

# SUCCESS HAS A NAME



**PAN ASIA BANK**

*At Your Service*

Annual Report 2010



## PAN ASIA BANK

Pan Asia Bank stands for driving standards. It also stands for long term value and service. But most importantly, we are committed to treat our customers as people, not as numbers. In everything we do, we focus on building long term relationships with every client and business associate.

This is how we enforce standards and increase value, making Pan Asia Bank one of the finest investment opportunities in Sri Lanka.

# Pan Asia Banking Corporation PLC

STRENGTHEN  
DEVELOP  
COMMIT  
OFFER

These are the company values that bring  
our shareholders consistent good results  
and continuing business success.



 PAN ASIA BANK

 പാൻ ഏഷ്യാ ബാങ്ക്

 പാൻ ഏഷ്യാ ബാങ്ക്

# Our Vision

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

# Our Mission

We will create the largest satisfied customer base by providing professional, personalised, secure, 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.

# Key Highlights

<ul style="list-style-type: none"> <li>Income Growth: <b>Net Interest income grew by 27% to reach Rs.1,625 Mn</b></li> </ul>	<ul style="list-style-type: none"> <li>Regularity Requirements: <b>Liquidity and Capital Adequacy Ratios above targets</b></li> </ul>
<ul style="list-style-type: none"> <li>Strong Balance Sheet: <b>Total Assets grew by 45% to Rs.31,181Mn</b></li> </ul>	<ul style="list-style-type: none"> <li>Credit Exposures: <b>60% of Credit Exposures are either secured by cash or property</b></li> </ul>
<ul style="list-style-type: none"> <li>Pawning and Ran Loans: <b>Grew by 92% to Rs. 2,868 Mn</b></li> </ul>	<ul style="list-style-type: none"> <li>Recognition: <b>Upgrade in Credit Rating (FITCH) to BBB (Ika)</b></li> </ul>
<ul style="list-style-type: none"> <li>Customer Deposits: <b>Grew by 32% to Rs. 21,473 Mn</b></li> </ul>	<ul style="list-style-type: none"> <li>A Year of Change: <b>Key changes in personnel and processes and improvement in controls</b></li> </ul>
<ul style="list-style-type: none"> <li>Growth in Forex Profit and Commission Income: <b>Increased by 21% to Rs. 415 Mn</b></li> </ul>	<ul style="list-style-type: none"> <li>Market Capitalisation: <b>Increased by 242% to Rs. 7,671 Mn</b></li> </ul>

Gross Loans & Advances to Customers 2010

**Rs.22,341 Mn**

Gross Loans & Advances to Customers 2009

**Rs.12,498Mn**

Net Asset Value per Share 2010

**Rs.18.87**

Net Asset Value per Share 2009

**Rs.17.89**

Non Performing Advances Ratio (Gross) 2010

**5.36%**

Non Performing Advances Ratio (Gross) 2009

**13.17%**

Net Provision for Loan Losses 2010

**Rs.34Mn**

Net Provision for Loan Losses 2009

**Rs. 209Mn**

# Financial Highlights

## Results for the Year (Rs. Mn)

Gross Income	<b>3,484.41</b>	3,862.06	(9.78)
Profit Before Financial Services VAT & Taxation	<b>934.27</b>	831.48	12.36
Profit Before Taxation	<b>693.93</b>	665.15	4.33
Profit After Taxation	<b>361.79</b>	387.82	(6.71)
Revenue to the Government	<b>512.71</b>	502.25	2.08

## Position at the Year End (Rs. Mn)

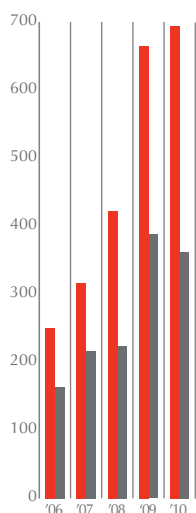
Shareholders' Funds	<b>2,784.02</b>	1,979.66	40.63
Deposits from Customers	<b>21,472.79</b>	16,328.70	31.50
Gross Loans & Advances to Customers	<b>22,341.46</b>	12,497.65	78.77
Total Assets	<b>31,180.97</b>	21,558.83	44.63

## Financial Ratios

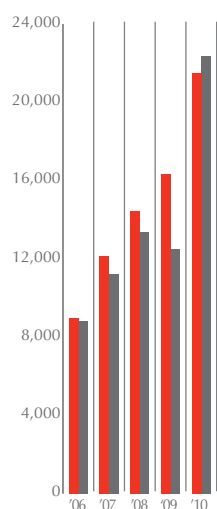
Net Asset Value per share (Rs)	<b>18.87</b>	17.89	5.48
Earnings per share (Rs)	<b>2.61</b>	3.22	(18.94)
Return on Average Assets (%)	<b>1.42</b>	1.94	(26.80)
Return on Average Shareholders' Funds (%)	<b>14.72</b>	20.86	(29.43)
Non performing Advances Ratio (%)			
- Gross	<b>5.36</b>	13.17	(59.30)
- Net	<b>2.74</b>	8.33	(67.11)
Provision Cover (%)	<b>38.55</b>	32.82	17.46

## Statutory Ratios (%)

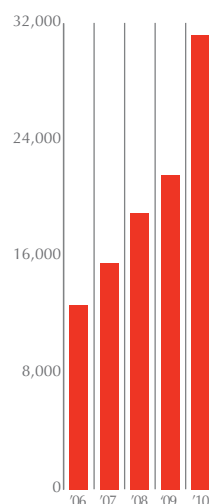
Capital Adequacy			
- Tier 1 (Minimum Requirement - 5%)	<b>14.60</b>	15.94	(8.41)
- Tier 1 & 11 (Minimum Requirement - 10%)	<b>15.25</b>	16.56	(7.91)
Liquid Assets (Minimum Requirement - 20%)	<b>23.19</b>	42.00	(44.79)



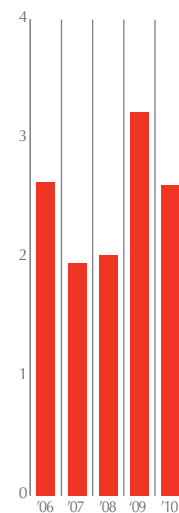
Profit Before Taxation & After Taxation (Rs.Mn.)



Total Deposits & Gross Loans and Advances (Rs.Mn.)



Total Assets (Rs.Mn.)



Earnings per Share (Rs.)



# STRENGTHEN

**PARTNERSHIPS**





“Honouring our commitments to focus on best practices and a stellar service offering to support growth of ourselves, our stakeholders and the national economy.”

## EXECUTIVE REVIEWS

Chairman’s Report 08 Chief Executive Officer’s Report 10 Board of Directors 12  
Corporate Management 16 Senior Management 19



Pan Asia Bank remains committed to meeting industry norms, and is on track to complying with the Central Bank's directive to maintain a capital base of Rs. 3 Bn by end of 2011, Rs. 4 Bn by end of 2013 and Rs. 5 Bn by end of 2015.

# Chairman's Report

## **Dear Shareholder,**

It is my distinct privilege to present before you the Annual Report and Audited Financial Statements of Pan Asia Bank for the year ended 31st December 2010.

## **A Year of Fluctuating Fortunes**

The year under review has fallen short of industry expectations, but more significantly, it has been a year in which, while profit margins were sustained, failed to allow the banking sector to build on the vibrant gains made through 2009, which in contrast was characterized by an increasingly buoyant post-war business environment. However, your bank posted reasonably good results despite the adverse circumstances, recording Profit Before Tax of Rs. 934.27 Mn for the year ended 31st December 2010, and Profit After Tax of Rs. 361.79 Mn allowing Rs. 572.48 Mn (61%) for taxation.

A vacuum in the demand for credit stifled growth. This was in contrast to the general presumption that the end of the

war would be reason enough for investors to channel their investments. Investors continued to adopt a cautious approach to investing although we see signs of a reversal with the rallying of the capital markets and enhanced investor presence in the Colombo Stock Exchange.

## **In Expansion Mode**

There is no denying that Sri Lanka is poised at the crest of economic rejuvenation and we are confident of the bank's long term prospects as we enter our 16th year in business as one of the youngest banks in the country. The Bank stayed the course in the year under review by focusing single-minded on branch expansion and deposit mobilisation and this two-pronged focus will be sustained into the future to grow the customer base and thereby the deposits. The current economic circumstances are proving to be more difficult for smaller banks and the Bank has had to work harder and in a more focused manner to generate business. The Bank strengthened its core banking operations during the year. Recoveries and

deposits were up, a trend reflected in the bank's assets/loans portfolio in equal measure.

I am optimistic about the potential of the sector and judging by Pan Asia Bank's consistent growth over the last few years, it will have a bigger role to play in the years ahead. The bank plans to beef up its operations in its current segment of servicing the small/medium market and the housing segment, while making a bid for a slice of the corporate sector.

### **Compliance with Industry Norms**

On the policy side, I am happy to note that the tax levied on the banking sector has been eased and institutions can now plough back their profits and upgrade products and services. Pan Asia Bank remains committed to meeting industry norms, and is on track to complying with the Central Bank's directive to maintain a capital base of Rs. 3 Bn by end of 2011, Rs. 4 Bn by end of 2013 and Rs. 5 Bn by end of 2015.

However, it would be pertinent to point out that this minimum capital requirement discourages smaller banks from entering the industry. Financing the Small & Medium Enterprises and rural market remains the industry's greatest challenge. Whether Branch banking with Head Offices located in Colombo can cater to the above sector remains to be seen as against unitary banks with a smaller capital base based in Districts and Provinces.

### **Future prospects**

We expect year 2011 to be a better one in terms of profit margins and the Bank will take every possible opportunity to diversify its products and services and spread to key towns island-wide. Our focused strategy will ensure that the bank remains synonymous with the attributes of growth and expansion.

I would like to express my sincere appreciation to the Board of Directors and the senior management for their sound counsel and visionary leadership in steering the bank towards achieving its vision "to become the most customer preferred commercial bank in Sri Lanka". Further, I remain grateful to our staff for their unstinted support and commitment to the Bank's success. Finally I would like to thank and appreciate our loyal customers who stood with us at all times.



**A.G. Weerasinghe**  
Chairman

Colombo  
14 February 2011



The Bank's Net Interest Income rose by 27% to Rs. 1,625.40 Mn from Rs. 1,281.65 in 2009, despite a decline in interest rate margins. Although the Profit Before Financial Services VAT and Income Tax increased by 12%, the Profit After Tax showed a decline due to an increase in the tax component.

# Chief Executive Officer's Report

## **Strengthening Core Banking Expertise**

Our success in core banking activities through 2010 was appreciably better compared to 2009, which was marked by greater income due to heightened activity in the Fixed Income segment. Income from treasury is a vital source of revenue, but the success of a bank is ultimately judged by the contribution from its core banking activities.

Bank's Net Interest Income rose by 27% to Rs. 1,625.40 Mn from Rs. 1,281.65 in 2009, despite a decline in interest margins and Profit Before Financial Services VAT and Income Tax increased by 12%.

I am happy to report that the Bank's foreign exchange income has risen by 48% which reflects the vast volume of business we have handled in terms of trade transactions and the impressive extent of foreign exchange trading engaged in by our treasury department. Meanwhile, income from sale of treasury products dropped by almost 94%, which demonstrates the capital gains earned by the Bank during the period under review.

## **Low Non Performing Advances (NPA) Ratio**

Given the fresh memories of the global financial crisis, customers are increasingly looking to their chosen banks to provide transparency, accountability and clarity in all their transactions and dealings. Pan Asia Bank has a slew of checks and balances in place and these are reviewed periodically to strengthen accountability at every juncture.

On a positive note, key indicators such as the Non-Performing Advances ratio has declined from 13.2% to 5.4% as at end December 2010. Notably, the Net Non-Performing Advances ratio is down to 2.7% which is within the industry average and reflects a sound financial position and asset quality.

Furthermore, income from commissions rose by 13% which reflects substantial growth in non-interest bearing transactions. Continuing on the path to success, total assets of the Bank have grown by 45% as compared to 2009. I am happy to report that customer advances have grown by nearly 79% during 2010, which indicates that unlike the trend in the industry Pan Asia Bank has opened up its loan book. Going

ahead in the same vein of reaching milestone after milestone, our customer deposits grew by 32%.

During the year we had a review conducted by Fitch Ratings Lanka Ltd. Following the review 'Fitch' upgraded the bank's rating to "BBB" reflecting "Good Credit Quality".

### **Aspiring to Operational Excellence**

On the operational side, a new business model was rolled out in 2010 by the Bank, which strategically divides the Bank's business into three key segments: Corporate, Retail and Treasury, so as to focus more keenly on these three vital areas. Each of these segments are headed by competent and experienced managers who drive business profitability in their respective areas of business. This new model of governance is already ushering in positive results in terms of performance of the bank as seen by the upward surge in business growth.

We ensured that the support areas of business were strengthened by deploying specialists to the various disciplines. In this regard the areas such as Risk, Finance, Marketing and HR have been strengthened to ensure optimum efficiency in these divisions.

### **Reaching Out to Customers**

Meanwhile, the Bank forges ahead on an expansion mode. One of the Bank's exciting achievements during the year under review was the increase in branch network from 35 to 41. Apart from branch expansion, other delivery channels and required infrastructure to expand our presence island-wide are also being undertaken on an urgent footing. For example, our Bank is now linked to Sampath Bank ATMs and the VISA ATM network, which gives enhanced connectivity and convenience for our customers. Pan Asia Bank customers can now access over 200 ATMs and international VISA-enabled ATMs across the country.

Pan Asia Bank made rapid strides in the pawning business during 2010 by marketing pawning products with renewed enthusiasm. Our aggressive efforts in the pawning area have yielded a 92% growth in business. A risk-free product, our pawning service has given a new lease of life to rural folk by offering access to cheap funds.

### **Taking a Proactive Stance**

The stellar performance of the country's capital markets in a post-war era has inspired the Bank to leverage on these favourable conditions and provide advances to customers for margin trading. As a result, our margin trading portfolio reflected considerable growth during the year. Pan Asia Bank

is proud to shoulder the nation-building effort in tandem with the government by encouraging our customers to invest in the stock market.

The Bank's commitment to fulfil its social responsibility is translated into action at every opportunity. Pan Asia Bank has displayed its respect for the contribution made towards national security by the armed forces by devising customised products and services for them at preferential rates coupled with various other benefits. The loan products that we introduced under the Ranaviru loans scheme also registered significant growth during the year.

In a bid to advance the cause of maintaining transparency and security, we have introduced systems and processes to address compliance issues, documentation errors, fraud etc., and we continue to review these processes on an ongoing basis.

Investment in Human Resources is never compromised upon at Pan Asia Bank and the Bank's employees are put through rigorous training in vital areas. Regular refresher sessions are conducted to familiarize staff with the Bank's products, services and policies. We have established a culture of paying greater attention to the basics of banking together with strengthening key relationships with staff, customers and stakeholders.

Meanwhile, Pan Asia Bank continues to expand its branch network and enhance its customer base. The improvement and expansion of infrastructure at the Head Office is rapidly nearing completion. This will ensure that we are better positioned to serve a larger branch network as the bank extends its branch network in 2011.

I wish to thank the Chairman, Board of Directors and Shareholders for the faith they have placed in me and will always value their continued support. The Bank's staff also deserves due credit for their determination and single-minded focus to see the bank on its path to success.



**T.C.A. Peiris**  
*Director/Chief Executive Officer*

*Colombo*  
*14 February 2011*

# Board of Directors



**A. G. WEERASINGHE**

*Chairman*

An experienced Senior Banker who joined the Board of Pan Asia Bank as a Director in June 2005 was appointed as the Chairman in March, 2008. Serves as a Director at George Steuarts Financial Services (Pvt) Ltd, South Asia Financial Excel Investments (Pvt) Ltd, Sun City Property Developers (Pvt Ltd, Browns Investments (Pvt) Ltd, Sun City Residencies (Pvt) Ltd and New World Securities (Pvt) Ltd. Holds a B.A. (Econ) Degree, from University of Ceylon, Peradeniya. Served as an assistant lecturer in Economics, University of Ceylon, Peradeniya. A Fellow member of the Institute of Bankers, Sri Lanka. He was the former Deputy General Manager, Corporate Banking at Bank of Ceylon. He has served as Country Manager, Bank of Ceylon, London and Deputy General Manager, International at Seylan Bank. He was also a former President of Sri Lanka FOREX Association.



**W. D. N. H. PERERA**

*Deputy Chairman*

With over 29 years of experience in the fields of Finance, Capital Market Operations, Manufacturing, Marketing and Management services, Mr. Perera joined the Board of Pan Asia Bank as a Director in September, 2007 and appointed as the Deputy Chairman in March 2008. He serves as a Director in several public quoted Companies. He is the Managing Director of Royal Ceramics Lanka PLC. He also serves as the Group Finance Director of Amaya Leisure PLC and holds the position of Director at L B Finance PLC, Vallibel Finance PLC, Vallibel Power Erathna PLC, The Fortress Resorts PLC, Vallibel One Ltd, Sathosa Motors PLC, and Hayleys PLC. He is a member of the Sri Lanka Institute of Marketing.



**J. A. S. ADHIHETTY**

*Director*

Mr. Adhihetty who joined Pan Asia Bank in June 2005, is a well-known professional in the marketing field, Mr. Adhihetty has also gained over 32 years of experience in the Finance Sector. He was formerly the Deputy Managing Director of Mercantile Investments Limited and served as a Director of Nuwara Eliya Hotels Limited, Grand Hotel (Pvt) Limited, Royal Palm Beach Hotels Limited, Tangerine Beach Hotels PLC, Nilaveli Beach Hotels Limited, Mercantile Fortunes (Pvt) Limited, Tangerine Tours Limited and Security Ceylon (Pvt) Limited.

Presently he holds the position of Managing Director of L B Finance PLC and The Fortress Resorts PLC and serves on the Board of Directors of Vallibel Finance PLC. He is the 1st Vice President of the Finance Houses Association of Sri Lanka.



**A. A. PAGE**

*Director*

Mr. Anthony Page is the Chairman of Ceylon Theatres Group of Companies and counts over 40 years of management experience in a diverse array of businesses. He is Chairman of Lanka Ceramic PLC, Lanka Walltiles PLC, Lanka Tiles PLC, Horana Plantations PLC and Parquet (Ceylon) PLC. He is also Director, Cargills (Ceylon) PLC, CT Land Development PLC, Ceylon Printers PLC, Kalamazoo Systems PLC, Office Equipment PLC and Paragon (Ceylon) PLC. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka. He was also previously on the Board of the Colombo Stock Exchange and a former Council Member of the Employers' Federation of Ceylon.



**R. E. U. DE SILVA**

*Director*

He 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 Villas (Pvt) Ltd and Esna Power (Pvt) Ltd. He serves as the Deputy Chairman/ Managing Director of Shermans International (Pvt) Ltd and as a Director at Board of Investment (BOI), Sherman De Silva & Co. Ltd, Sri Lanka Ports Authority (SLPA), Mc Marine (Pvt) Ltd, Sherman Sons (Pvt) Ltd, Dimension X (Pvt) Ltd, Simatech Agency Lanka (Pvt) Ltd and Lanka Shipping & Logistics (Pvt) Ltd.

# Board of Directors



**M. D. S. GOONATILLEKE**

*Director*

He joined the Board of Pan Asia Bank in August 2008. He is a financial professional with over 28 years of post qualification experience and has held Senior Managerial positions in Financial Management, Credit Management, Treasury, Export & Import Trade, General Management & Operations in leading private sector organizations in Sri Lanka. He is the Group Executive Director of DSL Group of Companies. In addition, he serves as a Director in number of other Public Companies including L B Finance PLC, Amaya Leisure PLC, Royal Ceramics PLC and Vallibel Finance PLC. Mr. Goonatilleke 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.



**H. K. SENEVIRATNE**

*Director*

Mr. Seneviratne is a LLB graduate and an Attorney-at-law by profession was the Legal Consultant and Secretary at the Board of Investment and presently, advising foreign/local clients on investments, corporate law, commercial law, mergers & acquisitions, joint ventures, commercial contracts, company formation, litigations and arbitration, bilateral, regional and multilateral treaties relevant to cross-border investments etc and he serves as a Director at Flinth Industrial Park (Pvt) Ltd.



**T. G. THORADENIYA**

*Director*

He is a Marketer by profession, who was in the pioneering batch of Sri Lankans to be awarded the title of Chartered Marketer. He counts over 18 years of industry experience with a unique working background in Marketing, Technology Management & Manufacturing. He is the Director - Marketing & Business Development of Royal Ceramics Lanka PLC and the Chief Executive Officer of Rocell Bathware Ltd. He also serves on the Board of Hayleys Exports PLC.





**T. C. A. PEIRIS**

*Director/Chief Executive Officer*

His in depth experience in Credit, Operations and Marketing makes him one of the most experienced bankers in Sri Lanka with wide cross disciplinary exposure gained both locally and overseas. Mr. Peiris has been in banking for 38 years including senior managerial levels with Overseas Trust Bank, Colombo and served at Nations Trust Bank in the capacity of Assistant General Manager. Prior to this he has also been attached to Hatton National Bank and the British Bank of the Middle East. He was a Director at Lanka Clear (Pvt) Ltd and Credit Information Bureau Sri Lanka.



**N. Fernando**

*Company Secretary*

With over 20 years of experience as an Attorney-at-Law, she joined the Bank in 1998 as Company Secretary.

# Corporate Management



**T. C. A. Peiris**

*Director/Chief Executive Officer*

Appointed as Acting Chief Executive Officer of Pan Asia Bank in August 2009 and thereafter, confirmed as Chief Executive Officer in May 2010. His in depth experience in Credit, Operations and Marketing make him one of the most experienced bankers in Sri Lanka with wide cross disciplinary exposure gained both locally and overseas. He has been in banking for 38 years including senior managerial levels with Overseas Trust Bank, Colombo and served Nations Trust Bank in the capacity of Assistant General Manager-Operations. Prior to this he has also been attached to Hatton National Bank and the British Bank of Middle East. He has served as a Director at Lanka Clear (Pvt) Ltd., and Credit Information Bureau of Sri Lanka.



**Kamoor Sourjah**

*Deputy General Manager – Corporate Banking*

Kamoor has over 17 years of banking experience with State Bank of India, Deutsche Bank AG and Standard Chartered Bank. Prior to joining Pan Asia Bank, he held the position of Director and Head of Global Corporate at Standard Chartered Bank. He is also an Associate Member of the Institute of Bankers, Sri Lanka and a passed finalist of the Association of Certified Chartered Accountants (ACCA) of UK.



**Irishad Ally**

*Deputy General Manager – Retail Banking*

Irishad counts over 15 years of banking experience and has a thorough knowledge and experience in all areas of banking with special emphasis on the Retail segment with Hong Kong and Shanghai Banking Corporation and Nations Trust Bank. Prior to joining Pan Asia Bank, he held the position of Chief Manager-Retail Banking at Nations Trust Bank.



**Lalith Fernando**  
*Chief Risk Officer*

A Banker with over 39 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 at Peoples Bank.



**G. G. Mangala**  
*Chief Financial Officer*

Has over 20 years of experience in the fields of banking and finance, most of which overseas. Mangala started his banking career with Sampath Bank in 1990. Later he moved to Middle East and worked in UAE, Saudi Arabia and Oman, mostly with HSBC. He was the Financial Controller of HSBC Oman, and then the Chief Financial Officer of Bank Sohar in Oman. His expertise includes asset liability management, strategic planning, risk management and treasury operations. Mangala is an Associate Member of the Chartered Institute of Management Accountants, UK



**Nalaka Wijayawardana**  
*Chief Marketing Officer*

Nalaka is a marketing specialist with over 18 years experience in banking sector in Sri Lanka and Canada. During his banking career he has specialized 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 Limited. He is a member of the Chartered Institute of Marketing (CIM) UK.



**Shashi Jayatunga**

*Head of Human Resources*

Shashi is an internationally certified HR Professional from IPMA-HR (USA) and holds the IPMA-HR CP status. She is also a trained HR professional by SHL (Singapore) and holds a Master of Business Administration (Australia). She holds a Diploma in HRM and Certificates in Industrial Relations. Shashi is a member of the Association of Human Resources Professionals (HRP). She counts over 12 years of experience as a HR Generalist working in diverse industry segments covering both service and manufacturing environments. During her career she has worked at John Keells Holdings PLC, Royal Ceramic Lanka PLC, and MAS Linea Aqua (Pvt) Limited.



**Richard Dias**

*Head of Treasury*

Richard 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 31 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 Master of Business Administration from University of North West, USA.



**S. Umakanthan**

*Deputy General Manager – Recoveries*

He counts over 28 years experience in the Banking Industry at all levels, from Operational and Tactical Management to Strategic Management. He holds a Master of Science in Management (M.Sc.) and a Diploma in Banking. 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 University of Sri Jayewardenepura.

# Senior Management



**Ryan Perera**  
*Head of Private Banking*



**Dinesh Perera**  
*Head of Region III*



**S. Anandarajah**  
*Head of Region I*



**D. S. W. Gunawardena**  
*Head of Pawning*



**Naleen Edirisinghe**  
*Head of Region II*

# Senior Management



**Prasanna Fernando**  
*Head of Liability Sales*



**Dimple Gunawardana**  
*Acting Head of Information Technology*



**Shiyam Perera**  
*Head of Leasing*



**Mewan Dissanayake**  
*Senior Manager - Finance*



**Varuni Egodage**  
*Senior Manager - Legal*



**Jayantha Chandrapala**  
*Senior Manager-Trade Operations*



**Takura Abhayasinghe**  
*Senior Manger - Region II*



**Indraka Liyanage**  
*Senior Manager - Credit Risk*



**Thilani Peiris**  
*Senior Manger - Region III*



**Nimal Ratnayake**  
*Senior Manger - Region I*



# DEVELOP

**SPIRIT & SKILLS**





“We recognise that our business is all about people and partnerships. Our commitment to human development is high because our employees are all part of one Pan Asia family.”

## MANAGEMENT DISCUSSION & ANALYSIS

Key Performance Indicators 24 Business Review 25 Financial Review 27

Risk Management 29

# Key Performance Indicators

	<b>Non Performing Advances Ratio (Gross)</b>	<b>Net Interest Income</b>	<b>Net Asset Value per Share</b>	<b>Tier II Capital Adequacy Ratio</b>
Description	Non Performing Advances Ratio (Gross) is calculated as total Non Performing Advances (Net of Interest in Suspense) divided by total advances portfolio (Net of Interest in Suspense)	Net Interest Income is calculated as the difference between the earnings on interest bearing assets and the payments on interest bearing liabilities	Net Asset Value per Share is calculated as Shareholders' Funds divided by the number of ordinary shares in issue	Tier II Capital Adequacy Ratio, the components of which are summarized on page 108, is measured by the ratio of total capital base to risk weighted assets
Value	<b>Non Performing Advances Ratio (Gross) 5.36%</b>	<b>Net Interest Income Rs. 1,625 Mn</b>	<b>Net Asset Value per Share Rs. 18.87</b>	<b>Tier II Capital Adequacy Ratio 15.25%</b>
Aim	To sustain the momentum achieved	To sustain organic momentum	To consistently deliver year on year growth in Net Asset Value per Share	To maintain above the regulatory requirement of 10%
Analysis	During 2010, Non Performing Advances Ratio (Gross) declined by 59.3%, with strong credit and risk management policies	During 2010, Net Interest Income grew by 27%, with 41 branches	During 2010 Net Asset Value per Share grew by 5.48% with a strong growth in asset base	During 2010, the Bank maintained Tier II Capital Adequacy Ratio of 15.25% on BASEL II basis
Source	This measure is reported in the Financial Highlights on page 05	This measure is reported in the Bank's Audited Financial Statements on page 83	This measure is reported in bank's ten year statistical summary on page 115	This measure is reported in the capital adequacy computation in page 108
Trend	<p><b>Non Performing Advances Ratio (Gross) (%)</b></p>	<p><b>Net Interest Income (Rs.Mn.)</b></p>	<p><b>Net Asset Value per Share (Rs.)</b></p>	<p><b>Tier II Capital Adequacy Ratio (%)</b></p>

# Business Review

2010 has been a phenomenal year for Pan Asia Bank, recording Rs. 362 Mn post tax profit backed by a strong liquidity and balance sheet position. This year was one of our most eventful years, we grew our branch network to 41, entered into strategic alliances with the international powerhouses VISA, grew our Advances portfolio and witnessed a rise in our share price. Bank's phenomenal success was further strengthened by an upgraded Fitch rating.

## Islandwide ATM coverage in collaboration with Sampath Bank

Pan Asia Bank entered into a strategic alliance with Sampath Bank, giving customers of both banks the distinct advantage of being able to use their ATM cards at either bank's ATMs Islandwide.

## Connectivity to the "VISA" network

Pan Asia Bank is now connected to all VISA enabled ATMs locally and abroad, giving the Pan Asia customer wider banking access anywhere on the planet. Via the incorporation of debit card system, customers can withdraw cash and pay for goods and services wherever VISA is accepted.

