

Going the distance

Annual Report 2012

 **PAN ASIA BANK**
At Your Service

Vision

To become the most customer preferred commercial bank in Sri Lanka

Mission

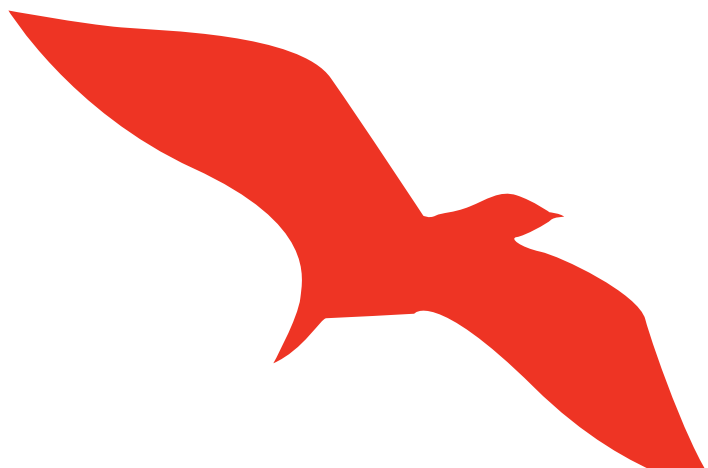
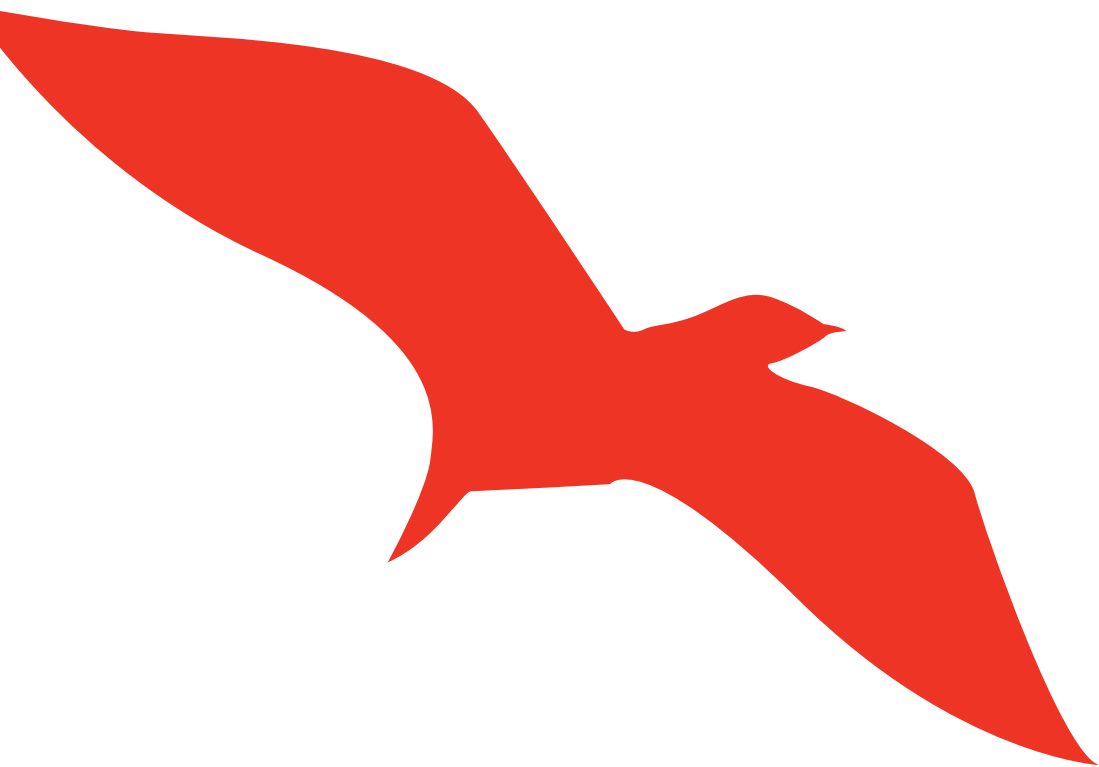
We will create the largest satisfied customer base by providing professional, personalised, secure, quality banking and financial services, using modern technology & innovative products. We will delight our customers, create a better future for employees and enhance stakeholder value

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BBB (lka) FITCH Rating

Pan Asia Bank has been in operation for 18 years with a comprehensive portfolio of corporate, retail and SME banking products and services. Now one of the fastest growing banks in the industry, Pan Asia Bank opened 9 branches in 2012, growing to 73 by the end of 2012.



For 18 years Pan Asia Bank has been evolving to become a powerhouse of solid, professional, customer-oriented banking services. Hard work and persistence have always been part of our philosophy; one that has seen us emerge among the biggest players of our industry today.

We are proud of our achievements and we will ensure that our success is well governed, value driven and sustainable. Because our vision is focused on the years ahead, as much as on the day-to-day work we do, we are on our way. Our journey shall endure whatever it takes, we will go the distance.

Pan Asia Bank. We're going the distance.



Going the distance

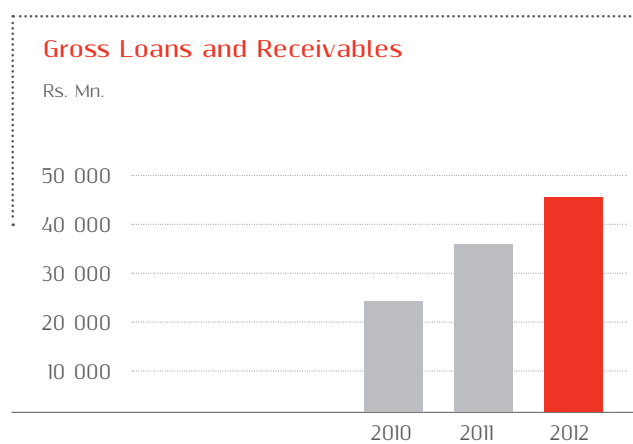
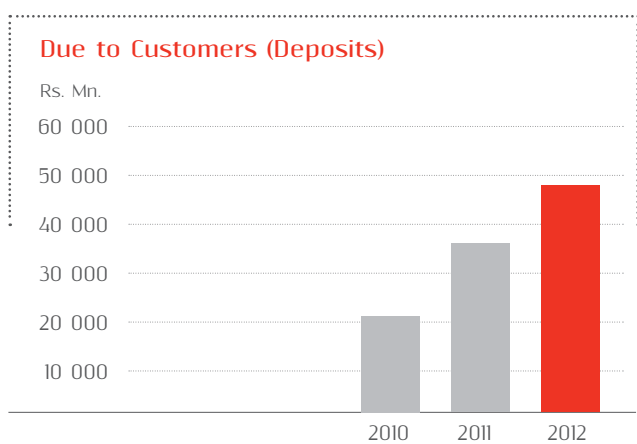
Financial Highlights

	2012	2011	Change %
Results for the Year (Rs. Mn)			
Gross Income	7,766.22	5,278.21	47.14
Profit Before VAT on Financial Services & Taxation	1,354.71	1,347.06	0.57
Profit Before Taxation	1,145.41	1,153.97	(0.74)
Profit for the Year	860.05	811.76	5.95

Position at the Year End (Rs. Mn)			
Shareholders' Funds	4,232.59	3,680.69	14.99
Due to Customers (Deposits)	47,911.09	36,353.39	31.79
Gross Loans & Receivables	45,089.50	36,504.49	23.52
Total Assets	56,074.29	46,998.89	19.31

Financial Ratios			
Net Asset Value Per Share (Rs.)	14.35	12.48	14.98
Earnings Per Share (Rs)	2.92	2.75	6.18
Return on Average Assets (%)	1.67	2.03	(17.73)
Return on Average Shareholders' Funds (%)	22.79	25.12	(9.28)
Non Performing Advances Ratio (%)			
- Gross	4.17	3.58	16.48
- Net	3.03	1.99	52.26

Statutory Ratios			
Capital Adequacy			
- Tier I (Minimum Requirement - 5%)	13.34	13.91	(4.10)
- Tier I & II (Minimum Requirement -10%)	15.76	14.29	10.29
Liquid Assets (Minimum Requirement -20%)	21.15	20.19	4.75



Gross Loans & Receivables

45,090 Mn

24%



Due to Customers (Customer Deposits)

47,911 Mn

32%



Gross Income

7,776 Mn

47%



Total Capital Adequacy Ratio

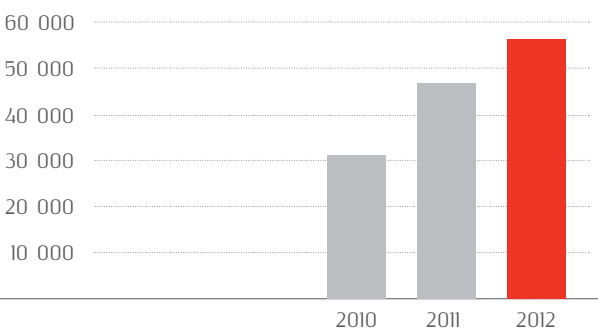
15.76 %

10%



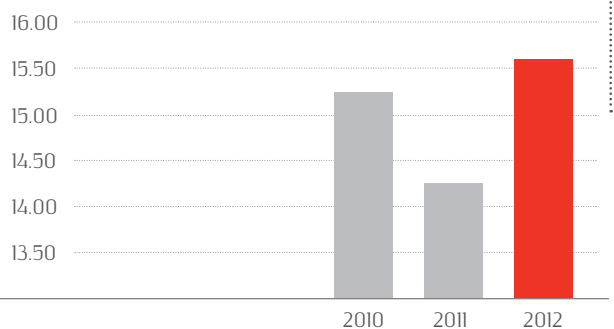
Total Assets

Rs. Mn.



Total Capital Adequacy Ratio

%







*A strong grounding in the
basics of our business
means that we're already
ahead.*

Taking the Lead

Management information >>

Chairman's Report

We remain committed to safeguarding shareholder wealth while offering valuable support to the SME sector to truly become the engine of growth for Sri Lanka's economic revival.

W. D. N. H. Perera
Chairman

Rs. 14.35

Net Asset Value Per Share



It gives me great pleasure to address you at the Bank's 18th Annual General Meeting and to present you the 2012 audited accounts and Financial Statements of Pan Asia Bank. Your Bank embarked on a vigorous growth trajectory since the dawn of peace in 2009 and three years later, during the 2012 period, we were truly able to assess the inspiring progress we have achieved in this short time span. Our strategic decision to chart an aggressive growth curve in the retail and the SME sector proved infallible. Today, Pan Asia Bank has strengthened its presence in both the segments and cemented credentials adequately.

Poised For Growth

Our extensive investment in expanding our branch network and enhancing our customer excellence standards over the last two years has provided Pan Asia Bank the springboard for growth we seek. The bank is poised to rise to the next level and all our energies are directed towards this objective. We are confident that we will be able to evolve into a major player in the near future. During the year under review, we forged ahead in setting benchmarks in customer excellence and superior delivery levels to surpass competitors. The quality of our advances and financial ratios are well within the industry limits to ensure long term sustainability of the organisation. The financial year

under review was further characterised by consolidation of systems, processes and people. A significant portion of the budget is allocated towards investment in sophisticated IT systems and devising new products and services. We truly value our investment in our people and this commitment has resulted in a talented team of specialists in strategic areas who added immense value to our operations.

We remain committed to safeguarding shareholder wealth while offering valuable support to the SME sector to truly become the engine of growth for Sri Lanka's economic revival.

We remain optimistic that Sri Lanka's economy will grow on the back of resurgent tourism and other sectors which experienced healthy growth during the year.

Macro Challenges Faced in 2012

The Sri Lankan economy experienced numerous challenges in 2012, not least due to an increase in interest rates, strict credit ceiling for financial institutions and volatile currency rates with the steep devaluation of the rupee. The direct result of this tightening of fiscal and monetary policies subdued economic activity, although to some extent the government achieved in narrowing the trade gap, which was the main aim of these drastic measures.

Aside from the macro economic objectives of Central Bank, the country's banking industry experienced severe pressure due to these policies. The industry had to operate in a high pressure environment due to the controls and restrictions placed on it through 2012. Instead, the private sector must be given head room and independence to expand operations at a rapid pace, especially an organisation such as Pan Asia Bank which caters to the SME sector.

Meanwhile, the steep interest rates prevailing during the period under review proved a deterrent to growth and in particular, the development of mid sized banks. The market proliferation by banking and non banking financial institutions, shows a severe dearth of skilled personnel and as a result overcrowded industry generates a high turnover of staff.

Future Outlook

The global economic scenario remained depressed over the year under consideration with fiscal consolidation and a still-weak financial system in the west, with forecasts for 2013 growth being revised from 2.0% down to 1.5% for advanced economies, and from 6.0% down to 5.6% for emerging market and developing economies.

We remain optimistic that Sri Lanka's economy will grow on the back of resurgent tourism and other sectors which experienced healthy growth during the year. The forecasted GDP growth of 6.6% to 7% in the year 2013 should set off much-needed growth momentum. Further, we are hopeful that interest rates will slide downwards by a considerable percentage.

Acknowledgements

I wish to thank the Directors for their unstinted support and need to commend the Pan Asia Bank team for their dedication in taking the Bank to the next level. As we put into motion our strategy for expansion and performance excellence, we will widen our reach further by adding another 10-15 branches to the current 73 strong branch network. Pan Asia Bank is on a mission to enter the league of big players and our people and processes are primed for the exciting transformation.



W. D. N. H. Perera

Chairman

Colombo
22 February 2013

Chief Executive Officer's Report

Pan Asia Bank while continuing on its aggressive branch network expansion, earned a healthy 22.8% Return on Investment for shareholders in a challenging macroeconomic context. This noteworthy performance and the sound foundation on which the Bank is operating were well recognised by Fitch Rating Lanka which upgraded Pan Asia Bank's outlook from stable to positive.

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



The Bank performed impressively by generating a robust financial performance while continuing in its growth momentum despite the challenging economic conditions that was prevalent in the country during the financial year under review. Our success in sustaining steady growth was commendable on two fronts. Externally, the tightening of fiscal and monetary policies by the Central Bank of Sri Lanka to strengthen macro economic stability during 2012 presented our core customer segment – SME with significant challenges, especially with regard to their growth and expansion plans. Internally, the heavy investments made by us in enhancing infrastructure across the country by opening 32 new branches over the last two years weighed in on our profitability in the period under review. This aggressive expansion drive was undertaken to leverage on emerging opportunities in the post-war period and we expect that by sacrificing short

terms gains, we will derive rich long term benefits from this strategic investment to elevate our delivery channels to exceptional standards. I am proud to state that we have managed this array of challenges with courage and fortitude. We believe the Bank is truly 'Going the distance' - forging ahead on a strategic path towards our vision of becoming a major banking partner for Sri Lanka's SME industry while outclassing industry standards for service excellence.

Staying the Course

One of the measures of growth in commercial banks is the increase in new deposits and I am delighted to declare that Pan Asia Bank was successful in growing the customer deposits by 32% during the financial year under consideration. We attribute success in this achievement to our passionate staff and also to our growing reputation for reliability and stability. Further, we were able to increase our lending portfolio even though the banking industry was

limited by the credit ceiling in local lending up to 18% as decreed by the Central Bank of Sri Lanka. Moreover, the Bank's Non Performing Loan ratio was sustained at satisfactory levels in comparison to industry standards.

Meanwhile, the rise in interest rates during the financial year created pressure on margins and we took a strategic decision not to pass this burden on to our customers, as inflationary pressures were already proving to be a challenge for them in their respective industries. Despite these challenges, we managed to ensure that the increase in exchange rates did not have an adverse effect on our operations.

Looking ahead, we are confident that the interest rates will stabilise in 2013 at lower levels than what was prevalent in 2012 which will enable Banks to improve NPL numbers and all business organisations in general to improve the bottom line.

Our decision to expand our reach outside of the Western Province, definitely the most overbanked province in the country, is aligned to the government's vision of uplifting the SME sector located in smaller towns and cities.

The Bank established 9 branches in the year which brings our total branch network to 73 as at end December 2012.

Also, the easing up of the credit ceiling is a welcome move for mid size banks such as Pan Asia Bank, which is strongly forging ahead in providing a vital lifeline for SMEs looking to expand businesses. We expect to witness moderate growth levels in the banking industry in 2013.

Improved Credit Outlook

One noteworthy achievement during the year was that Pan Asia Bank's credit rating outlook was enhanced from Stable to Positive in 2012, rendering it one of only two banks in the country to have their outlook upgraded during the period. This outstanding achievement underscores our sound financial fundamentals and prudent growth strategies.

Investment Income

One of the highlights of our financial performance during the financial year was the fact that we experienced organic growth in the true sense, earning profits from core banking activities rather than deriving benefits from devaluation of instruments. Our foreign exchange exposure was not significant and therefore we were protected from any possible impact from volatile currency rate movements experienced during the year.

Return on Investment

Although the Bank recorded a modest growth in 2012 despite the challenging market conditions prevalent throughout the financial year under review, our commitment to enhance shareholder wealth remained strong. Pan Asia Bank, while continuing on its aggressive branch network expansion, earned a healthy 22.8% return on investment for shareholders in a challenging macroeconomic context.

Improved Delivery Channels

The Bank established 9 branches in the year under review with most of them being opened outside of Western Province, which brings our total branch network to 73 as at end of December 2012. We remained focused on maximising resources at each branch and in ensuring that the branches are working to their fullest capacity. Our decision to expand our reach outside of the Western Province, definitely the most overbanked province in the country, is aligned to the government's vision of uplifting the SME sector located in smaller towns and cities. Although Pan Asia Bank offers the entire gamut of commercial banking products and services, our core customer segment remains the SME segment, which relies on our financial strength and support to help them realise their ambitions. All our branches are equipped with ATMs for enhanced customer convenience and facilities such as SMS alerts for every transaction have also been introduced. Meanwhile, on the retail side, our leasing portfolio grew significantly despite the rigorous challenges faced by the motor industry due to the hike in import duties which consequently triggered a massive drop in car registrations.

Enhancing Product Portfolio

During the year we launched a unique children's savings product, Daskam with the objective of encouraging the savings habit among families, which was especially designed to provide a substantial savings for children by the time they reach 18. The unique feature of Daskam is that we add 10% from our

side to each and every customer deposit made to the account until the child reaches the age of 12. The Bank pays an annual interest of 8% on the total balance.

Pan Asia Bank also became the first bank to launch the World Mastercard in Sri Lanka, a premier card with unique benefits available both locally and internationally. We envisage much potential for this premier credit card and will be actively promoting it in the new financial year.

Pinnacle of Service Excellence

Our teamwork through the year has been exemplary and the key contributor to our successes. During the year, we dedicated significant resources and time on upgrading service levels and this has resulted in driving efficiency and earning encouraging feedback from our customers. The Bank's vision and mission is cascaded down to all levels of staff and this provides a common goal which inspires the team to deliver through the pursuit of excellence. Clearly articulated goals and expected outcomes from each and every employee have been instrumental in bringing out the best from Pan Asia Bank staff. We are proud of the blend of youth and experience housed amongst our staff. Our energetic team is passionate about taking our service offering to a whole new level. Our specialists in vital areas of banking operations were the key contributors to the continued growth of the Bank in difficult times.

Acknowledgements

The Chairman and the Board of Directors were our biggest champions through the year, inspiring and urging the entire team to reach for the stars. My gratitude to them for the invaluable mentoring and supportive role they played in our success in 2012. I would like to express my heartfelt wishes to the entire Pan Asia Bank team for taking the torch of service excellence and running with it to reach greater heights. Our people and our customers, suppliers and partners make us who we are and we in turn assure them that Pan Asia Bank will work tirelessly to consolidate its position through the financial year ahead.



T. C. A. Peiris

Director / Chief Executive Officer

Colombo
22 February 2013

Board of Directors' Profiles

W. D. N. H. Perera

Chairman

Mr. Nimal Perera is the Chairman of Pan Asia Bank who has over 30 years of experience in the fields of Finance, Capital Market Operations, Manufacturing, Marketing and Management Services. Mr. Perera first joined the Board of Pan Asia Bank as a Director in September, 2007 and was appointed as the Deputy Chairman in March, 2008. He serves as a Director in several public quoted Companies. He is the Managing Director of Royal Ceramics Lanka PLC and he is the Chairman of N Capital (Pvt.) Ltd, Don Willbert Capital Ltd, N Sports (Pvt.) Ltd and is the Executive Deputy Chairman at Vallibel One PLC and holds the position of Director at Amaya Leisure PLC, Hotel Services (Ceylon) PLC, LB Finance PLC, Vallibel Finance PLC, Hayleys PLC, Talawakelle Tea Estates PLC, Haycarb PLC. He is a member of the Sri Lanka Institute of Marketing.

R. E. U. De Silva

Deputy Chairman

Joined the Board of Pan Asia Bank in July, 2008. He is the Chairman of Esna Holdings (Pvt) Ltd., Shermans Logistics (Pvt) Ltd, Shermans Transport (Pvt.) Ltd, Esna (Pvt) Ltd 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, Esna Ventures (Pvt) Ltd, Esna Technologies Ltd, Mountbatten Lands (Pvt) Ltd, Plumbago Lanka (Pvt) Ltd and is the Honorary Consul General for Kazakhstan.

A. A. Page

Senior 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 Floor Tiles PLC, Horana Plantations PLC, Ceytea Plantations Ltd, Ceylon Theatres (Pvt) Ltd, Swisstek Aluminium Industries Ltd, Unidil Packaging Ltd and Swisstek (Ceylon) PLC. He is also a Director of Cargills (Ceylon) PLC, CT Land Development PLC, Ceylon Printers PLC, Office Equipment PLC, CT Smith Holdings Ltd and Cinema Entertainments (Pvt) Ltd. 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.



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 Ltd and served as a Director of Nuwara Eliya Hotels Ltd, Grand Hotel (Pvt) Ltd, Royal Palm Beach Hotels Ltd, Tangerine Beach Hotels PLC, Nilaveli Beach Hotels Ltd, Mercantile Fortunes (Pvt) Ltd, Tangerine Tours Ltd and Security Ceylon (Pvt) Ltd. 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.

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 possesses a Post Graduate Diploma in Business Administration, PIM, University of Sri Jayawardenapura and an Associate Member of Institute of Chartered Management Accountants (UK) and a passed finalist of 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 Secretary to the Board, 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.



T. G. Thoradeniya**Director**

Mr. Thoradeniya is a marketer by profession, who was in the pioneering batch of Sri Lankans to be awarded the title of Chartered Marketeer. He counts over 20 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 Fibre PLC, Delmage (Pvt) Ltd, Rocell Ceramics Ltd, and Greener Water Ltd.

G. C. A. De Silva**Director**

Mr. Channa De Silva currently serves as a Director of Delmage Group, Deshodaya Finance, Medi (Pvt) Ltd, Coral Rock Hotel (Pvt) Ltd, Capital Media (Pvt) Ltd, Venture Capital Lanka (Pvt) Ltd. He previously served as the Director General of the Securities and Exchange Commission (SEC) of Sri Lanka for more than 5 years. Previous to this he served as the Executive Director of the Board of Investments (BOI) of Sri Lanka. He holds postgraduate degrees from Harvard University and University of Melbourne (MBA) together with a Bachelor's degree from the University of Colombo. He is an Edward S Mason Fellow in Public Policy and Management at Harvard University and has served as a Teaching Fellow at Harvard Kennedy School. He is a fellow of the Chartered Institute of Management Accountants (FCMA - UK) and Fellow of the Chartered Certified Accountants (FCCA - UK). He serves in the Alumni Board of the University of Colombo and the ACCA and CISI Council in Sri Lanka.

G. A. R. D. Prasanna**Director**

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



Takashi Igarashi

Director

A Japanese national, Mr. Igarashi is an enterprising businessmen specialising in the re-structuring of unviable business, export of vehicles and heavy machinery from Japan, and development of IT systems. He served as the Chairman and Founder of ANZUK Legal Service based in Wellington. He is one of the Founder members and present Chairman of New World Securities, a Trading member of the Colombo Stock Exchange and Ramboda Falls Hotels PLC. He sits on the Boards of NWS Holdings (Pvt) Ltd, NWS Management services (Pvt) Ltd, NWS Financial services (Pvt) Ltd and Ideal Finance Ltd, a Licensed Finance company.

T. C. A. Peiris

Director / Chief Executive Officer

His in depth experience in Credit, Operations and Marketing makes him one of the most experienced bankers in Sri Lanka with wide cross disciplinary exposure gained both locally and overseas. Mr. Peiris has been in banking for over 40 years including senior managerial levels with Overseas Trust Bank, Colombo and served at Nations Trust Bank and previously was 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 and currently a Director of Sri Lanka Bank's Association (Guarantee) Ltd. He was appointed as the Acting Chief Executive Officer on 27.08.2009 and as Chief Executive Officer on 26.05.2010.

N. Fernando

Company Secretary - Assistant General Manager

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



Corporate Management

Left to right

G. G. Mangala, Shashi Jayatunga,
T. C.A. Peiris, Kamoor Sourjah,
Lalith Fernando



Left to right

Irishad Ally, Varuni Egodage,
Nalaka Wijayawardana, S. Umakanthan,
Richie Dias, Jeremy De Zilva



T. C. A. Peiris

Director / Chief Executive Officer

His in depth experience in Credit, Operations and Marketing makes him one of the most experienced bankers in Sri Lanka with wide cross disciplinary exposure gained both locally and overseas. Mr. Peiris has been in banking for over 40 years including senior managerial levels with Overseas Trust Bank, Colombo and served at Nations Trust Bank and previously was 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 and currently a Director of Sri Lanka Bank's Association (Guarantee) Ltd. He was appointed as the Acting Chief Executive Officer on 27.08.2009 and as Chief Executive Officer on 26.05.2010.

Kamoor Sourjah

Chief Operating Officer / Deputy General Manager - Corporate Banking

Kamoor has over 20 years of banking experience with 03 foreign Banks namely State Bank of India, Deutsche Bank AG and Standard Chartered Bank. Prior to joining Pan Asia Bank, 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 and Investments (ACSI), UK and an Associate Member the Association of Chartered Certified Accountants (ACCA) of UK. Member of the Project Management Institute (PMI) of USA.

S. Umakanthan

Deputy General Manager - Recoveries

Counts over 31 years experience in the Banking Industry encompassing Operational, Tactical, and Strategic Management 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 Jayewardenepura.

Lalith Fernando

Deputy General Manager - Chief Risk Officer

A Banker with over 42 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

He has over 22 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 has also worked as 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.

Irishad Ally

Deputy General Manager - Retail Banking & SME

Irishad counts over 17 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.

Richie Dias**Deputy General Manager -
Head of Treasury**

Richie joined Pan Asia Bank from Barclays Bank, Dubai where he held the position of Head of Treasury Middle Office. He has also served Seylan Bank Limited as Assistant General Manager- International Financial Services and prior to that Grindlays Bank Limited as FX Dealer. He has 32 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.

Nalaka Wijayawardana**Chief Marketing Officer**

Nalaka is a marketing specialist with over 19 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 is a Banker with over 24 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. He 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 also a Member of the Institute of Internal Auditors USA, Association of Business Executives UK, Chartered Institute for Securities & Investments UK, Institute of Certified Professional Managers, Association of Professional Bankers and Institute of Bankers of Sri Lanka.

Shashi Jayatunga**Head of Human Resources**

Human Resources generalist with over 14 years hands on experience in Human Resources covering both Service and Manufacturing Sectors. During her career she has worked at John Keells Holdings PLC, Royal Ceramic Lanka PLC and MAS Linea Aqua (Pvt) Limited. 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) and Member of the Society for Human Resources Management (SHL), USA.

Varuni Egodage**Head of Legal**

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

Senior Management

Left to right

1 Naleen Edirisinghe
Assistant General Manager -
Branch Operations and Credit

3 Ryan Perera
Head of Prime and Private Banking

5 Shiyan Perera
Head of Leasing

2 S. Anandarajah
Head of Commodity Trade

4 Prasanna Fernando
Head of Institutional Liability Sales

6 Wije Gunawardena
Head of Pawning



7 Udaya Thuduweewatta
Head of Margin Trading &
Custodial Services

9 Prakash Selvarajah
Senior Manager - Branch Operations

11 Rohan Joseph
Senior Manager - Trade Services

8 Takura Abhayasinghe
Senior Manager - Area 2

10 Nimal Ratnayake
Senior Manager - Branch Credit

12 Indraka Liyanage
Senior Manager - Credit Risk



13 Rangith Rajendran
Senior Manager - Branch Credit

15 Umaharan Jeganathan
Senior Manager - Area 3

17 Rajitha Silva
Senior Manager -
Credit Administration

14 Niroshima Wijesena
Senior Manager - Area 1

16 Anil De Silva
Senior Manager - Branch

18 Thilani Peiris
Senior Manager - Branch



19 Jehan Perera
Senior Manager - Trade Operations

21 Harsha Kurukulasuriya
Senior Manager - Branch

20 Sameera Senerath
Senior Manager - Consumer Sales

22 Thushara Suraweera
Senior Manager - Branch



Key Product Offerings



Savings Accounts

CHAMPION SAVER 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



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



Childrens' Savings Accounts

- Daskam - An additional deposit on top of each and every deposit
- Lahiru - Higher interest rate
- Mithuru - Attractive gifts and a hospitalisation cover
- Siyadaru - Guaranteed high returns even if interest rates change



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

Fixed Deposits



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



You deserve more!

Prime



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



Ranawiru Harasara



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

Easy Pension



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

Leasing



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

Home Loans



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

Gold Loan Services



- A world of privilege access
- Access to local concierge services



World MasterCard



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

Safety Lockers



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

Global Travellers' Card





As a financial institution holding the trust of thousands, we're proud to be a benchmark of transparency and good governance.

Setting the pace

Management Reports >>

Business Review

Branch Banking

Pan Asia Bank's branch network expansion continued with an addition of nine new branches across the country. With these new additions to the branch network, the total number of branches stood at 73 at the end of 2012.

365 Day Banking Service

365 days Banking was launched for the first time in Pan Asia Bank history with nine branches namely, Battaramulla, Ratmalana, Matara, Negombo, Kurunegala, Nugegoda, Kandy City Centre, Kiribathgoda and Dambulla operating all year around.

Credit Rating

Pan Asia Bank's strong overall performance was further acknowledged by Fitch Ratings by revising the Bank's outlook from Stable to Positive while affirming 'BBB(lka)' rating.

Bank brings a new look to its web portal

The Bank did a total revamp to its corporate web portal as a part of its digital expansion program. The prime objective of this initiative was to create stronger presence in the online domain and to provide an un-matched service to our valued and loyal customers, both locally and also worldwide. With the introduction of the newly designed website, Bank not only brought in world class design changes, but also added several new features for the added convenience of customers.

Key Product Offerings

Champion Saver

Champion Saver is a specialised savings account that offers an attractive interest rate of 8% whilst allowing unlimited number of withdrawals.

Children's Savings Accounts

Pan Asia Bank offers not one but four unique types of Children's Savings Accounts to encourage the habit of savings from an early age.

Daskam – Daskam is the latest addition to the children's savings accounts of the Bank. This account offers an additional 10% deposit on top of each and every deposit that is made to the account until the account holder reaches the age of 12. In addition, this account gives an enhanced interest rate of 8% (8.33% A.E.R) on the total balance.

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

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

Siyadaru – offers guaranteed returns even when interest rates change.

Pan Asia "Nivasa" Housing Loan

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

Leasing

Pan Asia Bank has stamped its existence in the Leasing industry as an aggressive player by recording a 54% increase in the Leasing business compared to the previous year. While offering a fast, friendly and professional service to customers, the Bank with its branch expansion was able to reach more potential customers island wide.

Pawning

Having recorded a massive portfolio growth in the previous year, in 2012 the Bank focused more on fine tuning its operational processes to gear up for another phase of growth next year.

Prime Banking

Since its introduction in October 2010, Prime has been the fastest growing client segment with regard to deposits in Pan Asia Bank and it has brought about a phenomenal growth in a short span of time. Managed under the Private Banking arm, Prime offers the mass-affluent clientele a consistent exceptional service that is guaranteed to make them feel special.

World MasterCard

Pan Asia Bank recently unveiled the World MasterCard in Sri Lanka and became the first and only Bank in Sri Lanka to offer a World MasterCard under the said brand name. World MasterCard is the highest category MasterCard currently being issued in the world and provides unparalleled membership access privileges across the globe. In 2013, the Bank expects to add further layers of value to this card by offering an array of local benefits in addition to its international benefits.

Easy Pension

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 General of Pensions in order to draw funds of this segment.

Ranaviru Harasara

This is a premier banking solution package tailor made for members of Armed Forces of Sri Lanka. Ranaviru Harasara loans are now extended to the deserving family members of KIA / DIA / MIA personnel, thus empowering them to earn a livelihood.

Corporate Banking

The additions of new corporate entities to the Bank's portfolio facilitated the growth of Corporate Banking division through 2012, which was constrained by the credit ceiling. The Bank's strategy was to grow the corporate book during earlier part of 2012 and subsequently replace it with high yield Retail and SME lending to maximise the returns to our shareholders, which was successfully executed. The Bank actively encouraged corporate clients to issue debt instruments such as commercial papers in order to promote and develop the debt market, than simply lending through plain vanilla products. The Bank also focused on trade finance business which contributed to the increase in Commission and Foreign Exchange income. Corporate Banking accounts for 30% and 15% of the Banks Advances and Deposits respectively.

Margin Trading

Pan Asia Bank commenced Margin Trading business in the latter part of 2009 and was able to become one of the leading margin providers within a short period. 2012 was a year of consolidation for the Margin Trading business, where the main focus was to strengthen controls in order to minimise risk and to meet new regulatory requirements imposed during the year, which was successfully done. A system was implemented to ensure a smooth processing of transactions and tracking of corporate events while keeping clients

informed of their status, other related activities to the account and the shares held as security on a timely basis. By constantly striving to maintain a good relationship across the client base and providing an exceptional service amidst a volatile stock market performance, the Bank continued to maintain a sustainable portfolio.

In 2013, the Bank expects to further consolidate the Margin Trading business to be in line with the growth in the Asset book, focusing 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 providing a 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. The Bank has been recording a steady increase in its client base for custodian services in the last three years and these services generate an additional source of fee income as well as foreign exchange income to the Bank.

Correspondent Banking Relationship

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

Trade Services

Despite the stagnated growth in international trade, the Bank managed to maintain a healthy growth in trade and remittances. In addition to the existing trade products and services, the Bank launched the "Avalisation" product for customers handling their import under documentary collections. Further, Bank Guarantee operations were included under trade services purview. A detailed process re-engineering exercise was done to mitigate risks and streamline the process.

Financial Review

Overview of Industry and Economy

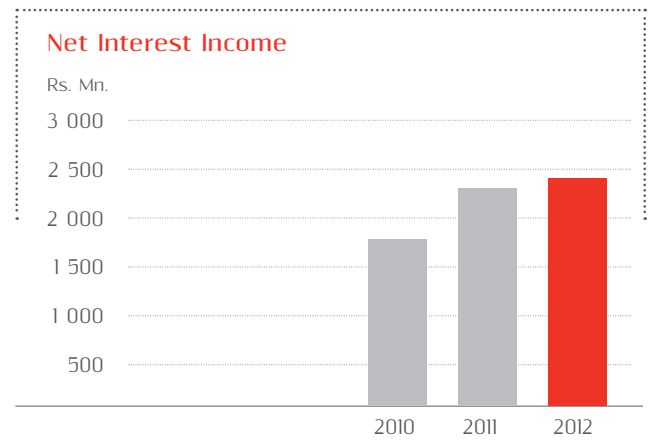
Despite many challenges posed by the external environment, Sri Lankan banking and financial services industry continued to maintain its passion in 2012. The industry expanded and remained resilient supporting the growth momentum of the economy in spite of the uncertain global market conditions. The Banking sector remained stable and maintained profitability due to moderation of credit activities by the regulator as a policy measure. Financial system stability was maintained by way of strengthened supervisory and regulatory frameworks, improved risk management, and enhanced legal frameworks, reinforcing liquidity support and confidence building through financial safety nets.

The macroeconomic policy measures such as tightening of the monetary policy, moving towards a more flexible exchange rate regime and the imposition of the credit ceiling on banks have cut down higher credit and import growth in 2012.

Our Performance in a Nutshell

Pan Asia Bank ("the Bank") has concluded yet another remarkable financial year 2012 reporting a profit for the period of Rs. 860 Mn, a marginal growth compared with the profit of Rs. 812 Mn in 2011. Despite the credit ceiling imposed by the industry prudential regulator and the escalation in market interest rates during the year, the Bank was able to sustain this performance due to a focused strategy and impressive team work. The momentum reflected in our 2011 results continued to increase further in business volumes and in most of the key indicators.

Fitch Ratings Lanka has revised the Bank's Outlook to "Positive" from "Stable". The agency has simultaneously affirmed Pan Asia Bank's National Long-Term Rating at 'BBB (lka)'.

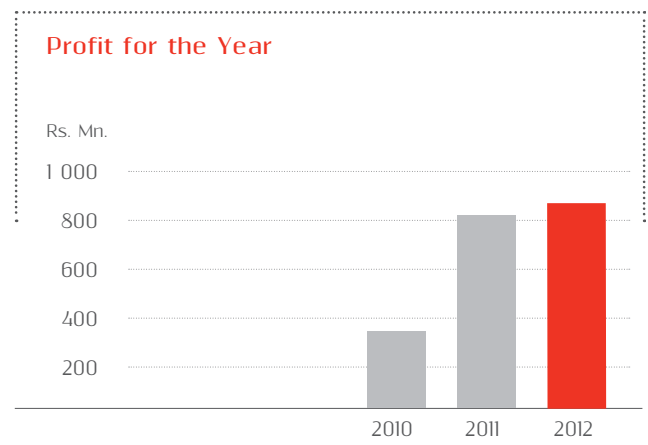
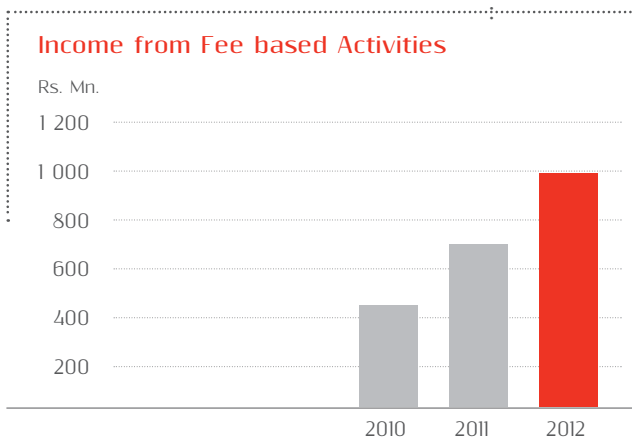


Fitch Ratings Lanka has revised the Bank's Outlook to "Positive" from "Stable". The agency has simultaneously affirmed Pan Asia Bank's National Long-Term Rating at 'BBB (lka)'.

Income from Fund Based Activities

The interest income of the Bank increased by 48% from Rs. 4,583 Mn to Rs. 6,767 Mn in 2012. The main increase arose from interest income on customer advances despite the restrictions imposed by the Central Bank of Sri Lanka on credit growth. Interest expenses in 2012 increased by 92% during the same period. The reason was mainly due to the deposits growth and decrease of low cost deposit base from 29% in 2011 to 18% in 2012. Hence the Bank's net interest margin experienced a drop in 2012. However the Bank was able to maintain a net interest margin of 4.66% which was higher than the industry average.

