

From strength to **strength**



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.

Contents

4	Financial Highlights
8	Chairman's Report
12	Chief Executive Officer's Report
16	Board of Directors
20	Corporate Management
23	Senior Management
26	Key Product Offerings
30	Business Review
32	Financial Review
34	Risk Management
38	Human Capital
44	Corporate Social Responsibility
46	Corporate Governance Report
70	Bank's Compliance with Prudential Requirements
71	Director's Report of Bank's Internal Control System
73	Directors' Report
76	Directors' Interest Register
78	Other Directorships
80	Audit Committee Report
82	Risk Management Committee Report
83	Human Resources and Remuneration Committee Report
84	Nomination Committee Report
85	Directors' Responsibility for Financial Reporting
88	Financial Information
89	Independent Auditors' Report
90	Balance Sheet
91	Income Statement
92	Statement of Changes in Equity
93	Cash Flow Statement
94	Notes to the Financial Statements
124	Capital Adequacy Computation
126	Quarterly Statistics
127	Analysis of Deposits
128	Analysis of Advances
129	Sources & Distribution of Income
130	Value Added Statement
131	Ten Year Statistical Summary
132	Shareholder Information
134	Branch Network
137	Correspondent Banks
140	Glossary of Financial & Banking Terms
143	Notice of Meeting
145	Form of Proxy



We've never been an ordinary company, nor an old-fashioned one. Our vision has always kept evolving to generate higher benchmarks, greater customer satisfaction and a deeper commitment to all we do. Our focus on keeping ourselves dynamic and adaptable has resulted in who we are today... an exceptionally successful dynamic corporate entity owning a curve of lucrative growth that is virtually unmatched in our sector, as we keep improving quality, embedding and increasing our value each year.

This report brings you a review of another great year in the continuing story of Pan Asia Bank at work; powering our way forward, challenging our competitors and driving from strength to strength.

Our vision is to become the most customer preferred commercial bank in Sri Lanka. We will create the largest satisfied customer base by providing professional, personalised, secure, quality banking and financial services, using modern technology and innovative products. We will delight our customers, create a better future for employees and enhance stakeholder value.



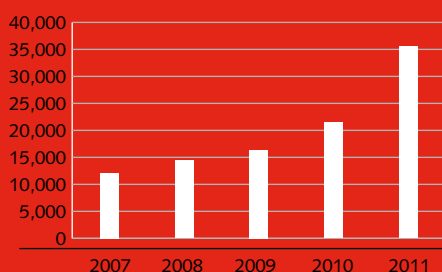
From strength to **strength**

Financial Highlights

	2011	2010	Change %
Results for the Year (Rs. Mn)			
Gross Income	5,154.93	3,484.41	47.94
Profit Before Financial Services VAT & Taxation	1,371.67	934.27	46.82
Profit Before Taxation	1,182.87	693.93	70.46
Provision for Taxation	358.85	332.13	8.05
Profit After Taxation	824.01	361.79	127.76
Position at the Year End (Rs. Mn)			
Shareholders' Funds	3,608.03	2,784.02	29.60
Deposits from Customers	35,532.46	21,472.79	65.48
Gross Loans & Advances to Customers	35,916.90	22,371.40	60.55
Total Assets	46,954.18	31,180.97	50.59
Financial Ratios			
Net Assets Value Per Share (Rs)	12.23	9.44	29.56
Earnings Per Share (Rs)	2.79	1.31	112.98
Return on Average Assets (%)	2.06	1.42	45.07
Return on Average Shareholders' Funds (%)	25.55	14.72	73.57
Non Performing Advances Ratio (%)			
- Gross	3.58	5.36	(33.21)
- Net	1.99	2.74	(27.37)
Statutory Ratios			
Capital Adequacy			
- Tier I (Minimum Requirement - 5%)	13.66	14.60	(6.44)
- Tier I & II (Minimum Requirement - 10%)	14.04	15.25	(7.93)
Liquid Assets (Minimum Requirement - 20%)	20.19	23.19	(12.94)

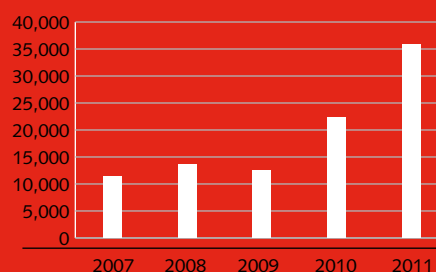
Total Deposits

Rs.Mn.



Gross Loans and Advances

Rs.Mn.



DEPOSITS

35.53 Bn
+ **65.5** %

ADVANCES

35.92 Bn
+ **60.5** %

INTEREST INCOME

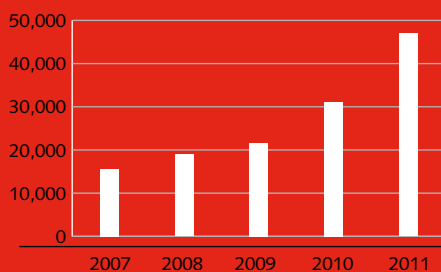
4.45 Bn
+ **46.9** %

PBT

1.18 Bn
+ **70.5** %

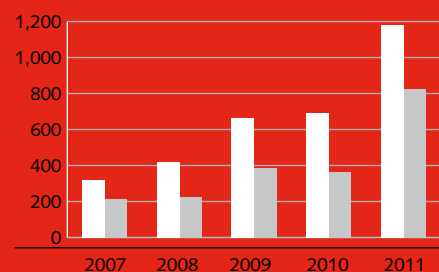
Total Assets

Rs.Mn.



Profit Before Taxation & After Taxation

Rs.Mn.



■ Profit before Taxation ■ Profit after Taxation



“We are a bank
that is intent on
meeting all our
customers’ financial
service needs.”

[Management Reports >>](#)



From good to **great**

Chairman's Report



A.G. Weerasinghe
Chairman

“The Bank’s strong financial performance during the year has met and surpassed even our own ambitious projections.”

“We also understand how important it is for you, our shareholders’, that Pan Asia Bank builds sustainable long-term value that is reflected through the share price...”

Chairman's Report

It gives me great pleasure to place before you the Annual Report and Audited Financial Statements for the year 2011. I had claimed in the previous Annual Report that the year 2011 would be more favourable in terms of profit margins, while sustaining our aspirations for further growth and expansion. I am happy to report that these aspirations have been fully realised during the year under review. The Bank's strong financial performance during the year has met and surpassed even our own ambitious projections.

Year 2011 has emerged as a watershed in which the best ever profitability levels in the Bank's history were achieved. More significantly, the Bank posted robust bottomline growth and achieved profitability across all aspects of its operations.

The Bank's profit after tax increased by 128% from Rs.362 Mn in 2010 to reach Rs.824 Mn in 2011. This upward trend surpasses the industry growth average by leaps and bounds, reflecting the stellar achievements of the Bank during the period. Further, we were well on target to meet the Central Bank of Sri Lanka's minimum capital requirement of Rs.3 Bn by end of 2011. Projecting future growth on the basis of this year's performance and our future plans, envisages the Bank to be well positioned to meet minimum capital requirements of Rs.4 Bn by 2013 and Rs.5 Bn by 2015.

Branch expansion and deposit mobilisation were high priority areas for us during the year. As a result of our focused strategies, the deposit base increased during this period by a steep 65% to reach Rs.36 Bn from Rs.21 Bn previously. Gross Loans and Advances grew by 61%, reaching Rs.36 Bn from Rs.22 Bn in 2010.

We remain committed to improving the Bank's credit quality and our strategies in this direction served to further reduce our Net Non Performing Advance Ratio by bringing the previous year's ratio of 2.74% down to 1.99% in 2011.

The year witnessed an aggressive recruitment drive by the Bank to fulfil staff requirements for its branch expansion programme. Staff strength increased from 670 in 2010 to 1,096 in 2011. The total branch network increased to 64 during the year. An additional 36 more branches are scheduled to be opened in 2012, which will take us to the 100th branch milestone.

Future Challenges

Financial industry in the developed world is under strain specially in the Eurozone and the ripple effect will be felt in Asian countries. This is causing regulators the world over to react by continuously regulating the markets, thereby rendering it difficult to forecast and meet targets. We are moving from deregulation to regulation.

Further, the demand for credit is increasing steadily and Banking Institutions need to have access to capital funds to enable expansion of their asset base on an ongoing basis. Consequently, the Banking industry needs to be equipped with choice of avenues to augment their capital base.

It has become difficult to forecast medium and long term interest rates which no longer is a function of demand & supply and economic fundamentals. We remain mindful of this challenge and are counting the volatility factor whilst setting rate policy within the institution.

With branch expansion there is heavy competition among Banks for trained staff. Our enhanced staff requirement implies our human resources costs will rise during 2012 and measures are in place for prudent cost management.

Keeping the cost of technology at acceptable levels is a challenging task. The changing regulatory environment, implementation of new accounting standards and upgrading systems will escalate costs.

I would like to take this opportunity to thank the Deputy Chairman and my fellow Directors for extending their support and sharing their expertise to steer the Bank to an exceptionally profitable year and record my appreciation of the management and staff for the hard work and dedication they have demonstrated in pursuit of the Bank's strategic goals.



A. G. Weerasinghe
Chairman

Colombo
9 February 2012

“Year 2011 has emerged as a watershed in which the best ever profitability levels in the Bank's history were achieved. More significantly, the Bank posted robust bottomline growth and achieved profitability across all aspects of its operations.”

Chief Executive Officer's Report



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

"The pivot on which this exceptional growth has been achieved is our team, which is clearly our biggest asset and their efforts shine through in this year's financial results."

"The Bank's strong culture of superior customer service and sales expertise has built a solid foundation on which further growth can be planned."

Chief Executive Officer's Report

The year under review witnessed Pan Asia Bank going from strength to strength. It gives me immense pleasure to report an exceptionally high performance in 2011, during which the Bank's profitability grew by as much as 128%. Historically, this is the highest growth recorded by the Bank in a financial year during its 17 years of operations. In fact, this growth is impressive even when compared to the year 2010 after taking into account benefits from reduced taxation.

Remarkable Performance

Inspirational team work and focused strategy resulted in the Bank's total deposit base witnessing growth of over 65% in absolute numbers to top Rs.14 Bn during the year under review. Meanwhile, profit before tax grew by 70% and, more significantly, its main contribution coming from core banking areas.

Total interest income for the year increased by 47% and Non Fund based income grew by over 55%. This performance was achieved despite total expenses going up by 37% due to an increase in the branch network, which expanded from 41 branches in the previous year to 64 branches during 2011. The 23 new branches have been established at strategic locations to widen the Bank's geographical reach, while taking advantage of emerging opportunities in certain regions that are witnessing rapid economic growth. Furthermore, advances picked up admirably during the year with gross loan book growing by over 61% while total assets of the Bank have grown from Rs.31 Bn to Rs.47 Bn during the period under review.

The reason for this exceptional performance can be attributed to three business lines which exceeded our expectations, namely, Retail Banking, Corporate Banking and Treasury. While growing our business volumes at a rapid pace, we have placed great emphasis on credit risk and controls due to which our Non Performing Advance (NPA) ratios are well under control. The Bank performed admirably in its key ratios. The gross NPA ratio reduced from 5.36% to 3.58% during the year.

Operational Excellence

We are extremely upbeat about our branch expansion into the Northern and Eastern regions of the country, which are experiencing an economic revival in the post-war climate. Our marketing and brand building efforts have been successful in gradually building up a steady clientele in these newly-opened up areas and we intend to expand our operations further while making use of business opportunities existing therein.

While expanding our presence into smaller towns and rural areas, we are focusing especially on the SME sector. We perceive immense potential in this segment as the SME sector is experiencing high growth levels due to greater government support. Our newly enhanced branch network will facilitate our outreach in areas where SMEs are concentrated. The way we see it, the SME sector has potential for growing profits while simultaneously posing smaller risks due to the fact that collateral is provided by customers while soliciting loans. We are enthused about the prospects for ushering the economically disenfranchised into the mainstream banking sector, eventually contributing to their enhanced incomes and lifestyles.

Another key contributor to our success has been the enhanced systems and processes which are monitored constantly in an ongoing endeavour to ensure that the Bank and its stakeholders are completely insulated from risk. Moreover, the establishment of streamlined systems and processes have further simplified operations whilst simultaneously deploying strict governance control across the enterprise.

The pivot on which this exceptional growth has been achieved is our team, which is clearly our biggest asset and their efforts shine through in this year's financial results. The Bank's strong culture of superior customer service and sales expertise has built a solid foundation on which further growth can be planned.

Pan Asia Bank has grown in all aspects and the growth in profitability was supported with improved financial ratios. This realisation has rendered our Bank a preferred employer in the industry, which we gleaned from the overwhelming response to our recruitment drive during the year under review. The Bank also offers a dynamic internal career progression graph for each employee. In 2011 alone we promoted over 250 people internally. Another noteworthy factor is that we have added over 426 new staff to our payroll.

Product and Technology Excellence

Our star product during the year was the 'Champion Saver', offering an interest rate of 8% per annum and sales of which reflected outstanding results. Some of the Bank's other high performing products are 'Gold Loan', a by-product of pawning that offers attractive interest rates for customers; and 'Ranaviru Harasara', which empowers the members of country's armed forces to avail of easy loans.

“Pan Asia Bank has grown in all aspects and the growth in profitability was supported with improved financial ratios. This realisation has rendered our Bank a preferred employer in the industry.”

Moreover, we enhanced the customer-friendly element in our branches to facilitate ease-of-use and to promote a relaxed atmosphere for our customers to discuss their business needs. Technology is an important aspect of our success story and we leveraged on our in-house expertise to the optimal levels in the setting up of 23 new branches this year. All 64 branches are now linked online and we also offer customers the facility of internet banking, SMS alert and e-banking. The Bank adhered to corporate governance guidelines during the period under review.

Our brand's visibility has increased substantially with the opening of the new branches and this has improved our brand equity as well. We are increasingly perceived as a fast growing Bank that is making a bid to compete with large-sized counterparts in the industry.

Future Outlook

Our future plans encompass treading on the same strategic path we did through 2011, which has paid dividends in the form of high profitability. We will continue to improve our reach, enhance our Bank infrastructure and expand products and services, while complying with capital requirements and governance and risk guidelines. If the economic situation that prevailed in 2011 is sustained over the next 12 months, we see tremendous opportunities for growth ahead. A forward-looking vision and an aggressive growth strategy

will further catapult Pan Asia Bank amongst the league of elite banking institutions in the country.

Acknowledgements

I would like to extend my deepest gratitude to the Chairman and Board of Directors for their guidance through the year and for their confidence in my leadership. Their wise counsel coupled with the cooperation and hard work of the management and staff has helped us achieve several key milestones during the year under review. Pan Asia Bank possesses unrivalled banking expertise and this has been a direct contributor to our success. I expect the Bank to further build on the gains of 2011 in the year ahead.



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

Colombo
9 February 2012

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, Suncity Property Developers (Pvt) Ltd, Browns Investments (Pvt) Ltd, Suncity Residencies (Pvt) Ltd, New World Securities (Pvt) Ltd and AgStar Fertilizers Ltd. Holds a B.A. (Econ) Degree, from University of Ceylon, Peradeniya. Served as an assistant lecturer in Economics, University of Ceylon, Peradeniya. An Associate and 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 and a member of Sri Lanka Cricket Board.



W. D. N. H. PERERA

Deputy Chairman

With over 30 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 LB Finance PLC, Vallibel Finance PLC, Vallibel Power Erathna PLC, The Fortress Resorts PLC, Vallibel One PLC, Sathosa Motors PLC, Lewis Brown & Company (Pvt) Ltd, Hayleys PLC, Talawakelle Tea Estates PLC and Haycarb PLC. He is a member of the Sri Lanka Institute of Marketing.



J. A. S. 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 33 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 LB Finance PLC and The Fortress Resorts PLC and serves on the Boards of Vallibel Finance PLC and Vallibel One PLC.



A. A. PAGE

Director

Mr. Anthony Page is the Chairman of CT Holdings PLC and counts over 40 years of management experience in a diverse array of businesses. He is the Chairman of Lanka Ceramic PLC, Lanka Walltiles PLC, Lanka Tiles PLC, Horana Plantations PLC and Swisstek (Ceylon) PLC. He is also a Director of 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

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, and is a Director at Board of Investment (BOI), Esna Villas (Pvt) Ltd, Esna Power (Pvt) Ltd, Sherman De Silva & Co. (Pvt) Ltd, Sri Lanka Ports Authority (SLPA), Mc Marine (Pvt) Ltd, Sherman Sons (Pvt) Ltd, Dimension X (Pvt) Ltd and Honorary Consul General for Kazakastan.

Board of Directors



M. D. S. GOONATILLEKE

Director

Joined the Board of Pan Asia Bank in August 2008. He is a financial professional with over 29 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 organisations in Sri Lanka. He is the Group Executive Director of Douglas & Sons (Pvt) Ltd. In addition, he serves as a Director in number of other Public Companies including Royal Ceramics Lanka PLC, Vallibel Finance PLC, Colombo Land and Development Company PLC and Hayleys PLC. Mr. Goonatilleke possess Post graduate Diploma in Business Administration, PIM, University of Sri Jayawardenapura and an Associate Member of the Institute of Chartered Management Accountants (UK) and a passed finalist of the 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 the Board Secretary at the Board of Investment, and presently advising foreign/local clients on investments, corporate law, commercial law, mergers & acquisitions, joint ventures, commercial contracts, 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

Marketer by profession, who was in the pioneering batch of Sri Lankans to be awarded the title of Chartered Marketeer. He counts over 19 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 Boards of Hayleys Exports PLC and Lewis Brown & Company (Pvt) Ltd.



T. C. A. PEIRIS

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 40 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 former Director at Lanka Clear (Pvt) Ltd and Credit Information Bureau Sri Lanka. He was appointed as the Acting Chief Executive Officer on 27.08.2009 and as Chief Executive Officer on 26.05.2010.



N. FERNANDO

Assistant General Manager-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 40 years including senior managerial levels with Overseas Trust Bank, Colombo and served 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 Middle East. He has served as a Director at Lanka Clear (Pvt) Ltd., and Credit Information Bureau, Sri Lanka.



Kamoor Sourjah

Acting Chief Operating Officer / Deputy General Manager – Corporate Banking

Kamoor has over 19 years of banking experience with 03 foreign banks namely State Bank of India, Deutsche Bank AG and Standard Chartered Bank. Prior to joining Pan Asia Bank, he held the position of Director/Head of Global Corporates at Standard Chartered Bank. He is an Associate Member of the Institute of Bankers (AIB), Sri Lanka, an Associate Member of Chartered Institute for Securities & Investments (ACSI), UK and an Affiliate member the Association of Certified Chartered Accountants (ACCA) of UK.



Irishad Ally

Deputy General Manager - Retail Banking

Irishad counts over 16 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

Deputy General Manager - Chief Risk Officer

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



G. G. Mangala

Deputy General Manager - Chief Financial Officer

Has over 21 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.

Corporate Management



Richard Dias

Deputy General Manager - 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

Counts over 30 years experience in the Banking Industry at Operational and Tactical Management to Strategic Managerial levels. Holds a Master of Science Degree in Management (M.Sc.) and 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 Jayewardanapura.



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 specialised in areas such as Strategic Marketing Planning, Brand Management, Corporate Image Building, Credit Card Marketing and Business Banking Product Management. Prior to joining Pan Asia Bank, he held the position of Product Manager for Cash Management Services at Canadian Imperial Bank of Commerce (CIBC) in Toronto. He has also previously worked as a Senior Marketing Officer at Sampath Bank Limited. He is a member of the Chartered Institute of Marketing (CIM) UK.



Jeremy De Zilva
Head of Internal Audit

Jeremy accounts for over 22 years of banking experience in both local and foreign banks. His previous work experience includes Hong Kong Shanghai Banking Corporation, ABN AMRO and National Development Bank. He is a veteran in banking operations and audit, who holds a Master of Business Administration from the University of Southern Queensland Australia, a Post Graduate Executive Diploma in Bank Management and Diploma in Banking from the Institute of Bankers of Sri Lanka. He is a member of the Institute of Certified Professional Managers, Association of Professional Bankers and Institute of Bankers of Sri Lanka.



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 13 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.

Senior Management



Dinesh Perera
*Assistant General Manager - Branch
Sales and Services*



Naleen Edirisinghe
*Assistant General Manager - Branch
Operations and Credit*



S. Anandarajah
Head of Commodity Trade



Dimple Gunawardana
*Senior Manager - Information
Technology*



Varuni Egodage
Senior Manager - Legal



Takura Abhayasinghe
Area Manager - Area II



Prasanna Fernando
Head of Institutional Liability Sales



Shiyani Perera
Head of Leasing



Ryan Perera
Head of Prime and Private Banking



Indraka Liyanage
Senior Manager - Credit Risk



D. S. W. Gunawardena
Head of Pawning



Udaya Thuduwwatta
Senior Manager - Margin Trading



Rohan Joseph
Senior Manager - Trade Services



Rangith Rajendran
Senior Manager - Branch Credit



Prakash Selvarajah
Senior Manager - Branch Operations



Jehan Perera
Senior Manager - Trade Operations



Umaharan Jeganathan
Area Manager - Area III



Samantha Weerasekara
Area Manager - Area IV



Niroshima Wijesena
Area Manager - Area I



Nimal Ratnayake
Senior Manger - Kollupitiya Branch



Thilani Peiris
Senior Manger - WTC Branch

Key Product Offerings

CHAMPION

S A V E R

Savings Account



- Receive an interest of up to 8% (AER 8.33%)
- Withdraw your money any number of times while receiving interest
- Access your money from any ATM carrying the VISA logo

Children's Savings Accounts



- 3 types of accounts to choose from
- Higher interest rate
- Attractive gifts and a hospitalisation cover
- Guaranteed high returns even if interest rates change

Current Accounts



- Convenient payment methods
- 24 Hour access to your account through SMS and Internet Banking
- Access your money from any ATM carrying the VISA logo

Easy Pension



- Ability to open an account from the country of your residence
- Superior flexible service
- Receive an interest of 8% (A.E.R. 8.33%)

Fixed Deposits



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

Home Loans



- Fast and flexible service
- Repayment periods up to 25 years
- Attractive variable interest rates

Leasing



- Lowest interest rates
- For brand new, reconditioned and even registered vehicles
- Flexible repayment options
- Insurance at special discounted rates



You deserve more!



- Personalised & specialised services
- A dedicated service support team
- Preferential tariff



- Preferential rates for savings & fixed deposits
- A dedicated service support team
- A special personal loan scheme

Gold Loan Services



- Maximum value & assured security for your gold
- Hassle free operations
- Convenient access points

Safety Lockers



- Maximum security for your valuables
- Safety Lockers in 3 sizes to suit your needs

Global Traveller's Card



- A secure way to carry your foreign exchange
- Free Travel Insurance
- Competitive exchange rates
- Choose your currency

Business Review

2011 proved to be a year of significant achievements all round for Pan Asia Bank. Not only we more than doubled our profits by achieving an unprecedented profit of Rs.824 Mn, but also managed to maintain a strong growth momentum by adding 23 new branches, to reach a total of 64 branches. Our strategy in 2011 to grow the revenue by focusing on core banking with the help of an enhanced distribution channel, proved to be immensely successful with impressive growth in the asset base which is matched by an equally impressive growth in our liability base. 2011 was also a year of innovation for Pan Asia Bank which saw the introduction of several novel products that became highly successful.

Branch Banking

Pan Asia Bank's rapid branch network expansion became a visible testament to its exceptional all round growth in 2011 with an addition of 23 new branches across the country. With these new additions to the branch network, our total number of branches stood at 64 at the end of 2011.

365 Day Banking Service

365 days banking was launched for the first time in Pan Asia Bank history with nine branches operating all year around.

Credit Rating Affirmed

Pan Asia Bank's strong overall performance was further acknowledged by Fitch Rating re-affirming the BBB (lka) rating.

Key Product Offerings

Champion Saver

Champion Saver is a specialised savings account that offers an attractive interest rate of 8%. Launched in April 2011, which has proved to be an immense success in the market. The uniqueness of this product is its simplicity and versatility that allows customers to receive a higher return on their savings with unlimited withdrawals.

Easy Pension

The Easy Pension account was launched as a sub product of Champion Saver. Easy Pension caters specifically to Sri Lankan citizens living abroad who draw a pension from the Department of Pensions. Pan Asia Bank is the only private Bank which is approved by the Director Pensions in order to draw funds of this segment. Easy Pension allows all those living abroad to transfer funds to an Easy Pension account without visiting to Sri Lanka.

Children's Savings Accounts

Pan Asia Bank offers not one but three unique types of Minor Savings Accounts for children to encourage the habit of savings from an early age.

Lahiru – offers a higher interest rate which moves along with market interest rates

Mithuru – offers a high interest rate along with gifts and hospitalisation cover

Siyadaru – offers guaranteed returns based on fixed interest rates

Pan Asia "Nivasa" Housing Loan

A customised and hassle free plan with a repayment period of up to 25 years that makes investing in your own house or even a second house, land or to modify or extend your existing home.

Leasing

Pan Asia Bank has become an aggressive player in the Leasing business in Sri Lanka. We have achieved tremendous growth in leasing business within a short period of time and added a new outlook to the Bank's leasing business. While offering a fast, friendly and professional service across our branch network islandwide, we strive to offer a total solution with tailor-made packages to suit individual customer requirements.

Pawning

Pawning & Ran Loan was the fastest growing advance product for Pan Asia Bank in 2011. Our Pawning and Ran Loan services have won the confidence of customers as one of the top gold loan solutions in the market.

Prime Banking

Introduced in October 2010, Prime has progressed to be the fastest growing liability segment in Pan Asia Bank. Prime has brought about a phenomenal deposit growth with in a short span of time. Prime offers the mass affluent clientele a convenient service that is guaranteed to make clients feel special. Marketed on a very personal basis, it's our ambition to live up to our slogan "You deserve more" in the eyes of our valued clients.

Ranaviru Harasara

The premier banking solution tailor made for members of Armed Forces of Sri Lanka. Ranaviru Harasara which

was launched in December 2008 has gone from strength to strength. Ranaviru Harasara is now extended to the deserving family members of armed forces personnel thus providing them the opportunity to save while empowering them to pursue higher education, purchase a vehicle, start a business or even build their dream home.

Corporate Banking

Corporate Banking had yet another successful year, evidenced by growth in both advances and deposits by 58% and 85% respectively. This was achieved both through acquisition of new clients as well as by increasing the share of wallet of existing clientele. We were appointed as Banker to several new Initial Public Offerings (IPO) which contributed significantly to the Bank's bottom line.