## Branch Banking

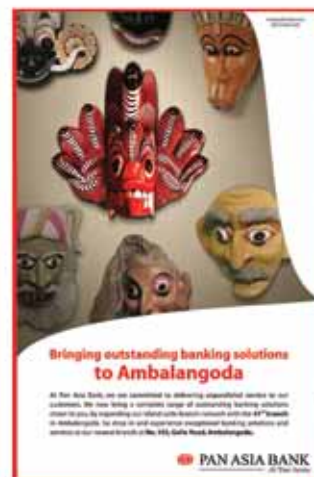
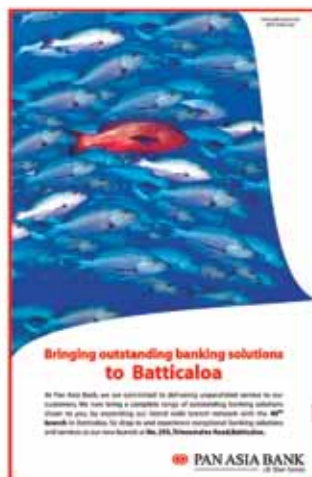
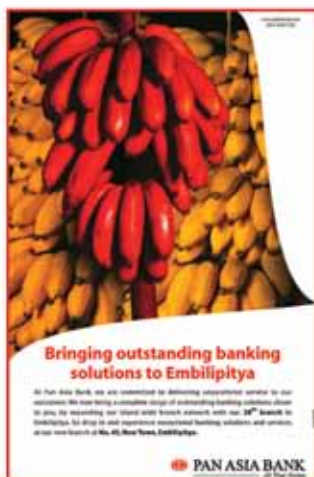
2010 has been a phenomenal year for Pan Asia's branch expansion program, opening six new branches this year in strategic parts of the island. With opening of branches in Jaffna, Chilaw, Embilipitiya, Matala, Batticaloa and Ambalangoda, our branch network was increased to 41 branches island wide. In addition, we introduced a state of the art customer friendly layout to branches, reinforcing our commitment to serve our market not just on local paradigms but on global ones as well.

## Marketing Activities

The bank takes great pride in its customer centric focus and places importance on marketing, which is instrumental in generating awareness of all the brands available under Pan Asia Bank umbrella.

## Key Product Offerings

2010 has most certainly been the "Age of Innovation" for Pan Asia Bank. Many new products were created and old ones were revamped, giving way for a truly revitalized Pan Asia Bank. Apart from Pan Asia Bank's regular offerings of savings, current and foreign currency accounts, following products made headlines creating a pioneering culture of discovery and excellence.



# Business Review

## Ranaviru Harasara

The premier banking solution tailor made for the Armed Forces of Sri Lanka, Ranaviru Harasara which was launched in December 2008 has gone from strength to strength. Additionally, it has given the war heroes who liberated Sri Lanka from the clutches of terror, the opportunity to save while empowering them to pursue higher education, buy a vehicle, start a business or even build their dream home.

## Leasing

Giving leasing a whole new dimension, Pan Asia Bank's leasing scheme gives the lessee the opportunity to bring their own interest rate right down to 1% by introducing customers to Pan Asia Leasing.

## Prime Banking

Introduced in 2010, Prime is currently one of the fastest growing liability products in Pan Asia Bank that has brought about a phenomenal growth in a short span of time. Prime offers the mass affluent clientele a convenient service that is guaranteed to make them feel special. Implementing many new customer centric processes and systems this year, Prime Banking is poised to serve clients according to its slogan "You deserve more!"

## Ran Loan

The most convenient solution available to those who seek cash in a hurry, Ran Loan provides maximum quantum at a low interest rate for gold jewellery.

## Children's Savings Accounts

Pan Asia Bank offers not one but three unique types of Minor savings accounts to parents to enable them to empower their children by laying a solid foundation for their future.

**Lahiru** – offers a higher interest rate which increases along with market interest rates.

**Mithuru** – Offers additional interest rates with gifts and a hospitalization cover.

**Siyadaru** – Offers guaranteed returns based on fixed interest rates that do not fluctuate with market rates.

## Pan Asia "Nivasa" Housing Loan

A customised and hassle free plan that makes investing in a home, second home, land or even modifying a home, a hassle free venture.

## Corporate Banking

The addition of new corporate entities to our portfolio facilitated the significant growth of our Corporate Banking Division through 2010. Advances grew by 120% to Rs. 4.8 Bn. and deposits grew by 103% to Rs. 4.3 Bn. 25% of our loan portfolio comprises of corporate entities, which also generate trade business.

The current set up of Corporate Banking Division which includes a dedicated Relationship Management concept to serve our corporate customers better, has worked well during the year. Plans for 2011 for this segment is to focus on increased fee based income through enhanced trade business, growth in credit and diversify our exposures to industries where we have limited or no exposure etc.

## Margin Trading

Margin Trading business, which was commenced during last quarter 2009, has grown significantly. With the improved activity levels at the Colombo Stock Exchange, which is ranked as one of the world's best performing stock exchanges; Pan Asia Bank's Margin Trading gives customers additional liquidity to trade. During 2011 we will consolidate our Margin Trading business to be in line with the growth in Asset Book, with main focus of providing a more superior customer service.

## Custodial 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 traditional global practices which enable us to cater to the complex custodian needs of customers resulting in direct access to markets. Custodian services give the Bank an additional source to earn fee income as well as foreign exchange income. Expanding the custodian business will be the main focus for 2011 for this division.

# Financial Review

## Macroeconomic Outlook

In 2010 domestic macroeconomic trends have been encouraging and economic activity expanded significantly during the year. The stability witnessed in the local market after war ending coupled with the Government's strong focus on economic and infrastructure development had created a demand for financial and banking services. Better credit conditions have increased credit flows to the private sector with the year-on-year increase in credit granted by commercial banks to the private sector reaching 15.5% by September 2010 (CBSL Monetary Policy Review – November 2010). Benign inflation and Central Bank policy to maintain lower interest rates also contributed towards profitability of the financial and banking sectors.

## Our Performance in Brief

With much improved economic conditions together with bank's pragmatic policies and best practices, Pan Asia Bank was successful in improving overall performance during the year. Post tax profit exceeded the expectation for the year and reached to Rs. 362 Mn. However the net profit for the 2010 was 7% lower than same of 2009 due to the exceptional gains made in treasury capital market in 2009. As a result of the significant improvement in core banking activities the bank had made a growth of 27% from core banking activities for the same period.

Customer deposits and gross customer advances were grown by 32% and 79% respectively at the end of 2010 as compared with 2009. Improved credit control policies and practices

witnessed a decline in non performing advances despite increased loan portfolio. The bank also achieved a better rating "BBB" (Ika) from Fitch Rating Lanka Limited.

## Income Statement

### Income

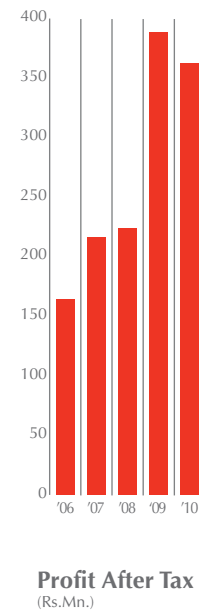
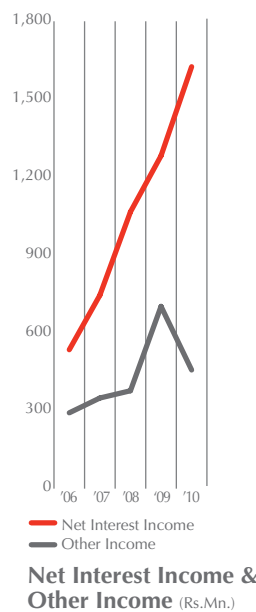
The dominant contributor towards the remarkable result was the Bank's core revenue sources. The net interest income reached to Rs. 1,625 Mn exceeding 2009 by 27%, while non-funds based income decreased from Rs. 702 Mn to Rs. 457 Mn, the decrease is attributable to gains on fixed income securities in 2009. Non-interest income excluding treasury gain grew in this year by 26%. Commission income and exchange income recorded a growth of 13% and 48% respectively.

### Operating Expenses

The bank's operating expenses grew by 18% as compared with 2009. Expansion of branch network, marketing and investment in human capital were the main reasons for the increase in overheads as compared with 2009.

### Provision for Loan losses

Specific provision stood at a lower position compared to last year. Improved credit qualities, strict provisioning policies, more concern on secured funding are some of better strategies adopted in this year. The Gross NPA Ratio was 5.36%, less by 59% over 2009 while Net NPA Ratio decreased to 2.74% in 2010. (8.33% in 2009). The Provision cover remained at 38.55% .



# Financial Review

## Taxation

Income Tax provision ended up with Rs. 332 Mn in 2010, which is 20% higher than 2009. Total effective tax rate inclusive of Financial Services VAT remained at 61% for the year 2010.

## Balance Sheet

### Total Assets growth

The bank's total assets portfolio increased by 45% reaching to Rs. 31,181 Mn compared to previous year's Rs. 21,559 Mn. At the end of the year bank's gross loans & advance portfolio stood at Rs. 22,341 Mn, achieving 79% growth over 2009. Leasing, Pawning and Ran Loans and Margin trading were the main asset drivers towards this significant achievement. Ranaviruharasara a special feature product introduced for war heroes reached to Rs. 422 Mn by end of the year.

The Bank's Deposits grew by 32% to a value of Rs. 21,473 Mn during 2010 as compared with Rs. 16,329 Mn in 2009.

### Shareholders' Fund

The Bank has met with minimum capital requirement set by the Central Bank of Sri Lanka. During 2010, Rs. 443 Mn worth of shares issued through a Rights Issue for the meeting of the capital requirement.

End of year 2010 bank's total shareholder funds reached to Rs. 2,784 Mn resulting a growth of 41% over 2009.

### Earnings per Share

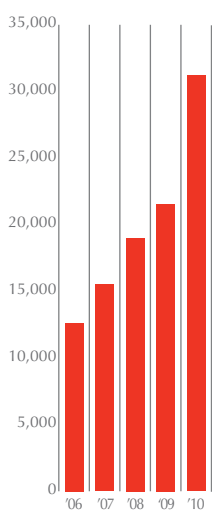
Basic Earnings per Share (EPS) which shows the level of earnings generated per ordinary share, this year stood at Rs. 2.61 which is a 19% decrease over 2009. The drop is attributable to the decrease in net profit by 7% over 2009 and the increase in number of shares through the rights issue.

### Capital Adequacy Ratio

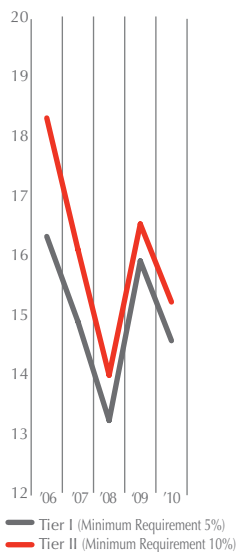
The Tier I Capital Adequacy Ratio was 14.60% (Minimum requirement is 5%) and Tier II Capital Adequacy Ratio was 15.25%. (Minimum requirement is 10%).

### Statutory Liquid Assets Ratio

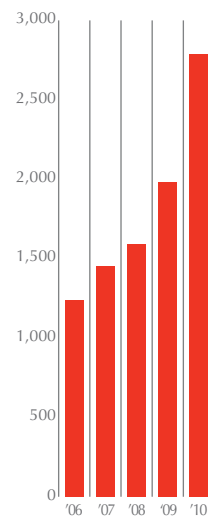
The bank's liquidity ratio at the end of 2010 was 23% as against regulatory requirement of 20%.



**Total Assets**  
(Rs.Mn.)



**Capital Adequacy Ratio**  
(%)



**Shareholders' Funds**  
(Rs.Mn.)

# Risk Management

Bank's Risk Management strategy continues to focus in an integrated manner with proper assessment on the changes in financial, economic, marketing and relevant sectors. These efforts have been helpful in achieving the objectives of the bank with sustainability while having minimum impact on operational, market and Credit Risks.

With the economic constraints easing out and incentives given to the potential investor, the country could look forward to an improvement in financial services. This anticipated growth will require more controls on risk management and internal controls. Risk Management of the bank is an integral part of the business and is a requirement of the regulator. Hence, additional prudent measures are taken by the bank for controlling and managing risks. These effective controls also ensure minimum loss of opportunities, competitive advantage and growth of business.

The bank continues in its effort in designing systems for risk-based approaches to reflect best practices in the industry. Specific controls in the framework strengthened the management of risk while the business units were able to achieve their goals and objectives with minimum loss, Identifying both general and specific circumstances. Guidelines adopted assisted a proper management of risks and encouraged the bank's activities in a competitive market. It is aimed at minimising risks and greater degree of control in reducing the impact on the book, since it is always possible for an unforeseen event to take place due to volatile conditions.

Identifiable sectors where the bank operates and the level of exposure have been assessed and prudent mitigating factors have been introduced. This process will continue on an on-going basis.

A wider range visibility of more significant risks were eliminated at early stages while more detailed identification was also done at the relevant front line levels. Action was taken during the year in prioritizing the risks by examining the importance and the impact on the bank. Controlling and monitoring methods were introduced on the probability of the event taking place. Further developments will take place as per risk appetite of the bank and upon venturing into new sectors and areas of the market.

The Board –Integrated Risk Management Committee reviews the requirements and the adherence of the responsibilities as set out by the regulatory authority. The risk management function operates in an independent manner. The main functions of the activities of the risk management include

- Ensuring share holder expectations
- Stringent identification of loan quality
- Review of single borrower accommodation
- Assessment of the Asset book and its composition
- Regulator requirements of risk management of the bank

Our risk management techniques continue to meet the requirements of ensuring a well structured, strategic and integrated system for an optimized level of performance.

## Credit Risk Management

Management of Credit Risk has been one of the key elements during the year. A number of amendments were introduced for mitigating the risk due to loss arising from borrower's inability to meet obligations in accordance with the agreed terms. These policies and procedures which are also vetted by the Board-Credit Sub Committee focuses on more elaborated monitoring systems and geared to maximizing the bank's risk-adjusted rate of return.

Some of the techniques adopted by the bank include

- The monitoring of weekly probable Non Performing Advances (NPA) predictions, which has minimized new additions during the year.
- The monitoring of watch list of accounts to prevent such borrowers becoming non-performing recommending preventive action steps.
- Greater emphasis on financial analysis for borrowers over certain thresholds of limits particularly the cash flow statements.
- Revised methods of Risk rating on both quantitative and qualitative factors.
- Standardizing the Credit approval policy with more emphasis given to cash flow based lending.
- Re-assessment of fresh facilities granted within three months period to monitor portfolio quality.

In addition to the above emphasis was also given to recuperate the past due facilities, which resulted in successful recovery of long outstanding dues of the bank. This exercise and efforts on preventing new NPA flow from the performing section resulted in a phenomenal improvement of bank's NPA ratio. A detailed evaluation of NPAs of high value was carried out during the year and we were able to identify the key issues and weaknesses that could lead to default. Credit policy amendments were introduced to address these issues in a proactive manner and to prevent recurrence in future.

New methods were introduced to monitor large accounts of the Bank. Mid year Reviews were introduced for corporate accounts to review progress of clients in the interim period.

Large value clean facilities are also reviewed on quarterly basis at the Board- Credit Sub Committee enabling identify early warning signals.

Credit Risk management system of the bank is managed and closely supervised by a team at Head Office. Adopting asset

# Risk Management

writing strategy of the bank and identification of target markets and business sectors were successfully accomplished. Risks acceptance criteria, credit origination / maintenance procedure and guidelines for portfolio management were reviewed periodically.

Board Credit Sub Committee is responsible for the implementation of Credit Policy and strategy and ensure proper standards and quality of presentation of credit proposals forwarded to the Sub Committee for approval.

The entire portfolio is also reviewed in accordance with risk rating, segmentations and industry to ensure the bank does not have a higher concentration to one sector and to maintain a balanced portfolio. The credit Risk Management Unit of the bank acting independently from business units, also introduces techniques from time to time to strengthen the monitoring process.

## Market Risk

Market Risk arises due to price changes in the market for traded instruments or any price sensitive assets or liabilities and the bank evaluates the potential impact of the market moving adversely in relation to the value of a tradable instrument. Some of these factors which affect the market risk will include Interest Rate Risk, currency risk, liquidity risk and equity risk.

Asset and Liability management Committee (ALCO) of the bank meets to discuss and review the aspects of the market risk with main focus on liquidity risk which ensure that the bank has sufficient funds to meet its obligations when falling due. ALCO minutes are reviewed at the Board – Integrated Risk Management Committee to ensure proper action is taken to meet all necessary requirements.

With the market maintaining high liquidity almost throughout the year the bank was also faced with constraints in investment opportunities in the market. With the growth of lending towards end of the year bank had the opportunity in optimizing the funds available.

The key towards understanding the barriers of bank dealing room is by way of having proper risk controls. Therefore, measurement of market risk becomes an important function of the bank to identify and minimize risks arising from rate fluctuation.

The Treasury Middle Office monitors the activities and investments of the market activities and updates the corporate management. It monitors activities in relation to basic risks identified on the policy of the market Risk Management aspects of the bank. Other functions of Treasury were reviewed and action taken to strengthen controls during the year.

The Risk of bank's inability to meet commitments on due dates as a result of unforeseen factors of liquidity Risk is considered one of the imperative requirements for monitoring. The bank has planned for such events taking place and the strengthening of relationship with the counterparts was done during the year. Improved rating of the bank and meeting the required minimum capital requirement of the regulator has strengthened our position in the market.

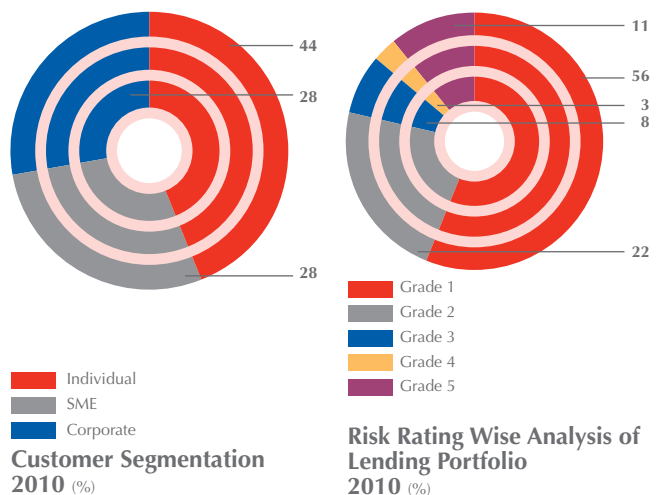
Interest Rate Risk or the impact due to changes in interest rates on the bank's interest sensitive instruments is also captured and evaluated in several stages. The impact of same on the income of the bank was measured and evaluated for suitable action.

## Operational Risk

Operational Risk arises due to possible unexpected direct or indirect losses due to inadequate or failed internal processes, people and systems and external events. Bank has been successful in establishing processes for each operational activity as per Central Bank of Sri Lanka (CBSL) guidelines and best market practices. Risks involved in each process are ascertained and mitigatory measures are adopted to minimize the risk. The impact of operational risks frequency had been minimized and appropriate controls are introduced to avoid operational lapses.

Each operation unit of the bank is responsible for identification of key risks, evaluation and reporting of such risks to ensure that appropriate action is taken to mitigate the risks across the bank. Operational losses incurred are reviewed and reported to the Board Integrated Risk Management Committee for discussion.

The Bank has been able to minimize operational losses due to centralized operations of most activities. Further improvements will be carried out as and when deemed necessary.





The Internal Audit Department carries out branch / department inspections and reports are evaluated by the Board Audit Review Committee. A summarized report is also submitted to the Board Integrated Risk Committee. Separate information system audits are also carried out and reported in a similar manner. Business continuity plan was reviewed, tested and inspected by the regulatory authority. Relevant monitoring and inspections are done on Anti – Money Laundering as per CBSL guidelines.

The bank's compliance department also ensures adherence to the regulatory activities of the bank. Awareness programmes are conducted on the requirement of Know Your Customer (KYC) and related matters. The branch compliance officers are connected through the network for reporting purposes and awareness requirements. Each business unit and support services have their own risk monitoring schemes and controls to check and mitigate operational losses taking place.

### **Risk Mitigation and Reporting**

Risk management for Pan Asia would be avoiding the difficulties that the bank would face due to multitude of reasons which may arise in future due to changes in business, market, economic and political aspects. However, major cause of serious banking problems continues to be directly related to lax credit standards for borrowers, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances that can lead to deterioration in the credit standing of bank's borrowers.

Credit Risk is the potential risk that our borrowers or counter party will face to meet their obligations in accordance with agreed terms. Therefore, our goal in Credit Risk Management is to maximize the bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. A major emphasis has to be given to Credit Risk Management since it is a critical component of a comprehensive approach to risk management and essential to the long term success of the bank.

Monitoring would be required not only on advances which are the largest and most obvious source but also on interbank transactions, trade finance, foreign exchange transactions, swaps, bonds, equities, commitments and guarantees and the settlement of transactions.

With the anticipated expansion of the bank the following areas will be specifically addressed:

- Enhance the scope of Credit Risk environment by adopting more appropriate measurements.
- Strengthen credit granting process making audited financials/ management accounts mandatory for facilities over a minimum agreed amount.

- Maintain and develop an appropriate credit administration, measurement and monitoring process.
- Review and introduce methods to ensure adequate controls over Credit Risk as the book grows both vertically and horizontally.
- Undertake full review before expansion in any new sector depending upon the nature and complexity of credit activities.
- Adopt and develop asset quality according to the requirements of authorities in implementing the new regulations such as BASEL 11 Compliance and LKAS 32 and 39 adjustments, for which a shift will be required.
- To maintain and introduce factors which would be on par with the requirements of supervisory institutions; external auditors, which would need the confirmation for sufficient risk-return discipline in the Credit Risk Management process.

While having these controls the intention of the Risk Management would be to achieve and maintain the following objectives over the period under discussion.

- To maintain a NPA ratio of 5% or below given that economic conditions prevail at favorable levels and do not experience a recession.
- To contain/eliminate additional provision requirement on incremental loan book growth.
- To minimise the new transfers of NPA from the existing performing section.
- To maximize profits by increasing lending to wider spectrum with adequate risk mitigating factors.
- To maintain a quality asset book by proper evaluation process, monitoring and timely action.

The Risk Management Unit will acquire the following in monitoring and providing the said objectives.

- The expansion of Treasury Middle office scope in line with main treasury activities.
- Properly developed Information Technology (IT) tools / Management Information System (MIS) for risk monitoring.
- A more revised and comprehensive risk rating system.
- Additional risk measurement tools for middle office monitoring.

Activities will be centred around establishing a management culture and supporting processes to understand the nature and scope of risks inherent in bank's strategies and activities and to develop a dynamic oversight and control environment that is fully integrated into or coordinated with the overall framework for managing all risk areas of the enterprise.



# COMMIT

TO DEVELOP THE COMMUNITY



“We commit to be a full and active member of our community, donating from our revenue and reducing our environmental footprint by limiting our energy use and recycling our waste.”

## SUSTAINABILITY REPORT

Human Capital 34 Corporate Social Responsibility 39 Corporate Governance Report 41 Bank's Compliance with Prudential Requirements 64 Directors' Report on Bank's Internal Control System 65 Directors' Report 67

Director's Interest Register 70 Other Directorships 71 Audit Committee Report 72 Risk Management Committee Report 74 Human Resources and Remuneration Committee Report 75 Nomination Committee Report 76

Directors' Responsibility on Financial Reporting 77

# Human Capital

The Nobel Prize-winning economist Gary S. Becker, who coined the term “human capital,” stated that “The basic resource in any company is the people. The most successful companies will be those that manage human capital in the most effective and efficient manner.” We at Pan Asia Bank strongly believe in this and have taken a strategic approach to recruiting, developing and retaining our human capital. We have recognized that having skilled and motivated employees can make a significant difference and this has proven itself in the Bank’s performance last year. We strongly believe that our competitive edge is gained by the introduction of new procedures, processes, systems and technology to facilitate the transformation of Pan Asia Bank whilst harnessing the true potential of our people.

## Training and Development

To grow and adapt, we have recognized the value and contribution made by our people. In order to continuously develop them and make them ready for tomorrow’s challenges we invest in training and development of our employees, which provides an impetus to the growth of the bank. One of our main focuses for the year was to formulate a strategy for improving workforce productivity in anticipated growth and transformation of the Bank during the year. By optimizing the productivity of our employees through comprehensive human capital development programs not only have paved the way towards achieving the Bank’s business goals but most

importantly in laying a strong foundation for the long term sustainability.

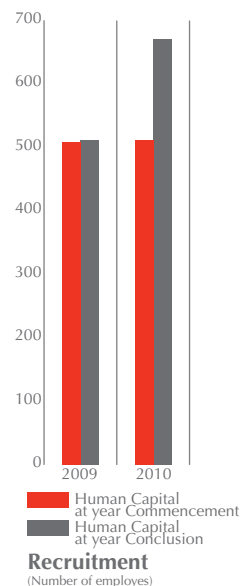
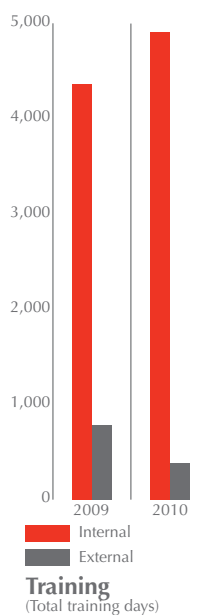
In 2010 our growth momentum was such that talent development was taken into account with more seriousness as we completed 4,903 internal training days and 386 external training days. The total training days completed in the year 2010 was 5,289.

In the Bank’s pursuit of delivering a superlative customer service and there by carving out a competitive edge in the highly competitive banking arena of Sri Lanka, much focus was given on to the customer service excellence whilst training on sales was also given much importance throughout the year. The other key training sessions completed during the year included communication skills, training on regulatory aspects and product training.

## Recruitment and Selection

The year was a very busy one in terms of recruitment and selection, as 2010 was important to the Bank’s aggressive growth strategy. In accordance with the rapid expansion planned and implemented during the year, recruitment and selection was given a heightened priority.

The year commenced with 511 employees and ended with 670 staff in total, which is an increase of 159 employees. The number of recruitments for the year depicts the Bank’s



growth momentum, which included re-structuring of business and support units and opening of six new branches.

In strengthening and streamlining the recruitment and selection process, the Bank reviewed and implemented a new Recruitment and Selection Procedure and also introduced the SHL testing tools. SHL institution provides workplace talent assessment solutions - including ability tests, and psychometric assessments in more than 50 countries and in 30 languages. These initiatives helped the Bank to raise the bar in terms of attracting and acquiring talent. The Bank as a policy opens up the vacancies to the internal staff. Many of the staff requirements were filled with internal staff and total of 83 employees were promoted. This helped many of our employees to achieve their career aspirations within the Bank during the year 2010. In facilitating this aspect, the Bank reviewed its Internal Staff Promotion Policy widening the opportunities for staff to be eligible for the promotions than in the past. As the Bank encouraged the existing staff to succeed and move on to higher positions, the recruitments done during the year was mainly on the Trainee Banking Assistant grade whilst the Bank attracted competent personnel to several managerial positions to further strengthen its Management team

### HR Indicator

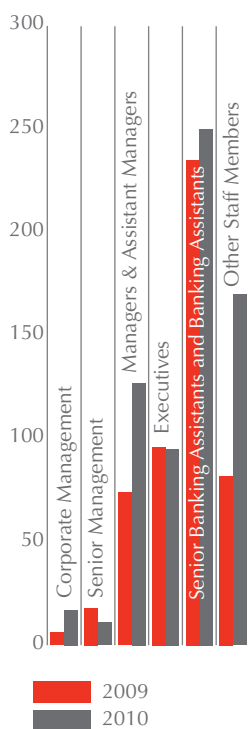
	2010	2009	2008
Staff Strength	670	511	507
Staff Growth	31%	1%	(7%)

### HR Investment Ratio

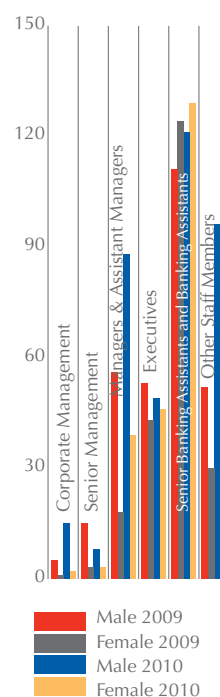
	2010	2009	2008
Total HR cost (Rs. Mn)	452.75	352.64	323.16
HR cost per employee (Rs. Mn)	0.68	0.69	0.64
HR cost to revenue	13.00%	9.13%	9.97%

### Compensation and Benefits

The bank with the intention of improving its performance driven culture, introduced a Variable Bonus Scheme to all Managers and above grade employees. This aims at linking employee goals with organization goals and motivating them by offering monetary rewards to higher performers. This enables the creation of a direct link between pay and performance.



Grade-wise Staff Analysis



Gender and Grade-wise Staff Analysis

# Human Capital

During the year, the Bank participated in a salary and benefits survey conducted with the participation of other Commercial Banks.

## Performance Management

In facilitating effective performance management, the Bank rolled out the Balanced Scorecard as its performance Management system to all employees down to Assistant Manager grade at the beginning of the year. A new performance management system which is in line with the Balanced Scorecard was introduced to the Executive and below grades. Accordingly, objectives were set for all staff down to the Banking Assistant at the beginning of the year. The Bank also introduced the Mid-Year Performance Review for its employees in July 2010 and this helped to recognize the progress made by the staff members during the first half of the year as against the agreed objectives, ensure they work on the goals assigned at the beginning of the year and provide feedback on their progress.

## Rewards and recognition

We at Pan Asia Bank believe in fostering a rewarding culture where we reward and recognize exceptional performance of our staff. In 2010 there were several rewards and recognition schemes introduced by the Bank. The Bank initiated a number of Monetary and Non-Monetary Rewards Schemes during the year for exceptional performance related to service quality and revenue growth. In accordance with the Bank's re-branding process we initiated a 'mystery customer' program where the customer service levels of all our branches were assessed.

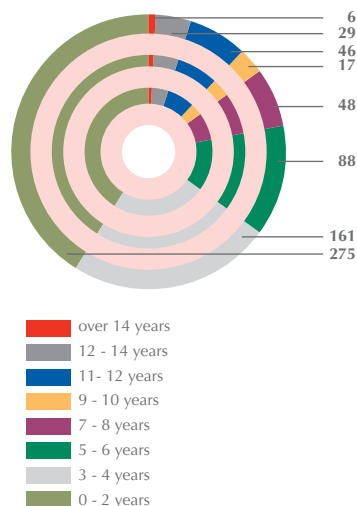
This provided valuable feed back to the Bank while not only uplifting the customer service standards but also rewarding the personnel who rendered the highest level of service to our valuable customers. Total of twenty one Staff were rewarded with Service Excellence Awards in recognition of exceptional performance demonstrated on service quality. Further, a total of sixty eight staff belonging to eight branches were recognised and rewarded for the exceptional performance demonstrated on revenue growth in promoting Ran Loan - one of the new products launched by Pan Asia Bank during the year.