Customer Deposits of the Bank grew by Rs. 11,558 Mn, a 32% growth in 2012 reaching the portfolio to Rs. 47,911 Mn. compared with Rs. 36,353 Mn. in 2011.



Income from Fee Based Activities

Increase in Deposit and Advances related commission income by Rs. 68 Mn resulted in an increase in the net fee and commission income by 14% to Rs. 525 Mn during the year under review.

Other operating income showed a remarkable growth during 2012. This mainly includes Non Trading Foreign Exchange Gains which grew by Rs. 162 Mn, an 87% increase compared to 2011. The Bank was able to achieve this commendable performance due to the effective hedging strategies carried out during the year.

Net Trading Income too showed an impressive increase during the year. Realised gains from Government debt securities increased from Rs. 0.5 Mn in 2011 to Rs. 88 Mn in 2012.

Operating Expenses

The rationalisation of costs continued to be a priority during the year under review. The Bank opened 9 branches in 2012 compared to opening 23 branches in 2011. The total operating expenses grew by 30%. The increase mainly associated with employee and premises costs increased by 39%.

Impairment for Loan Losses

Gross Non-Performing Advances (GNPA) ratio of the Bank stood at 4.17% in 2012 which is in line with higher-rated peers while the Net Non Performing Advances (NNPA) ratio of the Bank stood at 3.03%. The NPA cover stood at 20.03% in 2012. Impairment for loan losses in absolute terms decreased substantially by Rs. 74 Mn during the year due to the closer monitoring, recovery efforts and tightened credit environment.

Taxation

Income tax charge for the year ended up with Rs. 285 Mn in 2012 compared to Rs. 342 Mn in 2011. Total effective tax rate inclusive of Value Added Tax on Financial Services has risen marginally from 41% in 2011 to 43% in 2012.

Asset Growth

In 2012, the Bank's total asset base increased by 19%, reaching Rs. 56,074 Mn. compared to the previous year's Rs. 46,999 Mn. The growth of the gross loan book of the Bank was limited to 24% during the year under review, reaching Rs. 45,089 Mn, compared to the growth of 50% recorded in 2011. This was mainly due to restrictions on Rupee loans imposed by the regulator in 2012.

Liability Growth

Customer Deposits of the Bank grew by Rs. 11,557 Mn, a 32% growth in 2012 growing the portfolio to Rs. 47,911 Mn as compared with Rs. 36,353 Mn in 2011. Loans to deposit ratio improved from 97% in 2011 to 89% in 2012.

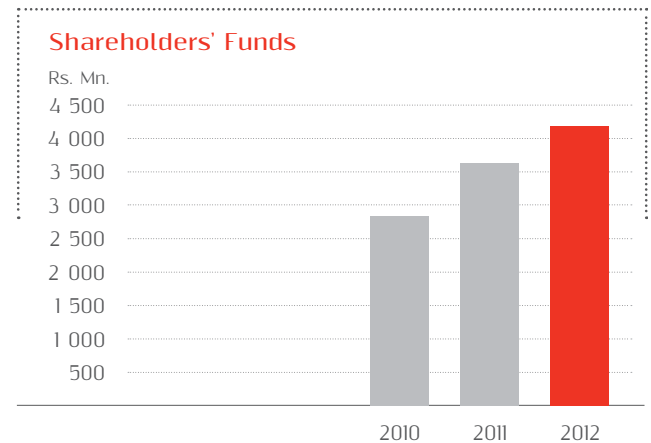
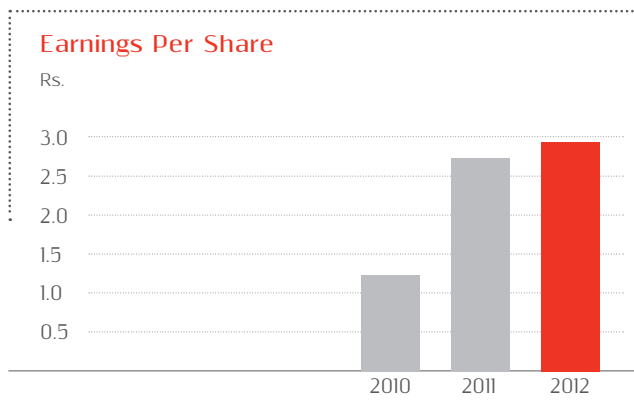
Fixed deposits recorded a higher growth compared to Current and Savings deposits (CASA), largely due to an increase in interest rates during the latter part of the year. This had resulted in some CASA account balances being transferred to high cost funds which led to a drop in CASA ratio from 29% in 2011 to 18% in 2012.

The Bank issued Rs. 750 Mn worth of Unsecured Subordinated Redeemable Debentures during the year which Fitch Ratings Lanka rated at 'BBB - (lka)'.

Shareholders' Funds

The Bank has declared an interim dividend of Rs. 1/- per share for 2012 as well which amounted to Rs. 295 Mn. This will be paid in first quarter of 2013. The proposed final dividend of 2011 amounting to Rs. 1/- per share was paid during the year. The Bank's total shareholder funds reached Rs. 4,232 Mn in December 2012 resulting in a growth of 15% over 2011.

The Bank's Basic Earnings per Share (EPS) rose from Rs. 2.75 in 2011 to Rs. 2.92 in 2012 while Return on Equity (ROE) and Return on Assets (ROA) for 2012 stood at 22.79% and 1.67% respectively.



Capital Adequacy

The Bank recorded a healthy Capital Adequacy ratio for the year 2012 for both Tier I and Tier II ratios. Total Capital Adequacy ratio increased from 14.29% in 2011 to 15.76% in 2012.

Liquidity

The Bank was able to maintain a healthy Statutory Liquid Asset Ratio (SLAR) which stood at 21.15% as at close of the year 2012.

Future Outlook

The Banking Sector will continue to play a leading role as an enabler of economic growth, expanding its lending activities to serve both the corporate and retail sectors to achieve the projected growth in 2013.

With the Regulator reducing policy rates and ending up the credit ceiling by the end of 2012, the Banking Sector can play a vital role to provide some stimulus to the economy.

In this regard, the Bank should ensure the maintenance of sufficient capital to buffer and absorb risks of expanded operations. Considering the pressures from the competitive environment the Bank could also access international and domestic capital markets to enhance their funding sources.

Further the Bank will continue to focus on its objectives by giving higher prominence to following prudent strategies.

Risk Management

Introduction

Risk is embodied in most activities taking place in the Bank, which should be mitigated through best practices. The process of identification and the concurrent action is an ongoing practice through measurements and monitoring as per Risk Appetite of the Bank. Risk Control is an integral part of the Bank's business impacting the bottom line of the Bank. Each member of staff is involved in risk controlling activities as per his or her capacity and line of business. The accountability escalates as per increasing responsibility and best practices are introduced to be carried out by staff.

The Bank's exposure to Risk could be broadly categorised into Credit Risk, Market Risk and Operational Risk. In addition the impact of Liquidity Risk, Reputational Risk, Compliance Risk and Legal Risk are perceived to avoid any additional impact on the Bank.

The impact on Risk could be externally and internally segregated according to the nature of the business. Risks could be broadly segregated arising from trading and non-trading activities of the Bank. External Risk which may be due to changes in Political, Regulatory, and other changes in industry could impact the strategic processes of the Bank.

Span on Control of Risk

The Bank's overall responsibility for Risk Management falls on the Board of Directors, through policies and instructions implemented from time to time. There are Committees at Board level and management level appointed for monitoring and evaluation of the Risk Management Process of the Bank.

Board Integrated Risk Management Committee (IRMC) looks into the overall Risk Management aspects of

Board of Directors



the Bank. IRMC adopts Risk strategies, frameworks and policies and is also responsible for implementation of these strategies and plans. The Committee meets on a quarterly basis and discusses the predetermined Risk goals implemented as per "Bank Wide Risk Management Policy" adopted by the Board and reviews performances of the Management Committees (Assets and Liabilities Committee, Credit Control Committee, Treasury Review Committee & Operational Risk Committee).

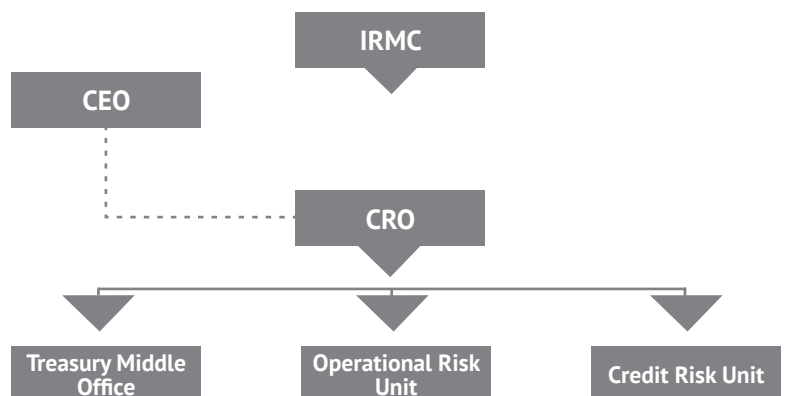
Risk Management unit headed by the Chief Risk Officer is responsible and accountable for Risk Controlling, compliance of risk policies and procedures of the Bank.

Each unit monitors the impact on separate risks as specified. These units function independent of each respective business unit and submits its observations to the Chief Risk Officer. Reports are generated daily, weekly, monthly and on quarterly basis as per the requirements. Breaches, if any, are notified for appropriate action. Exceptions are also reported to the Risk Committee with action taken.

Risk recording methodology

Bank's Risks are recorded according to the breaches that have taken place, expected / predicted losses and unexpected cases which may arise in future. The estimated figures of cases are weekly monitored for prevention

The structure is as follows;



and mitigations. These events are mainly taken into account according to the internal risk management process established by the Bank.

Monitoring of Risks is done on predetermined limits as per policies. MIS reports are generated to the corporate management based on these risk indicators. Certain industries are specially highlighted for close monitoring. The overall aggregate impact is then computed to oversee the full impact on the Bank's financial position.

These indicators are aggregated and recorded as per reporting criteria of the Risk Committees. The reports are submitted based on their daily, weekly and monthly monitoring to the Board/ Management committees to measure the risk exposure across all types of risks and activities. This will also contain the distribution and the vulnerable areas of risks to be vigilant about and which also need extra attention. These reports will indicate aggregate credit exposure, credit metric forecasts, limit exceptions, liquidity ratios etc. Further elaborations will be done on industry, concentration, customer and geographic risk etc. Early warnings will be indicated to the business units for precautionary action and same is monitored weekly for adherence.

Delegated Authority

Delegated authority limits have been imposed to each business unit to control exposure to risks. Those out with such limits are referred to Head Office Credit Committee / Board Credit Committee for approval.

Credit Risk

Credit Risk arises due to failure of client/ counter parties to meet their obligations towards the Bank. Limits have been carefully established via proper evaluation for borrowers, counter parties,

industries and portfolio. The Bank's risk appetite is based on economic conditions and regulatory requirements.

The Bank has a well defined credit policy approved by the Board of Directors. It spells out the credit culture of the Bank, specifying target markets for lending and areas to avoid. The policy is implemented through the credit process, which is set out with clear guidelines and procedures. As a further step towards improving and maintaining uniformity of credit submissions, the Bank has established credit clusters with well trained and experienced staff to evaluate and carry out periodic review of credit facilities. The credit portfolio of the Bank is rated using an internally developed Borrower Risk Rating System which takes into account quantitative as well as qualitative factors of obligor. The rating scale ranges from 1 to 5 and the ratings of every obligor are reviewed at least annually or more frequently if required. A separate grading between A to E is assigned as the security indicator based on Bank's approved policy on security. The rating system is used as a guide for account monitoring, provisioning, determining delegated authority and pricing.

Credit risk management unit of the Bank is overlooking credit related functions handled by credit clusters, branches and business units and covers the following.

- Annual or half year industry analysis report and single borrower / related party transactions etc.
- Sectoral exposure direction guidance
- Maintaining Credit quality and controlling slippage to Non Performing Loans
- Guiding lending staff for credit origination and adherence to Bank's credit policy guidelines

- Support / Guidance for problem account management
- Delegation of lending authorities
- Recommendation to Head Office Credit Committee / Board Credit Committee for credit approvals
- Monitoring accounts out of line
- Identification of high risk accounts for timely remedial action

Impairment Assessment

For accounting purposes the Bank uses the incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed.

Triggering events include the following;

- Significant Financial difficulty of the customer.
- A breach of contract such as a default of payments.
- Where the Bank has granted the customer a concession due to the customer experiencing financial difficulty.
- It becomes probable that the customer will enter bankruptcy or other financial reorganisation.
- Observable data that suggested that there is a decrease in the estimated future cash flows.

This approach differs from the expected loss model used for regulatory capital purposes in accordance with Basel II.

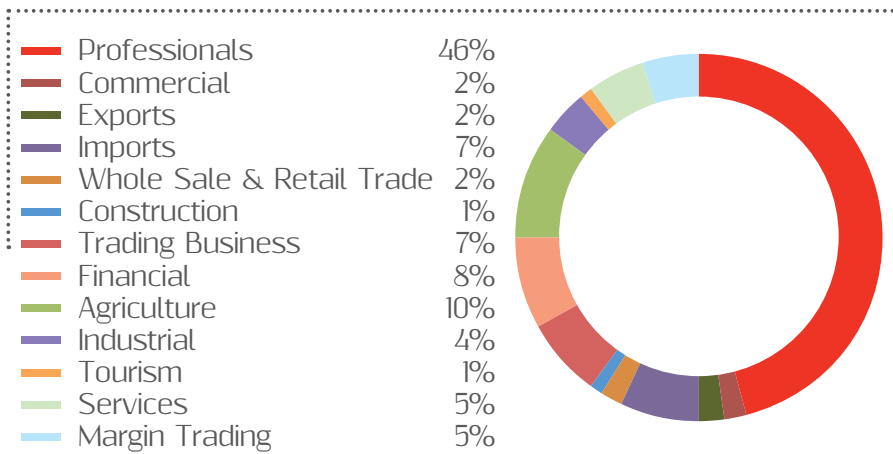
In addition, Bank also identifies "Watch List accounts" which need special

monitoring/attention. Watch List accounts and their financial behavior are also discussed at the Management Committee and Board Credit Committee levels. Greater emphasis is given to cash flows of the borrower when impairment allowances are determined and also for any other financial support on such accounts.

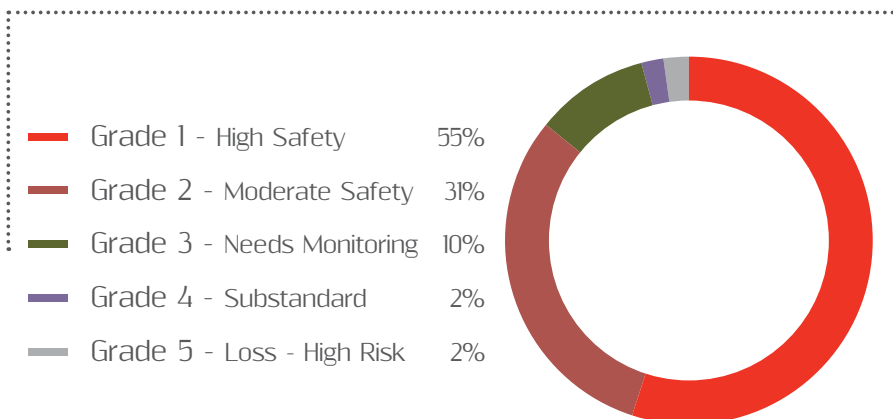
Exposure in Credit Risk

The following are some of the indicators in exposure to credit risk in the bank.

1. Industry wise Breakdown of the Bank's Lending Portfolio.



2. Rating Wise Distribution of Bank's Lending Portfolio.



Board Credit Committee

The Credit Committee was set up with the intention of managing credit risk inherent in the Bank's lending portfolios and also to evaluate risks in individual credit facilities which are above the threshold of the Head Office Credit Committee. The Committee comprises of five Non Executive Directors, Chief Executive Officer / Executive Director, Chief Risk Officer and Senior Manager-Credit Risk acts as the secretary to the Committee. The Committee convened 12 meetings during the year under review. Proposals submitted to the Committee should meet the below mentioned requirements.

- Proper evaluation by the business unit in accordance with the credit policy of the Bank
- Evidence of independent review by the Risk Management Unit
- Be recommended by the Head Office Credit Committee

The Committee's main responsibilities, derived from the charter include the following

- Operate a sound credit granting process
- Maintain an appropriate credit administration, measuring and maintaining process
- Ensure adequate controls over credit risk
- Identification and administration of problem credit
- Proper evaluation of new business opportunities
- Cyclical aspects of the external and internal economy

- Review of facilities sanctioned by the Committee and issue of further instructions, if necessary

Prevention of any new non performing advances is also one of the main functions of the Committee by way of constant monitoring process.

Market Risk

Market Risk relates to the impact of fluctuations in market rates on Bank's assets and liabilities. Special emphasis is placed on its effect on fixed income securities, investments and forex position.

The Treasury handles all fund management operations of the Bank against counter party limits approved by the Board for money market and forex dealings, ensuring that all regulatory guidelines pertaining to the management of all important liquidity and forex positions are adhered to.

The Assets and Liabilities Committee, (ALCO) in keeping with its terms of reference approved by the Board, decides on short term and long term strategies of the Bank for the overall management of Assets and Liabilities based on specific needs and prevailing market conditions. In the process, ALCO reviews the following, among others, on a monthly basis or more frequently if the situation so demands.

- Assets and liability strategies
- Interest rate risk
- Liquidity risk
- Bank's view on interest rates vis-a-vis competitor rates
- Exchange rate forecasts

The Treasury Middle Office which has been strengthened with additional qualified staff and functioning as an independent unit, monitors the following and reports breaches, if any, for prompt corrective action.

1. Marked to market position on Fixed Income Securities
2. Dealer limits
3. Counter party limits – Forex / Money Market
4. Stop loss limits for dealers / overall bank
5. Treasury Bills / Treasury Bonds portfolio mix
6. Liquid Asset Ratio
7. Investment portfolio
8. Statutory Reserve Ratio and Net Open Position

The Board Integrated Risk Management Committee reviews the risk goals set for market risk management on a quarterly basis and provides valuable input and direction .

These goals are compared with results achieved and are subject to a comprehensive discussion for decision making for way forward. In particular, the limits imposed by the regulator and control measures adopted for compliance are carefully monitored.

Operational Risk

Overview

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and external events. The Bank recognises the significance of operational risk, which is inherent in all areas of business. Operational risk is managed within acceptable levels through an appropriate level of management focus on resources.

Objectives

The Bank is committed to the management of operational risks. The Bank's operational risk management framework aims to :

- Reduce losses arising from operational risk. Key role of operational risk management in the Bank is to reduce losses from operational failure and in particular avoid potentially large risks / losses.
- Ensure better control of operations – the Bank expects that increased understanding of risk activities within various business units, the Board and senior management will lead to improvements in the control of operations and the emergence of a more proactive operational risk management culture.
- Provide early warning signals, if any, of deterioration in the Bank's internal control system.
- Raise awareness of operational risk in the Bank from top to bottom through implementation of an enterprise-wide operational risk approach.

Philosophy and principles

The following philosophy and principles govern the management of operational risk in the Bank.

- Operational risk in the Bank is coordinated through a centralised and independent operational risk management unit.
- There are consistent standards for defining, evaluating, measuring, monitoring and reporting operational risk.
- The Bank's operational risk management practices are subject to independent review by internal and external auditors.
- Operational risk management is governed by well defined policies and procedures which are clearly communicated across the Bank.
- Operational risk and loss events are reported openly and fully to the appropriate levels once they are identified.
- Adequate processes and systems for identifying, measuring, monitoring, reporting and controlling operational risks are being implemented by Bank and the process is on-going.

Methodologies

In order to meet its operational risk management objectives, each business function within the Bank is required to identify, assess, measure and control its operational risk in line with the policy set by the Board.

Operational risk reporting

Significant risk exposures are reported to senior management on a monthly basis. These include Operational and fraudulent loss incidents, significant control breakdowns rectified during the month. Also, outstanding audit issues and any other issues with operational risk implications are reported on a regular basis.

Internal loss data

The tracking of internal loss event data is a key component of Bank's operational risk framework. Internal loss events and data are analysed with a view to focusing attention on where they are needed and to forestall re-occurrence through sharing lessons learnt.

Key risk indicators

Key risk indicators are a measure that tracks the risk profile of the Bank. Operational risk management monitors identified key risk indicators in various departments across the bank.

Strategy

Failure to manage operational risk effectively often results in significant financial losses, regulatory fines or censure, reputational damage, brand erosion or even the loss of Banking license, all of which directly impact shareholder value. Accordingly Bank's operational risk strategy aims to minimise the impact of operational risk on its shareholder value. In more specific terms Bank's strategy is to:

- a) Reduce the likelihood of occurrence of unexpected events and related cost by managing the risk factors and implementing loss prevention techniques.
- b) Make all managers responsible for the management of operational risk and thus minimise actual or potential losses. The Bank recognises that some losses, such as operational errors, are inevitable and are normal in the conduct of business, but will ensure these costs are kept within acceptable levels and potential losses are minimised.

In implementing this strategy, the Bank:

- Has implemented best-practices of operational risk management policies and procedures.
- Ensure that roles and responsibilities are agreed and clearly understood by employees at all levels.
- Ensure that all staff in business and support functions are aware of their responsibilities for operational risk management
- Consider the potential operational impact of its activities and products at the outset with a view to minimise risk.
- Ensure that staff are provided with appropriate risk management training that is commensurate with their roles.
- Minimise the financial impact of operational losses, through management of risk factors and utilisation of insurance.

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

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

Prominence will be given to below mentioned categories for improved measurements.

1. Observe the trends in the economy which may demand new sectoral growth with regard to the amended policies of the government. Additional risk monitoring methods to be initiated if the Bank needs to venture into unknown territory.
2. Review and improve the MIS system by fine tuning to cater to the macro and micro economic developments. Same will also be used to ascertain the scope of the Bank's business growth.
3. Risk monitoring tools on risk to be developed with novel methodological ways to suit the future requirement of the business and the authorities. This will improve the specific measurement tools in risk mitigating techniques.

4. Increase the frequency of monitoring to have a closer watch and to screen the vulnerability of the market conditions with the heavy competition and thin margins.
5. To fully automate the risk rating methodologies with increased number of attributes of identified factors which would improve the Internal Risk Rating procedures.
6. To deploy better risk management methods with sophisticated employee engagement methods for front level risk identification, measurements and mitigation.
7. To enrich the risk measurement methods to predict and address the threats of economic turbulences with greater accuracy.
8. Increase the determination on operational risk with additional indicators as specified by the regulator and according to the best practices of the market.

Human Capital

We firmly believe that the dynamism and competence of our human capital has led Pan Asia Bank to set better standards of excellence in serving our customers and stakeholders. Therefore, we recognise, appreciate and nurture our employees continuously, upon which the basis for our outstanding achievements demanded by our stakeholders are met. To meet these high standards, we constantly make our efforts to maintain an environment where our employees are able to unleash their full potential. We are dedicated in nurturing their growth and well being to strive to deliver outstanding performance. Our employees know that with commitment and dedication they are able to achieve excellent career prospects within the Bank – after all majority of the vacancies are filled from within the Bank itself.

As we always admit, the flame of success of Pan Asia Bank is fueled by our people who are committed with a great desire and a passion not just to perform but to make a difference.

Recruitment & Selection

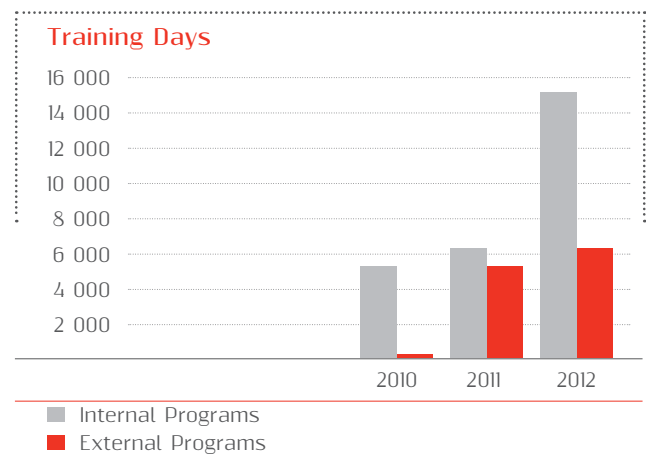
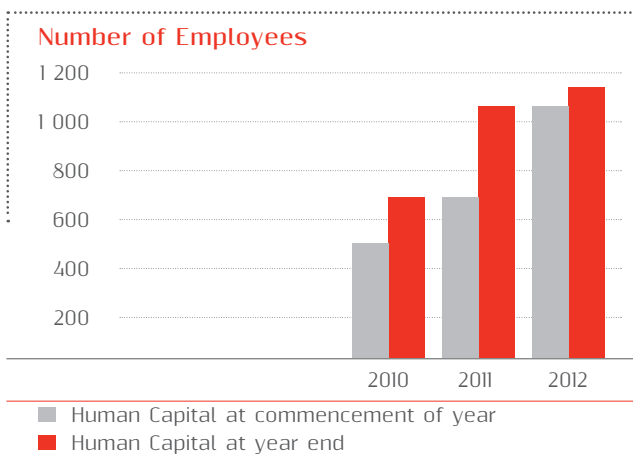
The Bank continued to strengthen its branch network during the year and 9 branches were opened by the end of 2012, taking the total Branch tally to 73. In accordance with the expansion planned and implemented during the year, recruitment and selection was given a heightened priority.

The year commenced with 1,096 employees and it ended with 1,153 staff in total, which is an increase of 57 employees. 2012 was a year of consolidation in terms of staff numbers where we looked at making our processes more efficient and new recruitments were mainly done for the branches.

The recruitment drive of the Bank also included several walk-in interviews and recruitment campaigns held throughout the year. The internal staff members were given the priority when filling the vacancies of the Bank in keeping with the Staff Promotion Policy and during the year over 145 staff members were able to achieve their career aspirations through the internal staff promotions. Staff members also had the opportunity of moving laterally into different roles as per the Bank's Job Rotation

policy. This undoubtedly provided them an opportunity to enhance their banking knowledge in various aspects of the Bank, so that, they will be better equipped to achieve their desired career goals. As a part of the ongoing corporate social responsibility initiatives of the Bank, 10 interns were given the opportunity to gain work experience in the various aspects of the Bank during the year 2012.

The Bank also re-vamped and launched our Management Trainee program with the aim of ensuring a readily available pipeline of future leaders of the Bank to cater to its growth momentum and the new batch will commence their training in January 2013. These Management Trainees are expected to go through a structured comprehensive training programme of two years and on successful completion of the training period they will be absorbed to the support departments and the branches as Assistant Managers.





Staff Sports Day

Training & Development

In order to harness the superior performance of our employees, the Bank continued to develop them according to a structured training calendar for the year, which was arrived at, through a comprehensive Training Need Analysis performed. The base for this was performed by capturing the specific training needs identified in the individual performance appraisals and the subsequent discussions had with the Heads of the support departments and Branches. We strongly believe that investing in the continuous development of our human capital and making them ready for tomorrow's challenges is an essential item in our agenda as it certainly provides an impetus to the growth of the Bank amidst an ever evolving market.

In keeping with the growth momentum of the Bank, the talent development initiatives were also increased during the year. This is evident when analysing the training days completed for the year 2012. We completed 14,265 internal training days and 5,909 external training days. The total training days completed in the year 2012 was 20,174. The figures indicate that in comparison with the previous year, we have increased our

training days considerably during the year 2012 by recording a 134.85% of increase on internal training days and 20.61% on external training days.

A range of training programmes were deployed across all functions of the Bank with the aim of enhancing specific technical knowhow and to keep up with the changes in the banking industry. These technical programmes included training on products and services of the Bank, business process and guidelines.

A significant structural change in the training plan for Trainee Banking Assistants was put in place which focuses on continuous development of technical skills, soft skills, personal development and leadership qualities. This Training Plan aimed at developing young talented individuals, enabling them to contribute to future growth and success of the Bank. The Induction Programme for Trainee Banking Assistants was revised and increased in duration and deployed to a thorough knowledge of Bank's culture, general guidelines and to understand overall business processes followed by a structured on-the-job training process.



Corporate Quiz Programme

To maintain, expand and improve soft skills and personal development of staff, many training opportunities were made available both internally and externally. A substantial amount was invested by the Bank in specialised training conducted by external experts to ensure competent workforce and to equip them with necessary qualities to provide quality customer service to its customers.

The Bank also strengthened the training by forming a formal Training Unit which is dedicated for development initiatives.

Performance Management

The evaluation of the performance of the employees is done using the robust Performance Management System, which was implemented in the year 2010. The objectives were set for all staff from the Chief Executive Officer down to the Banking Assistant at the beginning of the year. The Bank also carried out the Mid-Year Performance Review for its employees during the year and this helped to recognise the progress made by the staff members during the first half of the year as against the agreed objectives. The Mid Year review also provides the platform to review and discuss the strengths and to work on the areas, which require further improvement prior to the final review at the end of the year.

Rewards and recognition

In fostering and strengthening the 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.

Amongst those the bank-wide awards night which was introduced for the first time was received very well by the employees. The year 2011 marked a very successful year in the Pan Asia Bank's history. This success was achieved through the magnificent contributions made by all our staff. Thus it was only appropriate that they were rewarded for the contributions they have made. "Sparkles 2011" the glamorous awards night was a star studded event that was dazzled by the deserving achievers.

During the year, the Bank participated in a salary and benefits survey amongst the other commercial banks and streamlined the salary anomalies of its employees of Manager and below grades. Further, based on Bank's performance during the year 2011, the Manager and above grades employees were paid a variable bonus taking in to consideration of their performance rating and the job position.

Remuneration Policy

The main objective of the Remuneration Policy is to reward employees for their contribution to the Bank in a manner in which it motivates them to strive further. 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 and Corporate Management. Compensation surveys from leading independent research companies are sought and 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.

Employee Relations

We have always believed that participative management is a method, which encourage a partnership approach to matters of mutual interests to both the employer and employees. We at Pan Asia Banking Corporation PLC 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, implementation of solutions and aims to motivate employees as well. 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 Bank encourages close working relationships between its employees and the formation of Joint Consultative Council (JCC) has lead to close collaborative relations between the employees and the Management. The JCC has positively resulted in increased communication, goodwill, commitment, motivation and cooperation of all



Kiddies' Christmas Party

Pan Asia Banking Corporation PLC



Avurudu Ulela



Avurudu Ulela

concerned for the long-term benefit of the Bank as well as our employees. The committee is made up of employees from the grades of Assistant Manager and below, whilst the Chief Executive Officer, Chief Operating Officer, Head of Human Resources participate at the meetings and other Corporate and Senior Management members participate by invitation to address concerning matters of mutual interest.

The Bank promotes a culture which is open and transparent. Employees are empowered to walk up and speak with any members of Senior and Corporate Management at any time.

The Bank encourages all individuals to raise any concerns / complaints that they may have about the conduct of others in the organisation or the way in which the organisation is run, through its "Whistle Blowing Policy". This policy sets out the way in which individuals may raise any concerns that they have and how those concerns / complaints will be dealt with.

Staff Welfare

The Bank's social calendar of the year included various staff engaging events and these provided the opportunity for our employees to interact and bond with each other while having some fun outside work.

Avurudu Ulela

The Bank held the Sinhala and Tamil New Year celebration at the BRC ground on the 22nd of April 2012 giving significance to the traditional national games. The celebration began with everyone being treated to Milk Rice accompanied with traditional sweet meats for breakfast whilst the traditional Raban Sural filled the morning air amidst fresh oil cakes being cooked. The celebrations were drawn to the late evening and many traditional games and competitions were held to commemorate the event in vivid colour. It was very encouraging to note employees participating at these events with much enthusiasm and happiness. The entire Bank was divided into four houses namely, Kokila, Erabadu, Hiru and Wasantha and all members of the houses got-together as one family to make their house win. It was indeed an enjoyable day for our employees.



Vesak Celebration



Poson Celebration

Vesak Celebration

A special Bana sermon was organised at the Corporate Office in commemorating the birth, the enlightenment and attainment of Nibbana of Buddha. Buddhists as well as non-Buddhist staff united in organising this event. The Vesak lantern competition was also organised amongst the Branches and Departments to celebrate this festival of light. In addition the Bank also held an Ice Cream 'Dan Sala' on the day following Vesak for which there was a Mass gathering of people.

Poson Celebration

An evening of Poson Bhakthi Gee was organised to commemorate the birth of Buddhism in Sri Lanka. The employees representing branches and the support departments participated in singing Poson Bhakthi Gee at the Corporate Office. It was more than commemoration of Poson but 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.

Corporate Quiz Programme

The inaugural "Pan Asia Intellectuals" was held on the 10th of November 2012. This event was organised as team based quiz program between Branches and Departments, at the BMICH. The key focus areas of this quiz were product knowledge, banking practices, current affairs, as well as sports and entertainment. It was a heated competition amidst a packed house filled with enthusiastic participants, energetic team supporters and members of the Corporate and Senior Management. This was yet another enjoyable and eventful, employee engaging activity of the Bank.



Corporate Quiz Programme

Pan Asia Banking Corporation PLC



Kiddies' Christmas Party

Kiddies' Christmas Party

The annual Children's Christmas Party was held on the 02nd of December at the 80 Club, where the children of our staff enjoyed to their little heart's content. The event was organised as per the theme of "Angry Birds", which became a hit amongst the kids. Exciting games such as face painting, Pony rides, and company of Santa Clause and cartoon characters, Fancy Dress Parade were amongst the highlights of this wonderful evening. Loads of gifts and an array of delicious refreshments were also organised specially for all the kids who participated in the event.

Staff Sports Day

The Bank witnessed an Olympian of games where the Pan Asia Olympics were held on 13th October 2012. Games representing Olympic events were held and the employees in 4 teams fiercely competed to win. This day provided ideal grounds for the sports men and women of the bank to show off their sporting talents and shine.

Staff Outing

The annual staff outing took place in August 2012 and was greatly enjoyed by everyone. This was the first time the Bank staff outing was held in 2 years. The overnight stay in the historic location of Dambulla was packed with many fun filled events for the entire staff to enjoy.

Annual Dinner Dance

Amongst the other events organised, the Annual Dinner Dance was the most anticipated event of the year. The theme for the night was the "70's" and from the music to the ambiance the era was well represented. All employees were glamorously clad in the attire representing that unforgettable time capsule. The night was stretched till sunrise of the following day and all enjoyed to their hearts content.



Staff Sports Day



Annual Dinner Dance





We recognise that the long-term view is the only one. We shall prioritise sustainability in order to keep our business viable and secure.

The extra mile

Sustainability Report >>

Corporate Social Responsibility Report



Ranaviru Harasara Campaign (Matale)



Dengue Campaign (Kotte)

We strongly believe that strengthening relationships with all our stakeholders via CSR commitments is very much an integral part of the business we do, for as far as we are concerned, the stakeholders and the Bank are inseparable in many ways. Hence, apart from the plethora of CSR activities conducted by our branches in their localities year around, we have been getting involved in many CSR activities with a view to enhance the quality of life of our stakeholders from multiple perspectives.

CSR Objectives

- 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 perceived as the most dynamic commercial Bank in Sri Lanka

CSR Programmes

Health & Welfare

- Pan Asia Bank joined hands with the Sri Jayawardenapura Kotte Municipality Council to eradicate the Dengue threat in the area. Kotte city was badly affected by Dengue early this year. For this reason the Sri Jayawardenapura Kotte Municipality initiated several door to door campaigns to create awareness among residents on the subject of eliminating the Dengue threat. Pan Asia Bank sponsored this worthy cause by not only providing promotional materials to create awareness of this campaign, but also by encouraging staff members to take part in the door to door campaigns.

- Pan Asia Bank conducted an awareness campaign in Matale district for “Ranaviru Harasara” Loan Scheme which aims to enhance the living standards of the disabled soldiers and immediate family members of the “killed in action” and “missing and action” soldiers. The “Ranaviru Harasara” loan scheme expects to provide them with capital to start self employment ventures.



Vesak Kalapaya (Dehiwala - Mt. Lavinia)

Art & Culture

- Pan Asia Bank together with Ministry of Culture & the Arts, the Department of Cultural Affairs and the Arts Council of Sri Lanka, organised the 2012 State Children’s Art Competition, an island wide event that was conducted over six months. This year’s event which attracted more than 50,000 paintings was a resounding success in terms of discovering and showcasing the hidden talent of children across the country.

- Pan Asia Bank was the main sponsor at the Vesak Kalapaya of Dehiwela – Mt. Lavinia which was held at S.D.S. Jayasinghe grounds Dehiwela. The event took place from the 5th to 9th May 2012 to mark the Vesak festival. Staff members of the branches in the area participated by organising an Ice-Cream Dansala for people who visited the event.

Sports

- Pan Asia Bank was the co-sponsor of the Southern Motor Rally 2012, one of the most dynamic events in the Sri Lankan motor sports calendar which was held successfully for 14th consecutive year. Renowned Motor Racing & Rallying sportsmen in the country participated in this enormous event. This is the second successive year the Bank sponsored the Southern Motor Rally.



Childrens’ Art Competition



Southern Motor Rally 2012

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 Institute of Chartered Accountants of Sri Lanka (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 87
- Board Integrated Risk Management Committee - Page 89
- Board Human Resources & Remuneration Committee - Page 90
- Board Nomination Committee - Page 91

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

Statement by the External Auditors

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

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

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

Section	Principle	Compliance & Implementation
e.	Review the adequacy and the integrity of the Bank's internal control systems and management information systems	The Bank has separate Internal Audit department which directly report to the 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 Sri Lanka Accounting Standards, who are in a position to: i) significantly influence policy; ii) direct activities; and iii) exercise control over business activities, operations and risk management	Identification of the Key Management Personnel is done in accordance with the requirements of Sri Lanka Accounting Standards. The Bank identified the members of the Board, the Chief Executive Officer and the members of the Corporate Management as "Key Management Personnel"
g.	Define the areas of authority and key responsibilities for the Board of Directors themselves and for the Key Management Personnel;	The Board shares its responsibilities as a team and depending on specific skills and expertise they are appointed to different Committees to manage the Bank. The Chief Executive Officer's responsibilities have been identified.
h.	Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy;	Key Management Personnel are requested to attend Board Meetings as and when 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: i) the selection, nomination and election of directors and key management personnel; ii) the management of conflicts of interests; and iii) the determination of weaknesses and implementation of changes where necessary;	The Board has delegated the function of selection, nomination and election of Directors to the Board Nomination Committee. Self assessments are made by the Directors annually which are filed with the Company Secretary. This document is called the Board performance evaluation checklist. Any weaknesses in the governance practices are also monitored.
j.	Ensure that the Bank has an appropriate succession plan for Key Management Personnel	A succession plan is in place for the Corporate Management team and Board of Directors who are currently defined as "Key Management Personnel".
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, meet 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 attend Board Meetings by invitation to make presentation on their respective areas.

Section	Principle	Compliance & Implementation
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 Chief Executive Officer maintains relationships with the regulator and correspondences with the regulators are maintained by the Chief Executive Officer.
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 auditor. The audit committee charter approved by the board specifies these requirements
3(1)(ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3(5) of these Directions.	The Chairman and the Chief Executive Officer are appointed by the Board.
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.
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 73.