The current set up of the Corporate Banking Division is based on a dedicated Relationship Manager concept to serve our corporate customers better and this has worked well during the past few years. The Relationship Manager is the main contact point for the customer for any dealing with the Bank and is responsible for the growth in business with the corporate client.

Plans for 2012 for this segment are to focus on increased fee based income through enhanced trade business and cross selling, introduce new products, focus on customer's trade cycle, selectively grow credit and diversify our exposures to industries where we have limited or no exposure.

Margin Trading

Margin Trading business commenced during the latter part of 2009 and the Bank was able to become one of the leading margin providers within a short period. It provides additional liquidity to the customers for investments.

2011 was a year of consolidation for the Margin Trading business, where the main focus was to strengthen controls in order to minimise risk amidst a volatile stock market performance and to meet new regulatory requirements imposed during the year, which was successfully done.

During the year 2012 we will further consolidate our Margin Trading business to be in line with the growth in our Asset book, mainly focused on providing a more personalised and efficient customer service and growing in the corporate and high net worth segments.

Custodian Services

Pan Asia Bank is a registered Custodian Service (Custodian Bank) provider with the Central Depository System (CDS) for both overseas and local clients. As a Custodian Bank, we provide the full array of domestic custodian services such as opening accounts at the CDS for trading (which can be accessed by any broker which is an advantage to the customer), efficient settlement of trades, follow up, providing information to customers on corporate actions, while providing record keeping and reporting services etc.

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 gives the Bank an additional source to earn fee income as well as foreign exchange income.

Expanding the custodian business will be one of the main focus areas for the year 2012.

Correspondent Banking Relationship

New relationships were formed with Banks in Europe, South Asia and the Far East including Commerz Bank (who would support us worldwide where they are represented) and HDFC Bank in India. This enabled the Bank to facilitate a smooth flow of outbound and inbound trade business. Further, Commerz Bank provided us a dealing platform which enabled the Bank to quote competitive exchange rates to our valued customers.

Trade Services

Trade Services was restructured during the year, which resulted in increasing the operational efficiency and productivity of the department. Process flows were reviewed to enhance the service level standards to exceed customer requirements. Trade business volumes and revenue were increased by providing innovative structured trade transactions to our customers.

Key figures

- YOY Import Business grew by approx. 40%
- YOY Export Business grew by approx. 60%
- YOY Trade NFI grew by approx. 67%

Financial Review

Industry Overview

Reflecting improved macroeconomic performance, the banking and financial services sector showed continued growth in 2011. The activities of banking and financial services institutions expanded facilitating the emerging economic needs as credit growth continued to accelerate throughout the year. The soundness of banks and financial institutions in terms of capital, liquidity, profitability and asset quality was maintained. The regulatory and prudential framework of the financial sector was strengthened. Financial markets remained liquid.

Our Performance in a Nutshell

Pan Asia Bank ("the Bank") has concluded its financial year 2011 reporting excellent results with substantial growth in the core banking income. The Net profit for 2011 reached Rs.824 Mn as compared with Rs.362 Mn in 2010, which is an improvement of 128%. A welcome resurgence in credit demand supported with deposit mobilisation and better credit quality management has helped the Bank in achieving this feat. The impressive financial performance was driven by prudent management practices and astute credit policies in the midst of the well planned growth strategies. Solid growth in the loans and deposits signifies that Pan Asia Bank is one of the fast growing banks in Sri Lanka. Fitch Ratings Lanka has affirmed Pan Asia Bank's national long-term rating at 'BBB (lka)' with a stable outlook.

Income from Fund Based Activities

The Net Interest Income for the year 2011 was Rs.2,178 Mn, an improvement of 34% from previous year. The improved Net Interest Income is mainly due to maintaining better margins and mobilisation of low cost deposits such as saving accounts.

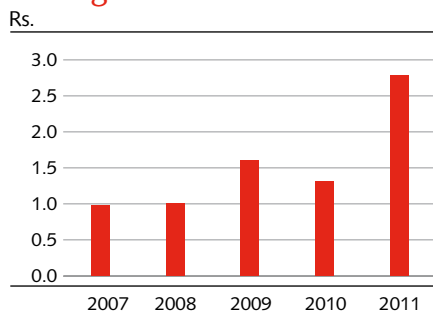
Income from Fee Based Activities

Other Income increased from Rs.457 Mn to Rs.706 Mn during the year under review. The Foreign Exchange income grew by 54% which a commendable performance considering the relatively stable foreign exchange rates witnessed during the year. Commission income too witnessed a notable growth with trade related income taking centre stage as international trade continued to perform well.

Operating Expenses

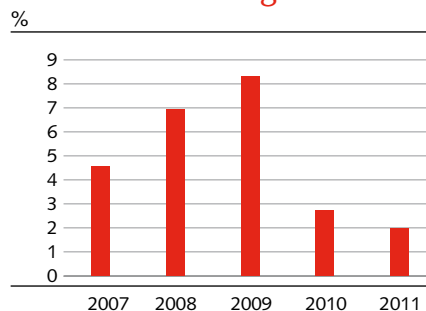
The rapid branch network expansion process resulted in an increase in the total operating expenses by 37%. The Pan Asia Bank branch network increased to 64 branches by the end of 2011 which is an equivalent of 56% expansion within a year. The Bank is looking forward to expand further in 2012.

Earnings Per Share*



Note : * The figures for the previous years have been re-stated taking into consideration the sub division of shares.

Net Non Performing Advances Ratio



Provision for Loan Losses

Pan Asia Bank's Gross Non-Performing Advances (GNPA) Ratio of 3.58% in 2011 (2010-5.36 %) is in line with higher-rated peers. Net Non Performing Advances (NNPA) Ratio of the Bank decreased to 1.99% (2010-2.74%). The improvements in NPA ratios are attributed to a drop in NPA's due to better quality credit and stringent credit review and follow up processes. Provisions for loan losses decreased due to the reduced general provisioning requirement. The general provisioning rate stood at 0.90% at the end of 2010 had come down to 0.50% at the end of 2011.

Taxation

Tax provision ended up with Rs.359 Mn in 2011 compared to Rs.332 Mn in 2010. Total effective tax rate inclusive of VAT on Financial Services had come down to 40% in 2011 (2010-61%) due to the revision of income tax and VAT on financial services rates.

Deposits and Advances Growth

The Bank's total assets portfolio increased by 51% in 2011 reaching to Rs.46,954 Mn compared to previous year's Rs.31,181 Mn. The Bank's gross loans and advances grew

by 61% (2010-78%). Total loans and advances portfolio accounted for 76 % of total assets. Deposits grew by 65% in 2011 to Rs.35,532 Mn as compared with Rs.21,473 Mn in 2010. The deposit base accounted to 76% of the total liabilities and Liquidity ratio was 20.19% (2010-23.19%). Loan products such as 'Ranaviru Harasara', 'Ran Loans' and deposit products such as 'Champion Saver' are some of the key performers in 2011.

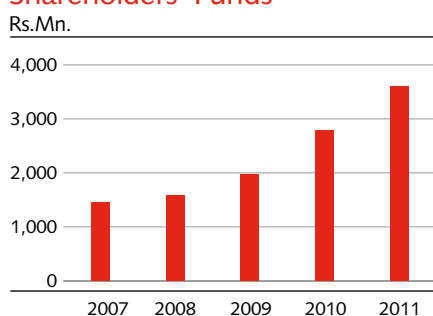
Shareholders' Funds

The Bank has met the minimum capital requirement of Rs.3 Bn, set by the Central Bank of Sri Lanka as at the end of 2011. Return on Equity (ROE) was 25.55% in 2011 against 14.72% in 2010. The Bank's Earnings Per Share (EPS) rose by 113% to Rs.2.79 in 2011 compared to Rs.1.31 in 2010. The Bank has doubled its number of ordinary shares to 295,041,086 consequent to the subdivision of shares on the basis of Two shares for every One share held.

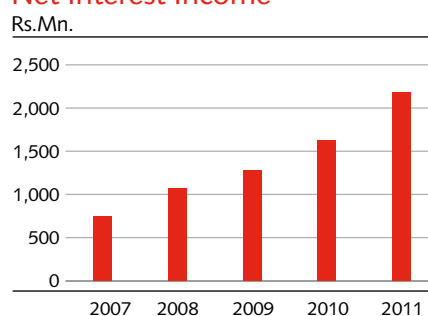
Capital Adequacy

The Bank's Capital Adequacy Ratios remained healthy with Core Capital (Tier -1) and Total Capital (Capital Base) ratios at 13.66% and 14.04% respectively as at December 2011.

Shareholders' Funds



Net Interest Income



Risk Management

Risk Management at Pan Asia Bank is an integral part of Bank's business. Effective risk management and prudent strategies adopted contributed immensely to the high phase of high growth experienced by the Bank recently. A clear systemised ways of managing risks was embedded in the business and its functions to ensure minimum adverse impact on the Bank's business inculcating good risk management habits. Early identification of risks was one of the key success factors to minimise impact on credit quality of the loan book.

The objectives of risk management were to proactively support business units in the development of innovative products while providing optimal service to the customers. The vigor and imagination of the business units to function ahead of competition needed superior information and knowledge acquisition on risk management capabilities. The processes used thereafter were matched together with the best practices in the market and sophisticated methodology was used, to monitor risks. Increasing volatilities and concentration of risks in the banking system were considered for risk measurement in an integrated manner when changes were adopted for risk management during the year.

Following continuums of Bank's exposure were prioritised when monitoring risk management within the wide array of processes and procedures of banking business.

Financial Risk	Operational Risk	Environmental Risk
Credit	Frauds	Political
Liquidity	Work place safety	Economic Policies
Market	Products & Services	Legal & Finance Infrastructure
Interest Rate	Impact on Physical Assets	Industry Contagion
Currency	Information Technology Risks	
Structure of Financials	Processes	

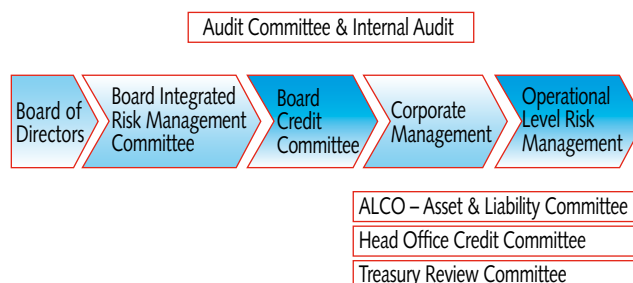
Approaches in Organisational Controls

The ultimate responsibility of risk management which falls on the Board is reviewed through following committees.

- Board Integrated Risk Management Committee
- Board Credit Committee

The Board Audit Committee reviews the impact on the functions of risk in an integrated manner. Additionally, the following internal committees are operative to monitor specific level of risks.

- Assets & Liability Committee (ALCO)
- Head Office Credit Committee (HOCC)
- Treasury Review Committee (TRC)



Each of these levels of Management plays a vital role in the risk management of the Bank. Risk monitoring and management procedures are included at operational level of activities to mitigate the impact. The MIS has been improved during the year with additional stringent methods of monitoring to curtail loans which may be impaired due to risks. More emphasis was given placed on for a holistic view to understand the risk elements which may affect the Bank's activities and methods of corrective action to be taken in a prudent manner. The executive management is considered "fit and proper" and capable of carrying out duties of the Bank.

It is imperative for early identification of risks in a more practical manner, to understand the impact at a time of rapid growth of the Bank. The changes observed in the market and the economic environment towards the end of the year made the requirement for risk management more important. Therefore the following major aspects were considered when risk monitoring was carried out.

- Development needs of the Bank and its expansion
- Requirements of the regulator
- The Bank's organisational structure and its history
- Information Technology and Internal Controls
- Accountability under Corporate Governance
- Financial structure of the Bank
- The Ability to deal with unexpected events

Policies and Management of Credit Risk

Management of Credit Risk is of great importance and significance due to its impact on the Bank's financial performance and image. Credit risk is the risk of default of capital and interest by a borrower as a result of which the Bank will encounter loss of revenue and a reduction in the value of its assets leading to reduced profits. Therefore the Bank introduced several monitoring and controlling tools to minimise such impact.

New conditions were introduced to mitigate the impact on credit risk during the year with market trends. Centralised credit authority levels through Head Office Credit Committee have enabled uniformity and maintenance of the required quality of the lending portfolio.

Board Credit Committee

The Board Credit Committee is chaired by the Chairman of the Board of Directors and comprises of three non executive directors, CEO/Executive Director and Chief Risk Officer. The committee held fourteen meetings during the year under review. The main functions of the Committee are,

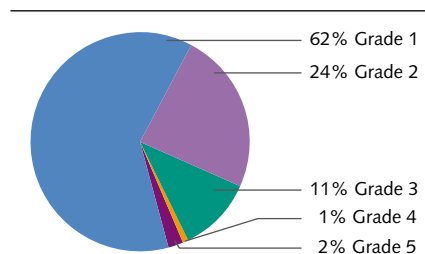
- Facilitate a sound credit granting process with standard review process and monitoring credit while adopting required policies for the same in line with market developments.
- Maintaining on appropriate credit administration, measuring and monitoring process to ensure a sound credit approval framework with credit delegated limits in line with the Bank's policy.
- Ensuring adequate controls over Credit Risk exposures with proper capital allocations.
- Identification and administration of problem credits on an ongoing basis with regard to credit quality, remedial measures and portfolio performances.
- Proper evaluation of new business opportunities from a credit risk management perspective.
- Discussing cyclical aspects of the economy with both externally and internally and to formulate business growth strategies.
- Closely monitor performance of the facilities approved by the committee and issue guidelines where necessary.

Thus the Committee mainly concentrates on risk and opportunities associated with the entire portfolio in order to minimise potential Non Performing Advances.

Credit Rating Process

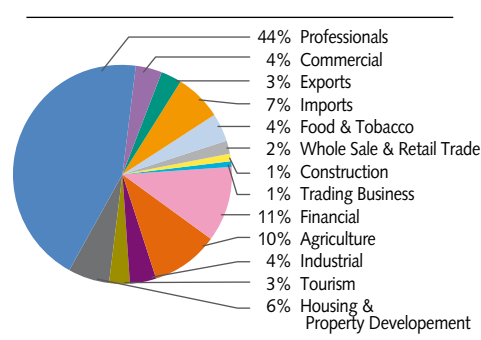
All credit facilities sanctioned by the Bank are rated as per the Borrower Risk Rating system introduced by the Bank. It is the Bank's undisputed goal to maintain more than 70% of the lending book in the risk ratings of 1 and 2. The following distribution was noted on the lending book at the end of the year.

The risk based pricing mechanism was reviewed in a stringent manner during the year. The impact on the risk rating was made important during the year when pricing of advances.



Sectorial Exposure

The following segmentation of the loan book was observed as at year end.



Additional methods of Credit Risk Controls :-

- Quality review of status of Credit Risk goals at the Integrated Risk Management Committee
- Strong credit approval structure centralised at Head Office
- Centralised Credit Administration Division to ensure efficient and effective support for credit disbursement
- Credit Risk Management Unit to control and carry out post- sanctioning of credit.
- Periodic review of high exposure accounts of the Bank
- Periodic review of problem credit for corrective action at early stages
- Early warning signals monitoring process
- Greater emphasis on quantitative factor/ financial information for considering credit
- Early recognition of impairment for prudential provisioning
- Renegotiations and follow up on trouble credit to ensure maximum mutual benefit to the borrower.

Risk Management

Market Risk Management

Market risk which is experienced due to the impact of unfavourable movement in market rates resulting from fluctuation in price of fixed income instrument, equity investments, commodities, currencies and other Balance Sheet items are monitored by an independent Treasury Middle Office in the Bank. The volatility of each of these instruments exposes Bank to fluctuations in the price of value of marketable finance instruments. With the increasing business of the Bank we were exposed to higher market risk, which needed upgrading of the current monitoring system. Market risk management is functioning on the following monitoring areas.

- Volatility of fixed income securities with daily marked to market monitoring
- Interest Rate Risk
- Changes in the equity investments with behavior in the market
- Positions of movement in currencies to manage the trading profit & loss in foreign currency including forwards
- Counterparty positions to avoid any impact from settlement risk
- Dealer limits monitoring for smooth functioning of front office
- Composition of Trading and Investment portfolios as per regulator and Bank internal policies
- Stop loss limits on dealers and the overall Bank to avoid major impact on the Income Statement

With the increase and fast changing trading book of the Bank and the complexity of risk management in trading we have introduced market risk measurement and management methods which are conceptually sound with higher integrity. The requirement for monitoring had been embedded in the Bank's culture across the Bank with high level policy implementation and framing.

The following are some of the significant measures taken.

- Independent control unit which looks after the Bank's market risk management
- Review by the Integrated Risk Management Board Subcommittee on the functionalities in market risk management

- Methods of daily monitoring of activities in the market operations for changes
- Close monitoring of limits imposed by the regulator and the board
- Regulator review of compliance with the Bank's policies and control mechanism issued on market risk management.

Operational Risk Management

Operational risk arises due to direct and indirect losses resulting from inadequate or failed internal process and systems out of human factors and external events.

A comprehensive Operational Risk policy introduced with regard to Risk reporting, establishment of key risk indicators, Risk monitoring, Risk mitigation, Assessment and controls is now in place as a framework for monitoring operational risks.

Risk goals for monitoring out of the said policies are reviewed at the Integrated Risk Management Board Committee to meet the Corporate & Regulatory Requirements. A process is placed as per best practices in the industry to review new and amendments to policies of the Bank as a risk mitigating factor. The introduction of new product developments will be vetted by the operational risk as a contingency method for better internal controls.

The main functions of the risk management are introduced in line with the corporate objectives of the Bank and to build in a robust integrated risk management to support the activities.

Way forward in Risk Management, foreseeable risk which may have an impact on the Bank

The robust risk management policies and procedures adopted at present with effective and efficiency methods together with employee engagement will be further improved in time to come.

Emphasis will be given for such improvements in the future as planned.

1. Favourable economic conditions may warrant higher growth in lending by Banks. Hence more stringent methods will be introduced to monitor the risk in unknown areas if introduced.

2. A well developed MIS for high level monitoring as the book grows via impend core banking system upgrade.
3. To set measurable and specific targets to improve risk effectiveness, efficiency and employee engagement.
4. Periodically review the liquidity and other risk limits and norms in the context of the Bank's risk appetite and monitor for breaches or exceptions.
5. To strengthen the process and framework on operational risk
6. To improve the internal risk rating framework to suit the new threats in the economic conditions
7. To improve the risk management methods and parameters to suit the Basel II capital requirements and economic capital attribution
8. To closely monitor mismatches in assets and liabilities as stipulated by the regulator.

Human Capital

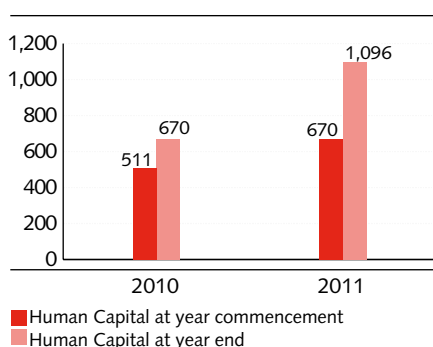
Pan Asia Bank acknowledges that our human capital as one of the greatest assets and it is the competence and the dynamism of our people that allow us to set better standards of excellence in serving our customers and stakeholders. Therefore, we take every opportunity to nurture and develop our staff to their full potential.

The successful growth story of the Pan Asia Bank is fueled by our people who possess a great desire and a passion not just to perform, but to make a difference.

Recruitment and Selection

Spelling out one of the most successful years for Pan Asia Bank, the year 2011 was also undoubtedly the busiest. The opening of 23 fully pledged branches saw the year 2011 ending with the total of 64 branches equaling to 56% expansion in our network in a single year. This remarkable growth momentum was achieved through a focused, steady and determined recruitment drive. Walk-in recruitment campaigns were strategically held throughout the year in main cities such as Kandy, Colombo, Kalmunai, Trincomalee, Vavuniya, Batticaloa, Akkarai pattu, Bandarawela, Kaduruwela, Dambulla, Kuliya pitiya, Hambantota and Ambalantota in search of the right talent. These campaigns were a success as the Bank was able to identify and attract young talent and experienced staff for the new branches which were opened during the year.

Recruitment and Selection



Commencing with only 670 employees, by the end of the year 2011 the staff strength of the Bank grew to 1,096 employees. When comparing the number of staff recruited in 2010, a remarkable growth in recruitment is reflected in the number of staff recruited during 2011, which is an indicator of the growth momentum of the Bank during the year.

	2011	2010	2009
Staff Strength	1,096	670	511
Staff Growth	64%	31%	1%

The internal staff members were given priority when filling the vacancies of the Bank as per the Staff Promotion Policy and during the year over 250 staff members were able to achieve their career aspirations through internal staff promotions. Some staff members moved laterally into different roles as per the Bank's Job Rotation Policy, which provides an opportunity to enhance their banking knowledge.

Performance Management

The performance management program is one of the key factors in assessing and rewarding our valuable staff with regard to the contribution they made towards the success of the Bank. Accordingly, performance objectives were set for all staff from the Chief Executive Officer to the Banking Assistant at the beginning of the year. The Mid-Year Performance Review was carried out to recognise the progress made by the staff members during the first half of the year compared with the agreed objectives. The Mid Year review also provides the platform to review and discuss strengths and to work on the areas requiring further improvement prior to the final review at the end of the year.

Rewards and Recognition

In fostering a performance driven culture where we reward and recognise exceptional performance of our staff. The Bank continued to initiate a number of monetary and non-monetary Rewards Schemes during the year for exceptional performance related to service quality and revenue growth.

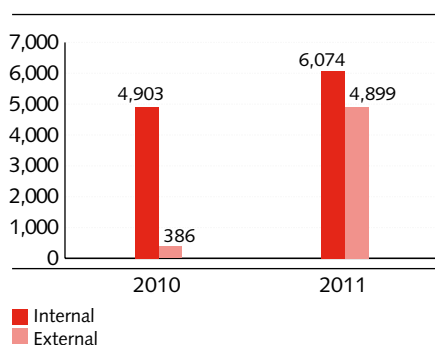
Remuneration Policy

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 by the Remuneration Committee and adopted for implementation at the Bank.

Training and Development

The process of Training and Development is given a great emphasis in order to nurture and develop our human capital. We at Pan Asia Bank strongly believe that an investment made in developing our employees is an investment made towards the heightened growth of the Bank. In order to tap into and harness the competitive advantage in a dynamic environment, it is empirical that we continuously train and develop our human capital. This is evident in the training calendar completed for the year 2011, which includes 58 internal training programmes, 114 external training programmes and 3 foreign training programmes.

Training and Development



Along with the Bank's growth, the focus on its training and development activities were also increased. In comparison with the previous year, we have increased our training days considerably during the year 2011. In 2010 a total of 5,289 training days were completed with 4,903 being internal training days and 386 external training days. In 2011 the development of our Human Capital was taken in to account more robustly as we completed 6,074 internal training days and 4,899 external training days with a total of 10,973 training days being completed during the year.

Human Resource Management System

Towards achieving an efficient and effective management of Human Capital, the Bank invested in a fully fledged integrated Human Resource Management System (HRMS) during the year 2011. This has been a much needed investment considering the growth momentum of the Bank within a short period of time. The HRMS supports fast managerial decision making whilst it also facilitates the routine HR services to be automated thus enabling

HR to focus on strategic activities. Moreover, to sustain a competitive advantage in a dynamic environment our line managers are now equipped to make faster decisions having information about their staff at their finger tips.

This system also brought us a step closer towards achieving a paperless work environment convenient for all of us and we strongly believe that in order to keep pace with the competition an e-environment is the way forward.

Employee Relations

We believe that participative management is a method, which provides our employees responsibility, accountability and autonomy over their work. We at Pan Asia Bank strongly believe the employee involvement in decision making, encourages the involvement of stakeholders at all levels of an organisation in the analysis of problems, development of strategies and implementation of solutions. We actively encourage and invite our employees to share the decision-making process of the Bank by participating in activities such as setting goals, determining work schedules and making suggestions.

The Joint Consultative Council (JCC) has made valuable contribution towards improving employee relations during the year. At all sessions of the JCC meetings held, we were able to form a sustainable relationship between the employees and the Management in addressing matters of mutual interest. The committee is made up of employees from the grades of Assistant Manager and below, whilst the Corporate and Senior Management members participate by invitation to address matters of mutual interest.

Staff Welfare

Organisations benefit from treating the well-being of their employees as a primary concern. Employees give their best when they are able to work happily together. Towards this, Bank ensured that the year 2011 was full of many staff engaging events, which allowed everyone to interact and bond with each other in the organisation.

Poson Celebration

An evening of Poson Bhakthi Gee was organised with staff members from the branches and the support departments participated in singing Poson Bhakthi Gee. It was an opportunity for the staff devoid of any religion to get together and enjoy the peace and calm the holy month of Poson brings with it.

Human Capital

Annual Dinner Dance

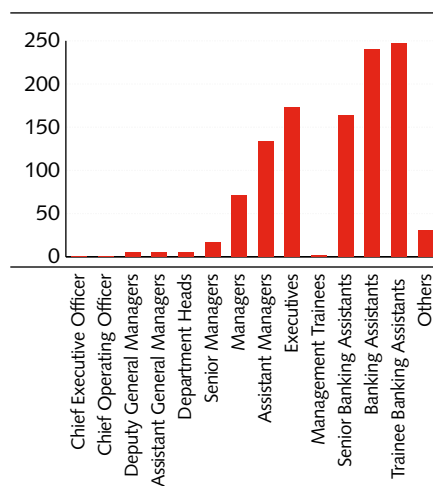
Amongst the other events organised by our Sports Club, the Annual Dinner Dance was the most awaited event of the year. All staff members were dressed up in their finest Hollywood attire in keeping with the theme of "Hollywood" and enjoyed the party to their hearts content till the early hours of the morning.

Beach Party

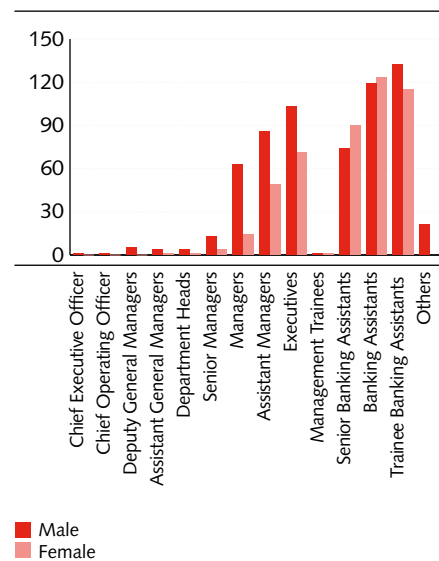
The Beach Party organised by the Sports Club on Mount Lavinia beach in the middle of the year was well attended by the staff members and considered to be one of the best events of the year by the staff members. All who attended enjoyed this wonderful evening.

