removal of a previously recognised Financial Assets or Financial Liability from an entity's Statement of Financial Position.

Derivatives

Financial contracts whose values are derived from the values of underline Assets.

Documentary Letters of Credit (L/Cs)

Written undertakings by a Bank on behalf of its customers (typically an importer), favouring a third party (e.g. an exporter) where the third party could get paid up to a stipulated amount by fulfilling specific terms and conditions. Such undertakings are established for the purpose of facilitating trade.

Earnings per Share

Profit attributable to ordinary shareholders' divided by number of shares in issue during that period.

Effective Interest Rate

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

Effective Tax Rate

Provision for taxation excluding deferred tax divided by the profit before taxation.

Equity Instruments

Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

E

Events after the Reporting Period

Events after the Reporting Period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue.

Exposure

A claim, contingent claim or position which carries a risk of financial loss

Fair Value

Fair value as 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.

Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

F

Financial Asset

Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another Financial Asset from another entity.

Financial Asset or Financial Liability at Fair Value through Profit or Loss

Financial Asset or Financial Liability that is held for trading or upon initial recognition designated by the entity as 'at Fair Value through Profit or Loss.

Financial Guarantee Contract

A Financial Guarantee Contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial Investments Available for Sale

Available for sale Financial Assets are those non-derivative Financial Assets that are designated as available for sale or are not classified as loans and receivables, held to maturity or Financial Assets at Fair Value through Profit or Loss.

Financial Investments Held to Maturity

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

F

Financial Instruments

Any contract that gives rise to a Financial Assets of one entity and Financial Liability or Equity instrument of another entity.

Financial Liability

A contractual obligation to deliver cash or another Financial Asset to another entity.

Foreign Exchange Profit

Foreign Exchange Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transactions/last reporting date and the settlement / reporting date. Also arises from trading in foreign currencies.

Forward Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

Glossary of Financial & Banking Terms**General Provisions**

General Provisions are established for all Loans and Advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

Guarantees

Primarily represent irrevocable assurances that a Bank will make payments in the event that its customer cannot meet its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements.

Historical Cost Convention

Recording transactions at the actual value received or paid.

Individually Impaired Loans and Advances

Loans and Advances those are individually significant to the Bank and Impairment of which are measured individual/specific basis.

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Individual Impairment Provisions

Individual impairment provisions are provisions held in account of Individually Significant Loans and Receivables.

Impaired Asset Cover

Impaired Assets Cover is the ratio of total impairment provision to total impaired assets.

Intangible Asset

An identifiable non-monetary asset without physical substance held for use in the production/supply of goods/ services or for rental to others or for administrative purposes.

Interest in Suspense

Interest due on Non Performing assets.

Interest Margin

Net interest income as a percentage of average interest earning assets.

Interest Rate Risk

The risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market interest rates.

Interest Spread

Represents the difference between the average interest rate earned on interest earning assets and the average interest rate incurred on interest bearing liabilities.

Interest Earning Assets

Includes loans and receivables, placements with Banks, Held to Maturity Financial Investments and interest bearing Held for Trading Financial Assets.

Investment Properties

Investment property is property held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for use or sale.

Key Management Personnel

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with Financial Liabilities.

Loans and Receivables

Non derivative Financial Assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as Fair Value through Profit or Loss or available sale on initial recognition.

L

Loss Given Default ('LGD')

The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty

Market Capitalisation

Number of ordinary shares in issue multiplied by the market value of each share at the year end.

Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

Net Accommodation

Total net accommodation 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 five years or more.

Net Assets Value per Share

Shareholders' funds divided by the number of ordinary shares in issue.

Net Interest Income

The difference between what a Bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds, subordinated term borrowings & inter-Bank borrowings.

Non - Performing Advances Ratio (Gross)

Total Non - Performing Advances (net of Interest in Suspense) divided by total advances portfolio (net of Interest in Suspense).

Nostro Account

A foreign currency current account maintained with another Bank, usually but not necessarily a foreign correspondent Bank. .

M

N

Off-Balance Sheet Transactions

Transactions not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Open Credit Exposure Ratio

Total net Non-Performing Loans and Advances expressed as a percentage of regulatory capital base.

Past Due

A Financial Asset is past due when a counterparty has failed to make a payment when contractually due.

Provision for Loan Losses

A charge to income added to the allowance for loan losses. Specific provisions are established to reduce the book value of specific assets to estimated realisable values.

Projected Unit Credit Method

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Probability of Default

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation

Prudence

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

Ratio of Impaired Loans and Receivables

Ratio for Impaired Loans and Receivables is the ratio of gross Impaired Asset Portfolio as a percentage of gross Loans and Receivables.

O

P

R

Glossary of Financial & Banking Terms**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.

Repurchase Agreements

Contract to sell and subsequently repurchase securities at a specific date and price.