Section	Principle	Compliance & Implementation
3(1)(vii)	The Board shall appoint a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Company Secretary appointed in line with the stipulated requirements.
3(1) (viii)	All Directors shall have access to advice and services of the company secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	A process is in place.
3(1)(ix)	The Company Secretary shall maintain the Minutes of Board meetings and such Minutes shall be open for inspection at any reasonable time, with reasonable notice by any Director	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.
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> <p>(I) a summary of data and information used by the Board in its deliberations;</p> <p>(II) the matters considered by the Board;</p> <p>(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;</p> <p>(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;</p> <p>(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</p> <p>(VI) the decisions and Board resolutions</p>	<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 understandings of the risks to which the Bank is exposed and an overview of the risk management measures adopted too are contained in the Board Minutes.</p> <p>The Minutes are maintained to provide the details stipulated.</p>

Section	Principle	Compliance & Implementation
3(1)(xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the Bank	Approved Board procedure includes a provision to enable the Directors to seek independent professional advice at the Bank's expense.
3(1)(xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or Related Parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board Meeting, where independent Non-Executive Directors who have no material interest in the transaction, are present. Further, a Director shall abstain from voting on any Board Resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board Meeting	The Board procedure includes provisions to manage conflicts of interest of Directors. The Bank follow guidelines issued by the Director Bank Supervision with regard to Related Party Transactions and accordingly directors abstained in voting and take part in discussions where issues or items pertaining to conflict of interest.
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 2012.
3(1)(xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds	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 Direction	The 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.

Section	Principle	Compliance & Implementation
3(2)	The Board's Composition	
3(2)(i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	11 Directors constitute the Board.
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 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.	10 out of 11 Directors are Non-Executive Directors, hence this does not exceed one-third of the number of Directors of the Board.
3(2)(iv)	The Board shall have at least three Independent Non-Executive Directors or one third of the total number of Directors, whichever is higher. A Non-Executive Director shall not be considered independent if he/she:	There are 4 Independent Non-Executive Directors in the Board.
a.	has direct and indirect shareholdings of more than 1 per cent 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 2012.
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 2012.
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 2012.
e.	represents a specific stakeholder of the Bank;	The Bank has not come across any such situation during the year 2012.

Section	Principle	Compliance & Implementation
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 per cent of the regulatory capital of the Bank, or II) in which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or III) in which any of the other Directors of the Bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the Bank	Complied with. 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. Alternate Director appointed to represent an Independent Director is also an Independent Director.
3(2)(vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	Nomination Committee is in place to consider appointment of 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.	Required quorum has been complied with.
3(2) (viii)	The independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual Corporate Governance Report.	Complied. Please refer page 73 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.	Nomination 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.	03 Directors were appointed to fill casual vacancies.

Section	Principle	Compliance & Implementation
3(2) (xi)	<p>If a Director resigns or is removed from office, the Board shall:</p> <p>(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</p> <p>(II) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders'</p>	<p>Director resignations and removals are duly communicated to the relevant regulatory authorities as per Colombo Stock Exchange regulations. Chairman of the Bank Mr. A. G. Weerasinghe retired on reaching 70 years of age during the year.</p>
3(2)(xii)	<p>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</p>	<p>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.</p>
3(3)	Criteria to assess the fitness and propriety of Directors	
3(3)(i)	<p>The age of a person who serves as Director shall not exceed 70 years.</p>	<p>To date no Director has reached 70 years. The Company Secretary maintains records of the age of the Directors.</p>
(a)	<p>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.</p>	<p>Complied with.</p>
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 If any person holds posts in excess of the limitation as above, such person shall within a maximum period of three years from 1January 2009 comply with the above mentioned limitation and notify the Monetary Board accordingly.</p>	<p>Except for A. A. Page all other Directors have complied with. It is being rectified by A. A. Page.</p>
3(4)	Management functions delegated by the board	
3(4)(i)	<p>The Directors shall carefully study and clearly understand the delegation arrangements in place.</p>	<p>Delegation arrangements have been approved by the Board.</p>
3(4)(ii)	<p>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</p>	<p>Complied with. All delegations are made in a manner that would not hinder/reduce the Board's ability to discharge its functions.</p>

Section	Principle	Compliance & Implementation
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 Chief Executive Officer	
3(5)(i)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Complied with. The roles of Chairman and Chief Executive Officer are separate and not performed by the same individual.
3(5)(ii)	The Chairman shall be a Non-Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Bank's Annual Report	The Chairman is a Non-Executive Director and since he is not independent, an Independent Director is appointed as "Senior Director".
3(5)(iii)	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied with. The Board is aware that there are no relationships whatsoever, between the Chairman and Chief Executive Officer. Similarly no relationships prevail among the other members of the Board, other than being common Directors of 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 formal agenda prior to the Board Meeting. This agenda is approved by the Chairman of the Board.
3(5)(vi)	The Chairman shall ensure that all directors are properly briefed on issues arising at Board Meetings and also ensure that Directors receive adequate information in a timely manner.	Complied with. Board Papers are sent seven days prior to the meeting in order for Directors to request any other information if necessary.
3(5)(vii)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	Self evaluation process is in place.
3(5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	Complied with.

Section	Principle	Compliance & Implementation
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.
3(5)(xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Bank's operations and business.	The Chief Executive Officer functions as the apex executive in charge of the day to day management.
3(6)	Board Appointed Committees	
3(6)(i)	The Bank shall have at least four Board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions. Each committee shall report directly to the Board. All committees shall appoint a secretary to arrange the meetings and maintain minutes, records, etc., under the supervision of the Chairman of the Committee. The Board shall present a report of the performance on each Committee, on their duties and roles at the Annual General Meeting.	The Board has established an Audit, Nomination, HR & Remuneration and Integrated Risk Management Committees. Board Committees submit minutes to the Board. Each Committee report is published in the Annual Report in pages 87 to 91.
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 Audit Committee is a Non-Executive Director. Qualifications and experience are disclosed in page 14 of the Annual Report.
b.	All members of the Committee shall be Non-Executive Directors.	All four 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 recommendation; -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.

Section	Principle	Compliance & Implementation
d.	The Committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	The Committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with Sri Lanka Auditing Standards.
e.	<p>The Committee shall develop and implement a policy on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an external 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 nature and scope of the audit, with the external auditors in accordance with Sri Lanka Auditing Standards was discussed at the Board Audit Committee meeting held on 22.11.2012.

Section	Principle	Compliance & Implementation
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.	The Annual and Quarterly Financial Statements prepared in accordance with Sri Lanka Accounting Standards and other legal requirements on an going concern basis are presented to the Committee by the Chief Financial Officer.
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 by the external auditor's Management Letter and the management response thereto.
j.	The Committee shall take the following steps with regard to the internal audit function of the Bank: I) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work; II) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department; III) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; IV) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; V) Ensure that the Committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; VI) 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	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. Performance of the Head and Senior staff members of the Internal Audit Division are reviewed/ assessed. The Committee has appraised of resignations of senior staff members of the internal audit department including the Chief Internal Auditor and any outsourced service providers. The Internal audit function is an independent function with direct reporting to the Board Audit Committee.

Section	Principle	Compliance & Implementation
k.	The Committee shall consider the major findings of internal investigations and management's responses thereto.	Major findings of internal investigations and management's responses thereto are considered by the Committee and minuted.
l.	The Chief Financial Officer, the Chief Internal 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 met with the external auditors on the Board Audit Committee meetings held on 30.05.2012 & 22.11.2012 without the executive management.
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 17 times in 2012
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 Committee details disclosed in the Annual Report, page 87. Details of attendance by individual Directors in page 73 of the Annual Report.
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.
3(6)(iii)	Human Resources and Remuneration Committee:	
a.	The Committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer and Key Management Personnel of the Bank.	Complied with.

Section	Principle	Compliance & Implementation
b.	The Committee shall set goals and targets for the Directors, Chief Executive Officer and the Key Management Personnel	The goals and targets for the Chief Executive Officer and the Key Management personnel are documented. Not applicable to Directors.
c.	The Committee shall evaluate the performance of the Chief Executive Officer and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Complied with.
d.	The Chief Executive Officer shall be present at all meetings of the Committee, except when matters relating to the Chief Executive Officer are being discussed	Complied with.
3(6)(iv)	Nomination Committee	
a.	The Committee shall implement a procedure to select/ appoint new Directors, Chief Executive Officer and Key Management Personnel	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.	Complied with. 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 Chief Executive Officer and the Key Management positions.	Complied with.
d.	The Committee shall ensure that Directors, Chief Executive Officer and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes	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 Chief Executive Officer may be present at meetings by invitation	The Committee is chaired by an Independent Director and the majority of directors are independent. Chief Executive Officer will be present by invitation.
3(6)(v)	Integrated Risk Management Committee (IRMC)	
a.	The Committee shall consist of at least three non-executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	The Committee consists of three Non-Executive Directors appointed by the Board, Chief Executive Officer / Executive Director and Chief Risk Officer, Chief Financial Officer, Chief Operating Officer, Head of Treasury, Head of Information Technology, Head of Compliance and Senior Manager Credit Risk.

Section	Principle	Compliance & Implementation
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. A process is in place to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information.
c.	The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset and Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee	Complied with. Specific quantitative and qualitative risk limits for all Board level Committees such as the credit Committee, The Asset and Liability Committee and other Management level Committees such as Credit Control Committee, Treasury Review Committee, Operational Risk Committee are also reviewed.
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. All risk indicators which have exceeded the specified quantitative and qualitative risk limits have been reviewed and discussed for action.
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 Integrated Risk Management Committee recommendation Human Resources Department will initiate the process. No such instances reported during the period under review.
g.	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions	Risk assesment report submitted to the Committee are placed before the Board. In addition minutes of the Committee meetings are submitted to the next immediate Board meeting.
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. The Committee has established a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer carries out the compliance function and reports to the committee periodically.

Section	Principle	Compliance & Implementation
3(7)	Related Party Transactions	
3(7)(i)	<p>The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as "Related Parties" for the purposes of this Direction:</p> <p>a) Any of the Bank's subsidiary companies; b) Any of the Bank's associate companies; c) Any of the Directors of the Bank; d) Any of the Bank's Key Management Personnel; e) A close relation of any of the Bank's Directors or Key Management Personnel; F) A shareholder owning a material interest in the Bank; g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest</p>	A policy on Related Party Transactions is in place.
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	A process is in place.
(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 Staff Code of Conduct signed 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 favorable treatment" than that accorded to other constituents of the Bank carrying on the same business. In this context, "more favorable treatment" shall mean and include treatment, including the	

Section	Principle	Compliance & Implementation
(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 all Related Parties on the same basis as they would treat unrelated counterparties 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 all Related Parties on the same basis as they would treat unrelated counterparties for all transactions.
(d)	Providing services to or receiving services from a Related-Party without an evaluation procedure	A Board approved outsourcing policy is in place.
(e)	Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with Related Parties, except as required for the performance of legitimate duties and functions	Incorporated in the Staff Code of Conduct signed by the employees.
3(7)(iv)	A Bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well	Complied with. Except for Mr. G. C. A. De Silva who was enjoying facilities prior to becoming a Director to be formalised in February 2013.
3(7)(v)(a)	Where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director	The Bank follows guidelines issued by Central Bank of Sri Lanka for related party transactions.

Section	Principle	Compliance & Implementation
(b)	Where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier	The Bank follows guidelines issued by Central Bank of Sri Lanka for related party transactions.
(c)	Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of Director and the Bank shall disclose such fact to the public.	The Bank follows guidelines issued by Central Bank of Sri Lanka for related party transactions.
(d)	This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank	The Bank follows guidelines issued by Central Bank of Sri Lanka for related party transactions.
3(7)(vi)	A Bank shall not grant any accommodation or "more favorable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3(7)(v) above.	No accommodation has been granted to any employee of the Bank on more favourable terms unless under general staff loan scheme applicable for all employees of the Bank.
3(7)(vii)	No accommodation granted by a Bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	A process is in place. No such instances noted during the period under review.
3(8)	Disclosures	
3(8)(i)	The Board shall ensure that: (I) Annual Audited Financial Statements and Quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and 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)	The Board has made the following minimum disclosures in the Annual Report:	
a.	A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures	Relevant disclosures are included in page 93 of the annual report under "Directors Responsibility for Financial Reporting".

Section	Principle	Compliance & Implementation
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 page 77 of the Annual Report under "Directors Report on the Bank's Internal Control System".
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 page 77 of the Annual Report under "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 14 under "Board of Directors" & in page 116 under Directors' Emoluments (Other Operating Expenses).
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 160.
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 159 under "Related Party Disclosures" (Compensation to Key Management Personnel).
g.	The external auditor's certification of the compliance with these Directions in the Annual Corporate Governance Reports published after 01 January 2010	Relevant disclosures are included in the Annual Report page 54 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 74 under "Bank's Compliance with Prudential Requirements" and page 93 under "Directors Responsibility for Financial Reporting".
i.	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns	Complied with. There were no significant supervisory concerns on lapses in Bank's Risk Management or non compliance with this Direction that have been pointed out by the Director of Bank Supervision and requested by Monetary Board to be disclosed to the public.
3(9)		
3(9)	Transitional and other General Provisions	The Bank has complied with Transitional Provisions.

Attendance of the Directors During the Year

Name of Director	Board Meetings		Board Audit Committee		Board Credit Committee		Board Integrated Risk Management Committee		Board Human Resources & Remuneration Committee		Board Nomination Committee	
	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance
W. D. N. H. Perera	12	12	-	-	12	10	-	-	05	04	04	04
R. E. U. De silva	12	12	-	-	12	08	05	04	-	-	-	-
A. A. Page	12	09	17	16	-	-	-	-	-	-	02	02
J. A. S. S. Adhihetty	12	11	-	-	12	11	-	-	-	-	-	-
M. D. S. Goonatilleke	12	12	17	16	-	-	04	04	-	-	-	-
H. K. Seneviratne	12	12	17	16	-	-	07	06	05	04	04	04
T. G. Thoradeniya	12	12	-	-	06	06	-	-	03	03	01	01
G. C. A. De Silva	08	08	11	11	06	06	-	-	-	-	-	-
G. A. R. D. Prasanna	08	08	-	-	-	-	-	-	-	-	-	-
Takashi Igarashi	03	03	-	-	-	-	02	01	-	-	-	-
A. G. Weerasinghe	04	04	-	-	05	05	03	03	02	02	01	01

Present Composition of the Directors

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

Bank's Compliance with Prudential Requirements

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

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

The Compliance Unit functions as an independent Unit and addresses the Bank's compliance with regulations such as Know Your Customer (KYC) and Anti Money Laundering (AML) functions. 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 Unit is also engaged in pro-actively identifying, documenting and assessing Compliance Risks that may arise due to non compliance with regulatory / internal requirements, when conducting the day to day business activities of the Bank. As part of their efforts, the Unit takes into account all compliance control procedures for mitigating such risks and conducts representative testing of such compliance controls etc., which enables the Bank to assess the residual compliance risk and conduct compliance monitoring in a systematic manner.

Monitoring of Compliance

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

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

- Significant new regulations / statutes and the implications to the Bank
- Compliance on statutory / mandatory reporting requirements
- Compliance related customer complaints / commendations
- Training / awareness undertaken and / or identification of training needs
- Compliance monitoring on; Regulatory Compliance Anti Money Laundering (AML)
- Significant non compliance events; Regulatory / Potential breaches

All instances of non-compliance, along with remedial action taken / recommended are reported to the IRMC on a quarterly basis, to enable them identify breaches and other risk exposures.

Anti Money Laundering (AML) Compliance

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

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

The Bank's Anti Money Laundering Policy establishes standards of Anti Money Laundering compliance which applies to all Branches / Departments and ensures strict compliance with all existing laws and regulatory requirements.

The Bank takes all reasonable steps to verify the identity of our customers in accordance with the directions issued by the Financial Intelligence Unit. Systems are also in place to ensure that Know Your Customer (KYC) and Customer Due Diligence (CDD) information is collected and kept up-to date and that identification details are updated when changes occur. Money Laundering issues -including suspicious transactions, are monitored through appropriate internal channels and reported to the Bank's Senior Management / IRMC and other relevant authorities where applicable, on a regular basis.

New Product Development Framework

Prior to launching or formally approving new products or new procedures which form the operating instructions for various activities; the Bank ensures that they are reviewed and signed off by the Compliance Unit, as well as by other independent units, including the Risk Management Unit, Legal Unit, Finance Unit, Systems Audit and by Internal Audit. In addition, the Compliance Unit also facilitates the incorporation of regulatory requirements into operational procedures and appropriate manuals.

Capacity Building on Compliance

Capacity building through various internal and external training opportunities forms a critical building block Bank's success in Compliance. Internal training and orientation for new recruits include training modules on Compliance. Existing and new staff are provided training throughout the year to ensure that sufficient numbers of trained staff members are present in all branches and departments.

Ongoing training on Compliance is conducted regularly for Branch Managers and Heads of Departments, to ensure continuous professional development and knowledge sharing.

As part of this programme, Compliance Staff, Branch Managers, Assistant Managers, Heads of Departments and their Assistants have been trained during the year in the following areas.

- Training program on Exchange Control Regulations for Financial Institutions conducted by Central Bank of Sri Lanka.
- Training program on Financial Intelligence for the Banking and Financial Institutions conducted by Central Bank of Sri Lanka.
- Training program on Changes to the Global Landscape on Anti Money Laundering -Challenges for Compliance Officers.
- Special seminar on "Compliance to promote risk management in banks and financial institutions" conducted by Institute of Bankers of Sri Lanka.

Information Technology Systems for Compliance

The Bank has expedited acquisition of a software solution for Anti Money Laundering and Regulatory Compliance function and is hopeful that the system would be set-up during the first half of 2013.

External Auditors' Assurance Report on Bank's Internal Controls



Chartered Accountants

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

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

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

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

We were engaged by the Board of Directors of Pan Asia Banking Corporation PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2012.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with section 3(8) (ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

Our responsibilities and compliance with SLSAE 3050

Our responsibility is to issue a report to the board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance

Engagements (SLSAE) 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of work performed

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

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

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

Our conclusion

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

22 February 2013
Colombo

Partners: A D B Talwatte 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 FCA 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 Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga ACA N M Sulaiman ACA ACMA B E Wijesuriya ACA ACMA

Directors' Report on Bank's Internal Controls

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 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, 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 based on the

annual risk base assessment and 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 monthly meetings.

- The Audit Committee of the Bank reviewed 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 87.
- 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 division 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.
- As the current year was the first year of adopting new Sri Lanka Accounting Standards comprising LKAS and SLFRS, processes to comply with new requirements of recognition, measurement, classification and disclosures are being introduced, and the Bank will take necessary steps to improve the processes further.

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 2012 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.

Confirmation

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

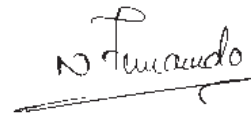
By Order of the Board



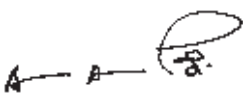
G. G. Mangala
Chief Financial Officer



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



N. Fernando
Company Secretary



A. A. Page
Chairman - Board Audit Committee



W. D. N. H. Perera
Chairman

Colombo
22 February 2013.

Directors' Report 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 31 December, 2012.

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 is a Licensed Commercial Bank, 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 1988 changed its name to 'Pan Asia Banking Corporation Limited' on 23 April, 2004 and has now been re-registered as per the requirement under the new Companies Act No. 07 of 2007 and changed its name to 'Pan Asia Banking Corporation PLC'.

The Report of the Board of Directors and the Financial Statements were approved by the Board of Directors on the 22 February 2013.

Principal Activities

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

Profit and Appropriation

The Bank's profits and appropriations were as follows;

	2012	2011
	Rs. 000	Rs. 000
Profit before Taxation	1,145,408	1,153,972
Taxation	(285,357)	(342,206)
Profit for the Year	860,051	811,766
Retained Profit Brought Forward	1,849,459	1,239,441
Transfer to Reserve Fund	(43,003)	(40,588)
Transfer to Investment Fund Reserve	(186,522)	(161,747)
Dividends Paid	(295,041)	-
Other Comprehensive Income	(13,103)	587
Un appropriated profit to be carried Forward	2,171,841	1,849,459

Financial Statements

The Financial Statements of the Bank are given on page 98 to 168 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:

	2012	2011
	Rs.	Rs.
Total Income	7,766,219,032	5,278,214,354

Profit and Reserves

The Bank's total reserves as at 31 December 2012 stood at Rs. 2,683,627,220/- This comprises a Statutory Reserve Fund of Rs. 163,517,767/- Investment Fund Reserve of Rs. 348,268,779/- and Revenue Reserve of Rs. 2,171,840,674/-. The movement in Reserve Fund and Investment Fund Reserve are shown in Note 34 to the Financial Statements.

Auditors' Report

The auditors of the Bank are M/s Ernst & Young, Chartered Accountants. Their report on the Financial Statements is given on page 97 they come up for re-election at the Annual General Meeting, with the approval of the Audit Committee and the Board of Directors.

Accounting Policies

The accounting policies adopted in preparation of the Financial Statements are given on page 102 to 113.

Directors' Interest Register

Under the provisions of Section 192 of the Companies Act No. 07 of 2007, the Interest Register is maintained by the Bank. Directors have made the necessary declarations which are recorded in the Interest register and is available for inspection in terms of the Act. The entries made in the register with regard to Directors dealings with the Bank during the accounting period is given as a foot note to this report on page 83 to 84.

Directors' Remuneration

Directors' remuneration and other benefits of Directors in respect of the Bank are given in Note 11 to the Financial Statements on page 116.

Donations

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

Directorate

The names of the Directors of the Bank during the period 01.01.2012 to 31.12.2012 and changes occurred in the composition of the Board during the period under review are given below. 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.

W. D. N. H. Perera :
Non-Executive Director since 01/09/2007 and appointed as Deputy Chairman in March, 2008 and Chairman since April, 2012.

R. E. U. De Silva :
Non-Executive Independent Director since July, 2008 and appointed as Deputy Chairman in April, 2012.

A. A. Page :
Non-Executive Independent Director since April, 2008 and appointed as Senior Director in April, 2012.

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

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.

G. C. A. De Silva :
Non-Executive Director since May, 2012.

G. A. R. D. Prasanna :
Non-Executive Director since May, 2012.

T. Igarashi :
Non-Executive Independent Director since October, 2012.

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

A. G. Weerasinghe :
Non-Executive Independent Director since 15/06/2005 Acting Chairman since 04/12/2007 and chairman since March, 2008. Retired in May, 2012.

Re-Appointments

In terms of Article No's. 93 and 94 of the Articles of Association of the Bank, J. A. S. S. Adhihetty and H. K. Seneviratne retire by rotation and being eligible offer themselves for re-election on an unanimous recommendation by the Board of Directors.

In terms of Article 100 of the Articles of the Association of the Company G. C. A. De Silva, G. A. R. D. Prasanna and T. Igarashi being eligible offers 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 43 to the Financial Statements on pages 158 to 160. The Directors have no direct or indirect interest or proposed contract other than those disclosed.

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

Directors' Interest in Shares

	No. of Shares As at 31.12.2012	No. of Shares As at 01.01.2012
W. D. N. H. Perera	8,518,645	8,655,200
R. E. U. De Silva	80,000	80,000
A. A. Page	170,866	129,866
J. A. S. S. Adhihetty	108,266	108,266
M. D. S. Goonatilleke	422	422
H. K. Seneviratne	-	-
T. G. Thoradeniya	36	36
G. C. A. De Silva	-	-
G. A. R. D. Prasanna	-	-
T. Igarashi	-	-
T. C. A. Peiris	10,500	10,500

Auditors

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

Audit Fees and Non Audit Fees payable to Ernst and Young for the year under review amounted to Rs. 2,824,500/- and Rs. 569,000/- respectively.

Stated Capital

The Stated Capital of the Bank is Rs. 1,548,965,702/- the details are given in note 33 to the Financial Statements.

Internal Controls

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

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of Financial Statements of the Bank to reflect a true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act No. 30 of 1988 and amendments thereto and the 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 54.

Capital Expenditure

Expenditure on Property, Plant & Equipment at cost amounted to Rs. 331,139,686/- during 2012, details of which are given in Note 23 to the Financial Statements. Expenditure on Intangible Asset at cost amounted to Rs. 32,011,430/- during 2012, details of which are given in Note 24 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 31 December, 2012 was 5,070 compared to 5,080 as at 31 December 2011. The schedule indicating the shareholders' analysis is on pages 186 & 187.

Register of Directors & Secretaries

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

Board Committees

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

New Branches

9 new branches were opened during the year under review, bringing the total number of branches to 73 at the end of 2012.

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 Kingsbury Hotel on 28th March 2013. The Notice of Meeting can be found on page 198.

Going Concern

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



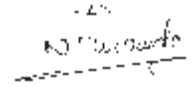
W. D. N. H. Perera
Chairman



R. E. U. De Silva
Deputy Chairman



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



N. Fernando
Company Secretary

Colombo
22 February 2013

Directors' Interest Register

DIRECTOR NAME / COMPANY NAME	RELATIONSHIP	ACCOMMODATION GRANTED / DEPOSITS	BALANCE OUTSTANDING AS AT 31.12.2012 Rs.
W. D. N. H. Perera			
L B Finance PLC	Director	Loans & Advances	57,269,481
		Deposits & Borrowings	981,535,343
		Off Balance Sheet Accommodation	75,651,392
Vallibel Finance PLC	Director	Loans & Advances	193,870,092
		Deposits & Borrowings	417,698,891
Vallibel One PLC	Executive Deputy Chairman	Loans & Advances	-
		Deposits & Borrowings	16,843,488
Royal Ceramics Lanka PLC	Managing Director	Loans & Advances	-
		Deposits & Borrowings	6,523,274
Amaya Leisure PLC	Director	Loans & Advances	10,403,535
		Deposits & Borrowings	2,344,868
Haycarb PLC	Director	Loans & Advances	1,750
		Deposits & Borrowings	102
N Capital (Pvt) Ltd	Chairman	Loans & Advances	-
		Deposits & Borrowings	674
N Sports (Pvt) Ltd	Chairman	Loans & Advances	-
		Deposits & Borrowings	14,549
J. A. S. S. Adhihetty			
L B Finance PLC	Managing Director	Loans & Advances	57,269,481
		Deposits & Borrowings	981,535,343
		Off Balance Sheet Accommodation	75,651,392
Vallibel Finance PLC	Director	Loans & Advances	193,870,092
		Deposits & Borrowings	417,698,891
Vallibel One PLC	Director	Loans & Advances	-
		Deposits & Borrowings	16,843,488
The Fortress Resorts PLC	Managing Director	Loans & Advances	978
		Deposits & Borrowings	-
M. D. S. Goonatileke			
Vallibel Finance PLC	Director	Loans & Advances	193,870,092
		Deposits & Borrowings	417,698,891
Royal Ceramics Lanka PLC	Director	Loans & Advances	-
		Deposits & Borrowings	6,523,274
Royal Porcelain Ltd	Director	Loans & Advances	-
		Deposits & Borrowings	73,324
Douglas & Sons (Pvt) Ltd	Group Executive Director	Loans & Advances	-
		Deposits & Borrowings	6,988

DIRECTOR NAME / COMPANY NAME	RELATIONSHIP	ACCOMMODATION GRANTED / DEPOSITS	BALANCE OUTSTANDING AS AT 31.12.2012 Rs.
T. Thoradeniya			
Royal Ceramics Lanka PLC	Director	Loans & Advances	-
		Deposits & Borrowings	6,523,274
Greener Water Limited	Director	Loans & Advances	-
		Deposits & Borrowings	1,670,366
R. E. U. De Silva			
Esna Power (Pvt) Ltd	Director	Loans & Advances	4,574,587
		Deposits & Borrowings	79,704,141
		Off Balance Sheet Accommodation	3,200,000
Shermans Logistics (Pvt) Ltd	Chairman	Loans & Advances	1,742,595
		Deposits & Borrowings	195,875
Plumbago Lanka (Pvt) Ltd	Director	Loans & Advances	-
		Deposits & Borrowings	248,279
G. A. R. D. Prasanna			
Country Energy (Pvt) Ltd	Director	Loans & Advances	-
		Deposits & Borrowings	107,862
Tekro Holdings (Pvt) Ltd	Director	Loans & Advances	-
		Deposits & Borrowings	1,482,556
Delmege Forsyth & Co. Ltd	Director	Loans & Advances	126,067,275
		Deposits & Borrowings	-
		Off Balance Sheet Accommodation	4,431,146
Royal Ceramics Lanka PLC	Director	Loans & Advances	-
		Deposits & Borrowings	6,523,274
La Fortresse (Pvt) Ltd	Director	Loans & Advances	29,045,726
		Deposits & Borrowings	-
T. Igarashi			
Ideal Finance Ltd	Director	Loans & Advances	-
		Deposits & Borrowings	33,150,442
New World Securities Ltd	Chairman	Loans & Advances	57,683,593
		Deposits & Borrowings	34,250
NWS Management Services (Pvt) Ltd	Director	Loans & Advances	-
		Deposits & Borrowings	17,368,820
NWS Financial Services (Pvt) Ltd	Director	Loans & Advances	25,006,088
		Deposits & Borrowings	2,062,682

Other Directorships

W. D. N. H. Perera

Chairman

Company Name	Director
1. Vallibel One PLC	Executive Deputy Chairman
2. Royal Ceramics Lanka PLC	Managing Director
3. Don Wilbert Capital Ltd	Chairman
4. Amaya Leisure PLC	Director
5. LB Finance PLC	Director
6. Vallibel Finance PLC	Director
7. Hayleys PLC	Director
8. Haycarb PLC	Director
9. Hotel Services (Ceylon) PLC	Director
10. Talawakelle Tea Estates PLC	Director
11. N Sports (Pvt) Ltd	Chairman
12. N Capital Ltd	Chairman

R. E. U. De Silva

Deputy Chairman

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)	Director
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	Director
16. Plumbago Lanka (Pvt) Limited	Director

A. A. Page

Senior Director

Company Name	Director
1. C T Holdings PLC	Chairman
2. Cargills (Ceylon) PLC	Director
3. CT Land Development PLC	Director
4. Lanka Ceramic PLC	Chairman
5. Lanka Walltiles PLC	Chairman
6. Lanka Floor Tiles PLC	Chairman
7. Horana Plantations PLC	Chairman
8. Swisstek (Ceylon) PLC	Chairman
9. Ceylon Printers PLC	Director
10. Office Equipment PLC	Director

CT Group Companies

1. CT Smith Holdings (Pvt) Ltd	Director
2. Ceytea Plantations Ltd	Chairman
3. Ceylon Theatres (Pvt) Ltd	Chairman
4. Unidil Packaging Ltd	Chairman
5. Cinema Entertainments (Pvt) Ltd	Director
6. Swisstek Aluminium Industries Ltd	Chairman

J. A. S. S. Adihetty

Director

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

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
12. Hayleys Consumers (Pvt) Ltd	Director
13. Hayleys Industrial Solutions (Pvt) Ltd	Director

T. G. Thoradeniya

Director

Company Name	Director
1. Rocell Bathware Ltd	Chief Executive Officer
2. Royal Ceramics Lanka PLC	Director - Marketing & Business Development
3. Hayleys Fibre PLC	Director
4. Delmage (Pvt) Ltd	Director
5. Rocell Ceramics Ltd	Director
6. Greener Water Ltd	Director
7. Dipped Products (Thailand) Ltd	Director
8. Royal Porcelain (Pvt) Ltd	Director - Marketing & Business Development
9. Royal Ceramics Distributors (Pvt) Ltd	Director - Marketing & Business Development

G. C. A. De Silva

Director

Company Name	Director
1. Delmage Group	Director
2. Deshodaya Finance	Director
3. Medi (Pvt) Ltd	Director
4. The Association of Chartered Certified Accountants	Council Member
5. Chartered Institute for Securities & Investments	Council Member
6. Coral Rock Hotel (Pvt) Ltd	Director
7. Capital Media (Pvt) Ltd	Director
8. Venture Capital Lanka (Pvt) Ltd	Director

G. A. R. D. Prasanna

Director

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

Takashi Igarashi

Director

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

T. C. A. Peiris

Director / Chief Executive Officer

Company Name	Director
1. Sri Lanka Bankers Association (Guarantee) Ltd	Director

Board 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 four Independent Non Executive Directors.

- A. A. Page (Chairman)
- M. D. S. Goonatilleke
- H. K. Seneviratne
- G. C. A. De Silva (appointed w.e.f. 6 June 2012)

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 was also previously on the Board of the Colombo Stock Exchange and a former Council Member of the Employers' Federation of Ceylon. Further he counts over 40 years of management experience in a diverse array of businesses and is the Chairman of a number of organisations.

G. C. A. De Silva was appointed to the Board Audit Committee with effect from 06 June 2012 as a committee member. He is a versatile personality with a wide array of management experience and holds a postgraduate degree from Harvard University and MBA from University of Melbourne.

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 that 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 17 meetings (including 5 special meetings) during the period under review. Head of Audit Department functioned as the secretary to the Committee. The Chief Executive Officer, Chief Operating Officer, Chief Risk Officer, Chief Financial Officer and Deputy General Manager - Retail Banking and SME attend the meetings by invitation. Members of the Senior Management of the Bank were invited to participate at meetings as and when required. The proceedings of the Audit Committee meetings are regularly reported to the Board of Directors.

Activities

The Committee carried out the following activities.

Financial Statements

The Committee reviewed the effectiveness of the financial reporting system in place to ensure that information provided to the stakeholders is reliable and is in strict adherence and compliance to the requirement of the Sri Lanka Accounting Standards and disclosure requirements. The Committee reviewed the quarterly and annual Financial Statements of the Bank prior to the approval of the Board.

Regulatory Compliance

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

Internal Audit

During the year under review, the Committee reviewed and revised the internal audit manual, the annual audit plan for the year was based on a Risk base Planning methodology for risk assessment of auditable areas, the Committee reviewed the audit reports presented by the Internal Audit Department together with Management responses. The Committee regularly reviewed and monitored the internal audit function and performance of the Internal Audit Department.

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

External Audit

As per the requirements of the Institute of Chartered Accountants of Sri Lanka, the Bank made all arrangements to implement the New Series of Sri Lanka Accounting Standards (LKAS & SLFRS) effective from 1 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.

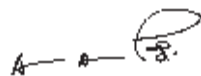
The Committee met with M/s Ernst & Young prior to commencement of the Annual Audit to discuss the audit scope, approach and methodology to be adopted. The Management Letter of the External Auditors and the responses of the management thereto were discussed

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 31 December 2013, 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
22 February 2013

Board Integrated Risk Management Committee Report

The functions of the Integrated Risk Management Committee (IRMC) were widened during the year 2012 and scope of same was strengthened by way of high level risk monitoring methods to prevent any unforeseen risk which might have an impact on the Bank's business.

The Committee comprise of three independent directors, Chief Executive Officer / Executive director, Chief Risk Officer, Chief Operating Officer, Chief Financial Officer, Head of Treasury, Head of Audit, Head of Compliance and Senior Manager Credit Risk. The Committee had five meetings during the year, which included a special meeting to review the Risk Policies of the Bank. Additional risk mitigation attributes which were suggested by the regulator were introduced to the risk management policies during the year.

The following management level sub Committees' performance and functions were reviewed by the Committee.

- I) Credit Control Committee
- II) Treasury Risk Assessment Committee
- III) Operational Risk Management Committee
- IV) Asset & Liability Committee

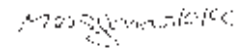
In addition to monitoring and reviewing of the risk management policies of the Bank, the IRMC also monitors Bank specific risk goals which are identified for risk mitigation. These cover Credit Risk, Market Risk, Operational Risk,

Interest Rate Risk, Liquidity Risk, Foreign Exchange Risk, Legal & Reputational Risk and other Contingencies. Required warning and directions are issued by the Committee to the applicable Departments / Business Units of the Bank for corrective action if necessary. The Committee also advises the relevant units based on the trend and identifies vulnerabilities in business environment. The Committee is also responsible to submit a risk commentary to the Board of Directors of the Bank on identified risk goals and monitored indicators by the Committee. In addition the Committee is responsible for the following:-

- To ensure capital adequacy
- Control over limits imposed by the regulator on various sectors / businesses for better portfolio management
- Review of risk management policies and procedures of the Bank with latest techniques available in the market
- Oversee the compliance function of the Bank to establish regulatory requirements covering internal controls

Risk management functions are performed in an integrated manner to identify and measure the highest impact to the Bank on the decisions taken. Prevention of losses and the deterioration of the portfolios are to be identified before hand to prevent any

impairment of assets. The indicators and goals are fine tuned from time to time to identify better risk management practices. Further development will be undertaken to increase the methods of monitoring and prevent any impact on the financial position of the Bank.



M. D. S. Goonatileke

Chairman
Board Integrated
Risk Management Committee

Colombo
22 February 2013

Board Human Resources and Remuneration Committee Report

The Board Human Resources and Remuneration Committee comprise three Non-Executive Directors. Up to May 2012, the Committee was headed by A. G. Weerasinghe, Chairman and the other Members of the Committee were W. D. N. H. Perera, Director, H. K. Seneviratne, Director and T. C. A. Peiris, Director / Chief Executive Officer. The Committee members were re-elected in May 2012 and since then the Committee was headed by W. D. N. H. Perera, Chairman and the other members of the Committee were H. K. Seneviratne, Director, T. G. Thoradeniya, Director and T. C. A. Peiris, Director / Chief Executive Officer. The Committee held five meetings during the year 2012.

The Chief Executive Officer is present at all meetings of the Committee by invitation, except when matters relating to the Chief Executive Officer are being discussed. Chief Operating Officer, Head of Human Resources and other members of the Management attend meetings by invitation.

The Key Functions of the Committee are as follows.

- Determine the remuneration policy relating to Chief Executive Officer and Key Management Personnel of the Bank.
- Set up goals and targets for the Chief Executive Officer and the Key Management Personnel.

- Evaluate the performance of the Chief Executive Officer and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.
- Ensure that salaries are reviewed periodically and evaluated against industry norms.
- Approve the selection of the candidates for the positions of Manager grade and above and approve their salary and other terms and conditions for the selected candidates.
- Approve interview panels for recruitment to other positions.
- Review key positions regularly and have a succession plan in place.

In addressing the principal task of the Committee relating to compensation and benefits, it ensures that all compensation and benefit decisions are consistent and aligned with the overall compensation philosophy, which strengthens the performance driven culture of the Bank. In achieving same, during the year, the Bank participated in a salary and benefits survey amongst the other Commercial Banks and streamlined the salary anomalies of its employees of Manager and below grades, along with the granting of annual salary increments for the year ended 31 December 2011.

Based on Bank's performance during the year 2011, the Manager and above grades employees were paid a variable bonus taking into consideration of their performance rating and the job position.



W. D. N. H. Perera
Chairman
Board Human Resources and
Remuneration Committee

Colombo
22 February 2013

Board Nomination Committee Report

The Board appointed Nomination Committee comprises of the following Directors:

Mr. H. K. Seneviratne

- Chairman
Non-Executive Independent Director

Mr. W. D. N. H. Perera

- Director
Non-Executive Director

Mr. A. A. Page

- Director
Non-Executive Independent Director

The Company Secretary functions as the Secretary of the Committee.

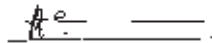
The main responsibilities of the Committee are:

- a) to formulate and implement the procedures to select / appoint new Directors and Key Management Personnel.

In the appointment of Directors, the Board proposes the names and requests the Nomination Committee for recommendation of the suitability of the persons. On receipt of the recommendation of the Nomination Committee and subsequent approval of the Board, the Director concerned is appointed to the Board subject to Central Bank approval. The affidavit and the Declaration of the proposed Director are submitted to Central Bank for their approval.

- b) to set eligibility criteria encompassing academic and professional qualifications, experience and other attributes necessary for appointment and promotion to the post of Chief Executive Officer and key management positions.