Staff Analysis

Grade-wise Staff Analysis



Gender & Grade-wise Staff Analysis



Poson Celebration



Annual Dinner Dance



Beach Party

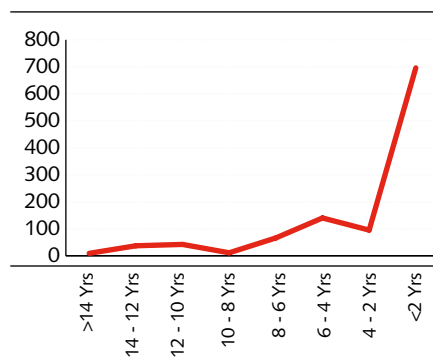


Kiddies' Christmas Party

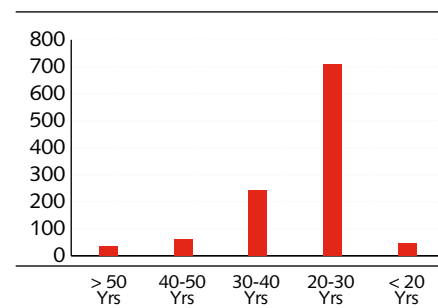
The children's Christmas Party was another event which was organised by the Sports Club, where the little treasures of the Pan Asia Bank Human Capital enjoyed to their little heart's content. Exciting games, face painting, Pony rides,

the company of Santa Clause and cartoon characters and Fancy Dress Parade were amongst the highlights of this wonderful evening, whilst loads of gifts and an array of delicious refreshments were also organised specially for all the kids who participated in the event.

Service-wise Staff Analysis



Age-wise Staff Analysis



Kiddies Christmas Party



Training Programme - Management Offsite



At the heart of
everything we do
is a highly focused
commitment to serve.

Sustainability >>





From us to **you**

Corporate Social Responsibility

Pan Asia Bank strongly believes in building and fostering strong, sustainable long term relationships with its stakeholders. We also believe that this can only be achieved by understanding and respecting interests of all major stakeholders such as customers, the shareholders', suppliers, employees and the wider community and aligning those interests with our organisational growth goals.

Our CSR guidelines are formulated to embrace responsibility for the company's actions and encourage a positive impact through its activities on all stakeholders including general public. It is a deliberate inclusion of public interest into corporate decision making.

Main objectives of our CSR activities

- To be a responsible corporate entity that focuses on the triple bottom line - people, planet, profit
- To shine as a caring, trustworthy and dependable organisation
- To support the positioning strategy of being the most dynamic commercial Bank in Sri Lanka

Main elements of our CSR guidelines

Responsible

Promoting conservation of resources via environmentally sustainable best practices and energy conservation through Recycling, Re-using and Reducing.

Caring

Initiating and participating in activities that aim to safeguard and uplift living standards of the general public in terms of health and welfare.

Dynamism

Promoting activities that promote dynamism, productivity and efficiency. A key element in this would be engaging in sports related CSR activities.

CSR Programmes

Health and Welfare

- With the heavy rains and stormy conditions that occurred in the month of February, Batticaloa district was severely affected by floods. Pan Asia Bank understood the plight of the affected and promptly organised a disaster relief initiative to distribute a range of dry rations to the needy by joining hands with Brigade 234 of SL Army.
- Pan Asia Bank achieved yet another milestone in July 2011, when the Bank celebrated the 1st year anniversary of the "Ranaviru Harasara" Loan Scheme which was launched with the objective of enhancing the living standards of the members of the armed forces and their immediate family members.

Southern Motor Rally



Gift Give Away for Armed Forces Children



Disaster Relief Campaign - Batticaloa



A ceremony was conducted at the “Ranaviru Sevana Ragama” where disabled soldiers are receiving treatment and the following activities took place at the event;

- A cashless medical insurance card and a loan protection policy were introduced with the collaboration with the National Insurance Trust Fund.
- Supplied elbow crutches and a range of medical equipment.
- A range of activities were conducted by Pan Asia Bank for the welfare of the armed forces such as;
 - Provision of a LCD TV to the SL Navy Pay & Records division.
 - Complimentary gift items such as cameras, binoculars and pencils were gifted to the Navy Sewa Vanitha Ocean Babies nursery for the use of the children.
 - Rewarding the children of the service personnel & Killed in Action (KIA)/Missing in Action (MIA)/ Disabled in Action (DIA) families who have excelled in education, sports and extracurricular activities by gifting bicycles worth approximately Rs.400,000.

- As a caring business organisation Pan Asia Bank granted a sponsorship to Lions Club Maharagama to help them raise funds to build an elders' home named “Sada Sevana” in Homagama.

Sports

- For the third consecutive year Pan Asia Bank sponsored the annual Sunshine games organised by the Rotary Club of Colombo Metropolitan. This is an event that is organised specially for physically challenged children with special needs in order to increase their level of confidence and prepare them to face future challenges.
- Pan Asia Bank was the co-sponsor of the Southern Motor Rally 2011, one of the most dynamic events in the Sri Lankan motor sports calendar which was held successfully for 13th consecutive year. With the participation of renowned Motor Racing & Rallying Sportsmen in the country, this enormous event was successfully concluded after a 600km distance spanning drive across five districts, with a grand musical show.

LCD TV Give Away



Ranaviru Harasara
First Year Anniversary



Sunshine Games



Corporate Governance Report

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

The Institute of Chartered Accountants of Sri Lanka (ICASL) in assisting the Banks to comply with 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 the 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 Securities and Exchange Commission of Sri Lanka & the ICASL jointly is also followed by the Bank in order to achieve and maintain

the highest standards of Corporate Governance to ensure greater transparency. Therefore the following Board Committees have been appointed to cover the main areas of Governance, and these reports are given in the pages stated below:

- Board Audit Committee - Page 80
- Board Integrated Risk Management Committee - Page 82
- Board Human Resources & Remuneration Committee - Page 83
- Board Nomination Committee - Page 84

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

Statement by the External Auditors

The external auditors have performed agreed upon procedures on the following Corporate Governance Principles from 3 (1) to 3 (8) specified in Banking Act Direction No. 11 of 2007 and amendments thereto.

Ref. No	Principle	Complied	Not Complied	Comments
3(1)	The Responsibilities of the Board			
3(1)(I)	The Board has strengthened the safety and soundness of the Bank by ensuring the implementation of the following.			
a)	Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank.	✓		A Board Approved Strategic Plan is in place and communicated to the relevant staff
b)	Approve the overall business strategy of the Bank including the overall risk policy, and risk management procedures and mechanisms with measurable goals, for at least the next three years.	✓		Complied with
c)	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently	✓		A process is in place
d)	Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers	✓		A shareholder communication policy approved by the Board is in place. Other stakeholders policies are being implemented.

Ref. No	Principle	Complied	Not Complied	Comments
e)	Review the adequacy and the integrity of the Bank's internal control systems and management information systems	✓		The Bank has a separate Internal Audit Department with direct reporting to the Board Audit Committee. The Board Audit Committee relies on the Internal Audit department to determine the adequacy and the integrity of the internal control system and Management Information Systems
f)	Identify and designate Key Management Personnel, as defined in the International Accounting Standards, who are in a position to: <ul style="list-style-type: none"> i) significantly influence policy; ii) direct activities; and iii) exercise control over business activities, operations and risk management 	✓		The identification of the Key Management Personnel is done in accordance with the requirements of International Accounting Standards. The Bank identified the members of the Board, the CEO and the members of the Corporate Management as "Key Management Personnel"
g)	Define the areas of authority and key responsibilities for the Board of Directors themselves and for the Key Management Personnel;	✓		The Board shares its responsibilities as a team and depending on specific skills and expertise they are appointed to different Board Committees of the Bank. The Responsibilities of CEO & Corporate Management have been identified.
h)	Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy;	✓		Key Management Personnel are requested to attend Board Meetings as and when need arises to explain matters relating to their respective areas. The Key Management Personnel affairs are monitored by the Board.
i)	Periodically assess the effectiveness of the Board Directors' own governance practices, including: <ul style="list-style-type: none"> i) the selection, nomination and election of Directors and Key Management Personnel; ii) the management of conflicts of interests; and iii) the determination of weaknesses and implementation of changes where necessary; 	✓		Board has delegated the function of selection, nomination and election of Directors to the Board Nomination Committee. Self assessment are made by the Directors annually which are filed with the Company Secretary. This document is called the Board performance evaluation checklist. Appointment of Key Management Personnel is assessed periodically by the Human Resources Department. A Self assessment process is in place for the management of conflict of interest.
j)	Ensure that the Bank has an appropriate succession plan for Key Management Personnel	✓		A succession plan is in place for the Corporate Management team and Board of Directors who are currently defined as "Key Management Personnel".

Corporate Governance Report

Ref. No	Principle	Complied	Not Complied	Comments
	k) Meet regularly, on a needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives	✓		Board Committees on Risk Management, Credit, Remuneration and Audit, meets regularly and the Key Management Personnel attended these meetings to review policies, establish communication lines and monitor progress towards corporate objectives. The Committee minutes are tabled at Board Meetings. The Members of the corporate management team by invitation attend Board Meetings to make presentation on their respective areas.
	l) Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators	✓		The Compliance Officer keeps abreast with the regulatory Requirements. The CEO maintains relationships with the regulator and correspondences with the regulators are maintained by the CEO.
	m) Exercise due diligence in the hiring and oversight of external auditors.	✓		The Audit Committee is responsible for the hiring and oversight of the external auditors. The Audit Committee Charter approved by the Board specifies these requirements
3(1)(ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3(5) of these Directions.	✓		The Chairman and the CEO are appointed by the Board.
3(1)(iii)	The Board shall meet regularly and Board Meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board Meetings shall normally involve active participation in person of a majority of directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible	✓		Complied with
3(1)(iv)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board Meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank	✓		Agenda, Draft minutes and Board Papers are sent as per the Corporate Governance Directive within the stipulated time frame, enabling Directors to submit their views, proposals and observations under any other business at Board Meetings.
3(1)(v)	The Board procedures shall ensure that notice of at least 7 days is given of a regular Board Meeting to provide all Directors an opportunity to attend. For all other Board Meetings, reasonable notice may be given	✓		Complied with

Ref. No	Principle	Complied	Not Complied	Comments
3(1)(vi)	The Board procedures shall ensure that a Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' Meetings through an alternate Director shall, however, be acceptable as attendance.	✓		Board Meetings are duly attended as identified in page 69.
3(1)(vii)	The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	✓		Company Secretary appointed in line with the stipulated requirements
3(1)(viii)	All Directors shall have access to the advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	✓		A process is in place
3(1)(ix)	The Company Secretary shall maintain the minutes of Board Meetings and such minutes shall be opened for inspection at any reasonable time, on reasonable notice by any Director	✓		Minutes of Board Meetings are maintained by the Company Secretary. The minutes of the previous Board Meetings are adopted in the ensuing Board Meeting. Directors can inspect the Board minutes as and when required

Corporate Governance Report

Ref. No	Principle	Complied	Not Complied	Comments
3(1)(x)	<p>Minutes of Board Meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board Meetings. Therefore, the minutes of a Board Meeting shall clearly contain or refer to the following:</p> <ul style="list-style-type: none"> i) a summary of data and information used by the Board in its deliberations; ii) the matters considered by the Board; iii) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; iv) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; v) the Board's knowledge and understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and vi) the decisions and Board resolutions 	✓		<p>Board Minutes contain a summary of data and information used by the Board in its deliberations, decisions and Board Resolutions.</p> <p>Board minutes also contain and refer to the fact-finding discussions, matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations.</p> <p>The understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted are documented in the Board Minutes.</p> <p>The Minutes are maintained to provide the details stipulated.</p>
3(1)(xi)	<p>There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the Bank</p>	✓		<p>Approved Board procedure includes a provision to enable the Directors to seek independent professional advice at the Bank's expense.</p>

Ref. No	Principle	Complied	Not Complied	Comments
3(1)(xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board Meeting, where independent Non-Executive Directors who have no material interest in the transaction, are present. Further, a Director shall abstain from voting on any Board Resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board Meeting	✓		Board procedure includes the provision to manage conflicts of interest of Directors. the Bank follows guidelines issued by the Director Bank Supervision with regard to Related Party Transactions and accordingly the Directors abstained in voting and take part in discussions where issues or items pertaining to conflict of interest.
3(1)(xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority	✓		The Board has a formal schedule of mandatory matters specifically reserved for the Board, apart from the other Board Papers that are included in every Board Meeting.
3(1)(xiv)	The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action.	✓		The Board is aware of the requirements to inform the Director Banking Supervision of the situation of the Bank prior to taking any decisions or action, if the Bank considers that the procedures to identify when the Bank is or is likely to be unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors. The Bank has not come across any situation as such during the year 2011.
3(1)(xv)	The Board shall ensure that the Bank is capitalised at levels required by the Monetary Board in terms of the Capital Adequacy Ratio and other prudential grounds	✓		Complied with
3(1)(xvi)	The Board shall publish in the Bank's Annual Report, an annual Corporate Governance Report setting out the compliance with the Direction	✓		A Corporate Governance Report is published with the Annual Report
3(1)(xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	✓		Self assessment of each Director is performed annually and filed with the Company Secretary.

Corporate Governance Report

Ref. No	Principle	Complied	Not Complied	Comments
3(2)	The Board's Composition			
3(2)(i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	✓		The Board constitutes 9 Directors.
3(2)(ii)	(a) The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years, and such period in office shall be inclusive of the total period of service served by such Director up to 01 January 2008.	✓		The Company Secretary monitors the Directors' service period. To date there are no Directors serving for more than 9 years.
	(b) In exemption to a above following shall be applied. A Director who has completed nine years as at January 1, 2008, or who completes such term at any time prior to December 31, 2008, may continue for a further maximum period of 3 years commencing January 1, 2009.	✓		Complied with. Currently, there are no Directors serving for more than 9 years and therefore the transitional provisions do not apply.
3(2)(iii)	An employee of a Bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an "Executive Director") provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	✓		8 out of 9 Directors are Non-Executive Directors, hence this does not exceed one-third of the number of Directors of the Board.
3(2)(iv)	The Board shall have at least three Independent Non-Executive Directors or one third of the total number of Directors, whichever is higher. A Non-Executive Director shall not be considered independent if he/she:			There are 4 Independent Non-Executive Directors in the Board
	a) has direct and indirect shareholdings of more than 1 percent of the Bank	✓		One Director has a Shareholding of more than 1% of the Bank and therefore is not an Independent Director
	b) currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the Bank as described in Direction 3(7) hereof, exceeding 10 percent of the regulatory capital of the Bank	✓		The Bank has not come across any situation as such during the year 2011.
	c) has been employed by the Bank during the two year period immediately preceding the appointment as Director	✓		The Bank has not come across any situation as such during the year 2011.

Ref. No	Principle	Complied	Not Complied	Comments
	d) has a close relation who is a Director or Chief Executive Officer or a member of Key Management Personnel or a material shareholder of the Bank or another Bank. For this purpose, a "close relation" shall mean the spouse or a financially dependant child	✓		The Bank has not come across any situation as such during the year 2011.
	e) represents a specific stakeholder of the Bank;	✓		The Bank has not come across any situation as such during the year 2011.
	f) is an employee or a Director or a material shareholder in a company or business organisation: i) which currently has a transaction with the Bank as defined in Direction 3(7) of these Directions, exceeding 10 percent of the regulatory capital of the Bank, or ii) in which any of the other Directors of the Bank are employed or are Directors or are material shareholders'; or iii) in which any of the other Directors of the Bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the Bank	✓		Complied. None of the Non-Executive Independent Directors meet the criteria of (i), (ii) & (iii) and Independent Non-Executive Directors have been duly identified
3(2)(v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that applies to the Independent Director.	✓		Complied with. The Alternate Director appointed to represent an Independent Director is also an Independent Director.
3(2)(vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	✓		Complied with. The Nomination Committee is in place to consider the appointment of Independent Directors.
3(2)(vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non-Executive Directors.	✓		The Required quorum has been complied with.

Corporate Governance Report

Ref. No	Principle	Complied	Not Complied	Comments
3(2)(viii)	The independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, executive directors, Non-Executive Directors and Independent Non-Executive Directors in the Annual Corporate Governance Report.	✓		Complied. Please refer page 69 under "Present Composition of the Directors"
3(2)(ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board	✓		The Nominations Committee has a procedure in place
3(2)(x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders' at the first general meeting after their appointment.	✓		No Directors were appointed to fill casual vacancies during the year
3(2)(xi)	If a Director resigns or is removed from office, the Board shall: i) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and ii) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders'	✓		There were no Director resignations during the year. Director resignations and removals are duly the communicated to the relevant regulatory authorities as per Colombo Stock Exchange regulations.
3(2)(xii)	A Director or an employee of a Bank shall not be appointed, elected or nominated as a Director of another Bank except where such Bank is a subsidiary company or an associate company of the first mentioned Bank	✓		None of the present Directors of the Bank Act as Director of another Bank. Directors have been requested to inform the Board if the Director concerned is appointed, elected or nominated as a Director of another bank.
3(3)	Criteria to assess the fitness and propriety of Directors			
3(3)(i)	The age of a person who serves as Director shall not exceed 70 years.	✓		To date no Director has reached 70 years. The Company Secretary maintains records of the age of the Directors.
(a)	In exception to above following applies. A Director who has reached the age of 70 years as at January 1, 2008 or who would reach the age of 70 years prior to December 31, 2008 may continue in office for a further maximum period of 3 years commencing January 1, 2009.	✓		Complied with

Ref. No	Principle	Complied	Not Complied	Comments
3(3)(ii)	<p>A person shall not hold office as a Director of more than 20 companies/ entities/institutions inclusive of subsidiaries or associate companies of the Bank. Of such 20 companies/entities/ institutions, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995</p> <p>In exception to above following applies</p> <p>(a) If any person holds posts in excess of the limitation as above, such person shall within a maximum period of three years from 1 January 2009 comply with the above mentioned limitation and notify the Monetary Board accordingly.</p>	✓		Complied with. There is no Director who currently holds directorships in more than 20 companies/ entities/ institutions inclusive of subsidiaries or associate companies of the Bank
3(4)	Management functions delegated by the Board			
3(4)(i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	✓		Delegation arrangements have been approved by the Board.
3(4)(ii)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions	✓		Complied with. All delegations are made in a manner that would not hinder/reduce the Board's ability to discharge its functions.
3(4)(iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	✓		Delegation arrangements are reviewed based on business requirements
3(5)	The Chairman and CEO			
3(5)(i)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	✓		Complied with. The roles of Chairman and CEO are separate and not performed by the same individual
3(5)(ii)	The Chairman shall be a Non-Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Bank's Annual Report	✓		The Chairman is a Non-Executive Independent Director

Corporate Governance Report

Ref. No	Principle	Complied	Not Complied	Comments
3(5)(iii)	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	✓		Complied with. The Board is aware that there are no relationships whatsoever, between the Chairman and CEO. Similarity no relationships prevail among the other members of the Board, other than being common directors of being certain companies.
3(5)(iv)	The Chairman shall: i) provide leadership to the Board; ii) ensure that the Board works effectively and discharges its responsibilities; and iii) ensure that all key and appropriate issues are discussed by the Board in a timely manner.	✓		Complied with
3(5)(v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board Meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	✓		The Company Secretary circulates a formal agenda prior to the Board Meeting. This agenda is approved by the Chairman of the Board
3(5)(vi)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board Meetings and also ensure that Directors receive adequate information in a timely manner	✓		Complied with. Board Papers are sent seven days prior to the meeting in order for Directors to request for any other information if necessary.
3(5)(vii)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	✓		A Self evaluation process is in place
3(5)(viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between executive and Non-Executive Directors	✓		Self evaluations are obtained at the end of the year for year 2011
3(5)(ix)	The Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever	✓		The Chairman is a Non-Executive Director and therefore does not get involved in executive functions.
3(5)(x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders' and that the views of shareholders' are communicated to the Board.	✓		Complied with. Effective communication with shareholders' is maintained at the Annual General Meeting. All shareholders' have access to the Company Secretary.

Ref. No	Principle	Complied	Not Complied	Comments
3(5)(xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Bank's operations and business.	✓		The CEO functions as the Apex Executive In-Charge of day to day management.
3(6)	Board Appointed Committees			
3(6)(i)	Bank shall have at least four Board Committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions. Each committee shall report directly to the Board. All committees shall appoint a secretary to arrange the meetings and maintain minutes, records, etc., under the supervision of the Chairman of the Committee. The Board shall present a report of the performance on each committee, on their duties and roles at the Annual General Meeting.	✓		The Board has established Audit, Nomination, Human Resources & Remuneration and Integrated Risk Management Committees. The Board Committees submit the Minutes to the Board. Please refer to the Board Committee Reports published in pages 80-84.
3(6)(ii)	Audit Committee:			
	a) The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit	✓		Complied with. The Chairman of the Audit Committee is a Non-Executive Director with necessary qualifications and experience for the function.
	b) All members of the Committee shall be Non-Executive Directors.	✓		All members of the Committee are Non-Executive Directors
	c) The Committee shall make recommendations on matters in connection with: i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; ii) the implementation of the Central Bank guidelines issued to auditors from time to time; iii) the application of the relevant accounting standards; and iv) the service period, audit fee and any resignation or dismissal of the 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.	✓		The Audit Committee has made the following recommendations; -The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; -The implementation of the Central Bank guidelines issued to auditors from time to time; -The application of the relevant Accounting Standards; and -The service period, audit fee and any resignation or dismissal of the auditor. Complied with the requirement that the engagement of the Audit Partner does 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.
	d) The Committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	✓		The Committee has obtained representations from the external auditors on their independence, and that the audit is carried out in accordance with SLAuS .

Corporate Governance Report

Ref. No	Principle	Complied	Not Complied	Comments
e)	<p>The Committee shall develop and implement a policy on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the Committee shall consider:</p> <p>i) whether the skills and experience of the audit firm make it a suitable provider of the non-audit services;</p> <p>ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and</p> <p>iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the external auditor.</p>	✓		Complied with
f)	<p>The Committee shall, before the audit commences, discuss and finalise with the external auditors the nature and scope of the audit, including:</p> <p>i) an assessment of the Bank's compliance with the relevant Directions in relation to Corporate Governance and the management's internal controls over financial reporting;</p> <p>ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and</p> <p>iii) the co-ordination between firms where more than one audit firm is involved</p>	✓		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.

Ref. No	Principle	Complied	Not Complied	Comments
g)	The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, Accounts and Quarterly Reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the Bank's Annual Report and Accounts and Quarterly Reports before submission to the Board, the Committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	✓		<p>The Annual Financial Statements and Quarterly Financial Statements are presented to the Board Audit Committee by the Chief Financial Officer.</p> <p>The Financial Statements presented by Chief Financial Officer are in accordance with Sri Lanka Accounting Standards and practices as per the going concern assumption.</p> <p>A process is in place to carry out significant adjustments arising from the audit</p>
h)	The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary	✓		Complied with
i)	The Committee shall review 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 response thereto

Corporate Governance Report

Ref. No	Principle	Complied	Not Complied	Comments
j)	<p>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 programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;</p> <p>iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</p> <p>iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p> <p>v) Ensure that the Committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;</p> <p>vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care</p>	✓		<p>The Internal Audit Plan is reviewed and approved by the Audit Committee at the beginning of the year. Internal audit reports are discussed with the Audit Committee and necessary actions are taken</p> <p>An appraisal process is being implemented</p> <p>Complied with. Performance of the Head and senior staff members of the Internal Audit Department are reviewed/assessed</p> <p>Complied with.</p> <p>The Internal audit function is an independent function with direct reporting to the Board Audit Committee</p>
k)	The Committee shall consider the major findings of internal investigations and management's responses thereto.	✓		Major findings of internal investigations and management's responses thereto are considered by the Committee and minuted.
l)	The Chief Financial Officer, the Chief Internal Auditor and a representative of the external auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least twice a year, the Committee shall meet with the external auditors without the Executive Directors being present	✓		The Committee has had two meetings with the external auditors without the Executive Directors being present.

Ref. No		Principle	Complied	Not Complied	Comments
	m)	The Committee shall have: (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)	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	✓		The Committee has met more than 14 times in 2011
	o)	The Board shall disclose in an informative way, (i) details of the activities of the Audit Committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual Director at such meetings	✓		The Bank has following Audit Committee disclosures in the Annual Report, -14 Audit Committee meetings held in the year, -Please refer page 69 for the details of attendance by individual Directors at such meetings
	p)	The Secretary of the Committee (who may be the Company Secretary or the head of the internal audit function) shall record and keep detailed minutes of the Committee Meetings	✓		The Secretary of the Committee is the Head of Internal Audit and shall record and keep minutes of the Committee Meetings
	q)	The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the external auditor	✓		An approved Whistle Blowing Policy is in place which cover all points
3(6)(iii)		Human Resources and Remuneration Committee:			
	a)	The Committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank.	✓		Complied with
	b)	The Committee shall set goals and targets for the Directors, CEO and the Key Management Personnel	✓		The goals and targets for the CEO and the Key Management Personnel are documented but not applicable to Directors

Corporate Governance Report

Ref. No	Principle	Complied	Not Complied	Comments
	c) The Committee shall 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.	✓		Complied for the CEO and Corporate Management. However it is not applicable for the Board of Directors.
	d) The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed	✓		Complied with
3(6)(iv)	Nomination Committee:			
	a) The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel	✓		Complied with
	b) The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities..	✓		The Committee has considered and recommended the re-election of current Directors
	c) The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the Key Management positions.	✓		Complied with
	d) The Committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes	✓		Complied with
	e) The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel	✓		A succession plan for Corporate Management is in place and the Board of Directors is considered as and when it is necessary
	f) 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. The CEO will be present by invitation.