## Remuneration Policy

The remuneration committee acts as the guardian of the remuneration policy of the Bank maintaining its application and transparency. Industry norms and benchmarks are taken into consideration in deciding pay levels for all employee categories including the senior management. Compensation surveys from leading independent research companies are sought or the Bank takes part in such surveys to this effect. The compensation policies governing the application of pay levels and performance related pay are developed and adopted as best practices which enables the Bank to motivate staff and compete effectively in the market. Furthermore, other HR policies drawing external experience and industry best practices are also reviewed and adopted by the Committee for implementation at the Bank.

## Employee Relations

The Bank further enhanced the 'Open Door' policy practiced in its non-unionized working environment during the year



**Service-wise Staff Analysis**  
(Number of Staff)

2010 which contributed towards strengthening of its open and transparent culture. The Bank is committed in developing and sustaining the transparency in its policies, procedures and decisions made.

### **Joint Consultative Council**

One of the main initiatives towards this aspect during the year was the formation of Joint Consultative Council (JCC). The JCC was launched in the month of May 2010 and the composition of this Forum is a representation of Assistant Managers and below grades covering the Support Departments and the Branches. From the Senior Management team, Chief Executive Officer, Head of Human Resources, Deputy General Manager of Retail Banking, Regional Heads and Head of Operation attend the forum. The objectives of the council is to have a forum where employees could air their views with the Senior Management and also provide an opportunity to participate actively in employee related matters, thereby creating better interaction to pursue good relations, enhanced cooperation and achieve higher revenue and productivity. As such this forum created the opportunity to voice employees' thoughts and concerns with regard to the work related matters, seek guidance and assistance relating to HR processes and systems and understand their purpose and provide input towards constantly upgrading the processes and systems of the Bank. Since its implementation, the Committee met up on three occasions during balance half year and was able to discuss the matters of mutual concern and address them speedily.

The Bank also organized forums such as monthly meetings with all the Managers and quarterly meetings with the Senior

Managers. These regular meetings were used as two-way communication channels where matters of mutual concern were discussed and decisions were made.

Forming a business relationship beyond the traditional framework of the employer and employee is empirical to the sustainable growth potential of the Bank. Towards this, The Bank's Sports Club carried out number of activities during the year 2010. The key events held during 2010 are listed below.

### **Annual Dinner Dance**

The Bank's Annual Dinner Dance was held for the 12th consecutive year. The theme of the event was "Flaming Red" and this glamorous event was attended by well over 350 guests including staff and their family members, who were dressed in attire reflecting the theme of the event. All attended enjoyed this glamorous night till the sun rose over the Galle Face Green.

### **Kiddies' Christmas Party**

The Kiddies' Christmas Party was another enjoyable event where the children of our employees experienced a fun filled evening. The event started off by granting a gift bag to all the children who attended the event and they took part in many of the exciting games which were organized for them throughout the evening. The attractions of the event were aimed at pleasing the little ones and the appearance of Santa Clause and receiving a gift from him by every kid was the highlight of the event. The kids enjoyed the company of clowns who mingled with them and entertained right throughout the evening, the face painting and the magic show. The Fancy



*Staff Training*



*Annual Dinner Dance*

# Human Capital

Dress Parade was the most attractive event out of all and the kids got an opportunity to show case their hidden talents to the crowd gathered. A wonderful array of refreshments including a chocolate fountain was organized, too.

## Sports Carnival

The Annual Sports Carnival was another event which brought out the friendly competitor in every one. The staff was divided into four groups and each represented a Tribal community and the event was appropriately named as the “The Tribal Olympics”. The event started off with a tribal dance performed by each group attracting much admiration and attention from the crowd present. The true sportsman ship of Pan Asia Bank was displayed at this event, where the staff participated in the six-a-side cricket tournament and fun games such as tug-of-war, fancy dress parade and many more games. The event contributed towards building camaraderie, teamwork and togetherness.



*Kiddies' Christmas Party*



# Corporate Social Responsibility

## Corporate Social Responsibility (CSR) Policy

Pan Asia Bank belongs to its stakeholders, thus we believe that long-term future is best served by respecting the interests of all our stakeholders: Investors, partners, employees, customers, suppliers and the wider community. We actively look for opportunities to improve and contribute to the wellbeing of the communities in which we operate. Our CSR policy sets out the principles we follow and the programmes we have embarked on, to focus on the areas where we have significant impact and influence.

## Operating Paradigms

### Relationships

We conduct our business relationships with integrity, honesty and courtesy, building long-term relationships with our stakeholders.

### Communities

To build relationships with our customers, suppliers and the local communities we are a part of, by encouraging our partners to consider the needs of others and involve themselves in public service. We obtain a wide range of views on our social and environmental policies and performance.

### Sustainable Progress

We are committed to improving our performance. We will take into account customer concerns and expectations in the development and implementation of all new social and environmental policies and procedures. We will consistently monitor our performance, set objectives for improvements and report our progress.

### Honesty, Integrity and Accountability

To communicate our policies, objectives and performance openly and honestly to our partners and to others with an interest in our activities, including customers and investors.



*Rebuilding the bus shelter opposite the Kadawatha Branch*



*Sponsoring "Sunshine Games" a sports event organized for disabled children*

# Corporate Social Responsibility

## CSR Programmes

### Health and Welfare

- Sponsorship of sanitary ware provided to the Infantry Training Camp, Minneriya.
- Kadawatha branch initiated a CSR activity to serve their local community better by rebuilding the bus shelter right opposite the branch, which was in dismal condition. Being in the hub of Kadawatha town makes this bus shelter well utilised by the public.
- As a bank that encourages customers to develop and possess financial sagaciousness about their money from a tender age, Borella branch sponsored free children's savings accounts for the children of Air Force Personnel, at their annual kid's get together, showing them that saving today paves the way for a brighter future.
- Funded the construction of the computer lab and donated four computers, a state of the art multimedia projector and a screen to the Army Ordinance Training School, Dombagoda, Horana.



### Sports

- We were one of the main sponsors for the "Sunshine Games", a sports fiesta organised by the Rotary Club of Colombo, Metropolitan for disabled children.
- The Gampaha branch undertook a sponsorship of trophies, flag poles and certificates to felicitate the annual sports meet for the oldest school in Gampaha, "Sri Siddhartha Kumara Maha Vidyalaya". The event was a huge success with the students showcasing their talent and dexterity in performances and sports. In addition, an awareness program conducted by the bank on cultivating the savings habit, was successfully conducted.
- We also sponsored the annual Sports Day of the Service Corp of Army Cantonment, Panagoda.

### Culture

- To mark the 61st Anniversary of the Army, the Army Headquarters 11th Division Kandy, organized a cleanup of the Dalada Maligawa and other religious places. Our Kandy branch too got involved by sponsoring the refreshments needed to fuel all the participants took part in the cleanliness and beautification of one of the most prized religious places of our country.



*Sponsoring Air Force Childrens' party*

# Corporate Governance Report

The Central Bank of Sri Lanka (CBSL) in pursuance to the 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. (Banking Act Direction No. 11 of 2007.)

The Institute of Chartered Accounts of Sri Lanka (ICASL) in assisting the Banks to comply these Governance Rules has issued guidance for Directors of Banks setting out the following:

- Guidance for Directors of Banks on the Directors Statement on Internal Control.
- Assurance Report for Banks on Directors Statement on Internal Control.
- Engagements to report on the compliance with the Corporate Governance directive issued by the Central Bank of Sri Lanka.

Further to the above the “Code of best practice on Corporate Governance” issued by the SEC & the ICASL jointly is also

followed by the Bank in order to achieve and maintain the highest standards of Corporate Governance to ensure a greater transparency, and 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 - Page 72
- Board Integrated Risk Management Committee - Page 74
- Board Human Resources & Remuneration Committee - Page 75
- Board Nomination Committee - Page 76

All the Committees present their reports to the Board.

#### Statement by the External Auditors

The external auditors have performed agreed upon procedures on the following Corporate Governance Report from 3 (1) (i) to 3 (8) (ii) (i) included in the annual report of the Bank for the year ended 31 December 2010.

		The Responsibilities of the Board	Complied	Not complied	N/A	Reference
3(1)(i)		Procedures to be carried out to ensure the board have strengthened the safety and soundness of the bank.				
	a)	Check the board approval of the bank's strategic objectives and corporate values.  Check whether the bank has communicated the bank's strategic objectives and corporate values throughout the bank.	✓			Board approved strategic plan is in place & communicated to relevant staff.
	b)	Check the board approval of the overall business strategy of the bank.  Check that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.  Check that the overall business strategy contains measurable goals, for at least the next three years.	✓			Complied with.
	c)	Check that the appropriate systems to manage the risks identified by the board are prudent and are properly implemented.	✓			Process in Place

# Corporate Governance Report

			Com- plied	Not com- plied	N/A	Reference
	d)	Check that the board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers;	✓			A shareholder communication policy is in place. Other stakeholders' policies are being implemented
	e)	Check that the board has reviewed the adequacy and the integrity of the bank's internal control systems and management information systems;	✓			Bank has separate internal audit department which directly report to Audit Committee. The Audit Committee relies on the internal audit department to determine the adequacy and the integrity of the internal control system and Management Information Systems
	f)	Check that the board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	✓			The key management personnel have been identified as the board and the CEO based on Sri Lanka Accounting Standards.
	g)	Check that the board has defined the areas of authority and key responsibilities for the board directors themselves and for the key management personnel;	✓			Board shares its responsibilities as a whole and depending on their skills and expertise they are appointed to different committees to manage the bank. CEO's responsibilities have been identified.
	h)	Check that the board has exercised appropriate oversight of the affairs of the bank by key management personnel, that is consistent with board policy;	✓			The board meetings are held monthly. The CEO also attends the board meetings.
	i)	Check that the board has periodically assessed the effectiveness of the board directors' own governance practices, including: (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.	✓			A self assessment is made by the Directors annually which are filed with the company secretary. This document is called as the board performance evaluation check list. Self assessment of the Directors are being done and the effectiveness of the board of directors' own governance practices is being implemented

			Com- plied	Not com- plied	N/A	Reference
	j)	Check that the board has a succession plan for key management personnel.	✓			Succession plan is in place for corporate management team and other key employees. Succession plan is not in place for board of directors who are currently defined as the key management personnel but the key management personnel will be redefined
	k)	Check that the board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	✓			The board meetings are held monthly (at a minimum). The CEO also attends the board meetings. The members of corporate management team by invitation attend board meetings to make presentations on their respective areas.
	l)	Check that the board has taken measures and processes in place to understand the regulatory environment and that the bank maintains a relationship with regulators.	✓			The compliance officer keeps abreast with the regulatory requirements.  The CEO maintains relationships with the regulator and correspondences with the regulators are maintained by the CEO.
	m)	Check that the board has a process in place for hiring and oversight of external auditors.	✓			The audit committee is responsible for the hiring and oversight of the external auditor. The audit committee charter approved by the board specifies these requirements.
<b>3(1)(ii)</b>		Check that the board has appointed the Chairman and the Chief Executive Officer (CEO).  Check that the functions and responsibilities of the chairman and the CEO are in line with Direction 3(5) of these Directions.	✓  ✓			The chairman and the CEO have been appointed by the board.  Complied with
<b>3 (1) (iii)</b>		Check that the board has met regularly and held board meetings at least twelve times a year at approximately monthly intervals.	✓			Board has met monthly. Special board meetings are held when required.

# Corporate Governance Report

			Com- plied	Not com- plied	N/A	Reference
3(1)(iv)		Check that the board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.	✓			Agenda draft minutes and board papers are sent well in advance enabling directors to submit their views, proposals and observations.
3(1)(v)		Check that the board has given notice of at least 7 days for a regular board meeting to provide all directors an opportunity to attend and for all other board meetings, notice has been given.	✓			All relevant papers are forwarded to the directors 7 days prior to the meeting. Due notice have been given for other board meetings as well
3(1)(vi)		Check that the board has taken required action on directors who have not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the directors' meetings through an alternate director, however, to be acceptable as attendance.	✓			Board meetings have been duly attended as identified in page 63.
3(1)(vii)		Check that the board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	✓			Company secretary duly appointed.
3(1)(viii)		Check the process to enable all directors to have access to advice and services of the company secretary.	✓			A process in place.
3(1)(ix)		Check that the company secretary maintains the minutes of board meetings and there is a process for the directors to inspect such minutes.	✓			The company secretary maintains the minutes. The minutes of the previous board meeting is adopted in the ensuing board meeting.

			Com- plied	Not com- plied	N/A	Reference
3(1)(x)		<p>Check that the minutes of a board meeting contain or refer to the following:</p> <p>(a) a summary of data and information used by the board in its deliberations</p> <p>(b) the matters considered by the board</p> <p>(c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence;</p> <p>(d) the matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations;</p> <p>(e) the understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and</p> <p>(f) the decisions and board resolutions.</p>	✓			<p>Minutes of the meetings include:</p> <ul style="list-style-type: none"> <li>• Summary of data and information used by the board in its deliberations.</li> <li>• Matters considered by the board</li> <li>• The fact-finding discussions and the issues of contention or dissent which illustrates the board is carrying out its duties with due care and prudence</li> <li>• The matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations;</li> <li>• Understanding the risks to which the bank is exposed and an overview of the risk management measures adopted the decisions and board resolutions</li> </ul>
3(1)(xi)		<p>Check that there are procedures agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense.</p>	✓			Board approved policy in place
3(1)(xii)		<p>Check that there is a procedure to determine, report, resolve and to take appropriate action relating to directors avoid conflicts of interests, or the appearance of conflicts of interest.</p> <p>Check that a director has abstained from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested</p> <p>Check that has he/she been counted in the quorum for the relevant agenda item at the board meeting</p>	✓			Bank follow guidelines issued by the Director Bank Suoervision with regard to Related Party Transactions and accordingly directors abstained in voting and take part in discussions where issues or items pertaining to conflict of interest

# Corporate Governance Report

			Com- plied	Not com- plied	N/A	Reference
3(1) (xiii)		Check that the board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the bank is firmly under its authority.	✓			There is a schedule of 10 mandatory matters that should be included in each and every board meeting.
3 (1) (xiv)		Check that the board has forthwith informed the Director of Bank Supervision of the situation of the bank prior to taking any decision or action, if it considers that the procedures to identify when the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.	✓			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. Such situation has not arisen.
3(1)(xv)		Check that the board has the bank capitalised at levels as required by the Monetary board.	✓			The bank has complied with the capital adequacy requirements
3(1) (xvi)		Check that the board publishes, in the bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	✓			The Board publishes in the Bank's Annual Report the Corporate Governance Report.
3(1) (xvii)		Check that the board adopts a scheme of self-assessment to be undertaken by each director annually, and maintains records of such assessments.	✓			A self assessment is performed annually by the directors themselves.
3(2)		<b>The board's Composition</b>				
3 (2) (i)		Check that the board comprise of not less than 7 and not more than 13 directors.	✓			The board constitutes 9 directors.
3(2)(ii)	(A)	Check that the total period of service of a director other than a director who holds the position of CEO, does not exceed nine years.	✓			The company secretary monitors the directors' service period. Currently there are no directors serving for more than 9 year service.
	(B)	In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.	✓			Currently there are no directors serving for more than 9 year service.
3(2)(iii)		Check that the number of executive directors, including the CEO does not exceed one-third of the number of directors of the board.	✓			8 out of 9 directors are non executive directors



			Com- plied	Not com- plied	N/A	Reference
3(2)(iv)		Check that the board has at least three independent non-executive directors or one third of the total number of directors, whichever is higher  Check if non-executive directors can be considered independent if he/she:	✓			The board has 4 independent non executive directors.
	a)	Holds a direct and indirect shareholdings of more than 1 per cent of the bank;	✓			One director owns more than 1% of shareholding and therefore is not an independent director. Refer Page No 68.
	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 per cent of the regulatory capital of the bank.			✓	Not Applicable.
	c)	Has been employed by the bank during the two year period immediately preceding the appointment as director.			✓	Not Applicable.
	d)	Has had a close relation; who is a director, CEO, a member of key management personnel, a material shareholder of the bank or another bank. (For this purpose, a "close relation" means the spouse or a financially dependant child)			✓	Not Applicable.
	e)	Represents a specific stakeholder of the bank			✓	Not Applicable.
	f)	Is an employee or a director or a material shareholder in a company or business organization:  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 non executive independent Directors meet the criteria of (i), (ii) & (iii) and independent non executive Directors have been duly identified.

# Corporate Governance Report

			Com- plied	Not com- plied	N/A	Reference
3(2)(v)		In the event an alternate director was appointed to represent an independent director, Check the person so appointed meet the criteria that applies to the independent director.	✓			Alternative directors were not appointed to represent independent directors during the year.
3(2)(vi)		Check that the bank has a process for appointing independent directors.	✓			A nomination committee is in place to consider appointment of independent directors.
3(2)(vii)		Check that the stipulated quorum of the bank includes more than 50% of the directors and out of this quorum more than 50% should include non-executive directors.	✓			8 out of 9 directors are non executive directors.
3(2)(viii)		Check that the bank discloses the composition of the board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report.	✓			Complied and disclosed in page 63.
3(2)(ix)		Check the procedure for the appointment of new directors to the board.	✓			A nomination committee is in place to consider appointment of new directors.
3(2)(x)		Check that all directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.	✓			Two Directors so appointed be subject to election by shareholders at the next general meeting.
3(2)(xi)		Check if a director resigns or is removed from office, the board:  (a) announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and  (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	✓			Director resignations and removals have been duly communicated to the Colombo Stock Exchange.
3(2)(xii)		Check if there is a process to identify whether a director or an employee of a bank is appointed, elected or nominated as a director of another bank	✓			Directors are required to voluntarily inform the board if the director is appointed, elected or nominated as a director of another company.

			Com- plied	Not com- plied	N/A	Reference
3(3)		<b>Criteria to assess the fitness and propriety of directors</b>				
3(3)(i)		Check that the age of a person who serves as director does not exceed 70 years.	✓			There are no directors who serve over 70 years. The company secretary maintains records of the age of the directors.
	(A)	Check that the transitional provisions have been complied with.	✓			Complied with
3(3)(ii)		Check if a person holds office as a director of more than 20 companies/entities/ institutions inclusive of subsidiaries or associate companies of the bank.	✓			Other directorships are disclosed in page 71. No director currently holds directorships in more than 20 companies.
3(4)		<b>Management functions delegated by the board</b>	✓			
3(4)(i)		Check that the delegation arrangements have been approved by the board.	✓			The delegation arrangements have been approved by the board.
3(4)(ii)		Check that the board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	✓			Complied with
3(4)(iii)		Check that the board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.	✓			Delegation arrangements are reviewed based on business requirements.
3(5)		<b>The Chairman and CEO</b>				
3(5)(i)		Check that the roles of chairman and CEO is separate and not performed by the same individual	✓			Roles of Chairman and CEO are separate and not performed by the same individual.
3(5)(ii)		<p>Check that the chairman is a non-executive director.</p> <p>In the case where the chairman is not an independent director, check that the board designate an independent director as the senior director with suitably documented terms of reference.</p> <p>Check that the designation of the senior director be disclosed in the bank's Annual Report.</p>	✓			Chairman is a non-executive independent director.

# Corporate Governance Report

			Com- plied	Not com- plied	N/A	Reference
3(5)(iii)		Check that the board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the CEO and board members and the nature of any relationships including among members of the board.	✓			A process available. Affidavit is submitted to Central Bank in this regard.
3(5)(iv)		Check that the board has a self evaluation process where the chairman:  (a) provides leadership to the board; (b) ensures that the board works effectively and discharges its responsibilities; and (c) ensures that all key and appropriate issues are discussed by the board in a timely manner.	✓			Complied with.
3(5)(v)		Check that a formal agenda is circulated by the company secretary approved by the chairman.	✓			Company secretary circulates formal agenda prior to the board meeting. This agenda is approved by the chairman.
3(5)(vi)		Check that the chairman ensures, through timely submission that all directors are properly briefed on issues arising at board meetings.	✓			Board papers are sent seven days prior to the meeting in order for directors to request for any other information if necessary.
3(5)(vii)		Check that the board has a self evaluation process that encourages all directors to make a full and active contribution to the board's affairs and the chairman taking the lead to act in the best interest of the bank.	✓			Self evaluation process in place.
3(5)(viii)		Check that the board has a self evaluation process that assesses the contribution of non-executive directors.	✓			Self evaluation process in place.
3(5)(ix)		Check that the chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	✓			The chairman does not get involved in direct supervision.

			Com- plied	Not com- plied	N/A	Reference
3(5)(x)		Check that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.	✓			Effective communication with shareholders is maintained at the Annual General Meeting. All shareholders have access to the company secretary.
3(5)(xi)		Check that the CEO functions as the apex executive-in-charge of the day-to-day management of the bank's operations and business.	✓			The CEO functions as the apex executive in charge of the day to day management.
3(6)		<b>Board Appointed Committees</b>				
3(6)(i)		Check that the bank has established at least four board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions.  Check that each board committee report is addressed directly to the board.  Check that the board presents in its annual report, a report on each committee on its duties, roles and performance.	✓			The board has established an Audit, Nomination, HR & Remuneration and Integrated Risk Management Committees. Board committees submits minutes to the board. Each committee report is published in the annual report in pages 72, 76, 75, & 74.
3(6)(ii)		Audit Committee:				
	a)	Check that the chairman of the committee is an independent non-executive director and possesses qualifications and related experience.	✓			Audit Committee Chairman is a non executive director. Qualification and experience disclosed in page 13.
	b)	Check that all members of the committee are non-executive directors.	✓			All members of the committee are non-executive directors.

# Corporate Governance Report

			Com- plied	Not com- plied	N/A	Reference
	c)	<p>Check that the committee has made recommendations on matters in connection with:</p> <p>i) The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>ii) The implementation of the Central Bank guidelines issued to auditors from time to time</p> <p>iii) The application of the relevant accounting standards; and</p> <p>iv) The service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term</p>	✓			<p>The audit committee has made the following recommendations;</p> <ul style="list-style-type: none"> <li>- The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;</li> <li>- The implementation of the Central Bank guidelines issued to auditors from time to time</li> <li>- The application of the relevant accounting standards; and</li> <li>- The service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term</li> </ul>
	d)	Check that the committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with SLAuS.	✓			The committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with SLAuS
	e)	Check that the committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.	✓			Bank is in the process of obtaining approval from the board
	f)	Check that the committee has discussed and finalised, the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.	✓			The committee has discussed and finalized the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.

			Com- plied	Not com- plied	N/A	Reference
	g)	<p>Check that the committee has a process to review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following;</p> <p>(i) major judgmental areas;</p> <p>(ii) any changes in accounting policies and practices;</p> <p>(iii) the going concern assumption; and</p> <p>(iv) the compliance with relevant accounting standards and other legal requirements, and;</p> <p>(v) in respect of the annual financial statements the significant adjustments arising from the audit.</p>	✓			Quarterly financial statements are presented to the audit committee by the Chief Financial Officer.
	h)	Check that the committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.	✓			Complied with
	i)	Check that the committee has reviewed the external auditor's management letter and the management's response thereto.	✓			The committee has reviewed the external auditor's management letter and the management's response thereto
	j)	<p>Check that the committee shall take the following steps with regard to the internal audit function of the bank:</p> <p>I. Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;</p> <p>II. Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;</p> <p>III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</p>	✓			<p>The internal audit plan is reviewed and approved by the audit committee at the beginning of the year.</p> <p>Internal audit reports are discussed with the audit committee and necessary actions are taken.</p> <p>Appraisal process is being implemented.</p>

# Corporate Governance Report

			Com- plied	Not com- plied	N/A	Reference
		iv. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; v. Check that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; vi. Check that the internal audit function is independent of the activities it audits.	✓  ✓  ✓			Complied with.  Complied with.  Internal auditor is independent.
	k)	Check the minutes to determine whether the committee has considered 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 minute.
	l)	Check whether the committee has had at least two meetings with the external auditors without the executive directors being present.	✓			The Committee has met external auditors.
	m)	Check the terms of reference of the committee to ensure that there is;  (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.	✓			Complied with.
	n)	Check that the committee has met, at least four times and maintained minutes.	✓			Committee has met on 14 occasions during 2010.



			Com- plied	Not com- plied	N/A	Reference
	o)	Check that the board has disclosed in the annual report,  (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual director at such meetings	✓			Bank has following Audit Committee disclosures in the Annual Report, Audit Committee Report (page 72) Number of audit committee meetings held in the year (page 72 & 63) Details of attendance of each individual director at such meetings (page 63)
	p)	Check that the secretary of the committee is the company secretary or the head of the internal audit function	✓			Secretary of the Committee is the head of internal audit.
	q)	Check that the “whistle blower” policy covers the process of dealing with;  i) The improprieties in financial reporting, internal control or other matters. ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and iii) Appropriate follow-up action.	✓			Approved Whistle Blowing Policy is in place and (i), (ii) & (iii).
<b>3(6)(iii)</b>		Does the following rules apply in relation to the Human Resources and Remuneration Committee:				
	a)	Check that the committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the bank by review of the “Terms of reference” and minutes.	✓			Complied with.
	b)	Check that the goals and targets for the directors, CEO and the key management personnel are documented.	✓			Complied with for CEO and Corporate management. Not applicable for BOD.
	c)	Check that the committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	✓			Complied with for CEO and Corporate management. Not applicable for BOD.

# Corporate Governance Report

			Com- plied	Not com- plied	N/A	Reference
	d)	Check that the “Terms of reference” provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.	✓			Complied with.
<b>3(6)(iv)</b>		Does the following rules apply in relation to the Nomination Committee:				
	a)	Check that the committee has implemented a procedure to select/appoint new directors, CEO and key management personnel.	✓			Complied with.
	b)	Check that the committee has considered and recommended (or not recommended) the re-election of current directors.	✓			The Committee has considered and recommended the re-election of current directors.
	c)	Check that the committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the key management personnel, by review of job descriptions.	✓			Complied with.
	d)	Check that the committee has obtained from the directors, CEO and key management personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	✓			Committee has obtained declarations from directors and CEO.
	e)	Check that the committee has considered a formal succession plan for the retiring directors and key management personnel.	✓			A succession plan for Corporate Management is in place and for BOD is considered as and when its required.
	f)	Check that the Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	✓			The committee is chaired by an independent director and the majority of directors are independent. CEO will be present by invitation.
<b>3(6)(v)</b>		Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC):				
	a)	The committee shall consist of at least three non-executive directors, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	✓			The committee consists of three non executive directors. CEO and corporate management personnel attend by invitation.

			Com- plied	Not com- plied	N/A	Reference
	b)	Check that the committee has a process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.	✓			Complied with.
	c)	Check that the committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the credit committee and the asset-liability committees, and report any risk indicators periodically.	✓			Complied with.
	d)	Check that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	✓			Complied with.
	e)	Check how many times the committee has met at least quarterly.	✓			No of meetings 4.
	f)	Check that the committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	✓			Based on IRMC recommendation HR will initiate the process. No such instances during the period.
	g)	Check that the committee submits a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions.	✓			Complied with.
	h)	Check that the committee has 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 and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.	✓			Complied with.

# Corporate Governance Report

			Com- plied	Not com- plied	N/A	Reference
3(7)		<b>Related party transactions</b>				
3(7)(i)		<p>Check that there is a established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction:</p> <p>a. Any of the bank’s subsidiary companies;</p> <p>b. Any of the bank’s associate companies;</p> <p>c. Any of the directors of the bank;</p> <p>d. Any of the bank’s key management personnel;</p> <p>e. A close relation of any of the bank’s directors or key management personnel;</p> <p>f. A shareholder owning a material interest in the bank;</p> <p>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.</p>	✓			Complied with. (a) and (b) not applicable.
3(7)(ii)		Check that there is a process to identify and report the following types of transactions been identified as transactions with related parties that is covered by this Direction.				
	a)	The grant of any type of accommodation, as defined in the Monetary board’s Directions on maximum amount of accommodation.	✓			Complied with.
	b)	The creation of any liabilities of the bank in the form of deposits, borrowings and investments.	✓			Complied with.
	c)	The provision of any services of a financial or non- financial nature provided to the bank or received from the bank.	✓			Complied with.
	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.	✓			Incorporated in the code of conduct sign off by the employees.

			Com- plied	Not com- plied	N/A	Reference
3(7)(iii)		Does the board have a process to ensure that the bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the bank carrying on the same business.				
	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.	✓			Complied with.
	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.	✓			Bank treats related parties on the same basis as they would treat unrelated counter parties for all transactions.
	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;	✓			Bank treats related parties on the same basis as they would treat unrelated counter parties.
	d)	Providing services to or receiving services from a related-party without an evaluation procedure;	✓			Bank treats related parties on the same basis as they would treat unrelated counter parties
	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 code of conduct sign of by employees.

# Corporate Governance Report

			Com- plied	Not com- plied	N/A	Reference
3(7)(iv)		Check that the bank has a process for granting accommodation to any of its directors and key management personnel, and that. Such accommodation is sanctioned at a meeting of its board of directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary board as well.	✓			Complied with.
3(7)(v)	a)	Check that the bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the bank, that steps have been taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary board, within one year from the date of appointment of the person as a director.	✓			A process in place.
	b)	Check where such security is not provided by the period as provided in Direction 3(7) (v)(a) above, has the bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.	✓			Complied with. No such instances noted during the period.
	c)	Check that there is a process to identify any director who fails to comply with the above sub-directions be deemed to have vacated the office of director and has the bank disclose such fact to the public	✓			Complied with. No such instances noted during the period.
	d)	Check the process in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the accommodation was an employee of the bank and the accommodation was granted under a scheme applicable to all employees of such bank	✓			Complied with. No such instances noted during the period.