- c) to review and recommend, from time to time, the additional / new expertise necessary and the succession plans for retiring Directors and Key Management Personnel.
- d) to ensure in text and action, that Directors, Chief Executive Officer and Key Management Personnel are fit and proper persons to hold such positions in terms of the specified statute and other mandatory directives.



H. K. Seneviratne

Chairman
Board Nomination Committee

Colombo
22 February 2013

CEO'S & CFO'S Responsibility for Financial Reporting

The Financial Statements of Pan Asia Banking Corporation PLC for the year ended 31 December 2012 are prepared and presented in compliance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka, Companies Act No 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No 15 of 1995, the Banking Act No 30 of 1988 and amendments thereto and the Directions, Determinations, and Guidelines issued by the Central Bank of Sri Lanka, and the Listing Rules of the Colombo Stock Exchange. The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Bank. There are no material departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation.

The significant accounting policies and estimates that involved a high degree of judgment and complexity were discussed with the Audit Committee and External Auditors. The Board of Directors and the Management of the Bank accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to the Financial Statements were made on a prudent and reasonable basis; in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and that the Bank's state of affairs is reasonably presented. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our Internal Audit Department has conducted periodic audits to provide reasonable assurance that the

established policies and procedures of the Bank were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting. Further the Board assessed the effectiveness of the Bank's internal controls over financial reporting during the year ended 31 December 2012, as required by the Banking Act Direction No 11 of 2007, result of which is given on page 77 to 78 in the Annual Report, the "Directors' Report on Bank's Internal Controls". "External Auditors' Assurance Report on the Bank's Internal Controls" is given on page 76 of the Annual Report.

The Financial Statements of the Bank were audited by Messrs Ernst & Young, Chartered Accountants, the independent External Auditors. Their report is given on page 97 of the Annual Report.

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

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

to address the requirements of the new Sri Lanka Accounting Standards.

We confirm to the best of our knowledge;

- the Bank has complied with all applicable laws, regulations and prudential requirements and there are no material litigations that are pending against the Bank other than those disclosed in the Note 41 to the Financial Statements.
- All taxes, duties, levies and all statutory payments by the Bank and all contributions, levies and taxes paid on behalf of and in respect of the employees of the Bank as at the Statement of Financial Position date have been paid or where relevant provided for.



T. C. A. Peiris

Director / Chief Executive Officer



G. G. Mangala

Chief Financial Officer

Colombo
22 February 2013

Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the Bank prepared in accordance with the provisions of the Companies Act No 7 of 2007 is set out in the following statement. The responsibilities of the External Auditor in relation to the Financial Statements are set out in the Report of the Auditors given on page 97 of the Annual Report.

In terms of Sections 150 (1) and 151(1) of the Companies Act No. 7 of 2007, the Directors of the Bank are responsible for ensuring that the Bank prepares the Financial Statements that gives a true and fair view of the state of affairs of the Bank as at the Statement of Financial Position date and the profit of the Bank for the financial year ended on Statement of Financial Position date and place them before a general meeting. The Financial Statements comprise the Statement of Financial Position as at 31 December 2012, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow for the year then ended and notes thereto.

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

- a) the state of affairs of the Bank as at Statement of Financial Position date and
- b) the profit of the Bank for the financial year ended on the Statement of Financial Position 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 22 February 2013 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 Directors are also required to ensure that the Bank has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

The Financial Statements prepared and presented in the report are consistent with the underlying books of account and are in conformity with the requirements of Sri Lanka Accounting Standards, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act of No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto and the continuing listing rules issued by the Colombo Stock Exchange.

In view of that Directors have taken adequate effort on inspecting financial reporting system through Audit Committee Meetings and granting 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 results of such reviews

carried out during the year ended 31 December 2012 is given on page 77 to 78 of the Annual Report, "Directors Statement on Internal Control". External Auditors' Assurance Report on the "Bank's Internal Control" is given on page 76 of the Annual Report.

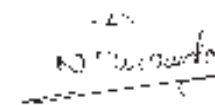
The Board of Directors wish to confirm that, as required under Section 56 (2) of the Companies Act No. 07 of 2007, they have authorised distribution of the dividends proposed upon being satisfied that the Bank would satisfy the solvency test after such distributions are made in accordance with Section 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 97 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.

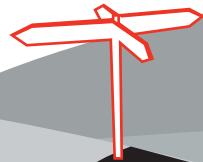
By Order of the Board



N. Fernando
Company Secretary

Colombo
22 February 2013





We shall ensure that we deliver the best results to our customers, community and shareholders. That means working as a team, at every level of our Bank.

Going the distance

Financial information >>

Financial Information

Financial Calendar

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

2013

1st Quarter Results 2013	May 2013
2nd Quarter Results 2013	August 2013
3rd Quarter Results 2013	November 2013
Annual Report for 2013	March 2014
19th Annual General Meeting	March 2014

Independent Auditors' Report



Chartered Accountants

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Sri Lanka

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Fax Gen : (0) 11 2697369
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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 statement of financial position as at 31 December 2012, and the statement of comprehensive income, 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 control 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 policies 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 2012 and the financial statements give a true and fair view of the Bank's financial position as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Sections 151(2) of the Companies Act No. 07 of 2007.

22 February 2013
Colombo

Statement of Comprehensive Income

Year ended 31 December		2012	2011
	Notes	Rs.	Rs.
GROSS INCOME		7,766,219,032	5,278,214,354
Interest Income		6,766,832,718	4,582,660,933
Interest Expense		(4,360,677,832)	(2,268,623,806)
NET INTEREST INCOME	4	2,406,154,886	2,314,037,127
Fees and Commission Income		540,197,414	473,409,112
Fees and Commission Expense		(15,342,809)	(13,318,634)
NET FEE AND COMMISSION INCOME	5	524,854,605	460,090,478
Net Gain/(Loss) from Trading	6	86,430,781	30,117,198
Net Gain/(Loss) from Financial Investments	7	135,000	238,500
Other Operating Income (Net)	8	372,623,119	191,788,611
TOTAL OPERATING INCOME		3,390,198,391	2,996,271,914
Impairment for Loans and Other Losses	9	(47,881,996)	(121,918,906)
NET OPERATING INCOME		3,342,316,395	2,874,353,008
Personnel Expenses	10	894,064,030	644,786,827
Other Operating Expenses	11	1,093,538,820	882,506,860
TOTAL OPERATING EXPENSES		1,987,602,850	1,527,293,687
OPERATING PROFIT BEFORE VALUE ADDED TAX ON FINANCIAL SERVICES		1,354,713,545	1,347,059,321
Value Added Tax on Financial Services		209,305,260	193,087,437
PROFIT BEFORE TAX		1,145,408,285	1,153,971,884
Income Tax Expense	12	285,357,426	342,206,382
PROFIT FOR THE YEAR		860,050,859	811,765,502
OTHER COMPREHENSIVE INCOME			
Actuarial Gains / (Losses) on Defined Benefit Plans		(13,103,315)	586,916
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		(13,103,315)	586,916
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		846,947,544	812,352,418
Earnings Per Share - Basic / Diluted	13	2.92	2.75
Dividends Per Share	14	1.00	1.00

The Accounting Policies and Notes on pages 102 through 168 form an integral part of the Financial Statements.

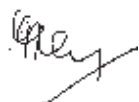
Statement of Financial Position

As at		31 December 2012	31 December 2011	1 January 2011
	Notes	Rs.	Rs.	Rs.
ASSETS				
Cash and Cash Equivalents	15	1,203,051,981	2,430,149,648	1,110,072,502
Balances with Central Banks	16	3,516,871,043	2,250,425,658	1,060,321,276
Placements with Banks	17	500,134,932	-	-
Derivative Financial Instruments	18	51,693	1,511,937	1,135,271
Financial Assets - Held for Trading	19	12,381,034	190,984,537	3,432,627,203
Loans and Receivables to Customers	20	43,213,363,249	34,619,635,604	22,792,383,079
Financial Investments - Available for Sale	21	6,157,847	2,140,000	2,140,000
Financial Investments - Held to Maturity	22	4,896,053,586	5,260,627,000	1,210,117,907
Property, Plant and Equipment	23	1,224,239,627	1,026,337,360	614,651,443
Intangible Assets	24	73,581,901	52,152,185	48,667,017
Other Assets	25	1,428,405,308	1,164,929,054	969,625,179
TOTAL ASSETS		56,074,292,201	46,998,892,983	31,241,740,877
LIABILITIES				
Due to Banks	26	895,325,932	3,588,404,769	2,076,092,798
Derivative Financial Instruments	18	631,663	1,260,965	3,234,567
Due to Other Customers	27	47,911,087,381	36,353,388,620	21,951,824,407
Other Borrowings	28	226,320,568	1,327,683,344	2,394,379,123
Current Tax Liabilities		151,314,829	227,899,541	262,373,341
Deferred Tax Liabilities	12	177,130,511	121,689,431	83,486,715
Other Provisions and Accruals	29	82,757,743	90,022,161	148,823,482
Other Liabilities	30	1,611,303,767	1,607,857,688	1,403,192,398
Subordinated Term Debts	32	785,826,885	-	50,000,000
TOTAL LIABILITIES		51,841,699,279	43,318,206,519	28,373,406,831
EQUITY				
Stated Capital	33	1,548,965,702	1,548,965,702	1,548,965,702
Retained Earnings		2,171,840,674	1,849,458,721	1,239,441,395
Other Statutory Reserves	34	511,786,546	282,262,041	79,926,949
TOTAL EQUITY		4,232,592,922	3,680,686,464	2,868,334,046
TOTAL LIABILITIES AND EQUITY		56,074,292,201	46,998,892,983	31,241,740,877
Commitments and Contingencies	41	13,743,918,829	15,331,430,716	10,887,659,081

The Accounting Policies and Notes on pages 102 through 168 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

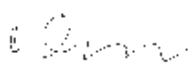
Chief Financial Officer

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



W. D. N. H. Perera

Chairman



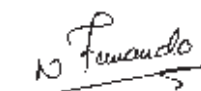
R. E. U. De Silva

Deputy Chairman



T. C. A. Peiris

Chief Executive Officer



N. Fernando

Company Secretary

22 February 2013
Colombo

Statement of Changes in Equity

Year ended 31 December 2012							
	Notes	Stated Capital Ordinary Voting Shares Rs.	Retained Earnings Rs.	Reserves Statutory Reserve Fund Rs.	Investment Fund Rs.	Total Rs.	
Balance as at 1 January 2011		1,548,965,702	1,239,441,395	79,926,949	-	2,868,334,046	
Profit for the Year		-	811,765,502	-	-	811,765,502	
Other Comprehensive Income (Net of Tax)		-	586,916	-	-	586,916	
Total Comprehensive Income for the Year		-	812,352,418	-	-	812,352,418	
Transfer to Statutory Reserve Fund	34	-	(40,588,275)	40,588,275	-	-	
Transfer to Investment Fund	34	-	(161,746,817)	-	161,746,817	-	
Balance as at 31 December 2011		1,548,965,702	1,849,458,721	120,515,224	161,746,817	3,680,686,464	
Profit for the Year		-	860,050,859	-	-	860,050,859	
Other Comprehensive Income (Net of Tax)		-	(13,103,315)	-	-	(13,103,315)	
Total Comprehensive Income for the Year		-	846,947,544	-	-	846,947,544	
Dividends to Equity Holders	14	-	(295,041,086)	-	-	(295,041,086)	
Transfer to Statutory Reserve Fund	34	-	(43,002,543)	43,002,543	-	-	
Transfer to Investment Fund	34	-	(186,521,962)	-	186,521,962	-	
Balance as at 31 December 2012		1,548,965,702	2,171,840,674	163,517,767	348,268,779	4,232,592,922	

The Accounting Policies and Notes on pages 102 through 168 form an integral part of the Financial Statements.

Statement of Cash Flows

Year ended 31 December	Notes	2012 Rs.	2011 Rs.
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,145,408,285	1,153,971,884
<i>Adjustment for:</i>			
Other Non Cash Items Included in Profit Before Tax	39	207,125,086	234,275,426
Change in Operating Assets	39	(9,991,467,533)	(10,093,313,688)
Change in Operating Liabilities	39	7,732,278,385	14,985,115,679
Interest Expense on Subordinated Debt		87,577,861	3,705,891
Gratuity Paid		(4,948,818)	(5,718,958)
Income Tax Paid		(306,501,058)	(338,477,464)
Net Cash Flows from / (Used in) Operating Activities		(1,130,527,792)	5,939,558,770
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	23	(331,139,686)	(505,783,372)
Proceeds from the sale of Property, Plant and Equipment		2,952,668	3,840,065
Purchase of Financial Investments - Available for Sale		(4,017,847)	-
Proceeds from /(Purchase of) Financial Investments - Held to Maturity		364,573,414	(4,050,509,093)
Purchase of Intangible Assets	24	(32,011,430)	(13,323,333)
Net Cash Flows from / (Used in) Investing Activities		357,119	(4,565,775,733)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Proceeds from the Issue of Subordinated Debt		750,000,000	-
Repayment of Subordinated Debt		-	(50,000,000)
Interest Paid on Subordinated Debt		(51,750,976)	(3,705,891)
Dividend Paid to Equity Holders	14	(295,041,086)	-
Net Cash Flows from / (Used in) Investing Activities		403,207,938	(53,705,891)
Net Increase / (Decrease) in Cash & Cash Equivalents		(726,962,735)	1,320,077,146
Cash and Cash Equivalents as at 1 January		2,430,149,648	1,110,072,502
Cash and Cash Equivalents as at 31 December	39	1,703,186,913	2,430,149,648
Operational Cash Flows from Interest and Dividends			
Interest Paid		3,822,335,107	1,936,428,230
Interest Received		6,643,354,375	4,281,465,258
Dividend Received		338,462	238,500

The Accounting Policies and Notes on pages 102 through 168 form an integral part of the Financial Statements.

Notes to the Financial Statements

1. Corporate Information

1.1 Reporting Entity

Pan Asia Banking Corporation PLC ("the Bank") is a public quoted company incorporated on 6 March 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 2012 is 1,153 (2011 - 1,096). The Ordinary Shares and Debentures of the Bank have a primary listing on the Colombo Stock Exchange.

The Bank 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 2012 were authorised for issue on 22 February 2013 in accordance with a resolution of the Board of Directors on 22 February 2013.

1.2 Principal Activities and Nature of Operations

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

2. Accounting Policies

2.1 Basis of Preparation

The Financial Statements have been prepared on a historical cost basis, except for Financial Assets Held for Trading, Available for Sale Financial Investments, Derivative Financial Instruments and certain items of Property, Plant and Equipment are stated at fair value as explained in Note 23 to the Financial Statements, all of which have been measured at fair value. The

Financial Statements are presented in Sri Lankan Rupees except when otherwise indicated.

2.1.1 Statement of Compliance

The Financial Statements of the Bank for the year ended 31 December 2012 have been prepared and presented in accordance with Sri Lanka Accounting Standards comprising LKASs and SLFRSs applicable for financial periods commencing on or after 1 January 2012 as issued by the Institute of Chartered Accountants of Sri Lanka and comply with the requirements of Companies Act No.7 of 2007. The presentation of the Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988 and amendments thereto. The Financial Statements includes Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows and Notes to the Financial Statements.

These Financial Statements represent the first Annual Financial Statements of the Bank prepared in accordance with SLFRSs and accordingly, SLFRS 1 "First Time Adoption of Sri Lanka Accounting Standards (SLFRSs)" has been applied. In accordance with SLFRSs, the Bank has:

- provided comparative financial information;
- retrospectively applied all SLFRSs, other than in respect of elections made under SLFRS 1;
- applied all mandatory exceptions as applicable for first-time adopters of SLFRSs.

The Bank's Financial Statements up to and including the year ended 31 December 2011 was previously prepared in accordance with Sri Lanka Accounting Standards (SLASs) that were in effect prior to 1 January 2012. The old series of Sri Lanka Accounting Standards (SLASs) differs in some areas from new series of Sri Lanka Accounting

Standards (SLFRSs). To comply with SLFRSs, the Bank has amended certain accounting and measurement methods previously applied in the SLASs Financial Statements. Note 48 contain reconciliations and descriptions of the effect of the transition from SLASs to SLFRSs on Equity, Total Comprehensive Income and Cash Flows along with line-by-line reconciliations of the Statement of Financial Position and Statement of Comprehensive Income.

2.2 Presentation of Financial Statements

The Bank presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 40.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Comprehensive Income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2.3 Significant Accounting Judgments, Estimates and Assumptions

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

Going Concern

The Bank's Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

Impairment Losses on Loans and Advances

The Bank reviews its individually significant loans and advances at each Statement of Financial Position date to assess whether an impairment loss should be recorded in the Statement of Comprehensive Income (Profit or Loss). In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio and judgements on the effect of concentrations of risks and economic data.

The impairment losses on loans and advances are disclosed in more detail in Note 9 and Note 20 and further described in Note 37.

Impairment of Financial Investments - Available for Sale

The Bank also records impairment charges on Available for Sale Equity Investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

The Bank also records impairment charges on Available for Sale Equity Investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

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

Defined Benefit Plan Obligation

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used are disclosed in Note 31.

Taxation

The Bank is subject to income taxes and other taxes including Value Added Tax on Financial Services. Significant judgement was required to determine the total provision for current, deferred and other taxes pending the issue of tax guidelines on the treatment of the adoption of SLFRSs in the Financial Statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the

interpretation of the applicability of tax laws, at the time of the preparation of these Financial Statements. The Bank recognised assets and liabilities for current deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income, deferred and tax amounts in the period in which the determination is made.

2.4 Changes in Accounting Policies and Disclosures

The Bank has adopted the New Series of Sri Lanka Accounting Standards (SLFRSs) effective for the financial periods beginning on or after 1 January 2012 and the accounting policies of the Bank are modified to conform to the requirements of the New Series of Sri Lanka Accounting Standards (SLFRSs). Except for above the accounting policies adopted by the Bank are consistent with those of the previous financial year. The presentation and classification of the Financial Statements of the previous years have been amended, where relevant, for better presentation and to be comparable with those of the current year.

2.5 Summary of Significant Accounting Policies

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

2.5.1 Foreign Currency Translation

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

Transactions and Balances

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

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

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

2.5.2 Financial instruments - Initial Recognition and Subsequent Measurement

(i) Date of Recognition

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

(ii) Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

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

The Bank uses derivatives such as forward foreign exchange contracts and cross-currency swaps. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net Gain/(Loss) from Trading'.

(iv) Financial Assets Held for Trading

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

(v) 'Day 1' Profit or Loss

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

(vi) Financial Investments - Available for Sale

Available for Sale investments include unquoted equity. Equity investments classified as 'Available for Sale' are those which are neither classified as held for trading nor designated at fair value through profit or loss. The Bank has not designated any loans or receivables as 'Available for Sale'. After initial measurement, Financial Investments - Available for Sale are subsequently

measured at fair value. Unrealised gains and losses are recognised directly in equity (Other comprehensive income). When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Comprehensive Income (Profit or loss) in 'Net Gain/(Loss) from Financial Investments'. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Dividends earned whilst holding Available for Sale Financial Investments' are recognised in the Statement of Comprehensive Income (Profit or loss) as 'Net Gain/(Loss) from Financial Investments' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in 'Impairment for Loans and Other Losses' in the Statement of Comprehensive Income (Profit or loss) and removed from Equity.

(vii) Financial Investments - Held to Maturity

Financial Investments - Held to Maturity are non derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the Effective Interest Rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the Effective Interest Rate. The amortisation is included in 'Interest income' in the Statement of Comprehensive Income (Profit or loss). The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income (Profit or loss) in 'Impairment for Loans and Other Losses' and detailed under Note 09.

If the Bank were to sell or reclassify more than an insignificant amount of Financial Investments - Held to Maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as 'Available for Sale'. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

(viii) Placement with Banks and Loans & Receivables to Customers

'Placement with Banks and Loans & Receivables to Customers' include non derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at 'Fair Value through Profit or Loss'
- Those that the Bank, upon initial recognition, designates as 'Available for Sale'
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration

After initial measurement, Placements with Banks' and 'Loans & Advances to Customers' are subsequently measured at amortised cost using the Effective Interest Rate, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the Effective Interest Rate. The amortisation is included in 'Interest income' in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income (Profit or loss) in 'Impairment for Loans and Other Losses' and detailed under Note 9.

(ix) Subordinated Term Debt - Debentures

These represent the funds borrowed by the Bank for long term funding requirements. Debentures are recognised, where the substance of the contractual arrangement results in the Bank having an obligation to deliver cash. After initial measurement, debentures are subsequently measured at amortised cost using the Effective Interest Rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the Effective Interest Rate. Analyses of the Bank's Debentures are disclosed in Note 32.

2.5.3 Derecognition of Financial Assets and Financial Liabilities

(i) Financial Assets

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired
 - The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either:
 - The Bank has transferred substantially all the risks and rewards of the asset
- or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred

nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

(ii) Financial Liabilities

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

2.5.4 Repurchase and Reverse Repurchase Agreements

Securities Sold under agreements to repurchase at a specified future date are not derecognised from the Statement of Financial Position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'Repurchase Agreements', reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the Effective Interest Rate.

Conversely, Securities Purchased under Agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'Reverse Repurchase Agreements', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'Net Interest Income' and is accrued over the life of the agreement using the Effective Interest Rate.

2.5.5 Determination of Fair Value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price without any deduction for transaction costs.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 36.

2.5.6 Impairment of Financial Assets

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

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

indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial Assets Carried at Amortised Cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'.

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

after then impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write off is later recovered, the recovery is credited to the 'Other Operating Income'.

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

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices,

payment status, or other factors that are indicative of incurred losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Details of impairment losses on financial assets carried at amortised cost are given in Note 9 and, an analysis of the impairment allowance on loans and advances by class and Note 20.

(ii) Financial Investments - Available for Sale

For Financial Investments - Available for Sale, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Bank treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Other Comprehensive Income is removed from equity and recognised in the Profit or loss in Statement of Comprehensive Income. Impairment losses on equity investments are not reversed through the profit or loss in Statement of Comprehensive Income. Increases in the fair value after impairment are recognised in Other Comprehensive Income.

(iii) Renegotiated Loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original Effective

Interest Rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original Effective Interest Rate.

(iv) Collateral Valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, property, letters of credit, guarantees, receivables, inventories and other movable and non movable assets. The fair value of collateral is generally assessed, at a minimum, at inception and thereafter value changes are monitored in accordance with policies and procedures of the Bank, however, some collateral, for example, cash or securities relating to margining requirements, are valued on daily basis. To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as freehold property is valued based on valuation reports and other independent sources. Detailed analysis of collateral is given in the Note 37.2.

2.5.7 Offsetting Financial Instruments

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

2.5.8 Leases

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

2.5.8.1 Operating Leases

Bank as a Lessee

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

Bank as a Lessor

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

2.5.8.2 Finance Leases

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as 'Finance Leases'. Amounts receivable under finance leases are included under 'Loans and Receivables to Customers' in the Statement of Financial Position after deduction of initial rentals received, unearned lease income and the accumulated impairment losses. When

assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods reflect a constant periodic rate of return.

2.5.9 Recognition of Income and Expenses

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

(i) Interest Income and Expense

For all financial instruments measured at amortised cost and financial instruments at fair value through profit or loss, interest income or expense is recorded using the Effective Interest Rate. Effective Interest Rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the Effective Interest Rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original Effective Interest Rate and the change in carrying amount is recorded as 'Interest income' for financial assets and 'Interest expense' for financial liabilities. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the

Effective Interest Rate from the date of the change in estimate.

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

(ii) Fee and Commission Income and Expense

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

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

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

Fee Income from Providing Transaction Services

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

(iii) Dividend Income

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

(iv) Net Gain/(Loss) from Trading

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

(v) Expenditure Recognition

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

(vi) Employee Benefits

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

2.5.10 Cash and Cash Equivalents

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

2.5.11 Property, Plant and Equipment

Property, Plant and Equipment is stated at cost/fair value excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Expenditure incurred on day to day servicing costs are recognised as an expense when incurred. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

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

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

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

Property, Plant and Equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on

derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other Operating Income' in the Statement of Comprehensive Income (Profit or loss) in the year the asset is derecognised.

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

The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss.

2.5.12 Intangible Assets

The Bank's intangible assets include the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

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

The useful lives of intangible assets are assessed to be either finite or indefinite. 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 the end of each financial year. 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 they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the Statement of Comprehensive Income in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight line method to write down the cost of intangible asset to their residual values over their estimated useful lives as follows:

Computer Software	-	8 years
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2.5.13 Other Assets

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

2.5.14 Impairment of Non Financial Assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its Value in Use. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

2.5.15 Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees,

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

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

2.5.16 Provisions

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

2.5.16.1 Employee Retirement Benefits

Defined Contribution Plan Costs

Defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to a defined contribution plan are recognised as 'Personnel Expenses' in the profit or loss in the Statement of Comprehensive Income in the periods

during which services are rendered by employees. Employees are eligible for Employees' Provident Fund and Employees' Trust Fund contributions in line with the respective Statutes and Regulations. Accordingly, the Bank contributes 12% - 15% and 3 % of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively and is recognised as an expense under "Personnel Expenses".

Defined Benefit Plan Costs

A defined benefit plan is a post employment benefit plan other than a defined contribution plan. The liability recognised in the Statement of Financial Position in respect of defined benefit plans is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating to the terms of the liability.

Provision has been made in the Financial Statements for retiring gratuities from the first year of service for all employees, in conformity with LKAS 19 - "Employee Benefits".

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

2.5.17 Other Liabilities

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

2.5.18 Taxes

Current Tax

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

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

Deferred Tax

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply

in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

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

Value Added Tax on Financial Services

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

Economic Service Charge

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

2.5.19 Dividends on Ordinary Shares

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

2.5.20 Investment Fund Account

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

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

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

Banks shall utilise the funds in the Investment Fund Account in the following manner within three months from the date of transfer to the Investment Fund Account.

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

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

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

2.5.21 Other Statutory Reserves

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

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

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

2.5.22 Materiality and Aggregation

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

2.5.23 Related Party Transactions

Disclosure has been made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating policies/decisions of the other, irrespective of whether a price is being charged.

2.5.24 Events after the Reporting Date

All the material events after the date of the Statement of Financial Position have been considered and appropriate adjustments/disclosures have been made in Note 44 to the Financial Statements.

2.6 Segment Reporting

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

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

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

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently

from operating profits or losses in the Financial Statements. Income taxes and overhead expenses are managed on an entity basis and are not allocated to operating segments. Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income and expense. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue.

2.7 First-time Adoption of SLFRSs

These Financial Statements, for the year ended 31 December 2012, are the first the Bank has prepared in accordance with SLFRSs. For periods up to and including the year ended 31 December 2011, the Bank prepared its Financial Statements in accordance with SLASs.

Accordingly, the Bank has prepared Financial Statements which comply with SLFRSs applicable for periods ending on or after 31 December 2012, together with the comparative period data as at and for the year ended 31 December 2011, as described in the accounting policies. In preparing these Financial Statements, the Bank's opening Statement of Financial Position was prepared as at 1 January 2011, the Bank's date of transition to SLFRSs. This note explains the principal adjustments made by the Bank in restating its SLASs Statement of Financial Position as at 1 January 2011 and its previously published SLASs Financial Statements as at and for the year ended 31 December 2011.

Exemptions Applied

Optional Exemptions

SLFRS 1- 'First-Time Adoption of Sri Lanka Accounting Standards (SLFRSs)' allows first-time adopters certain exemptions from the retrospective application of certain SLFRSs.

(i) Deemed Cost - Fair value of Property, Plant and Equipment

The Bank has revalued certain items of Property, Plant and Equipment at the date of transition and regard those values as deemed cost at the date of transition as permitted by "SLFRS 1 - First Time Adoption of Sri Lanka Accounting Standards (SLFRSs)". These include items pertaining to Office Equipment, Computer Hardware and Furniture and Fittings classes which were carried in the Statement of Financial Position prepared in accordance with SLASs on the basis of valuations performed in 2004.

(ii) Employee Benefits

The Bank has elected to disclose the present value of the defined benefit obligation prospectively from the date of transition to SLFRSs. LKAS 19 - Employee Benefits requires the disclosure of the current and previous four years of defined benefit information. The Bank has elected to apply this disclosure prospectively from the date of transition to SLFRSs and provided the disclosures for the current and comparative periods only.

Mandatory Exemptions

Estimates

The estimates at 1 January 2011 and at December 31, 2011 are consistent with those made for the same dates in accordance with SLASs (after adjustments to reflect any differences in accounting policies). The estimates used by the Bank to present these amounts in accordance with SLFRSs reflect conditions at 1 January 2011, the date of transition to SLFRSs and as of 31 December 2011.

Note 48 contain reconciliations and descriptions of the effect of the transition from SLASs to SLFRSs on Equity, Total Comprehensive Income and cash flows along with line-by-line reconciliations of the Statement of Financial Position and Statement of Comprehensive Income.

3. Accounting Standards Issued but not Effective as Reporting Date

The following SLFRS have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future. Those SLFRS will have an effect on the accounting policies currently adopted by the Bank and may have an impact on the future Financial Statements.

(i) SLFRS 9 - Financial Instruments: Classification and Measurement

SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

ii) SLFRS 13 - Fair Value Measurement

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 provides guidance on all fair value measurements under SLFRS.

SLFRS 9 and SLFRS 13 will be effective for financial periods beginning on or after 01 January 2015 and 2014 respectively.

In addition to the above, following standards have also been issued and will be effective from 01 January 2014.

SLFRS 10 - Consolidated Financial Statements

SLFRS 11 - Joint Arrangements

SLFRS 12 - Disclosure of Interests in Other Entities

The Bank will adopt these standards when they become effective. Pending a detailed review, the financial impact is not reasonably estimable as at the date of publication of these Financial Statements.

4 Net Interest Income

	2012	2011
	Rs.	Rs.
Interest Income		
Placements with Banks	78,849,835	7,857,207
Loans and Receivables to Customers	6,242,642,233	4,031,426,884
Financial Investments - Held to Maturity	363,989,872	437,491,664
Financial Assets Held for Trading	3,678,516	40,948,459
Interest Income Accrued on Impaired Financial Assets	77,672,262	64,936,719
	6,766,832,718	4,582,660,933
Interest Expense		
Due to Banks	143,904,171	123,837,610
Due to Other Customers	3,997,499,236	1,987,146,830
Other Borrowings	131,696,564	153,933,475
Subordinated Term Debts	87,577,861	3,705,891
	4,360,677,832	2,268,623,806
Net Interest Income	2,406,154,886	2,314,037,127

4.1 Net Interest Income From Sri Lanka Government Securities

	2012	2011
	Rs.	Rs.
Interest Income	409,801,447	503,378,972
Interest Expense	-	-
Net Interest Income	409,801,447	503,378,972

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

Interest Income	6,763,154,202	4,541,712,474
Interest Expense	(4,360,677,832)	(2,268,623,806)
Net Interest Income	2,402,476,370	2,273,088,668

5 Net Fee and Commission Income

	2012	2011
	Rs.	Rs.
Fee and Commission Income	540,197,414	473,409,112
Fee and Commission Expense	(15,342,809)	(13,318,634)
	524,854,605	460,090,478
Comprising		
Loans	86,006,732	74,505,665
Cards	7,383,509	7,060,978
Trade and Remittance	257,471,207	239,890,670
Deposits	143,503,493	86,632,247
Guarantees	30,489,664	52,000,918
	524,854,605	460,090,478

6 Net Gain/(Loss) from Trading

	2012	2011
	Rs.	Rs.
Equities		
Realised	83,317	6,860,648
Unrealised	(3,754,901)	(964,940)
Government Debt Securities - Treasury Bills and Bonds		
Realised	88,114,440	549,490
Unrealised	-	23,750,378
Foreign Exchange - Net Forward Forex Gain / (Loss)	1,987,925	(78,378)
	86,430,781	30,117,198

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

7 Net Gain/(Loss) From Financial Investments

	2012	2011
	Rs.	Rs.
Financial Investments Available for Sale - Equities	135,000	238,500
	135,000	238,500

8 Other Operating Income (Net)

	2012	2011
	Rs.	Rs.
Non Trading Foreign Exchange Gain/(Loss)	348,779,623	186,818,390
Gain/(Loss) on Sale of Property, Plant & Equipment	76,480	(5,951,467)
Recovery of Loans Written-Off	17,454,267	5,733,205
Others	6,312,749	5,188,483
	372,623,119	191,788,611

9 Impairment for Loans and other Losses

	2012	2011
	Rs.	Rs.
Loans and Receivables to Customers (Note 20.3)		
Individual Impairment (Losses)/Reversals	6,936,559	(90,054,464)
Collective Impairment (Losses)/Reversals	(54,818,555)	(31,864,442)
	(47,881,996)	(121,918,906)

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

10 Personnel Expenses

	2012	2011
	Rs.	Rs.
Salaries,Wages and Other Related Expenses	763,219,062	545,597,672
Defined Contribution Plan Expenses - Employees Provident Fund	77,397,344	57,539,019
- Employees Trust Fund	17,582,131	12,771,596
Defined Benefit Plan Expenses (Note 31.1)	18,376,625	12,260,967
Amortisation of Prepaid Staff Expenses	17,488,868	16,617,573
	894,064,030	644,786,827

11 Other Operating Expenses

	2012	2011
	Rs.	Rs.
Directors' Emoluments	24,650,941	18,148,570
Auditors' Remuneration	2,834,500	2,690,000
Non Audit Fees to Auditors	569,000	1,150,000
Professional and Legal Expenses	9,101,585	14,598,385
Depreciation of Property, Plant and Equipment	130,361,231	84,305,921
Amortisation of Intangible Assets	10,581,714	9,838,165
Operating Lease Expenses	144,010,439	107,483,706
Office Administration and Establishment Expenses	268,753,601	202,217,861
Advertising and Promotional Expenses	113,732,564	108,860,173
Other Expenses	388,953,245	333,214,079
	1,093,538,820	882,506,860

12 Income Tax

The major components of income tax expense for the years ended 31 December 2012 and 31 December 2011 are:

	2012	2011
	Rs.	Rs.
Income Statement		
Current Income Tax		
Current Income Tax Charge (Note 12.1)	322,249,973	304,003,666
Adjustment in respect of Current Income Tax of Prior Years	(92,333,627)	-
Deferred Tax		
Relating to Origination and Reversal of Temporary Differences (Note 12.2)	55,441,080	38,202,716
Income Tax Expense Reported in the Income Statement	285,357,426	342,206,382

12.1 Reconciliation of the Total Tax Charge

A reconciliation between the tax expense and the accounting profit multiplied by the Statutory Income tax rate for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
	Rs.	Rs.
Accounting Profit Before Tax	1,145,408,285	1,153,971,884
At Statutory Income Tax Rate of 28%	320,714,320	323,112,128
Non Deductible Expenses	492,785,973	228,064,736
Deductible Expenses	(474,487,340)	(239,509,877)
Income not Subject to Tax	(16,762,980)	(7,663,321)
Current Income Tax Charge	322,249,973	304,003,666
Effective Tax Rate	28%	26%

12.2 Deferred Tax

The following table shows deferred tax recorded on the statement of financial position in other assets and other liabilities and changes recorded in the Income tax expense:

	31 December 2012		31 December 2011		1 January 2011
	Deferred Tax Liabilities Rs.	Income Statement Rs.	Deferred Tax Liabilities Rs.	Income Statement Rs.	Deferred Tax Liabilities Rs.
Lease Rentals Receivables	133,276,300	43,008,295	90,268,005	48,803,719	41,464,286
Property, Plant and Equipment	75,974,813	21,023,191	54,951,622	4,084,252	50,867,370
Intangible Assets	11,974,042	1,353,804	10,620,238	5,121,926	5,498,312
Defined Benefit Plan Obligation	(20,570,743)	(7,428,715)	(13,142,028)	1,201,225	(14,343,253)
Impairment of Loans and Advances	(23,523,901)	(2,515,495)	(21,008,406)	(21,008,406)	-
Total	177,130,511	55,441,080	121,689,431	38,202,716	83,486,715

13 Earnings Per Share

Basic/Diluted Earnings Per Share is calculated by dividing the profit for the year attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year.

Diluted Earnings Per Share is calculated by dividing the profit attributable to ordinary equity holders of Bank by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. As there were no potential ordinary equity outstanding at year end Diluted Earnings per Share is equal to the Basic Earnings per Share for the year.

The income and share data used in the basic/diluted earnings per share calculations are detailed below;

	2012	2011
Profit attributable to Ordinary Shareholders (Rs.)	860,050,859	811,765,502
Weighted Average Number of Ordinary Shares in Issue	295,041,086	295,041,086
Basic/Diluted Earnings Per Share (Rs.)	2.92	2.75

There were no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these Financial Statements which would require the restatement of earnings per share.

14 Dividends Per Share

	2012	2011
Gross Dividends Paid to Ordinary Shareholders (Rs.)	295,041,086	295,041,086
Weighted Average Number of Ordinary Shares in Issue	295,041,086	295,041,086
Dividends Per Share (Rs.)	1.00	1.00

Dividends declared after the reporting period end are not recognised as a liability on the Statement of Financial Position in accordance with LKAS 10 - 'Events after the Reporting Period'.

15 Cash and Cash Equivalents

	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
Cash in Hand (Note 39)	946,924,473	932,762,360	861,128,681
Balances with Foreign Banks (Note 39)	256,127,508	1,497,387,288	248,943,821
	1,203,051,981	2,430,149,648	1,110,072,502

16 Balances with Central Bank

	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
Statutory Deposit with the Central Bank of Sri Lanka	3,516,871,043	2,250,425,658	1,060,321,276
	3,516,871,043	2,250,425,658	1,060,321,276

As required by the Provisions of Section 93 of Monetary Law Act, a cash balance is required to be maintained with the Central Bank of Sri Lanka according to statutory requirements. Minimum cash reserve requirement as at the Statement of Financial Position date is 8% (2011-8%, 2010-7%) of the Rupee deposit liabilities of the Domestic Banking Unit. Statutory Deposit with the Central Bank of Sri Lanka is not available for use in the bank's day-to-day operations.

17 Placements with Banks

	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
Placements with Local Banks	500,134,932	-	-
	500,134,932	-	-

There are no impairment losses recognised in the Statement of Comprehensive Income (Profit or Loss) with regard to placements with from banks.

18 Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	31 December 2012			31 December 2011			1 January 2011		
	Assets	Liabilities	Notional	Assets	Liabilities	Notional	Assets	Liabilities	Notional
	Rs.	Rs.	Amount	Rs.	Rs.	Amount	Rs.	Rs.	Amount
Currency Swaps and Forward Foreign Exchange Contracts	51,693	631,663	1,904,200,349	1,511,937	1,260,965	1,544,299,935	1,135,271	3,234,567	2,470,004,600
	51,693	631,663	1,904,200,349	1,511,937	1,260,965	1,544,299,935	1,135,271	3,234,567	2,470,004,600

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank. The Bank's exposure under derivative contracts is closely monitored as part of the overall management of the Bank's market risk.

Forward Foreign Exchange Contracts

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over the counter market and are subject to credit risk and liquidity risk and result in market exposure. The Bank has credit exposure to the counterparties of forward contracts which are settled on gross basis therefore, considered to bear a higher liquidity risk than the futures contracts that are settled on a net basis.

Currency Swaps

Currency Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying foreign currency rate. In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Fair values

Disclosures concerning the fair value of derivatives are provided in Note 36.