Ref. No		Principle	Complied	Not Complied	Comments
3(6)(v)		Integrated Risk Management Committee (IRMC):			
	a)	The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising Broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	✓		The Committee consists of three Non-Executive Directors. The CEO and Corporate Management Personnel attend by invitation.
	b)	The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and group basis.	✓		Complied with
	c)	The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee	✓		Complied with
	d)	The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.	✓		Complied with
	e)	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	✓		The Committee has met quarterly
	f)	The Committee shall take appropriate actions against the Officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision	✓		Based on IRMC recommendation HR will initiate the process. No such instances reported during the period under review

Corporate Governance Report

Ref. No	Principle	Complied	Not Complied	Comments
	g) The Committee shall submit a Risk Assessment Report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions	✓		Complied with
	h) The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically	✓		Complied with
3(7)	Related party transactions			
3(7)(i)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as "Related Parties" for the purposes of this Direction: i) Any of the Bank's Subsidiary Companies; ii) Any of the Bank's Associate Companies; iii) Any of the Directors of the Bank; iv) Any of the Bank's Key Management Personnel; v) A close relation of any of the Bank's Directors or Key Management Personnel; vi) A shareholder owning a material interest in the Bank; vii) 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	✓		Complied with. Sections a) and b) are not applicable.
3(7)(ii)	The type of transactions with Related Parties that shall be covered by this Direction shall include the following:			
	a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation	✓		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

Ref. No	Principle	Complied	Not Complied	Comments
	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 signed off by the employees.
3(7)(iii)	The Board shall ensure that the Bank does not engage in transactions with Related Parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the Bank carrying on the same business. In this context, "more favorable treatment" shall mean and include treatment, including the			
	a) Granting of "Total Net Accommodation" to Related Parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board. For purposes of this sub-direction i) "Accommodation" shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation. ii) The "Total Net Accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such Related Parties in the Bank's share capital and debt instruments with a maturity of 5 years or more.	✓		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 counterparty	✓		The 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	✓		The 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	✓		The Bank treats Related Parties on the same basis as they would treat unrelated counter parties.

Corporate Governance Report

Ref. No		Principle	Complied	Not Complied	Comments
	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 signed off by employees.
3(7)(iv)		A Bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well	✓		Complied with
3(7)(v)	a)	Where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director	✓		A process is in place
	b)	Where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier	✓		Complied with. No such instances noted during the period under review.
	c)	Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of Director and the Bank shall disclose such fact to the public	✓		A process is in place. No such instances noted during the period under review.
	d)	This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank	✓		A process is in place. No such instances noted during the period under review.

Ref. No	Principle	Complied	Not Complied	Comments
3(7)(vi)	A Bank shall not grant 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 is in place for monitoring. No such instance noted during the period under review.
3(7)(vii)	No accommodation granted by a Bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	✓		A process is in place. No such instance noted during the period under review.
3(8)	Disclosures			
3(8)(i)	The Board shall ensure that: i) Annual Audited Financial Statements and Quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable Accounting Standards, and that ii) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	✓		Relevant Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable Accounting Standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.
3(8)(ii)	Check that the Board has made the following minimum disclosures in the Annual Report:			
a)	A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable Accounting Standards and regulatory requirements, inclusive of specific disclosures	✓		Relevant disclosures are included in the Annual Report page 85 under "Directors' Responsibility for Financial Reporting".
b)	A report by the Board on the Bank's internal control mechanism that confirms that the Financial Reporting System has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant Accounting Principles and regulatory requirements	✓		Relevant disclosures are included in the Annual Report page 71 under "Directors' Report on the Bank's Internal Control System".

Corporate Governance Report

Ref. No	Principle	Complied	Not Complied	Comments
c)	The external auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3(8) (ii)(b) above, in respect of any statements prepared or published after 31 December 2008	✓		Relevant disclosures are included in the Annual Report page 71 under the "Directors' Report on the Bank's Internal Control System".
d)	Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/ remuneration paid by the Bank	✓		Relevant disclosures are included in the Annual Report page 16 under "Board of Directors" & page 121 under "Related Party Transactions"
e)	Total net accommodation as defined in 3(7)(iii) granted to each category of Related Parties. The net accommodation granted to each category of Related Parties shall also be disclosed as a percentage of the Bank's regulatory capital.	✓		Relevant disclosures are included in the Annual Report page 123.
f)	The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank	✓		Relevant disclosures are included in the Annual Report page 121 under "Related Party Transactions"
g)	The external auditor's certification of the compliance with these Directions in the Annual Corporate Governance Reports published after 01 January 2010	✓		Relevant disclosures are included in the Annual Report page 46 under "Corporate Governance Report".
h)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances	✓		Relevant disclosures are included in the annual report page 70 under "Bank's Compliance with Prudential Requirements" and page 85 under "Directors Responsibility for Financial Reporting".
i)	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns	✓		Complied with. There were no significant supervisory concerns on lapses in Bank's Risk Management or non compliance with this Direction that have been pointed out by the Director of Bank Supervision and requested by Monetary Board to be disclosed to the public.

Name of Director	Board Meetings		Board Audit Committee		Board Credit Committee		Board Integrated Risk Management Committee		Board Human Resources & Remuneration Committee		Board Nomination Committee	
	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance
A. G. Weerasinghe	13	13			14	14	04	04	11	10	01	01
W. D. N. H. Perera	13	10			14	11			11	07	01	01
J. A. S. S. Adhihetty	13	13			14	14						
A. A. Page	13	11	14	14								
R. E. U. De Silva	13	12	04	00	10	05	04	02				
M. D. S. Goonatilleke	13	13	14	14								
H. K. Seneviratne	13	13	10	10	04	04	04	04	11	07	01	01
T. G. Thoradeniya	13	11										

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. Adhihetty	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

Our Vision for Compliance

The Compliance vision of Pan Asia Bank focuses on broadening of its conformity in a scope of areas such as observance, application of standards of market conduct and managing conflicts of interest. Assessing the Bank's compliance with regulations, CBSL guidelines, laws, internal contracts, governance and approved policies in business operations. Expanding its scope to cover specific areas such as operations of money laundering and terrorist financing and connected laws that are relevant to financial services.

Management

The Compliance Unit of the Bank, functions as an independent unit headed by a Compliance Officer. The Unit addresses the Bank's compliance with regulations such as Know Your Customer (KYC) and Anti Money Laundering (AML) functions. Appropriate mechanisms have been devised by the Unit, to identify regulatory guidelines applicable to the Bank and to assess key compliance requirements, which are then disseminated to the business/operations units on a regular basis. The Compliance Officer who reports on relevant concerns pertaining to compliance directly to the Integrated Risk Management Committee (IRMC) 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.

Framework

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 ensures 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.

Anti Money Laundering (AML) Compliance

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 ongoing 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.

The Bank is currently evaluating the Software System for AML monitoring, and plans to setup the same within the first half of 2012.

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 is periodically reviewed until the required parameters are completed.

Directors' Report of 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 Bank's Internal Control system.

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 to 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 reviews Bank's 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. Internal Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The Annual Audit Plan is reviewed and approved by the Board Audit Committee. Findings of the internal audit are submitted to the Board Audit Committee for review at their periodic meetings.
- The Audit Committees of the Bank review internal control issues identified by the 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 80.
- 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.
- Comments made by the external auditors in connection with internal control system are properly evaluated and rectified immediately.

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

Director's Report of Bank's Internal Control System

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 2011 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.

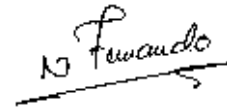
By Order of the Board



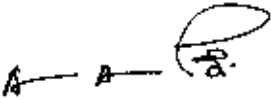
G.G. Mangala
Chief Financial Officer



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



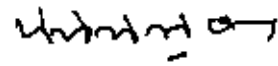
N. Fernando
Company Secretary



A.A. Page
Chairman - Board Audit Committee



W.D.N.H. Perera
Deputy Chairman



A.G. Weerasinghe
Chairman

Colombo
9 February 2012

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, 2011.

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 09th of February 2012.

PRINCIPAL ACTIVITIES

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

PROFITS AND APPROPRIATION

The Bank's profits and appropriations were as follows;

	2011 Rs '000	2010 Rs '000
Profit before Taxation	1,182,866	693,927
Taxation	(358,854)	(332,133)
Profit after taxation	824,012	361,794
Retained Profit brought forward	1,153,312	805,773
Transfer to Reserve Fund	(41,201)	(18,089)
Transfer to Investment Fund Reserve	(161,746)	-
Dividends Paid	-	-
Transfer from Revaluation Reserve	538	3,834
Un-appropriated profit to be carried forward	1,774,915	1,153,312

FINANCIAL STATEMENTS

The Financial Statements of the Bank are given on pages 90 to 123 of this Annual Report.

INCOME

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

Total Income for 2011	Total Income for 2010
Rs.5,154,930,598/-	Rs.3,484,410,507/-

Details are given in Note 30 to the Financial Statements.

PROFITS AND RESERVES

The Bank's total reserves as at 31st December 2011 stood at Rs.2,059,062,937/- This comprises a Statutory Reserve Fund of Rs.121,127,568/-, Revaluation Reserve of Rs.1,273,268/-, Investment Fund Reserve of Rs.161,746,817/- and Revenue Reserve of Rs.1,774,915,284/-. The movement in Reserve Fund, Revaluation Reserve and Investment Fund Reserve are shown in Notes 27-29 to the Financial Statements.

AUDITOR'S REPORT

The auditors of the Bank are M/s Ernst & Young, Chartered Accountants. Their report on the Financial Statements is given on page 89. They come up for re-election at the Annual General Meeting, with the approval of the Audit Committee and the Board of Directors.

ACCOUNTING POLICIES

The accounting policies adopted in preparation of the Financial Statements are given on pages 94 to 101.

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 are available for inspection in terms of the Act. The entries made in the register with regard to Directors dealings with the Bank during the accounting period is given as a foot note to this report on page 76 and 77.

DIRECTORS' REMUNERATION

Directors' remuneration and other benefits of Directors in respect of the Bank are given in Note 34 to the Financial Statements on page 114.

Directors' Report

DONATIONS

During the year under review the Board of Directors have not approved any donations.

DIRECTORATE

The names of the Directors of the Bank during the period 01.01.2011 to 31.12.2011 are given below. There were no changes in the composition of the Board during the period under review. The classification of Directors into Executive, Non-Executive and Non-Executive Independent Directors are 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 in May 2010.

RE-APPOINTMENTS

In terms of Article Nos. 93 and 94 of the Articles of Association of the Bank, M. D. S Goonatilleke and T. G. Thoradeniya retire by rotation and being eligible offer themselves for re-election, on an unanimous recommendation by the Board of Directors.

DIRECTORS' INTEREST

Related party transactions of the Bank are disclosed in Note 40 to the Financial Statements on page 121 The Directors have no direct or indirect interest or proposed contract other than those disclosed.

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

DIRECTOR'S INTEREST IN SHARES

Names	No. of Shares	No. of Shares
	As at 31.12.2011	As at 01.01.2011
A. G. Weerasinghe	-	5,066
W. D. N. H. Perera	8,655,200	2,100,000
J. A. S. S. Adhihetty	108,266	54,133
A. A. Page	129,866	59,933
R. E. U. De Silva	80,000	40,000
M. D. S. Goonatilleke	422	211
H. K. Seneviratne	-	-
T. G. Thoradeniya	36	18
T. C. A. Peiris	10,500	2,000

AUDITORS

In accordance with the Companies Act No.7 of 2007, a resolution for the re-appointment of M/s Ernst and Young Chartered Accountants, to the Bank is being proposed at the Annual General Meeting.

Audit Fees and Non Audit Fees payable to Ernst and Young for the year under review amounted to Rs.2,690,000/- and 1,690,000/- respectively.

STATED CAPITAL

The Stated Capital of the Bank is Rs.1,548,965,702/- the details are given in note 26 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.

DIRECTOR'S 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 46 to 69.

DIVIDENDS

The Directors recommend a dividend of Rs.1/- per share which will be proposed for approval by the shareholders' at the Annual General Meeting.

CAPITAL EXPENDITURE

Expenditure on Property, Plant & Equipment at cost amounted to Rs.505,783,372/- during 2011, details of which are given in Note 20 to the Financial Statements. Expenditure on Intangible Assets at cost amounted to Rs.13,323,333/- during 2011, details of which are given in Note 21 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, 2011 was 5,080 compared to 5,342 as at 31st December 2010. The schedule indicating the shareholder's analysis is on page 132.

REGISTER OF DIRECTORS & SECRETARIES

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



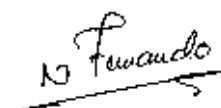
A. G. Weerasinghe
Chairman



W. D. N. H. Perera
Deputy Chairman



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



N. Fernando
Company Secretary

Colombo
9 February 2012

BOARD COMMITTEES

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

NEW BRANCHES

Twenty three new branches were opened during the year under review, bringing the total number of branches to 64 at the end of 2011.

PROVISION FOR TAXATION

Total taxable profit was charged at 28% in accordance with income tax legislations. Deferred tax was calculated for known temporary differences 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 Hotel Taj Samudra on 30th March 2012. The Notice of Meeting can be found on page 143.

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 31.12.2011 Rs.
A.G. Weerasinghe			
New World Securities (Pvt) Ltd	Director	Loans & Advances	1,000.00
		Deposits	757,227
W.D.N.H. Perera			
LB Finance PLC	Director	Loans & Advances	315,071,208
		Deposits & Borrowings	1,102,204,738
		Off Balance Sheet Accommodation	168,784,430
Vallibel Finance PLC	Director	Loans & Advances	198,182,574
		Deposits & Borrowings	480,117,202
		Off Balance Sheet Accommodation	5,220
Royal Ceramics Lanka PLC	Managing Director	Loans & Advances	-
		Deposits	12,705,608
Amaya Leisure PLC	Group Finance Director	Loans & Advances	-
		Deposits	1,709,779
Royal Porcelain Ltd	Managing Director	Loans & Advances	-
		Deposits	29,924
The Fortress Resorts PLC	Director	Loans & Advances	-
		Deposits	754
Vallibel One PLC	Deputy Chairman	Loans & Advances	-
		Deposits	717,167
Haycarb PLC	Director	Loans & Advances	2,000
		Deposits	-

DIRECTOR NAME/ COMPANY NAME	RELATIONSHIP	ACCOMMODATION GRANTED /DEPOSITS	BALANCE OUTSTANDING AS AT 31.12.2011 Rs.
J.A.S.S. Adhihetty			
LB Finance PLC	Managing Director	Loans & Advances	315,071,208
		Deposits & Borrowings	1,102,204,738
		Off Balance Sheet Accommodation	168,784,430
Vallibel Finance PLC	Director	Loans & Advances	198,182,574
		Deposits & Borrowings	480,117,202
		Off Balance Sheet Accommodation	5,220
Vallibel One PLC	Director	Loans & Advances	-
		Deposits	717,167
The Fortress Resorts PLC	Managing Director	Loans & Advances	-
		Deposits	754
R. E. U. De Silva			
Esna Power (Pvt) Ltd	Director	Loans & Advances	-
		Deposits	1,197,527
Shermans Logistics (Pvt) Ltd	Chairman	Loans & Advances	3,025,160
		Deposits	198,158
M.D.S. Goonatileke			
Vallibel Finance PLC	Director	Loans & Advances	198,182,574
		Deposits & Borrowings	480,117,202
		Off Balance Sheet Accommodation	5,220
Royal Ceramics Lanka PLC	Director	Loans & Advances	-
		Deposits	12,705,608
Royal Porcelain Ltd	Director	Loans & Advances	-
		Deposits	29,924
T.G. Thoradeniya			
Royal Ceramics Lanka PLC	Director	Loans & Advances	-
		Deposits	12,705,608
Greener Water Ltd	Director	Loans & Advances	-
		Deposits and Borrowings	2,502,442
Royal Porcelain Ltd	Director	Loans & Advances	-
		Deposits	29,924

Other Directorships

A. G. WEERASINGHE

Chairman

Company Name	Director
1. George Steuarts Financial Services (Pvt) Ltd	Director
2. South Asia Financial Excel Investments (Pvt) Ltd	Director
3. Sun City Property Developers (Pvt) Ltd	Director
4. Browns Investments (Pvt) Ltd	Director
5. Sun City Residencies (Pvt) Ltd	Director
6. New World Securities (Pvt) Ltd	Director
7. AgStar Fertilizers Ltd	Director
8. Sun City Homes (Pvt) Ltd	Director
9. Sun City Trading (Pvt) Ltd	Director

W. D. N. H. PERERA

Deputy Chairman

Company Name	Director
1. Royal Ceramics Lanka PLC	Managing Director
2. Amaya Leisure PLC	Group Finance Director
3. The Fortress Resorts PLC	Director
4. LB Finance PLC	Director
5. Vallibel Finance PLC	Director
6. Vallibel Power Erathna PLC	Director
7. Sathosa Motors PLC	Director
8. Heyleys PLC	Director
9. Vallibel One PLC	Deputy Chairman
10. Lewis Brown and Company (Pvt) Ltd	Director
11. Talawakelle Tea Estates PLC	Director
12. Haycarb PLC	Director
13. Don Wilbert Capital Ltd	Director
14. Rocell Bathware Ltd	Director
15. Royal Porcelain Ltd	Managing Director
16. Hotel Services PLC	Director
17. N Capital Ltd	Chairman

J. A. S. S. ADHIHETTY

Director

Company Name	Director
1. LB Finance PLC	Managing Director
2. The Fortress Resorts PLC	Managing Director
3. Vallibel Finance PLC	Director
4. Vallibel One PLC	Director

A. A. PAGE

Director

Company Name	Director
1. CT Holdings PLC	Chairman
2. Lanka Ceramic PLC	Chairman
3. Lanka Walltiles PLC	Chairman
4. Lanka Tiles oPLC	Chairman
5. Horana Plantations PLC	Chairman
6. Swisstek (Ceylon) PLC	Chairman
7. Cargills (Ceylon) PLC	Director
8. CT Land Development PLC	Director
9. Ceylon Printers PLC	Director
10. Kalamazoo Systems PLC	Director
11. Office Equipment PLC	Director
12. Paragon (Ceylon) PLC	Director

CT Group Companies

1. CT Smith Stockbrokers (Pvt) Ltd	Director
2. Ceytea Plantations Ltd	Chairman
3. Ceylon Theaters (Pvt) Ltd	Chairman
4. CT Capital (Pvt) Ltd	Director
5. Comtrust Asset Management (Pvt) Ltd	Director
6. Ceykor Aluminium Industries Ltd	Chairman
7. Unidil Packaging Ltd	Chairman
8. Cinema Entertainments (Pvt) Ltd	Director

R. E. U. DE SILVA

Director

Company Name	Director
1. Esna Holdings (Pvt) Ltd	Chairman
2. Shermans Logistics (Pvt) Ltd	Chairman
3. Shermans Transport (Pvt) Ltd	Chairman
4. Esna Power (Pvt) Ltd	Director
5. Esna Villas (Pvt) Ltd	Director
6. Esna (Pvt) Ltd	Chairman
7. Board of Investment of Sri Lanka (BOI)	Board Member
8. Sherman De Silva & Co. (Pvt) Ltd	Director
9. Sri Lanka Ports Authority (SLPA)	Director
10. Mc Marine (Pvt) Ltd	Director
11. Sherman Sons (Pvt) Ltd	Director
12. Dimension X (Pvt) Ltd	Director
13. Esna Ventures (Pvt) Ltd	Director
14. Esna Technologies Ltd	Director
15. Mountbatten Lands (Pvt) Ltd	Board Member

Other Directorships

M. D. S. GOONATILLEKE

Director

Company Name	Director
1. Douglas & Sons (Pvt) Ltd	Group Executive Director
2. Vallibel Finance PLC	Director
3. Royal Ceramics Lanka PLC	Director
4. Colombo Land Development Company PLC	Director
5. Hayleys PLC	Director
6. Royal Porcelain Ltd	Director
7. Rocell Bathwear Ltd	Director
8. DSL Lanka (Pvt) Ltd	Director
9. DSL Toys (Pvt) Ltd	Director
10. DSL Markets (Pvt) Ltd	Director
11. Douglas Travels & Tours (Pvt) Ltd	Director

H. K. SENEVIRATNE

Director

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

T. G. THORADENIYA

Director

Company Name	Director
1. Rocell Bathware Ltd	Director/CEO
2. Royal Ceramics Lanka PLC	Director– Marketing & Business Development
3. Hayleys Exports PLC	Director
4. Lewis Brown and Company (Pvt) Ltd	Director
5. Royal Porcelain (Pvt) Ltd	Director– Marketing & Business Development
6. Royal Ceramics Distributors (Pvt) Ltd	Director– Marketing & Business Development
7. Rocell Ceramics Ltd	Director
8. Dipped Products (Thailand) Limited	Director
9. Greener Water Limited	Director

Audit Committee Report

Composition of the Audit Committee

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

- A. A. Page (Chairman)
- M. D. S. Goonatileke
- H. K. Seneviratne

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 is the Chairman of number of organisations.

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 confirm to the highest ethical standards, in the best interest of all stakeholders.

Meetings

The Committee held 14 meetings (including two special meetings) during the period under review. Head of Internal Audit Department functioned as the secretary to the committee. The Chief Executive Officer, Chief Operating Officer, Chief Risk Officer, Chief Financial Officer and Deputy General Manager - Retail Banking 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.

Audit Committee Charter

The Committee reviewed and revised the Board Audit Committee Charter.

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 introduced a Risk based Annual Audit Planning methodology for risk assessment of auditable areas, 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.

Audit Committee Report

External Audit

As per the requirements of the Institute of Chartered Accountants of Sri Lanka, the Bank made all arrangements to implement the LKAS 32, LKAS 39 and SLFRS 7 effective from 1st January 2012.

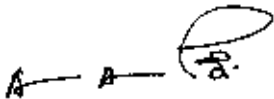
The Bank had reviewed all its internal controls and ensured they provide adequate control over the business processes and effectively mitigate risk where ever it exists.

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 2012, 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
9 February 2012

Risk Management Committee Report

The Charter of the Board IRMC was reviewed in July 2011 to encompass the added features of regulatory requirements. The Committee comprises of three Independent Directors, CEO / Executive Director, Chief Risk Officer, Chief Financial Officer, Head of Treasury, Head of Compliance, Head of Audit and is chaired by the Chairman of the Board of Directors who is a Committee Member. The Committee had four meetings during the year under review. A report consisting of the main risk indicators and the key risk elements had been submitted to the Board for review by Directors.

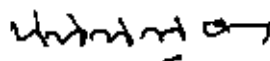
The main objectives of the Committee included a review and monitoring of risk management policies of the Bank in relation to various risks and regulatory compliance requirements. The Committee looks at the key risk indicators covering areas of credit risk, market risk, operational risk, liquidity risk, interest rate risk, legal risk and reputational risks based on pre-determined indicators and goals set by the Committee.

Some of the main functions of the Committee include:

- Review of stress test limits and assessment of capital adequacy
- Reviewing and oversight of the risk profile and portfolio composition of the Bank
- Adherence to the requirements of the regulator and monitoring threshold limits
- Oversight and development of risk management policies, procedures and techniques encompassing all products and services
- Review of the compliance function to ensure that Bank is compliant with the statutory laws, internal controls and approved policies

Besides, the IRMC activities ensure that the Board approved policies for Business Continuity Plan are in place, which provides clear guidance and direction in respect of disaster recovery implementation programme.

The scope and functions of the Committee will be further strengthened during the year 2012 with the new guidelines issued by the regulator for monitoring of Risk in an integrated manner. The Committee will continue to review the new policies adopted and also supervise the compliance of the Bank adherence to same. Risk goals and indicators will be more fully defined in an integrated manner for high level monitoring to take early action and avoid any unforeseen risks that may affect the Banks assets.



A. G. Weerasinghe

Chairman

Board Integrated Risk Management Committee

Colombo

9 February 2012

Human Resources and Remuneration Committee Report

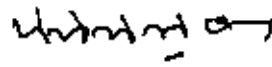
The Board Human Resources and Remuneration Committee comprise three Non-Executive Directors. The Committee is headed by A. G. Weerasinghe, Chairman and the other members of the Committee are W. D. N. H. Perera, Director, H. K. Seneviratne, Director and T. C. A. Peiris, Director/Chief Executive Officer. The Committee held eleven meetings during the year 2011.

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

In addressing the principal task of the Committee relating to compensation and benefits, it ensures that all compensation and benefit decisions are consistent and aligned with the overall compensation philosophy which strengthens the performance driven culture of the Bank.



A. G. Weerasinghe

Chairman

Board Human Resources and Remuneration Committee

Colombo

9 February 2012

Nomination Committee Report

Board appointed Nomination Committee comprises of the following Directors ;

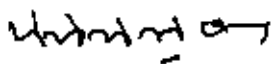
- A. G. Weerasinghe - Chairman
- Non Executive Independent Director
- W. D. N. H. Perera - Director
- Non Executive Director
- H. K. Seneviratne - Director
- Non Executive Independent Director

The Committee is responsible for the appointment of Directors and CEO. 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.

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, and whether the Director is Independent or not.

Once recommended to the Board, the Director is appointed subject to Central Bank approval. 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 Committees depending on their qualifications and experience.



A. G. Weerasinghe
Chairman
Board Nomination Committee

Colombo
9 February 2012

Directors' Responsibility for Financial Reporting

In terms of Sections 150 (1) and 151(1) of the Companies Act No. 7 of 2007, the Directors of the Bank are responsible for ensuring that the Bank prepares the Financial Statements that gives a true and fair view of the state of affairs of the Bank as at the Balance sheet date and the profit of the Bank for the financial year ended on Balance Sheet date. Accordingly, the Directors confirm that the Financial Statements of the Bank give a true and fair view of the state of affairs of the Bank as at Balance Sheet date and the profit of the Bank for the financial year ended on the Balance Sheet date.

The Financial Statements of the Bank have been certified by the Bank's Chief Financial Officer, the person responsible for their preparation, as required by the Act. Financial Statements of the Bank have been signed by three Directors and the Company Secretary of the Bank on 09 February 2012 as required by the 150 (1) of the Companies Act.

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

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

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.30 of 1988 and amendments thereto and the continuing listing rules issued by the Colombo Stock Exchange.

In view of that Directors have taken adequate effort on inspecting financial reporting system through Audit Committee Meetings and granting approval for issuing of interim financials.

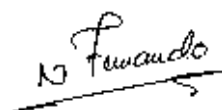
The Directors have also instituted effective and comprehensive system of internal controls. This comprises internal check, internal audit and the whole system of financial and other controls required to carry on the banking business in an orderly manner, safeguard assets, prevent and detect frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records.

The Board of Directors wish to confirm that, as required under Section 56 (2) of the Companies Act No. 07 of 2007, they have authorised distribution of the dividends proposed upon being satisfied that the Bank would satisfy the solvency test after such distributions are made in accordance with Section 57 of the Companies Act No. 07 of 2007.