Return on Average Assets

Profit after tax divided by the Average Assets.

Return on Average Equity (ROE)

Net income expressed as a percentage of average ordinary shareholders' Equity.

Revenue Reserves

Reserves set aside for future distribution and investment.

Reverse Repurchase Agreements

Transaction involving the purchase of the securities by a Bank or dealer and resale back to the seller at a future date and specified price.

Risk Weighted Assets

On-Balance Sheet Assets and the credit equivalent of Off- Balance Sheet facilities multiplied by the relevant risk weighting factors.

Segment Reporting

Segment reporting indicates the contribution to the revenue derived from business segments such as retail banking, corporate banking and treasury.

Shareholder's Funds

Total of issued and fully paid share capital and revenue reserves.

Statutory Reserve Fund

Reserve created as per the provisions of the Banking Act No. 30 of 1988.

Tier I Capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II Capital

Supplementary capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debt.

Total Capital (Capital Base)

Total Capital is the sum of Tier I and Tier II capital.

Transaction Costs

Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Undrawn Credit Lines

Credit facilities approved but not yet utilised by the clients as at the end of the reporting period.

Unit Trust

An undertaking formed to invest in securities under the terms of a trust deed.

Unsecured

Repayment of the principal and interest not being secured by any specific asset.

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 and debentures, to Government by way of taxes and retained for expansion and growth.

Yield to Maturity

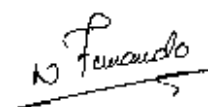
Discount rate at which the present value of future payments would equal the security's current price.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the **TWENTIETH ANNUAL GENERAL MEETING** of **PAN ASIA BANKING CORPORATION PLC** will be held at The Kingsbury, (Location - The Winchester, Basement Level), No.48, Janadhipathi Mawatha, Colombo 01 on 31st March, 2015 at 9.30 a.m for the following purposes;

- 1 To receive and consider the Report of the Board of Directors on the Affairs of the Bank and the Audited Financial Statements for the year ended 31st December, 2014 with the Report of the Auditors thereon.
- 2 To re-elect G. A. R. D. Prasanna, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.
- 3 To re-elect, T. Igarashi who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.
- 4 To re-elect, S. B. Rangamuwa, in terms of Article 89 of the Articles of Association as a Director.
- 5 To re-elect, M. A. Abeynaike, in terms of Article 89 of the Articles of Association as a Director.
- 6 To authorise the Directors to determine donations for the year 2015.
- 7 To re-appoint the Auditors of the Bank, and to authorise the Directors to determine their remuneration.

By Order of Board



Nyantha Fernando
Company Secretary

Colombo
12th February 2015

Notes:

- 1 A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her stead.
- 2 A proxy need not be a member of the Bank. The form of proxy is enclosed herewith.
- 3 The completed form of proxy must be deposited with the Company Secretary at the Registered Office of the Company, 450, Galle Road, Colombo 3 not later than 48 hours prior to the time appointed for the holding of the meeting.
- 4 Shareholders/proxies attending the meeting are requested to bring their National Identity Cards.

Form of Proxy

I/We
 (NIC No/s) of
being
 a shareholder/being shareholders of Pan Asia Banking Corporation PLC, hereby appoint

- | | | |
|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Wannakawattawaduge Don Nimal Hemasiri Perera
Ruwanpura Eshana Uvindra De Silva
Mestiyage Don Saddhamangala Goonatileke
Tharana Gangul Thoradeniya
Godewatta Arachchige Rasika Dimuth Prasanna
Takashi Igarashi
Toyohiko Murakami
Sarath Bandara Rangamuwa
Mohan Asoka Abeynaike
Panagoda Liyanage Dimantha Neomal Seneviratne | of Colombo or failing him
of Colombo or failing him
of Colombo or failing him
of Colombo or failing him
of Colombo or failing him
of Colombo or failing him
of Colombo or failing him
of Colombo or failing him
of Colombo or failing him
of Colombo or failing him |
|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

- 2
 (NIC No.....) of

as my/our* proxy to vote on my/our* behalf at the Twentieth Annual General Meeting of Pan Asia Banking Corporation PLC, to be held on 31st March, 2015 at 9.30 a.m. and at any adjournment thereof.

I/We, the undersigned, hereby authorise my/our* proxy to vote for me/us* and on my/our* behalf in accordance with the preference as indicated below.