19 Financial Assets - Held for Trading

	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
Quoted Equities (Note 19.1)	12,381,034	16,451,185	1,545,000
Sri Lanka Government Securities - Treasury Bills and Bonds (Note 19.2)	-	174,533,352	3,431,082,203
	12,381,034	190,984,537	3,432,627,203

19.1 Quoted Equities

	31 December 2012			31 December 2011			1 January 2011		
	No. of Shares	Cost Rs.	Market Value Rs.	No. of Shares	Cost Rs.	Market Value Rs.	No. of Shares	Cost Rs.	Market Value Rs.
Union Bank of Colombo PLC	-	-	-	12,600	315,000	239,400	-	-	-
Free Lanka Capital Holdings PLC	-	-	-	50	250	155	-	-	-
Vallibel One PLC	684,035	17,100,875	12,381,034	684,035	17,100,875	16,211,630	-	-	-
Singer Finance PLC	-	-	-	-	-	-	103,000	1,545,000	1,545,000
		17,100,875	12,381,034		17,416,125	16,451,185		1,545,000	1,545,000
Carrying Value		12,381,034			16,451,185			1,545,000	

19.2 Sri Lanka Government Securities - Treasury Bills and Bonds

	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
Sri Lanka Government Securities - Treasury Bills and Bonds	-	174,533,352	3,431,082,203
	-	174,533,352	3,431,082,203

20 Loans and Receivables to Customers

	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
Gross Loans and Receivables	45,089,504,193	36,504,489,426	24,366,024,404
Less: Individual Impairment	(1,418,357,891)	(1,335,351,652)	(1,053,028,661)
Collective Impairment	(457,783,053)	(549,502,170)	(520,612,664)
	43,213,363,249	34,619,635,604	22,792,383,079

20.1 Analysis of Loans and Receivables**Product wise Analysis**

	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
Overdrafts	14,644,629,616	10,551,588,474	6,708,888,099
Trade Finance	1,319,973,847	1,082,080,530	1,464,828,464
Credit Cards	94,682,750	266,505,889	312,207,299
Pawning & Ran Loans	7,412,046,520	7,000,929,437	2,867,780,855
Staff Loans	325,277,662	257,147,115	195,490,583
Term Loans			
Short-term	1,272,614,682	1,079,454,352	1,559,476,976
Long-term	8,283,848,391	6,192,989,253	4,567,094,564
Lease Rentals Receivable	4,591,943,735	2,992,611,962	1,061,575,904
Margin Trading	2,131,804,536	1,924,657,018	3,408,470,275
Securities Purchased Under Resale Agreements	-	250,096,154	1,400,435,398
Sri Lanka Government Securities -			
Sri Lanka Development Bonds	1,168,674,191	460,054,069	703,200,594
Debentures - Unquoted	12,896,931	11,484,968	11,182,410
Others	3,831,111,332	4,434,890,205	105,392,983
	45,089,504,193	36,504,489,426	24,366,024,404

Currency wise Analysis

Sri Lankan Rupee	41,702,644,189	35,407,132,019	23,132,157,551
United States Dollar	3,191,256,943	1,068,411,259	1,219,957,093
Great Britain Pound	48,702,281	13,327,403	12,739,437
Others	146,900,780	15,618,745	1,170,323
	45,089,504,193	36,504,489,426	24,366,024,404

Industrywise analysis of the Loans and Receivables to customers are given in Note 37.2. Details of lease rentals receivables are given in note 42.

20.2 Individually Impaired Loans and Advances

	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	1,908,945,321	1,686,725,387	1,447,958,495

20.3 Movements in Individual and Collective Impairment during the Year

	Individual Impairment Rs.	Collective Impairment Rs.	Total Impairment Rs.
At 1 January 2011	1,053,028,661	520,612,664	1,573,641,325
Charge/(Write Back) to Profit or Loss	90,054,464	31,864,442	121,918,906
Write off/(Recoveries) during the Year	-	(2,974,936)	(2,974,936)
Interest Accrued on Impaired Loans and Advances	(64,936,719)	-	(64,936,719)
Other Movements	257,205,246	-	257,205,246
At 31 December 2011	1,335,351,652	549,502,170	1,884,853,822
At 1 January 2012	1,335,351,652	549,502,170	1,884,853,822
Charge/(Write Back) to Profit or Loss	(6,936,559)	54,818,555	47,881,996
Write off/(Recoveries) during the Year	-	(146,537,672)	(146,537,672)
Interest Accrued on Impaired Loans and Advances	(77,672,261)	-	(77,672,261)
Other Movements	167,615,059	-	167,615,059
At 31 December 2012	1,418,357,891	457,783,053	1,876,140,944

21 Financial Investments - Available for Sale

	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
Equities - Unquoted (Note 21.1)	6,157,847	2,140,000	2,140,000
	6,157,847	2,140,000	2,140,000

All unquoted available for sale equities are recorded at cost since its fair value cannot be reliably estimated. There is no market for these investments and the Bank intends to hold these for long term.

21.1 Equities - Unquoted

	31 December 2012		31 December 2011		1 January 2011	
	No. of Shares	Amount Rs.	No. of Shares	Amount Rs.	No. of Shares	Amount Rs.
Credit Information Bureau of Sri Lanka	300	30,000	300	30,000	300	30,000
Society for Worldwide Interbank Financial Telecommunication - SWIFT	8	4,127,847	1	110,000	1	110,000
Lanka Clear (Private) Limited	100,000	1,000,000	100,000	1,000,000	100,000	1,000,000
Lanka Financial Services Bureau Limited	100,000	1,000,000	100,000	1,000,000	100,000	1,000,000
		6,157,847		2,140,000		2,140,000

22 Financial Investments - Held to Maturity

	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
Government of Sri Lanka Treasury Bills/Bonds	4,896,053,586	5,260,627,000	1,210,117,907
	4,896,053,586	5,260,627,000	1,210,117,907

22.1 Assets Pledged as Securities

Government of Sri Lanka - Treasury Bills and Bonds amounting to Rs. 576,263,848/- (As at 31 December 2011 - Rs. 3,578,781,344/-, As at 1 January 2011 - Rs. 4,093,908,975/-) are pledged as securities against the Borrowings under Repurchase Agreements as at the Statement of Financial Position Date.

23 Property, Plant and Equipment

23.1 Cost/Fair Value

	Land	Buildings	Office Equipments	Computer Hardware	Furniture & Fittings	Motor Vehicles	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
At 1 January 2011	183,969,895	155,371,837	148,931,572	261,580,979	160,983,119	16,044,122	926,881,524
Additions/Transfers at Cost	188,603,453	44,836,098	96,408,566	67,740,282	108,194,973	-	505,783,372
Disposals	-	-	(10,466,046)	(89,233)	(11,721,238)	-	(22,276,517)
At 31 December 2011	372,573,348	200,207,935	234,874,092	329,232,028	257,456,854	16,044,122	1,410,388,379
Additions/Transfers at Cost	41,079,210	23,044,592	61,084,554	57,359,701	137,668,129	10,903,500	331,139,686
Disposals	-	-	(6,895,246)	(29,239,294)	(2,453,340)	(7,350,002)	(45,937,882)
At 31 December 2012	413,652,558	223,252,527	289,063,400	357,352,435	392,671,643	19,597,620	1,695,590,183

23.2 Depreciation and Impairment

At 1 January 2011	-	15,764,290	74,085,151	156,470,175	53,339,931	12,570,534	312,230,081
Depreciation Charge for the Year	-	4,247,649	25,891,294	31,664,592	19,294,632	3,207,754	84,305,921
Disposals	-	-	(5,513,057)	(80,750)	(6,891,176)	-	(12,484,983)
At 31 December 2011	-	20,011,939	94,463,388	188,054,017	65,743,387	15,778,288	384,051,019
Depreciation Charge for the Year	-	4,884,820	34,670,614	42,437,776	46,463,687	1,904,334	130,361,231
Disposals	-	-	(5,302,491)	(28,827,507)	(1,581,694)	(7,350,002)	(43,061,694)
At 31 December 2012	-	24,896,759	123,831,511	201,664,286	110,625,380	10,332,620	471,350,556

23.3 Net Book Value:

At 1 January 2011	183,969,895	139,607,547	74,846,421	105,110,804	107,643,188	3,473,588	614,651,443
At 31 December 2011	372,573,348	180,195,996	140,410,704	141,178,011	191,713,467	265,834	1,026,337,360
At 31 December 2012	413,652,558	198,355,768	165,231,889	155,688,149	282,046,263	9,265,000	1,224,239,627

23.4 Freehold Land and Building

The details of the Land and Building owned by the Bank are as follows;

Location/Address	Extent		31 December 2012 Cost / Valuation		31 December 2011 Cost / Valuation		1 January 2011 Cost / Valuation	
	Land - (Perches)	Building- (Square Feet)	Land	Building	Land	Building	Land	Building
			Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
No 450, Galle Road, Colombo 03	23.66	43,317	183,969,895	212,332,737	183,969,895	200,207,935	183,969,895	155,371,837
No: 08, Sea Avenue, Colombo 03	18.55	-	106,166,453	-	106,166,453	-	-	-
No: 10, Sea Avenue, Colombo 03	19.80	-	82,437,000	-	82,437,000	-	-	-
No: 12 & 12 1/ 1, Sea Avenue, Colombo 03	9.75	3,874	41,079,210	10,919,790	-	-	-	-
			413,652,558	223,252,527	372,573,348	200,207,935	183,969,895	155,371,837

23.5 The Bank has elected to measure certain items of Property, Plant and Equipment in the Office Equipment, Computer Hardware and Furniture and Fittings classes at the fair value of those items as at the date of transition. The Bank has elected to regard the fair values at the date of transition as deemed cost in accordance with SLFRS 1 - 'First Time Adoption of Sri Lanka Accounting Standards (SLFRSs)'.

23.6 There were no capital work in progress outstanding as at the Statement of Financial Position Date. (31 December 2011- Nil, 1 January 2011-Rs. 39,916,317/-).

23.7 Property, Plant and Equipment include fully depreciated assets amounting to Rs. 66,934,605/- (As at 31 December 2011 - Rs. 78,294,465/-, 1st January 2011- Rs. 44,058,266/-)

23.8 There were no Property, Plant and Equipment retired from active use as at the Statement of Financial Position Date.

23.9 There were no restrictions on the title of Property, Plant and Equipments as at the the Statement of Financial Position Date.

23.10 There were no items of Property, Plant and Equipments pledged as securities against liabilities as at the Statement of Financial Position date.

24 Intangible Assets

Computer Software

	Total
Cost:	Rs.
At 1 January 2011	165,574,114
Additions	13,323,333
Disposals	-
At 31 December 2011	178,897,447
Additions	32,011,430
Disposals	-
At 31 December 2012	210,908,877
Amortisation and Impairment:	
At 1 January 2011	116,907,097
Amortisation Charge for the Year	9,838,165
Disposals	-
At 31 December 2011	126,745,262
Disposals	-
Amortisation Charge for the Year	10,581,714
At 31 December 2012	137,326,976
Net Book Value:	
At 1 January 2011	48,667,017
At 31 December 2011	52,152,185
At 31 December 2012	73,581,901

Nature and Amortisation Method

Intangible assets represent acquisition of computer software from third parties. These software are amortised over the estimated useful life of 8 years on a straight line basis.

25 Other Assets

	31 December 2012	31 December 2011	1 January 2011
	Rs.	Rs.	Rs.
Deposits and Prepayments	221,886,707	177,764,878	144,289,973
Prepaid Staff Cost	171,063,796	134,049,561	120,196,937
Other Receivables	1,035,454,805	853,114,615	705,138,269
	1,428,405,308	1,164,929,054	969,625,179

26 Due to Banks

	31 December 2012	31 December 2011	1 January 2011
	Rs.	Rs.	Rs.
Borrowings	456,322,122	1,386,445,815	305,716,575
Securities under Repurchase Agreements	350,091,346	2,200,980,055	1,700,344,642
Balances with Foreign Banks	88,912,464	978,899	70,031,581
	895,325,932	3,588,404,769	2,076,092,798

27 Due to Other Customers

	31 December 2012	31 December 2011	1 January 2011
	Rs.	Rs.	Rs.
Total Amount Due to Customers	47,911,087,381	36,353,388,620	21,951,824,407
Product wise Analysis			
Demand Deposits	3,559,093,690	3,826,492,168	3,268,338,665
Savings Deposits	4,533,009,760	5,919,497,458	2,610,778,496
Time Deposits	35,425,976,961	23,016,907,748	12,935,901,751
Certificates of Deposits	3,990,846,921	2,899,155,378	2,519,467,422
Margin Deposits	402,160,049	691,335,868	617,338,073
	47,911,087,381	36,353,388,620	21,951,824,407
Currency wise Analysis			
Sri Lanka Rupee	44,692,635,578	34,212,618,724	20,264,187,897
United State Dollar	2,021,616,764	1,648,312,538	1,311,038,977
Great Britain Pound	217,795,565	205,646,867	213,472,996
Others	979,039,474	286,810,491	163,124,537
	47,911,087,381	36,353,388,620	21,951,824,407

28 Other Borrowings

	31 December 2012	31 December 2011	1 January 2011
	Rs.	Rs.	Rs.
Securities Sold Under Repurchase Agreements -			
Other Customers	226,320,568	1,327,683,344	2,394,379,123
	226,320,568	1,327,683,344	2,394,379,123

29 Other Provisions and Accruals

	31 December 2012	31 December 2011	1 January 2011
	Rs.	Rs.	Rs.
Utility Payables	77,439,401	80,189,638	141,814,690
Other Accruals	5,318,342	9,832,523	7,008,792
	82,757,743	90,022,161	148,823,482

30 Other Liabilities

	31 December 2012	31 December 2011	1 January 2011
	Rs.	Rs.	Rs.
Cheque Pending Realisation	793,306,672	619,740,030	600,238,644
Claims Payable	372,128,571	521,414,075	570,507,523
Defined Benefit Plan - Retiring Gratuity Obligation (Note 31.2)	73,466,938	46,935,816	40,980,723
Other Creditors	372,401,586	419,767,767	191,465,508
	1,611,303,767	1,607,857,688	1,403,192,398

31 Retirement Benefit Plans**31.1 Defined Benefit Plan Expense**

	31 December 2012	31 December 2011
	Rs.	Rs.
Current Service Cost	13,213,685	7,753,087
Interest Cost on Defined Benefit Obligation	5,162,940	4,507,880
Defined Benefit Plan Expense (Note 10)	18,376,625	12,260,967

Defined Benefit Plan Expense is recognised under "Personnel Expenses" in the Statement of Comprehensive Income (Profit or Loss).

31.2 Defined Benefit Plan - Retiring Gratuity Obligations

Changes in the present value of the defined benefit obligation are as follows:

	31 December 2012	31 December 2011
	Rs.	Rs.
Balance at the Beginning of the Year	46,935,816	40,980,723
Interest Cost	5,162,940	4,507,880
Current Service Cost	13,213,685	7,753,087
Benefits Paid During the Year	(4,948,818)	(5,718,958)
Actuarial Losses/(Gains) on obligations	13,103,315	(586,916)
Balance at the End of the Year	73,466,938	46,935,816

Retiring Benefit Obligation as at 31 December 2012 was carried out by Messrs. Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries using "Projected Unit Credit Method" as recommended by LKAS 19 - "Employee Benefits".

The principal financial assumptions used are as follows;

	31 December 2012	31 December 2011	1 January 2011
Long Term Interest Rate	12% per annum	11% per annum	11% per annum
Future Salary Increase Rate	9% per annum	9% per annum	9% per annum

Assumptions regarding future mortality are based on 1967 - 70 mortality table and issued by the Institute of Actuaries, London.

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.

The defined benefit plan obligation is recorded under 'Other Liabilities'. Defined benefit obligation is not externally funded. Actuarial gain/loss of defined benefit plan is recognised in Other Comprehensive Income.

32 Subordinated Term Debts

	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
32.1 Amortised Cost			
Unsecured Subordinated Redeemable Debentures	785,826,885	-	50,000,000
	785,826,885	-	50,000,000

32.2 Capital

	Fixed Rs.	Floating Rs.	Total Rs.
At 1 January 2011	-	50,000,000	50,000,000
Redemptions during the Year	-	(50,000,000)	(50,000,000)
At 31 December 2011	-	-	-
Issued during the Year	140,000,000	610,000,000	750,000,000
At 31 December 2012	140,000,000	610,000,000	750,000,000

Debentures outstanding as at 31 December 2012, consisted of 750,000 Unsecured Subordinated Redeemable Debentures of Rs. 1,000/- each issued by the Bank in 2012, details of which is given below:

Debentures Categories	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
Total Debentures Outstanding at the beginning of the Year					-	50,000,000	50,000,000
Debentures Issued During the Year							
Fixed Rate Debentures							
2012/2017 - 11.25% p.a.	Listed	Semi Annually	19.03.2012	19.03.2017	35,000,000	-	-
2012/2017 - 11.50% p.a.	Listed	Annually	19.03.2012	19.03.2017	55,300,000	-	-
2012/2017 - 14.50% p.a.	Not Listed	Maturity	19.03.2012	19.03.2017	49,700,000	-	-
					140,000,000	-	-
Floating Rate Debentures							
2012/2017 - 6 months							
Treasury Bill Rate							
(Gross) + 2.95% p.a.	Listed	Semi Annually	19.03.2012	19.03.2017	610,000,000	-	-
					610,000,000		
Debenture Redeemed During the Year							
2006/2011 - 1 year							
Treasury Bill Rate							
(Gross) + 3% p.a.	Not Listed	Quarterly	01.09.2006	31.08.2011	-	(50,000,000)	-
					-	(50,000,000)	-
Total Debentures Outstanding at the end of the Year					750,000,000	-	50,000,000

The Bank has not had any defaults of principal, interest or other breaches with regard to any liabilities during the year.

33 Stated Capital

Voting Ordinary Shares	No. of Shares	Amount Rs.
At 1 January 2011	147,520,543	1,548,965,702
Sub-Division of Shares	147,520,543	-
At 31 December 2011	295,041,086	1,548,965,702
Shares Issued for Cash/Sub-Division of Shares	-	-
At 31 December 2012	295,041,086	1,548,965,702

34 Other Statutory Reserves

	Statutory Reserve Fund Rs.	Investment Fund Rs.	Total Rs.
At 1 January 2011	79,926,949	-	79,926,949
Transferred During the Year	40,588,275	161,746,817	202,335,092
At 31 December 2011	120,515,224	161,746,817	282,262,041
Transferred During the Year	43,002,543	186,521,962	229,524,505
At 31 December 2012	163,517,767	348,268,779	511,786,546

34.1 Statutory Reserve Fund

5% of Profit for the year (SLFRS/LKAS profits) 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.

34.2 Investment Fund

"In terms of Budget Proposals 2011 and subsequent guideline dated 29 April 2011 by Central Bank of Sri Lanka, the Bank has made transfers to the investment fund to build up a permanent fund within the Bank as follows;

- (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 is disclosed in Note 45 to the Financial Statements.

35 Analysis of Financial Assets and Liabilities by Measurement Basis

Financial assets and financial liabilities are measured on an ongoing basis at either fair value or amortised cost. The summary of significant accounting policies in Note 2 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following table analyse the carrying amount of financial assets and liabilities by category as defined in LKAS 39 - Financial Instruments : Recognition and measurement and by Statement of Financial Position heading:

As at 31 December 2012

	Financial Assets Held for Trading at Fair Value Rs.	Available for Sale Financial Assets at Fair Value Rs.	Financial Assets and Liabilities at Amortised Cost Rs.	Derivative Financial Instruments at Fair Value Rs.	Total Rs.
Financial Assets					
Cash and Cash Equivalents	-	-	1,203,051,981	-	1,203,051,981
Balances with Central Banks	-	-	3,516,871,043	-	3,516,871,043
Placements with Banks	-	-	500,134,932	-	500,134,932
Derivative Financial Instruments	-	-	-	51,693	51,693
Financial Assets - Held for Trading	12,381,034	-	-	-	12,381,034
Loans and Receivables to Customers	-	-	43,213,363,249	-	43,213,363,249
Financial Investments - Available for Sale	-	6,157,847	-	-	6,157,847
Financial Investments - Held to Maturity	-	-	4,896,053,586	-	4,896,053,586
Total Financial Assets	12,381,034	6,157,847	53,329,474,791	51,693	53,348,065,365
Financial Liabilities					
Due to Banks	-	-	895,325,932	-	895,325,932
Derivative Financial Instruments	-	-	-	631,663	631,663
Due to Other Customers	-	-	47,911,087,381	-	47,911,087,381
Other Borrowings	-	-	226,320,568	-	226,320,568
Subordinated Term Debts	-	-	785,826,885	-	785,826,885
Total Financial Liabilities	-	-	49,818,560,766	631,663	49,819,192,429

As at 31 December 2011

	Financial Assets Held for Trading at Fair Value Rs.	Available for Sale Financial Assets at Fair Value Rs.	Financial Assets and Liabilities at Amortised Cost Rs.	Derivative Financial Instruments at Fair Value Rs.	Total Rs.
Financial Assets					
Cash and Cash Equivalents	-	-	2,430,149,648	-	2,430,149,648
Balances with Central Banks	-	-	2,250,425,658	-	2,250,425,658
Placements with Banks	-	-	-	-	-
Derivative Financial Instruments	-	-	-	1,511,937	1,511,937
Financial Assets - Held for Trading	190,984,537	-	-	-	190,984,537
Loans and Receivables to Customers	-	-	34,619,635,604	-	34,619,635,604
Financial Investments - Available for Sale	-	2,140,000	-	-	2,140,000
Financial Investments - Held to Maturity	-	-	5,260,627,000	-	5,260,627,000
Total Financial Assets	190,984,537	2,140,000	44,560,837,910	1,511,937	44,755,474,384
Financial Liabilities					
Due to Banks	-	-	3,588,404,769	-	3,588,404,769
Derivative Financial Instruments	-	-	-	1,260,965	1,260,965
Due to Other Customers	-	-	36,353,388,620	-	36,353,388,620
Other Borrowings	-	-	1,327,683,344	-	1,327,683,344
Subordinated Term Debts	-	-	-	-	-
Total Financial Liabilities	-	-	41,269,476,733	1,260,965	41,270,737,698

As at 1 January 2011					
	Financial Assets Held for Trading at Fair Value Rs.	Available for Sale Financial Assets at Fair Value Rs.	Financial Assets and Liabilities at Amortised Cost Rs.	Derivative Financial Instruments at Fair Value Rs.	Total Rs.
Financial Assets					
Cash and Cash Equivalents	-	-	1,110,072,502	-	1,110,072,502
Balances with Central Banks	-	-	1,060,321,276	-	1,060,321,276
Placements with Banks	-	-	-	-	-
Derivative Financial Instruments	-	-	-	1,135,271	1,135,271
Financial Assets - Held for Trading	3,432,627,203	-	-	-	3,432,627,203
Loans and Receivables to Customers	-	-	22,792,383,079	-	22,792,383,079
Financial Investments - Available for Sale	-	2,140,000	-	-	2,140,000
Financial Investments - Held to Maturity	-	-	1,210,117,907	-	1,210,117,907
Total Financial Assets	3,432,627,203	2,140,000	26,172,894,764	1,135,271	29,608,797,238
Financial Liabilities					
Due to Banks	-	-	2,076,092,798	-	2,076,092,798
Derivative Financial Instruments	-	-	-	3,234,567	3,234,567
Due to Other Customers	-	-	21,951,824,407	-	21,951,824,407
Other Borrowings	-	-	2,394,379,123	-	2,394,379,123
Subordinated Term Debts	-	-	50,000,000	-	50,000,000
Total Financial Liabilities	-	-	26,472,296,328	3,234,567	26,475,530,895

36 Fair Value of Financial Instruments

36.1 Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

(a) Derivatives

Derivative products valued with market-observable inputs are mainly currency swaps and forward foreign exchange contracts. Such valuations incorporate various inputs such as foreign exchange spot and forward rates.

(b) Financial Investments - Available for Sale

Available for Sale Financial Assets valued using valuation techniques or pricing models primarily consist of unquoted equities.

(c) Financial Assets Held for Trading

Quoted Equities and Sri Lanka Government Securities - Treasury Bills and Bonds included in Financial Assets - Held for Trading are valued using market prices.

36.2 Determination of Fair Value and Fair Value Hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

a) The following table shows an analysis of financial instruments recorded at fair value by level of fair value hierarchy.

As at 31 December 2012

	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	-	51,693	-	51,693
Financial Assets - Held for Trading				
- Quoted Equities	12,381,034	-	-	12,381,034
Financial investments - Available for Sale	-	6,157,847	-	6,157,847
	12,381,034	6,209,540	-	18,590,574
Financial Liabilities				
Derivative Financial Instruments	-	631,663	-	631,663
	-	631,663	-	631,663

As at 31 December 2011

	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	-	1,511,937	-	1,511,937
Financial Assets - Held for Trading				
- Quoted Equities	16,451,185	-	-	16,451,185
- Government of Sri Lanka Treasury Bills and Bonds	174,533,352	-	-	174,533,352
Financial Investments - Available for Sale	-	2,140,000	-	2,140,000
	190,984,537	3,651,937	-	194,636,474
Financial Liabilities				
Derivative Financial Instruments	-	1,260,965	-	1,260,965
	-	1,260,965	-	1,260,965

As at 1 January 2011

	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	-	1,135,271	-	1,135,271
Financial Assets - Held for Trading				
- Quoted Equities	1,545,000	-	-	1,545,000
- Government of Sri Lanka Treasury Bills and Bonds	3,431,082,203	-	-	3,431,082,203
Financial Investments - Available for Sale	-	2,140,000	-	2,140,000
	3,432,627,203	3,275,271	-	3,435,902,474
Financial Liabilities				
Derivative Financial Instruments	-	3,234,567	-	3,234,567
	-	3,234,567	-	3,234,567

- b) The following table shows the total gains and losses recognised in profit or loss during the year relating to assets and liabilities held at the year end.

	Net Trading Income	
	2012	2011
	Rs.	Rs.
Financial Assets		
Derivative Financial Instruments	1,987,925	(78,378)
Financial Assets - Held for Trading		
- Quoted Equities	(3,754,901)	(964,940)
- Sri Lanka Government Securities - Treasury Bills and Bonds	-	23,750,378
	(1,766,976)	22,707,060

- c) Set out below is a comparison, by class, of the carrying amounts and fair values of the bank's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2012		31 December 2011		1 January 2011	
	Carrying	Fair	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value	Amount	Value
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and Cash Equivalents	1,203,051,981	1,203,051,981	2,430,149,648	2,430,149,648	1,110,072,502	1,110,072,502
Balances with Central Banks	3,516,871,043	3,516,871,043	2,250,425,658	2,250,425,658	1,060,321,276	1,060,321,276
Placements with Banks	500,134,932	500,134,932	-	-	-	-
Loans and Receivables						
to Customers	43,213,363,249	43,213,363,249	34,619,635,604	34,619,635,604	22,792,383,079	22,792,383,079
Financial Investments -						
Held to Maturity	4,896,053,586	4,888,719,403	5,260,627,000	5,213,379,324	1,210,117,907	1,155,803,891
	53,329,474,791	53,322,140,608	44,560,837,910	44,513,590,234	26,172,894,764	26,118,580,748
Financial Liabilities						
Due to Banks	895,325,932	895,325,932	3,588,404,769	3,588,404,769	2,076,092,798	2,076,092,798
Due to Other Customers	47,911,087,381	47,911,087,381	36,353,388,620	36,353,388,620	21,951,824,407	21,951,824,407
Other Borrowings	226,320,568	226,320,568	1,327,683,344	1,327,683,344	2,394,379,123	2,394,379,123
Subordinated Term Debt	785,826,885	785,826,885	-	-	50,000,000	50,000,000
Total Financial Liabilities	49,818,560,766	49,818,560,766	41,269,476,733	41,269,476,733	26,472,296,328	26,472,296,328

Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements:

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and unquoted shares.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates.

37 Risk Management

37.1 Introduction

Risk is inherent in Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls as per the risk appetite of the Bank. The process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank's exposure to Risk could be broadly categorised into Credit Risk, Market Risk and Operational Risk. In addition, the impact of other risks such as Liquidity Risk, Reputational Risk, Compliance Risk and Legal Risk are monitored to avoid any additional impact on the Bank. The impact on Risk could be externally and internally segregated according to the nature of the business. Further, the risks could be broadly segregated according to trading and non-trading activities of the Bank. External Risk which may be due to changes in Political, Regulatory, and other changes in industry could impact the strategic processes of the Bank.

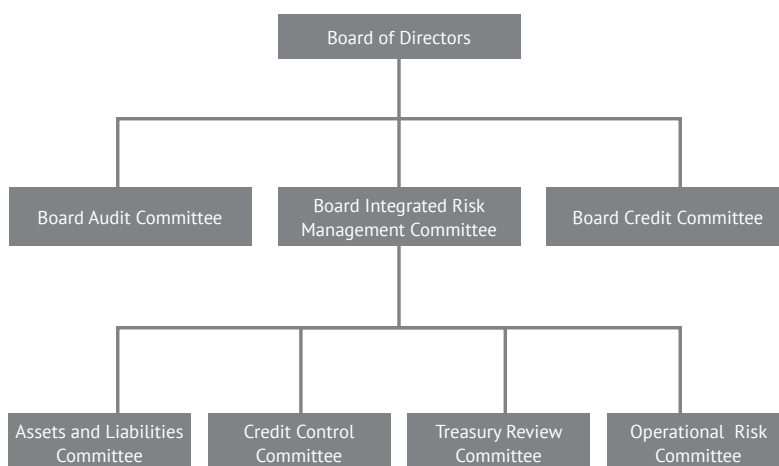
Risk Management Objectives, Policies and Processes

The foremost objective of the risk management is to assess the uncertainty of the future in order to make the best possible decision at present ensuring a return with the minimum impact on the financial position and profitability. The Bank's all risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Further, all risk management policies are updated regularly to reflect changes in market conditions, products and services offered by the Bank and requirements of the regulators. Accordingly, the Bank wide risk management policy, Credit Risk Management policy, Market and Liquidity Policy, were reviewed in line with the revised directions of the industry prudential regulator.

Measurement of financial instruments is done with proper assessment of expectation in future cash flows. The most imperative methods of ascertaining the risk of such instruments is done by way of assessing the future settlement plan. Early identification of any issues had been the key factor to arrest and addresses the challenges of the environment and the expectation of the Bank. Having identified the categories of the measurements, the mitigating controls were introduced for better portfolio management. Separate management methods were introduced as per collateral, risk rating, and cash flow attached to each instruments. Stringent measures are introduced for products which needed close monitoring.

Risk Management Structure

The Bank's overall responsibility for Risk Management falls on the Board of Directors. Accordingly, the Bank has established a robust and pervasive risk culture and clear policies that define the responsibilities of Corporate and senior management personnel, subject to the oversight of the Board. There are Committees at both Board and Management levels to ensure that all risks are appropriately managed and risk limits are established based on the appetite of the Bank.



Board Audit Committee

The Audit Committee assists the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal controls and risk management systems, internal audit process, and the Bank's process for monitoring compliance with legal and regulatory compliance, appointment of external auditors, their remuneration and their objectivity and independence and maintaining high standards of good Corporate Governance practices to conform to highest ethical standards. (The Committee discusses with management and the independent auditor the major issues regarding accounting principles and Financial Statements.) The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both adhoc and regular reviews of risk management controls and procedures in accordance with audit plan, the results of which are reported to the Audit Committee.

Board Credit Committee

The Board of Directors has delegated the responsibility for the oversight of credit risk to Board Credit Committee. The Board Credit Committee discharges its main responsibilities to operate a sound credit granting process, maintain an appropriate credit administration, maintain adequate controls over credit risk, identification and administration of problem advances, proper evaluation of new business opportunities, cyclical aspects of internal and external economy and review of facilities sanctioned by the Committee and issue of further instructions, if necessary.

Board Integrated Risk Management Committee

Board Integrated Risk Management Committee mainly looks into the overall Risk Management aspects of the Bank. The Committee adopts risk strategies, frameworks, and policies and is also responsible for implementation of these strategies and plans. The Committee meets on quarterly basis and discusses the predetermined risk goals implemented as per the Bank Wide Risk Management Policy adopted by the Board and review the performances of the management committees.

Risk Management function which is independent of the business units, performs the role of implementing risk management policies and procedures. Risk Management Unit headed by the Chief Risk Officer is responsible and accountable for controlling of risks, compliance of risk policies and procedures of the Bank. The structure of the risk management unit is given below;



Each unit monitors the impact on separate risks as specified. These units function independent of each respective business unit and submits its observations to the Chief Risk Officer. Reports are generated daily, weekly, monthly and quarterly basis as per the requirements and breaches, if any, are notified for relevant action. Exceptions are also reported to the Risk Committee with action taken.

The Compliance function is also an independent function which performs the role of safeguarding the Bank against regulatory and reputational risks. It does this through appropriate policies and procedures for compliance with all applicable laws and regulations and embedding them into the internal control system. The policies set out the procedures for safeguarding the Bank from being sanctioned or fined for regulatory non-compliance. Compliance Department also conducts training to familiarise staff with their compliance obligations.

The Bank's risks are recorded according to the breaches that have taken place, expected /predicted losses and unexpected cases which may arise in future. The estimated figures of cases are weekly monitored for prevention and mitigations. These events mainly are taken into account according to the internal risk management processes established by the Bank. Monitoring of risks is done on predetermined limits as per policies. Management Information System reports are generated to the Corporate Management based on these risks indicators, further certain industries are specially highlighted for close monitoring. The overall aggregate impact is then computed to oversee the full impact on the Bank's financial position.

These indicators are aggregated and recorded as per reporting criteria of the Risk Committees. The reports are submitted based on their daily, weekly and monthly monitoring to the Board/Management committees to measure the risk exposure across all types of risks and activities. This contains the distribution and the vulnerable areas of risks to be vigilant about and which also need extra attention. These reports will indicate aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios. Further elaborations will be done on industry, concentration, customer and geographic risk etc. Early warnings will be indicated to the business units for precautionary action and same is monitored weekly for adherence. Delegated authority limits have been imposed to each business units to control exposure to risks. Those outwith such limits are referred to Head Office Credit Committee / Board Credit Committee for approval.

37.2 Credit Risk

Credit Risk is the loss that the Bank will incur due to failure of a customer or a counterparty to meet their contractual obligations towards the Bank. The Bank manages and controls the risk by establishing limits via proper evaluation for borrowers, counterparties, industries and portfolio. The Bank's risk appetite is based on economic conditions and regulatory requirements.

Management of Credit Risk

The primary objective of credit risk management is to enable the Bank to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with approved credit appetite. The Bank has a well defined credit policy approved by the Board of Directors which spells out the credit culture of the Bank, specifying target markets for lending and areas to avoid. The policy is implemented through the credit process, which is set out with clear guidelines and procedures. As a further step towards improving and maintaining uniformity of credit submissions, the Bank has established credit clusters with well trained and experienced staff to evaluate and carry out periodic review of credit facilities.

The Bank's credit risk management process broadly encompasses the following;

- a) Loan origination and risk appraisal comprises initial screening and credit appraisal focused in borrowers' ability to meet their commitments in a timely manner. The internal risk rating is an important part of the risk assessment of the customers and incorporated in the credit decision process. This numerical rating denotes the borrower's strength relating to repayment ability, financial condition, industry/business outlook and management quality. A separate alphabetical rating is assigned to customers as the security indicator based on Bank's approved policy on security. The Bank minimises risk by granting credit facilities for high rated customers.
- b) Loan approval and sanction of the credit facilities - Clear guidelines and policies have been established for loan approvals/renewals within delegated credit approval authorities
- c) Credit administration and disbursement is performed by Credit Administration Unit, independently reporting to Chief Executive Officer to ensure clear segregation of duties from business units and ensures origination and disbursement of credit are made only after stipulated conditions have been met and relevant security documents are obtained.
- d) Credit Measurement and Monitoring - Credit Risk Management Unit measures and tracks the early warning signals pertaining to deterioration of financial health of the borrowers and customers who need special attention/monitoring is identified and their financial behaviour is discussed at Head Office Credit Committee and Board Credit Committee levels.
- e) Non performing advances are managed by the Legal and Recoveries divisions. These units are responsible for all aspects of a non performing credit, restructuring of the credit, monitoring the value of the applicable collateral and liquidation, scrutiny of legal documents and liaising with the customer until all legal recovery matters are finalised, effective integration with Credit Risk and Credit Administration Unit for follow-up action.

The Bank's credit risk management process is articulated in credit policies, which are approved by the Board. Credit policies

lay down the conditions and guidelines for the granting, maintenance, monitoring and management of credit, at both individual transaction and portfolio levels. These policies are documented, well defined, consistent with prudent practices and regulatory requirements and adequate for the nature and complexity of Banks activities. The limits have been prescribed for Bank's exposure to any single borrower, group of specific borrowers or specific industries/sectors in order to avoid concentration of credit risk.

A well structured loan review mechanism is in place and a comprehensive review is carried out at least annually for individually significant loans and identification of customers that require special attention are identified and more frequent updates are carried out for "Watchlist" exposures.

The Bank uses collateral for credit risk mitigation. The requirements for collateral is set forth in the credit policies and procedures of the Bank. Collateral are evaluated independently by a valuation panel and significant exposures are vetted through special panel valuation committee for opinion.

Impairment Assessment

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment
- Where the bank grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter bankruptcy or other financial reorganisation
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans and advances

This approach differs from the expected loss model used for regulatory capital purposes in accordance with Basel II.

Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis, including any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively Assessed Allowances

Allowances are assessed collectively for losses on loans and advances and for held to maturity debt investments that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired.

The Bank generally bases its analyses on historical experience. However, when there are significant market developments, the Bank would include macro-economic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends, and other consumer data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances. Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio or economic data. The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. The management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Credit-related Commitment Risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of Credit and Guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

Analysis of Maximum Exposure to Credit risk and Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The Bank obtains cash, gold, securities, property, guarantees, other movable and immovable property as collateral against lending. An approved list of acceptable securities and the applicable percentage of cash security category are defined as per the Credit Policies of the Bank. These Collateral are evaluated independently by a valuation panel and all significant collateral are vetted through a special panel valuation committee for opinion. The Management monitors the market value of collateral, and will request additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The following table shows the maximum exposure to credit risk by class of financial asset and the value of financial assets covered by the collateral.