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 89 of this Annual Report.

The Directors are satisfied that all statutory payments in relation to all regulatory and statutory authorities which were due and payable by the Bank were paid or where relevant provided for. The Directors of the Bank are of the view that they have discharged their responsibilities as set out in this statement.

By Order of the Board

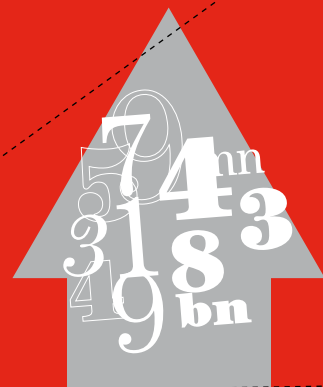


N. Fernando
Company Secretary

Colombo
9 February 2012

Facing challenges and
seizing opportunities
is what enables us to
maximise performance
and growth.

[Financial Report >>](#)





From 0 to **100**

Financial Information

Financial Calendar

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

2012

1st Quarter Results 2012	May 2012
2nd Quarter Results 2012	August 2012
3rd Quarter Results 2012	November 2012
Annual Report for 2012	March 2013
18th Annual General Meeting	March 2013

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
Fax : (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 2011 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 2011 and the Financial Statements give a true and fair view of the Bank's state of affairs as at 31 December 2011 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.

9 February 2012
Colombo

Partners: A D B Telwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva ACA Ms. Y A de Silva ACA W R H Fernando FCA FCMA
W K B S P Fernando FCA FCMA A P A Gunasekera FCA FCMA A Herath FCA D K I - utangam Jwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Luczywke FCA FCMA Ms. G G S Manalunga ACA Ms. L C G Nairayakara FCA FCMA N M Suman ACA ACMA B E Wijesuriya ACA ACMA

Balance Sheet

As at 31 December		2011	2010
	Note	Rs.	Rs.
ASSETS			
Cash and Short Term Funds	9	2,430,149,648	1,110,072,502
Statutory Deposit with Central Bank of Sri Lanka	10	2,250,425,658	1,060,321,276
Dealing Securities	11	16,451,185	1,545,000
Government Treasury Bills/Bonds	12	5,469,411,770	5,847,023,480
Bills of Exchange	13	367,703,158	270,998,608
Loans and Advances	14	30,696,114,264	19,482,168,326
Interest Receivable	15	220,352,774	204,462,532
Lease Rentals Receivable	16	2,941,079,891	1,006,653,429
Investment Securities	18	469,171,000	706,672,500
Other Assets	19	1,032,391,430	850,563,513
Property, Plant and Equipment	20	1,008,773,595	591,818,851
Intangible Assets	21	52,152,185	48,667,017
TOTAL ASSETS		46,954,176,558	31,180,967,034
LIABILITIES			
Deposits	22	35,532,462,290	21,472,794,340
Borrowings	23	4,907,932,056	4,379,815,790
Due to Foreign Banks		978,899	70,031,581
Other Liabilities	24	2,538,538,320	2,078,449,013
Debentures	25	-	50,000,000
Income Tax Payable		223,538,517	262,373,341
Deferred Tax Liability	36	142,697,837	83,486,715
Total Liabilities		43,346,147,919	28,396,950,780
SHAREHOLDERS' FUNDS			
Stated Capital	26	1,548,965,702	1,548,965,702
Statutory Reserve Fund	27	121,127,568	79,926,949
Revaluation Reserve	28	1,273,268	1,811,483
Investment Fund	29	161,746,817	-
Retained Earnings		1,774,915,284	1,153,312,120
		3,608,028,639	2,784,016,254
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		46,954,176,558	31,180,967,034
Commitments and Contingencies	38	13,786,933,435	8,420,817,874

The Accounting Policies and Notes to the Financial Statements from pages 94 to 123 form an integral part of the Financial Statements.

Certification

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



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;



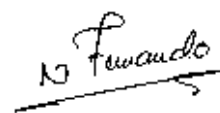
A.G. Weerasinghe
Chairman



W.D.N.H. Perera
Deputy Chairman



T.C.A. Peiris
Chief Executive Officer



N. Fernando
Company Secretary

Colombo
9 February 2012

Income Statement

For the year ended 31 December		2011	2010
	Note	Rs.	Rs.
GROSS INCOME	30	5,154,930,598	3,484,410,507
Interest Income	31	4,448,864,998	3,027,659,410
Less : Interest Expenses	32	2,270,948,865	1,402,262,756
NET INTEREST INCOME		2,177,916,133	1,625,396,654
Other Income	33	706,065,600	456,751,097
OPERATING INCOME		2,883,981,733	2,082,147,751
LESS : NON INTEREST EXPENSES			
Operating Expenses		484,790,920	335,978,999
Personnel Expenses		623,808,198	440,124,122
Premises, Equipment and Establishment Expenses		388,738,662	316,700,548
Provision for Staff Retirement Benefits		11,674,051	12,624,026
Other Overhead Expenses		203,885,004	248,407,672
TOTAL NON INTEREST EXPENSES		1,712,896,835	1,353,835,367
PROFIT BEFORE PROVISIONING FOR LOAN LOSSES		1,171,084,898	728,312,384
Less: Provision for/(Reversal of) Loan Losses	17	(11,781,250)	34,385,613
PROFIT BEFORE TAXATION		1,182,866,148	693,926,771
Less : Income Tax Expense	35	358,853,763	332,132,563
PROFIT FOR THE YEAR		824,012,385	361,794,208
Earnings Per Share - Basic/Diluted	37	2.79	1.31
Dividends Per Share		-	-

The Accounting Policies and Notes to the Financial Statements from pages 94 to 123 form an integral part of the Financial Statements.

Statement of Changes in Equity

For the year ended 31 December 2011							
	Note	Stated Capital Rs.	Statutory Reserve Fund Rs.	Revaluation Reserve Rs.	Retained Earnings Rs.	Investment Fund Rs.	Total Rs.
Balance as at 1 January 2010		1,106,404,070	61,837,239	5,645,661	805,773,444	-	1,979,660,414
Rights Issue	26	442,561,632	-	-	-	-	442,561,632
Profit for the Year		-	-	-	361,794,208	-	361,794,208
Transfer to Statutory Reserve Fund	27	-	18,089,710	-	(18,089,710)	-	-
Realisation of Revaluation Reserve	28	-	-	(3,834,178)	3,834,178	-	-
Balance as at 31 December 2010		1,548,965,702	79,926,949	1,811,483	1,153,312,120	-	2,784,016,254
Profit for the Year		-	-	-	824,012,385	-	824,012,385
Transfer to Statutory Reserve Fund	27	-	41,200,619	-	(41,200,619)	-	-
Realisation of Revaluation Reserve	28	-	-	(538,215)	538,215	-	-
Transfer to Investment Fund	29	-	-	-	(161,746,817)	161,746,817	-
Balance as at 31 December 2011		1,548,965,702	121,127,568	1,273,268	1,774,915,284	161,746,817	3,608,028,639

The Accounting Policies and Notes to the Financial Statements from pages 94 to 123 form an integral part of the Financial Statements.

Cash Flow Statement

For the Year ended 31 December		2011	2010
	Note	Rs.	Rs.
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest Received		4,281,465,258	2,986,627,400
Fees and Commission Received	33	455,142,165	293,512,089
Interest Payments		(1,940,134,121)	(1,408,589,972)
Exchange Income	33	186,740,011	121,206,262
Receipts from Other Operating Activities	33	41,397,986	80,292,389
Cash Payments to Employees and Suppliers		(929,394,184)	(680,319,204)
Payments on Other Operating Activities		(685,395,936)	(574,053,728)
Operating Profit Before Changes in Operating Assets and Liabilities		1,409,821,179	818,675,236
(Increase)/Decrease in Operating Assets			
Bills of Exchange		(96,292,942)	10,135,749
Loans and Advances		(11,051,734,844)	(9,255,759,450)
Lease Rentals Receivable		(1,933,758,414)	(484,804,768)
Treasury Bills / Bonds / Reverse Repos		401,362,087	956,927,366
Other Assets		(185,107,905)	(213,188,883)
		(11,455,710,839)	(8,168,014,750)
Increase/(Decrease) in Operating Liabilities			
Deposits		14,059,667,950	5,144,091,139
Borrowings		528,116,266	3,334,694,838
Other Liabilities		129,274,563	458,181,977
Net Cash from Operating Activities before Income Tax		3,261,347,940	768,953,204
Income Tax Paid		(338,477,465)	(242,363,144)
Net Cash Generated from Operating Activities		2,922,870,475	526,590,060
CASH FLOWS FROM INVESTING ACTIVITIES			
(Additions)/Disposals of Investment Securities		237,501,500	22,288,500
(Additions)/Disposals of Dealing Securities		(15,871,125)	(1,545,000)
Acquisition of Property, Plant and Equipment	20	(505,783,372)	(76,984,043)
Acquisition of Intangible Assets	21	(13,323,333)	(20,945,951)
Proceeds from Sale of Property, Plant and Equipment		3,840,065	5,000
Net Cash Used in Investing Activities		(293,636,265)	(77,181,494)
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of Debenture		(50,000,000)	-
Proceeds from Right Issue	26	-	442,561,632
Net Cash Generated from / (Used in) Financing Activities		(50,000,000)	442,561,632
Net Increase in Cash and Cash Equivalents		2,579,234,210	891,970,198
Cash and Cash Equivalents at the Beginning of the Year		2,100,362,197	1,208,391,999
Cash and Cash Equivalents at the End of the Year		4,679,596,407	2,100,362,197
Reconciliation of Cash and Cash Equivalents			
Cash and Short Term Funds		2,430,149,648	1,110,072,502
Statutory Deposit with Central Bank of Sri Lanka		2,250,425,658	1,060,321,276
Due to Foreign Banks		(978,899)	(70,031,581)
		4,679,596,407	2,100,362,197

The Accounting Policies and Notes to the Financial Statements from pages 94 to 123 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 31 December 2011 is 1,096 (2010 – 670). The shares of the Bank have a primary listing on the Colombo Stock Exchange.

Pan Asia Banking Corporation PLC does not have an identifiable parent of its own. Further, the Bank does not have any investments in the form of subsidiary, joint venture or associate.

The Financial Statements for the year ended 31 December 2011 were authorised for issue on 09 February 2012 in accordance with a resolution of the Board of Directors passed on 09 February 2012.

2. PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

The principal activities of the Bank continued to be banking and related activities such as accepting deposits, personal banking, trade financing, resident and non-resident foreign currency operations, travel related services, corporate and retail credit, project financing, lease and hire purchase financing, pawning, 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, Retirement Benefit Liability, Dealing Securities and certain classes of Property, Plant and Equipment are stated at valuation as explained in note 20.4 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. 07 of 2007, Banking Act No. 30 of 1988 and amendments thereto and provide appropriate disclosures as required by Listing Rules of Colombo Stock Exchange.

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 recognised 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 significant uncertainty.

3.5 Going Concern

The Directors have made an assessment of the Bank's 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 are re-classified wherever necessary to comply with the current presentation which is described in Note 42 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. Unrealised gains and losses are dealt with 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 35 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 recognised in full in the Equity Statement.

(c) Value Added Tax on Financial Services

VAT on Financial Services is calculated at the rate of 12% (2010-20%) in accordance with the provisions 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 41 to the Financial Statements.

Notes 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;

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.

4.5 Finance Leases

(a) Lease Receivable

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as “finance leases”. Amounts receivable under finance leases are included under ‘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 based on a classification of advances as given below;

Classification	Period Outstanding	Provision Made Net of Realisable Expenses 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

Period Outstanding	Classification	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 with the Income Statement.

(b) Investment in Treasury Bills/ Bonds held to 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.

(d) Investment in Dealing Securities

Investment in quoted shares held for dealing purposes are initially recorded at the cost and subsequently measured at market value. The resulting gains and losses are recorded in Income Statement.

(e) Investment Securities

These are securities which are acquired and held for yield or capital growth in the medium / long term with the positive intent and ability to hold until maturity. Such securities are recorded at cost. Changes in market values of these securities are not taken into account, unless there is considered to be a diminution in value which is other than temporary.

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 subsequent depreciation and any accumulated impairment losses thereon. All other Property, Plant and Equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

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 recognised 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

Notes to the Financial Statements

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 - "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 capitalised only when it increases the future economic benefits embodied in these assets. All other expenditure is expensed as incurred.

(c) Amortisation

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.

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 realisable value.

5. LIABILITIES & PROVISIONS

5.1 Deposits

All Deposits are carried at amount payable as at the date of Balance Sheet. Interest paid or payable on these deposits are charged to the Income Statement.

5.2 Borrowings from Banks and Financial Institutions

All borrowings from banks and financial institutions are carried at the gross value of the outstanding balance. Interest paid or payable on these borrowings are charged to the Income Statement.

5.3 Provisions

Provisions are recognised 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 - "Provisions, Contingent Liabilities and Contingent Assets".

5.4 General Provisions

As per the Direction issued by the Monetary Board of the Central Bank of Sri Lanka on 5th December 2006, in terms of Section 46 of the Banking Act No 30 of 1988, as amended a general provision was maintained on the total on Balance Sheet performing loans and advances and on Balance Sheet overdue loans and advances, net of interest in suspense and advances secured by cash deposits, gold or government securities with the Bank. As per the subsequently amended direction in 2010, Banks shall reduce the general provision requirement of 1% to 0.5% at a rate of 0.1% per quarter during the five quarters commencing 1st October 2010. Accordingly general provision was maintained at 0.5% as at 31st December 2011.

5.5 Investment Fund Account

In terms of Central Bank of Sri Lanka Guideline dated 29th April 2011, the Bank had made transfers to the Investment Fund Account to build up a permanent fund within the Bank, as follows.

- a) 8% of the profits calculated for the payment of Value Added Tax on Financial Services on dates as specified in the Value Added Tax No.14 of 2002 for the payment of taxes.
- b) 5 % of the profits before tax calculated for the payment of Income tax purposes on dates specified in Section 113 of the Inland Revenue Act No.10 of 2006 for the Self Assessment payment of taxes.

5.6 Proposed Dividends

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

5.7 Commitments and Contingencies

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

5.8 Retirement Benefit Obligations

(a) Defined Benefit Plan – Gratuity

The liability recognised in the Balance Sheet is the present value of the defined benefit plan obligation at the Balance Sheet date with the advice of independent actuary using the Projected Unit Credit (PUC) method as required by Sri Lanka Accounting Standard No.16 (Revised 2006)- “Employee Benefits”.

(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 12% -15% and 3% of gross emoluments of employees to Employees’ Provident Fund and Employees’ Trust Fund respectively.

5.9 Securities Sold under Repurchase Agreements

These are borrowings collateralised by sale of Treasury Bills and Bonds held by the Bank to the counterparty

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 - “Revenue Recognition and Disclosures in the Financial Statements of Banks” and according to the directions issued by the Central Bank of Sri Lanka, the interest receivable is recognised 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 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 - “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 recognised 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.

Notes to the Financial Statements

(c) Income on Discounting of Bills of Exchange

Income on the endorsement of Bills of Exchange is recognised 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 recognised 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 recognised on accrual basis.

(f) Interest and Fees on Credit Cards

Interest and fees on Credit Cards are recognised on accrual basis. Interest recognised 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. At the year-end, the recognised losses are dealt with the Income Statement; where as recognised gains are deferred in other liabilities.

6.2 Expense Recognition

a) Interest Expenses

Interest expenses on interest bearing deposits and other borrowings are recognised on accrual basis.

b) Other Expenses

All other expenditure incurred in the operation of the business and in maintenance of capital assets in a state of efficiency has been charged to the Income Statement on accrual basis.

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 - "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. FUTURE CHANGES IN ACCOUNTING POLICIES

The Bank will be adopting the new Sri Lanka Accounting Standards ("new SLAS") comprising of LKAS and SLFRS applicable for financial periods commencing from 01 January 2012 as issued by the Institute of Chartered Accountants of Sri Lanka. The Bank has commenced reviewing its accounting policies and financial reporting in readiness for the transition. As the Bank has a 31st December year end, priority has been given to considering the preparation of an opening Balance Sheet in accordance with the new SLASs as at 01 January 2012. This will form the basis of accounting for the new SLASs in the future, and is required when the Bank prepares its first new SLAS compliant Financial Statements for the year ending 31 December 2012. Set out below are the key areas where accounting policies will change and may have an impact on the Financial Statements of the Bank. The Bank is in the process of quantifying the impact on the Financial Statements arising from such changes in accounting policies.

a) SLFRS 1 - "First Time Adoption of Sri Lanka Accounting Standards" requires the Bank to prepare and present opening new SLFRS Financial Statements at the date of transition to new SLAS. The Bank shall use the same accounting policies in its opening new SLAS Financial Statements and throughout all periods presented in its first new SLAS Financial Statements. Those accounting policies should comply with each new SLAS effective at the end of 31 December 2012.

b) LKAS 1 - "Presentation of Financial Statements" requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non owner changes in equity are required to be presented

in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. The standard also requires the Bank to disclose information that enables users of its Financial Statements to evaluate the entity's objectives, policies and processes for managing capital. The Bank shall also provide additional disclosures on puttable financial instruments classified as equity instruments.

- c) LKAS 16 - "Property Plant and Equipment" requires a Bank to initially measure an item of Property, Plant and Equipment at cost, using the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period, unless such interest is capitalised in accordance with LKAS 23 - "Borrowing Costs". All site restoration costs and other environmental restoration and similar costs must be estimated and capitalised at initial recognition, in order that such costs can be depreciated over the useful life of the asset. The standard requires depreciation of assets over their useful lives, where the residual value of assets is deducted to arrive at the depreciable value. It also requires that significant components of an asset be evaluated separately for depreciation.
- d) LKAS 32 - "Financial Instruments: Presentation", LKAS 39 - "Financial Instruments: Recognition and Measurement" and SLFRS 7 - "Financial Instruments: Disclosures" will result in changes to the current method of recognising financial assets, financial liabilities and equity instruments. The standard will require measurement of financial assets and financial liabilities at fair value at initial measurement. The subsequent measurement of financial assets classified as fair value through profit and loss and available for sale will be at fair value, with the gains and losses routed through the statements of comprehensive income and other comprehensive income respectively. Financial Assets classified as held to maturity and loans and receivables will be measured subsequently at amortised cost. These assets will need to be assessed for any objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The current method of loan loss provisioning will no longer be applicable under this test. Financial liabilities will be either classified as fair value through profit or loss or at amortised cost. At present, the Bank does not identify, categorise and measure financial assets and liabilities as per the requirements of the standard and certain derivative instruments are not recognised on the Balance Sheet, and hence would require a change in accounting policy.
- e) SLFRS 2 - "Share Based Payments", will require the Bank to reflect in its profit or loss and financial position the effects of share based payment transactions, including expenses associated with share options granted to employees. An entity is required to recognise share based payment transactions when goods are received or services obtained based on the fair value of goods or services or the fair value of equity instruments granted. Hence, the Bank will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the statement of financial performance. This standard is not limited to options and extends to all forms of equity based remuneration and payments.
- f) LKAS 12 - "Income Tax" requires deferred tax to be provided in respect of temporary differences which will arise as a result of adjustments made to comply with the new SLAS.
- g) LKAS 18 - "Revenue" requires the Bank to measure revenue at fair value of the consideration received or receivable. It also specifies recognition criteria for revenue, and the Bank needs to apply such recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction.

Notes to the Financial Statements

	2011	2010
	Rs.	Rs.
9 CASH AND SHORT TERM FUNDS		
Local Currency in Hand	896,218,005	829,834,933
Foreign Currency in Hand	36,544,355	31,293,748
Balances with Foreign Banks	1,497,387,288	248,943,821
	2,430,149,648	1,110,072,502

10 STATUTORY DEPOSIT WITH CENTRAL BANK OF SRI LANKA		
Statutory Deposit with Central Bank of Sri Lanka	2,250,425,658	1,060,321,276

10.1 As required by the provisions of section 93 of Monetary Law Act, a cash balance is required to be maintained with the Central Bank of Sri Lanka according to statutory requirements. Minimum cash reserve requirement as at Balance Sheet date is 8% (2010-7%) of the Rupee deposit liabilities of the Domestic Banking Unit.

	2011	2010
	Rs.	Rs.
11 DEALING SECURITIES		
Quoted Shares (Note 11.1)	16,451,185	1,545,000
	16,451,185	1,545,000

	2011			2010		
	No. of Shares	Cost Rs.	Market Value Rs.	No. of Shares	Cost Rs.	Market Value Rs.
11.1 Quoted Shares						
Union Bank PLC	12,600	315,000	239,400	-	-	-
Free Lanka Capital Holdings PLC	50	250	155	-	-	-
Vallibel One PLC	684,035	17,100,875	16,211,630	-	-	-
Singer Finance PLC	-	-	-	103,000	1,545,000	1,545,000
		17,416,125	16,451,185		1,545,000	1,545,000
Carrying Value			16,451,185			1,545,000

	2011	2010
	Rs.	Rs.
12 GOVERNMENT TREASURY BILLS/BONDS		
Treasury Bills/Bonds - Held to Maturity	5,054,283,516	1,142,000,938
Treasury Bills/Bonds - Held for Trading	165,128,254	3,306,388,262
Treasury Bills/Bonds under Reverse Repurchase Agreements	250,000,000	1,398,634,280
	5,469,411,770	5,847,023,480

Treasury Bills/Bonds amounting to Rs.3,578,781,344/- are pledged as securities against Repo borrowings as at the Balance Sheet date.

13 BILLS OF EXCHANGE		
Export Bills	206,536,615	141,306,474
Import Bills	122,115,089	116,981,852
Local Bills	95,520,747	65,625,474
	424,172,451	323,913,800
Less : Specific Provision (Note 17.2)	(12,758,605)	(13,195,605)
General Provision (Note 17.2)	(1,725,962)	(1,700,570)
Interest in Suspense (Note 17.2)	(41,984,726)	(38,019,017)
	367,703,158	270,998,608

14 LOANS AND ADVANCES

Local Currency		
Overdrafts	10,511,607,248	6,677,807,830
Term Loans, Pledge Loans	7,272,443,605	6,126,571,540
Margin Trading Loans	1,924,657,010	3,408,470,275
Pawning and Ran Loans	7,000,929,437	2,867,780,855
Credit Card Advances	266,505,889	312,207,299
Staff Loans	391,196,676	315,687,520
Trust Certificates	639,737,363	29,940,224
Commercial Papers/Promissory Notes	3,662,450,825	-
	31,669,528,053	19,738,465,543
Foreign Currency		
Import Loans	584,949,877	1,037,253,285
Foreign Currency Overdrafts	39,981,226	31,080,269
Export Loans	168,478,949	169,286,853
Other Foreign Currency Loans	37,181,278	9,827,285
	830,591,330	1,247,447,692
Total	32,500,119,383	20,985,913,235
Less : Specific Provision for Non-Performing Loans and Advances (Note 17.2)	(405,270,099)	(392,503,450)
General Provision (Note 17.2)	(85,804,390)	(106,514,365)
Interest In Suspense (Note 17.2)	(1,312,930,630)	(1,004,727,094)
	30,696,114,264	19,482,168,326

Notes to the Financial Statements

	2011	2010
	Rs.	Rs.
15 INTEREST RECEIVABLE		
Treasury Bills/Bonds/Reverse Repos	220,258,806	204,375,122
Debentures	93,968	87,410
	220,352,774	204,462,532
16 LEASE RENTALS RECEIVABLE		
Gross Investment in Finance Leases	3,795,352,500	1,351,665,430
Less : Unearned Income	(802,740,538)	(290,089,526)
	2,992,611,962	1,061,575,904
Less : Specific Provision for Non-Performing Leases (Note 17.2)	(27,899,098)	(34,237,667)
General Provision (Note 17.2)	(14,652,329)	(8,981,808)
Interest in Suspense (Note 17.2)	(8,980,644)	(11,703,000)
	2,941,079,891	1,006,653,429
16.1 Lease Rentals Receivable within One Year		
Total Lease Rentals Receivable	3,795,352,500	1,351,665,430
Less: Lease Rentals Receivable after One Year from the date of Balance Sheet (Note 16.2)	(2,627,392,899)	(906,706,797)
	1,167,959,601	444,958,633
Less: Unearned Lease Income	(351,680,678)	(133,560,552)
	816,278,923	311,398,081
16.2 Lease Rentals Receivable after One Year But Before 5 Years		
Lease Rentals Receivable after One Year from the date of Balance Sheet	2,627,392,899	906,706,797
Less: Unearned Lease Income	(451,059,860)	(156,528,974)
	2,176,333,039	750,177,823
16.3 Lease Rentals Receivable after 5 Years		

There are no lease rentals due after period of a 5 years.

17 MOVEMENT IN THE PROVISION FOR LOAN LOSSES AND INTEREST IN SUSPENSE

Provision and Interest Suspended against Loans and Advances, Bills of Exchange and Lease Rentals Receivables are as follows;

2011				
	General	Specific	Total	Interest in Suspense
	Rs.	Rs.	Rs.	Rs.
As at the beginning of the year	117,196,743	439,936,722	557,133,465	1,054,449,111
Provision/ (Reversals) made during the year (Note 17.1)	(15,014,062)	8,966,016	(6,048,046)	-
Amounts written off	-	(2,974,936)	(2,974,936)	-
Interest in Suspense Net of Recoveries	-	-	-	309,446,889
As at the end of the year (Note 17.2)	102,182,681	445,927,802	548,110,483	1,363,896,000

2010				
	General	Specific	Total	Interest in Suspense
	Rs.	Rs.	Rs.	Rs.
As at the beginning of the year	59,794,748	496,989,482	556,784,230	1,002,630,390
Provision/ (Reversals) made during the year (Note 17.1)	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 the end of the year (Note 17.2)	117,196,743	439,936,722	557,133,465	1,054,449,111

	2011	2010
	Rs.	Rs.