- | | For | Against |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| 1. Resolution No. 1
To receive and consider the Annual Report of the Board of Directors on the affairs of the Bank and the Audited Financial Statements for the year ended 31st December, 2014 with the Report of the Auditors thereon. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Resolution No. 2
To re-elect , G. A. R. D. Prasanna, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director. | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Resolution No. 3
To re-elect, T. Igarashi, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director. | <input type="checkbox"/> | <input type="checkbox"/> |

Form of Proxy

	For	Against
<p>4 Resolution No. 4 To re-elect S. B. Rangamuwa, in terms of Article 89 of the Articles of Association as a Director.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>5. Resolution No. 5 To re-elect M. A. Abeynaike, in terms of Article 89 of the Articles of Association as a Director.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>6. Resolution No. 6 To authorise the Directors to determine the donations for the year 2015.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>7. Resolution No. 7 To re-appoint the Auditors of the Bank, M/s Ernst & Young and to authorise the Directors to determine their remuneration.</p>	<input type="checkbox"/>	<input type="checkbox"/>

As witness I/we* have set my/our* hand/s* here unto this day of.....Two Thousand and Fifteen

.....
Signature of Shareholder.

Note : Instructions as to completion of the Form of Proxy.

- 1 To be valid, this form of proxy must be deposited with the Company Secretary at the Registered Office situated at No.450, Galle Road, Colombo 3, before 9.30 a.m. on the 29th March 2015 being 48 hours before the time appointed for holding the meeting.
- 2 In perfecting the form of proxy please ensure that all details are legible.
- 3 The proxy appointed need not be a shareholder of Pan Asia Banking Corporation PLC.
- 4 If the shareholder is a Company/Corporation, the proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association
- 5 A shareholder appointing a proxy (other than a Director of the Bank) to attend the meeting should indicate the proxy holder’s National Identity Card (NIC) number on the Form of Proxy and request the proxy holder to bring his/her * National Identity Card with him/her*.
- 6 Please indicate with ‘x’ in the space provided how your proxy is to vote on each resolution.

* Delete whichever is inapplicable.

Corporate Information

Registered Name of the Company

Pan Asia Banking Corporation PLC

Legal Form

A Public Limited Liability Company incorporated in Sri Lanka on 06th March 1995 under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007. A Licensed Commercial Bank under the Banking Act No. 30 of 1988 and listed in the Colombo Stock Exchange.

Company Registration Number

PQ 48

Registered Office/Head Office

No. 450, Galle Road,
Colombo 03, Sri Lanka.

Telephone : +94112565565
+94114667777

Fax : +94112565558

Call Center (24/7 Customer Service Hotline)

Telephone : +94114667222

Fax : +94112575023

SWIFT Code : PABSLKX

E-mail : customerservice@pabcbank.com

Web Site : www.pabcbank.com

Tax Payer Identification Number (TIN)

134005700

Accounting Year End

31st December

Stock Exchange Listing

i) 295,041,086 Ordinary Shares

ii) 2012/2017 - Debentures 750,000 Rated, Unsecured
Subordinated Redeemable Debentures of Rs.1,000/- each

iii) 2014/2019 – Debentures 30,000,000 Rated, Unsecured
Subordinated Redeemable Debentures of Rs.100/- each

Auditors

Ernst & Young
Chartered Accountants
No. 201, De Saram Place,
P. O Box 101,
Colombo 10,
Sri Lanka.

Board of Directors

W. D. N. H. Perera - Chairman
R. E. U. De Silva - Deputy Chairman
H. K. Seneviratne - Senior Director
M. D. S. Goonatilleke - Director
T. G. Thoradeniya - Director
G. A. R. D. Prasanna - Director
T. Igarashi - Director
T. Murakami - Director
S. B. Rangamuwa - Director
M. A. Abeynaike - Director
P. L. D. N. Seneviratne - Director/ Chief Executive Officer

Company Secretary

N. Fernando

Board Audit Committee

M. A. Abeynaike - Chairman
M. D. S. Goonatilleke - Director
H. K. Seneviratne - Director
T. Murakami - Director

Board Credit Committee

W. D. N. H. Perera - Chairman
R. E. U. De Silva - Director
T. G. Thoradeniya - Director
S. B. Rangamuwa - Director

Board Integrated Risk Management Committee

M. D. S. Goonatilleke - Chairman
H. K. Seneviratne - Director
T. Igarashi - Director

Board Human Resources and Remuneration Committee

W. D. N. H. Perera - Chairman
H. K. Seneviratne - Director
T. G. Thoradeniya - Director

Board Nomination Committee

H. K. Seneviratne - Chairman
W. D. N. H. Perera - Director
M. A. Abeynaike - Director

Board Strategic Planning Committee

M. A. Abeynaike - Chairman
M. D. S. Goonatilleke - Director
T. G. Thoradeniya - Director

Credit Rating

National

Long-term rating : Lanka Rating 'BBB+' (Stable)
Fitch Rating 'BBB(Ika)' (Stable)

Subordinated Debentures 2012/2017 - Fitch Rating : 'BBB - (Ika)'
Subordinated Debentures 2014/2019 - Lanka Rating : 'BBB'

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