Maximum Exposure to Credit risk**Type of Collateral**

31 December 2012	Value of Financial Assets Covered by Collateral										
	Maximum Exposure to Credit Risk	Cash	Gold	Securities	Mortgages		Documentary	Other*	Total Collateral	Net Exposure	Rs.
					Property	Rs.					
Balances with Central Banks	3,516,871,043	-	-	-	-	-	-	-	-	-	3,516,871,043
Placements with Banks	500,134,932	-	-	-	-	-	-	-	-	-	500,134,932
Derivative Financial Instruments	51,693	-	-	-	-	-	-	-	-	-	51,693
Financial Assets - Held for Trading	12,381,034	-	-	-	-	-	-	-	-	-	12,381,034
Loans and Receivables to Customers - Gross	45,089,504,193	7,857,285,596	7,412,046,445	2,369,839,108	10,226,314,510	3,362,018,617	11,762,414,562	42,989,918,838	2,099,585,355	-	61,578,847
Financial Investments - Available for Sale	6,157,847	-	-	-	-	-	-	-	-	-	6,157,847
Financial Investments - Held to Maturity	4,896,053,586	-	-	-	-	-	-	-	-	-	4,896,053,586
	54,021,154,328	7,857,285,596	7,412,046,445	2,369,839,108	10,226,314,510	3,362,018,617	11,762,414,562	42,989,918,838	11,031,235,490	-	-
31 December 2011											
Balances with Central Banks	2,250,425,658	-	-	-	-	-	-	-	-	-	2,250,425,658
Placements with Banks	-	-	-	-	-	-	-	-	-	-	-
Derivative Financial Instruments	1,511,937	-	-	-	-	-	-	-	-	-	1,511,937
Financial Assets - Held for Trading	190,984,537	-	-	-	-	-	-	-	-	-	190,984,537
Loans and Receivables to Customers - Gross	36,504,489,426	5,401,007,918	7,000,929,437	1,939,000,000	8,069,401,902	4,075,646,610	8,577,447,691	35,063,433,558	1,441,055,868	-	2,140,000
Financial Investments - Available for Sale	2,140,000	-	-	-	-	-	-	-	-	-	2,140,000
Financial Investments - Held to Maturity	5,260,627,000	-	-	-	-	-	-	-	-	-	5,260,627,000
	44,210,178,558	5,401,007,918	7,000,929,437	1,939,000,000	8,069,401,902	4,075,646,610	8,577,447,691	35,063,433,558	9,146,745,000	-	-

* Vehicles, machinery, other capital assets, inventory and trade receivables

Type of Collateral

1 January 2011

Value of Financial Assets Covered by Collateral

	Maximum Exposure to Credit Risk	Value of Financial Assets Covered by Collateral										Net Exposure
		Cash	Gold	Securities	Property Mortgages	Guarantees/Documentary Credit	Other*	Total Collateral				
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balances with Central Banks	1,060,321,276	-	-	-	-	-	-	-	-	-	-	1,060,321,276
Placements with Banks	-	-	-	-	-	-	-	-	-	-	-	-
Derivative Financial Instruments	1,135,271	-	-	-	-	-	-	-	-	-	-	1,135,271
Financial Assets - Held for Trading	3,432,627,203	-	-	-	-	-	-	-	-	-	-	3,432,627,203
Loans and Receivables to Customers - Gross	24,366,024,404	5,821,651,447	2,867,780,855	4,689,549,419	5,984,857,759	613,527,766	1,078,522,689	21,055,889,935	3,310,134,469			
Financial Investments - Available for Sale	2,140,000	-	-	-	-	-	-	-	-	-	-	2,140,000
Financial Investments - Held to Maturity	1,210,117,907	-	-	-	-	-	-	-	-	-	-	1,210,117,907
	50,072,366,061	5,821,651,447	2,867,780,855	4,689,549,419	5,984,857,759	613,527,766	1,078,522,689	21,055,889,935	9,016,476,126			

* Vehicles, machinery, other capital assets, inventory and trade receivables

Analysis of Risk Concentration

Credit Quality by Class of Financial Assets

The Bank manages the credit quality of financial assets using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk. The amounts presented are gross of impairment allowances.

31 December 2012

	Notes	Neither Past Due nor Impaired	Past Due But Not Impaired	Individually Impaired	Total
		Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	15	1,203,051,981	-	-	1,203,051,981
Balances with Central Banks	16	3,516,871,043	-	-	3,516,871,043
Placements with Banks	17	500,134,932	-	-	500,134,932
Derivative Financial Instruments	18	51,693	-	-	51,693
Financial Assets - Held for Trading	19	12,381,034	-	-	12,381,034
Loans and Receivables to Customers	20	35,577,757,57	7,602,801,295	1,908,945,321	45,089,504,193
Financial Investments - Available for Sale	21	6,157,847	-	-	6,157,847
Financial Investments - Held to Maturity	22	4,896,053,586	-	-	4,896,053,586
Total		45,712,459,693	7,602,801,295	1,908,945,321	55,224,206,309

31 December 2011

	Notes	Neither Past Due nor Impaired	Past Due But Not Impaired	Individually Impaired	Total
		Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	15	2,430,149,648	-	-	2,430,149,648
Balances with Central Banks	16	2,250,425,658	-	-	2,250,425,658
Placements with Banks	17	-	-	-	-
Derivative Financial Instruments	18	1,511,937	-	-	1,511,937
Financial Assets - Held for Trading	19	190,984,537	-	-	190,984,537
Loans and Receivables to Customers	20	32,257,836,228	2,559,927,811	1,686,725,387	36,504,489,426
Financial Investments - Available for Sale	21	2,140,000	-	-	2,140,000
Financial Investments - Held to Maturity	22	5,260,627,000	-	-	5,260,627,000
Total		42,393,675,008	2,559,927,811	1,686,725,387	46,640,328,206

1 January 2011

	Notes	Neither Past Due nor Impaired	Past Due But Not Impaired	Individually Impaired	Total
		Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	15	1,110,072,502	-	-	1,110,072,502
Balances with Central Banks	16	1,060,321,276	-	-	1,060,321,276
Placements with Banks	17	-	-	-	-
Derivative Financial Instruments	18	1,135,271	-	-	1,135,271
Financial Assets - Held for Trading	19	3,432,627,203	-	-	3,432,627,203
Loans and Receivables to Customers	20	19,779,697,293	3,138,368,616	1,447,958,495	24,366,024,404
Financial Investments - Available for Sale	21	2,140,000	-	-	2,140,000
Financial Investments - Held to Maturity	22	1,210,117,907	-	-	1,210,117,907
Total		26,596,111,452	3,138,368,616	1,447,958,495	31,182,438,563

SLFRS 7 - Financial Instruments : Disclosures specifically require the disclosure of quality of financial assets that are neither impaired nor past due and an analysis of the age of financial assets that are past due but not impaired as at the reporting date. Disclosure of Past due but not impaired financial assets are of limited value as many financial assets / loans past due are only by a few days.

Individually Impaired Loans / Financial Assets

All individually significant loans / financial assets which the Bank determines that there are objective evidence of impairment loss and therefore, may not be able or unable to collect all principal and interest due according to the contractual terms are classified as 'impaired loans / financial assets'.

Past Due But Not Impaired Loans / Financial Assets

Past due but not impaired loans / financial assets are those with contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the stage of collection of amounts owed, level of security/collateral available and significance of the financial asset.

Credit Risk Exposure for Each Internal Credit Risk Rating

The Bank's policy is to maintain accurate and consistent risk ratings across the loan portfolio. This facilitates focused management of the applicable risks and comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of quantitative and qualitative factors to provide the main inputs for the measurement of counterparty risks.

Bank's Internal Risk Rating*

	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
Risk Rating Grade 1	22,168,481,613	21,004,534,434	12,446,213,737
Risk Rating Grade 2	14,034,045,373	10,174,575,926	5,024,004,841
Risk Rating Grade 3	5,372,597,123	3,596,533,734	1,683,186,640
Risk Rating Grade 4	789,908,407	262,721,307	684,202,359
Risk Rating Grade 5	1,542,900,555	744,488,834	2,413,598,425
	43,907,933,071	35,782,854,235	22,251,206,002

* Securities Purchased under Resale Agreements, Sri Lanka Development Bonds and Unquoted Debentures are not rated under Bank's Internal Risk Rating System.

The Bank's concentrations of risks are managed by client/counterparty and by industry sector. The maximum credit exposure to any customer or a group counterparty as of 31 December 2012 was Rs.1,600,417,000/- (31 December 2011: Rs. 996,449,000/-, 1 January 2011 - 850,000,000/-), before taking account of collateral.

Industry Analysis

31 December 2012	Financial Services	Government	Exports	Tourism and Allied	Industrial	Agriculture and Fishing
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	-	1,203,051,981	-	-	-	-
Balances with Central Banks	-	3,516,871,043	-	-	-	-
Placements with Banks	500,134,932	-	-	-	-	-
Derivative Financial Instruments	51,693	-	-	-	-	-
Financial Assets - Held for Trading	12,381,034	-	-	-	-	-
Loans and Receivables to Customers - Gross	12,896,931	1,168,674,191	804,108,005	434,366,643	2,218,448,173	4,496,224,473
Financial Investments - Available for Sale	6,157,847	-	-	-	-	-
Financial Investments - Held to Maturity	-	4,896,053,586	-	-	-	-
	531,622,437	10,784,650,801	804,108,005	434,366,643	2,218,448,173	4,496,224,473

31 December 2011	Financial Services	Government	Exports	Tourism and Allied	Industrial	Agriculture and Fishing
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	-	2,430,149,648	-	-	-	-
Balances with Central Banks	-	2,250,425,658	-	-	-	-
Placements with Banks	-	-	-	-	-	-
Derivative Financial Instruments	1,511,937	-	-	-	-	-
Financial Assets - Held for Trading	16,451,030	174,533,352	-	-	-	-
Loans and Receivables to Customers - Gross	261,581,122	460,054,069	921,603,862	1,002,624,494	1,785,204,399	3,486,857,650
Financial Investments - Available for Sale	2,140,000	-	-	-	-	-
Financial Investments - Held to Maturity	-	5,260,627,000	-	-	-	-
	281,684,089	10,575,789,727	921,603,862	1,002,624,494	1,785,204,399	3,486,857,650

1 January 2011	Financial Services	Government	Exports	Tourism and Allied	Industrial	Agriculture and Fishing
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	-	1,110,072,502	-	-	-	-
Balances with Central Banks	-	1,060,321,276	-	-	-	-
Placements with Banks	-	-	-	-	-	-
Derivative Financial Instruments	1,135,271	-	-	-	-	-
Financial Assets - Held for Trading	1,545,000	3,431,082,203	-	-	-	-
Loans and Receivables to Customers - Gross	1,411,617,808	703,200,594	508,402,205	216,109,687	1,402,472,354	2,495,506,324
Financial Investments - Available for Sale	2,140,000	-	-	-	-	-
Financial Investments - Held to Maturity	-	1,210,117,907	-	-	-	-
	1,416,438,079	7,514,794,482	508,402,205	216,109,687	1,402,472,354	2,495,506,324

Commercial Trading Rs.	Imports Rs.	Consumption Rs.	Services Rs.	Housing Rs.	Margin Trading Rs.	Others Rs.	Total Rs.
-	-	-	-	-	-	-	1,203,051,981
-	-	-	-	-	-	-	3,516,871,043
-	-	-	-	-	-	-	500,134,932
-	-	-	-	-	-	-	51,693
-	-	-	-	-	-	-	12,381,034
8,656,609,370	3,183,589,665	16,280,095,700	5,483,614,013	123,953,408	2,219,507,604	7,416,017	45,089,504,193
-	-	-	-	-	-	-	6,157,847
-	-	-	-	-	-	-	4,896,053,586
8,656,609,370	3,183,589,665	16,280,095,700	5,483,614,013	123,953,408	2,219,507,604	7,416,017	55,224,206,309

Commercial Trading Rs.	Imports Rs.	Consumption Rs.	Services Rs.	Housing Rs.	Margin Trading Rs.	Others Rs.	Total Rs.
-	-	-	-	-	-	-	2,430,149,648
-	-	-	-	-	-	-	2,250,425,658
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	1,511,937
-	-	-	-	-	-	155	190,984,537
2,127,076,155	2,668,805,685	16,836,049,937	4,878,321,361	95,289,375	1,924,657,010	56,364,307	36,504,489,426
-	-	-	-	-	-	-	2,140,000
-	-	-	-	-	-	-	5,260,627,000
2,127,076,155	2,668,805,685	16,836,049,937	4,878,321,361	95,289,375	1,924,657,010	56,364,462	46,640,328,206

Commercial Trading Rs.	Imports Rs.	Consumption Rs.	Services Rs.	Housing Rs.	Margin Trading Rs.	Others Rs.	Total Rs.
-	-	-	-	-	-	-	1,110,072,502
-	-	-	-	-	-	-	1,060,321,276
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	1,135,271
-	-	-	-	-	-	-	3,432,627,203
1,349,131,409	1,785,118,110	8,096,284,898	2,807,822,905	122,578,872	3,408,470,275	59,308,963	24,366,024,404
-	-	-	-	-	-	-	2,140,000
-	-	-	-	-	-	-	1,210,117,907
1,349,131,409	1,785,118,110	8,096,284,898	2,807,822,905	122,578,872	3,408,470,275	59,308,963	31,182,438,563

Commitments and Contingencies

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the Statement of Financial Position.

Details of Commitments and Contingencies are given in Note 41.

37.3 Liquidity Risk

Liquidity Risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

Management of Liquidity Risk

Bank's liquidity risk management framework is designed to identify measure and manage in a timely manner the liquidity risk position of the Bank. Assets and Liabilities Committee is responsible for managing this risk through continuous monitoring of the set benchmarks and controlling risks by adopting appropriate strategies through advances, deposits and investment products. The Committee reviews various risk measurements against policy limits together with statement of Maturity of Assets and Liabilities (MAL) and statement of Sensitivity of Assets and Liabilities (SAL) which are prepared according to CBSL guidelines.

Bank's liquidity contingency plan is a detailed action plan document approved by the Board of Directors of the Bank indicating possible warning indicators, monitoring mechanism and the process for escalation. The plan details the specific action steps and identifies key individuals responsible for the specific action tasks. To limit liquidity risk, the Bank has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. Intraday liquidity management is about managing the daily payments and cash flows. The Bank has policies to ensure that sufficient cash is maintained during the day to make payments through local payment systems.

The Bank also monitors the maturity profile of its assets and liabilities. The maturities of assets and liabilities are detailed in Note 37.3.

The policy of the Bank is to maintain adequate liquidity at all times, in all geographical locations and for all currencies and hence to be in a position, in the normal course of business, to meet obligations, repay depositors and fulfill commitments. The Bank maintains a portfolio of highly liquid and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. As a part of liquidity management the Bank maintains borrowing relationships to ensure the continued access to diverse market of funding sources. The Bank's sound credit rating together with excellent market reputation has enabled the Bank to secure ample call lines with local and foreign banks.

In addition, the Bank maintains a Statutory Deposit with the Central Bank of Sri Lanka equal to 8% of Rupee deposit liabilities of the Domestic Banking Unit. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of Statutory Liquid Asset Ratio to customer liabilities, to reflect market conditions. The significant liquidity ratios during the year were as follows:

Liquidity Ratios

	2012	2011	2010
Advances to Deposit Ratios			
Average	92.53%	91.86%	84.16%
Year-end	89.20%	97.24%	99.13%

The Bank stresses the importance of maintaining a adequate deposit base as sources of funds to finance lending (excluding receivables) to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a percentage of customer deposits. Cheques and drafts purchased which are deemed to be liquid, are excluded from the advances to deposit ratio.

Statutory Liquid Asset Ratio

	2012	2011	2010
Average	20.59%	21.37%	33.84%
Year-End	21.15%	20.19%	23.19%

The Bank maintains a healthy Statutory Liquid Asset Ratio (SLAR) at Bank level and at Domestic and Foreign Banking Unit levels. The Bank considers Cash balances, Balances with Licenced Commercial Banks, Money at call in Sri Lanka, Balances with Banks Abroad, Treasury Bills/Bonds and Securities issued or guaranteed by the Government of Sri Lanka, Sri Lanka Development Bonds, Approved Commercial Papers, Import Bills, Export Bills, Inland Bills and Items in the Process of Collection as "Liquid Assets" for the purpose of Statutory Liquid Asset Ratio Calculation.

Analysis of Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the bank's financial assets and liabilities as at the end of the reporting period. Financial derivatives are shown at fair value in a separate column. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Contractual Maturities of Undiscounted Cash flows of Assets and Liabilities

As at 31 December 2012

	On Demand	Derivative	Less than	3 to 12	1 to 5	Over 5 Years	Total
	Rs.	Financial	3 Months	Months	Years		
	Rs.	Instruments	Rs.	Rs.	Rs.	Rs.	Rs.
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets							
Cash and Cash Equivalents	1,203,051,981	-	-	-	-	-	1,203,051,981
Balances with Central Banks	3,516,871,043	-	-	-	-	-	3,516,871,043
Placements with Banks	-	-	500,134,932	-	-	-	500,134,932
Derivative Financial Instruments	-	51,693	-	-	-	-	51,693
Financial Assets - Held for Trading	-	-	12,381,034	-	-	-	12,381,034
Loans and Receivables to Customers	-	-	15,725,396,542	9,172,023,050	14,690,316,700	3,625,626,957	43,213,363,249
Financial Investments - Available for Sale	-	-	-	-	-	6,157,847	6,157,847
Financial Investments - Held to Maturity	-	-	2,521,594,632	2,107,649,685	266,809,269	-	4,896,053,586
Total Undiscounted Financial Assets	4,719,923,024	51,693	18,759,507,140	11,279,672,735	14,957,125,969	3,631,784,804	53,348,065,365
Non Financial Assets							
Property, Plant and Equipment	-	-	-	-	-	1,224,239,627	1,224,239,627
Intangible Assets	-	-	-	-	-	73,581,901	73,581,901
Other Assets	-	-	959,529,520	194,346,860	-	274,528,928	1,428,405,308
Total Undiscounted Non-Financial Assets	-	-	959,529,520	194,346,860	-	1,572,350,456	2,726,226,836
Total Undiscounted Assets	4,719,923,024	51,693	19,719,036,660	11,474,019,595	14,957,125,969	5,204,135,260	56,074,292,201
Financial Liabilities							
Due to Banks	-	-	895,325,932	-	-	-	895,325,932
Derivative Financial Instruments	-	631,663	-	-	-	-	631,663
Due to Other Customers	-	-	23,615,349,212	17,077,131,112	4,753,372,121	2,465,234,936	47,911,087,381
Other Borrowings	-	-	214,703,529	11,617,039	-	-	226,320,568
Subordinated Term Debts	-	-	-	-	785,826,885	-	785,826,885
Total Undiscounted Financial Liabilities	-	631,663	24,725,378,673	17,088,748,151	5,539,199,006	2,465,234,936	49,819,192,429
Non Financial Liabilities							
Current Tax Liabilities	-	-	-	151,314,829	-	-	151,314,829
Deferred Tax Liabilities	-	-	-	-	-	177,130,511	177,130,511
Other Provisions and Accruals	-	-	82,757,743	-	-	-	82,757,743
Other Liabilities	-	-	1,174,421,182	436,882,585	-	-	1,611,303,767
Equity	-	-	-	-	-	4,232,592,922	4,232,592,922
Total Undiscounted Non-Financial Liabilities	-	-	1,257,178,925	588,197,414	-	4,409,723,433	6,255,099,772
Total Undiscounted Liabilities	-	631,663	25,982,557,598	17,676,945,565	5,539,199,006	6,874,958,369	56,074,292,201
Net Undiscounted Financial							
Assets/(Liabilities)	4,719,923,024	(579,970)	(5,965,871,533)	(5,809,075,416)	9,417,926,963	1,166,549,868	3,528,872,936
Net Undiscounted							
Assets/(Liabilities)	4,719,923,024	(579,970)	(6,263,520,938)	(6,202,925,970)	9,417,926,963	(1,670,823,109)	-

As at 31 December 2011

	On Demand	Derivative Financial Instruments	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets							
Cash and Cash Equivalents	2,430,149,648	-	-	-	-	-	2,430,149,648
Balances with Central Banks	2,250,425,658	-	-	-	-	-	2,250,425,658
Placements with Banks	-	-	-	-	-	-	-
Derivative Financial Instruments	-	1,511,937	-	-	-	-	1,511,937
Financial Assets - Held for Trading	-	-	190,984,537	-	-	-	190,984,537
Loans and Receivables to Customers	-	-	12,983,010,138	10,081,283,859	10,772,188,988	783,152,619	34,619,635,604
Financial Investments - Available for Sale	-	-	-	-	-	2,140,000	2,140,000
Financial Investments - Held to Maturity	-	-	1,302,151,644	2,132,398,646	1,826,076,710	-	5,260,627,000
Total Undiscounted Financial Assets	4,680,575,306	1,511,937	14,476,146,319	12,213,682,505	12,598,265,698	785,292,619	44,755,474,384
Non Financial Assets							
Property, Plant and Equipment	-	-	-	-	-	1,026,337,360	1,026,337,360
Intangible Assets	-	-	-	-	-	52,152,185	52,152,185
Other Assets	-	-	744,198,534	122,445,232	-	298,285,288	1,164,929,054
Total Undiscounted Non-Financial Assets	-	-	744,198,534	122,445,232	-	1,376,774,833	2,243,418,599
Total Undiscounted Assets	4,680,575,306	1,511,937	15,220,344,853	12,336,127,737	12,598,265,698	2,162,067,452	46,998,892,983
Financial Liabilities							
Due to Banks	-	-	3,588,404,769	-	-	-	3,588,404,769
Derivative Financial Instruments	-	1,260,965	-	-	-	-	1,260,965
Due to Other Customers	-	-	14,572,715,054	14,898,583,723	4,018,039,641	2,864,050,202	36,353,388,620
Other Borrowings	-	-	1,311,702,220	15,981,124	-	-	1,327,683,344
Subordinated Term Debts	-	-	-	-	-	-	-
Total Undiscounted Financial Liabilities	-	1,260,965	19,472,822,043	14,914,564,847	4,018,039,641	2,864,050,202	41,270,737,698
Non Financial Liabilities							
Current Tax Liabilities	-	-	-	227,899,541	-	-	227,899,541
Deferred Tax Liabilities	-	-	-	-	-	121,689,431	121,689,431
Other Provisions and Accruals	-	-	90,022,161	-	-	-	90,022,161
Other Liabilities	-	-	1,145,435,172	462,422,516	-	-	1,607,857,688
Equity	-	-	-	-	-	3,680,686,464	3,680,686,464
Total Undiscounted Non Financial Liabilities	-	-	1,235,457,333	690,322,057	-	3,802,375,895	5,728,155,285
Total Undiscounted Liabilities	-	1,260,965	20,708,279,376	15,604,886,904	4,018,039,641	6,666,426,097	46,998,892,983
Net Undiscounted Financial Assets/(Liabilities)							
Assets/(Liabilities)	4,680,575,306	250,972	(4,996,675,724)	(2,700,882,342)	8,580,226,057	(2,078,757,583)	3,484,736,686
Net Undiscounted Assets/(Liabilities)							
Assets/(Liabilities)	4,680,575,306	250,972	(5,487,934,523)	(3,268,759,167)	8,580,226,057	(4,504,358,645)	-

As at 1 January 2011

	On Demand	Derivative Financial Instruments	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets							
Cash and Cash Equivalents	1,110,072,502	-	-	-	-	-	1,110,072,502
Balances with Central Banks	1,060,321,276	-	-	-	-	-	1,060,321,276
Placements with Banks	-	-	-	-	-	-	-
Derivative Financial Instruments	-	1,135,271	-	-	-	-	1,135,271
Financial Assets - Held for Trading	-	-	78,822,429	36,239,099	3,317,565,675	-	3,432,627,203
Loans and Receivables to Customers	-	-	10,721,716,464	3,577,425,438	7,224,335,273	1,268,905,904	22,792,383,079
Financial Investments - Available for Sale	-	-	-	-	-	2,140,000	2,140,000
Financial Investments - Held to Maturity	-	-	27,255,191	12,781,268	1,170,081,448	-	1,210,117,907
Total Undiscounted Financial Assets	2,170,393,778	1,135,271	10,827,794,084	3,626,445,805	11,711,982,396	1,271,045,904	29,608,797,238
Non Financial Assets							
Property, Plant and Equipment	-	-	-	-	-	614,651,443	614,651,443
Intangible Assets	-	-	-	-	-	48,667,017	48,667,017
Other Assets	-	-	817,402,463	112,844,955	-	39,377,761	969,625,179
Total Undiscounted Non-Financial Assets	-	-	817,402,463	112,844,955	-	702,696,221	1,632,943,639
Total Assets	2,170,393,778	1,135,271	11,645,196,547	3,739,290,760	11,711,982,396	1,973,742,125	31,241,740,877
Financial Liabilities							
Due to Banks	-	-	2,076,092,798	-	-	-	2,076,092,798
Derivative Financial Instruments	-	3,234,567	-	-	-	-	3,234,567
Due to Other Customers	-	-	9,054,327,104	8,830,009,826	2,262,532,766	1,804,954,711	21,951,824,407
Other Borrowings	-	-	1,779,703,115	614,676,008	-	-	2,394,379,123
Subordinated Term Debts	-	-	-	50,000,000	-	-	50,000,000
Total Undiscounted Financial Liabilities	-	3,234,567	12,910,123,017	9,494,685,834	2,262,532,766	1,804,954,711	26,475,530,895
Non Financial Liabilities							
Current Tax Liabilities	-	-	-	262,373,341	-	-	262,373,341
Deferred Tax Liabilities	-	-	-	-	-	83,486,715	83,486,715
Other Provisions and Accruals	-	-	148,823,482	-	-	-	148,823,482
Other Liabilities	-	-	1,170,746,167	232,446,231	-	-	1,403,192,398
Equity	-	-	-	-	-	2,868,334,046	2,868,334,046
Total Undiscounted Non-Financial Liabilities	-	-	1,319,569,649	494,819,572	-	2,951,820,761	4,766,209,982
Total Undiscounted Liabilities	-	3,234,567	14,229,692,666	9,989,505,406	2,262,532,766	4,756,775,472	31,241,740,877
Net Undiscounted Financial Assets/(Liabilities)							
	2,170,393,778	(2,099,296)	(2,082,328,933)	(5,868,240,029)	9,449,449,630	(533,908,807)	3,133,266,343
Net Undiscounted Assets/(Liabilities)							
	2,170,393,778	(2,099,296)	(2,584,496,119)	(6,250,214,646)	9,449,449,630	(2,783,033,347)	-

37.4 Market Risk

Market Risk relates to the impact of fluctuations in market rates on bank's assets and liabilities or else the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Bank has placed special emphasis on the effect of market risk on fixed income securities, investments and forex position.

Management of Market Risk

The primary objective of market risk management is to ensure that the Bank optimises the risk reward relationship and does not expose to unacceptable losses outside its risk appetite.

The Board Integrated Risk Management Committee reviews the risk goals set for market risk management on a quarterly basis and provides valuable input and direction. These goals are compared with results achieved and are subject to a comprehensive discussion for decision making for way forward. In particular, the limits imposed by the regulator and control measures adopted for compliance are carefully monitored.

The Assets and Liabilities Committee (ALCO), in keeping with its terms of reference approved by the Board, decides on short term and long term strategies of the Bank for the overall management of Assets and Liabilities based on specific needs and prevailing market situation. In the process, ALCO reviews interest rate risk, liquidity risk, Bank's view on interest rates with competitor rates, exchange forecasts etc.

Board approved comprehensive policy documents on Market and Liquidity Risk management, Investments, and Stress Testing in place at Bank to mitigate the market risks. In addition, a policy document defining the responsibilities of each treasury units i.e. front, back and middle office is in place. The Strategies and policies are being continuously updated according to the evolving business requirements of the Bank as well as regulatory requirements. Treasury Middle Office functions as an independent unit reporting to Chief Risk Officer. The Bank has initiated improvements in market risk management function this year enhancing the qualified and experienced staff base.

Treasury Middle Office of the Bank monitors the comprehensive framework of Treasury operating limits approved by the Board, including open position limits, dealer limits, counter party limits, gap limits, Foreign Currency Banking Unit and Domestic operation limits etc. on a daily basis and takes prompt action when necessary. Separate risk goals are set for market risk management and on a quarterly basis, Board Integrated Risk Management Committee reviews these risk goals and provides valuable input and direction.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Interest Rate Risk results from the differences in the way interest rate changes affect the values of assets, liabilities, and Off Balance Sheet instruments.

The interest rate sensitivity of Banks portfolio depends on the characteristics of the financial instruments that make up the portfolio. The interest rate sensitivity of a financial instrument depends on maturity and repricing characteristics of the financial instruments.

The Bank presently prepares the Sensitivity of Assets and Liabilities (SAL) according to CBSL guideline for interest rate sensitive assets and liabilities in prescribed time bands which is presented to Bank's Assets and Liabilities Committee on a monthly basis. Gaps are identified between assets and liabilities and the same is used to prepare the Interest Rate Report.

	31 December 2012	31 December 2011	1 January 2011
Increase in interest rates (%)	+2%	+2%	+2%
Effect on Profit or Loss and Equity (Rs.)	81,372,013	(125,832,024)	(142,329,946)
Decrease in interest rates (%)	(2%)	(2%)	(2%)
Effect on Profit or Loss and Equity (Rs.)	(87,157,415)	139,117,739	167,304,584

Market Risk - Non Trading

The table below analyses the Bank's interest rate risk exposure on non-trading financial assets and liabilities. The Bank's financial assets and liabilities are included at carrying amount and categorised by either of contractual re-pricing or maturity.

As at 31 December 2012

	Carrying Amount	Derivative Financial Instruments	Interest Bearing				Over 5 Years	Non Interest Bearing	Total
			Less than 3 Months	3 to 12 Months	1 to 5 Years	Rs.			
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
Financial Assets									
Cash and Cash Equivalents	1,203,051,981	-	-	-	-	-	1,203,051,981	1,203,051,981	
Balances with Central Banks	3,516,871,043	-	-	-	-	-	3,516,871,043	3,516,871,043	
Placements with Banks	500,134,932	-	500,134,932	-	-	-	-	500,134,932	
Derivative Financial Instruments	51,693	51,693	-	-	-	-	-	51,693	
Financial Assets - Held for Trading	12,381,034	-	-	-	-	-	12,381,034	12,381,034	
Loans and Receivables to Customers	43,213,363,249	-	26,299,780,167	7,017,538,152	8,433,873,449	462,171,481	-	43,213,363,249	
Financial Investments - Available for Sale	6,157,847	-	-	-	-	-	6,157,847	6,157,847	
Financial Investments - Held to Maturity	4,896,053,586	-	2,521,594,632	2,107,649,685	266,809,269	-	-	4,896,053,586	
Total Undiscounted									
Financial Assets	53,348,065,365	51,693	30,321,509,731	9,125,187,837	8,700,682,718	462,171,481	4,738,461,905	53,348,065,365	
Financial Liabilities									
Due to Banks	895,325,932	-	888,313,517	7,012,415	-	-	-	895,325,932	
Derivative Financial Instruments	631,663	631,663	-	-	-	-	-	631,663	
Due to Other Customers	47,911,087,381	-	26,118,934,722	15,183,417,916	2,634,010,551	13,470,453	3,961,253,739	47,911,087,382	
Other Borrowings	226,320,568	-	221,787,312	4,533,256	-	-	-	226,320,568	
Subordinated Term Debts	785,826,885	-	-	-	785,826,885	-	-	785,826,885	
Total Undiscounted									
Financial Liabilities	49,819,192,429	631,663	27,229,035,551	15,194,963,587	3,419,837,436	13,470,453	3,961,253,739	49,819,192,429	
Total Interest Rate Sensitivity Gap	3,528,872,934	(579,970)	3,092,474,180	(6,069,775,750)	5,280,845,282	448,701,028	777,208,166	3,528,872,936	

As at 31 December 2011

	Carrying Amount	Derivative Financial Instruments	Interest Bearing				Over 5 Years	Non Interest Bearing	Total
			Less than 3 Months	3 to 12 Months	1 to 5 Years	Rs.			
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
Financial Assets									
Cash and Cash Equivalents	2,430,149,648	-	-	-	-	-	2,430,149,648	2,430,149,648	
Balances with Central Banks	2,250,425,658	-	-	-	-	-	2,250,425,658	2,250,425,658	
Placements with Banks	-	-	-	-	-	-	-	-	
Derivative Financial Instruments	1,511,937	1,511,937	-	-	-	-	-	1,511,937	
Financial Assets - Held for Trading	190,984,537	-	174,533,352	-	-	-	16,451,185	190,984,537	
Loans and Receivables to Customers	34,619,635,604	-	18,432,486,326	7,902,705,266	7,621,221,258	663,222,754	-	34,619,635,604	
Financial Investments - Available for Sale	2,140,000	-	-	-	-	-	2,140,000	2,140,000	
Financial Investments - Held to Maturity	5,260,627,000	-	1,194,470,952	1,956,061,150	2,110,094,898	-	-	5,260,627,000	
Total Undiscounted	44,755,474,384	1,511,937	19,801,490,630	9,858,766,416	9,731,316,156	663,222,754	4,699,166,491	44,755,474,384	
Financial Liabilities									
Due to Banks	3,588,404,769	-	3,578,468,273	9,936,496	-	-	-	3,588,404,769	
Derivative Financial Instruments	1,260,965	1,260,965	-	-	-	-	-	1,260,965	
Due to Other Customers	36,353,388,620	-	17,339,501,845	13,291,517,878	1,197,310,610	7,530,250	4,517,828,037	36,353,388,620	
Other Borrowings	1,327,683,344	-	1,321,689,414	5,993,930	-	-	-	1,327,683,344	
Subordinated Term Debts	-	-	-	-	-	-	-	-	
Total Undiscounted	41,270,737,698	1,260,965	22,239,359,532	13,307,448,304	1,197,310,610	7,530,250	4,517,828,037	41,270,737,698	
Financial Liabilities									
Total Interest Rate Sensitivity Gap	3,484,736,686	250,972	(2,437,868,902)	(3,448,681,888)	8,534,005,546	655,692,504	181,338,454	3,484,736,686	

As at 1 January 2011

	Carrying Amount	Derivative Financial Instruments	Interest Bearing				Over 5 Years	Non Interest Bearing	Total
			Less than 3 Months	3 to 12 Months	1 to 5 Years	Rs.			
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
Financial Assets									
Cash and Cash Equivalents	1,110,072,502	-	-	-	-	-	1,110,072,502	1,110,072,502	
Balances with Central Banks	1,060,321,276	-	-	-	-	-	1,060,321,276	1,060,321,276	
Placements with Banks	-	-	-	-	-	-	-	-	
Derivative Financial Instruments	1,135,271	1,135,271	-	-	-	-	-	1,135,271	
Financial Assets - Held for Trading	3,432,627,203	-	-	48,755,803	3,382,326,400	-	1,545,000	3,432,627,203	
Loans and Receivables to Customers	22,792,383,079	-	14,567,867,962	2,431,717,910	4,691,839,822	1,100,957,385	-	22,792,383,079	
Financial Investments - Available for Sale	2,140,000	-	-	-	-	-	2,140,000	2,140,000	
Financial Investments - Held to Maturity	1,210,117,907	-	106,166,023	-	1,103,951,884	-	-	1,210,117,907	
Total Undiscounted									
Financial Assets	29,608,797,238	1,135,271	14,674,033,985	2,480,473,713	9,178,118,106	1,100,957,385	2,170,393,778	29,608,797,238	
Financial Liabilities									
Due to Banks	2,076,092,798	-	1,821,761,622	254,331,176	-	-	-	2,076,092,798	
Derivative Financial Instruments	3,234,567	3,234,567	-	-	-	-	-	3,234,567	
Due to Other Customers	21,951,824,407	-	9,705,091,713	7,300,252,469	1,055,158,331	5,645,156	3,885,676,738	21,951,824,407	
Other Borrowings	2,394,379,123	-	2,036,236,872	358,142,251	-	-	-	2,394,379,123	
Subordinated Term Debts	50,000,000	-	-	50,000,000	-	-	-	50,000,000	
Total Undiscounted									
Financial Liabilities	26,475,530,895	3,234,567	13,563,090,207	7,962,725,896	1,055,158,331	5,645,156	3,885,676,738	26,475,530,895	
Interest Rate Sensitivity Gap	3,133,266,343	(2,099,296)	1,110,943,778	(5,482,252,183)	8,122,959,775	1,095,312,229	(1,711,597,960)	3,133,266,343	

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. This represents exposures the Bank has due to changes in the values of current holdings and future cash flow positions denominated in currencies other than the home currency.

Management of Currency Risk

The Bank's foreign exchange exposure is affected by movements in exchange rates. A Sensitivity analysis to measure the potential impact on Bank's adverse movement in exchange rate by giving adverse shocks for Net Open Position (NOP) of the bank including the on balance sheet and off balance sheet exposures and assess the results thereafter according to the policy. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

Equity Price Risk

Equity price risk arises from the possibility that equity prices will fluctuate affecting the value of quoted equities.

Management of Equity Price Risk

The Bank does not hold any investment for strategic purposes other than the unquoted investments which are held for regulatory purposes. The value of quoted securities held in Bank's trading portfolio are directly linked to equity prices of Colombo Stock Exchange with increases/decreases being monitored and marked to market. A Sensitivity analysis is carried out by a stress testing exercise that assesses the impact of the fall in the stock market index which is according to Bank's policy. However, the Bank does not hold a significant investment in quoted or unquoted shares as at the reporting period date.

Policies, Valuation and Accounting of Equity Investments

All quoted investments held for trading are valued at market prices as at the reporting period date and resulting gains and losses are taken into books as unrealised gain. Unquoted investments classified as 'Available for Sale' are carried at cost in the Statement of Financial Position.

37.5 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and external events. The Bank recognises the significance of operational risk, which is inherent in all areas of business. This includes legal risk but excludes strategic and reputation risk. Operational risks are inherent in the Bank's activities are managed within acceptable levels through an appropriate level of management focus on resources.

Operational Risk Management Objectives, Policies and Processes

The Bank has a operational risk management policy approved by Board of Directors which clearly demonstrates the objectives and procedures in managing operational risks. This policy manual outlines the internal operating policies of the Bank's Operational Risk Management framework. The Board Integrated Risk Management Committee oversees the implementation of the operational risk management framework.

37.6 Country Risk

Country risk is the risk that an occurrence within a country could have an adverse affect on the Bank directly by impairing the value of the Bank or indirectly through an obligor's ability to meet its obligations to the Bank.

38 Net Asset Value Per Ordinary Share

	31 December 2012	31 December 2011	1 January 2011
Total Equity Holders Funds (Rs.)	4,232,592,922	3,680,686,464	2,868,334,046
Number of Ordinary Shares in Issue	295,041,086	295,041,086	295,041,086
Net Asset Per Share (Rs.)	14.35	12.48	9.72

39 Additional Cash Flow Information

Cash and Cash Equivalents for Cash Flow Purpose	2012 Rs.	2011 Rs.
Cash in Hand (Note 15)	946,924,473	932,762,360
Balances with Foreign Banks (Note 15)	256,127,508	1,497,387,288
Placement with Banks (Note 17)	500,134,932	-
	1,703,186,913	2,430,149,648

The Statutory Deposits with the Central Bank of Sri Lanka is not available to finance the Bank's day-to-day operations and therefore, is not considered as a part of cash and cash equivalents.