17.1 Provision for Loan Losses During the Year

Total provision made during the year	72,245,528	114,371,512
Recoveries/Reversals/Transfers during the year	(78,293,574)	(84,319,707)
Amounts Directly written off	(5,733,204)	4,333,808
Net Provision/(Reversal) for the year	(11,781,250)	34,385,613

Notes to the Financial Statements

17.2 Analysis of Provision for Loan Losses and Interest In Suspense

2011			
	Loan Loss Provision		Interest in
	General	Specific	Suspense
	Rs.	Rs.	Rs.
Bills of Exchange (Note 13)	1,725,962	12,758,605	41,984,726
Loans and Advances (Note 14)	85,804,390	405,270,099	1,312,930,630
Lease Rentals Receivable (Note 16)	14,652,329	27,899,098	8,980,644
	102,182,681	445,927,802	1,363,896,000

2010			
	Loan Loss Provision		Interest in
	General	Specific	Suspense
	Rs.	Rs.	Rs.
Bills of Exchange (Note 13)	1,700,570	13,195,605	38,019,017
Loans and Advances (Note 14)	106,514,365	392,503,450	1,004,727,094
Lease Rentals Receivable (Note 16)	8,981,808	34,237,667	11,703,000
	117,196,743	439,936,722	1,054,449,111

17.3 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;

	2011	2010
	Rs '000	Rs '000
Bills of Exchange	95,918	111,941
Loans and Advances	2,446,341	2,026,260
Lease Rentals Receivable	57,063	57,386
	2,599,322	2,195,587
Less: Provision for Loan Losses (Note 17.2)	(548,110)	(557,133)
Interest in Suspense (Note 17.2)	(1,363,896)	(1,054,449)
	687,316	584,005

17.4 Concentration of Credit Risk

Sectorwise 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.

	2011		2010	
	Rs.	%	Rs.	%
Exports	921,603,862	3	508,402,205	2
Tourism and Allied	1,002,624,494	3	216,109,687	1
Industrial	1,785,204,399	5	1,402,472,354	6
Agriculture and Fishing	3,486,857,650	10	2,495,506,324	11
Commercial Trading	2,127,076,155	6	1,349,131,409	6
Imports	2,668,805,685	7	1,785,118,110	8
Consumption	16,970,099,497	46	8,216,481,835	37
Services	4,878,321,361	13	2,807,822,905	12
Housing	95,289,375	1	122,578,872	1
Margin Trading	1,924,657,010	5	3,408,470,275	15
Others	56,364,308	1	59,308,963	1
	35,916,903,796	100	22,371,402,939	100
Loan and Advances (Note 14)	32,500,119,383		20,985,913,235	
Bills of Exchange (Note 13)	424,172,451		323,913,800	
Lease Rentals Receivable (Note 16)	2,992,611,962		1,061,575,904	
	35,916,903,796		22,371,402,939	

	2011	2010
	Rs.	Rs.
18 INVESTMENT SECURITIES		
Shares - Unquoted (Note 18.1)	2,140,000	2,140,000
Debentures - Unquoted (Note 18.2)	11,391,000	11,095,000
Bonds - Unquoted (Note 18.3)	455,640,000	693,437,500
	469,171,000	706,672,500

The Board of Directors are in the opinion that the value of unquoted investments are not less than Rs.469,171,000/- (2010 - Rs.706,672,500/-).

	No. of Shares	2011	2010
		Rs.	Rs.
18.1 Shares - Unquoted			
Credit Information Bureau of Sri Lanka	300	30,000	30,000
Society for Worldwide Interbank Financial Telecommunication - SWIFT	1	110,000	110,000
Lanka Clear (Private) Limited	100,000	1,000,000	1,000,000
Lanka Financial Services Bureau Limited	1,000	1,000,000	1,000,000
		2,140,000	2,140,000
18.2 Debentures - Unquoted			
Bank of Ceylon		11,391,000	11,095,000
		11,391,000	11,095,000

Notes to the Financial Statements

	2011	2010
	Rs.	Rs.
18.3 Bonds - Unquoted		
Sri Lanka Development Bonds (Note 18.3.1)	455,640,000	693,437,500
	455,640,000	693,437,500

18.3.1 The Maturities of the above Sri Lanka Development Bonds are as follows;

Year of Maturity	Rs.	Rs.
2011	-	693,437,500
2014	341,730,000	-
2015	113,910,000	-
	455,640,000	693,437,500

	2011	2010
	Rs.	Rs.
19 OTHER ASSETS		
Deposits and Prepayments	177,764,878	144,289,973
Other Debtors	924,482,430	772,849,430
	1,102,247,308	917,139,403
Less : Provision in respect of Other Debtors	(69,855,878)	(66,575,890)
	1,032,391,430	850,563,513

	Balance	Additions	Disposals	Balance
	As at			As at
	01.01.2011			31.12.2011
	Rs.	Rs.	Rs.	Rs.

20 PROPERTY, PLANT AND EQUIPMENT

20.1 Cost/Valuation

At Cost				
Land	183,969,895	188,603,453	-	372,573,348
Building	155,371,837	44,836,098	-	200,207,935
Office Equipment	110,597,230	96,408,566	(9,236,058)	197,769,738
Computer Hardware	165,247,679	67,740,282	(89,233)	232,898,728
Furniture and Fittings	123,313,351	108,194,973	(5,413,551)	226,094,773
Motor Vehicles	16,044,122	-	-	16,044,122
	754,544,114	505,783,372	(14,738,842)	1,245,588,644
At Valuation				
Office Equipment	27,235,376	-	(1,229,988)	26,005,388
Computer Hardware	86,958,600	-	-	86,958,600
Furniture and Fittings	35,310,842	-	(6,307,687)	29,003,155
	149,504,818	-	(7,537,675)	141,967,143
Total	904,048,932	505,783,372	(22,276,517)	1,387,555,787

	Balance As at 01.01.2011 Rs.	Charge for the year Rs.	Disposals Rs.	Balance As at 31.12.2011 Rs.
20.2 Depreciation				
At Cost				
Building	15,764,290	4,247,649	-	20,011,939
Office Equipments	46,849,775	23,215,958	(4,283,069)	65,782,664
Computer Hardware	69,511,575	29,087,725	(80,750)	98,518,550
Furniture and Fittings	32,152,060	16,372,477	(2,608,071)	45,916,466
Motor Vehicles	12,570,534	3,207,754	-	15,778,288
	176,848,234	76,131,563	(6,971,890)	246,007,907
At Valuation				
Office Equipments	27,235,376	-	(1,229,988)	26,005,388
Computer Hardware	86,958,600	-	-	86,958,600
Furniture and Fittings	21,187,871	2,905,532	(4,283,106)	19,810,297
	135,381,847	2,905,532	(5,513,094)	132,774,285
Total	312,230,081	79,037,095	(12,484,984)	378,782,192

	2011 Rs.	2010 Rs.
20.3 Net Book Values		
At Cost		
Land	372,573,348	183,969,895
Building	180,195,996	139,607,547
Office Equipments	131,987,074	63,747,455
Computer Hardware	134,380,178	95,736,104
Furniture and Fittings	180,178,307	91,161,291
Motor Vehicles	265,834	3,473,588
	999,580,737	577,695,880
At Valuation		
Office Equipments	-	-
Computer Hardware	-	-
Furniture and Fittings	9,192,858	14,122,971
	9,192,858	14,122,971
Total	1,008,773,595	591,818,851

20.4 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

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

2011			
	Cost	Accumulated Depreciation	Net Book Value
	Rs.	Rs.	Rs.
Class of Asset			
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	-

2010			
	Cost	Accumulated Depreciation	Net Book Value
	Rs.	Rs.	Rs.
Class of Asset			
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	-

20.6 Details of Freehold Land and Building

Location/Address	Extent		Cost/Valuation	
	Land Perches	Building Square Feet	Land Rs.	Building Rs.
Head Office and Kollupitiya Branch, No. 450, Galle Road, Colombo 3	23.66	43,317	183,969,895	200,207,935
No. 8, Sea Avenue, Colombo 3	18.55	-	106,166,453	-
No. 10, Sea Avenue, Colombo 3	19.80	-	82,437,000	-
			372,573,348	200,207,935

20.7 Property, Plant and Equipment include fully depreciated assets amounting to Rs.153,867,960/- (2010 - Rs.120,086,517/-).

20.8 There were no Capital Work in Progress outstanding as at the Balance Sheet Date. (2010 - Rs.39,916,317/-). This is included in other Assets).

20.9 During the financial year the Bank acquired Property, Plant and Equipment to the aggregate value of Rs.505,783,372/- (2010- Rs.76,984,043/-) by means of Cash Payments for the purchase of Property, Plant and Equipments.

20.10 There were no Property, Plant and Equipment retired from active use as at the Balance Sheet date.

20.11 There were no restrictions on the title of Property, Plant and Equipment as at the Balance Sheet date.

20.12 There were no items of Property, Plant and Equipments pledged as securities against liabilities as at the Balance Sheet date.

	2011	2010
	Rs.	Rs.
21 INTANGIBLE ASSETS		
Computer Software (Note 21.1)	52,152,185	48,667,017
21.1 Cost		
As at the beginning of the year	165,574,114	144,628,163
Acquired during the year	13,323,333	20,945,951
As at the end of the year	178,897,447	165,574,114
Amortisation		
As at the beginning of the year	116,907,097	108,501,641
Amortised during the year	9,838,165	8,405,456
As at the end of the year	126,745,262	116,907,097
Net Book Value		
As at the beginning of the year	48,667,017	36,126,522
As at the end of the year	52,152,185	48,667,017

21.2 Amortisation Method

Computer Software are amortised over 8 years on a straight line basis. The amortisation of Intangible Assets are included under the Operating Expenses in the Income Statement.

	2011	2010
	Rs.	Rs.
22 DEPOSITS		
Local Currency		
Demand Deposits	3,715,845,642	3,177,708,224
Savings Deposits	5,437,307,904	2,085,075,529
Time Deposits	20,844,396,742	11,528,526,200
Certificates of Deposits	2,722,210,755	2,390,467,878
Margin Deposits	691,333,020	617,335,299
	33,411,094,063	19,799,113,130
Foreign Currency		
Demand Deposits	110,646,526	90,630,441
Savings Deposits	481,979,376	525,654,381
Time Deposits	1,528,739,477	1,057,393,614
Margin Deposits	2,848	2,774
	2,121,368,227	1,673,681,210
	35,532,462,290	21,472,794,340

Notes to the Financial Statements

	2011	2010
	Rs.	Rs.
23 BORROWINGS		
Call Money Borrowings	1,383,458,300	300,000,000
Borrowings under Re-purchase Agreements	3,521,923,756	4,074,165,790
Other Borrowings from Banks	2,550,000	5,650,000
	4,907,932,056	4,379,815,790

	2011	2010
	Rs.	Rs.
24 OTHER LIABILITIES		
Cheques Pending Realisation	619,740,030	600,238,644
Accrued Expenditure and Interest	959,567,845	687,595,240
Claims Payable	521,414,075	570,507,523
Defined Benefit Plan - Retiring Gratuity Obligations (Note 24.1)	46,935,816	40,980,723
Other Creditors	390,880,554	179,126,883
	2,538,538,320	2,078,449,013

24.1 Defined Benefit Plan - Retiring Gratuity Obligations

Balance at the Beginning of the Year	40,980,723	31,575,752
Interest Cost	4,507,880	3,789,090
Current Service Cost	7,753,087	7,398,759
Actuarial Gain/(Loss)	(586,916)	1,437,375
Payments During the Year	(5,718,958)	(3,220,253)
Balance at the end of the Year	46,935,816	40,980,723

Retiring Benefit Obligation as at 31 December 2011 was estimated on the basis of results of the actuarial valuation of Retirement Benefit Obligation as at 31 December 2010 by Messrs. Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries using "Projected Unit Credit Method" (PUC) as recommended by the Sri Lanka Accounting Standard No.16 (Revised 2006), "Employee Benefits".

The principal financial 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), staff turnover rate, early withdrawal from service, retirement on medical grounds, death before and after retirement, etc.

	2011	2010
	Rs.	Rs.
25 DEBENTURES		
Unsecured Redeemable Subordinated Unlisted Debentures (Note 25.1)	-	50,000,000
	-	50,000,000

25.1 On 31st of August 2011, the Bank redeemed Unsecured Redeemable Subordinated Debentures of Rs.50 Mn.

	2011		2010	
	No. of Shares	Amount (Rs.)	No. of Shares	Amount (Rs.)
26 STATED CAPITAL				
Voting Ordinary Shares				
Balance at the Beginning of the Year	147,520,543	1,548,965,702	110,640,407	1,106,404,070
Issue of Shares under Rights Issue	-	-	36,880,136	442,561,632
Sub-Division of Shares (Note 26.1)	147,520,543	-	-	-
Balance at the End of the Year	295,041,086	1,548,965,702	147,520,543	1,548,965,702

26.1 Sub Division of Shares

The shares of the Bank were subdivided on 2nd June 2011 on the basis of 2 for every one share held. The number of shares of the Bank increased from 147,520,543 to 295,041,086 without any change to the Stated Capital of the Bank.

	2011	2010
	Rs.	Rs.
27 STATUTORY RESERVE FUND		
Balance as at the beginning of the year	79,926,949	61,837,239
Transfer to Reserve Fund	41,200,619	18,089,710
Balance as at the end of the year	121,127,568	79,926,949

5% 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.

	2011	2010
	Rs.	Rs.
28 REVALUATION RESERVE		
Balance as at the beginning of the year	1,811,483	5,645,661
Realisation of Revaluation Reserve	(538,215)	(3,834,178)
Balance as at the end of the year	1,273,268	1,811,483
29 INVESTMENT FUND		
Balance as at the beginning of the year	-	-
Transferred during the year	161,746,817	-
Balance as at the end of the year	161,746,817	-

"In terms of Guideline issued by Central Bank of Sri Lanka dated 29th April 2011, the Bank has made transfers to the Investment Fund Account to build up a permanent fund within the Bank.

- i) 8% of the profits calculated for the payment of Value Added Tax on Financial Services on dates as specified in the Value Added Tax No.14 of 2002 for the payment of taxes.
- ii) 5% of the profits before tax calculated for the payment of Income tax purposes on dates specified in Section 113 of the Inland Revenue Act No.10 of 2006 for the Self Assessment payment of taxes."

Details of the Utilisation of Investment Fund Account is disclosed in Note 43 to the Financial Statements.

Notes to the Financial Statements

	2011	2010
	Rs.	Rs.
30 GROSS INCOME		
Summary		
30.1 Gross Income	5,154,930,598	3,484,410,507
30.2 Interest Income (Note 31)	4,448,864,998	3,027,659,410
Other Income (Note 33)	706,065,600	456,751,097
	5,154,930,598	3,484,410,507
31 INTEREST INCOME		
Loans and Advances	3,542,767,584	2,171,544,770
Treasury Bills/ Bonds and Placements with Other Banks	560,124,111	713,914,207
Leases	285,957,740	114,732,174
Others	60,015,563	27,468,259
	4,448,864,998	3,027,659,410
32 INTEREST EXPENSE		
Customer Deposits	1,980,780,029	1,208,360,631
Borrowings - Banks	123,773,312	43,153,208
- Others	162,689,633	143,931,081
Debentures	3,705,891	6,817,836
	2,270,948,865	1,402,262,756
33 OTHER INCOME		
Fee and Commission Income	455,142,165	293,512,089
Net Foreign Exchange Gain	186,740,011	121,206,262
Other Operating Income	41,397,986	80,292,389
Gain/(Loss) from Treasury Bills/Bonds/Shares held for Trading	22,785,438	(38,259,643)
	706,065,600	456,751,097
34 NON INTEREST EXPENSES		
Non Interest Expenses, among others includes following:		
Directors' Emoluments	18,148,570	12,730,084
Auditors' Remuneration - Audit Fees	2,690,000	2,817,136
- Non Audit Fees	1,690,000	-
- Under/(Over) provision in respect of previous years	(540,000)	(336,000)
Depreciation on Property, Plant & Equipment	79,037,095	80,705,915
Amortisation of Intangible Assets	9,838,165	8,405,456
Expenses on Litigation	6,497,250	6,729,904
Defined Contribution Plan Costs - EPF & ETF	70,310,615	50,682,178
Defined Benefit Plan Costs - Retiring Gratuity	11,674,051	12,624,026
VAT on Financial Services	188,806,370	240,342,496
Advertising	14,287,950	20,203,717

	2011	2010
	Rs.	Rs.

35 TAX EXPENSE

Income Tax Expense for the year (Note 35.1)	299,642,641	259,172,889
Charge/ (Reversal) in respect of Deferred Taxation (Note 36)	59,211,122	72,959,674
	358,853,763	332,132,563

35.1 Reconciliation between Current Tax Expense and Accounting Profit

Accounting Profit (Profit before Tax)	1,182,866,148	693,926,771
Aggregate Disallowed items	770,047,564	648,969,670
Aggregate Allowable Expenses	(855,392,419)	(570,098,690)
Income not subject to Tax	(27,369,003)	(43,247,041)
Taxable Income	1,070,152,290	729,550,710
Statutory Tax Rate	28%	35%
Current Income Tax Expense	299,642,641	255,342,748
Social Responsibility Levy (2010-1.5%)	-	3,830,141
	299,642,641	259,172,889

35.2 The Profits and Income of the Bank is liable for income tax at the rate of 28% for Year of Assessment 2011/12 (2010 - 35%). Year of Assessment 2011/12 onwards the Bank is not liable for Social Responsibility Levy (2010 - 1.5%).

	2011	2010
	Rs.	Rs.

36 DEFERRED TAX LIABILITY

Movement in Deferred Taxation

Balance as at the beginning of the year	83,486,715	10,527,041
Charge for the year (Note 35)	59,211,122	72,959,674
Balance as at the end of the year	142,697,837	83,486,715

36.1 Deferred Tax Liability

Accelerated depreciation allowances for tax purposes - Lease Rentals Receivable	90,268,005	41,464,286
Accelerated depreciation allowances for tax purposes - Property, Plant and Equipment	54,951,622	50,867,370
Accelerated depreciation allowances for tax purposes - Intangible Assets	10,620,238	5,498,312
Defined Benefit Plan Obligation	(13,142,028)	(14,343,253)
Net Deferred Tax Liability	142,697,837	83,486,715

Notes to the Financial Statements

37 EARNINGS PER SHARE

37.1 Basic Earnings Per Share is calculated by dividing the earnings attributable to ordinary shareholders' by the weighted average number of ordinary shares outstanding during the year. Number of ordinary shares for the year 2010 have been adjusted to reflect the increase in number of shares consequent to the subdivision on 2nd June 2011. Accordingly, Earnings Per Share has been adjusted retrospectively as per Sri Lanka Accounting Standard No.34 (Revised 2005), "Earnings Per Share". The following reflects the income and share data used in the Basic Earnings Per Share computations.

	2011	2010
Profit attributable to Ordinary Shareholders' (Rs.)	824,012,385	361,794,208
Weighted Average number of Ordinary Shares in issue	295,041,086	276,954,276
Earnings Per Share (Rs.)	2.79	1.31

37.2 As there were no potential ordinary shares outstanding at year end Diluted Earnings per Share is equal to the Basic Earnings per Share for the year.

38 COMMITMENTS AND CONTINGENCIES

38.1 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.

	2011	2010
	Rs.	Rs. Re-Stated
Guarantees	2,765,176,328	2,734,754,792
Documentary Credit (Note 42.2)	5,350,224,191	1,958,722,082
Forward Exchange Contracts (Net)	(197,346)	3,163,393
Collection Bills (Note 42.2)	2,631,503,037	2,265,226,858
Acceptances	99,176,930	18,206,895
	10,845,883,140	6,980,074,020

38.2 Commitments

Undrawn Credit Lines (Note 42.2)	2,941,050,295	1,440,743,854
	2,941,050,295	1,440,743,854
Total	13,786,933,435	8,420,817,874

The Bank does not have significant Capital Commitments as at the Balance Sheet date.

38.3 Material litigation against the Bank

i. 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 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 02/06/2006 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. The appeal case (No. SC/HC/36/2006) is fixed for Argument on 11/06/2012. 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.

ii. 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.11.5 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 02/03/2012)). 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 (Written Submissions on 15/02/2012). 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 02/06/2006)), 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 Case No. 66/08) (filed by Bentota Multi Purpose Cooperative Society Ltd (the judgment given in favour of the Bank on 5/05/2010)). District Court Matara Case No.510/Spl (filed by Dickwella Multi Purpose Cooperative Society Ltd) Plaint dismissed after the judgment given in favour of the Bank on 21/04/2011.

However, the Bank is yet to receive a sum of Rs.1 Mn due on one Bank Guarantee relating to the following case:

District Court of Colombo Case No. 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 to be fixed before a special Bench (of three judges). For the same to be called on 28/02/2012.

Notes to the Financial Statements

iii. Cases regarding Transwater Engineering (Pvt) Ltd.

The Bank on a secured basis 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 now laidby, 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 due to be called on 05/06/2012.

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 now laidby due to the appeal lodged by the PRDA against the said order, (SC(CHC) 43A/2008). The Court directed the parties to consider a settlement and the case would be called for the said consideration on 30/03/2012.

iv. Overseas Reality (Ceylon) Limited Case No. HC (Civil) 118/99(1) Supreme Court – SC (CHC) Appeal 27/2009

The 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/- for 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.

v. Partners of Asian Trading Agency – Case No.00002/08/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 05/03/2012. Further, the customer's application to file an amended answer has been rejected by the Court and against the said order the customer had appealed to High Court (Civil) Appellate seeking leave (Case No.HCCA-150/2011 LA) and the same to be mentioned on 24/02/2012.

vi. Proprietor of Ceylon Packaging – Case No. CHC 493/2009/MR

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 15/02/2012. 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.

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

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 13/03/2012 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. Also both Banks are negotiating with the relatives of the customer for a settlement and the Bank had obtained approval of the Central Bank to sell the two properties to the sister of the customer for Rs.8 Mn.

viii. 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 30/04/2012 to take steps by the Plaintiff.

ix. 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 leave to set aside the order given in the District Court (granting Interim relief) was delivered in favour of the Bank on 13/01/2012. Accordingly, the Bank to proceed with parate sale after the appealable period. The District Court case to be called on 17/04/2012 to ascertain whether the Plaintiffs wish to proceed with the case.

x. Lanka Tractors Ltd

The Bank lodged its claim in the winding up application filed by HNB (DC Colombo case No 17/99/CO). However, due to the delay in final determination of the winding up application, the Bank took steps to sell the property mortgaged to the Bank by parate execution. The sale was stayed by a stay order obtained by HNB in the said winding up application. The said land is now vested in the State under the recently passed Act of Revival of underperforming Enterprises and unutilised Assets. The Bank has already indicated its interest the competent authority and would be lodging its claim before the compensation tribunal.

xi. Somerville & Company (Pvt) Ltd.

- a. Case No. CHC 657/10/MR filed for the recovery of the total balance outstanding due to the Bank and to enforce mortgages of immovable properties, book debts and personal guarantees given by the Directors of the Company. The summons will be issued after registration of the Lis pendens.
- b. CHC 184/08/MR – The mortgage bond action filed by NTB over the property where Pan Asia Bank is having secondary, tertiary and quarterly mortgages. The case is coming up for further trial on 26/03/2012. The Bank has already lodged papers regarding our Bonds in the said case.
- c. CHC 56/1998(1) – The case where the Bank has given a guarantee bond to court in a sum of Rupees 21.9 Mn. The company is trying to get the said guarantee released and issue a fresh guarantee to court from another bank. We have filed papers objecting to same with the intention of retaining the said monies to recover the monies due to the Bank. The order was given in favour of the petitioner on 24/06/2011 and their application was allowed. We have filed two separate appeal cases in the Supreme Court & the Court of Appeal against the said Order and SC HC LA 64/2011 is coming up on 08/02/2012 for support and CA(PHC)APN 73/2011 is to be mentioned on 14/02/2012 to see the outcome of the SC Application.

Notes to the Financial Statements

39 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.	2011 Rs.	2010 Rs.
Interest Bearing Assets							
Bills of Exchange	366,266,785	718,187	143,637	143,637	430,912	367,703,158	270,998,608
Loans and Advances	11,981,150,093	9,669,356,157	5,057,165,130	2,975,148,481	1,013,294,403	30,696,114,264	19,482,168,326
Lease Receivable	252,317,938	538,194,950	1,490,131,168	660,435,835	-	2,941,079,891	1,006,653,429
Balances with Foreign Banks	1,497,387,288	-	-	-	-	1,497,387,288	248,943,817
Treasury Bills and Bonds	1,583,640,014	2,131,321,305	1,754,450,451	-	-	5,469,411,770	5,847,023,480
Dealing Securities	16,451,185	-	-	-	-	16,451,185	1,545,000
Investment Securities	-	11,391,000	341,730,000	113,910,000	2,140,000	469,171,000	706,672,500
	15,697,213,303	12,350,981,599	8,643,620,386	3,749,637,953	1,015,865,315	41,457,318,556	27,564,005,160
Non-Interest Bearing Assets							
Cash in Hand	932,762,360	-	-	-	-	932,762,360	861,128,686
Statutory Deposit with CBSL	2,250,425,658	-	-	-	-	2,250,425,658	1,060,321,276
Property, Plant and Equipment	-	-	-	-	1,008,773,595	1,008,773,595	591,818,851
Intangible Assets	-	-	-	-	52,152,185	52,152,185	48,667,017
Other Assets and Interest Receivables	1,139,646,473	74,640,195	-	-	38,457,536	1,252,744,204	1,055,026,044
	4,322,834,491	74,640,195	-	-	1,099,383,316	5,496,858,002	3,616,961,874
TOTAL ASSETS	20,020,047,794	12,425,621,794	8,643,620,386	3,749,637,953	2,115,248,631	46,954,176,558	31,180,967,034
Interest Bearing Liabilities							
Deposits	9,524,260,695	11,210,545,716	2,312,688,381	2,195,580,472	5,771,558,990	31,014,634,254	17,587,117,602
Borrowings including due to Foreign Banks	4,890,460,955	16,875,000	1,260,000	315,000	-	4,908,910,955	4,449,847,370
Debentures	-	-	-	-	-	-	50,000,000
	14,414,721,650	11,227,420,716	2,313,948,381	2,195,895,472	5,771,558,990	35,923,545,209	22,086,964,972
Non-Interest Bearing Liabilities							
Deposits	1,807,131,214	1,581,239,813	-	-	1,129,457,009	4,517,828,036	3,885,676,738
Other Liabilities and Tax Payable	1,812,591,248	898,575,466	29,574,650	21,083,724	142,949,586	2,904,774,674	2,424,309,070
Shareholders' Funds	-	-	-	-	3,608,028,639	3,608,028,639	2,784,016,254
	3,619,722,462	2,479,815,279	29,574,650	21,083,724	4,880,435,234	11,030,631,349	9,094,002,062
TOTAL LIABILITIES	18,034,444,112	13,707,235,995	2,343,523,031	2,216,979,196	10,651,994,224	46,954,176,558	31,180,967,034

	2011	2010
	Rs.	Rs.
40 RELATED PARTY TRANSACTIONS		
40.1 Compensation Paid to Key Management Personnel		
Short-term Benefits	54,510,943	51,270,001
Retirement Benefits	1,125,000	-
Post Employment Benefits	-	-
	55,635,943	51,270,001

The Bank has identified and disclosed personnel those having authority and responsibility for planning, directing and controlling the activities of the entity as “Key Management Personnel” in accordance with Sri Lanka Accounting Standard 30 (Revised 2005), “Related Party Disclosures”. Accordingly, Board of Directors, Chief Executive Officer and Members of the Corporate Management Team have been identified as “Key Management Personnel”.