			Com- plied	Not com- plied	N/A	Reference
3(7)(vi)		Check that there is a process in place to identify when the bank grants any accommodation or “more favourable 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.	✓			A process in place for monitoring. However no such instance noted during the period.
3(7)(vii)		Check that there is a process to obtain prior approval from the Monetary board for any accommodation granted by a bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary board and any remission without such approval is void and has no effect.	✓			A process in place. However no such instance noted during the period.
3(8)		<b>Disclosures</b>				
3(8)(i)		Check that the board has disclosed:  (a) Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.  (b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	✓  ✓			Complied with  Complied with
3(8)(ii)		Check that the board has made the following minimum disclosures in the Annual Report:				

# Corporate Governance Report

			Com- plied	Not com- plied	N/A	Reference
	a)	The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	✓			Complied with. Please refer the "Statement of Directors Responsibility" on Page 77 of this annual report.
	b)	The report by the board on the bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	✓			Complied with. Please refer the "Directors Report on bank's Internal Control System" on Page 65 of this annual report.
	c)	Check that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii) (b) above.	✓			Complied with. Please refer the "Directors Report on bank's Internal Control System" on Page 65 of this annual report.
	d)	Details of directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank.	✓			Complied with. Please refer following pages "Board of Directors on Page 12" "Related Party Transactions" on Note 38 to the financial statements on page 107
	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.	✓			Complied with. Disclosed in page 122.
	f)	The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.	✓			Complied with. Please refer the "Related Party Transactions" on Note 38 to the financial statements on page 107.
	g)	Check that the board has obtained the external auditor's report on the compliance with Corporate Governance Directions.	✓			Complied with. Refer statement by external auditors in page 41.



			Com- plied	Not com- plied	N/A	Reference
	h)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances	✓			Complied with. Please refer following pages "Compliance with Prudential Requirements" on Page 64 "Director's Responsibility on Financial Reporting" on Page 77.
	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. No such directive has been issued by the Monetary Board of CBSL.

Name of Director	Board Meetings		Board Audit Committee		Board Credit Committee		Board Integrated Risk Management Committee		Board Human Resources & Remuneration Committee		Board Recoveries Committee		Board Nomination Committee	
	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance
A.G. Weerasinghe	12	12			11	11	04	04	08	08			03	03
W.D.N.H. Perera	12	10			11	08	02	01	08	08			03	03
J.A.S.S. Adhietty	12	11			11	11								
A.A. Page	12	08	14	13										
R.E.U.De Silva	12	11	14	05			02	01						
M.D.S.Goonatilleke	12	12	14	14										
H.K. Seneviratne	09	09			05	05	02	02	03	03	01	01	01	01
T.G. Thoradeniya	07	05												

#### PRESENT COMPOSITION OF THE DIRECTORS

Name of the Director	Category
A.G. Weerasinghe	Non Executive, Independent Director
W.D.N.H. Perera	Non Executive Director
J.A.S.S. Adhietty	Non Executive Director
A.A. Page	Non Executive, Independent Director
R.E.U. De Silva	Non Executive, Independent Director
M.D.S. Goonatilleke	Non Executive Director
H.K. Seneviratne	Non Executive, Independent Director
T.G. Thoradeniya	Non Executive Director
T.C.A. Peiris	Chief Executive Officer

# Bank's Compliance with Prudential Requirements

The compliance function of Pan Asia broadens its conformity in a scope of areas such as observance, application of standards of market conduct and managing conflicts of interest. It also assesses the bank's compliance with regulations, CBSL guidelines, laws, internal contracts, governance and approved policies in business operations.

Further, it has also expanded its scope to cover specific areas such as operations of money laundering and terrorist financing and connected laws that are relevant to financial services. The bank's compliance function is established in a framework to install robust ways to protect the bank against unlawful behavior and to strengthen its ethical consciousness. We have developed a compliance culture with adequate policies and procedures that enable oversight the functions to be carried out by the business lines and their staff.

The compliance function also does a connotation of regulatory and supervisory structure which is governed by the external regulator today which ensure that the bank adheres to norms, guidelines and rules set by them. Our controls and procedures are always benchmarked. Its execution of business processes designs to manage risks and as a continuous updating with expected parameters / tolerance levels applicable to the entire industry.

Head of Compliance is responsible in carrying out the regulatory compliance, dissemination of regulatory instructions across the bank and for anti-money laundering compliance. The policies and procedures are established to cover all areas which relate to regulatory instructions and Basel Committee parameters. These policies are reviewed from time to time in order to adhere to new instructions received by the bank.

We continuously provide assistance to the anti-money laundering regulatory activities adopted by the Financial Intelligence Unit of Central Bank by timely responses. We also actively participate in working groups formed by Compliance Officers Association while updating on latest developments.

The key compliance principles are monitored on an on-going basis to ensure that monthly and quarterly reports submitted by business lines are in accordance with the policies and procedures. The said certification is also copied to the Board of Directors, through Integrated Risk Management Committee highlighting the salient features. The required compliance to Know Your Customer (KYC), Customer Due Diligence rules & guidelines incurred by the Financial Intelligence Unit (FIU) are practiced across the bank and monitored as an on going activity.

We have understood the criticality and the importance of a better governance & risk management and have devised strategies for leveraging the compliance system to derive values as well as to increase the compliance performance. Our culture specifies the commitment at all levels to manage compliance in an integrated manner, which is behind all the imperatives to inculcate same throughout the bank. We believe in such practice since these functions are interrelated in our business and implementing them in isolation or treating them as separate elements would defeat the total effect. Therefore, same is a more holistic approach with more efficient, consistent and robust systems with the participation of Board of Directors, Corporate & Senior Management and staff of all levels responsible for the conduct of business.

## **Regulatory and Supervisory Compliance**

The bank has drawn high level of attention for adhering to the directions given by the regulatory authorities. The policies are redirected as per instructions received from the supervisory department on the inspections carried out. The said policies are also reviewed from time to time to monitor the compliance and periodic returns are submitted to the regulator as and when required. Constructive steps are always taken to rectify any lapses or non compliance with directions pointed out by the regulator immediately if necessary. The bank has adopted a follow up policy on such requirements and are periodically reviewed until the required parameters are completed.

# Directors' Report on Bank's Internal Control System

## Responsibility

In line with the Banking Act Direction No. 11 of 2007, section 3 (8) (ii) (b), the Board of Directors present this report on Internal Control.

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

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to business environment 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 Control issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control system 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 in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes and is in accordance with relevant accounting principles and regulatory requirements.

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

## Key Features of the Process Adopted in Applying In Reviewing the Design and Effectiveness of the Internal Control System

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 appointed 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 Division 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 Audit Committee. Findings of the Internal audit are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committees of the Bank review internal control issues identified by the respective Internal Audit Division, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled to the Board of the Bank on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on page 72.
- In assessing the internal control system, 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. Due to time constraints, areas with respect to the processes that provided disclosures to the financial statements such as related party transactions, contingencies and commitments were not fully completed.
- Comments made by the external auditors in connection with internal control system will be deal with in the future.

# Directors' Report on Bank's Internal Control System

## Confirmation

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

## Review of the Statement by External Auditors

The external auditors have reviewed the above Directors Statement on Internal Control included in the annual report of the Bank for the year ended 31 December 2010 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Bank.

## By order of the Board



**G.G. Mangala**  
Chief Financial Officer



**T.C.A. Peiris**  
Director/CEO



**N. Fernando**  
Company Secretary



**A.A. Page**  
Chairman-Board Audit Committee



**W.D.N.H. Perera**  
Deputy Chairman



**A.G. Weerasinghe**  
Chairman

## Colombo

14th February 2011

# Directors' Report

## 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, 2010.

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 approved as a Licensed 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 Annual Report of the Board of Directors and the Financial Statements were approved by the Board of Directors on the 14th February 2011.

### 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

	2010 Rs.000	2009 Rs.000
Profit Before Taxation	693,927	665,146
Taxation	(332,133)	(277,329)
Profit After Taxation	361,794	387,817
Retained Profit brought forward	805,773	425,136
Transfer to Statutory Reserve fund	(18,089)	(19,391)
Dividends Paid	-	-
Transfer from Revaluation Reserve	3,834	12,211
Unappropriated profit to be carried forward	1,153,312	805,773

### FINANCIAL STATEMENTS

The Financial Statements of the Bank are given on page 82 to 107 of this annual report.

### INCOME

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

Total Income for 31.12.2010 Rs.	Total Income for 31.12.2009 Rs.
3,484,410,507/-	3,862,065,467/-

Details are given in Note 28 to the Financial Statements.

### PROFIT AND RESERVES

The Bank's reserves as at 31st December 2010 stood at Rs. 1,235,050,552/- This comprises a Statutory Reserve Fund of Rs. 79,926,949/- Revaluation Reserve of Rs. 1,811,483/- and Revenue Reserve of Rs. 1,153,312,120/- The movement in Statutory Reserve Fund and Revaluation Reserve are shown in Notes 26 and 27 to the Financial Statements respectively.

### AUDITORS' REPORT

The auditors of the Bank are M/s Ernst & Young, Chartered Accountants. Their report on the Financial Statements is given on page 81. 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 page 86 to 91.

### 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 company during the accounting period is given as a foot note to this report on page 70.

### DIRECTORS' REMUNERATION

Directors' remuneration and other benefits of Directors in respect of the Company is given in Note 38.1 to the Financial Statements on page 107.

### DONATIONS

During the year under review the Board of Directors have not made any donations/contributions. The company does not make donations for political purposes.

# Director's Report

## DIRECTORATE

The names of the Directors of the Bank during the period 01.01.2010 to 31.12.2010 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 Non-Executive Independent Directors is given against the names as per the Central Bank mandatory rules on Corporate Governance under the Banking Act Directions.

A.G. Weerasinghe:  
Non-Executive Independent Director since 15/06/2005, Acting Chairman since 04/12/2007 and Chairman since March, 2008.

W. D. N. H. Perera:  
Non-Executive Director since 01/09/2007 and appointed as Deputy Chairman in March, 2008.

J.A.S.S. Adhihetty:  
Non-Executive Director since 2005.

A. A. Page:  
Non-Executive Independent Director since April, 2008.

R.E.U. De Silva:  
Non-Executive Independent Director since July, 2008.

M.D.S. Goonatilleke:  
Non-Executive Director since August, 2008.

H.K. Seneviratne:  
Non-Executive Independent Director since April, 2010.

T.G. Thoradeniya:  
Non-Executive Director since June, 2010.

T.C.A. Peiris:  
Served as the Acting Chief Executive Officer from August, 2009 and appointed as Director/Chief Executive Officer since May 2010.

Kimarli Fernando:  
Non-Executive Director. Resigned in May, 2010.

## RE-APPOINTMENTS

In terms of Article Nos. 93 and 94 of the Articles of Association of the Company, A.A. Page and R.E.U. De Silva retire by rotation and being eligible offer themselves for re-election, on an unanimous recommendation by the Board of Directors.

In terms of Article 100 of the Articles of the Association of the company H.K Seneviratne and T.G Thoradeniya being eligible offer themselves for re-election, on an unanimous recommendation by the Board of Directors.

## DIRECTORS' INTEREST

Related party transactions of the company are disclosed in Note 38 to the Financial Statements on page 107.

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 company and have refrained in participating when decisions are taken.

## DIRECTORS' INTEREST IN SHARES

Name	Number of Shares	Number of Shares
	As at 31.12.2010	As at 01.01.2010
A.G. Weerasinghe	5,066	17,300
W.D.N.H. Perera	2,100,000	1,601,875
J.A.S.S. Adhihetty	54,133	35,000
A.A. Page	59,933	40,000
R.E.U. De Silva	40,000	-
M.D.S. Goonatilleke	211	-
H.K. Seneviratne	-	-
T.G Thoradeniya	18	-
T.C.A Peiris	2,000	-

## 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.

A sum of Rs 2,817,136/- is payable to them as audit fees and reimbursable expenses for the year 2010 and fees payable for other services is Rs. 518,428/-.

## STATED CAPITAL

The Stated Capital of the Bank is Rs. 1,548,965,702/- the details are given in Note 25 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. 7 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 FOR LICENSED COMMERCIAL BANKS IN SRI LANKA**

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 page 41 to 63.

### **DIVIDEND**

A dividend for the year 2010 has not been declared by the Board of Directors with a view to strengthen the capital base of the Bank.

### **CAPITAL EXPENDITURE**

Expenditure on Property, Plant & Equipment at cost amounted to Rs. 76,984,043/- during 2010, details of which are given in Note 19 to the Financial Statements. Expenditure on Intangible Assets at cost amounted to Rs. 20,945,951/- during 2010, details of which are given in Note 20 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, 2010 was 5,342 compared to 3,099 as at 31st December 2009. The schedule indicating the shareholder's analysis is on page 116.

### **REGISTER OF DIRECTORS & SECRETARIES**

The Bank maintains a Register of Directors and Secretaries



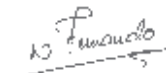
**A.G. Weerasinghe**  
Chairman



**W.D.N.H. Perera**  
Deputy Chairman



**T.C.A. Peiris**  
Director/Chief Executive Officer



**N. Fernando**  
Company Secretary

Colombo  
14 February 2011

which contains the relevant information of the Board of Directors.

### **BOARD SUB COMMITTEES**

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

### **NEW BRANCHES**

Six new branches were opened in Chilaw, Jaffna, Embilipitiya, Matale, Batticaloa and Ambalangoda during the year under review, bringing the total number of branches to 41 at the end of 2010.

### **PROVISION FOR TAXATION**

Total taxable profit was charged at 35%. In accordance with Sri Lanka Accounting Standards, Deferred tax was calculated based on the Balance Sheet liability method.

### **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 Taj Samudra at No. 25, Galle Face Center Road, Colombo 03 on 31st March 2011. The Notice of Meeting can be found on page 125.

### **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.

# Directors' Interest Register

Director Name/ Company Name	Relationship	Accommodation Granted /Deposits	Balance Outstanding As At 31.12.2010 Rs.
<b>W.D.N.H. Perera</b>			
L B Finance PLC	Director	Loans & Advances Deposits	61,914,034.78 660,772,463.46
The Fortress Resorts PLC	Director	Loans & Advances Deposits	- 9,253.80
Vallibel Finance PLC	Director	Loans & Advances Deposits	193,659,333.97 123,048,060.37
Royal Ceramics Lanka PLC	Managing Director	Loans & Advances Deposits Credit Card	1,642.19 9,529,090.66 127,332.23
Amaya Leisure PLC	Director	Loans & Advances Deposits	- 375,427.93
<b>J.A.S.S. Adhihetty</b>			
L B Finance PLC	Managing Director	Loans & Advances Deposits	61,914,034.78 660,772,463.46
The Fortress Resorts PLC	Managing Director	Loans & Advances Deposits	- 9,253.80
Vallibel Finance PLC	Director	Loans & Advances Deposits	193,659,333.97 123,048,060.37
<b>M.D.S. Goonatilleke</b>			
Royal Porcelain (Pvt) Ltd	Director	Loans & Advances Deposits	- 17,340.38
L B Finance PLC	Director	Loans & Advances Deposits	61,914,034.78 660,772,463.46
Vallibel Finance PLC	Director	Loans & Advances Deposits	193,659,333.97 123,048,060.37
Royal Ceramics Lanka PLC	Director	Loans & Advances Deposits Credit Card	1,642.19 9,529,090.66 127,332.23
Amaya Leisure PLC	Director	Loans & Advances Deposits	- 375,427.93
<b>A.A. Page</b>			
Lanka Walltiles PLC	Chairman	Loans & Advances Deposits	- 50,038,843.33
<b>T.G. Thoradeniya</b>			
Royal Ceramics Lanka PLC	Director	Loans & Advances Deposits Credit Card	1,642.19 9,529,090.66 127,332.23
Royal Porcelain (Pvt) Ltd	Director	Loans & Advances Deposits	- 17,340.38



# Other Directorships

## 01. A.G. Weerasinghe (Chairman)

Directorship / Officer / Trustee in other Entities

Company Name	Director
George Steuarts Financial Services (Pvt) Ltd	Director
South Asia Financial Excel Investments (Pvt) Ltd	Director
Suncity Property Developers (Pvt) Ltd	Director
Browns Investments (Pvt) Ltd	Director
Sun City Residencies (Pvt) Ltd	Director
New World Securities (Pvt) Ltd	Director

## 02. W.D.N.H. Perera (Deputy Chairman)

Directorship / Officer / Trustee in other Entities

Company Name	Director
Royal Ceramics Lanka PLC	Managing Director
Amaya Leisure PLC	Group Finance Director
The Fortress Resorts PLC	Director
L B Finance PLC	Director
Vallibel Finance PLC	Director
Vallibal Power Erathna PLC	Director
Sathosa Motors PLC	Director
Hayleys PLC	Director
Valliable One Ltd	Director

## 03. J. A. S. S. Adhietty (Director)

Directorship / Officer / Trustee in other Entities

Company Name	Director
L B Finance PLC	Managing Director
The Fortress Resorts PLC	Managing Director
Vallibel Finance PLC	Director

## 04. A. A. Page (Director)

Directorship / Officer / Trustee in other Entities

Company Name	Director
Ceylon Theatres Group	Chairman
Lanka Ceramic PLC	Chairman
Lanka Walltiles PLC	Chairman
Lanka Tiles PLC	Chairman
Horana Plantations PLC	Chairman
Parquet (Ceylon) PLC	Chairman
Cargills (Ceylon) PLC	Director
CT Land Development PLC	Director
Ceylon Printers PLC	Director
Kalamazoo Systems PLC	Director
Office Equipment PLC	Director
Paragon (Ceylon) PLC	Director

## 05. R. E. U. De Silva (Director)

Directorship / Officer / Trustee in other Entities

Company Name	Director
Esna Holdings (Pvt) Ltd	Chairman
Shermans Logistics (Pvt) Ltd	Chairman
Shermans Transport (Pvt) Ltd	Chairman
Esna Villas (Pvt) Ltd	Chairman
Esna Power (Pvt) Ltd	Chairman
Shermans International (Pvt) Ltd	Deputy Chairman/ MD
Board of Investments of Sri Lanka (BOI)	Director
Sherman De Silva & Co. Ltd	Director
Sri Lanka Ports Authority (SLPA)	Director
Mc Marine (Pvt) Ltd	Director
(A member of the McLarens Group)	
Sherman Sons (Pvt) Ltd	Director
Dimension X (Pvt) Ltd	Director
Simatech Agency Lanka (Pvt) Ltd	Director
Lanka Shipping and Logistics (Pvt) Ltd	Director

## 06. M.D.S Goonatilleke (Director)

Directorship / Officer / Trustee in other Entities

Company Name	Director
Douglas & Sons (Pvt) Ltd	
Group of Companies	Group Executive Director
L B Finance PLC	Director
Vallibel Finance PLC	Director
Amaya Leisure PLC	Director
Royal Ceramics PLC	Director
Rocell Bathware Ltd	Director
Royal Porcelain (Pvt) Ltd	Director

## 07. H.K. Seneviratne (Director)

Directorship / Officer / Trustee in other Entities

Company Name	Director
Flinth Industrial Park (Pvt) Ltd	Director (Legal Affairs)

## 08. T.G. Thoradeniya (Director)

Directorship / Officer / Trustee in other Entities

Company Name	Director
Rocell Bathware Ltd	Chief Executive Officer
Royal Ceramics Lanka PLC	Director- Marketing and Business Development
Hayleys Exports PLC	Director
Dipped Products (Thailand) Ltd	Director
Royal Porcelain (Pvt) Ltd	Director

# 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 three Independent Non Executive Directors.

- A.A. Page (Chairman)
- M.D.S. Goonatileke
- R.E.U. De Silva

The Chairman of the Audit Committee, an Independent Non Executive Director, is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka. He is also a former Council Member of the Employers' Federation of Ceylon. Further he possesses over 40 years of management experience in a diverse array of businesses and holds chairmanship / directorates in number of Public Quoted Companies.

## Role of the Committee

The Charter of the Audit Committee clearly defines the role and responsibility of the Audit Committee and it is periodically reviewed and revised by the Board of Directors.

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 reviewing 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 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 auditor and to approve the remuneration and terms of engagement of the external auditor;
- Review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process.

- Ensure the 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 (including three special meetings) during the period under review. Head of Audit Department functioned as the secretary to the committee. Chief Executive Officer, Chief Financial Officer and Deputy General Manager Retail Banking 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 to the requirement of the Sri Lanka Accounting Standards and disclosure requirements. The Committee reviewed the quarterly and annual Financial Statements of the Bank prior to the approval of the Board.

## Regulatory Compliance

The Bank's procedure in place to ensure compliance with mandatory banking and other regulatory requirements were under close scrutiny.

## Internal Audit

During the year under review, the Committee reviewed the audit reports presented by the Internal Audit Department together with Management responses. The Committee regularly reviewed and monitored the internal audit function and performance of the Internal Audit Department.

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

### External Audit

The bank is in the process of implementing Sri Lanka Accounting Standards LKAS 32 and LKAS 39 pertaining to Financial Instruments Presentation, Recognition and Measurement. As per the requirement of the Sri Lanka Accounting Standards Board these standards will be effective from 01st January 2012.

The bank had reviewed all its internal controls and ensured they provide adequate control over the business processes and effectively mitigate risk where ever 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 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 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 2011, 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.



A.A. Page  
Chairman  
Board Audit Committee

Colombo  
14 February 2011

# Risk Management Committee Report

The expansion and growth with new products and avenues opening to the new market frontiers made the requirements for a broader and complex risk monitoring system a necessity to monitor the portfolios.

The Integrated Risk Management Committee (IRMC), headed by the Chairman of Board of Directors and two independent Directors is also attended by the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Deputy General Manager (Recoveries), Head of Treasury, Head of Audit, Head of Compliance and Senior Manager Credit Risk. Risk goals set by the IRMC are reviewed and action steps necessary going forward are agreed at this meeting: Proceedings are reported to Board of Directors.

One of the main responsibilities of the IRMC is to have an overall overview of risk management and assist the Bank in fulfilling the directions given by regulatory authorities. Therefore, IRMC acts as the overall risk managing body of the bank, reviews the indicators of risks across all business units. In addition to the recommendations on risk aspects of the bank it also reviews the sensitivity of different risks of the bank and advise the corporate management on vital decisions taken on bank's exposure to various risks.

The structure and the activities of IRMC were broadened during the year under review with detailed evaluation on Credit, Market and Operational Risk Management activities. The committee does an overall assessment of the responsibilities of managing risk exposure of business of the bank. The following are some for the major areas reviewed.

- Composition of the loan book of different Risk grades
- Single borrower and related party exposure
- Sectorial Exposure of the loan book
- Non-Performing asset Ratio, provision cover
- Statutory liquid asset Ratio
- Projected maximum cash out flow
- Liquidity stress testing
- Interest Rate Risk
- Operational losses not covered by insurance
- Branch Audit Ratings
- Capital adequacy Ratios

IRMC also reviews the minutes of Asset and Liability Management Committee (ALCO) and makes their observations on ALCO functions. Greater emphasis is given to liquidity and Interest Rate Risk management. Requirements of the regulatory authority directives and guidelines and directives given from time to time are discussed to ensure compliance. New controls and methods of mitigating the risks, if any, are also adopted as required by the Committee and directives are given to the business units of their requirement.



**A.G. Weerasinghe**

*Chairman*

*Board Integrated Risk Management Committee*

*Colombo*

*14 February 2011*

# Human Resources & Remuneration Committee Report

The Board Human Resources and Remuneration Committee comprise three Non-Executive Directors. The Committee is headed by A.G. Weerasinghe, Chairman and the other members of the Committee are W.D.N.H. Perera, Director and H.K. Senevirathne, Director. The Committee held eight meetings during the year 2010.

The Chief Executive Officer (CEO) is present at all meetings of the Committee by invitation, except when matters relating to the CEO are being discussed. 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 policy relating to CEO and key management personnel of the Bank.
- Set up goals and targets for the CEO and the key management personnel.
- Evaluate the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.
- Ensure that salaries are reviewed periodically and evaluated against industry norms.
- Approve the selection of the candidates for the positions of Manager grade and above and approve their salary and other terms and conditions.
- 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 consistent and aligned with the overall compensation philosophy which strengthens the performance driven culture of the Bank. During the year, the Bank participated in a salary and benefits survey amongst the other Commercial Banks and intends to streamline the salary anomalies of its employees as required, along with the granting of annual salary increments for the year ended 31st December 2010.



**A.G. Weerasinghe**

*Chairman*

*Board Human Resources and Remuneration Committee*

*Colombo*

*14 February 2011*

# Nomination Committee Report

Board appointed Nomination Committee comprises of the following Directors;

- A.G. Weerasinghe - Chairman  
- Non Executive Independent Director
- W.D.N.H. Perera - Director  
- Non Executive Director
- H.K. Seneviratne - Director  
- Non Executive Independent Director

The Committee is responsible for the appointment of Directors, CEO and Key Management personnel with the approval of the Board of Directors. All Committee members are appointed by the Board of Directors of the Bank. The Company Secretary of the Bank functions as the Secretary of the Committee. The Committee met three times during the year.

When recommending the appointment of Directors to the Board, the committee considers the qualifications, expertise, experience and the key attributes the Director concerned has and as to how his expertise will help the Bank.

Once recommended to the Board, the Director is appointed with the approval of Central Bank of Sri Lanka. The affidavit and the Declaration is submitted to Central Bank for their approval.

Board also considers the expertise of the Directors appointed and appoints them to Board Sub Committees depending on their qualifications and experience.



**A.G. Weerasinghe**  
*Chairman*  
*Board Nomination Committee*

*Colombo*  
*14 February 2011*

# Directors' Responsibility on Financial Reporting

In term of sections 150(1) and 151(1) of the Companies Act No. 7 of 2007, the Directors of the Company are responsible for ensuring that the Company prepares the Financial Statements that will give a true and fair view of the state of affairs of the Company and, the profit or loss or income and expenditure, as the case may be, as at the Balance Sheet date, in compliance with the said Act, regulations and other applicable laws.

The Financial Statements of the Bank has 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 14th February 2011 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 Company'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 are required to ensure that, in preparing these Financial Statements;

1. The appropriate accounting policies have been selected and applied in a consistent manner and material departures if any have been disclosed
2. Make judgments and estimates that are reasonable and prudent.
3. All applicable accounting standards are followed as relevant.

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.3 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 approval for issuing of interim financials.

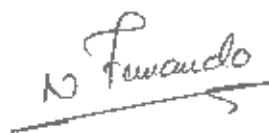
The directors have also instituted effective and comprehensive systems of internal control. This comprises internal check,

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

By Order of the Board



**N. Fernando**  
Company Secretary

Colombo  
14 February 2011



# OFFER

HIGH VALUE INVESTMENTS





“Bluechip standards ensure that Pan Asia Bank remains an attractive choice for every investor.”

## FINANCIAL INFORMATION

Independent Auditor’s Report 81 Balance Sheet 82 Income Statement 83  
Statement of Changes in Equity 84 Cash Flow Statement 85 Notes to the Financial Statements 86  
Capital Adequacy Computation 108 Quarterly Statistics 110 Analysis of Deposits 111 Analysis of Advances 112  
Sources and Distribution of Income 113 Value Added Statement 114 Ten Year Statistical Summary 115

# FINANCIAL INFORMATION

## Financial Calendar

### 2010

1st Quarter Results 2010	May 2010
2nd Quarter Results 2010	August 2010
3rd Quarter Results 2010	November 2010
Annual Report for 2010	March 2011
16th Annual General Meeting	March 2011

### 2011

1st Quarter Results 2011	May 2011
2nd Quarter Results 2011	August 2011
3rd Quarter Results 2011	November 2011
Annual Report for 2011	March 2012
17th Annual General Meeting	March 2012

# INDEPENDENT AUDITORS' REPORT



## Chartered Accountants

201 De Saram Place  
P.O. Box 101  
Colombo 10  
Sri Lanka

Tel : (0) 11 2463500  
Fax Gen : (0) 11 2697369  
Tax : (0) 11 5578180  
eysl@lk.ey.com

## INDEPENDENT AUDITORS' REPORT 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 ("Bank"), which comprise the Balance Sheet as at 31 December 2010 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Scope of Audit and Basis of Opinion

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 plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended 31 December 2010 and the Financial Statements give a true and fair view of the Bank's state of affairs as at 31 December 2010 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Report on Other Legal and Regulatory Requirements

In our opinion, these Financial Statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007.

A handwritten signature in black ink that reads 'Ernst &amp; Young'.

14 February 2011  
Colombo

Partners: A D P. Tairawalle FCA FCMA W P D Cooray FCA FCMA It N de Saram ACA FCMA Ms. Y A De Silva ACA W R H Fernando FCA FCMA  
W K S P Fernando FCA FCMA A P A Gunasekera FCA FCMA A Herath FCA D K H Jayasinghe FCA FCMA LLD (Lord)  
H M A Jayasinghe FCA FCMA Ms. G G S Marialunga ACA Ms. I. C G Neerajakera FCA FCMA R F W Jayaraja ACA FCMA

# BALANCE SHEET

As at 31 December

	Note	2010 Rs.	2009 Rs.
<b>ASSETS</b>			
Cash and Short Term Funds	9	1,110,072,502	682,845,453
Statutory Deposit with Central Bank of Sri Lanka	10	1,060,321,276	807,205,000
Government Treasury Bills / Bonds	11	5,847,023,480	6,842,210,489
Bills of Exchange	12	270,998,608	280,409,141
Loans and Advances	13	19,452,228,102	10,130,651,656
Interest Receivable	14	215,902,756	228,673,543
Lease Rentals Receivable	15	1,006,653,429	527,173,688
Investment Securities	17	726,717,500	789,261,000
Other Assets	18	850,563,513	638,707,574
Property, Plant and Equipment	19	591,818,851	595,563,844
Intangible Assets	20	48,667,017	36,126,522
<b>TOTAL ASSETS</b>		<b>31,180,967,034</b>	<b>21,558,827,910</b>
<b>LIABILITIES</b>			
Deposits	21	21,472,794,340	16,328,703,201
Borrowings	22	4,379,815,790	1,045,120,952
Due to Foreign Banks		70,031,581	281,658,454
Other Liabilities	23	2,078,449,013	1,617,594,254
Debentures	24	50,000,000	50,000,000
Income Tax Payable		262,373,341	245,563,594
Deferred Tax Liability	34	83,486,715	10,527,041
Total Liabilities		<b>28,396,950,780</b>	<b>19,579,167,496</b>
<b>SHAREHOLDERS' FUNDS</b>			
Stated Capital	25	1,548,965,702	1,106,404,070
Statutory Reserve Fund	26	79,926,949	61,837,239
Revaluation Reserve	27	1,811,483	5,645,661
Retained Earnings		1,153,312,120	805,773,444
		<b>2,784,016,254</b>	<b>1,979,660,414</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b>31,180,967,034</b>	<b>21,558,827,910</b>
Commitments and Contingencies	36	4,497,190,459	3,151,959,261

## Certification

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



**G.G. Mangala**  
Chief Financial Officer

The Board of Directors and Chief Executive Officer are responsible for the preparation and presentation of these financial statements Signed for and on behalf of the board by



**A. G. Weerasinghe**  
Chairman



**W. D. N. H. Perera**  
Deputy Chairman



**T. C. A Peiris**  
Chief Executive Officer



**N. Fernando**  
Company Secretary

The accounting policies and notes on pages 86 through 107 form an integral part of the financial statements.