Change in Operating Assets	2012 Rs.	2011 Rs.
Net Change in Statutory Deposit with Central Bank of Sri Lanka	(1,266,445,385)	(1,190,104,382)
Net change in Derivative Financial Instruments	1,460,244	(376,666)
Net Change in Financial Assets Held for Trading	178,603,503	3,241,642,666
Net Change in Loans and Receivables to Customers	(8,641,609,641)	(11,949,171,431)
Net change in Other Assets	(263,476,254)	(195,303,875)
	(9,991,467,533)	(10,093,313,688)

Change in Operating Liabilities	2012 Rs.	2011 Rs.
Net Change in Due to Banks	(2,693,078,837)	1,512,311,971
Net Change in Other Borrowings	(1,101,362,776)	(1,066,695,779)
Net change in Derivative Financial Instruments	(629,302)	(1,973,602)
Net Change in Due to Customers	11,557,698,761	14,401,564,213
Net Change in Other Provisions and Accruals	(7,264,418)	(58,801,321)
Net Change in Other Liabilities	(23,085,043)	198,710,197
	7,732,278,385	14,985,115,679

Other Non-cash Items Included in Profit before Tax	2012 Rs.	2011 Rs.
Depreciation of Property, Plant and Equipment	130,361,231	84,305,921
Amortisation of Intangible Assets	10,581,714	9,838,165
Loss/(Profit) on Disposal of Property, Plant and Equipment	(76,480)	5,951,467
Impairment Losses on Loans and Receivables	47,881,996	121,918,906
Gratuity Charge	18,376,625	12,260,967
	207,125,086	234,275,426

40 Maturity Analysis of Assets And Liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	31 December 2012			31 December 2011			1 January 2011		
	Within	After 12	Total	Within	After 12	Total	Within	After 12	Total
	12 months	months		12 months	months		12 months	months	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets									
Cash and Cash Equivalents	1,203,051,981	-	1,203,051,981	2,430,149,648	-	2,430,149,648	1,110,072,502	-	1,110,072,502
Balances with Central Banks	3,516,871,043	-	3,516,871,043	2,250,425,658	-	2,250,425,658	1,060,321,276	-	1,060,321,276
Placements with Banks	500,134,932	-	500,134,932	-	-	-	-	-	-
Derivative Financial Instruments	51,693	-	51,693	1,511,937	-	1,511,937	1,135,271	-	1,135,271
Financial Assets - Held for Trading	12,381,034	-	12,381,034	190,984,537	-	190,984,537	115,061,578	3,317,565,675	3,432,627,203
Loans and Receivables to Customers	24,897,419,593	18,315,943,656	43,213,363,249	23,064,293,997	11,555,341,607	34,619,635,604	14,299,141,902	8,493,241,177	22,792,383,079
Financial Investments - Available for Sale	-	6,157,847	6,157,847	-	2,140,000	2,140,000	-	2,140,000	2,140,000
Financial Investments - Held to Maturity	4,629,244,317	266,809,269	4,896,053,586	3,434,550,290	1,826,076,710	5,260,627,000	40,036,459	1,170,081,448	1,210,117,907
Property, Plant and Equipment	-	1,224,239,627	1,224,239,627	-	1,026,337,360	1,026,337,360	-	614,651,443	614,651,443
Intangible Assets	-	73,581,901	73,581,901	-	52,152,185	52,152,185	-	48,667,017	48,667,017
Other Assets	1,153,876,380	274,528,928	1,428,405,308	866,643,766	298,285,288	1,164,929,054	930,247,418	39,377,761	969,625,179
Total Assets	35,913,030,973	20,161,261,228	56,074,292,201	32,238,559,833	14,760,333,151	46,998,892,983	17,556,016,356	13,685,724,522	31,241,740,877
Liabilities									
Due to Banks	895,325,932	-	895,325,932	3,588,404,769	-	3,588,404,769	2,076,092,798	-	2,076,092,798
Derivative Financial Instruments	631,663	-	631,663	1,260,965	-	1,260,965	3,234,567	-	3,234,567
Due to Other Customers	40,692,480,324	7,218,607,057	47,911,087,381	29,471,298,777	6,882,089,843	36,353,388,620	17,884,356,931	4,067,487,476	21,951,824,407
Other Borrowings	226,320,568	-	226,320,568	1,327,683,344	-	1,327,683,344	2,394,379,123	-	2,394,379,123
Current Tax Liabilities	151,314,829	-	151,314,829	227,899,541	-	227,899,541	262,373,341	-	262,373,341
Deferred Tax Liabilities	-	177,130,511	177,130,511	-	121,689,431	121,689,431	-	83,486,715	83,486,715
Other Provisions and Accruals	82,757,743	-	82,757,743	90,022,161	-	90,022,161	148,823,482	-	148,823,482
Other Liabilities	1,611,303,767	-	1,611,303,767	1,607,857,688	-	1,607,857,688	1,403,192,398	-	1,403,192,398
Subordinated Term Debts	-	785,826,885	785,826,885	-	-	-	50,000,000	-	50,000,000
Total Liabilities	43,660,134,826	8,181,564,453	51,841,699,279	36,314,427,245	7,003,779,274	43,318,206,519	24,222,432,640	4,150,974,191	28,373,406,831
Net	(7,747,103,853)	11,979,696,775	4,232,592,922	(4,074,867,412)	7,756,553,876	3,680,686,464	(6,666,416,284)	9,534,750,330	2,868,334,046

41 Contingent Liabilities, Commitments and Leasing Arrangements

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

Documentary Credit and Guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. Details of Commitments and Contingencies are given below;

41.1 Contingencies

	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
Guarantees	3,343,932,462	2,765,176,328	2,734,754,792
Documentary Credit	2,800,741,388	5,350,224,191	1,958,722,082
Forward Exchange Contracts/Currency Swaps	1,904,200,349	1,544,299,935	2,470,004,600
Collection Bills	2,626,765,155	2,631,503,037	2,265,226,858
Acceptances	37,279,935	99,176,930	18,206,895
	10,712,919,289	12,390,380,421	9,446,915,227

41.2 Commitments

Undrawn Credit Lines	3,030,999,540	2,941,050,295	1,440,743,854
	3,030,999,540	2,941,050,295	1,440,743,854
Total	13,743,918,829	15,331,430,716	10,887,659,081

The Bank does not have significant Capital commitments as at the Statement of Financial Position date.

41.3 Material Litigation Against the Bank

Litigation is a common occurrence in the Banking Industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year-end, the Bank had several unresolved legal claims.

a) SC CHC Appeal 36/2006

The appeal lodged by the Bank against an order of the Commercial High Court to honour a claim on a Bank Guarantee issued by the Bank for Rs.8,964,428/-, which claim has not been honoured by the Bank due to a suspicion of collusion between the beneficiary and the customer to defraud the Bank. Argument fixed for 29/05/2013.

b) Court of Appeal Case No.CALA 455/2005

Appeal lodged by the Bank against an Interim Injunction issued by the District Court restraining the Bank from claiming and receiving monies on a Bank Guarantee issued by another bank to secure credit facilities of a customer. The case to be fixed before a special Bench of three judges on 21/03/2013.

c) DC Colombo Case No.00002/08/DTR

The Case filed by the former owner of the mortgaged property on the basis of a constructive trust. Interim injunction issued restraining the parate sale. The Trial is fixed for 16/05/2013

- d) HC (Civil) Case No. 493/2009**
The case filed by the previous owners claiming adverse title denying that they transferred the subject property to our customer. Interim Injunction issued restraining the parate sale. Further trial is fixed for 14/03/2013. The Bank has also made a complaint to the CID to inquire into the purported forgery which is alleged to have been committed by the customer.
- e) HC (Civil) case No. 670/09/MR**
A property vested in the Bank under parate sale claimed by another commercial bank through a Mortgage Bond action. The case is due to be called on 20/03/2013 for the said commercial bank to file extracts of title where their mortgage bond is registered. 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 re-sell the two properties to the sister of the customer.
- f) DC Negombo Case No. 7261/L**
A third party claiming an adverse title on the basis of a forgery committed at the time the property has been transferred to the previous owner obtained an Interim injunction restraining the parate sale. The said party has also made a complaint to the CID and a case is pending against the former owner of the property in the Magistrates Court of Negombo. The insurance company that issued the title insurance is defending the case on behalf of the Bank. The case is due to be called on 05/04/2013 to take steps by the Plaintiff to serve summons on the other named parties.
- g) DC Colombo Case No. 00020/10/DLM**
The previous owner obtained an Interim Injunction restraining the parate sale on the basis of a constructive trust. Trial fixed for 26/02/2013.
- h) DC Colombo Case No.17/99/CO**
The property taken as a mortgage for the facilities now vested in the State under the Revival of underperforming enterprises and unutilised assets Act. The Bank has already indicated its interest to the Competent Authority
- i) HC (Civil) Case No. 657/10/MR**
Case filed for the recovery of the total balance outstanding due to the Bank. The summons returnable on 20/05/2013.

42 Lease Arrangements

42.1 Operating Lease Commitments - Bank as Lessee

The Bank has entered into commercial leases for branch premises. These lease agreements have an average life of between five and ten years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at reporting period date are as follows:

	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
Within one year	139,457,676	86,008,195	81,923,517
After one year but not more than five years	462,625,561	262,326,077	309,134,450
More than five years	330,810,683	148,537,817	195,813,597
	932,893,920	496,872,089	586,871,564

The Bank has not entered into any agreements with third parties in the capacity of lessor of a operating lease asset.

42.2 Finance Lease Receivables

The Bank leases a variety of assets to third parties under finance leases. At the end of the lease terms assets may be sold to third parties or leases for further terms. The lease terms are fixed. Rentals are calculated to recover the cost of the assets less their residual values and earn finance income.

As at 31 December 2012

	Total Future Minimum Payment	Unearned Finance Income	Present Value of Minimum Lease Payment
	Rs.	Rs.	Rs.
Lease Receivable			
- Not later than one year	2,048,551,589	622,664,301	1,425,887,288
- Later than one year but not later than five years	3,891,004,682	724,948,235	3,166,056,447
	5,939,556,271	1,347,612,536	4,591,943,735

As at 31 December 2011

	Total Future Minimum Payment	Unearned Finance Income	Present Value of Minimum Lease Payment
	Rs.	Rs.	Rs.
Lease Receivable			
- Not later than one year	1,167,959,601	351,680,678	816,278,923
- Later than one year but not later than five years	2,627,392,899	451,059,860	2,176,333,039
	3,795,352,500	802,740,538	2,992,611,962

As at 1 January 2011

	Total Future Minimum Payment	Unearned Finance Income	Present Value of Minimum Lease Payment
	Rs.	Rs.	Rs.
Lease Receivable			
- Not later than one year	444,958,633	133,560,552	311,398,081
- Later than one year but not later than five years	906,706,797	156,528,974	750,177,823
	1,351,665,430	290,089,526	1,061,575,904

Accumulated allowance for uncollectible minimum lease payments are included in Impairment for Loans and other losses.

43 Related Party Disclosure

The Bank carries out transactions in the ordinary course of business with parties who are defined as "Related Parties" in LKAS 24 - "Related Party Disclosures". The terms and conditions of such transactions are disclosed under 43.4 and 43.5.

43.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

43.2 Transactions with Key Management Personnel of the Bank

The Bank has identified and disclosed personnel those having authority and responsibility for planning, directing and controlling the activities of the Bank as 'Key Management Personnel' in accordance with LKAS 24 - 'Related Party Disclosures'. Accordingly, Board of Directors, Chief Executive Officer and Members of Corporate Management team have been identified as 'Key Management Personnel'.

43.3 Compensation of Key Management Personnel of the Bank

The following represents the compensation paid to Key Management Personnel of the Bank.

	2012	2011
	Rs.	Rs.
Short-term Benefits	97,845,040	54,510,943
Retirement Benefits	-	1,125,000
	97,845,040	55,635,943

43.4 Transactions with Key Management Personnel of the Bank

The Bank enters into transactions, arrangements and agreements with Key Management Personnel and Close family members of Key Management Personnel in the ordinary course of business. The transactions below were made in the ordinary course of business and on substantially the same terms, including interest/commission rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

	31 December 2012	31 December 2011	1 January 2011
	Rs.	Rs.	Rs.
Assets			
Loans and Advances	142,757,080	125,985,814	39,132,931
Credit Cards	240,909	653,112	787,478
Liabilities			
Deposits and Borrowings	98,356,485	26,251,310	16,159,669
Commitments and Contingencies			
Guarantees, Letter of Credit and Others	-	300,000	300,000
Income Statement			
Interest Income	17,364,125	14,769,171	1,866,667
Interest Expenses	3,026,700	1,293,522	400,559
Fee and Comission Income	205	-	-

43.5 Transactions with Significant Investors and Other Related Parties of the Bank

In addition to transactions with Key Management Personnel and their Close Family Members, the Bank enters into transactions, arrangements and agreements with entities that have a significance influence over the Bank in the ordinary course of business. The transactions below were made in the ordinary course of business and on substantially the same terms, including interest/commission rates and security, as for comparable transactions with unrelated counterparties. The Bank has not made any provision for impairment losses on amounts owed by related parties.

	31 December 2012 Rs.	31 December 2011 Rs.	1 January 2011 Rs.
Assets			
Loans and Advances	1,149,613,442	515,634,376	255,628,125
Credit Cards	366,025	647,565	127,332
Liabilities			
Deposits and Borrowings	1,600,089,641	1,599,895,130	721,168,664
Commitments and Contingencies			
Guarantees, Letter of Credit and Others	198,200,000	168,789,650	-
Income Statement			
Interest Income	79,805,319	39,008,275	7,463,740
Interest Expenses	72,940,968	81,413,516	31,058,246
Fees and Commission Income	2,912,461	-	-

43.6 Net Accommodation to Key Management Personnel and Related Parties

Net direct and indirect accommodation granted to Key Management Personnel and companies having a substantial interest as at 31 December 2012 amounted to Rs.142,253,002/- (31 December 2011- Rs.126,579,655/-) and Rs.1,098,378,966/- (31 December 2011 - Rs.776,670,000/-), which represent 3.48 % (31 December 2011 - 3.62%) and 26.92% (31 December 2011- 22.19%) of the total regulatory capital of the Bank respectively.

43.7 Significant Related Party Transactions

There are no related party transactions that exceed 5% of total assets or 10% of equity of the Bank.

44 Events After the Reporting Date

The Board of Directors have recommended a payment of a dividend of Rs.1/- per share for the year ended 31 December 2012. The proposed dividend has not been recognised as a liability as at 31 December 2012 in accordance with LKAS 12 : 'Events after the Reporting Period'.

Other than above there were no events after the reporting date which require adjustments to or disclosures in Financial Statements.

45 Investment Fund Account

In terms of Budget Proposals 2011 and subsequent Guideline of Central Bank of Sri Lanka dated 29 April 2011, the Bank has made transfers to the Investment Fund Account to build up a permanent fund within the Bank.

45.1 Lendings from Investment Fund Account

As at 31 December 2012

Sector	Number of	Amount	Interest	Tenure
	Loans Granted	Rs. %	Rate	(Years)
Agriculture	5	10,421,425	17.56% - 18.00%	5
Factory / mills modernisation	2	5,461,162	17.56%	5
Small and Medium Enterprises	31	80,505,661	17.56% - 18.00%	5
Information Technology and BPO	1	7,353,252	17.56%	5
Education	1	10,201,210	17.56%	7
Housing	1	732,024	18.00%	7
Construction of hotels and for related purposes	6	16,971,412	17.56% - 18.00%	5 - 7
Restructuring of loans extended for above purposes	1	1,329,854	17.56%	5
		132,976,000		

As at 31 December 2011

Sector	Number of	Amount	Interest	Tenure
	Loans Granted	Rs. %	Rate	(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
		86,559,308		

45.2 Investments in Government Securities from Investment Fund Account

The funds in the Investment Fund Account of Rs. 215,292,779/- as at 31 December 2012 (31 December 2011 - Rs. 75,187,509/-) which has not being utilised for lendings for permitted purposes has been invested in Government of Sri Lanka Treasury Bills/Bonds at prevailing Market Rates.

46 Exposure to Stock Market

In terms of Central Bank of Sri Lanka Directions on "Exposure to Stock Market" the Bank has disclosed the following outstanding as at the reporting date.

	31 December 2012 Rs.	31 December 2011 Rs.
On Balance Sheet Exposure	4,303,810,000	4,082,301,544
Off Balance Sheet Exposure	Nil	Nil

47 Capital

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital adequacy requirements of the local prudential regulator, Central Bank of Sri Lanka. The adequacy of the Bank's Capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Sri Lanka.

As required by the circular issued by Central Bank of Sri Lanka on "Enhancement of Minimum Capital Requirement of Banks", the Bank is required increase its capital as follows in the interest of a strong and sound banking system.

- (a) Rs. 3 Billion by 31 December 2011
- (b) Rs. 4 Billion by 31 December 2013
- (c) Rs. 5 Billion by 31 December 2015

The Bank achieved the target Core Capital of Rs. 3 Bn. by 31 December 2011 complying with the capital requirements imposed the industry prudential regulator, and necessary measures have been taken to meet future requirements.

Capital Management

The primary objectives of the Bank's capital management policy are to ensure that the Bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders, return capital to shareholders or issue capital securities. However, they are under constant review by the Board of Directors.

The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for Licensed Banks in Sri Lanka based on the Basel Framework. Thus the Bank's operations are directly supervised by the CBSL and the Bank is required to comply with the Provisions of the Basel II framework in respect of regulatory capital. Commercial banks in Sri Lanka need to maintain a minimum Capital Adequacy Ratio (CAR) of 10% and a Core Tier 1 Capital Ratio of at least 5%. As of 31 December 2012, the Bank reported a Tier 1 ratio of 13.34% and a Capital Adequacy Ratio of 15.76% which remain above the CBSL's capital requirements.

In arriving at the above ratios, the Bank has used profits as per SLFRSs for the purpose of Tier I Capital. However, all other balances are as per the accounting standards existed prior to 1st January 2012 (SLASs) including the risk weighted assets.

48 Transition to SLFRSs

As stated in Note 2 these are the Bank's first Financial Statements prepared in accordance with SLFRSs.

The accounting policies set out in Note 2 have been applied in preparing the Financial Statements for the year ended 31 December 2012, the comparative information presented in these Financial Statements for the year ended 31 December 2011 and in the preparation of an opening SLFRS Statement of Financial Position at 1 January 2011.

In preparing its Opening SLFRS Statement of Financial Position, the Bank has adjusted certain amounts and classifications previously reported in its Financial Statements prepared under SLASs. The transition has not affected the Bank's net cash flows or the underlying economics of its business, though the recognition and classification of certain items in the Statement of Financial Position and Income Statement are now changed. An explanation of how the transition to SLFRS has affected the Bank's financial position, financial performance and cash flows is set out below.

(i) Transitional Exemptions

In preparing these Financial Statements, the Bank has elected to take advantage of certain transitional provisions within SLFRS 1 - 'First-time Adoption of Sri Lanka Accounting Standards (SLFRSs)'. Details of the exemptions adopted by the Bank at the date of transition are given in Note 2.7.

(ii) Reconciliation of Net Income, Total Comprehensive Income, Total Equity and Cash Flows under SLASs to SLFRSs.

The Bank previously prepared its Financial Statements under SLASs which differs from SLFRSs, which differs in certain significant respects from SLFRSs.

Detailed reconciliations are set out below;

(a) Reconciliation of Total Comprehensive Income for the Year Ended 31 December 2011

	Notes	SLASs Remeasurements (Re-Classified)	SLFRSs
		Rs.	Rs.
GROSS INCOME		5,154,712,338	5,278,214,354
Interest Income	48.1, 48.2	4,448,864,999	4,582,660,933
Interest Expense	48.5	(2,270,948,864)	(2,268,623,806)
NET INTEREST INCOME		2,177,916,135	2,314,037,127
Fees and Commission Income	48.3	483,703,030	473,409,112
Fees and Commission Expense		(13,318,634)	(13,318,634)
NET FEE AND COMMISSION INCOME		470,384,396	460,090,478
Net Gain/(Loss) from Trading		30,117,198	30,117,198
Net Gain/(Loss) from Financial Investments		238,500	238,500
Other Operating Income (Net)		191,788,611	191,788,611
TOTAL OPERATING INCOME		2,870,444,840	2,996,271,914
Impairment for Loans and Other Losses	48.1	6,048,046	(121,918,906)
NET OPERATING INCOME		2,876,492,886	2,874,353,008
Personnel Expenses	48.2	628,169,254	644,786,827
Other Operating Expenses	48.4	877,238,035	882,506,860
TOTAL OPERATING EXPENSES		1,505,407,289	1,527,293,687
Operating Profit Before Value Added Tax on Financial Services		1,371,085,597	1,347,059,321
Value Added Tax on Financial Services	48.6	188,806,370	193,087,437
PROFIT BEFORE TAX		1,182,279,227	1,153,971,884
Income Tax Expense	48.6	358,853,763	342,206,382
PROFIT FOR THE YEAR		823,425,464	811,765,502
OTHER COMPREHENSIVE INCOME			
Actuarial Gains / (Losses) on Defined Benefit Plans		586,916	586,916
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		586,916	586,916
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		824,012,380	812,352,418

(b) Reconciliation of Equity as at 31 December 2011

	Notes	SLASs (Re-Classified)	Remeasurements	SLFRSs
		Rs.	Rs.	Rs.
ASSETS				
Cash and Cash Equivalents		2,430,149,648	-	2,430,149,648
Balances with Central Banks		2,250,425,658	-	2,250,425,658
Placements with Banks		-	-	-
Derivative Financial Instruments		1,511,937	-	1,511,937
Financial Assets - Held for Trading		190,984,537	-	190,984,537
Loans and Receivables to Customers	48.1, 48.2	34,726,532,504	(106,896,900)	34,619,635,604
Financial Investments - Available for Sale		2,140,000	-	2,140,000
Financial Investments - Held to Maturity		5,260,627,000	-	5,260,627,000
Property, Plant and Equipment	48.4	1,008,773,594	17,563,766	1,026,337,360
Intangible Assets		52,152,185	-	52,152,185
Other Assets	48.2	1,030,879,493	134,049,561	1,164,929,054
TOTAL ASSETS		46,954,176,556	44,716,427	46,998,892,983
LIABILITIES				
Due to Banks		3,588,404,769	-	3,588,404,769
Derivative Financial Instruments		1,260,965	-	1,260,965
Due to Other Customers	48.5	36,394,830,817	(41,442,197)	36,353,388,620
Other Borrowings		1,327,683,344	-	1,327,683,344
Current Tax Liabilities	48.6	223,538,517	4,361,024	227,899,541
Deferred Tax Liabilities	48.6	142,697,837	(21,008,406)	121,689,431
Other Provisions and Accruals		90,022,161	-	90,022,161
Other Liabilities	48.3, 48.6	1,577,709,510	30,148,178	1,607,857,688
Subordinated Term Debts		-	-	-
TOTAL LIABILITIES		43,346,147,920	(27,941,401)	43,318,206,519
EQUITY				
Stated Capital		1,548,965,702	-	1,548,965,702
Retained Earnings		1,776,800,893	72,657,828	1,849,458,721
Other Statutory Reserves		282,262,041	-	282,262,041
TOTAL EQUITY		3,608,028,636	72,657,828	3,680,686,464
TOTAL LIABILITIES AND EQUITY		46,954,176,556	44,716,427	46,998,892,983

(c) Reconciliation of Equity as at 1 January 2011

	Notes	SLASs (Re-Classified)	Remeasurements	SLFRSs
		Rs.	Rs.	Rs.
ASSETS				
Cash and Cash Equivalents		1,110,072,502	-	1,110,072,502
Balances with Central Banks		1,060,321,276	-	1,060,321,276
Placements with Banks		-	-	-
Derivative Financial Instruments		1,135,271	-	1,135,271
Financial Assets - Held for Trading		3,432,627,203	-	3,432,627,203
Loans and Receivables to Customers	48.1, 48.2	22,874,638,765	(82,255,686)	22,792,383,079
Financial Investments - Available for Sale		2,140,000	-	2,140,000
Financial Investments - Held to Maturity		1,210,117,907	-	1,210,117,907
Property, Plant and Equipment	48.4	591,818,851	22,832,592	614,651,443
Intangible Assets		48,667,017	-	48,667,017
Other Assets	48.2	849,428,242	120,196,937	969,625,179
TOTAL ASSETS		31,180,967,034	60,773,843	31,241,740,877
LIABILITIES				
Due to Banks		2,076,092,798	-	2,076,092,798
Derivative Financial Instruments		3,234,567	-	3,234,567
Due to Other Customers	48.5	21,990,941,546	(39,117,139)	21,951,824,407
Other Borrowings		2,394,379,123	-	2,394,379,123
Current Tax Liabilities		262,373,341	-	262,373,341
Deferred Tax Liabilities		83,486,715	-	83,486,715
Other Provisions and Accruals		148,823,482	-	148,823,482
Other Liabilities	48.3, 48.6	1,387,619,205	15,573,193	1,403,192,398
Subordinated Term Debts		50,000,000	-	50,000,000
TOTAL LIABILITIES		28,396,950,777	(23,543,946)	28,373,406,831
EQUITY				
Stated Capital		1,548,965,702	-	1,548,965,702
Retained Earnings		1,155,123,606	84,317,789	1,239,441,395
Other Statutory Reserves		79,926,949	-	79,926,949
TOTAL EQUITY		2,784,016,257	84,317,789	2,868,334,046
TOTAL LIABILITIES AND EQUITY		31,180,967,034	60,773,843	31,241,740,877

(iii) Reconciliation of Cash Flows

There is no significant change to cash flows of the Bank due to transition from SLASs to SLFRSs.

Notes to the Reconciliation of Equity as at 1st January 2011 and 31 December 2011 and Total Comprehensive Income for the Year ended 31 December 2011

48.1 Impairment of Loans and Advances to Customers and Interest on Impaired Loans and Advances

SLFRSs require Impairment losses to be recognised where there is evidence of impairment as a result of one or more loss events that have occurred, after initial recognition, and where these events have had an impact on the estimated future cash flows of the financial asset or portfolio of financial assets. Impairment of loans and receivables is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment is measured individually for assets that are individually significant and on a collective basis for portfolios with homogeneous risk characteristics. Interest on impaired loans is recognised using the original effective interest rate, being the rate used to discount the estimated future cash flows for the purpose of calculating impairment.

SLASs on the basis of the regulations issued by Central Bank of Sri Lanka require the Banks to maintain General and Specific Provisions for loan losses for credit risk mitigation purposes. Accordingly, the Bank were to maintain general provision equivalent to 0.5% of on all Balance Sheet Performing Credit Facilities and Special Mention Credit Facilities net of Interest in Suspense except for credit facilities secured by cash deposits, gold or Government Securities with the Bank. Further, the Banks were required to maintain minimum specific provisioning requirement on Non Performing Credit Facilities except for Special Mention Credit Facilities where only suspension of interest is required by the prudential regulator. The minimum specific provisioning requirement was applied on the net exposure i.e. the total outstanding net of 'realisable value of securities' as defined by the regulator and Interest in Suspense. Where necessary provisions are made over and above the minimum percentage on a case by case basis. The Bank has suspended all interest accrued but uncollected from the date a credit facility is classified as 'Non Performing' and credit such accrued interest to the 'Interest in Suspense Account' and recognised interest on an account which has been classified as a Non Performing Credit Facility as income, as and when the interest is collected by the Bank, if it is collected on a cash basis

The application of SLFRSs has resulted in reanalysis of SLASs general and specific provisions into SLFRSs impairment allowances and the reallocation of impairment allowances within the businesses.

48.2 Fair Value of Staff Loans

SLFRSs require all staff loans to be carried at fair value on the initial recognition. The Fair values are estimated as the present value of the future cash flows discounted at a market rate of a similar loan. After the initial recognition loans are accounted for at the amortised cost with interest income determined using the effective interest method. When the interest rate on the loan is below the market interest rate, fair value of the less than the amount of loan. The difference is recognised as a prepaid employee benefit and amortised over the period as a staff employee benefit in terms of LKAS 19 - 'Employee Benefits'.

48.3 Fair Value of Financial Guarantees

SLFRSs require all Financial Guarantees to be measured at fair value on the initial recognition, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the profit or loss.

48.4 Deemed Cost of Property, Plant and Equipment

The Bank has elected to measure certain items of Property, Plant and Equipment (Office Equipment, Computer Hardware and Furniture and Fittings classes) at the fair value of those items as at the date of transition. The Bank has elected to regard those values in as deemed cost at the date of revaluation in accordance with SLFRS 1 - 'First Time Adoption of Sri Lanka Accounting Standards (SLFRSs)'.

48.5 Effective Interest Rate on Deposits and Debentures

SLFRSs require Effective Interest Method (EIR) as the method of calculating the amortised cost of a deposits and debentures and of allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the deposit/debenture. The method results interest expense and related transaction costs associated with the deposit being recognised over the life of the deposit. The application of the method has the effect of recognising interest expense and related expense payable on the deposit/debenture instruments evenly in proportion to the amount outstanding over the period to maturity or repayment.

48.6 Taxation of Adoption of SLFRS/LKAS

The effect of SLFRS/LKAS adjustments on Income Tax, Deferred Tax, Value Added Tax on Financial Services are adjusted on judgement basis pending the issue of tax guidelines on treatment of SLFRS/LKAS adjustments.

49 Segment Reporting

	2012			
	Retail	Corporate	Treasury	Total
	Banking	Banking		
	Rs.	Rs.	Rs.	Rs.
GROSS INCOME				
Third Party	4,652,318,604	2,232,036,803	881,863,625	7,766,219,032
Inter-segment	496,905,861	(354,191,651)	(142,714,210)	-
TOTAL GROSS INCOME	5,149,224,465	1,877,845,152	739,149,415	7,766,219,032
EXTRACTS OF RESULTS				
Interest Income	4,270,550,544	2,049,763,952	446,518,222	6,766,832,718
Interest Expense	(3,284,406,028)	(713,093,208)	(363,178,596)	(4,360,677,832)
Inter - Segment	496,905,861	(354,191,651)	(142,714,210)	-
NET INTEREST INCOME	1,483,050,377	982,479,093	(59,374,584)	2,406,154,886
Fees and Commission Income	357,924,563	182,272,851	-	540,197,414
Fees and Commission Expense	(11,073,897)	-	(4,268,912)	(15,342,809)
NET FEE AND COMMISSION INCOME/(EXPENSE)	346,850,666	182,272,851	(4,268,912)	524,854,605
Net Gain/(Loss) from Trading	-	-	86,430,781	86,430,781
Net Gain/(Loss) from				
Financial Investments	-	-	135,000	135,000
Other Operating Income (Net)	23,843,496	-	348,779,623	372,623,119
Impairment for Loans and Other Losses	(36,998,014)	(10,883,982)	-	(47,881,996)
NET OPERATING INCOME	1,816,746,525	1,153,867,962	371,701,908	3,342,316,395
Depreciation of Property, Plant and Equipment	91,252,862	32,590,308	6,518,061	130,361,231
Amortisation of Intangible Assets	7,407,200	2,645,429	529,085	10,581,714
SEGMENT RESULT	1,718,086,463	1,118,632,225	364,654,762	3,201,373,450
Un-allocated Expenses				1,846,659,905
Value Added Tax on Financial Services				209,305,260
PROFIT BEFORE TAX				1,145,408,285
Income Tax Expense				285,357,426
PROFIT FOR THE YEAR				860,050,859
Other Comprehensive Income for the Year Net of Tax				(13,103,315)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR				846,947,544
SEGMENT ASSETS	27,885,064,233	13,937,667,100	8,278,913,955	50,101,645,288
Unallocated Assets				5,972,646,913
TOTAL ASSETS	27,885,064,233	13,937,667,100	8,278,913,955	56,074,292,201
SEGMENT LIABILITIES	39,074,138,052	7,642,971,905	2,194,182,000	48,911,291,957
Unallocated Liabilities				7,163,000,244
TOTAL LIABILITIES	39,074,138,052	7,642,971,905	2,194,182,000	56,074,292,201

	2011			
	Retail	Corporate	Treasury	Total
	Banking	Banking		
	Rs.	Rs.	Rs.	Rs.
GROSS INCOME				
Third Party	3,098,182,544	1,476,154,330	703,877,480	5,278,214,354
Inter-segment	666,146,394	(339,068,785)	(327,077,609)	-
TOTAL GROSS INCOME	3,764,328,938	1,137,085,545	376,799,871	5,278,214,354
EXTRACTS OF RESULTS				
Interest Income	2,801,630,404	1,294,733,199	486,297,330	4,582,660,933
Interest Expense	(1,723,156,607)	(263,990,224)	(281,476,975)	(2,268,623,806)
Inter - Segment	666,146,394	(339,068,785)	(327,077,609)	-
NET INTEREST INCOME	1,744,620,191	691,674,190	(122,257,254)	2,314,037,127
Fees and Commission Income	291,987,982	181,421,130	-	473,409,112
Fees and Commission Expense	(8,972,169)	-	(4,346,465)	(13,318,634)
NET FEE AND COMMISSION INCOME/(EXPENSE)	283,015,813	181,421,130	(4,346,465)	460,090,478
Net Gain/(Loss) from Trading	-	-	30,117,198	30,117,198
Net Gain/(Loss) from				
Financial Investments	-	-	238,500	238,500
Other Operating Income (Net)	4,564,158	-	187,224,453	191,788,611
Impairment for Loans and Other Losses	(96,938,554)	(24,980,352)	-	(121,918,906)
NET OPERATING INCOME	1,935,261,608	848,114,968	90,976,432	2,874,353,008
Depreciation of Property, Plant and Equipment	59,014,144	21,076,480	4,215,298	84,305,922
Amortisation of Intangible Assets	6,886,715	2,459,541	491,909	9,838,164
SEGMENT RESULT	1,869,360,749	824,578,947	86,269,226	2,780,208,922
Un-allocated Expenses				1,433,149,601
VAT on Financial Services				193,087,437
PROFIT BEFORE TAX				1,153,971,884
Income Tax Expense				342,206,382
PROFIT FOR THE YEAR				811,765,502
Other Comprehensive Income for the Year Net of Tax				586,916
TOTAL COMPREHENSIVE INCOME FOR THE YEAR				812,352,418
SEGMENT ASSETS	24,020,492,556	10,247,507,988	6,260,714,020	40,528,714,564
Unallocated Assets				6,470,178,419
TOTAL ASSETS	24,020,492,556	10,247,507,988	6,260,714,020	46,998,892,983
SEGMENT LIABILITIES	28,952,889,503	6,579,572,786	6,636,772,906	42,169,235,195
Unallocated Liabilities				4,829,657,788
TOTAL LIABILITIES	28,952,889,503	6,579,572,786	6,636,772,906	46,998,892,983

Bank's Compliance with the Integrated Risk Management Framework

In terms of the Banking Act Direction No. 07 of 2011 - Integrated Risk Management Framework for Licensed Banks, the Bank has disclosed following in addition to the disclosure on 'Risk Management' in the Financial Statements. Financial Statements (Note 37- Risk Management) include a comprehensive discussion of major types of risks faced by the Bank, Risk Management Structure, objectives of risk management and policies and processes in place to mitigate such risks. This section is a further discussion of the Risk Management concepts which are not discussed under the Financial Statements.

Liquidity Risk

Maturities of Assets and Liabilities (MAL)

Central Bank of Sri Lanka pursuant to its role as the industry prudential regulator has issued guidelines on classification of Maturity of Assets and Liabilities (MAL) into time bands. The Bank follows such guidelines in preparation of Assets and Liability maturity calculations. The maturity analyses prepared on such basis are monitored by Assets and Liabilities Committee (ALCO). These guidelines may differ from the actual contractual residual maturities of the assets and liabilities of the Bank. The table in page 171 shows such classification as at 31 December 2012.

Trends in Key Indicators

As at	31 December 2012	31 December 2011	1 January 2011
Net Loans to Total Assets*	77.06%	73.66%	72.95%
Loans to Customer Deposits*	89.20%	97.20%	99.13%
Liquid Assets to Short-term Liabilities	7.69	2.17	1.77
Large Liabilities to Earning Assets	0.81	0.64	0.54
Purchased Funds to Total Assets	87.28%	87.81%	87.35%
Commitments to Total Loans	7.01%	8.50%	6.32%

* Sri Lanka Development Bonds, Securities Purchased under Resale Agreements and Unquoted Debentures are not considered as a 'loan' for the purpose of calculation of above ratios.

Market Risk

Sensitivity of Assets and Liabilities (SAL)

The Bank follows guidelines issued by the industry prudential regulator on classification of Sensitivity of Assets and Liabilities (SAL) into time bands. The Sensitivity analyses performed on the basis of such guidelines are monitored by the Assets and Liabilities Committee (ALCO).

Currency Risk

The Bank's foreign exchange exposure is affected by fluctuations in exchange rates. A Sensitivity analysis is used to measure the potential impact on Bank's adverse movement in exchange rate by giving adverse shocks for Net Open Position (NOP) of the Bank including the on balance sheet and off balance sheet exposures. The table in page 174 of the annual report shows the net open position of the Bank as at 31 December 2012.

Operational Risk

Insurance

As a part of risk management approach, the Bank uses insurance as a 'risk transferring strategy' for low probability and high severity impact events that are beyond the control of the Bank such as damage to physical assets by natural disasters, fire etc. Consequently, the Bank has transferred the insurable risk obtaining the insurance policies from leading insurance providers covering Premises, Transits, Forged cheques and securities, Counterfeit Currencies, infidelity and negligence of employees, Teller Shortages, pawned articles, ATM fraudulent Withdrawals and Shortages, Damages to office/electronic Equipment, Strikes and Riots, Terrorism and Fire risks. The adequacy and effectiveness of these insurance covers are consistently monitored.

Business Continuity Plan

Business Continuity Management aims at ensuring resiliency of business activities for emergencies and disasters. The Business Continuity Management risk assurance provides overall guidance and direction, monitors requirement with Central Bank of Sri Lanka requirements and best practices and facilitates regular review of Business Continuity Management practices of the Bank. A complete documented Business Continuity Plan (BCP) covering all areas of Banking operations is in place and this document is periodically reviewed and updated. Disaster recovery drills are conducted to test the effectiveness of the Business Continuity Plan.

Due Diligence Tests on Activities Outsourced

The Bank undertakes a due diligence test in selecting service providers and renewing a contract for an outsourcing arrangement that fully assesses the multi-risks associated and the competency of the service provider to give high quality service and care and to fully comply with its obligations as per the agreement. The Due Diligence Committee was formed by the Bank to carry out due diligence process and post engagement follow up. The Committee comprises of Chief Operating Officer, Chief Financial Officer, Head of Department involved in the outsourcing activity, Head of Legal, Head of Compliance and Manager Operational Risk. The Committee identify, evaluate, document and recommend key aspects of the service providers if found suitable and the suitability of the supplier is evaluated based on service provider's experience, technical competence to implement, and support and sustain the services throughout the contract period, business reputation, management structure, business resumption and continuity plans etc.

Investment in Information Technology

The Bank has assessed the future requirements and improvement needs in information technology to achieve corporate objectives. The investment on information technology has been identified as essential to compete with other Bank strategies on business development. Accordingly, the Bank has taken steps to review two proposals provided by two prominent service providers in the Information Technology industry.

Commodity Risk

Uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. The Bank is not exposed to a greater degree of commodity risk as at the year end.