40.2 Other Related Party Transactions and Balances

	Key Management Personnel and Close Family Members		Other Related Parties	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Assets				
Loans and Advances	125,985,814	39,132,931	515,634,377	255,628,125
Credit Cards	653,112	787,478	647,565	127,332
Interest Income	14,769,171	1,866,667	39,008,275	7,463,740
Liabilities				
Deposits and Borrowings	26,251,310	16,159,669	1,599,895,130	721,168,644
Interest Expenditure	1,293,522	400,559	81,413,516	31,058,246
Off Balance Sheet Items				
Guarantees, Letter of Credit and Others	300,000	300,000	168,789,650	88,518,327

Notes to the Financial Statements

41 EVENTS AFTER BALANCE SHEET DATE

The Board of Directors have recommended a payment of final dividend of Rs.1/- per share for the year ended 31st December 2011 (2010-Nil), which is to be approved at the Annual General Meeting of Shareholders' to be held on 30th March 2012. The proposed final dividend has not been recognised as liability as at 31st December 2011 in accordance with Sri Lanka Accounting Standard 12 (Revised 2005), "Events after Balance Sheet Date".

Other than above there were no events after Balance Sheet Date which require adjustments to or disclosures in the Financial Statements.

42 RE-CLASSIFICATION AND RE-STATEMENT OF COMPARATIVE INFORMATION

42.1 Re-Classification

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

		2010		
		As Reported Previously	Increase/ (Decrease)	Current Presentation
		Rs.	Rs.	Rs.
Balance Sheet				
a)	Investment Securities	726,717,500	(20,045,000)	706,672,500
	Loans and Advances	19,452,228,102	29,940,224	19,482,168,326
	Interest Receivable	215,902,756	(11,440,224)	204,462,532
	Dealing Securities	-	1,545,000	1,545,000
		20,394,848,358	-	20,394,848,358
Income Statement				
Interest Income				
a)	Loans and Advances	2,161,439,070	10,105,700	2,171,544,770
	Treasury Bills/ Bonds and Placements with Other Banks	724,019,907	(10,105,700)	713,914,207
		2,885,458,977	-	2,885,458,977

Trust Certificates, Interest Income/Interest Receivable on Trust Certificates and Quoted Shares have been re-classified for better presentation.

		2010		
		As Reported Previously	Re-Statement	Current Presentation
		Rs.	Rs.	Rs.
42.2 Re-Statement				
	Commitments and Contingencies	4,497,190,459	3,923,627,415	8,420,817,874
		4,497,190,459	3,923,627,415	8,420,817,874

Bills for Collection and Undrawn Credit Lines are considered as a part of Commitments and Contingencies for better presentation.

43 INVESTMENT FUND ACCOUNT (IFA)

In terms of Guideline issued by Central Bank of Sri Lanka dated 29th April 2011 on "Operation of Investment Fund Account", the Bank has disclosed followings;

43.1 Lendings from IFA

Sector	Number of Loans granted	Amount Rs.	Interest Rates	Tenure Years
Agriculture	3	2,366,705	11.25%	5
Factory/Mills Modernisation	2	4,812,068	11.25% - 12.75%	5
Small and Medium Enterprises	14	57,080,535	11.25% - 12.75%	5
Information Technology and BPO	1	10,000,000	12.75%	5
Education	1	10,800,000	11.25%	5
Construction of Hotels and for related purposes	1	1,500,000	13.00%	5
		<u>86,559,308</u>		

43.2 Investments in Government Securities from IFA

The funds in the Investment Fund Account of Rs.75,187,509/- which has not being utilised for Lendings has been invested in Government of Sri Lanka Treasury Bonds at the prevailing Market Rates.

44 EXPOSURE TO STOCK MARKET

In terms of Central Bank of Sri Lanka Direction No.03 of 2011 on "Exposure to Stock Market", the Bank has disclosed the following outstandings as at the Balance Sheet Date;

	2011 Rs.
On Balance Sheet Exposure	4,082,301,544
Off Balance Sheet Exposure	Nil

Disclosure of Related Party Transactions in terms of CSE Requirements

In terms of the Section 7 of the Continuing Listing Requirements of Colombo Stock Exchange Related Party Transactions exceeding 10% of the equity or 5% of total assets of the Bank are disclosed below;

Name of the Related Party	Value Date	Relationship to the Bank	Amount Rs.	Terms of Transactions	Rationale of the Transaction
LB Finance PLC	14th December 2011	Common Directorships	317,069,844	3 Months (at a rate of 8.15%)	Investment Purpose

Disclosure of Net Accomodation to Key Management Personnel and Related Parties in terms of CBSL Requirements

In terms of Banking Act Direction No.11 of 2007 on Corporate Governance of Licence Commercial Banks the following disclosures are made; Net accomodations granted to Key Management Personnel and Companies having a Substantial Interest amounted to Rs.126,579,655/- and Rs.776,670,000/-, which represent 3.62% and 22.19% of the Total Regulatory Capital respectively.

Capital Adequacy Computation

Capital Base as at 31st December,	2011	2010
	Basel II Rs'000	Basel II Rs'000
TIER 1		
Paid up Ordinary Shares/Stated Capital	1,548,966	1,548,966
Statutory Reserve Fund	121,128	79,927
Published Retained Profits	1,774,915	1,153,312
General & Other Reserves	161,747	-
50% investments in the capital of other banks and financial institutions	(120)	-
Total Tier 1 Capital	3,606,636	2,782,205
TIER 2		
Revaluation Reserves	-	-
General Provisions	102,183	117,196
Debentures	-	6,667
50% investments in the capital of other banks and financial institutions	(120)	-
Total Tier 2 Capital	102,063	123,863
Total Tier 1 & Tier 2 Capital	3,708,699	2,906,068
Capital Base	3,708,699	2,906,068
COMPUTATION OF RATIOS		
Core Capital (Tier 1)	3,606,636	2,782,205
Total Capital Base	3,708,699	2,906,068
Risk Weighted Assets		
Risk Weighted amount for Credit Risk	22,870,428	14,904,632
Risk Weighted amount for Market Risk	64,169	1,402,580
Risk Weighted amount for Operational Risk	3,475,091	2,754,457
Total Risk Weighted amount	26,409,688	19,061,669
Core Capital Ratio (Minimum Requirement 5%)		
Total Tier - I Capital	3,606,636	2,782,205
Total Risk Weighted Assets	26,409,688	19,061,669
	13.66%	14.60%
Total Capital Ratio (Minimum Requirement 10%)		
Total Capital	3,708,699	2,906,068
Total Risk Weighted Assets	26,409,688	19,061,669
	14.04%	15.25%

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

	Balance	Risk	Risk Adjusted
As at 31st December 2011	Rs'000	Weights %	Balance Rs'000
Assets - exposures			
- To Central Government and CBSL	8,395,736	-	-
- To Banks	1,508,872	20 - 150	665,780
- To Financial Institutions	939,335	20 - 150	694,140
- To Corporates	4,691,001	20 - 150	3,608,730
- To Retail Sector	13,927,000	75 - 100	11,998,275
- Secured on Residential property mortgages	733,824	50 - 100	366,912
- Classified as Non Performing Advances	789,499	50 - 150	1,064,323
- Claims Secured by Commercial real Estate	211,144	100	211,144
- Cash Items	13,748,038	0 - 20	19,104
- Other Assets	2,111,908	100	2,111,908
Total Assets	47,056,357		20,740,316

OFF BALANCE SHEET EXPOSURE

	Amount of	Credit	Credit	Risk	Risk
As at 31st December 2011	Off - Balance Sheet Items Rs'000	Conversion Factor %	Equivalent Amount Rs'000	Weights %	Adjusted Balance Rs'000
Financial guarantees, Bank acceptances and other guarantees	984,454	100	984,454	0 - 100	984,454
Performance related guarantees and warranties, stand by credit lines	11,291	50	5,646	0 - 100	5,646
Shipping guarantees	311,773	20	62,355	0 - 100	62,355
Documentary Letter of Credit	5,388,283	20	1,077,657	0 - 100	1,077,657
Undrawn term and overdraft facilities < 1 year	2,978,102	0	-	0 - 100	-
>1 year	-	-	-	0 - 100	-
Foreign Exchange Contracts	-	2	-	0 - 100	-
Foreign Interest Rate Contracts	-	2	-	0 - 100	-
Total Off-Balance Sheet Exposures	9,673,903		2,130,112		2,130,112

MARKET RISK

	Capital Charge	Risk Adjusted Balance
As at 31st December 2011	Rs'000	Rs'000
Interest rate	1,732	17,315
Equity	3,242	32,424
Foreign Exchange & Gold	1,443	14,430
Total Risk Adjusted Balance for Market Risk	6,417	64,169

OPERATIONAL RISK

	Capital Charge	Risk Adjusted Balance
As at 31st December 2011	Rs'000	Rs'000
Average Gross income	2,316,727	
15% of Average Gross income	347,509	
Total Risk Adjusted Balance for Operational Risk	347,509	3,475,091

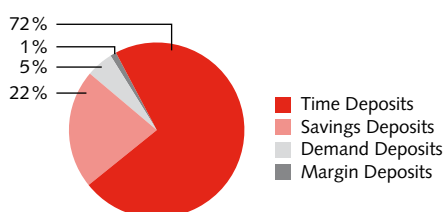
Quarterly Statistics

For the Quarter ended	2011				2010			
	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
BALANCE SHEET DATA								
Total Assets	46,954,177	43,464,549	40,508,757	34,606,418	31,180,967	27,802,379	23,909,464	22,176,276
Loans, Advances & Leases	34,004,897	28,393,572	27,524,476	25,057,974	20,759,820	16,769,212	13,265,523	12,423,296
Deposits	35,532,462	32,999,867	30,792,158	26,226,304	21,472,794	18,916,944	17,883,198	16,581,733
Debentures	-	-	50,000	50,000	50,000	50,000	50,000	50,000
Shareholders' Funds	3,608,029	3,398,698	3,190,071	2,980,036	2,784,016	2,702,174	2,573,003	2,047,169
Average assets	40,063,085	38,137,744	36,344,917	34,424,357	25,419,072	23,838,885	22,716,879	21,602,120
INCOME STATEMENT DATA								
Net Interest Income	591,839	561,255	517,741	507,081	495,433	413,907	376,264	339,792
Foreign Exchange Income	55,066	44,240	45,770	41,664	35,794	30,733	28,958	25,721
Other Income	130,898	127,134	87,255	174,039	30,558	168,906	69,979	66,104
Total Revenue	777,803	732,629	650,766	722,784	561,785	613,546	475,201	431,617
Provision for Credit and Other Losses	(15,834)	7,560	32,058	(12,003)	(9,035)	(9,513)	(7,616)	(8,222)
Non-interest Expenses	(476,933)	(454,760)	(404,281)	(376,923)	(384,709)	(358,884)	(319,631)	(290,612)
Provision for Income tax	(75,850)	(76,657)	(68,509)	(137,838)	(86,198)	(115,979)	(64,681)	(65,275)
Net Profit after Tax	209,186	208,772	210,034	196,020	81,843	129,170	83,273	67,508

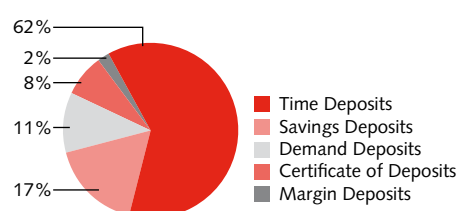
Analysis of Deposits

	2011	2010	2009	2008	2007
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
LOCAL CURRENCY DEPOSITS					
Demand Deposits	3,715,846	3,177,708	3,117,691	2,180,473	2,248,072
Savings Deposits	5,437,308	2,085,076	1,435,211	1,377,185	1,011,679
Time Deposits	20,844,397	11,528,526	8,493,846	7,255,139	6,266,933
Certificate of Deposits	2,722,211	2,390,468	1,713,726	1,844,604	1,166,660
Margin Deposits	691,332	617,335	320,262	243,100	323,060
	33,411,094	19,799,113	15,080,736	12,900,501	11,016,404
FOREIGN CURRENCY DEPOSITS					
Demand Deposits	110,647	90,630	89,620	118,514	119,001
Savings Deposits	481,979	525,654	648,237	850,771	332,650
Time Deposits	1,528,739	1,057,394	504,344	578,578	661,664
Margin Deposits	3	3	5,766	3	494
	2,121,368	1,673,681	1,247,967	1,547,866	1,113,809
Total Deposits	35,532,462	21,472,794	16,328,703	14,448,367	12,130,213

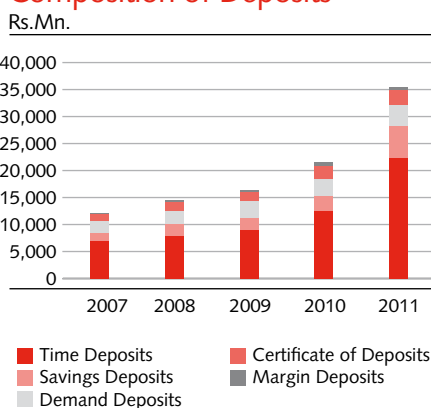
Foreign Currency Deposits 2011



Local Currency Deposits 2011



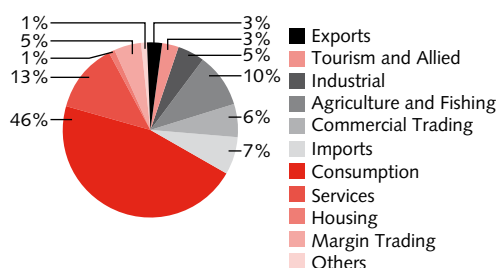
Composition of Deposits



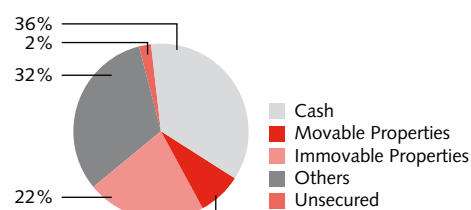
Analysis of Advances

	2011	2010	2009	2008	2007
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
Overdrafts	10,551,588	6,708,888	4,315,339	5,066,498	4,886,141
Import Loans	584,950	1,037,253	436,158	404,187	493,202
Export Loans	168,479	169,287	188,034	169,061	222,302
Term Loans	7,309,625	6,136,399	4,433,502	5,407,378	3,594,608
Pawning and Ran Loans	7,000,929	2,867,781	1,492,170	698,778	336,075
Staff Loans	391,197	315,688	212,218	183,305	154,014
Credit Card Advances	266,506	312,207	382,869	389,464	264,846
Trust Certificates	639,737	29,940	79,996	124,474	-
Commercial Papers	3,662,451	-	-	57,975	173,684
Margin Trading	1,924,657	3,408,470	127,159	-	-
	32,500,119	20,985,913	11,667,445	12,501,120	10,124,872
Bills of Exchange	424,173	323,913	331,246	382,567	397,508
Lease Rental Receivable	2,992,612	1,061,576	578,953	688,625	848,396
Total Loans and Advances	35,916,904	22,371,403	12,577,644	13,572,312	11,370,776

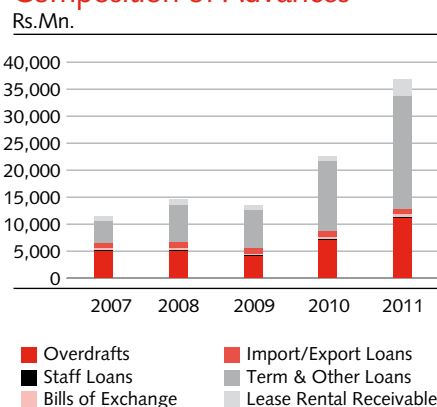
Sector wise Advances 2011



Advances by Security 2011



Composition of Advances

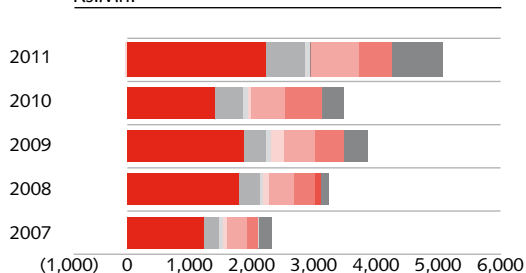


Sources & Distribution of Income

	2011	2010	2009	2008	2007
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
SOURCES OF INCOME					
Interest Income	4,448,865	3,027,659	3,159,665	2,864,603	1,968,545
Commission Income	455,142	293,513	259,399	284,651	249,695
Foreign Exchange Income	186,740	121,206	81,965	71,866	90,246
Other Income	64,184	42,033	361,036	20,037	8,657
	5,154,931	3,484,411	3,862,065	3,241,157	2,317,143
DISTRIBUTION OF INCOME					
To Depositors/Debenture holders as interest	2,270,949	1,402,263	1,878,014	1,798,441	1,223,534
To Employees as Emoluments	635,483	452,748	352,642	323,160	254,565
Depreciation set aside	88,875	89,111	77,909	64,272	53,713
Provision for possible loan Losses/(Reversals)	(11,781)	34,386	209,123	95,451	60,381
To Providers of Suppliers and Services	797,443	558,437	499,389	398,966	321,560
To Government as Taxation (Including Deffered Tax)	549,950	585,672	457,171	337,234	187,315
Income Tax	358,854	332,133	277,330	198,210	100,712
Financial Services Value Added Tax	188,806	240,342	166,337	133,505	83,702
Debit Tax	2,290	13,197	13,504	5,519	2,901
To Shareholders' as Dividends	-	-	-	82,980	-
To Reserves	824,012	361,794	387,817	140,653	216,075
	5,154,931	3,484,411	3,862,065	3,241,157	2,317,143

Distribution of Income

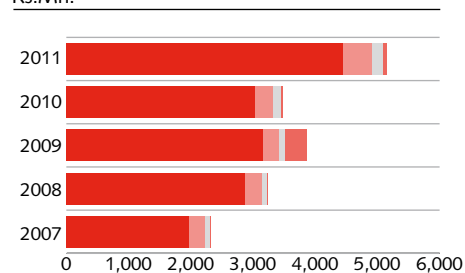
Rs.Mn.



- To Depositors / Debenture holders as interest
- To Employees as Emoluments
- Depreciation set aside
- Provision for possible loan losses/(Reversals)
- To Providers of Suppliers and Services
- To Government as Taxation (Including Deffered Tax)
- To Shareholders as Dividends
- To Reserves

Sources of Income

Rs.Mn.

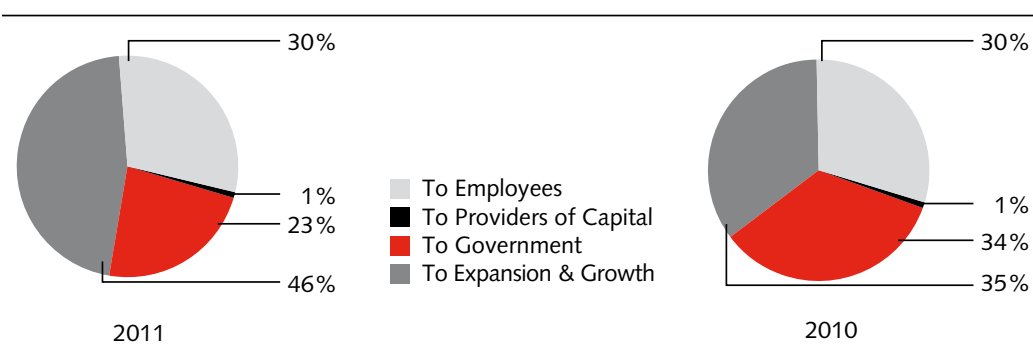


- Interest Income
- Commission
- Foreign Exchange
- Other Income

Value Added Statement

	2011		2010	
	Rs '000	%	Rs '000	%
VALUE ADDED				
Income from Banking Services	5,154,931		3,484,411	
Cost of Services	(3,064,686)		(1,953,881)	
Value added by Banking Services	2,090,245		1,530,530	
Loan Losses (Provisions)/Reversals	11,781		(34,386)	
	2,102,026		1,496,144	
DISTRIBUTION OF VALUE ADDED				
To Employees				
Salaries & Other Benefits	635,483	30	452,748	30
To Providers of Capital				
Dividends to Shareholders'	-		-	
Interest to Debenture holders	3,706		6,818	
	3,706	1	6,818	1
To Government				
Income Tax	299,643		259,173	
Financial Service Value Added Tax	188,806		240,342	
Debit Tax	2,290		13,198	
	490,739	23	512,713	34
To Expansion & Growth				
Retained Profit	824,012		361,794	
Depreciation & Amortisation	88,875		89,111	
Deferred Taxation	59,211		72,960	
	972,098	46	523,865	35
	2,102,026	100	1,496,144	100

Distribution of Value Added



Ten Year Statistical Summary

Rs. Mn.

For the Year ended December 31,	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
OPERATING RESULTS										
Income	750.36	752.53	1,033.03	1,224.66	1,580.84	2,317.14	3,241.16	3,862.07	3,484.41	5,154.93
Interest Income	650.71	631.83	832.41	993.03	1,289.08	1,968.55	2,864.60	3,159.66	3,027.66	4,448.86
Interest Expense	410.24	360.59	476.85	565.95	754.00	1,223.53	1,798.44	1,878.01	1,402.26	2,270.95
Net Interest Income	240.47	271.24	355.56	427.08	535.08	745.02	1,066.16	1,281.65	1,625.40	2,177.91
Exchange Income	27.36	32.57	61.49	58.70	90.88	90.25	71.87	81.97	121.21	186.74
Fee based Income	72.29	88.13	139.13	172.93	200.88	258.35	304.69	620.44	335.54	519.33
Operating Expenses & Provisions	421.26	487.29	501.32	506.48	576.67	776.83	1,020.88	1,318.91	1,388.22	1,701.12
Profit/(Loss) before Income Tax	(81.14)	(95.35)	54.86	152.23	250.17	316.79	421.84	665.15	693.93	1,182.86
Income tax on Profits	-	-	13.69	43.90	86.43	100.71	198.21	277.33	332.13	358.85
PROFIT/(LOSS) AFTER TAXATION	(81.14)	(95.35)	41.17	108.33	163.74	216.08	223.63	387.82	361.79	824.01
As at December 31, ASSETS										
Cash and Short Term Funds	307.91	310.91	663.78	780.64	863.85	1,030.63	903.09	682.85	1,110.07	2,430.15
Statutory Deposit with Central Bank of Sri Lanka	277.12	290.02	446.35	609.08	704.06	856.28	704.59	807.21	1,060.32	2,250.43
Government Treasury Bills/Bonds	120.66	1,424.75	1,426.72	1,865.81	1,679.06	1,409.58	3,424.11	6,842.21	5,847.02	5,469.41
Bills of Exchange	290.63	344.69	379.05	485.16	467.30	363.93	331.59	280.41	271.00	367.70
Loans and Advances	3,578.01	3,663.15	5,398.96	6,042.27	6,942.05	9,340.67	11,217.98	10,130.65	19,482.17	30,696.11
Lease Rentals Receivable	176.34	142.10	270.11	377.80	699.42	822.71	645.76	527.17	1,006.65	2,941.08
Dealing & Investment Securities	16.14	1.14	1.14	1.14	269.77	573.55	494.26	789.26	708.22	485.63
Other Assets & Interest Receivable	206.66	260.25	303.01	486.76	470.44	559.41	644.07	867.38	1,055.03	1,252.75
Property, Plant & Equipment	149.40	113.22	159.81	202.68	511.10	552.38	587.17	595.56	591.82	1,008.77
Intangible Assets	-	-	-	-	18.83	16.56	31.72	36.13	48.67	52.15
TOTAL ASSETS	5,122.87	6,550.23	9,048.93	10,851.34	12,625.88	15,525.70	18,984.34	21,558.83	31,180.97	46,954.18
LIABILITIES										
Customer Deposits	3,963.30	4,460.19	6,557.19	8,100.72	8,962.89	12,130.21	14,448.37	16,328.70	21,472.79	35,532.46
Borrowings & Due to Foreign Banks	359.55	1,041.06	1,370.29	1,142.51	1,281.92	505.25	1,399.60	1,326.79	4,449.85	4,908.91
Debentures	202.00	388.79	253.79	253.79	303.79	303.79	110.81	50.00	50.00	-
Other Liabilities	279.16	325.93	492.23	789.13	763.32	1,034.62	1,256.55	1,617.59	2,078.45	2,538.54
Taxation Payable	-	-	-	25.22	44.76	58.81	121.56	245.56	262.37	223.54
Deferred Taxation	-	-	-	-	34.08	41.83	55.61	10.53	83.49	142.70
Total	4,804.01	6,215.97	8,673.50	10,311.37	11,390.76	14,074.51	17,392.50	19,579.17	28,396.95	43,346.15
SHAREHOLDERS' FUNDS										
Stated Capital	444.97	555.72	555.72	555.72	1,106.40	1,106.40	1,106.40	1,106.40	1,548.97	1,548.97
Reserves	(126.12)	(221.46)	(180.29)	(15.75)	128.72	344.79	485.44	873.26	1,235.05	2,059.06
Total	318.86	334.26	375.43	539.97	1,235.12	1,451.19	1,591.84	1,979.66	2,784.02	3,608.03
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	5,122.87	6,550.23	9,048.93	10,851.34	12,625.88	15,525.70	18,984.34	21,558.83	31,180.97	46,954.18
COMMITMENTS & CONTINGENCIES										
	834.57	1,138.66	1,778.67	1,769.47	1,733.70	2,296.66	2,772.80	3,151.96	8,420.82	13,786.93
SHARE INFORMATION										
Earnings per Share (Rs.)*	(0.73)	(0.86)	0.37	0.98	1.32	0.98	1.01	1.61	1.31	2.79
Net Assets per Share (Rs.)*	2.87	3.00	3.38	4.86	5.58	6.56	7.20	8.95	9.44	12.23
OTHER INFORMATION										
No of Employees	283	289	371	394	433	546	507	511	670	1,096
No of Branches	13	16	18	18	19	27	32	35	41	64
Customer Services Centres	-	-	1	2	2	2	-	-	-	-

Note : * The figures for the previous years have been re-stated taking into consideration the sub division of shares.