14 February 2011  
Colombo

# INCOME STATEMENT

For the year ended 31 December

	Note	2010 Rs.	2009 Rs.
<b>GROSS INCOME</b>	28	<b>3,484,410,507</b>	3,862,065,467
Interest Income	29	<b>3,027,659,410</b>	3,159,664,837
Less : Interest Expense	30	<b>1,402,262,756</b>	1,878,013,546
<b>NET INTEREST INCOME</b>		<b>1,625,396,654</b>	1,281,651,291
Other Income	31	<b>456,751,097</b>	702,400,630
<b>Net Income</b>		<b>2,082,147,751</b>	1,984,051,921
<b>LESS : OPERATING EXPENSES</b>			
Operating Expenses		<b>335,978,999</b>	312,326,856
Personnel Costs		<b>440,124,122</b>	344,959,651
Premises, Equipment and Establishment Expenses		<b>316,700,548</b>	272,925,302
Provision for Staff Retirement Benefits		<b>12,624,026</b>	7,681,989
Other Overhead Expenses		<b>248,407,672</b>	171,888,963
<b>TOTAL NON INTEREST EXPENSES</b>		<b>1,353,835,367</b>	1,109,782,761
<b>PROFIT BEFORE PROVISIONING FOR LOAN LOSSES</b>		<b>728,312,384</b>	874,269,160
Less :			
Provision for Loan Losses	16	<b>34,385,613</b>	209,123,073
<b>PROFIT BEFORE TAXATION</b>		<b>693,926,771</b>	665,146,087
Less: Income Tax Expense	33	<b>332,132,563</b>	277,329,580
<b>PROFIT FOR THE YEAR</b>		<b>361,794,208</b>	387,816,507
Earnings Per Share - Basic	35	<b>2.61</b>	3.22
Dividends Per Share		-	-

The accounting policies and notes on pages 86 through 107 form an integral part of the financial statements.

# STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Note	Stated Capital Rs.	Statutory Reserve Fund Rs.	Revaluation Reserve Rs.	Retained Earnings Rs.	Total Rs.
<b>Balance as at 1 January 2009</b>		1,106,404,070	42,446,414	17,857,208	425,136,215	1,591,843,907
Profit for the Year		-	-	-	387,816,507	387,816,507
Transfer to Statutory Reserve Fund	26	-	19,390,825	-	(19,390,825)	-
Realisation of Revaluation Reserve	27	-	-	(12,211,547)	12,211,547	-
<b>Balance as at 31 December 2009</b>		1,106,404,070	61,837,239	5,645,661	805,773,444	1,979,660,414
Rights Issue		442,561,632	-	-	-	442,561,632
Profit for the Year		-	-	-	361,794,208	361,794,208
Transfer to Statutory Reserve Fund	26	-	18,089,710	-	(18,089,710)	-
Realisation of Revaluation Reserve	27	-	-	(3,834,178)	3,834,178	-
<b>Balance as at 31 December 2010</b>		1,548,965,702	79,926,949	1,811,483	1,153,312,120	2,784,016,254

The accounting policies and notes on pages 86 through 107 form an integral part of the financial statements.

# CASH FLOW

## STATEMENT

For the year ended 31 December

	Note	2010 Rs.	2009 Rs.
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest Received		2,986,627,400	3,093,522,016
Fees and Commission Received	31	293,512,089	259,399,401
Interest Payments		(1,408,589,972)	(1,783,097,994)
Exchange Income	31	121,206,262	81,965,585
Receipts from Other Operating Activities		80,292,389	358,036,877
Cash Payments to Employees and Suppliers		(680,319,204)	(546,913,674)
Payments on Other Operating Activities		(574,053,728)	(426,480,550)
<b>Operating Profit before changes in Operating Assets and Liabilities</b>		<b>818,675,236</b>	1,036,431,661
<b>(Increase)/Decrease in Operating Assets</b>			
Bills of Exchange		10,135,749	52,584,842
Loans and Advances		(9,297,559,450)	847,413,587
Other Assets		(213,188,883)	(234,261,531)
Lease Rentals Receivable		(484,804,768)	117,332,035
Treasury Bills / Bonds / Reverse Repos		956,927,366	(3,415,097,148)
		<b>(8,209,814,750)</b>	(1,595,596,554)
<b>Increase/(Decrease) in Operating Liabilities</b>			
Deposits		5,144,091,139	1,880,336,173
Other Liabilities		458,181,977	266,132,521
Borrowings		3,334,694,838	(299,964,680)
<b>Net Cash from Operating Activities before Income Tax</b>		<b>727,153,204</b>	250,907,460
Taxation Paid		(242,363,144)	(198,409,523)
<b>Net cash generated from Operating Activities</b>		<b>484,790,060</b>	52,497,937
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Realisation of Commercial Papers		-	50,000,000
Investments Matured / (Additions) in Securities		62,543,500	(295,001,000)
Purchase of Property, Plant and Equipment	19	(76,984,043)	(83,298,037)
Acquisition of Intangible Assets	20	(20,945,951)	(11,454,795)
Proceeds from Sale of Property Plant and Equipment		5,000	3,295,967
<b>Net Cash used in Investing Activities</b>		<b>(35,381,494)</b>	(336,457,865)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Redemption of Proposed Debenture		-	(60,810,000)
Proceeds from Right Issue	25	442,561,632	-
<b>Net Cash generated from / (used in) Financing Activities</b>		<b>442,561,632</b>	(60,810,000)
Net Increase/(Decrease) in Cash and Cash Equivalents		891,970,198	(344,769,928)
Cash and Cash Equivalents at the beginning of the year		1,208,391,999	1,553,161,927
<b>Cash and Cash Equivalents at the end of the year</b>		<b>2,100,362,197</b>	1,208,391,999
<b>Reconciliation of Cash and Cash Equivalents</b>			
Cash and Short Term Funds		1,110,072,502	682,845,453
Balances with Central Bank of Sri Lanka		1,060,321,276	807,205,000
Due to Foreign Banks		(70,031,581)	(281,658,454)
		<b>2,100,362,197</b>	1,208,391,999

The accounting policies and notes on pages 86 through 107 form an integral part of the financial statements.

# NOTES

## TO THE FINANCIAL STATEMENTS

### 1. Corporate Information

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. The registered office of the Bank is situated at No.450, Galle Road, Colombo 03. The staff strength of the Bank as at December 31, 2010 is 670 (2009 – 511). The bank's shares have a primary listing on the Colombo Stock Exchange.

Pan Asia Banking Corporation PLC does not have an identifiable parent of its own.

The Financial Statements for the year ended December 31, 2010 were authorized for issue on 14 February 2011 in accordance with a resolution of the Board of Directors passed on 14 February 2011.

### 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, lease and hire purchase financing, pawning, ran loan, issuing of local and international credit cards, telebanking facilities, internet banking, SMS banking.

### 3. Accounting Policies

#### 3.1 Basis of Preparation

The Financial Statements of the Bank are prepared under the historical cost convention, except that Government treasury bills and bonds held for trading and certain classes of Property, Plant and Equipment are stated at valuation as explained in note 19.5 to the Financial Statements. Assets & Liabilities are grouped by the nature and listed in an order that reflects their relative liquidity. These Financial Statements are prepared in Sri Lankan Rupees unless otherwise stated. Where appropriate the Significant Accounting Policies are disclosed in the succeeding notes.

#### 3.2 Statement of Compliance

The Balance Sheet, Income Statement, Statement of Changes in Equity and Cash Flow Statement have been prepared in accordance with Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka, Companies Act No. 7 of 2007 and Banking Act No. 30 of 1988 and amendments thereto.

#### 3.3 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year.

#### 3.4 Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the Bank's Accounting Policies, management is required to make judgments, apart from those involving estimations, which may have a significant effect on the amounts recognized in the financial statements. Further, the management is required to consider, key assumptions concerning the future and other key resources of estimation uncertainty at the Balance Sheet date, that have a significant risk of causing a material adjustments to the carrying amount of assets and liabilities. These respective carrying amounts of assets and liabilities are given in the related notes to the financial statements.

#### Defined Benefit Plans

The cost of defined benefit plans - gratuity is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to uncertainty.

#### 3.5 Going Concern

The Directors have made an assessment of the Bank ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

#### 3.6 Comparative Information

The accounting policies have been consistently applied by the Bank and are consistent with those used in the previous year. Comparative information is re-classified wherever necessary to comply with the current presentation which is fully described in Note 40 to these Financial Statements.

### 4. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

#### 4.1 Foreign Currency Translation

The financial statements are presented in Sri Lankan Rupees, which is the Bank's functional and presentation currency.



**(a) Transactions and Balances**

Transactions in foreign currencies are initially recorded using the closing exchange rate of the functional currency ruling at the date of the translation. Monetary assets and liabilities denominated in foreign currencies are re translated at the middle exchange rate of the functional currency ruling at the Balance Sheet date. All differences are taken to Income Statement. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of initial translations.

- (b)** Forward exchange contracts are valued at the forward market rate ruling on the date of the Balance Sheet. Unrealized gains and losses are dealt through the Income Statement.

**4.2 Taxation**

**(a) Current Taxation**

Current tax Assets and Liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the Balance Sheet date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No.10 of 2006 and the amendments thereto, at the rates specified in Note 33 to the Financial Statements

**(b) Deferred Taxation**

Deferred tax is provided using the liability method on temporary differences at the Balance Sheet date between the tax bases of Assets and Liabilities and their carrying amounts for financial reporting purposes.

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

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are re-

assessed at each Balance Sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the assets are realised, or the liabilities are settled, based on tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date.

Deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Income Statement. The transitional liability arising due to the change in the standard from these items has been recognized in full in the equity statement.

**(c) Value Added Tax**

During the year, the Bank's total value addition was subjected to a 20% Value Added Tax on Financial Services as per Section 25 A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

**(d) Economic Service Charge (ESC)**

As per the provisions of the Economic Service Charge Act No 13 of 2006, ESC is payable on the liable income at specified rates. ESC paid is deductible from the income tax liability. Any unclaimed liability can be carried forward and set off against the income tax payable for a further four years.

**4.3 Events after the Balance Sheet Date**

All the material events after the Balance Sheet date have been considered and appropriate adjustments/disclosures have been made in Note 39 to the financial statements.

**4.4 Assets and Bases of their Valuation**

- (a)** Loans and Advances to customers are stated in the Balance Sheet net of provisions for possible loan losses and net of interest, which is not accrued to revenue.
- (b)** Specific provisions for possible loan losses are made on the basis of a continuous review of all advances to customers. This provision relates to identified bad and doubtful advances as stipulated by the Central Bank of Sri Lanka based on a classification of advances as given below:

# Notes to the Financial Statements

Classification	Type of Facility	Period Outstanding	Provision made net of realisable value of Security
Sub-Standard	Overdrafts, Other Credit Facilities	6-12 months	20%
	Credit facilities, repayable in monthly installments	6-12 installments, principal and/or interest are due and unpaid.	
Doubtful	Overdrafts, Other Credit Facilities	12-18 months	50%
	Credit facilities, repayable in monthly installments	12-18 installments, principal and/or interest are due and unpaid.	
Loss	Overdrafts, Other Credit Facilities	Over 18 months	100%
	Credit facilities, repayable in monthly installments	Over 18 installments, principal and/or interest are due and unpaid.	

Where necessary provisions are made over and above the minimum percentage on a case by case basis.

In addition a general provision is made at the rate of 0.9% on performing and overdue loans and advances portfolio as per the direction from the Central Bank of Sri Lanka.

## 4.5 Finance Leases

### (a) Lease Receivable

Assets leased to customers those 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 'Lease Rentals Receivable'. Leasing balances are stated

in the Balance Sheet after deduction of initial rentals received, unearned lease income and the provisions for rentals doubtful of recovery.

### (b) Provision for Lease Rental Receivable

The provision for Lease Rental Receivable relates to identified bad and doubtful lease advances as stipulated by the Central Bank of Sri Lanka. The classification of advances as given below;

Classification	Period Outstanding	Provision made net of realisable value of Security
Sub-Standard	6 – 12 installments, principal and/or interest are due and unpaid.	20%
Doubtful	12 – 18 installments, principal and/or interest are due and unpaid.	50%
Loss	Over 18 installments, principal and/or interest are due and unpaid.	100%

## 4.6 Credit Card receivable

(a) Amounts receivable on Credit Cards are included in advances to customers at the amounts expected to be recovered

### (b) Provision for Credit Card Receivable

Classification	Period Outstanding	Provision made net of realisable value of Security
4 - 5 months	Sub-standard	25%
6 - 7 months	Doubtful	50%
8 months and above	Loss	100%

## 4.7 Investments

### (a) Treasury Bills/ Bonds held for Trading

Investments in Treasury Bills /Bonds in the Trading portfolio are marked to market & carried at the market value in the Balance Sheet. Gains and losses on marked to market valuation are dealt through the Income Statement.

(b) **Investment in Treasury Bills/ Bonds held for Maturity**  
Investments in Treasury Bills /Bonds held to maturity are reflected at the value of the Bills/Bonds purchased and the discount or premium accrued thereon. Discount received/ Premium paid is taken to the Income Statement based on a pattern reflecting a constant periodic rate of return.

(c) **Securities purchased under Resale Agreement**  
These are advances collateralised by purchase of Treasury Bills and Treasury Bonds from the public subject to a commitment to resell them at a predetermined price. Such securities remain on the Balance Sheet of the Bank and the asset is recorded in respect of the consideration paid and interest accrued thereon.

Securities sold under repurchase agreements are included in Government Treasury Bills/Bonds.

#### 4.8 Property, Plant and Equipment

##### (a) **Cost and Valuation**

All items of Property, Plant and Equipment are initially recorded at cost. Where items of Property, Plant and Equipment are subsequently revalued, the entire class of such assets is revalued. Revaluations are made with sufficient regularity to ensure that their carrying amounts do not differ materially from their fair values at the Balance Sheet date. Subsequent to the initial recognition as an asset at cost, revalued Property, Plant and Equipment are carried at revalued amounts less any subsequent depreciation thereon. All other Property, Plant and Equipment are stated at historical cost less depreciation.

When an asset is revalued, any increase in the carrying amount is credited directly to a revaluation surplus unless it reverses a previous revaluation decrease relating to the same asset, which was previously recognised as an expense. In these circumstances the increase is recognised as income to the extent of the previous write down. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense unless it reverses a previous increase relating to that asset, in which case it is charged against any related revaluation surplus, to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. Any balance remaining in the revaluation surplus in respect of an asset, is transferred directly to Retained Earnings on retirement, disposal of the asset and the difference between the depreciation

based on revalued carrying amount of the assets and the depreciation based on the asset's original cost.

##### (b) **Restoration Cost**

Expenditure incurred on repairs or maintenance of Property, Plant & Equipment in order to restore or maintain the future economic benefits expected from the originally assessed standard of performance, is recognized as an expense when incurred.

#### 4.9 Impairment of Non-Financial Assets

The Bank assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. When the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such condition exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

#### 4.10 Intangible Assets

##### (a) **Basis of Recognition**

An Intangible Asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard No. 37 on Intangible Assets. Accordingly, these assets are stated in the Balance Sheet at cost less accumulated amortisation and accumulated impairment losses.

##### (b) **Subsequent Expenditure**

Subsequent expenditure on Intangible Assets is capitalized only when it increases the future economic benefits embodied in these assets. All other expenditure is expensed as incurred.

# Notes to the Financial Statements

## (c) **Amortization**

The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement.

## (d) **Impairment**

The unamortized balances of Intangible Assets are reviewed at each Balance Sheet date for impairment and recognised as expenses in the Income Statement to the extent that they are no longer probable of being recovered from the expected future benefits.

## 4.11 Other Assets

All other assets are valued net of specific provision, where necessary, so as to reduce the carrying value of such assets to their estimated realizable value.

## 5. Liabilities & Provisions

### 5.1 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, 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, in accordance with the Sri Lanka Accounting Standard No. 36 on Provisions, Contingent Liabilities and Contingent Assets.

### 5.2 Proposed Dividends

Dividend proposed/declared by the Board of Directors, after the Balance Sheet date is not recognized as a liability and is only disclosed as a note to the Financial Statements.

### 5.3 Commitments and Contingencies

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

### 5.4 Retirement Benefit Obligations

#### (a) **Defined Benefit Plan – Gratuity**

The liability recognized in the balance sheet is the present value of the defined benefit obligation at the

balance sheet date using the projected unit credit method.

#### (b) **Defined Contribution Plan – Employees' Provident Fund & Employees' Trust Fund**

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective Statutes and Regulations. The Bank contributes 15% and 3 % of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

## 5.5 Securities Sold under Repurchase Agreements

These are borrowings collateralized by sale of Treasury Bills and Bonds held by the Bank to the counter party from whom the Bank borrowed, subject to an agreement to repurchase them at a predetermined price. Such securities remain on the Balance Sheet of the Bank and the liability is recorded in respect of the consideration received and interest accrued thereon.

Securities sold under repurchase agreements are included under borrowings.

## 6. Income Statement

### 6.1 Revenue Recognition

#### (a) **Interest Income**

In terms of the Sri Lanka Accounting Standards No.23 on Revenue Recognition and Disclosures in the Financial Statements of Banks, the interest receivable is recognized on accrual basis. Interest ceases to be taken into revenue when the recovery of interest and/or principal is in arrears for three months/three installments or more. Interest receivable on advances classified as non-performing is accounted for on cash basis. Interest falling due on non performing advances is credited to Interest in Suspense Account. In addition the interest accrued up to the point before recognition as non performing advances is also reversed from the Interest Income and transferred to Interest in Suspense.

#### (b) **Lease Income**

In terms of the provisions of Sri Lanka Accounting Standard No. 19 on Leases, the recognition of finance income on leasing is accounted based on pattern reflecting a constant periodic rate of return on capital outstanding. The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned finance income at the commencement of lease. The unearned finance income

included in the lease rentals receivable is taken into revenue over the term of the lease commencing from the month in which the lease is executed in proportion of the capital outstanding.

Finance income in respect of lease rentals due ceases to be taken to revenue when they are in arrears for three rentals. Thereafter such income is recognized on cash basis. Interest accrued up to three rentals on such non performing leases is also reversed from the interest income and transferred to interest in suspense.

- (c) **Income on Discounting of Bills of Exchange**  
Income on the endorsement of Bills of Exchange is recognized only when the Bills are received and either issued or endorsed and the payment under the particular instrument has been effected.
- (d) **Fees and Commission Income**  
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 recognized as revenue as the services are provided.
- (e) **Interest Income on Investments in Commercial Papers and Trust Certificates**  
Interest income on investment in Commercial Papers and Trust Certificates is recognized on accrual basis.
- (f) **Interest and Fees receivable on Credit Cards**  
Interest and fees receivable on Credit Cards are recognized on accrual basis. Interest recognized is reversed when accounts if any become Non Performing (3 months arrears). Thereafter, interest and fees are accounted for on cash basis.
- (g) **Off-Balance Sheet Transactions**  
The Bank enters into Off Balance Sheet transactions such as forward exchange contracts and currency swaps. At the year-end, the recognised losses are dealt through the Income Statement; where as recognised gains are deferred in other liabilities.

## 7. Cash Flow Statement

The Cash Flow Statement has been prepared by using the "Direct Method" of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard No.9 on Cash Flow Statements. Cash and cash equivalents comprise mainly of cash balances, balances with the Central Bank of Sri Lanka and balances with Foreign Banks.

## 8. Effect of Sri Lanka Accounting Standards issued but not yet effective:

### a) *The following standards have been issued by the Institute of Chartered Accountants of Sri Lanka.*

Sri Lanka Accounting Standard 44 Financial Instruments; Presentation (SLAS 44)

Sri Lanka Accounting Standard 45 Financial Instruments; Recognition and Measurement (SLAS 45)

Sri Lanka Accounting Standard 39 Share Based Payments (SLAS 39)

The effective date of SLAS 44, 45 and 39 was changed during the year to be effective for financial periods beginning on or after 01 January 2012. These three standards have been amended and forms a part of the new set of financial reporting standards mentioned under note (b) below.

- b) Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards, the Council of the Institute of Chartered Accountants of Sri Lanka has adopted a new set of financial reporting standards that would apply for financial periods beginning on or after 01 January 2012. The application of these financial reporting standards is substantially different to the prevailing standards.

# Notes to the Financial Statements

	2010 Rs.	2009 Rs.
<b>9. CASH AND SHORT TERM FUNDS</b>		
Local Currency in Hand	829,834,933	512,825,646
Foreign Currency in Hand	31,293,748	50,637,087
Balances with Foreign Banks	248,943,821	24,864,600
Money at Call and Short Notice	-	94,518,120
	<b>1,110,072,502</b>	682,845,453
<b>10. STATUTORY DEPOSIT WITH CENTRAL BANK OF SRI LANKA</b>		
Statutory Deposit with Central Bank of Sri Lanka	1,060,321,276	807,205,000
<b>10.1</b> As required by the provision 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. At present , the minimum cash reserve requirement is 7% of the local currency deposit liabilities of the Domestic Banking Unit.		
	2010 Rs.	2009 Rs.
<b>11. GOVERNMENT TREASURY BILLS / BONDS</b>		
Treasury Bills / Bonds held for Maturity	1,142,000,938	2,225,220,752
Treasury Bills / Bonds held for Trading	3,306,388,262	3,717,105,149
Treasury Bills under Reverse Repurchase Agreements	1,398,634,280	899,884,588
	<b>5,847,023,480</b>	6,842,210,489
<b>12. BILLS OF EXCHANGE</b>		
Export Bills	141,306,474	94,121,896
Import Bills	116,981,852	128,261,201
Local Bills	65,625,474	108,862,905
	<b>323,913,800</b>	331,246,002
Less : Specific Provision (Note 16.2)	(13,195,605)	(13,763,605)
General Provision (Note 16.2)	(1,700,570)	(1,857,786)
Interest in Suspense (Note 16.2)	(38,019,017)	(35,215,470)
	<b>270,998,608</b>	280,409,141
<b>13. LOANS AND ADVANCES</b>		
Sri Lanka Rupees Overdrafts	6,677,807,830	4,284,159,839
Import Loans	1,037,253,285	436,158,418
Foreign Currency Overdrafts	31,080,269	31,178,957
Export Loans	169,286,853	188,034,243
Term Loans, Pledge Loans	6,126,571,540	4,423,404,476
Margin Trading	3,408,470,275	127,159,168
Pawning and Ran Loans	2,867,780,855	1,492,169,680
Other Foreign Currency Loans	9,827,285	10,097,543
Staff Loans	315,687,520	212,218,313
Credit Card Advances	312,207,299	382,869,331
	<b>20,955,973,011</b>	11,587,449,968
Less : Specific Provision for Non-Performing Loans and Advances (Note 16.2)	(392,503,450)	(450,268,264)
General Provision (Note 16.2)	(106,514,365)	(53,000,128)
Interest In Suspense (Note 16.2)	(1,004,727,094)	(953,529,920)
	<b>19,452,228,102</b>	10,130,651,656

	<b>2010</b>	<b>2009</b>		
	<b>Rs.</b>	<b>Rs.</b>		
<b>14. INTEREST RECEIVABLE</b>				
Money Market Placements	-	2,287,534		
Treasury Bills and Bonds	<b>204,375,122</b>	206,593,631		
Trust Certificates	<b>11,440,224</b>	19,696,298		
Debentures	<b>87,410</b>	96,080		
	<b>215,902,756</b>	228,673,543		
<b>15. LEASE RENTALS RECEIVABLE</b>				
Gross Investment in Finance Leases	<b>1,351,665,430</b>	736,869,128		
Less : Unearned Income	<b>(290,089,526)</b>	(157,915,993)		
	<b>1,061,575,904</b>	578,953,135		
Less : Specific Provision for Non- Performing Leases (Note 16.2)	<b>(34,237,667)</b>	(32,957,613)		
General Provision (Note 16.2)	<b>(8,981,808)</b>	(4,936,834)		
Interest in Suspense (Note 16.2)	<b>(11,703,000)</b>	(13,885,000)		
	<b>1,006,653,429</b>	527,173,688		
<b>15.1 Lease Rentals Receivable within One Year</b>				
Total Lease Rentals Receivable	<b>1,351,665,430</b>	736,869,128		
Lease Rentals Receivable after One Year from the date of Balance Sheet (Note 15.2)	<b>(906,706,797)</b>	(374,408,088)		
	<b>444,958,633</b>	362,461,040		
Lease Rentals Receivable within One Year from the date of Balance Sheet	<b>(133,560,552)</b>	(104,383,194)		
Unearned Lease Income	<b>311,398,081</b>	258,077,846		
<b>15.2 Lease Rentals Receivable after One Year</b>				
Lease Rentals Receivable after One Year from the date of Balance Sheet	<b>906,706,797</b>	374,408,088		
Unearned Lease Income	<b>(156,528,974)</b>	(53,532,799)		
	<b>750,177,823</b>	320,875,289		
<b>16. MOVEMENT IN THE PROVISION FOR LOAN LOSSES AND INTEREST IN SUSPENSE</b>				
Provision and Interest Suspended against Loans and Advances, Bills of Exchange and Lease Rentals Receivables				
	<b>General</b>	<b>Specific</b>	<b>Total</b>	<b>Suspended</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Interest</b>
				<b>Rs.</b>
As at 01.01.2010	59,794,748	496,989,482	556,784,230	1,002,630,390
Provision/ (Reversals) made during the year (Note 16.1)	57,401,995	(27,350,190)	30,051,805	-
Amounts written off	-	(29,702,570)	(29,702,570)	-
Interest in Suspense Net of Recoveries	-	-	-	51,818,721
As at 31.12.2010 (Note 16.2)	117,196,743	439,936,722	557,133,465	1,054,449,111

# Notes to the Financial Statements

	<b>2010</b> <b>Rs.</b>	<b>2009</b> <b>Rs.</b>
<b>16.1 Provision for Loan Losses during the Year</b>		
Total provision made during the year	<b>114,371,512</b>	266,049,426
Recoveries/Reversals/Transfers during the year	<b>(84,319,707)</b>	(59,996,527)
	<b>30,051,805</b>	206,052,899
Amounts Directly written off	<b>4,333,808</b>	3,070,174
Net Provision / (Reversal ) for the year	<b>34,385,613</b>	209,123,073

## 16.2 Analysis of Provision for Loan Losses and Interest In Suspense

2010	Loan Loss Provision		Suspended Interest Rs.
	General Rs.	Specific Rs.	
Bills of Exchange (Note 12)	1,700,570	13,195,605	38,019,017
Loans and Advances (Note 13)	106,514,365	392,503,450	1,004,727,094
Lease Rentals Receivable (Note 15)	8,981,808	34,237,667	11,703,000
	117,196,743	439,936,722	1,054,449,111

2009	Loan Loss Provision		Suspended Interest Rs.
	General Rs.	Specific Rs.	
Bills of Exchange (Note 12)	1,857,786	13,763,605	35,215,470
Loans and Advances (Note 13)	53,000,128	450,268,264	953,529,920
Lease Rentals Receivable (Note 15)	4,936,834	32,957,613	13,885,000
	59,794,748	496,989,482	1,002,630,390

## 16.3 Non Performing Advances included in the Bills of Exchange, Loans and Advances and Lease Rentals Receivable on which interest is not accrued are as follows:

	<b>2010</b> <b>Rs.000</b>	<b>2009</b> <b>Rs.000</b>
Bills of Exchange	<b>111,941</b>	90,024
Loans and Advances	<b>2,026,260</b>	2,328,685
Lease Rentals Receivable	<b>57,386</b>	97,989
	<b>2,195,587</b>	2,516,698
Less: Provision for Loan Losses (Note 16.2)	<b>(557,133)</b>	(556,784)
Interest in Suspense (Note 16.2)	<b>(1,054,449)</b>	(1,002,630)
	<b>584,005</b>	957,284



## 16.4 Concentration of Credit Risk

Sector wise analysis of Bank's credit portfolio given below reflects the Bank's exposure to Credit Risk in the various sectors of the economy, relating to Loans and Advances, Bills of Exchange and Lease Rentals Receivables.

	2010 Rs.	%	2009 Rs.	%
Exports	508,402,205	2	756,414,812	6
Tourism and Allied	216,109,687	1	180,496,485	1
Industrial	1,402,472,354	6	714,155,957	6
Agriculture and Fishing	2,495,506,324	11	563,908,265	5
Commercial Trading	1,349,131,409	6	1,278,659,328	10
Imports	1,785,118,110	8	2,036,689,259	16
Consumption	8,216,481,835	37	3,287,370,321	26
Services	2,807,822,905	13	319,640,090	3
Housing	122,578,872	1	250,413,422	2
Margin Trading	3,408,470,275	15	127,159,168	1
Others	29,368,739	0	2,982,741,998	24
	<b>22,341,462,715</b>	<b>100</b>	12,497,649,105	100
Loans and Advances (Note 13)	20,955,973,011		11,587,449,968	
Bills of Exchange (Note 12)	323,913,800		331,246,002	
Lease Rentals Receivable (Note 15)	1,061,575,904		578,953,135	
	<b>22,341,462,715</b>		12,497,649,105	

## 17. INVESTMENT SECURITIES

### 17.1 Summary

Shares - Quoted & Unquoted (Note 17.2)	3,685,000	2,140,000
Debentures - Unquoted (Note 17.3)	11,095,000	11,446,000
Bonds - Unquoted (Note 17.4)	693,437,500	715,375,000
Trust Certificates (Note 17.5)	18,500,000	60,300,000
	<b>726,717,500</b>	789,261,000

	2010 Rs.	2009 Rs.
<b>17.2 Shares- Quoted</b>		
Singer Finance (Lanka) Ltd (103,000 Ordinary Shares)	1,545,000	-
<b>Shares- Unquoted</b>		
Credit Information Bureau of Sri Lanka (300 Ordinary shares )	30,000	30,000
Society for Worldwide Interbank Financial Telecommunication - SWIFT	110,000	110,000
Lanka Clear (Private) Limited (100,000 Ordinary Shares)	1,000,000	1,000,000
Lanka Financial Services Bureau Limited (1000 Ordinary Shares)	1,000,000	1,000,000
	<b>2,140,000</b>	2,140,000
	<b>3,685,000</b>	2,140,000

### 17.3 Debentures - Unquoted

Bank of Ceylon	11,095,000	11,446,000
	<b>11,095,000</b>	11,446,000

100 Debentures of USD1,000/- each redeemable on 09.04.2011.  
(2009 - 100 Debentures at USD 1,000/- matured in 2010 & re-invested)

# Notes to the Financial Statements

	2010 Rs.	2009 Rs.
<b>17.4 Bonds - Unquoted</b>		
Sri Lanka Development Bonds	693,437,500	715,375,000
	<b>693,437,500</b>	715,375,000

The above Development Bonds amounts to USD 6,250,000/- and matures in the year 2011 (2009- USD 6,250,000/- matured in 2010)

<b>17.5 Trust Certificates</b>		
Alliance Finance Company PLC	18,500,000	60,300,000
	<b>18,500,000</b>	60,300,000

Trust Certificates of Alliance Finance matures in the year 2011

**17.6** The Directors' valuation of unquoted investments of the Bank amounts to Rs. 725,172,500/- (2009 - Rs. 789,261,000/-)

**17.7** The Market value of quoted investments of the Bank amounts to Rs. 1,545,000/-

	2010 Rs.	2009 Rs.
<b>18. OTHER ASSETS</b>		
Deposits and Prepayments	144,289,973	82,428,344
Other Debtors	772,849,430	615,400,794
	<b>917,139,403</b>	697,829,138
Less : Provision in respect of Other Debtors	<b>(66,575,890)</b>	(59,121,564)
	<b>850,563,513</b>	638,707,574

## 19. PROPERTY, PLANT AND EQUIPMENT

	Balance As at 01.01.2010 Rs.	Additions Rs.	Disposals Rs.	Balance As at 31.12.2010 Rs.
<b>19.1 Gross Carrying Amounts</b>				
<b>At Cost</b>				
Land	183,969,895	-	-	183,969,895
Building	155,103,087	268,750	-	155,371,837
Office Equipment	83,770,031	26,827,199	-	110,597,230
Computer Hardware	132,647,676	32,642,003	(42,000)	165,247,679
Furniture and Fittings	106,067,260	17,246,091	-	123,313,351
Motor Vehicles	16,044,122	-	-	16,044,122
	677,602,071	76,984,043	(42,000)	754,544,114
<b>At Valuation</b>				
Office Equipment	27,235,376	-	-	27,235,376
Computer Hardware	87,162,600	-	(204,000)	86,958,600
Furniture and Fittings	35,315,842	-	(5,000)	35,310,842
	149,713,818	-	(209,000)	149,504,818
<b>Total Gross Carrying Amounts</b>	827,315,889	76,984,043	(251,000)	904,048,932

	Balance As at 01.01.2010 Rs.	Charge for the year Rs.	Disposals Rs.	Balance As at 31.12.2010 Rs.
<b>19.2 Depreciation</b>				
<b>At Cost</b>				
Building	11,883,072	3,881,218	-	<b>15,764,290</b>
Office Equipment	31,427,016	15,422,759	-	<b>46,849,775</b>
Computer Hardware	45,279,534	24,253,045	(21,004)	<b>69,511,575</b>
Furniture and Fittings	20,674,732	11,477,328	-	<b>32,152,060</b>
Motor Vehicles	9,362,780	3,207,754	-	<b>12,570,534</b>
	118,627,134	58,242,104	(21,004)	<b>176,848,234</b>
<b>At Valuation</b>				
Office Equipment	22,785,626	4,449,750	-	<b>27,235,376</b>
Computer Hardware	72,680,123	14,482,477	(204,000)	<b>86,958,600</b>
Furniture and Fittings	17,659,162	3,531,584	(2,875)	<b>21,187,871</b>
	113,124,911	22,463,811	(206,875)	<b>135,381,847</b>
<b>Total Depreciation</b>	231,752,045	80,705,915	(227,879)	<b>312,230,081</b>

	2010 Rs.	2009 Rs.
<b>19.3 Net Book Values</b>		
<b>At Cost</b>		
Land	<b>183,969,895</b>	183,969,895
Building	<b>139,607,547</b>	143,220,015
Office Equipment	<b>63,747,455</b>	52,343,015
Computer Hardware	<b>95,736,104</b>	87,368,142
Furniture and Fittings	<b>91,161,291</b>	85,392,528
Motor Vehicles	<b>3,473,588</b>	6,681,342
	<b>577,695,880</b>	558,974,937
<b>At Valuation</b>		
Office Equipment	-	4,449,750
Computer Hardware	-	14,482,477
Furniture and Fittings	<b>14,122,971</b>	17,656,680
	<b>14,122,971</b>	36,588,907
<b>Total Net Book Value</b>	<b>591,818,851</b>	595,563,844

**19.4** During the year Bank has incurred capital work-in-progress amounting to Rs. 39,916,317/-. This is included in other assets.

**19.5** Office Equipment, Computer Hardware and Furniture and Fittings were revalued during the year 2004 by Messrs. Ariyatilake & Co. (Pvt) Ltd, independent valuers. The results of such revaluation were incorporated in these Financial Statements from its effective date. Such assets were valued on an open market value for existing use basis. The surplus arising from the revaluation was transferred to a Revaluation Reserve.

# Notes to the Financial Statements

The carrying amount of revalued assets that would have been included in the Financial Statements, had the assets been carried at cost less depreciation are as follows:

Class of Asset	Cost Rs.	Cumulative Depreciation If assets were carried at cost Rs.	Net Carrying Amount 2010 Rs.	Net Carrying Amount 2009 Rs.
Office Equipment	43,354,385	43,354,385	-	-
Computer Hardware	131,850,696	131,850,696	-	-
Furniture and Fittings	91,520,227	91,520,227	-	-
	266,725,308	266,725,308	-	-

19.6 Property, Plant and Equipment include fully depreciated assets amounting to Rs. 120,086,517/- (2009 - 1,335,000/-).

19.7 During the financial year, the Bank acquired Property, Plant & Equipment to the aggregate value of Rs. 76,984,043/- (2009 - Rs. 83,298,037/-) was acquired by means of Cash payments were made during the year for purchase of Property, Plant & Equipment.

	2010	2009
19.8 The useful lives of the assets is estimated as follows :		
Building	40 Years	40 Years
Office Equipment	06 Years	06 Years
Computer Hardware	06 Years	06 Years
Furniture and Fittings	10 Years	10 Years
Motor Vehicles	05 Years	05 Years

19.9 Property, Plant and Equipment acquired prior to 01 January 2006 were fully depreciated in the year of disposal but none in the year of purchase. Property, Plant and Equipment acquired after 01 January 2006 are depreciated from the month the assets are available for use over their estimated useful lives.

	2010 Rs.	2009 Rs.
20. INTANGIBLE ASSETS		
Computer Software (Note 20.1)	48,667,017	36,126,522

20.1 Cost	2010 Rs.	2009 Rs.
As at the beginning of the year	144,628,163	133,173,368
Incurred during the year	20,945,951	11,454,795
As at the end of the year	165,574,114	144,628,163
<b>Amortisation</b>		
As at the beginning of the year	108,501,641	101,454,448
Amortised during the year	8,405,456	7,047,193
As at the end of the year	116,907,097	108,501,641
<b>Net Book Value</b>		
As at the beginning of the year	36,126,522	31,718,920
As at the end of the year	48,667,017	36,126,522

## 20.2 Amortisation Method

Computer Software is amortised over 8 years on a straight line basis.

The amortisation of Intangible Assets are included under the Operating Expenses in the Income Statement.

	2010 Rs.	2009 Rs.
<b>21. DEPOSITS</b>		
<b>Local Currency Deposits</b>		
Current Account Deposits	3,177,708,224	3,117,691,331
Savings Deposits	2,085,075,529	1,435,210,869
Time Deposits	11,528,526,200	8,493,846,449
Certificates of Deposits	2,390,467,878	1,713,726,170
Margin Deposits	617,335,299	320,261,519
	<b>19,799,113,130</b>	15,080,736,338
<b>Foreign Currency Deposits</b>		
Current Account Deposits	90,630,441	89,619,782
Savings Deposits	525,654,381	648,237,008
Time Deposits	1,057,393,614	504,343,693
Margin Deposits	2,774	5,766,380
	<b>1,673,681,210</b>	1,247,966,863
<b>Total Deposits</b>	<b>21,472,794,340</b>	16,328,703,201
<b>22. BORROWINGS</b>		
Call Money Borrowings	300,000,000	214,460,000
Borrowings under Repurchase Agreements	4,074,165,790	817,805,296
Other Borrowings from Banks	5,650,000	12,855,656
	<b>4,379,815,790</b>	1,045,120,952
<b>23. OTHER LIABILITIES</b>		
Cheques Pending Realisation	600,238,644	511,011,086
Accrued Expenditure and Interest	687,595,240	585,558,525
Claims Payable	570,507,523	359,096,960
Other Deferred Liability - Gratuity (Note 23.1)	40,980,723	31,575,752
Other Creditors	179,126,883	130,351,931
	<b>2,078,449,013</b>	1,617,594,254
<b>23.1</b> Actuarial valuation of the defined benefit plan / gratuity was last carried out as at 31st December 2010 by Messrs. Actuarial & Management Consultants (Pvt) Ltd, a firm of professional actuaries. The valuation method used by the actuaries to value the defined benefit plan/gratuity is the "Projected Unit Credit Method" (PUC), the method recommended by the Sri Lanka Accounting Standard No.16 (Revised 2006) on "Employee Benefits". The principal assumptions used are as follows;		
Long Term Rate of Interest	11% per annum	
Future Salary Increases	9% per annum	
The demographic assumptions underlying the valuation are retirement age (55 years), early withdrawal from service, retirement on medical grounds, death before and after retirement, etc.		
	<b>2010 Rs.</b>	<b>2009 Rs.</b>
<b>24. DEBENTURES</b>		
Unsecured Redeemable Subordinated Unlisted Debentures (Note 24.1)	50,000,000	50,000,000
	<b>50,000,000</b>	50,000,000

# Notes to the Financial Statements

## 24.1 Terms of Debentures

Par Value	: Rs. 1,000/-
Tenure	: 5 Years (1st September 2006 to 31st August 2011)
Interest Rate	: 3% per annum above weighted average of one year Treasury Bill rate
Interest Payment	: Quarterly

	2010		2009
	Number	Rs	Number
<b>25. STATED CAPITAL</b>			
<b>Voting Ordinary Shares</b>			
As at 01 January 2010	110,640,407	1,106,404,070	110,640,407
Issue of shares under Right Issue	36,880,136	442,561,632	-
	<b>147,520,543</b>	<b>1,548,965,702</b>	110,640,407
			1,106,404,070

The purpose of the Right Issue was to meet the regulatory requirement of CBSL to maintain a minimum capital requirement and to support the Bank in future expansion plans.

	2010	2009
	Rs.	Rs.
<b>26. STATUTORY RESERVE FUND</b>		
Balance as at the beginning of the year	61,837,239	42,446,414
Transferred during the year		
5% of Net Profit after Taxation	18,089,710	19,390,825
Balance as at the end of the year	<b>79,926,949</b>	61,837,239

Five per centum of Profits after Tax is transferred to the Reserve Fund as required by Section 20 (1) of the Banking Act No. 30 of 1988. This Reserve Fund will be used only for the purpose specified in Section 20 (2) of the Banking Act No. 30 of 1988.

	2010	2009
	Rs.	Rs.
<b>27. REVALUATION RESERVE</b>		
<b>On: Property, Plant and Equipment</b>		
Balance as at the beginning of the year	5,645,661	17,857,208
(Disposal)/ Excess Depreciation Transferred to Retained Earnings	(3,834,178)	(12,211,547)
Balance as at the end of the year	<b>1,811,483</b>	5,645,661

## 28. GROSS INCOME

### Summary

<b>28.1 Gross Income</b>	<b>3,484,410,507</b>	3,862,065,467
<b>28.2 Interest Income (Note 29)</b>	<b>3,027,659,410</b>	3,159,664,837
Other Income (Note 31)	456,751,097	702,400,630
	<b>3,484,410,507</b>	3,862,065,467

## 29. INTEREST INCOME

Loans and Advances	2,161,439,070	2,185,388,695
Treasury Bills/ Bonds and Placements with Other Banks	724,019,907	859,437,966
Interest from Leases	114,732,174	107,983,292
Other Interest Income	27,468,259	6,854,884
	<b>3,027,659,410</b>	3,159,664,837

	<b>2010</b>	<b>2009</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>30. INTEREST EXPENSE</b>		
Customer Deposits	<b>1,208,360,631</b>	1,674,923,519
Borrowings - Banks	<b>43,153,208</b>	26,468,027
- Others	<b>143,931,081</b>	166,910,712
Debentures	<b>6,817,836</b>	9,711,288
	<b>1,402,262,756</b>	1,878,013,546
<b>31. OTHER INCOME</b>		
Fee and Commission Income	<b>293,512,089</b>	259,399,401
Net Foreign Exchange Gain	<b>121,206,262</b>	81,965,585
Other Operating Income	<b>80,292,389</b>	358,036,877
Gain from Treasury Bills/Bonds held for Trading	<b>(38,259,643)</b>	2,998,767
	<b>456,751,097</b>	702,400,630
<b>32. PROFIT BEFORE INCOME TAX</b>		
<b>Stated after charging/(crediting) among others:</b>		
Directors' Emoluments	<b>12,730,084</b>	13,350,109
Auditors' Fees and Expenses - Current Year	<b>2,817,136</b>	1,998,920
- Under/(Over) Provision in respect of Previous Year	<b>(336,080)</b>	505,648
Depreciation	<b>80,705,915</b>	70,861,912
Amortisation of Intangible Assets	<b>8,405,456</b>	7,047,193
Expenses on Litigation	<b>6,729,904</b>	10,101,986
Defined Contribution Costs - EPF & ETF	<b>50,682,178</b>	40,959,094
Defined Benefit Plans - Gratuity	<b>12,624,026</b>	7,681,989
Value Added Tax on Financial Services	<b>240,342,496</b>	166,336,762
Advertising	<b>20,203,717</b>	7,384,924
<b>33. TAX EXPENSE</b>		
Income Tax Expense for the year (Note 33.1)	<b>259,172,889</b>	322,409,214
Charge/(Reversal) in respect of Deferred Taxation (Note 34)	<b>72,959,674</b>	(45,079,634)
	<b>332,132,563</b>	277,329,580
<b>33.1 Reconciliation between Current Tax Expense and the product of Accounting Profit</b>		
Accounting Profit (Profit before Tax )	<b>693,926,771</b>	665,146,087
Aggregate Disallowed items	<b>648,969,670</b>	659,307,598
Aggregate Allowable Expenses	<b>(570,098,690)</b>	(329,081,384)
Income not subject to Tax	<b>(43,247,041)</b>	(42,438,664)
Taxable Profit	<b>729,550,710</b>	952,933,637
	<b>729,550,710</b>	952,933,637
Statutory Tax Rate %	<b>35.00%</b>	33.33%
Current Income Tax Expense	<b>255,342,748</b>	317,644,546
Social Responsibility Levy - 1.5% (2009 - 1.5%)	<b>3,830,141</b>	4,764,668
	<b>259,172,889</b>	322,409,214

**33.2** Pan Asia Banking Corporation PLC is liable for Income tax at 35.00% (2009 - 33.33%) on the taxable income until the year of assessment 2010/11.

# Notes to the Financial Statements

	<b>2010</b>	<b>2009</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>34. DEFERRED TAX LIABILITY</b>		
<b>Movement in Deferred Taxation</b>		
Balance as at the beginning of the year	<b>10,527,041</b>	55,606,675
Charge for the year (Note 33)	<b>72,959,674</b>	(45,079,634)
Balance as at the end of the year	<b>83,486,715</b>	10,527,041

<b>34.1 Deferred Tax Liability</b>		
Accelerated depreciation allowances for tax purposes - Lease Rentals Receivable	<b>41,464,286</b>	17,466,944
Accelerated depreciation allowances for tax purposes - Property, Plant and Equipment	<b>50,867,370</b>	52,026,800
Accelerated depreciation allowances for tax purposes - Intangible Assets	<b>5,498,312</b>	3,006,883
General Provision for Loans and Advances, Bills of Exchange and Lease Receivables	<b>-</b>	(50,922,073)
Defined Benefit Plan Liability	<b>(14,343,253)</b>	(11,051,513)
	<b>83,486,715</b>	10,527,041
<b>Net Deferred Tax Liability</b>	<b>83,486,715</b>	10,527,041

## 35 EARNINGS PER SHARE

**35.1** Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

**35.2** The following reflects the income and share data used in the Basic Earnings Per Share computation

	<b>2010</b>	<b>2009</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>Amount Used as the Numerator:</b>		
Net Profit attributable to Ordinary Shareholders for basic Earnings Per Share	<b>361,794,208</b>	387,816,507
<b>Number of Ordinary Shares Used as Denominator:</b>	<b>2010</b>	<b>2009</b>
Weighted Average number of Ordinary Shares in issue applicable to basic Earnings Per Share	<b>Number</b>	<b>Number</b>
	<b>138,477,138</b>	120,390,328

**35.3** On 24 February 2010 the Bank announced the issue of 36,880,136 new ordinary shares by way of rights to qualifying shareholders at Rs. 12/- per share. The issue was on the basis of 3 shares for every 1 held on 31 March 2010. As required by SLAS 34 'Earnings per share' the impact of the bonus element included within the rights issue has been included within the calculations of the Basic Earnings per share for the year and prior periods have been re-presented on this basis.

## 36. COMMITMENTS AND CONTINGENCIES

### 36.1 Contingencies

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	<b>2010</b>	<b>2009</b>
	<b>Rs.</b>	<b>Rs.</b>
Guarantees	<b>2,734,754,792</b>	1,982,585,586
Documentary Credit	<b>1,759,272,274</b>	1,167,290,514
Forward Exchange Contracts (Net)	<b>3,163,393</b>	2,083,161
	<b>4,497,190,459</b>	3,151,959,261

### 36.2 Capital Expenditure Commitments

The Bank does not have significant capital commitments as at the Balance Sheet date.



### 36.3 Material Litigation against the Bank

#### 1. Cases regarding Nipuna Telecommunication (Pvt) Ltd.

**Case No. High Court of Colombo – HC(Civil) 42/2002(1)**

**Supreme Court – S C CHC Appeal 36/2006**

The Bank has issued a guarantee to Telecommunication Consultants India Ltd (TCIL) on behalf of the Nipuna Telecommunication (Pvt) Ltd (Nipuna) on which a claim of Rs. 8,964,428/- was made to the Bank. Nipuna filed a case and obtained an enjoining order enjoining the Bank from paying. The trial took many years and finally Nipuna and TCIL by joint motion withdrew the case.

The Bank had a suspicion of collusion between the parties to defraud the Bank, hence the payment was not made. Against that TCIL filed the above case. On 2/6/2006 the High Court pronounced the judgment as prayed for by TCIL

The Bank has already filed papers in the Supreme Court appealing against the said Order. A calling date has not yet been given by the Court and the Bank is of the opinion that the High Court judgment can be reversed due to collusion on the part of TCIL and Nipuna to defraud the Bank.

#### 2. Case relating to Partners of Sanila Marketing

The Bank has granted credit facilities to the Partners of Sanila Marketing secured by Bank Guarantees and lien over fixed deposits. When the Bank claimed on the said Bank Guarantees, several Multipurpose Co-operative Societies and individuals claiming to be the Agents of the said Partners of Sanila Marketing, obtained enjoining orders against the Bank from claiming and receiving monies on the said Bank Guarantees.

The Bank filed papers against the said cases and after the vacation of the enjoining orders, received an aggregate sum of Rs. 10.0 Mn on the respective Bank Guarantees relating to District Court of Colombo Case No.6843/Spl (filed by N H V S R Nanayakkara (case withdrawn on 28/07/2006)). District Court of Nugegoda Case No.343/08 (filed by Maharagama Multipurpose Cooperative Society Ltd (further Trial on 24/02/2011)). District Court of Nuwara Eliya Case No. M/2340 (new case) District Court of Colombo Case No.47107/MR (filed by new Thalawakele Multi Purpose Cooperative Society Ltd (further Trial on 21/02/2011)). District Court Trincomalee Case No.1401/03 (filed by Kantalai Multi Purpose Cooperative Society Ltd.(judgement given against the Bank on 23/07/2009 and the Bank has appealed against the said order. Appeal is not yet listed). District Court of Mt. Lavinia Case No. 766/03/Spl (filed by H P C K Jayaratne (case dismissed on 10/11/2008)), District Court of Homagama Case No. 7066/Spl (filed by M S Mazerdon and others (case dismissed on 2/06/2006)), District Court Kandy Case No. X12785 (filed by Kandy Multi Purpose Cooperative Society Ltd (the Bank was released from the case on 17/12/2009)) District Court of Mt. Lavinia Case No.762/03/Spl (new case No.D.C. Nugegoda 66/08) (filed by Bentota Multi Purpose Cooperative Society Ltd (the Judgment given in favour of the Bank on 5/05/2010)).

However, the Bank is yet to receive an aggregate sum of Rs. 2.5 Mn due on two Bank Guarantees relating to the following cases:

- (i) District Court of Matara Case No.510/Spl (filed by Dickwella Multi Purpose Cooperative Society Ltd). The Court has issued an Interim Injunction restraining the Bank from receiving monies on the Bank Guarantee. The trial is concluded and the case is fixed for judgment on 26/01/2011.
- (ii) District Court of Colombo 7172/Spl (filed by Galle Multi Purpose Cooperative Society Ltd). The Court has issued an Interim Injunction restraining the Bank from claiming and receiving monies on the Bank Guarantee. The Bank has appealed against the said Order (Court of Appeal Case No. CALA 455/2005). The said appeal is fixed before a special three Judge Bench for argument on 24/03/2011.

# Notes to the Financial Statements

## 3. Cases regarding Transwater Engineering (Pvt) Ltd.

The Bank has issued an advance Payment Guarantee in favour of the Provincial Road Development Authority – Western Province (PRDA) in a sum of Rs. 34,803,247/-. The PRDA claimed on the said Guarantee and the customer obtained an enjoining order (HC (Civil) 266/2006(1)), enjoining the Bank from honouring the claim. Subsequently, the said enjoining order was vacated. However, the payment was not made by the Bank on the basis that the claim on the said Guarantee is invalid as per the terms of the said Guarantee and of no force in Law. The said case is due to be called on 11/02/2011, since the customer and the PRDA have initiated Arbitration proceeding to resolve the issue.

At the same time the customer has filed a case bearing No. HC (Civil) Case No.78/2007/MR, seeking a declaration from the High Court that the said claim on the guarantee is invalid. The case is to be called on 25/04/2011.

The PRDA has also filed an action bearing No.HC (Civil) Case No.220/2008/MR, seeking a mandatory Injunction against the Bank, directing the Bank to make the payment on the Guarantee. The said application for a mandatory injunction has been dismissed and the case is to be called on 25/04/2011 due to the appeal lodged by the PRDA against the said order, (SC(CHC)26/2008). The Appeal is fixed for Argument on 30/03/2011 in the Supreme Court.

## 4. Overseas Reality (Ceylon) Limited Case No. H C (Civil) 118/99(1) Supreme Court – SC (CHC) Appeal 27/2009

This case was filed by the Bank to recover the security deposit of Rs. 4,767,552/- and pro-rata rent in advance of Rs. 1,068,030/98 to the 9th floor of the World Trade Centre. The Judgment was given in favour of the Bank on 16/07/2009. However, Overseas Reality (Ceylon) Limited has appealed and the case is not yet listed for hearing.

## 5. Partners of Asian Trading Agency – Case No. 00002/DTR

The Case has been instituted by the former owner of the mortgaged property that the said property was transferred to our customer on the basis of a constructive trust and an enjoining order was obtained staying the sale fixed for 28/11/2008. The Bank has filed its objections stating that when the Bank's mortgage was granted our customer had valid title to the property. However, the Learned judge in granting relief by way of interim injunction on 29/05/2009 has observed that the issue with regard to the transfer of property to our customer by way of a constructive trust has to be examined by way of documents and evidence placed before the Court and that until such time the mortgaged property cannot be alienated. The Trial is fixed for 15/02/2011.

## 6. Proprietor of Ceylon Packaging – Case No. CHC 493/2009

The case has been filed by persons claiming adverse title, claiming that they are the lawful owners of the mortgaged property. They also deny that they transferred the subject property in favour of our customer. An enjoining order was issued on the Bank restraining the Bank from selling the subject property by public auction on 29/09/2009. The Trial is fixed for 22/02/2011. 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.

## 7. High Grow Lanka (Private) Limited – Case No. HC (Civil) 670/09

A property in extent A1-R1-P39.9 at Hingurahena, Arakawila was vested in the Bank on 04/09/2008. The Bank obtained an enjoining order against another commercial bank on a notice published on 27/10/2009 to sell the subject property by public auction pursuant to a Mortgage Bond action instituted by them where an ex-parte judgment has been entered against the company that the said property is bound and executable for the recovery of monies due to the said commercial bank. The case is due to be called on 6/01/2011 for the said commercial bank to file extracts of title where their mortgage bond is registered. The Court would determine whether the Bank is the lawful owner of the subject property.

**8. Proprietor of P S Company – Case No. DC Negombo 7261/L**

The Bank initiated parate action and fixed the sale for 25/09/2009. 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 enjoining order against the Bank on 17/09/2009. 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 Magistrates Court of Negombo. Ceylinco Insurance PLC is defending the case on behalf of the Bank since the Bank has obtained a Title Insurance. The case is due to be called on 17/01/2011 for the Answer of the Bank.

**9. Proprietor of U S Enterprises**

The previous owner obtained an enjoining order, enjoining the Bank from selling the property mortgaged by Public Auction stating that she transferred the property to our customer for a loan taken by her and the property is held by our customer on trust. The Bank filed objections stating that there is no proof of trust and that our customer had good and valid title to the property and the Bank is a bona fide mortgagee for value. The Order regarding the application for interim injunction is fixed for 26/01/2011.

# Notes to the Financial Statements

## 37. MATURITY ANALYSIS

An analysis of the total assets and liabilities based on the remaining period as at the Balance Sheet date to the respective contractual maturity dates are as follows:

	Upto 3 months Rs.	3 to 12 months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	Over 5 Years Rs.	2010 Rs.	Total 2009 Rs.
<b>Interest Bearing Assets</b>							
Bills of Exchange	258,147,521	3,212,772	-	-	9,638,315	<b>270,998,608</b>	280,409,141
Loans and Advances	8,538,872,654	2,397,349,781	2,892,338,041	3,092,864,827	2,530,802,799	<b>19,452,228,102</b>	10,130,651,656
Lease Receivable	90,543,750	218,342,382	482,690,718	208,881,805	6,194,774	<b>1,006,653,429</b>	527,173,688
Balances with Foreign Banks	248,943,817	-	-	-	-	<b>248,943,817</b>	24,864,600
Short Term Funds (Placements)	-	-	-	-	-	-	94,518,120
Treasury Bills/Bonds/ Comm paper and Others	3,152,018,398	1,653,194,131	-	1,041,810,951	-	<b>5,847,023,480</b>	6,842,210,489
Investment Securities	539,497,500	187,220,000	-	-	-	<b>726,717,500</b>	789,261,000
	12,828,023,640	4,459,319,066	3,375,028,759	4,343,557,583	2,546,635,888	<b>27,552,564,936</b>	18,689,088,694
<b>Non-Interest Bearing Assets</b>							
Cash in Hand	861,128,686	-	-	-	-	<b>861,128,686</b>	563,462,733
Statutory Deposit with CBSL	1,060,321,276	-	-	-	-	<b>1,060,321,276</b>	807,205,000
Property, Plant and Equipment	-	-	-	-	591,818,851	<b>591,818,851</b>	595,563,844
Intangible Assets	-	-	-	-	48,667,017	<b>48,667,017</b>	36,126,522
Other Assets and Interest Receivables	958,491,980	43,212,855	-	-	64,761,433	<b>1,066,466,268</b>	867,381,117
	2,879,941,942	43,212,855	-	-	705,247,301	<b>3,628,402,098</b>	2,869,739,216
<b>TOTAL ASSETS</b>	15,707,965,584	4,502,531,921	3,375,028,759	4,343,557,583	3,251,883,189	<b>31,180,967,034</b>	21,558,827,910
<b>Interest Bearing Liabilities</b>							
Deposits	6,012,426,811	6,288,121,375	1,196,152,334	1,075,648,070	3,014,769,011	<b>17,587,117,602</b>	12,795,364,188
Borrowings including due to Foreign Banks	3,834,798,930	609,398,442	2,815,000	2,834,999	-	<b>4,449,847,370</b>	1,326,779,406
Debentures	-	50,000,000	-	-	-	<b>50,000,000</b>	50,000,000
	9,847,225,741	6,947,519,817	1,198,967,334	1,078,483,069	3,014,769,011	<b>22,086,964,972</b>	14,172,143,594
<b>Non-Interest Bearing Liabilities</b>							
Deposits	1,554,217,925	1,360,017,641	-	-	971,441,172	<b>3,885,676,738</b>	3,533,339,013
Other Liabilities and Tax Payable	1,615,549,227	679,437,141	26,841,474	19,764,517	82,716,711	<b>2,424,309,070</b>	1,873,684,889
Shareholders' Funds	-	-	-	-	2,784,016,254	<b>2,784,016,254</b>	1,979,660,414
	3,160,767,152	2,039,454,783	26,841,474	19,764,517	3,838,174,137	<b>9,094,002,062</b>	7,386,684,316
<b>TOTAL LIABILITIES</b>	13,007,992,894	8,986,974,599	1,225,808,807	1,098,247,586	6,852,943,148	<b>31,180,967,034</b>	21,558,827,910

### 38. RELATED PARTY TRANSACTIONS

	2010 Rs.	2009 Rs.
<b>38.1 Compensation to Key Management Personnel (*)</b>		
Emoluments / Fees / Salaries	12,730,084	13,350,109
Ex-Gratia Payments	-	-
Post employment benefits	-	-
<b>Total compensation paid to key management personnel</b>	<b>12,730,084</b>	<b>13,350,109</b>

(\*) Key management personnel include the Board of Directors of the Bank and Chief Executive Officer of the Bank.