Shareholder Information

As at 31st December 2011

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	672	32,530	0.01%	3	100	0.00%	675	32,630	0.01%
101 1,000	2002	1,055,968	0.36%	9	4,900	0.00%	2011	1,060,868	0.36%
1,001 5,000	1444	3,754,492	1.27%	11	33,400	0.01%	1455	3,787,892	1.29%
5,001 10,000	374	2,948,303	1.00%	14	119,096	0.04%	388	3,067,399	1.04%
10,001 50,000	372	8,200,222	2.78%	12	318,132	0.11%	384	8,518,354	2.89%
50,001 100,000	62	4,727,430	1.60%	5	373,250	0.13%	67	5,100,680	1.73%
100,001 500,000	60	12,005,221	4.07%	5	1,701,066	0.58%	65	13,706,287	4.64%
500,001 1,000,000	13	9,361,632	3.17%	1	650,000	0.22%	14	10,011,632	3.39%
1,000,001 & Above	19	207,459,902	70.32%	2	42,295,442	14.33%	21	249,755,344	84.65%
TOTAL	5018	249,545,700	84.58%	62	45,495,386	15.42%	5,080	295,041,086	100.00%

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	658	31,587	0.01%	17	1043	0.00%	675	32,630	0.01%
101 1,000	1972	1,041,646	0.35%	39	19,222	0.01%	2011	1,060,868	0.36%
1,001 5,000	1406	3,647,750	1.24%	49	140,142	0.05%	1455	3,787,892	1.29%
5,001 10,000	367	2,890,299	0.98%	21	177,100	0.06%	388	3,067,399	1.04%
10,001 50,000	349	7,702,634	2.61%	35	815,720	0.28%	384	8,518,354	2.89%
50,001 100,000	52	3,841,302	1.30%	15	1,259,378	0.43%	67	5,100,680	1.73%
100,001 500,000	47	10,104,759	3.42%	18	3,601,528	1.22%	65	13,706,287	4.64%
500,001 1,000,000	7	4,602,966	1.56%	7	5,408,666	1.83%	14	10,011,632	3.39%
1,000,001 & Above	7	151,329,490	51.29%	14	98,425,854	33.36%	21	249,755,344	84.65%
TOTAL	4865	185,192,433	62.76%	215	109,848,653	37.24%	5,080	295,041,086	100.00%

As per the Rules No.8.7(h) of the Colombo Stock Exchange, Percentage of Public Holding as at 31.12.2011 was 66.96%.

Resident/Non Resident As at 31.12.2011				Resident/Non Resident As at 31.12.2010			
	NO. OF SHARE-HOLDERS	NO. OF SHARES	% OF SHARE-HOLDING		NO. OF SHARE-HOLDERS	NO. OF SHARES	% OF SHARE-HOLDING
Resident Shareholders'	5018	249,545,700	84.58%	Resident Shareholders'	5291	123,544,936	83.75%
Non Resident Shareholders'	62	45,495,386	15.42%	Non Resident Shareholders'	51	23,975,607	16.25%
Total	5080	295,041,086	100.00%	Total	5342	147,520,543	100.00%

Individuals/Institutions As at 31.12.2011				Individuals/Institutions As at 31.12.2010			
	NO. OF SHARE-HOLDERS	NO. OF SHARES	% OF SHARE-HOLDING		NO. OF SHARE-HOLDERS	NO. OF SHARES	% OF SHARE-HOLDING
Individuals	4865	185,192,433	62.76%	Individuals	5165	96,833,725	65.64%
Company	215	109,848,653	37.24%	Company	177	50,686,818	34.36%
Total	5080	295,041,086	100.00%	Total	5342	147,520,543	100.00%

MAJOR Shareholders' OF THE BANK

YEAR ENDED 31st DECEMBER, 2011

	Name of Shareholder	Number of Shares	Holding as a %
1	Mr. K. D. D. Perera	88,482,820	29.99
2	Seylan Bank PLC/ T Senthilverl	28,330,568	9.60
3	HSBC Int'l NOM LTD-UBS AG SINGAPORE Branch (ex.SBC)	27,683,446	9.38
4	Mr. D. C. C. Joseph	17,010,202	5.77
5	Mr. K. D. H. Perera	15,537,332	5.27
6	Mr. P. J. Tay	14,611,996	4.96
7	Mr. K. D. A. Perera	12,800,000	4.34
8	Samurdhi Authority of Sri Lanka	11,114,376	3.77
9	Seylan Bank PLC/Mr. W. D. N. H. Perera	8,655,200	2.94
10	Sri Lanka Savings Bank Ltd	6,865,666	2.33
11	Royal Ceramics Lanka PLC	3,813,200	1.29
12	Favourite Garments (Pvt) Ltd	2,400,000	0.81
13	DFCC Vardhana Bank Ltd/Mr. R. F. T. Perera	2,000,000	0.68
14	Deshabandu D.M.I Dissanayake	1,713,600	0.58
15	Sri Lanka Insurance Corporation Ltd - Life Fund	1,394,666	0.47
16	Sampath Bank PLC – Account No.3	1,380,532	0.47
17	Bank of Ceylon No.1 Account	1,300,000	0.44
18	Esna Holdings (Pvt) Ltd	1,284,700	0.43
19	Dr. T. Senthilverl	1,173,540	0.39
20	Michelangelo Footwear Limited	1,153,500	0.39
		248,705,344	84.30
	Balance held by 5060 shareholders'	46,335,742	15.70
	Total Number of shares	295,041,086	100.00

MAJOR Shareholders' OF THE BANK

YEAR ENDED 31st DECEMBER, 2010

	Name of Shareholder	Number of Shares	Holding as a %
1	Mr. K. D. D. Perera	44,241,410	29.99
2	Seylan Bank PLC/ T. 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 (Pvt) 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. Dissanayake	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
		121,350,133	82.26
	Balance held by 5322 shareholders'	26,170,410	17.74
	Total Number of Shares	147,520,543	100.00

Share Trading Market Prices

	2011	2010
Highest Price (Rs.)	61.90	63.00
Lowest Price (Rs.)	21.50	45.00
Last Traded Price as at 31st December (Rs.)	25.40	52.00
Market Capitalisation as at 31st December (Rs.)	7,494,043,584	7,671,068,236

Branch Network

- 1 Head Office & Kollupitiya Branch (Ground Floor)**
No.450, Galle Road, Colombo 3
Tel: 011-2565565, 011-4667777
Fax: 011-2301150
- 2 Metro Branch**
Level 2, East Tower,
World Trade Center
Echelon Square, Colombo 1
Tel: 011-4374003-7
Fax: 011-2346053
- 3 Panchikawatta Branch**
262 & 266, Sri Sangaraja Mawatha,
Colombo - 10.
Tel: 011-4374013-7
Fax: 011-2447457
- 4 Pettah Branch**
64, Keyzer Street, Colombo 11
Tel: 011-4374025-9,
011-4374024-8
Fax: 011-5363652
- 5 Kandy Branch**
111, Kotugodella Veediya,
Kandy
Tel: 08-4946101,2,4,6
Fax: 081-2232994
- 6 Rajagiriya Branch**
468, Kotte Road, Rajagiriya
Tel: 011-4374033-43
Fax: 011-2866823
- 7 Ratnapura Branch**
198, Main Street, Ratnapura
Tel: 045-4928691-5
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
Fax: 031-2231259
- 11 Gampaha Branch**
95, Colombo Road, Gampaha
Tel: 033-4933881-4,
033-4933812
Fax : 033-2220048
- 12 Kurunegala Branch**
22, Suratissa Mawatha,
Kurunegala
Tel: 037-4936785-9
Fax : 037-2221731
- 13 Matara Branch**
32B, Anagarika Dharmapala
Mawatha, Matara
Tel: 041-4935025-9
Fax : 041-2231362
- 14 Dehiwala Branch**
104, Galle Road, Dehiwala
Tel: 011-4374079-83
Fax : 011-2730624
- 15 Kotahena Branch**
215A, George R De Silva Mawatha,
Colombo 13.
Tel: 011-434068-72
Fax : 011-2346066
- 16 Wattala Branch**
134, Old Negombo Road,
Wattala
Tel: 011-4374090-4
Fax: 011-2945104
- 17 Panadura Branch**
506, Galle Road, Panadura
Tel: 038-4927084-9
Fax: 038-2243053
- 18 Old Moor Street Branch**
314, Old Moor Street, Colombo 12
Tel: 011- 4374121-5
Fax : 011-2392897
- 19 Dam Street Branch**
22, Dam Street, Colombo 12
Tel: 011-4374132-6
Fax : 011-2346052
- 20 Katugastota Branch**
161, Madawala Road, Katugastota
Tel: 081-4946141,2,8,
081-4946130
Fax: 081-2500362
- 21 Narahenpita branch**
526, Elvitigala Mawatha,
Colombo 05.
Tel: 011-4374143-7
Fax: 011-2368667
- 22 Maharagama Branch**
173/1, High Level Road,
Maharagama
Tel: 011-4374165-9
Fax: 011-2838397
- 23 Kirulapone Branch**
100, High Level Road,
Kirulapone, Colombo 6
Tel: 011-4374154-8
Fax : 011-2515227
- 24 Moratuwa Branch**
18, New Galle Road,
Moratuwa
Tel: 011-4374176-80
Fax : 011-2641354
- 25 Galle Branch**
170, Main Street, Galle
Tel: 091-4941222-6
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: 035-4928085-9
Fax: 035-2221018

- 28 Wennappuwa Branch**
6, Chilaw Road,
Wennappuwa
Tel: 031-4934872-6
Fax: 031-2249556
- 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,
081-4944625
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
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
Fax: 024-2225444
- 35 Malabe Branch**
410/2, Athurugiriya Road,
Malabe
Tel: 011-4374220-24
Fax: 011-2744405
- 36 Chilaw Branch**
15 & 17, Bazaar Street, Chilaw
Tel: 032-4928371-4
Fax: 032-2224756
- 37 Jaffna Branch**
570, Hospital Road, Jaffna
Tel: 021-4976777
Fax: 021-2221485
- 38 Embilipitiya Branch**
49, New Town, Embilipitiya
Tel: 047-4976777
Fax: 047-2261624
- 39 Matale Branch**
165, Trincomalee Street, Matale
Tel: 066-4976777
Fax: 066-2223007
- 40 Batticaloa Branch**
291, Trinco Road,
Batticaloa
Tel: 065-4976777
Fax: 065-2228486
- 41 Ambalangoda Branch**
103, Galle Road.
Ambalangoda
Tel: 091-4943164-73
Fax: 091-2258064
- 42 Kalmunai Branch**
100, Batticaloa Road,
Kalmunai.
Tel: 067-4976777
Fax: 067-2225590
- 43 Kilinochchi Branch**
161, A9 Road, Kilinochchi
Tel: 021-4925952-53
Fax: 021-2280075
- 44 Kandy City Centre Branch**
L 1-5A, Lower Ground Floor,
K.C.C., 5 , Dalada Veediya, Kandy.
Tel: 081-4951034-40
Fax: 081-2205776
- 45 Badulla Branch**
22/A, Bank Road, Badulla
Tel: 055-4976777
055-4929124-33
Fax: 055-2225771
- 46 Kuliyaipitiya Branch**
74, Kurunegala Road, Kuliyaipitiya
Tel: 037-4943731-33
Fax: 037-2284141
- 47 Kalubowila Branch**
46A, S D S Jayasinghe Mawatha,
Kalubowila
Tel: 011-4374254-60
Fax: 011-2828338
- 48 Bandarawela Branch**
340/1A, Badulla Road,
Bandarawela
Tel: 057-4976777
057-4926928-32
Fax: 057-2233554
- 49 Dambulla Branch**
Jayalanka Building, Kandy Road,
Dambulla
Tel: 066-4928970-76
Fax: 066-2284844
- 50 Ratmalana Branch**
446, Galle Road, Ratmalana
Tel: 011-4374261-67
Fax: 011-2738840
- 51 Peradeniya Branch**
767, Sirimawo Bandaranayake
Mawatha, Peradeniya
Tel: 081-4951180-86
Fax: 081-2232441
- 52 Kaduruwela Branch**
918, Batticaloa Road, Kaduruwela
Tel: 027-4976777
027-4924662-66
Fax: 027-2224474
- 53 Ambalantota Branch**
155/1, Tissa Road, Ambalantota
Tel: 047-4937850-56
Fax: 047-2225056

Branch Network

54 Kiribathgoda Branch

67, Makola Road,
Kiribathgoda
Tel: 011-4376061-67
Fax: 011-2911041

55 Piliyandala Branch

107, Horana Road, Mampe,
Piliyandala
Tel: 011-4376251-57
Fax: 011-2604070

56 Nelliady Branch

208A, Jaffna Road,
Nelliady
Tel: 021-4923164-70
Fax: 021-3734879

57 Kattankudy Branch

365, New Kalmunai Road,
Kattankudy
Tel: 065-4926901-07
Fax: 065-2248468

58 Kundasale Branch

248, Digana Road,
Kundasale
Tel: 081-4951644-46
Fax: 081-2424624

59 Monaragala Branch

25, Bus Stand Road,
Monaragala
Tel: 055-4929312-18
Fax: 055-2277223

60 Akkaraipattu Branch

Kaiyoom Complex Building,
Akkaraipattu
Tel: 067-4924071-77
Fax: 0672279576

61 Chunnakam Branch

92, Dr. Subramaniam Road
Chunnakam
Tel: 021-4923422-30
Fax: 021-2241889

62 Balangoda Branch

84, Bans Rathwatte Mawatha,
Balangoda
Tel: 045-4928310-16
Fax: 045-2289081

63 Battaramulla Branch

123C, Pannipitiya Rd
Battaramulla
Tel: 011-4343259/65
Fax: 011-2885622

64 Puttalam Branch

116A, Kurunegala Road,
Puttalam
Tel: 032-4929662-8
Fax: 032-2267967

Correspondent Banks

Australia

ANZ Banking Group Ltd
CITIBANK Ltd, Sydney
Commonwealth Bank of Australia
National Australia Bank Ltd
St. George Bank Ltd.

Austria

Bank Austria Creditanstalt AG
Reichische Volksbanken AG

Bahrain

Standard Chartered Bank

Bangladesh

Bank Asia Ltd
Standard Chartered Bank

Belgium

Fortis Bank SA/NV Brussels
ING Belgium NV/SA Brussels

Brazil

Banco ABN Amro Real SA

Brunei

Standard Chartered Bank

Cambodia

ANZ Royal Bank of Cambodia Ltd

Canada

Bank of Montreal
Bank of Nova Scotia
Royal Bank of Canada
Toronto Dominion Bank

Chile

Banco Santander

China

ABN Amro Bank
Calyon
Credit Suisse
Deutsche Bank
Jinan City Commercial Bank
Laishang Bank Co. Ltd
Overseas Chinese Banking Corp, China
Standard Chartered Bank
Zhejiang Tailong Commercial Bank

Cyprus

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

Czech Republic

HVB Bank Czech Republic A.S.

Denmark

Danske Bank A/S
Joh. Berenberg, Gossler UND CO.KG

France

Union De Banques Arabes ET Francaises

Germany

American Express Bank GMBH
Bayerrische- Hypo – UND Vereins Bank AG
Commerz Bank AG
Deutsche Bank AG
Deutsche Bank Privat UND Geshaeftskunden AG
Dresdner Bank AG
Landesbank Hessen Girozentrale
Sparkasse Essen

Hong Kong

ABN Amro Bank N.V.
Banca Intesa S.P.A.
CITIBANK NA
Deutsche Bank AG
Hongkong & Shanghai Banking Corp. Ltd.
Mashreq Bank
Oversea-Chinese Banking Coporation Limited
Standard Chartered Bank
UBAF (Hong Kong) Ltd
Unicredito Italiano SPA
Wachovia Bank, NA

Hungary

Kereskedelmi ES Hitelbank RT
Raiffeisen Bank ZRT

India

ABN Amro Bank N.V.
Bank of Ceylon
Bank of Nova Scotia
CITIBANK NA
Development Credit Bank Ltd.
HDFC Bank Limited
ICICI Bank Ltd
Mashreq Bank
Standard Chartered Bank
Tamilnad Mercantile Bank

Indonesia

ABN Amro Bank NV
Bank Negara Indonesia-PT
Bank NISP
Bank OCBC Indonesia, PT
CITIBANK N.A
Deutsche Bank AG
Standard Chartered Bank

Correspondent Banks

Ireland

National Irish Bank

Israel

Israel Discount Bank Ltd
Mercantile Discount Bank Ltd.

Italy

Banca Intesa Spa
Banca Lombarda E Piemontese S.P.A.
Banca Nazionale Del Lavoro S.P.A.
Banca Popolare Friuladria spa
Cassa Di Risparmio Di Carrara
Cassa Di Risparmio Di Padova E Rovigo S.P.A.
HSBC Bank PLC
UBAE Arab Italian Bank S.P.A

Japan

Bank of Tokyo Mitsubishi UFJ Ltd
CITIBANK NA
Daishi Bank Ltd
Deutsche Bank AG
National Bank of Pakistan Tokyo
Okazaki Shinkin Bank
Overseas Chinese Banking Corp. Ltd.
Resona Bank, Ltd
Standard Chartered Bank
UBAF - Union De Banques Arabes Et Francaises
Wachovia Bank, NA

Jordan

Standard Chartered Bank

Kenya

Dubai Bank Kenya Ltd
EABS Bank Ltd.
Standard Chartered Bank Kenya Ltd

Korea

CITIBANK Korea INC
Deutsche Bank AG, Seoul
Kookmin Bank
Korea Exchange Bank
Shinhan Bank
Standard Chartered First Bank Korea Ltd
UBAF - Union De Banques Arabes Et Francaises
Woori Bank, Seoul

Kuwait

Burgan Bank S.A.K
National Bank of Kuwait

Malaysia

Deutsche Bank (Malaysia) Berhad
HSBC Bank Malaysia Berhad, Malaysia
OCBC Bank (Malaysia) Berhad
Standard Chartered Bank Malaysia Berhad

Maldives

Bank of Ceylon
Bank of Maldives Plc.

Mauritius

Mauritius Commercial Bank Ltd

Mexico

ABN Amro Bank (Mexico), S.A.

Nepal

Himalayan Bank Ltd
Standard Chartered Bank Nepal Ltd

Netherlands

ABN-Amro Bank NV
Habib Bank Ltd.
ING-Bank N.V.

New Zealand

ANZ Banking Group (New Zealand) Ltd
ASB Bank Ltd
Bank of New Zealand
CITIBANK N.A New Zealand Branch

Norway

Skandinaviska Enskilda Banken

Oman

Standard Chartered Bank

Pakistan

Dawood Bank Ltd
MCB Bank Ltd
Standard Chartered Bank
Summit Bank Ltd

Peru

Banco Wiese Sudameris

Philippines

CITIBANK NA
Standard Chartered Bank

Poland

ING Bank Slaski S.A.

Qatar

Standard Chartered Bank

Romania

HVB bank Romania SA

Russia

International Moscow Bank

Saudi Arabia

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

Serbia

Unicredit Bank

Singapore

Bank of America, N.A. Singapore
Calyon
CITIBANK N.A.
Commerzbank AG, Singapore Branch
DBS Bank Ltd
Deutsche Bank AG
Fortis Bank S.A./N.V., Singapore
JP Morgan Chase Bank, N.A.
Malayan Banking Berhad
National Australia Bank
Nordea Bank Finland Plc, Singapore
Overseas Chinese Banking Corporation Ltd
Skandinaviska Enskilda Banken AB
Standard Chartered Bank
HSBC Bank Ltd, Singapore
U.B.A.F. - Union De Banques Arabes Et Francaises
United Overseas Bank Ltd

Slovenia

Bank Austria Creditanstalt D.D.

South Africa

ABSA Bank Ltd
HBZ Bank Ltd
Ned Bank Ltd
State Bank of India

Spain

Deutsche Bank Sociedad Anonima Espanola

Sweden

Danske Bank As, Sverige Filial
Svenska Handelsbanken
Swedbank

Switzerland

BNP Paribas (Suisse) SA

Taiwan

ABN Amro Bank N.V.
Bank of New York
CITIBANK NA Taipei
Deutsche Bank AG, Taipei
Standard Chartered Bank
Wachovia Bank, NA

Thailand

CITIBANK NA
Kasikornbank Public Company Ltd
Oversea-Chinese Banking Corporation Ltd, Bangkok Branch
Standard Chartered Bank (Thai) Plc
United Overseas Bank (Thai) Public Company Ltd

Turkey

Tekstil Banksai A.S.
Turkiye Garanti Bankasi A.S.

U.A.E

Bank Saderat Iran
Emirates Bank International PJSC
Emirates Islamic Bank
Habib Bank AG Zurich
Mashreq Bank PSC
Standard Chartered Bank
UAE Exchange Bank

UK

Arab National Bank
Bank of Ceylon
Deutsche Bank AG
Habib Bank AG Zurich
HSBC Bank Plc
Mashreq Bank PSC
Shinhan Bank, London
Standard Chartered Bank

USA

ABN Amro Bank N.V.
American Express Bank
Bank of New York
Calyon
CITIBANK NA
Deutsche Bank AG
Deutsche Bank Trust Company Americas
Habib American Bank New York
HSBC Bank NA
Israel Discount Bank of New York
JP Morgan Chase Bank N.A.
Mashreq Bank PSC, New York
Standard Chartered Bank
Wells Fargo Bank N.A.

Vietnam

Australia and New Zealand Banking Group Ltd
CITIBANK NA
Standard Chartered Bank

Zimbabwe

Standard Chartered Bank Zambia Ltd
Standard Chartered Bank Zimbabwe Ltd

Glossary of Financial & Banking Terms

Acceptance

Promise to pay created when the drawee of a time draft stamps or writes the words 'accepted' above his signature and a designated payment date.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalent.

Bills for Collection

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

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.

Credit Risk

Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions

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.

Derivatives

Financial contracts whose values are derived from the values of underline assets.

Documentary Letters of Credit (L/Cs)

Written undertakings by a bank on behalf of its customers (typically an importer), favouring a third party (e.g. an exporter) where the third party could get paid up to a stipulated amount by fulfilling specific terms and conditions. Such undertakings are established for the purpose of facilitating trade.

Earnings Per Share

Profit attributable to ordinary shareholders' divided by number of shares in issue during that period.

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.

Effective Tax Rate

Provision for taxation excluding deferred tax divided by the profit before taxation.

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 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.

Liquid Assets

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

Market Capitalisation

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

Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

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 recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

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 realisable values.

Prudence

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

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.

Glossary of Financial & Banking Terms

Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specific date and price.

Return on Average Assets

Profit after tax divided by the average assets.

Revenue Reserve

Reserves set aside for future distribution and investment.

Reverse Repurchase Agreement

Transaction involving the purchase of the securities by a bank or dealer and resale back to the seller at a future date and specified price.

Rights Issue

Issue of shares to the existing shareholders' at an agreed price, generally lower than market price.

Risk Weighted Assets

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

Shareholder's Funds

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

Sub Division of Shares

Increase in number of shares without a change in stated capital of the Bank.

Tier I Capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II Capital

Supplementary capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debt.

Total Capital (Capital Base)

Total Capital is the sum of Tier I and Tier II capital.

Undrawn Credit Lines

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

Value Added

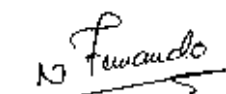
Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the **SEVENTEENTH 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 **30th March, 2012 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 Bank and the Audited Financial Statements for the year ended 31st December, 2011 with the Report of the Auditors thereon.
 2. To re-elect M. D. S. Goonatileke, 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, T. G. Thoradeniya, 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 declare a dividend of Rs.1/- per share, as recommended by the Board of Directors.
 5. To authorise the Directors to determine donations for the year 2012.
 6. To re-appoint the Auditors of the Bank, and to authorise the Directors to determine their remuneration.
 7. To determine the remuneration of the Directors.
1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her stead.
 2. A proxy need not be a member of the Bank. The form of proxy is enclosed herewith.
 3. The completed form of proxy must be deposited with the Company Secretary at the Registered Office of the Company, 450, Galle Road, Colombo 3 not later than 48 hours prior to the time appointed for the holding of the meeting.
 4. Shareholders'/proxies attending the meeting are requested to bring their National Identity Cards.

BY ORDER OF THE BOARD



N. Fernando
Company Secretary

Colombo
9 February 2012

Form of Proxy

I/We

(NIC No/s)

of being

a shareholder/being shareholders' of Pan Asia Banking Corporation PLC, hereby appoint

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

2.

(NIC No.)

of

as my/our* proxy to vote on my/our* behalf at the Seventeenth Annual General Meeting of Pan Asia Banking Corporation PLC, to be held on **30th March, 2012 at 9.30 a.m.** and at any adjournment thereof.

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

	For	Against
1. Resolution No. 1 To receive and consider the Annual Report of the Board of Directors on the affairs of the Bank and the Audited Financial Statements for the year ended 31st December, 2011 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. Resolution No. 2 To re-elect M. D. S. Goonatilleke, who retires by rotation at the Annual General Meeting in terms of Articles 93 & 94 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
3. Resolution No. 3 To re-elect T. G. Thoradeniya, who retires by rotation at the Annual General Meeting in terms of Articles 93 & 94 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
4. Resolution No. 4 To declare a dividend of Rs.1/- per share, as recommended by the Board of Directors.	<input type="checkbox"/>	<input type="checkbox"/>

Form of Proxy

	For	Against
5. Resolution No. 5 To authorise the Directors to determine the donations for the year 2012.	<input type="checkbox"/>	<input type="checkbox"/>
6. Resolution No.6 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"/>
7. Resolution No. 7 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 Twelve.

.....
 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 28th of March, 2012 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)112565558
SWIFT Code : PABSLKLX
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
H. K. Seneviratne – Director

BOARD CREDIT COMMITTEE

A. G. Weerasinghe – Chairman
W. D. N. H. Perera – Director
J. A. S. S. Adhihetty – Director
R. E. U. De Silva – Director

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

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

AUDITORS

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

CREDIT RATING

The Bank's National Long-term Rating has been affirmed at 'BBB(lka)' by Fitch Ratings Lanka Limited.

STOCK EXCHANGE LISTING

295,041,086 Ordinary Shares of the Company are listed on the Colombo Stock Exchange of Sri Lanka.

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Pan Asia Banking Corporation PLC
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www.pabcbank.com