### 38.2 Transactions, arrangements and agreements involving Key Management Personnel

	Key Management Personnel and Close Family Members		Entities in which key management Personnel have control/joint control or Significant Influence	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
<b>Assets</b>				
Loans and Advances	11,966,646	881	255,628,125	115,102,350
Credit Cards	457,896	25,644	127,332	-
Interest Income	660,341	-	7,463,740	28,464,481
<b>Liabilities</b>				
Deposits	9,053,305	5,448,421	721,168,644	592,502,740
Interest Expenditure	165,712	133,957	31,058,246	53,951,492
<b>Off Balance Sheet Items</b>				
Guarantees, Letter of Credit and Others	-	-	88,518,327	4,091,945

### 39. POST BALANCE SHEET EVENTS

There are no material events subsequent to Balance Sheet date that warrant adjustment or disclosure to the financial statements.

### 40. COMPARATIVE INFORMATION

The presentation and classification of following items in the Financial Statements are amended to ensure the comparability with the current year.

	As reported previously 2009 Rs.	Increase Rs.	Decrease Rs.	Current Presentation 2009 Rs.
<b>Balance Sheet</b>				
<b>Loans and Advances</b>				
Term Loans (a)	4,433,525,954	-	(10,121,478)	4,423,404,476
Pawning & Ran Loans (a)	1,482,048,202	10,121,478	-	1,492,169,680
	<b>5,915,574,156</b>	<b>10,121,478</b>	<b>(10,121,478)</b>	<b>5,915,574,156</b>

#### Reason for change in the Presentation and Classification

- (a) The Ran Loan which was classified under Term Loans during the previous year was reclassified under Pawning & Ran Loan during the current year for better presentation in the Financial Statements.

# Capital Adequacy Computation

Capital Base as at 31st December,

	2010 (Basel II) (Rs' 000)	2009 (Basel II) (Rs' 000)
<b>TIER 1</b>		
Paid up Ordinary Shares	1,548,966	1,106,404
Share Premium	-	-
Statutory Reserve Fund	79,927	61,837
Published Retained Profits	1,153,312	805,773
General & Other Reserves	-	-
<b>Total Tier 1 Capital</b>	<b>2,782,205</b>	<b>1,974,014</b>
<b>TIER 2</b>		
Revaluation Reserves	-	-
General Provisions	117,196	59,795
Debentures	6,667	16,667
<b>Total Tier 2 Capital</b>	<b>123,863</b>	<b>76,462</b>
<b>Total Tier 1 &amp; Tier 2 Capital</b>	<b>2,906,068</b>	<b>2,050,476</b>
<b>Capital Base</b>	<b>2,906,068</b>	<b>2,050,476</b>
<b>COMPUTATION OF RATIOS</b>		
Core Capital (Tier 1)	2,782,205	1,974,014
Total Capital Base	2,906,068	2,050,476
<b>Risk Weighted Assets</b>		
Risk Weighted amount for Credit Risk	14,904,632	9,673,276
Risk Weighted amount for Market Risk	1,402,580	448,330
Risk Weighted amount for Operational Risk	2,754,457	2,260,180
<b>Total Risk Weighted amount</b>	<b>19,061,669</b>	<b>12,381,786</b>
<b>Core Capital Ratio (Minimum Requirement 5%)</b>	<b>2,782,205</b>	<b>1,974,014</b>
Total Tier - I Capital	19,061,669	12,381,786
Total Risk Weighted Assets	14.60%	15.94%
<b>Total Capital Ratio (Minimum Requirement 10%)</b>		
Total Capital	2,906,068	2,050,476
Total Risk Weighted Assets	19,061,669	12,381,786
	15.25%	16.56%

**COMPUTATION OF RISK WEIGHTED ASSETS - (BASEL II)  
ON BALANCE SHEET EXPOSURE  
CREDIT RISK**

	Balance (Rs.' 000)	Risk Weights %	Risk Adjusted Balance (Rs.' 000)
<b>As at 31 December 2010</b>			
<b>ASSETS - exposures</b>			
- To Central Government and CBSL	7,805,157	-	-
- To Banks	260,126	20 - 150	106,412
- To Financial Institutions	1,010,178	20 - 150	665,408
- To Corporates	3,549,717	20 - 150	3,341,978
- To Retail Sector	7,697,943	75 - 100	6,754,534
- Secured on Residential property mortgages	481,665	50 - 100	240,832
- Classified as non performing advances	699,835	50 - 150	959,882
- Claims Secured by Commercial real Estate	162,945	100	162,945
- Cash Items	8,135,864	0 - 20	13,125
- Other Assets	1,494,734	100	1,494,734
<b>Total Assets</b>	<b>31,298,164</b>		<b>13,739,850</b>

**OFF BALANCE SHEET EXPOSURE**

	Amount of off - Balance sheet items (Rs.' 000)	Credit Conversion Factor %	Credit Equivalent Amount (Rs.' 000)	Risk Weights %	Risk Adjusted Balance (Rs.' 000)
<b>As at 31 December 2010</b>					
Financial guarantees, Bank acceptances and other guarantees	534,331	100	534,331	0 - 100	534,331
Performance related guarantees and warranties, stand by credit lines	157,950	50	78,975	0 - 100	78,975
Shipping guarantees, Documentary Letter of Credit	485,190	20	97,038	0 - 100	97,038
Undrawn term and overdraft facilities <1 year	2,082,408	20	416,482	0 - 100	416,482
Foreign Exchange Contracts	1,498,616	0	-	0 - 100	-
Foreign Interest Rate Contracts	1,897,840	2	37,957	0 - 100	37,957
	-	2	-	0 - 100	-
<b>Total Off-Balance Sheet Exposures</b>	<b>6,656,335</b>		<b>1,164,783</b>		<b>1,164,783</b>

**MARKET RISK**

	Capital charge (Rs.' 000)	Risk Adjusted Balance (Rs.' 000)
<b>As at 31st December 2010</b>		
Interest rate	138,526	1,385,262
Equity	-	-
Foreign Exchange & Gold	1,732	17,318
<b>Total risk adjusted balance for market risk</b>	<b>140,258</b>	<b>1,402,580</b>

**OPERATIONAL RISK**

	Capital charge (Rs.' 000)	Risk Adjusted Balance (Rs.' 000)
<b>As at 31 December 2010</b>		
Average Gross income	1,836,305	
15% of Average Gross income	275,446	
<b>Total risk adjusted balance for operational risk</b>	<b>275,446</b>	<b>2,754,457</b>

# Quarterly Statistics

For the Quarter ended	2010				2009			
	December	September	June	March	December	September	June	March
	31st	30th	30th	31st	31st	30th	30th	31st
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
<b>BALANCE SHEET DATA</b>								
Total Assets	31,180,967	27,802,379	23,909,464	22,176,276	21,558,828	19,696,639	20,121,673	20,141,055
Loans, Advances & Leases	20,729,880	16,769,212	13,265,523	12,423,296	10,938,234	10,536,538	11,785,912	11,857,989
Deposits	21,472,794	18,916,944	17,883,198	16,581,733	16,328,703	14,873,135	14,766,628	13,359,486
Debentures	50,000	50,000	50,000	50,000	50,000	110,810	110,810	110,810
Shareholders' Funds	2,784,016	2,702,174	2,573,003	2,047,169	1,979,660	1,959,916	1,890,993	1,684,303
Average Assets	25,419,072	23,838,885	22,716,879	21,602,120	19,975,206	19,597,049	19,549,223	19,211,960
<b>INCOME STATEMENT DATA</b>								
Net Interest Income	495,433	413,907	376,264	339,792	295,117	338,700	348,992	298,842
Foreign Exchange Income	35,794	30,733	28,958	25,721	26,850	16,139	11,893	27,084
Other Income	30,558	168,906	69,979	66,104	79,742	87,210	286,640	166,843
<b>Total Revenue</b>	<b>561,785</b>	<b>613,546</b>	<b>475,201</b>	<b>431,617</b>	<b>401,709</b>	<b>442,049</b>	<b>647,525</b>	<b>492,769</b>
(Provision) / Reversal for Credit and Other Losses	(9,035)	(9,513)	(7,616)	(8,222)	9,459	(55,643)	(81,416)	(81,523)
Non-interest Expenses	(384,709)	(358,884)	(319,631)	(290,612)	(349,710)	(265,783)	(246,800)	(247,489)
Provision for Income tax	(86,198)	(115,979)	(64,681)	(65,275)	(41,755)	(51,658)	(112,619)	(71,298)
<b>Net Profit after Tax</b>	<b>81,843</b>	<b>129,170</b>	<b>83,273</b>	<b>67,508</b>	<b>19,703</b>	<b>68,965</b>	<b>206,690</b>	<b>92,459</b>



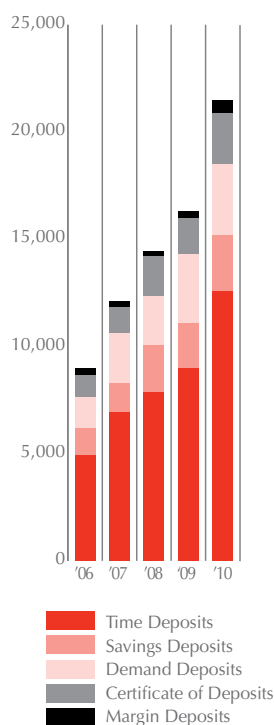
# Analysis of Deposits

## LOANS AND ADVANCES

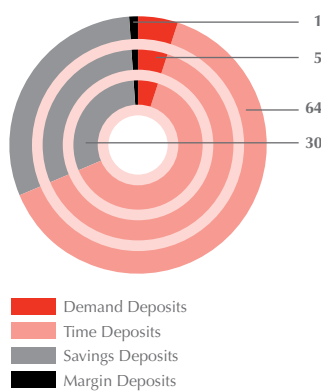
	2010 Rs.000	2009 Rs.000	2008 Rs.000	2007 Rs.000	2006 Rs.000
Demand Deposits	3,177,708	3,117,691	2,180,473	2,248,072	1,407,646
Savings Deposits	2,085,076	1,435,211	1,377,185	1,011,679	805,865
Time Deposits	11,528,526	8,493,846	7,255,139	6,266,933	4,381,463
Certificate of Deposits	2,390,468	1,713,726	1,844,604	1,166,660	1,003,051
Margin Deposits	617,335	320,262	243,100	323,060	297,096
	<b>19,799,113</b>	15,080,736	12,900,501	11,016,404	7,895,121

## FOREIGN CURRENCY DEPOSITS

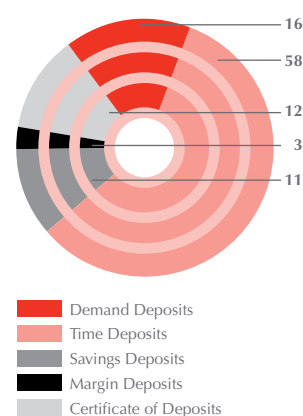
Demand Deposits	90,630	89,620	118,514	119,001	74,078
Savings Deposits	525,654	648,237	850,771	332,650	439,996
Time Deposits	1,057,394	504,344	578,578	661,664	548,905
Margin Deposits	3	5,766	3	494	4,793
	<b>1,673,681</b>	1,247,967	1,547,866	1,113,809	1,067,772
<b>Total Deposits</b>	<b>21,472,794</b>	16,328,703	14,448,367	12,130,213	8,962,893



Analysis of Deposits  
(Rs.Mn.)



Foreign Currency  
2010 (%)

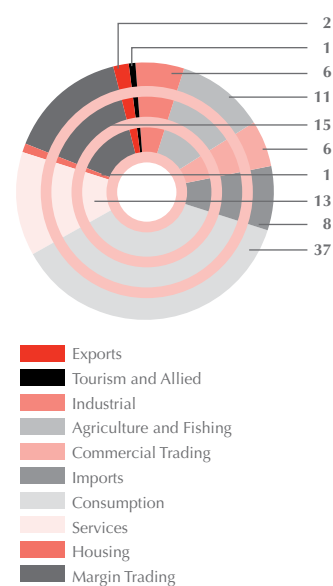
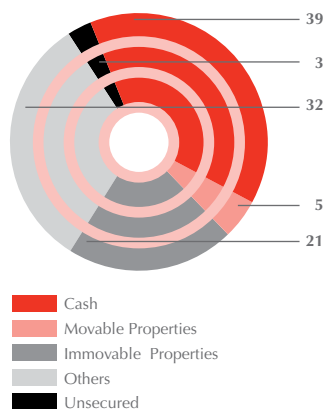
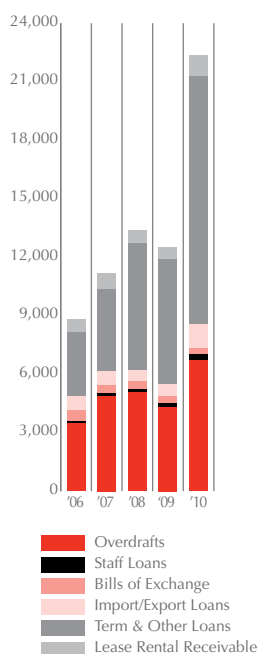


Local Currency  
2010 (%)

# Analysis of Advances

## LOCAL CURRENCY DEPOSITS

	2010 Rs.000	2009 Rs.000	2008 Rs.000	2007 Rs.000	2006 Rs.000
Overdrafts	6,708,888	4,315,339	5,066,498	4,886,141	3,470,244
Import Loans	1,037,253	436,158	404,187	493,202	460,177
Export Loans	169,287	188,034	169,061	222,302	291,993
Term Loans	6,136,399	4,433,503	5,407,378	3,594,608	2,735,404
Pawning and Ran Loans	2,867,781	1,492,170	698,778	336,075	327,645
Staff Loans	315,688	212,218	183,305	154,014	125,271
Credit Card Advances	312,207	382,869	389,464	264,846	175,910
Margin Trading	3,408,470	127,159	-	-	-
	<b>20,955,973</b>	11,587,450	12,318,671	9,951,188	7,586,644
Bills of Exchange	323,914	331,246	382,567	397,508	540,294
Lease Rental Receivable	1,061,576	578,953	688,625	848,396	709,617
<b>Total Loans and Advances</b>	<b>22,341,463</b>	12,497,649	13,389,863	11,197,092	8,836,554



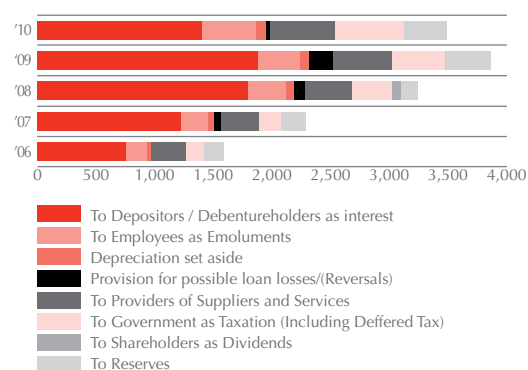
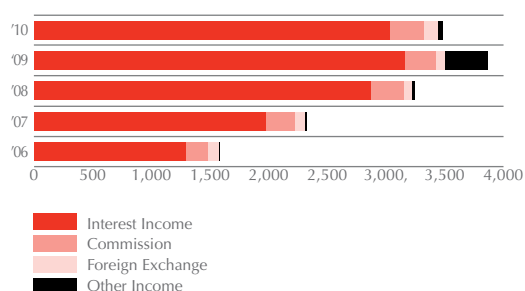
# Sources & Distribution of Income

## SOURCES OF INCOME

	2010 Rs.000	2009 Rs.000	2008 Rs.000	2007 Rs.000	2006 Rs.000
Interest Income	3,027,659	3,159,665	2,864,603	1,968,545	1,289,078
Commission	293,513	259,399	284,651	249,695	193,371
Foreign Exchange	121,206	81,965	71,866	90,246	90,878
Other Income	42,033	361,036	20,037	8,657	7,513
	<b>3,484,411</b>	3,862,065	3,241,157	2,317,143	1,580,840

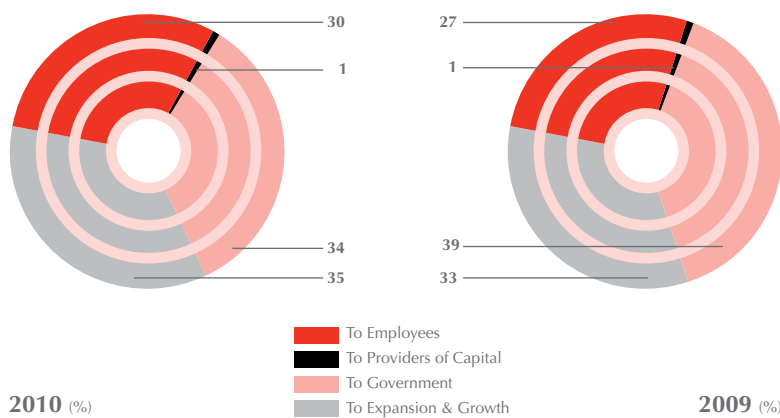
## DISTRIBUTION OF INCOME

To Depositors / Debenture holders as interest	1,402,263	1,878,014	1,798,441	1,223,534	753,996
To Employees as Emoluments	452,748	352,642	323,160	254,565	175,380
Depreciation set aside	89,111	77,909	64,272	53,713	38,222
Provision for possible loan losses/(Reversals)	34,386	209,123	95,451	60,381	(12,434)
To Providers of Suppliers and Services	558,437	499,389	398,966	321,560	305,143
To Government as Taxation (Including Deffered Tax)	585,672	457,171	337,234	187,315	156,796
Income Tax	332,133	277,330	198,210	100,712	86,430
Financial Services Value Added Tax	240,342	166,337	133,505	83,702	69,600
Debit Tax	13,197	13,504	5,519	2,901	766
To Shareholders as Dividends	-	-	82,980	-	-
To Reserves	361,794	387,817	140,653	216,075	163,737
	<b>3,484,411</b>	3,862,065	3,241,157	2,317,143	1,580,840



# Value Added Statement

	<b>2010</b>		<b>2009</b>	
	<b>Rs.000</b>	<b>%</b>	<b>Rs.000</b>	<b>%</b>
<b>VALUE ADDED</b>				
Income from Banking Services	<b>3,484,411</b>		3,862,065	
Cost of Services	<b>(1,953,881)</b>		(2,367,693)	
Value added by Banking Services	<b>1,530,530</b>		1,494,372	
Loan Losses and Provisions	<b>(34,386)</b>		(209,123)	
	<b>1,496,144</b>		1,285,249	
<b>DISTRIBUTION OF VALUE ADDED</b>				
<b>To Employees</b>				
Salaries & Other Benefits	<b>452,748</b>	<b>31</b>	352,642	27
<b>To Providers of Capital</b>				
Dividends to Shareholders	-		-	
Interest to Debenture holders	<b>6,818</b>		9,711	
	<b>6,818</b>	-	9,711	1
<b>To Government</b>				
Income Tax	<b>259,173</b>		322,409	
Financial Services Value Added Tax	<b>240,342</b>		166,337	
Debit Tax	<b>13,198</b>		13,504	
	<b>512,713</b>	<b>34</b>	502,250	39
<b>To Expansion &amp; Growth</b>				
Retained Profit	<b>361,794</b>		387,817	
Depreciation & Amortisation	<b>89,111</b>		77,909	
Deferred Taxation	<b>72,960</b>		(45,080)	
	<b>523,865</b>	<b>35</b>	420,646	33
	<b>1,496,144</b>	<b>100</b>	1,285,249	100



# Ten Year Statistical Summary

Rs Mn

For the Year ended December 31,

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>OPERATING RESULTS</b>										
Income	846.12	750.36	752.53	1,033.03	1,224.66	1,580.84	2,317.14	3,241.16	3,862.07	<b>3,484.41</b>
Interest Income	720.22	650.71	631.83	832.41	993.03	1,289.08	1,968.55	2,864.60	3,159.66	<b>3,027.66</b>
Interest Expense	567.82	410.24	360.59	476.85	565.95	754.00	1,223.53	1,798.44	1,878.01	<b>1,402.26</b>
Net Interest Income	152.40	240.47	271.24	355.56	427.08	535.08	745.02	1,066.16	1,281.65	<b>1,625.40</b>
Exchange Income	42.50	27.36	32.57	61.49	58.70	90.88	90.25	71.87	81.97	<b>121.21</b>
Fee based Income	83.40	72.29	88.13	139.13	172.93	200.88	258.35	304.69	620.44	<b>335.54</b>
Operating Expenses & Provisions	445.16	421.26	487.29	501.32	506.48	576.67	776.83	1,020.88	1,318.91	<b>1,388.22</b>
Profit/(Loss) before Income Tax	(166.86)	(81.14)	(95.35)	54.86	152.23	250.17	316.79	421.84	665.15	<b>693.93</b>
Income tax on Profits	*29.15	-	-	13.69	43.90	86.43	100.71	198.21	277.33	<b>332.13</b>
<b>PROFIT / (LOSS) AFTER TAXATION</b>	<b>(137.71)</b>	<b>(81.14)</b>	<b>(95.35)</b>	<b>41.17</b>	<b>108.33</b>	<b>163.74</b>	<b>216.08</b>	<b>223.63</b>	<b>387.82</b>	<b>361.79</b>

\* Reversal of Timing Differences

As at December 31,  
**ASSETS**

Cash and Short Term Funds	276.46	307.91	310.91	663.78	780.64	863.85	1,030.63	903.09	682.85	<b>1,110.07</b>
Statutory Deposit with Central Bank of Sri Lanka	233.37	277.12	290.02	446.35	609.08	704.06	856.28	704.59	807.21	<b>1,060.32</b>
Government Treasury Bills / Bonds	229.40	120.66	1,424.75	1,426.72	1,865.81	1,679.06	1,409.58	3,424.11	6,842.21	<b>5,847.02</b>
Commercial Paper	-	-	14.88	-	-	-	170.00	50.00	-	<b>-</b>
Bills of Exchange	317.58	290.63	344.69	379.05	485.16	467.30	363.93	331.59	280.41	<b>271.00</b>
Loans and Advances	3,136.57	3,578.01	3,648.27	5,398.96	6,042.27	6,942.05	9,170.67	11,167.98	10,130.65	<b>19,452.23</b>
Lease Rentals Receivable	138.08	176.34	142.10	270.11	377.80	699.42	822.71	645.76	527.17	<b>1,006.65</b>
Investment Securities	15.14	16.14	1.14	1.14	1.14	269.77	573.55	494.26	789.26	<b>726.72</b>
Other Assets & Interest receivable	208.39	206.66	260.25	303.01	486.76	470.44	559.41	644.07	867.38	<b>1,066.47</b>
Property Plant & Equipment	177.16	149.40	113.22	159.81	202.68	511.10	552.38	587.17	595.56	<b>591.82</b>
Intangible Assets	-	-	-	-	-	18.83	16.56	31.72	36.13	<b>48.67</b>
<b>TOTAL ASSETS</b>	<b>4,732.15</b>	<b>5,122.87</b>	<b>6,550.23</b>	<b>9,048.93</b>	<b>10,851.34</b>	<b>12,625.88</b>	<b>15,525.70</b>	<b>18,984.34</b>	<b>21,558.83</b>	<b>31,180.97</b>

## LIABILITIES

Customer Deposits	3,487.67	3,963.30	4,460.19	6,557.19	8,100.72	8,962.89	12,130.21	14,448.37	16,328.70	<b>21,472.79</b>
Borrowings & Due to Foreign Banks	486.86	359.55	1,041.06	1,370.29	1,142.51	1,281.92	505.25	1,399.60	1,326.79	<b>4,449.85</b>
Debentures	100.00	202.00	388.79	253.79	253.79	303.79	303.79	110.81	50.00	<b>50.00</b>
Other Liabilities	257.62	279.16	325.93	492.23	789.13	763.32	1,034.62	1,256.55	1,617.59	<b>2,078.45</b>
Taxation Payable	-	-	-	-	25.22	44.76	58.81	121.56	245.56	<b>262.37</b>
Deferred Taxation	-	-	-	-	-	34.08	41.83	55.61	10.53	<b>83.49</b>
<b>Total</b>	<b>4,332.15</b>	<b>4,804.01</b>	<b>6,215.97</b>	<b>8,673.50</b>	<b>10,311.37</b>	<b>11,390.76</b>	<b>14,074.51</b>	<b>17,392.50</b>	<b>19,579.17</b>	<b>28,396.95</b>

## SHAREHOLDERS' FUNDS

Stated Capital	444.97	444.97	555.72	555.72	555.72	1,106.40	1,106.40	1,106.40	1,106.40	<b>1,548.97</b>
Reserves	(44.97)	(126.12)	(221.46)	(180.29)	(15.75)	128.72	344.79	485.44	873.26	<b>1,235.05</b>
<b>Total</b>	<b>400.00</b>	<b>318.86</b>	<b>334.26</b>	<b>375.43</b>	<b>539.97</b>	<b>1,235.12</b>	<b>1,451.19</b>	<b>1,591.84</b>	<b>1,979.66</b>	<b>2,784.02</b>

## TOTAL LIABILITIES & SHAREHOLDERS' FUNDS

<b>Total</b>	<b>4,732.15</b>	<b>5,122.87</b>	<b>6,550.23</b>	<b>9,048.93</b>	<b>10,851.34</b>	<b>12,626.88</b>	<b>15,525.70</b>	<b>18,984.34</b>	<b>21,558.83</b>	<b>31,180.97</b>
--------------	-----------------	-----------------	-----------------	-----------------	------------------	------------------	------------------	------------------	------------------	------------------

## COMMITMENTS & CONTINGENCIES

<b>Total</b>	<b>719.35</b>	<b>834.57</b>	<b>1,138.66</b>	<b>1,778.67</b>	<b>1,769.47</b>	<b>1,733.70</b>	<b>2,296.66</b>	<b>2,772.80</b>	<b>3,151.96</b>	<b>4,497.19</b>
--------------	---------------	---------------	-----------------	-----------------	-----------------	-----------------	-----------------	-----------------	-----------------	-----------------

## SHARE INFORMATION

Earnings per Share (Rs.)	(2.48)	(1.46)	(1.72)	0.74	1.95	2.63	1.95	2.02	3.22	<b>2.61</b>
Net Assets Value per Share (Rs.)	7.20	5.74	6.01	6.76	9.72	11.16	13.12	14.39	17.89	<b>18.87</b>

## OTHER INFORMATION

Number of Employees	306	283	289	371	394	433	546	507	511	<b>670</b>
Number of Branches	12	13	16	18	18	19	27	32	35	<b>41</b>
Customer Services Centres	-	-	-	1	2	2	2	-	-	<b>-</b>

# Shareholder Information

## INFORMATION OF SHAREHOLDERS

As at 31st December 2010

### ANALYSIS 1

RANGE OF SHAREHOLDING	RESIDENT			NON- RESIDENT			TOTAL		
	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	1048	62,948	0.04	6	365	0.00	1054	63,313	0.04
101 1,000	2164	1,247,593	0.85	3	1,900	0.00	2167	1,249,493	0.85
1,001 5,000	1396	3,561,045	2.41	17	58,398	0.04	1413	3,619,443	2.45
5,001 10,000	336	2,581,633	1.75	5	37,900	0.03	341	2,619,533	1.78
10,001 50,000	250	5,512,121	3.74	14	296,124	0.20	264	5,808,245	3.94
50,001 100,000	43	3,114,498	2.11	2	154,000	0.10	45	3,268,498	2.21
100,001 500,000	35	7,948,952	5.39	1	367,533	0.25	36	8,316,485	5.64
500,001 1,000,000	7	5,148,765	3.49	0	-	-	7	5,148,765	3.49
1,000,001 & Above	12	94,367,381	63.97	3	23,059,387	15.63	15	117,426,768	79.60
<b>TOTAL</b>	<b>5291</b>	<b>123,544,936</b>	<b>83.75</b>	<b>51</b>	<b>23,975,607</b>	<b>16.25</b>	<b>5342</b>	<b>147,520,543</b>	<b>100.00</b>

### ANALYSIS 2

RANGE OF SHAREHOLDING	INDIVIDUAL			COMPANY			TOTAL		
	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	1035	62,292	0.04	19	1,021	0.00	1054	63,313	0.04
101 1,000	2132	1,230,378	0.83	35	19,115	0.01	2167	1,249,493	0.85
1,001 5,000	1376	3,498,419	2.37	37	121,024	0.08	1413	3,619,443	2.45
5,001 10,000	326	2,488,567	1.69	15	130,966	0.09	341	2,619,533	1.78
10,001 50,000	233	4,936,465	3.35	31	871,780	0.59	264	5,808,245	3.94
50,001 100,000	33	2,415,645	1.64	12	852,853	0.58	45	3,268,498	2.21
100,001 500,000	22	4,056,086	2.75	14	4,260,399	2.89	36	8,316,485	5.64
500,001 1,000,000	1	935,766	0.63	6	4,212,999	2.86	7	5,148,765	3.49
1,000,001 & Above	7	77,210,107	52.34	8	40,216,661	27.26	15	117,426,768	79.60
<b>TOTAL</b>	<b>5165</b>	<b>96,833,725</b>	<b>65.64</b>	<b>177</b>	<b>50,686,818</b>	<b>34.36</b>	<b>5342</b>	<b>147,520,543</b>	<b>100.00</b>

As per the Rules No.8.7( h) of the Colombo Stock Exchange, Percentage of Public Holding as at 31.12.2010 was 68.48%

Resident / Non Resident As at 31.12.2010				Resident / Non Resident As at 31.12.2009			
	NO. OF SHARE-HOLDERS	NO. OF SHARES	% .OF SHARE-HOLDING		NO. OF SHARE-HOLDERS	NO. OF SHARES	% .OF SHARE-HOLDING
Resident Share Holders	5291	123,544,936	83.75	Resident Share Holders	3048	96,984,582	87.66
Non Resident Share Holders	51	23,975,607	16.25	Non Resident Share Holders	51	13,655,825	12.34
<b>Total</b>	<b>5342</b>	<b>147,520,543</b>	<b>100.00</b>	<b>Total</b>	<b>3099</b>	<b>110,640,407</b>	<b>100.00</b>
Individuals / Institutions As at 31.12.2010				Individuals / Institutions As at 31.12.2009			
	NO. OF SHARE-HOLDERS	NO. OF SHARES	% .OF SHARE-HOLDING		NO. OF SHARE-HOLDERS	NO. OF SHARES	% .OF SHARE-HOLDING
Individuals	5165	96,833,725	65.64	Individuals	2982	82,236,531	74.33
Company	177	50,686,818	34.36	Company	117	28,403,876	25.67
<b>Total</b>	<b>5342</b>	<b>147,520,543</b>	<b>100.00</b>	<b>Total</b>	<b>3099</b>	<b>110,640,407</b>	<b>100.00</b>

**MAJOR SHAREHOLDERS OF THE BANK  
YEAR ENDED 31 DECEMBER, 2010.**

	<b>Name of Shareholder</b>	<b>Number of Shares</b>	<b>Holding as a %</b>
1	Mr. K.D.D. Perera	44,241,410	29.99
2	Seylan Bank PLC/Thirugnanasambandar Senthilverl	14,165,284	9.60
3	HSBC Int'l NOM LTD-UBS AG SINGAPORE Branch (ex.SBC)	13,846,723	9.39
4	Mr. D.C.C. Joseph	8,505,101	5.77
5	Mr. K.D.H. Perera	7,768,666	5.27
6	Mr. P.J. Tay	7,305,998	4.95
7	Mr. K.D.A. Perera	6,400,000	4.34
8	Sri Lanka Savings Bank Limited	3,432,833	2.33
9	Samurdhi Authority of Sri Lanka	2,557,188	1.74
10	Seylan Bank PLC / Mr. W.D.N.H. Perera	2,100,000	1.42
11	Mr. A.M.A.R.A. Zalzalal	1,906,666	1.29
12	Michelangelo Footwear (Private) Limited	1,629,000	1.11
13	Favourite Garments Ltd	1,275,000	0.86
14	Almar Trading Co (Pte) Ltd	1,210,633	0.82
15	Mr. Y.S.H.I.K. Silva	1,082,266	0.73
16	Deshabandu D.M.I. Dissnayake	935,766	0.63
17	Hanguranketha Samurdhi Maha Sangamaya	800,000	0.54
18	Attanagalla Samurdhi Maha Sangamaya	800,000	0.54
19	Sri Lanka Insurance Corporation Ltd – Life Fund	697,333	0.47
20	Sampath Bank PLC – Account No.3	690,266	0.47
		<b>121,350,133</b>	<b>82.26</b>
	Balance held by 5322 shareholders	26,170,410	17.74
	Total Number of shares	147,520,543	100.00

**MAJOR SHAREHOLDERS OF THE BANK  
YEAR ENDED 31 DECEMBER, 2009.**

	<b>Name of Shareholder</b>	<b>Number of Shares</b>	<b>Holding as a %</b>
1	Mr. K.D.D. Perera	33,181,058	29.99
2	Mr. J.D.C. Coonghe	8,285,376	7.49
3	Mr. K.D.H. Perera	5,826,500	5.27
4	Mr. P.J. Tay	5,479,499	4.95
5	Mr. K.D.A. Perera	4,800,000	4.34
6	Michelangelo Footwear Limited	3,640,000	3.29
7	HSBC Int'l NOM LTD – UBS AG SINGAPORE Branch (ex. SBC)	3,441,800	3.11
8	Sri Lanka Savings Bank Limited	2,782,000	2.51
9	Samurdhi Authority of Sri Lanka	2,557,188	2.31
10	First Capital Markets Ltd / Mr. W.D.N.H. Perera	1,601,875	1.45
11	Mr. A.M.A.R.A. Zalzalal	1,430,000	1.29
12	Lizzola Holdings Limited	1,287,100	1.16
13	Jayes Trading Company (Pvt) Ltd	1,185,500	1.07
14	Favourite Garments Ltd	1,050,000	0.95
15	Almar Trading Company (Pvt) Ltd	983,200	0.89
16	Haguranketha Samurdhi Maha Sangamaya	800,000	0.72
17	Attanagalle Samurdhi Maha Sangamaya	800,000	0.72
18	Mr. B.C. Tay	800,000	0.72
19	Mr. C.T. Maliduwapathirana	780,200	0.71
20	Mr. D.M.I. Dissanayake	697,700	0.63
		<b>81,408,996</b>	<b>73.58</b>
	Balance held by 3079 shareholders	29,231,411	26.42
	Total Number of shares	110,640,407	100.00
	<b>Share Trading Market Prices</b>	<b>2010</b>	<b>2009</b>
	Highest Price (Rs.)	63.00	24.50
	Lowest Price (Rs.)	45.00	9.00
	Last Traded Prices as at 31st December (Rs.)	52.00	20.25
	Pan Asia Bank Market Capitalisation as at 31st December (Rs.)	7,671,068,236	2,240,468,242

# Branch Network

- 1 Head Office & Kollupitiya Branch(Ground Floor)**  
No.450, Galle Road, Colombo 3  
Tel: 011-2565565,011-4667777  
Fax:011- 2370203
- 2 Metro Branch**  
Level 2, East Tower  
World Trade Center  
Echelon Square, Colombo 1  
Tel: 011-4374003-7, 011-4976777  
Fax: 011-2346053
- 3 Panchikawatta Branch**  
262, Sri Sangaraja Mawatha,  
Colombo - 10.  
Tel: 011-4374013-7  
Fax: 011-2447457
- 4 Pettah Branch**  
64, Keyzer Street, Colombo 11  
Tel: 011-4374023-9  
Fax: 011-5363652
- 5 Kandy Branch**  
No. 111, Kotugodella Vidiya,  
Kandy  
Tel: 081-4946101, 4, 6  
081-4976777  
Fax: 081-2232994
- 6 Rajagiriya Branch**  
468, Kotte Road, Rajagiriya  
Tel: 011-4374035-9  
Fax: 011-2866823
- 7 Ratnapura Branch**  
No. 198,Main Street, Ratnapura  
Tel: 045-4928691-5, 045-4976777  
Fax: 045-2231848
- 8 Nugegoda Branch**  
132 C, High Level Road,  
Nugegoda.  
Tel: 011-4374046-50  
Fax: 011-2828228
- 9 Bambalapitiya Branch**  
329, Galle Road, Colombo 04  
Tel: 0114374057-61  
Fax: 011-2506825
- 10 Negombo Branch**  
90, St. Joseph's Street  
Negombo.  
Tel: 031-4934832-6, 031-4376777  
Fax: 031-2231259
- 11 Gampaha Branch**  
95, Colombo Road, Gampaha  
Tel: 033-4933881-4, 033-4976777  
Fax: 033-2220048
- 12 Kurunegala Branch**  
No. 22, Suratissa Mawatha,  
Kurunegala  
Tel: 037-4936785-9, 037-4976777  
Fax: 037-2221731
- 13 Matara Branch**  
45B,  
Anagarika Dharmapala Mawatha,  
Matara  
Tel: 041-4935025-9, 041-4976777  
Fax: 041-2231362
- 14 Dehiwala Branch**  
No 104, Galle Road, Dehiwala  
Tel: 011-4374079-83  
Fax:011- 2730624
- 15 Kotahena Branch**  
No. 215A, Geoge R de Silva  
Mawatha, Colombo 13.  
Tel: 011-4374068-72, 011-4374071  
Fax: 011-2346066
- 16 Wattala Branch,**  
No 134, Old Negombo Road,  
Wattala  
Tel: 011-4374090-4  
Fax: 011-2945104
- 17 Panadura Branch**  
506, Galle Road, Panadura  
Tel: 038-4927084-9, 038-4976333  
Fax: 038-2243053
- 18 Old Moor Street Branch**  
314, Old Moor Street, Colombo 12  
Tel: 011- 4374121-5, 011-4374011  
Fax: 011-2392897
- 19 Dam Street Branch**  
No: 22, Dam Street, Colombo 12  
Tel: 011-4374132-6  
Fax: 011-2346052
- 20 Katugastota Branch**  
161, Madawala Road, Katugastota  
Tel: 081-4946141, 081-4946135  
081-4946128, 081-4946142  
Fax: 081-2500362
- 21 Narahenpita Branch**  
526, Elvitigala Mawatha, Colombo 5  
Tel: 011-4374143-7  
Fax: 011-2368667



- 22 Maharagama Branch**  
No: 173/1, High Level Road,  
Maharagama  
Tel: 011-4374165-9  
Fax: 011-2838397
- 23 Kirulapone Branch**  
No: 100, High Level Road,  
Kirulapone  
Tel: 011-4374154-8  
Fax: 011-2515227
- 24 Moratuwa Branch**  
No: 18, New Galle Road,  
Moratuwa  
Tel: 011-4374176-80  
Fax: 011-2641354
- 25 Galle Branch**  
No: 170, Main Street, Galle  
Tel: 091-4941222-6, 091-4976777  
Fax: 091-2226835
- 26 Kadawatha Branch**  
138, Kandy Road, Kadawatha  
Tel: 011-4374187-91  
Fax: 011-2925192
- 27 Kegalle Branch**  
72, Main Street, Kegalle  
Tel: 035-4376777, 035-4928085-9  
Fax: 035-2221018
- 28 Wennappuwa Branch**  
No:6, Chilaw Road, Wennppuwa  
Tel: 031-4934872-6  
Fax: 031-2249558
- 29 Wellawatte Branch**  
150, Galle Road, Colombo 6  
Tel: 011-4374198-202  
Fax: 011-2362399
- 30 Gampola Branch**  
73E, Nuwara-Eliya Road, Gampola  
Tel: 081-4944781, 87, 90,  
081-4944776  
Fax: 081-2353998
- 31 Borella Branch**  
996A, Maradana Road, Colombo 8  
Tel: 011-4374209-13  
Fax: 011-2696461
- 32 Anuradhapura Branch**  
49, Main Street, Anuradhapura  
Tel: 025-4927153-7, 025-4976777  
Fax: 025-2234763
- 33 Kalutara Branch**  
264, Main Street, Kalutara  
Tel:034-4947170, 034-4947177-80  
Fax: 034-2221258
- 34 Vauniya Branch**  
14, 2nd Cross Street, Vauniya  
Tel: 024-4924872-6, 024-4976777  
Fax: 024-2225444
- 35 Malabe Branch**  
No: 410/2, Athurugiriya Road,  
Malabe  
Tel: 011-4374220-24  
Fax: 011-2744405
- 36 Chilaw Branch**  
No: 15 & 17, Bazaar Street  
Chilaw  
Tel: 032-4928371-4, 032-4976777  
Fax: 032-2224756
- 37 Jaffna Branch**  
570, Hospital Road, Jaffna  
Tel: 021-4925118, 021-4976777  
Fax: 021-2221485
- 38 Embilipitiya Branch**  
No: 49, New Town, Embilipitiya  
Tel: 047-4976777, 047-4934001-6  
Fax: 047-2261624
- 39 Matale Branch**  
No: 165, Trincomalee Street,  
Matale  
Tel: 066-4976777, 066-4928617  
Fax: 066-2223007
- 40 Batticaloa Branch**  
No: 293, Trinco Road, Batticaloa  
Tel: 065-4976777, 066-4926742-8  
Fax: 065-2228486
- 41 Ambalangoda Branch**  
No:103, Galle Road. Ambalangoda  
Tel: 091-4943164-73  
Fax: 091-2258064

# Correspondent Banks

## **Australia**

ANZ Banking Group Ltd.,  
National Australia Bank  
City Bank NA  
Commonwealth Bank of Australia

## **Austria**

Creditanstalt Bankverein  
Bank Austria AG

## **Bangladesh**

Bank Asia Ltd  
Standard Chartered Bank

## **Bahrain**

Standard Chartered Bank  
KOC Bank

## **Belgium**

Bank Brussels Lambert  
Kbc Bank NV

## **Brazil**

ABN Amro Bank  
Banco Bradesco SA

## **Bulgaria**

Hebros Bank

## **Brunei**

Standard Chartered Bank

## **Canada**

Toronto Dominion Bank  
Credit Lyonnais  
Royal Bank of Canada

## **Channel Islands**

ANZ Bank (Guernsey) Ltd.  
ANZ Grindlays Bank (Jersey)Ltd.

## **Cook Islands**

ANZ Banking Group Ltd.

## **Chile**

Banco Santander, Chile

## **China**

Overseas Chinese Banking Corp, China  
Standard Chartered Bank  
Deutsche Bank AG  
Credit Lyonnais

## **Cyprus**

National Bank of Greece (Cyprus)Ltd  
Hellenic Bank Ltd.

## **Denmark**

Den Danske Bank A/S  
ABN Amro Bank

## **Egypt**

Mashreq Bank

## **Fiji**

ANZ Banking Group Ltd.

## **Finland**

Nordea Bank Finland plc, Helsinki

## **France**

Union De Banq Arab Et Francais (UBAF)  
ABN Amro Bank  
Bankers Trust Co.

## **Germany**

Commerz Bank AG  
Dresdner Bank AG  
Deutsche Bank AG  
Sparkasse Essen  
Bayerrische- Hypovereins Bank

## **Greece**

ANZ Grindlays Bank PLC

## **Hong Kong**

Hongkong & Shanghai Banking Corp. Ltd.  
Deutsche Bank  
Mashreq Bank  
Standard Chartered Bank  
UBAF  
Uni Credito Italiano SPA

## **Hungaria**

ABN – Amro

## **India**

Bank of Ceylon – Chennai  
Standard Chartered Bank  
Mashreq Bank  
Tamilnad Mercantile Bank  
ICICI Bank

## **Indonesia**

Deutsche Bank  
ABN Amro Bank  
Citi Bank N.A  
Standard Chartered Bank

## **Ireland**

ABN Amro Bank N.V. –Dublin

## **Iran**

Bank – Sedarat

## **Italy**

Banca Nazionale Del Lavoro S.P.A.  
Banca Commercial Italiana S.P.A.  
Cassa Di Risparmio Di Carrara  
U B A E Bank

## **Israel**

Israel Discount Bank  
Mercantile Discount Bank Ltd.

## **Japan**

Deutsche Bank Trust Co Americas  
UBAF - Tokyo  
Citi Bank NA  
Overseas Chinese Banking Corp. Ltd.  
Bank of Nova Scotia  
Standard Chartered Bank  
Bank of Tokyo Mitsubishi UFJ Ltd

## **Jordan**

Standard Chartered Bank

## **Kenya**

Standard Chartered Bank  
Dubai Bank Kenya Ltd.  
Akiba Bank

## **Korea**

Deutsche Bank  
UBAF  
Citi Bank N.A.  
Korea Exchange Bank  
Standard Chartered Bank

## **Kuwait**

Kuwait Bahrain Int. Exchange Co.  
National Bank of Kuwait (SAK)

## **Lebanon**

Inaash Bank SAL

## **Luxembourg**

Bankers Trust Co. Americas

## **Malaysia**

Standard Chartered Bank  
HSBC Bank  
OCBC Bank Malaysia

**Male**

Bank of Ceylon –Male  
Bank of Maldives

**Mauritius**

Mauritius Commercial Bank, Port Louis  
MU

**Mexico**

ABN Amro Bank

**Nepal**

Himalayan Bank Ltd  
Standard Chartered Bank Nepal Ltd

**Netherlands**

ABN-Amro Bank  
KOC Bank  
Holland Bank  
ING-Bank

**Norway**

Skandinaviska Enskilda Banken

**New Zealand**

Australia & New Zealand  
Banking Group (New Zealand Ltd)  
Bank of New Zealand  
Citi Bank N.A

**Oman**

Habib Bank A G Zurich  
Standard Chartered Bank

**Pakistan**

Muslim Commercial Bank Ltd.  
Standard Chartered Bank  
Mashreq Bank

**Papua New Guinea**

ANZ Banking Group (PNG) Ltd

**Philippines**

ABN Amro Bank  
Citi Bank NA.  
Standard Chartered Bank

**Poland**

Bank Handlowy W Warsza wie S.A.

**Qatar**

Mashreq Bank  
Standard Chartered Bank

**Russia**

Rossiyskiy Kredit Bank  
International Moscow Bank

**Saudi Arabia**

Al-Rajhi Banking & Investment Corp.  
Saudi Hollandi Bank Ltd.

**Singapore**

Citi Bank N.A.  
DBS Bank  
Overseas – Chinese Banking Cop. Ltd.  
Standard Chartered Bank  
H S B C Bank  
Deutsche Bank  
United Overseas Bank.  
UBAF

**Solomon Islands**

ANZ Banking Group Ltd.,

**South Africa**

ABSA Bank Limited  
NED Bank  
State Bank of India

**Spain**

Banco Santander Central Hisapano S.A  
Banca Nazionale Del Lavoro S.P.A.  
Bankers Trust Co.

**Sweden**

Svenska Handelsbanken  
Skandinaviska Enskilda Banken(SEB)  
ABN Amro Bank  
Nordbanken AB  
SWED Bank

**Switzerland**

UBS AG  
Credit Suisse

**Taiwan ROC**

Deutsche Bank ,Taipei  
Citi Bank NA  
Standard Chartered Bank –Taipei

**Thailand**

Standard Chartered Bank  
Thai Farmers Bank  
Bank of Asia  
Citi Bank NA

**Turkey**

Iktisat Bankasi T.A.S  
Bank Kapital T.A.S  
Tekstil Banksai A.S.  
KOC Bank Istanbul –Turkey

**U.A.E**

ABN Amro Bank  
Habib Bank AG Zurich  
Standard Chartered Bank  
Mashreq Bank PSC  
UAE Exchange Bank  
Bank Sedarat

**UK**

Bank of Ceylon  
Lloyds TSB Bank  
Standard Chartered Bank  
Midland Bank PLC  
Mashreq Bank PSC  
Deutsche Bank AG  
ABN Amro Bank  
Habib Bank AG Zurich

**USA**

American Express Bank  
Deutsche Bank  
First Union National Bank Philadelphia  
First Union National Bank North  
Carolina  
Habib American Bank New York  
Mashreq Bank New York  
Republic Bank of New York  
Bank of New York  
Credit Lyonnais NA  
JP Morgan Chase  
HSBC New York  
Cho Hung Bank  
Harris Bank International N.Y  
Israel Discount Bank N.Y  
National City Bank N.Y  
Shinhan Bank N.Y  
U.S bank (Formally First National  
Association )  
Standard Chartered Bank

**Vietnam**

Citi Bank NA

**Zambia**

Standard Chartered Bank

**Zimbabwe**

Standard Chartered Bank

# Information on the Freehold Land and Buildings of the Bank

Location(Address)	Buildings			Land	
	Number	Square Feet	Cost/Revaluation (Rs.)	Extent	Cost/Revaluation (Rs.)
Head Office & Kollupitiya Branch No 450, Galle Road, Colombo 03	1	42,260	155,371,837	23.66 perches	183,969,895

## Related Party Transactions

- 1) Related Party Transactions exceeding 10% of the equity or 5% of the total assets of the bank are given below: (Disclosed as required by rule 7.6 (xvi) of the continuing listing requirements of the Colombo Stock Exchange)

Name of the Related Party	Value Date	Relationship to the Bank	Amount Rs.	Terms of the Transactions	Relational of the Transactions
L B Finance PLC	14 December 2010	Directorships	305,860,274	6 Months (at a rate of 7.35%)	Investment Purpose

- 2) Net accommodations granted to key management personnel and companies having a substantial interest amounted to Rs. 27,436,669/- and Rs. 583,789,332/-, which represent 0.94% and 20.00% of the total regulatory capital respectively. (Disclosed as required by the Banking Act direction number 11 of 2007, Corporate Governance for Licensed Commercial Bank in Sri Lanka)

# Glossary of Financial & Banking Terms

## **Accrual Basis**

Recognizing the effect of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

## **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.

## **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.

## **Contingencies**

A condition or situation existing at Balance Sheet date where the outcome will be confirmed only by occurrence or nonoccurrence of one or more future events.

## **Cost To Income Ratio**

Operating expenses as a percentage of net income.

## **Dealing Securities**

Marketable securities that are acquired and held with the intention of re-selling them in the Short Term.

## **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.

## **Documentary Letters of Credit (L/Cs)**

Written undertakings by a bank on behalf of its customers (typically an importer), favoring 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**

Net profits earned during a period attributable to ordinary shareholders of a company divided by number of shares in issue during that period.

## **Fair Value**

Fair Value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

## **Finance Lease**

Leases which transfer risks and rewards of ownership. Title may or may not eventually be transferred.

## **Foreign Exchange Profit**

Foreign Exchange Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transactions/last Balance Sheet date and the settlement/Balance Sheet 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.

## **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.

## **Impairment**

This occurs When recoverable amount of an asset is less than its carrying amount.

## **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 Margin**

Net interest income as a percentage of average interest earning assets.

## **Interest In Suspense**

Interest suspended on Non-Performing Loans and Advances.

## **Investment Securities**

Securities acquired and held for yield or capital growth purposes and are usually held to maturity.

## **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.

# Glossary of Financial & Banking Terms

## **Liquid Assets**

Assets that are held in cash or in a form that can be converted to cash readily.

## **Market Capitalization**

Number of ordinary shares in issue multiplied by the market value of each share at the year end.

## **Net Assets Value Per Share**

Shareholders' funds divided by the number of ordinary shares in issue.

## **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 5 years or more.

## **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 and 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).

## **Off-Balance Sheet Transactions**

Transactions not recognized as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

## **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 (primarily loans) to estimated realizable values.

## **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.

## **Return on Average Assets**

Profit after tax divided by the average assets.

## **Revenue Reserve**

Reserves set aside for future distribution and investment.

## **Risk Weighted Assets**

On-Balance Sheet assets and the credit equivalent of Off-Balance Sheet assets multiplied by the relevant risk weighting factors.

## **Shareholders' Funds**

Total of issued and fully paid share capital and capital and revenue reserves.

## **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.

## **Value Added**

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

# Notice of Meeting

NOTICE IS HEREBY GIVEN that the SIXTEENTH ANNUAL GENERAL MEETING of PAN ASIA BANKING CORPORATION PLC will be held at the Taj Samudra, Crystal Room - Upper Floor, No. 25, Galle Face Centre Road, Colombo 03, on 31st March, 2011 at 9.30 a.m. for the following purposes :-

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Audited Financial Statements for the year ended 31st December, 2010 with the Report of the Auditors thereon.
2. To re-elect A.A. Page, who retires by rotation at the Annual General Meeting in terms of Articles 93 & 94 of the Articles of Association as a Director.
3. To re-elect, R.E.U. De Silva, who retires by rotation at the Annual General Meeting in terms of Articles 93 & 94 of the Articles of Association as a Director.
4. To re-elect H.K. Seneviratne, who retires at the Annual General Meeting in terms of Article 100 of the Articles of Association as a Director.
5. To re-elect, T.G. Thoradeniya, who retires at the Annual General Meeting in terms of Article 100 of the Articles of Association as a Director.
6. To authorize the Directors to determine donations for the year 2011.
7. To re-appoint the Auditors of the Bank, and to authorize the Directors to determine their remuneration.
8. To determine the remuneration of the Directors.

BY ORDER OF THE BOARD



**N. Fernando**  
*Company Secretary.*

*Colombo*  
*14 February 2011.*

## 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 Company. 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

- |   |  |
|---|--|
| <p>1. Aratchige Gunaratne Weerasinghe<br/>Wannakawattawaduge Don Nimal Hemasiri Perera<br/>John Anthony Sunil Sumith Adhihetty<br/>Anthony Asokumar Page<br/>Ruwanpura Eshana Uvindra De Silva<br/>Mestiyage Don Saddhamangala Goonatilleke<br/>Hewapathiranage karunachandra Seneviratne<br/>Tharana Gangul Thoradeniya<br/>Thavarayan Claude Anthony Peiris</p> | <p>of Colombo or failing him<br/>of Colombo or failing him<br/>of Colombo or failing him<br/>of Colombo or failing him<br/>of Colombo of failing him<br/>of Colombo of failing him<br/>of Colombo or failing him<br/>of Colombo or failing him<br/>of Colombo or failing him<br/>of Colombo or failing him</p> |
|---|--|

2. ....  
(NIC No.....)  
of .....

as my/our\* proxy to vote on my/our\* behalf at the Sixteenth Annual General Meeting of Pan Asia Banking Corporation PLC, to be held on 31st March, 2011 at 9.30 a.m. and at any adjournment thereof.

I/We, the undersigned, hereby authorize my/our\* proxy to vote for me/us\* and on my/our\* behalf in accordance with the preference as indicated below.

	<b>For</b>	<b>Against</b>
<p>1. <b>Resolution No. 1</b> To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Audited Financial Statements for the year ended 31st December,2010 with the Report of the Auditors thereon.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>2. <b>Resolution No. 2</b> To re-elect A.A. Page, who retires by rotation at the Annual General Meeting in terms of Articles 93 &amp; 94 of the Articles of Association as a Director.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>3. <b>Resolution No. 3</b> To re-elect R.E.U. De Silva, who retires by rotation at the Annual General Meeting in terms of Articles 93 &amp; 94 of the Articles of Association as a Director.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>4. <b>Resolution No. 4</b> To re - elect H.K. Seneviratne, who retires at the Annual General Meeting in terms of Article 100 of the Articles of Association as a Director.</p>	<input type="checkbox"/>	<input type="checkbox"/>

# Form of Proxy

	For	Against
<b>5. Resolution No. 5</b> To re - elect T.G. Thoradeniya, who retires at the Annual General Meeting in terms of Article 100 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
<b>6. Resolution No. 6</b> To authorize the Directors to determine the donations for the year 2011.	<input type="checkbox"/>	<input type="checkbox"/>
<b>6. Resolution No. 7</b> To re-appoint the Auditors of the Bank, M/s Ernst & young and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
<b>7. Resolution No. 8</b> To determine the remuneration of the Directors.	<input type="checkbox"/>	<input type="checkbox"/>

As witness I/we\* have set my/our\* hand/s\* hereunto this ..... day of ..... Two Thousand and Eleven.

.....  
*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 of March 2011 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 : +94(0)112565565  
Fax : +94(0)112565568  
SWIFT Code : PABSLK LX  
E-mail : pabc@pabcbank.com  
WEB Site : www.pabcbank.com

## TAX PAYER IDENTIFICATION NUMBER (TIN)

134005700

## ACCOUNTING YEAR END

31st December

## BOARD OF DIRECTORS

A.G. Weerasinghe - Chairman  
W.D.N.H. Perera - Deputy Chairman  
J.A.S.S. Adhihetty - Director  
A.A. Page - Director  
R.E.U. De Silva - Director  
M.D.S. Goonatilleke - Director  
H.K. Seneviratne - Director  
T.G. Thoradeniya - Director  
T.C.A. Peiris - Director/Chief Executive Officer

## COMPANY SECRETARY

N. Fernando

## BOARD AUDIT COMMITTEE

A.A. Page - Chairman  
M.D.S. Goonatilleke - Director  
R.E.U. De Silva - Director

## BOARD CREDIT COMMITTEE

A.G. Weerasinghe - Chairman  
W.D.N.H. Perera - Director  
J.A.S.S. Adhihetty - Director  
H.K. Seneviratne - Director

## BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

A.G. Weerasinghe - Chairman  
H.K. Seneviratne - Director  
R.E.U. De Silva - Director

## BOARD HUMAN RESOURCES & REMUNERATION COMMITTEE

A.G. Weerasinghe - Chairman  
W.D.N.H. Perera - Director  
H.K. Seneviratne - Director

## BOARD NOMINATION COMMITTEE

A.G. Weerasinghe - Chairman  
W.D.N.H. Perera - Director  
H.K. Seneviratne - Director

## BOARD RECOVERIES COMMITTEE

H.K. Seneviratne - Director

## AUDITORS

Ernst & Young  
Chartered Accountants  
No. 201, De Saram Place,  
P. O Box 101,  
Colombo 10,  
Sri Lanka.

## CREDIT RATING

Fitch Ratings Lanka Limited upgraded the Bank's Credit Rating to 'BBB(lka)' from 'BBB-(lka)' in 2010.

## STOCK EXCHANGE LISTING

147,520,543 Ordinary Shares of the Company are listed on the Colombo Stock Exchange, Sri Lanka.

Pan Asia Banking Corporation PLC  
450 Galle Road Colombo 03 Sri Lanka

[www.pabcbank.com](http://www.pabcbank.com)