Maturities of Assets & Liabilities (MAL)

As at 31 December 2012

Rs.	Up to 1 mth	1 - 3 mth	3 - 6 mth	6 - 9 mth	9 - 12 mth	1 Y - 3 Y	3 Y - 5 Y	Over 5 Y	TOTAL
(a) Inflows									
Cash on hand	946,924,473	-	-	-	-	-	-	-	946,924,473
Deposits with CBSL	1,415,457,707	1,112,311,964	466,667,581	358,713,417	358,713,417	188,185,473	238,999,030	171,273,573	4,310,322,163
Balance due from H/O/Affiliates & Own Branches	-	-	-	-	-	-	-	-	-
Balance due from Other Banks	256,127,508	-	-	-	-	-	-	-	256,127,508
Investment (Net of provisions)	1,961,477,649	1,072,632,949	1,635,200,922	208,387,971	276,441,825	1,435,483,460	-	615,7847	6,595,782,624
Bill of Exchange	270,412,016	77,634,695	-	-	-	-	-	-	348,046,711
Overdraft	1,098,347,221	1,098,347,221	1,098,347,221	1,098,347,221	1,098,347,221	3,050,964,503	3,050,964,503	3,050,964,503	14,644,629,616
Loans & Advances	4,086,976,145	4,913,228,694	2,632,008,287	2,317,658,472	2,338,430,459	3,436,040,367	1,790,245,697	1,104,163,638	22,618,751,758
Net Inter-Branch Transactions	-	-	-	-	-	-	-	-	-
Other Assets	198,367,998.14	455,732,505.44	328,371,686.27	331,953,573.63	331,953,573.63	2,476,437,784.43	761,182,592.10	1,519,708,235.00	6,353,707,349
Other	-	-	-	-	-	-	-	-	-
Total (a)	10,234,090,117	8,729,888,028	6,160,595,698	4,315,060,655	4,403,886,496	10,537,111,588	5,841,391,822	5,852,267,796	56,074,292,201
(b) Outflows									
Demand Deposits	791,783,105	792,250,748	594,655,704	397,294,483	397,294,483	-	-	987,975,218	3,961,253,740
Saving Deposits	236,437,370	236,437,370	236,437,370	236,437,370	236,437,370	1,182,186,848	1,182,186,848	1,182,186,848	4,728,747,394
Balance due to H/O/Affiliates & Own Branches	-	-	-	-	-	-	-	-	-
Balance due to Other Banks	88,912,464	1,728,013	-	-	1,728,014	4,338,620,000	237,500,000	-	96,944,611
Time Deposits	4,970,793,305	9,961,204,782	3,386,929,081	3,160,616,067	2,726,051,266	1,005,392,375	1,609,050,119	7,343,198,622	34,163,235,618
Certificates of Deposits, Borrowing & Bond	1,492,353,945	1,082,971,997	1,040,270,586	424,890,077	424,890,077	96,730,936	927,240,025	64,182,471	5,553,530,115
Net Inter-Branch Transactions	-	-	-	-	-	-	-	-	-
Bills Payable	79,183,270	-	-	-	-	-	-	-	79,183,270
Interest Payable	303,794,241	511,153,825	211,675,760	163,452,035	163,452,035	770,709,904	97,480,206	50,505,658	1,578,584,665
Provisions other than for loan losses & depreciation in the value of investment portfolio	-	-	-	-	-	-	-	-	-
Other Liabilities	1,149,595,264	735,240	1,130,183	64,098,513	279,070,106	8,351,266	2,619,823	174,619,469	1,680,219,865
Other - Share Holders' Fund	-	-	-	-	-	-	-	4,232,592,923	4,232,592,923
Total (b)	9,023,940,499	12,673,666,426	5,472,826,697	4,446,788,545	4,228,923,351	2,374,070,950	3,818,814,523	14,035,261,210	56,074,292,201
Gap = (a) - (b)	1,210,149,618	(3,943,778,398)	687,769,000	(131,727,889)	174,963,144	8,163,040,638	2,022,577,300	(8,182,993,414)	-
Cumulative Gap	1,210,149,618	(2,733,628,780)	(2,045,859,779)	(2,177,587,669)	(2,002,624,524)	6,160,416,114	8,182,993,414	-	-
Cumulative Liabilities	9,023,940,499	21,697,606,925	27,170,433,623	31,617,222,167	35,846,145,518	38,220,216,468	42,039,030,991	56,074,292,201	-
Cumulative gap as a % of cumulative liabilities	13%	-13%	-8%	-7%	-6%	16%	19%	0%	-

Notes:

- "Loans & Advances" figure is inclusive of NPL's.
- Only On - Balance sheet Assets & Liabilities were considered for the above MAL Report.
- MAL Report was prepared on Statement of Financial Position figures (based on LKASs & SLFRSs) and according to the CBSL Guidelines.

Sensitivity of Assets & Liabilities (SAL)

As at 31 December 2012

Rs.	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 2 Years	2 - 3 Years
Assets						
Cash in Hand	-	-	-	-	-	-
Deposit with CBSL	-	-	-	-	-	-
Balance due from HO/Affiliates/Branches	-	-	-	-	-	-
Balance due from other banks	500,000,000	-	-	-	-	-
Investments	1,409,167,750	1,022,397,270	1,589,607,618	455,580,715	255,780,000	1,152,513,259
Bills of exchange & promissory notes	273,082,717	78,168,835	-	-	-	-
Overdraft	12,994,194,503	-	-	-	-	-
Loans & Advances	7,911,838,553	8,732,864,809	1,746,470,756	2,382,877,933	1,348,209,844	451,615,351
Fixed Assets	-	-	-	-	-	-
Net Inter branch transactions	-	-	-	-	-	-
Accrued Interest	-	-	-	-	-	-
Other Assets	151,381,724	163,023,144	250,592,952	506,652,853	1,002,166,158	849,541,014
Reverse Repos	-	-	-	-	-	-
Others	-	-	-	-	-	-
Total	23,239,665,246	9,996,454,059	3,586,671,326	3,345,111,501	2,606,156,003	2,453,669,624
Liabilities						
Demand Deposits	-	-	-	-	-	-
Savings Deposits	4,728,747,394	-	-	-	-	-
Time Deposits	6,093,683,846	12,068,674,108	4,505,566,442	7,690,226,583	599,324,339	599,324,339
Other Deposits	-	-	-	-	-	-
Balance due to HO/Affiliates/Branches	-	-	-	-	-	-
Balance due to Other Banks	-	-	1,728,013	1,728,014	2,894,360	1,444,260
Certificate of Deposits	492,693,824	1,073,831,996	1,028,630,585	849,640,154	48,171,022	48,171,022
Other Borrowings	999,660,121	9,140,001	11,640,001	140,001	194,446	194,446
Net Inter-branch Transactions	-	-	-	-	-	-
Bills Payable	-	-	-	-	-	-
Interest Payable	-	-	-	-	-	-
Provision (Others)	-	-	-	-	-	-
Capital	-	-	-	-	-	-
Reserves	-	-	-	-	-	-
Retained earnings	-	-	-	-	-	-
Subordinated Debts	-	-	-	-	-	-
Others	793,999,227	745,814	1,146,437	348,103,788	8,471,367	2,657,500
Repos	-	-	-	-	-	-
Total	13,108,784,412	13,152,391,919	5,548,711,478	8,889,838,540	659,055,534	651,791,567
Gap	10,130,880,834	(3,155,937,859)	(1,962,040,152)	(5,544,727,039)	1,947,100,469	1,801,878,058

Notes:

- “Loans & Advances” figure is inclusive of NPLs.
- Only On - Balance sheet Assets & Liabilities were considered for the above SAL Report.
- SAL Report was prepared on Statement of Financial Position figures (based on LKASs & SLFRSs) and according to the CBSL Guidelines.

3 - 4 Years	4 - 5 Years	5 - 7 Years	7 - 10 Years	10 - 15 Years	15 - 20 Years	Over 20 Years	Non Sensitive	Total Total
-	-	-	-	-	-	-	946,924,473	946,924,473
-	-	-	-	-	-	-	4,310,322,163	4,310,322,163
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	256,127,508	756,127,508
-	-	-	-	-	-	-	18,538,880	5,903,585,493
-	-	-	-	-	-	-	-	351,251,552
-	-	-	-	-	-	-	-	12,994,194,503
227,694,903	249,762,698	216,275,773	12,952,505	65,245,477	95,125,002	68,774,352	865,127,692	24,374,835,649
-	-	-	-	-	-	-	1,297,821,528	1,297,821,528
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	934,407,893	934,407,893
491,385,682	89,501,772	42,017	-	-	-	-	700,534,123	4,204,821,439
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
719,080,585	339,264,470	216,317,790	12,952,505	65,245,477	95,125,002	68,774,352	9,329,804,261	56,074,292,201
-	-	-	-	-	-	-	3,961,253,740	3,961,253,740
-	-	-	-	-	-	-	-	4,728,747,394
1,036,907,473	1,036,907,473	266,310,507	266,310,507	-	-	-	-	34,163,235,618
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
237,500	-	-	-	-	-	-	88,912,464	96,944,611
88,425,567	88,425,567	63,793,580	-	-	-	-	-	3,781,783,318
375,194,446	375,194,446	388,891	-	-	-	-	-	1,771,746,797
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	79,183,270	79,183,270
-	-	-	-	-	-	-	1,554,421,124	1,554,421,124
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	4,232,592,922	4,232,592,922
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	177,130,703	-	-	-	-	-	372,128,571	1,704,383,407
-	-	-	-	-	-	-	-	-
1,500,764,986	1,677,658,189	330,492,978	266,310,507	-	-	-	10,288,492,092	56,074,292,201
(781,684,401)	(1,338,393,719)	(114,175,188)	(253,358,002)	65,245,477	95,125,002	68,774,352	(958,687,831)	-

Foreign Exchange Position
As At 31 December 2012

Currency	Spot		Forward(a)		Net Open Position	Net Position in other Exchange Contracts(b)	Overall exposure in respective Foreign Currency	Overall Exposure in Sri Lankan Rupees		
	Assets	Liabilities	Net	Assets					Liabilities	Net
(1)	(2)	(3)	(2)-(3)=(4)	(5)	(6)	(5)-(6)=(7)	(8)	(9)	(10)	(11)
USD	22,475,649	18,356,457	4,119,192	1,000,000	5,835,688	(4,835,688)	(716,496)	-	(716,496)	(91,632,664)
Sterling Pounds	283,214	1,022,907	(739,693)	750,000	-	750,000	10,307	-	10,307	2,130,916
Euro	196,082	2,922,418	(2,726,336)	2,750,000	-	2,750,000	23,664	-	23,664	3,992,796
Japanese Yen	22,269,000	23,969,179	(1,700,179)	-	1,300,000	(1,300,000)	(3,000,179)	-	(3,000,179)	(4,454,666)
Indian Rupee	-	-	-	-	-	-	-	-	-	-
Australian Dollar	169,686	1,111,757	(942,071)	950,000	-	950,000	7929	-	7,929	1,051,762
Canadian Dollar	23,191	10,829	12,362	-	-	-	12,362	-	12,362	1,589,560
Singapore Dollar	16,625	29,259	(12,634)	-	-	-	(12,634)	-	(12,634)	(1,323,120)
Other Currencies (c) in USD	171,641	143,009	28,632	-	-	-	28,632	-	28,632	6,318,932
Total Exposure (e) in USD							(643,729)			112,491,800
Total Capital Funds as per the latest Audited Financial Statements										4,232,592,922
Total exposure as a % of total capital funds as per the latest audited Financial Statements (should not exceed 30 %)										2.66%

Capital Adequacy Computation

Capital Base as at 31 December,

	2012 (Basel II) (Rs' 000)	2011 (Basel II) (Rs' 000)
TIER 1		
Paid up Ordinary Shares	1,548,966	1,548,966
Share Premium	-	-
Statutory Reserves	163,518	120,515
Published Retained Profits	2,171,841	1,849,459
General & Other Reserves	348,269	161,747
50% Investments in the Capital of Other Banks and Financial Institutions	-	(120)
Total Tier 1 Capital	4,232,594	3,680,567
TIER 2		
Revaluation Reserves	-	-
General Provisions	129,389	102,183
Debentures	637,500	-
50% Investments in the Capital of Other Banks and Financial Institutions	-	(120)
Total Tier 2 Capital	766,889	102,063
Total Tier 1 & Tier 2 Capital	4,999,481	3,782,630
Capital Base	4,999,483	3,782,630
COMPUTATION OF RATIOS		
Core Capital (Tier 1)	4,232,594	3,680,567
Total Capital Base	4,999,483	3,782,630
Risk Weighted Assets		
Risk Weighted Amount for Credit Risk	27,365,141	22,870,429
Risk Weighted Amount for Market Risk	129,262	64,169
Risk Weighted Amount for Operational Risk	4,234,309	3,531,236
Total Risk Weighted Amount	31,728,712	26,465,834
Core Capital Ratio (Minimum Requirement 5%)		
Total Tier - I Capital	4,232,594	3,680,567
Total Risk Weighted Assets	31,728,712	26,465,834
	13.34%	13.91%
Total Capital Ratio (Minimum Requirement 10%)		
Total Capital	4,999,483	3,782,630
Total Risk Weighted Assets	31,728,712	26,465,834
	15.76%	14.29%

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

	Balance	Risk Weights	Risk Adjusted Balance
	(Rs' 000)	%	(Rs' 000)
As at 31 December 2012			
Assets - exposures			
- To Central Government and CBSL	9,581,599	-	-
- To Banks	769,159	20 - 150	153,832
- To Financial Institutions	4,528,880	20 - 150	2,650,591
- To Corporates	3,272,914	20 - 150	2,884,261
- To Retail Sector	17,003,273	75 - 100	14,634,014
- Secured on Residential property mortgages	1,056,557	50 - 100	528,279
- Classified as Non Performing Advances	1,422,666	50 - 150	2,001,205
- Claims Secured by Commercial real Estate	200,249	100	200,249
- Cash Items	15,756,487	0 - 20	32,270
- Other Assets	2,573,754	100	2,573,754
Total Assets	56,165,539		25,658,455

OFF BALANCE SHEET EXPOSURE

	Amount of off - Balance sheet items	Credit Conversion Factor	Credit Equivalent Amount	Risk Weights	Risk Adjusted Balance
	(Rs' 000)	%	(Rs' 000)	%	(Rs' 000)
As at 31 December 2012					
Financial guarantees, Bank acceptances and other guarantees	1,223,950	100	1,223,950	0 - 100	1,223,950
Performane related guarantees and warranties, stand by credit lines	64,487	50	32,243	0 - 100	32,243
Shipping guarantees, Documentary Letter of Credit	177,419	20	35,484	0 - 100	35,484
	2,074,569	20	414,914	0 - 100	414,914
Undrawn term and					
Overdraft Facilities < 1 year	2,979,026	0	-	0 - 100	-
>1 year	-	-	-	0 - 100	-
Foreign Exchange Contracts	4,720	2	94	0 - 100	94
Foreign Interest Rate Contracts	-	2	-	0 - 100	-
Total Off-Balance Sheet Exposures	6,524,171		1,706,686		1,706,686

MARKET RISK

	Capital charge	Risk Adjusted Balance
	(Rs' 000)	(Rs' 000)
As at 31 December 2012		
Interest rate	90	899
Equity	3,095	30,953
Foreign Exchange & Gold	9,741	97,410
Total Risk Adjusted Balance for Market Risk	12,926	129,262

OPERATIONAL RISK

	Capital charge	Risk Adjusted Balance
	(Rs' 000)	(Rs' 000)
As at 31 December 2012		
Average Gross income	2,822,873	
15% of Average Gross income	423,431	
Total risk adjusted balance for operational risk	423,431	4,234,309

In arriving at the above ratios, the Bank has used profits as per SLFRSs for the purpose of Tier I Capital. However, all other balances are as per the accounting standards existed prior to 1st January 2012 (SLASs) including the risk weighted assets.

Quarterly Statistics

For the Quarter ended	2012				2011			
	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								
(Rs.'000)								
Total Assets	56,074,292	51,530,340	52,467,222	48,770,996	46,998,893	43,464,549	40,508,757	34,606,418
Loans and Receivables	43,213,363	39,804,829	41,215,156	37,866,097	34,619,636	30,651,475	28,989,288	25,840,100
Due to Customers	47,911,087	41,880,549	41,437,418	40,006,144	36,353,389	32,999,867	30,792,158	26,226,304
Debentures	785,827	750,000	750,000	750,000	-	-	50,000	50,000
Shareholders' Funds	4,232,593	3,864,562	3,669,160	3,509,533	3,680,686	3,398,698	3,190,071	2,980,036
Average Assets	51,583,093	50,545,338	49,613,290	47,467,860	40,066,811	38,137,744	36,344,917	34,424,357
INCOME STATEMENT DATA								
(Rs. '000)								
Net Interest Income	630,278	570,553	601,177	604,147	727,960	561,255	517,741	507,081
Othe Income	250,666	260,845	253,032	219,500	162,133	171,374	133,025	215,703
Total Operating Income	880,944	831,398	854,209	823,647	890,093	732,629	650,766	722,784
Provision for Credit and Other Losses	(2,752)	4,516	(27,754)	(21,892)	(149,583)	7,560	32,058	(11,954)
Non-interest Expenses	(571,967)	(546,335)	(581,482)	(497,124)	(484,368)	(454,760)	(404,281)	(376,972)
Provision for Income tax	2,252	(94,177)	(85,346)	(108,086)	(59,202)	(76,657)	(68,509)	(137,838)
Profit for the Period	308,477	195,402	159,627	196,545	196,940	208,772	210,034	196,020

Note: All quarterly financial data have been re-classified / re-stated to conform with SLFRSs / LKASs requirements.

Analysis of Customer Deposits

BY PRODUCT

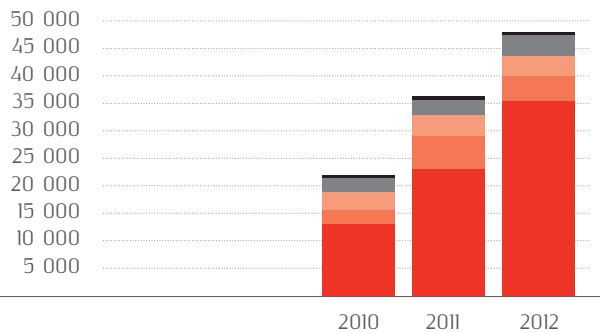
	2012 Rs. 000	2011 Rs. 000	2010 Rs. 000
Demand Deposits	3,559,094	3,826,492	3,268,339
Savings Deposits	4,533,010	5,919,497	2,610,779
Time Deposits	35,425,977	23,016,908	12,935,902
Certificate of Deposits	3,990,847	2,899,155	2,519,467
Margin Deposits	402,160	691,337	617,338
TOTAL CUSTOMER DEPOSITS	47,911,088	36,353,389	21,951,825

BY CURRENCY

	2012 Rs. 000	2011 Rs. 000	2010 Rs. 000
Sri Lanka Rupee	44,692,636	34,212,619	20,264,188
United State Dollar	2,021,617	1,648,313	1,311,039
Great Britain Pound	217,796	205,647	213,473
Others	979,039	286,810	163,125
TOTAL CUSTOMER DEPOSITS	47,911,088	36,353,389	21,951,825

Composition of Customer Deposits

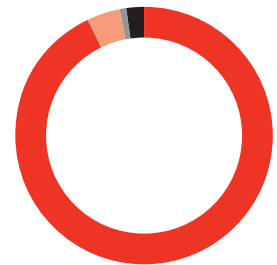
Rs. Mn.



- Time Deposits
- Savings Deposits
- Demand Deposits
- Certificate of Deposits
- Margin Deposits

By Currency 2012

- Sri Lanka Rupee - 93%
- United State Dollar - 4%
- Great Britain Pound - 1%
- Others - 2%

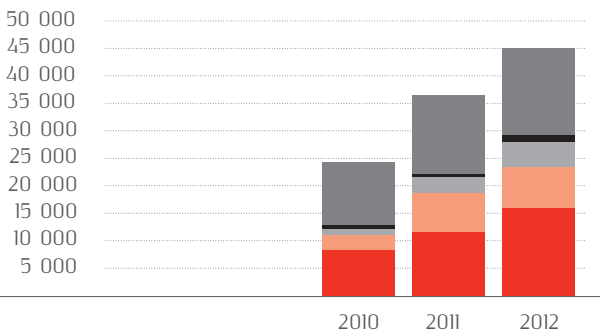


Analysis of Loans & Receivables

	2012 Rs.000	2011 Rs.000	2010 Rs.000
Overdrafts	14,644,630	10,551,588	6,708,888
Trade Finance	1,319,974	1,082,081	1,464,828
Credit Cards	94,683	266,506	312,207
Pawning & Ran Loans	7,412,047	7,000,929	2,867,781
Staff Loans	325,278	257,147	195,491
Term Loans	9,556,463	7,272,443	6,126,572
Lease Rentals Receivables	4,591,944	2,992,612	1,061,576
Margin Trading	2,131,805	1,924,657	3,408,470
Reverse Repurchase Agreements	-	250,096	1,400,435
Sri Lanka Development Bonds	1,168,674	460,054	703,201
Debentures - Unquoted	12,897	11,485	11,182
Others	3,831,111	4,434,890	105,393
Total Loans and Receivables	45,089,506	36,504,488	24,366,024

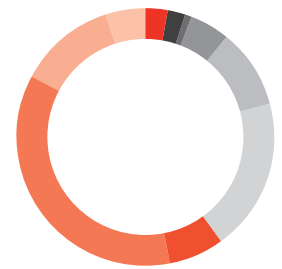
Composition of Loans & Receivables

Rs. Mn.



- Overdrafts
- Trade Finance
- Pawning & Ran Loans
- Leasing
- Sri Lanka Development Bonds
- Term & Other Loans

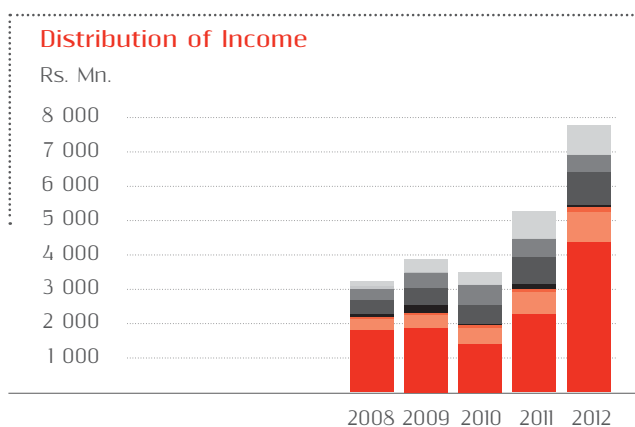
Sector wise Advances 2012



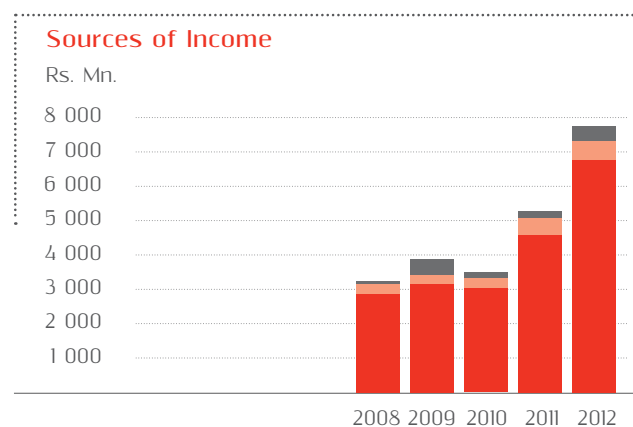
Sources & Distribution of Income

	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2009 Rs. '000	2008 Rs. '000
SOURCES OF INCOME					
Interest Income	6,766,833	4,582,661	3,027,659	3,159,665	2,864,603
Fee and Commission Income	540,197	473,409	293,513	259,399	284,651
Other Operating Income	459,189	222,144	163,238	443,001	91,903
	7,766,219	5,278,214	3,484,411	3,862,065	3,241,157
DISTRIBUTION OF INCOME					
To Depositors / Debentureholders as interest	4,360,678	2,268,624	1,402,263	1,878,014	1,798,441
To Employees as Emoluments	894,064	644,787	452,748	352,642	323,160
Depreciation set aside	140,943	94,144	89,111	77,909	64,272
Provision for Impairment Losses	47,881	121,918	34,386	209,122	95,451
To Providers of Suppliers and Services	967,939	799,392	558,437	499,389	398,966
To Government as Taxation (Including Deferred Tax)	494,663	537,583	585,672	457,171	337,234
Income Tax	285,357	342,206	332,133	277,330	198,210
Value Added Tax on Financial Services	209,306	193,087	240,342	166,337	133,505
Debit Tax	-	2,290	13,197	13,504	5,519
To Shareholders as Dividends	-	-	-	-	82,980
To Reserves	860,051	811,766	361,794	387,817	140,653
	7,766,219	5,278,214	3,484,411	3,862,065	3,241,157

Note: Financial data of previous years have been re-classified / re-stated to conform with SLFRSs / LKASs requirements.



- To Depositors / Debentureholders as interest
- To Employees as Emoluments
- Depreciation set aside
- Provision for Impairment Losses
- To Providers of Suppliers and Services
- To Government as Taxation (Including Deferred Tax)
- To Shareholders as Dividends
- To Reserves

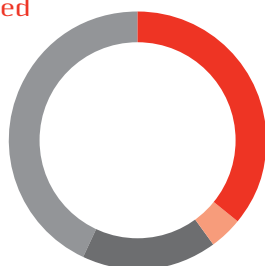


- Interest Income
- Fee and Commission Income
- Other Operating Income

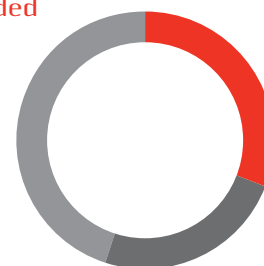
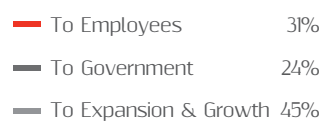
Value Added Statement

	2012		2011	
	Rs. '000	%	Rs. '000	%
VALUE ADDED				
Income from Banking Services	7,766,219		5,278,214	
Cost of Services	(5,241,039)		(3,064,308)	
Value added by Banking Services	2,525,180		2,213,906	
Impairment for Loans and Other Losses	(47,882)		(121,919)	
	2,477,298		2,091,987	
DISTRIBUTION OF VALUE ADDED				
To Employees				
Salaries & Other Benefits	894,064	36%	644,787	31%
To Providers of Capital				
Interest to Debentureholders	87,578	3%	3,706	0%
To Government				
Income Tax	229,916		304,004	
Value Added Tax on Financial service	209,305		193,087	
Debit Tax	-		2,291	
	439,221	18%	499,382	24%
To Expansion & Growth				
Retained Profit	860,051		811,765	
Depreciation & Amortisation	140,943		94,144	
Deferred Taxation	55,441		38,203	
	1,056,435	43%	944,112	45%
	2,477,298	100%	2,091,987	100%

**Distribution of Value Added
2012**



**Distribution of Value Added
2011**



Ten Year Statistical Summary

Rs. Mn.										
For the Year ended December 31	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
OPERATING RESULTS										
Income	752.53	1,033.03	1,224.66	1,580.84	2,317.14	3,241.16	3,862.07	3,484.41	5,278.21	7,766.22
Interest Income	631.83	832.41	993.03	1,289.08	1,968.55	2,864.60	3,159.66	3,027.66	4,582.66	6,766.83
Interest Expense	360.59	476.85	565.95	754.00	1,223.53	1,798.44	1,878.01	1,402.26	2,268.62	4,360.68
Net Interest Income	271.24	355.56	427.08	535.08	745.02	1,066.16	1,281.65	1,625.40	2,314.04	2,406.15
Other Income	120.70	200.62	231.63	291.76	348.60	376.55	702.40	456.75	695.55	999.39
Operating Expenses & Provisions	487.29	501.32	506.48	576.67	776.83	1,020.88	1,318.91	1,388.22	1,855.62	2,260.13
Profit/(Loss) before Income Tax	(95.35)	54.86	152.23	250.17	316.79	421.84	665.15	693.93	1,153.97	1,145.41
Income tax on Profits	-	13.69	43.90	86.43	100.71	198.21	277.33	332.13	342.21	285.36
PROFIT FOR THE YEAR	(95.35)	41.17	108.33	163.74	216.08	223.63	387.82	361.79	811.77	860.05
As at December 31										
ASSETS										
Cash and Cash Equivalents	260.65	426.19	521.57	424.32	612.33	843.93	588.33	1,110.07	2,430.15	1,203.05
Balances with Central Bank	290.02	446.35	609.08	704.06	856.28	704.59	807.21	1,060.32	2,250.43	3,516.87
Placements with Banks	50.26	237.58	259.23	440.15	422.17	59.18	96.81	-	-	500.13
Derivative Financial Instruments	-	-	-	-	-	-	-	1.14	1.51	0.05
Financial Assets - Held for Trading	-	-	-	-	-	2,964.53	3,829.34	3,432.63	190.98	12.38
Loans and Receivables to Customers	4,972.16	6,799.92	7,833.28	9,265.89	11,431.76	12,776.93	12,693.80	22,792.38	34,619.64	43,213.36
Financial Investments - Available for Sale	1.14	1.14	1.14	1.14	3.14	2.14	2.14	2.14	2.14	6.16
Financial Investments - Held to Maturity	605.56	717.53	992.14	855.91	1,144.71	551.93	2,270.81	1,210.12	5,260.63	4,896.05
Property, Plant and Equipment	113.22	159.81	202.68	511.10	552.38	587.17	595.56	614.65	1,026.34	1,224.24
Intangible Assets	-	-	-	18.83	16.56	31.72	36.13	48.67	52.15	73.58
Other Assets	257.22	260.40	432.22	404.49	486.36	462.18	638.71	969.63	1,164.93	1,428.41
TOTAL ASSETS	6,550.23	9,048.93	10,851.34	12,625.88	15,525.70	18,984.30	21,558.83	31,241.74	46,998.89	56,074.29
LIABILITIES										
Borrowings & Due to Banks	1,041.06	1,370.29	1,142.51	1,281.92	505.25	1,399.60	1,326.79	4,470.47	4,916.09	1,121.65
Derivative Financial Instruments	-	-	-	-	-	-	-	3.23	1.26	0.63
Due to Other Customers	4,533.35	6,664.61	8,269.36	9,189.09	12,523.47	14,951.09	16,914.26	21,951.82	36,353.39	47,911.09
Current Tax Liabilities	-	-	25.22	44.76	58.81	121.56	245.56	262.37	227.90	151.31
Deferred Tax Liabilities	-	-	-	34.08	41.83	55.61	10.53	83.49	121.69	177.13
Other Liabilities and Provisions	252.77	384.81	620.49	537.12	641.36	753.82	1,032.04	1,552.02	1,697.88	1,694.06
Subordinated Term Debts	388.79	253.79	253.79	303.79	303.79	110.81	50.00	50.00	-	785.83
Total	6,215.97	8,673.50	10,311.37	11,390.76	14,074.51	17,392.49	19,579.18	28,373.41	43,318.21	51,841.70
SHAREHOLDERS' FUNDS										
Stated Capital	555.72	555.72	555.72	1,106.40	1,106.40	1,106.40	1,106.40	1,548.97	1,548.97	1,548.97
Reserves	(221.46)	(180.29)	(15.75)	128.72	344.79	485.44	873.26	1,319.37	2,131.72	2,683.63
Total	334.26	375.43	539.97	1,235.12	1,451.19	1,591.84	1,979.66	2,868.34	3,680.69	4,232.59
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	6,550.23	9,048.93	10,851.34	12,625.88	15,525.70	18,984.34	21,558.84	31,241.75	46,998.89	56,074.29
COMMITMENTS & CONTINGENCIES	1,138.66	1,778.67	1,769.47	1,733.70	2,296.66	2,772.80	3,151.96	10,887.66	15,331.43	13,743.92
SHARE INFORMATION										
Earnings per Share (Rs.)	(0.86)	0.37	0.98	1.32	0.98	1.01	1.61	1.31	2.75	2.92
Net Asset Value Per Share (Rs.)	3.00	3.38	4.86	5.58	6.56	7.20	8.95	9.44	12.48	14.35
OTHER INFORMATION										
No of Employees	289	371	394	433	546	507	511	670	1096	1153
No of Branches	16	18	18	19	27	32	35	41	64	73
Customer Service Centres	-	1	2	2	2	-	-	-	-	-

Note: Financial data of previous years have been re-classified / re-stated to conform with SLFRSs / LKAs requirements.

Investor Relations

COMPLIANCE REPORT ON THE CONTENTS OF ANNUAL REPORT IN TERMS OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE

The table below summarises the Bank's degree of compliance with section 7.6 of the Listing Rules issued by Colombo Stock Exchange.

Rule No.	Disclosure Requirements	Section Reference	Page/s
7.6 (i)	Names of persons who during the financial year were Directors of the Entity.	Directors' Report on the affairs of the Bank	80
7.6 (ii)	Principal activities of the Entity during the year and any changes therein.	Notes to the Financial Statements (Note 1)	102
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held.	Item 02 of the Investor Relations	184
7.6 (iv)	The Public Holding percentage.	Item 02 of the Investor Relations	185
7.6 (v)	A statement of each Director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of financial year.	Directors' Report on the affairs of the Bank	80
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity.	Item 05 of the Investor Relations	188
7.6 (vii)	Details of material issues pertaining to employees and industrial relations.	Item 06 of the Investor Relations	188
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties.	Notes to the Financial Statements (Note 23)	123
7.6 (ix)	Number of shares representing the Entity's Stated Capital.	Notes to the Financial Statements (Note 33)	128
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings.	Item 04 of the Investor Relations	
7.6 (xi)	Ratios and Market Price information <ul style="list-style-type: none"> • Equity Ratios • Market Value • Debenture Information • Any Changes in Credit Rating 	Item 04 of the Investor Relations Item 04 of the Investor Relations Item 04 of the Investor Relations Financial Review	187
7.6 (xii)	Significant changes in the Entity's fixed assets and the market value of land, if the value differs substantially from the book value.	Notes to the Financial Statements (Note 23)	123
7.6 (xiii)	Details of funds raised through public issues, Right Issues, and private Placements during the year.	Notes to the Financial Statements (Note 33)	128
7.6 (xiv)	Information in respect of Employee Share Option Scheme.	Not Applicable	
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Rules.	Exempted under section 7.10 of Listing Rules since the Bank complies with direction laid down in the Banking Act Direction No. 11 of 2007 on Corporate Governance	
7.6 (xvi)	Disclosure on Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower.	Notes to the Financial Statements (Note 43)	158

1. Stock Exchange Listing

The issued ordinary shares and Debentures of Pan Asia Banking Corporation PLC are listed in the Colombo Stock Exchange.

	Type	Security Code
Shares	Ordinary	PABC N0000
Debentures		
2012/2017 – 11.25% p.a.	Fixed Rate	PABC D0166
2012/2017 – 11.50% p.a.	Fixed Rate	PABC D0167
2012/2017 – 6 Months Treasury Bill rate (Gross) + 2.95%	Floating Rate	PABC D0168

The Audited Statement of Financial Position as at December 31, 2012 and Audited Income statement for the year ended December 31, 2012 of the Bank will be submitted to the Colombo Exchange within 03 months from the Statement of Financial Position date.

2. The Names, Number and Percentage of Shares held by Twenty Largest Shareholders

As at December 31, 2012

	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	29,504,108	10.00
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	4.95
7	Mr. K. D. A. Perera	12,800,000	4.34
8	Sri Lanka Samurdhi Authority	11,114,376	3.77
9	Seylan Bank PLC / Mr. W.D.N.H.Perera	7,818,645	
	Mr. W.D.N.H.Perera	700,000	2.88
10	Sri Lanka Savings Bank Limited	6,865,666	2.33
11	Royal Ceramics Lanka PLC	6,177,271	2.09
12	HSBC Int'l Nom. Ltd - SSBT-Deutsche Bank AG Singapore A/C 01	4,166,629	1.41
13	Favourite Garments (Pvt) Ltd	2,300,000	0.78
14	Deshabandu D.M.I. Dissanayake	1,550,400	0.53
15	Sri Lanka Insurance Corporation Ltd - Life Fund	1,394,666	0.47
16	Sampath Bank Limited - Account No.3	1,380,532	0.46
17	Mr. F. Hashim	1,332,911	0.45
18	Esna Holdings (Pvt) Ltd	1,284,700	0.44
19	Navara Capital Limited	1,050,000	0.36
20	N R Consultants (Pvt) Ltd	951,473	0.32
	Sub Total	253,717,173	85.99
	Balance held by 5,050 shareholders	41,323,913	14.01
	Total Number of Shares	295,041,086	100.00

As at December 31, 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
	Sub Total	248,705,344	84.30
	Balance held by 5,060 shareholders	46,335,742	15.70
	Total Number of shares	295,041,086	100.00

As per Rule No. 7.6 (IV) of the Listing Rules of the CSE, percentage of public holding of as at December 31, 2012 was 56.99% (December 31, 2011 – 66.96%).

3. Distribution Schedule of the Number of Shareholders and Percentage of Share Holding

The total numbers of registered Shareholders as at December 31, 2012 were 5,070 (December 31, 2011 : 5,080)

ANALYSIS 1

Range of Shareholding		Resident			Non- resident			Totals		
		No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
1	100	785	35,573	0.01	2	68	0.00	787	35,641	0.01
101	1,000	1,944	1,026,187	0.35	11	6,200	0.00	1,955	1,032,387	0.35
1,001	5,000	1,405	3,670,987	1.24	11	29,500	0.01	1,416	3,700,487	1.25
5,001	10,000	357	2,796,963	0.95	12	100,464	0.03	369	2,897,427	0.98
10,001	50,000	370	8,383,490	2.84	13	310,747	0.11	383	8,694,237	2.95
50,001	100,000	61	4,467,695	1.51	5	373,250	0.13	66	4,840,945	1.64
100,001	500,000	57	10,446,463	3.54	6	2,076,346	0.70	63	12,522,809	4.24
500,001	1,000,000	11	8,462,871	2.87	1	788,582	0.27	12	9,251,453	3.14
1,000,001	& Above	16	205,603,629	69.69	3	46,462,071	15.75	19	252,065,700	85.44
		5,006	244,893,858	83.00	64	50,147,228	17.00	5,070	295,041,086	100.00

ANALYSIS 1.1

	2012			2011		
	No. of Shareholders	No. of Shares	% of Shareholding	No. of Shareholders	No. of Shares	% of Shareholding
Resident Share Holders	5,006	244,893,858	83.00	5,018	249,545,700	84.58
Non Resident Share Holders	64	50,147,228	17.00	62	45,495,386	15.42
Total	5,070	295,041,086	100.00	5,080	295,041,086	100.00

ANALYSIS 2

Range of Shareholding		Individual			Company			Totals		
		No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding	No. of Share holders	No. of Shares	% of Share holding
1	100	773	34,843	0.01	14	798	0.00	787	35,641	0.01
101	1,000	1,915	1,012,563	0.34	40	19,824	0.01	1,955	1,032,387	0.35
1,001	5,000	1,371	3,562,051	1.21	45	138,436	0.05	1,416	3,700,487	1.25
5,001	10,000	349	2,722,527	0.92	20	174,900	0.06	369	2,897,427	0.98
10,001	50,000	354	8,063,458	2.73	29	630,779	0.21	383	8,694,237	2.95
50,001	100,000	53	3,820,981	1.30	13	1,019,964	0.35	66	4,840,945	1.64
100,001	500,000	47	9,422,760	3.19	16	3,100,049	1.05	63	12,522,809	4.24
500,001	1,000,000	5	3,455,232	1.17	7	5,796,221	1.96	12	9,251,453	3.14
1,000,001	& Above	7	151,325,661	51.29	12	100,740,039	34.14	19	252,065,700	85.44
		4,874	183,420,076	62.17	196	111,621,010	37.83	5,070	295,041,086	100.00

ANALYSIS 2.1

	2012			2011		
	No. of Shareholders	No. of Shares	% of Shareholding	No. of Shareholders	No. of Shares	% of Shareholding
Individuals	4,874	183,420,076	62.17	4,865	185,192,433	62.76
Company	196	111,621,010	37.83	215	109,848,653	37.24
Total	5,070	295,041,086	100.00	5,080	295,041,086	100.00

4. Information on Ratios and Market Prices**4.1 Ordinary Shares****i) Ratios**

Year	2012	2011
	Rs.	Rs.
Dividend Per Share	1.00	1.00
Net Asset Value Per Share	14.35	12.48

ii) Market Price

Year	Highest	Lowest	Year End
	Rs.	Rs.	Rs.
2012	26.70	16.00	19.00
2011	61.90	21.50	25.40

III) Market Capitalisation

Market Capitalisation of the Bank as at December 31, 2012 Rs. 5,605,780,634/- (December 31, 2011: Rs. 7,494,043,584/-)

4.2 Debentures

i) Market Value

These Debentures have not been traded during the year ended December 31, 2012.

ii) Interest Rate

	Interest Rate %	Interest Rate of Comparable Govt. Security %
Type A - Fixed Rate - Interest Semi Annually	11.25	11.94
Type B - Fixed Rate - Interest Annually	11.50	11.94
Type C - Floating Rate - Interest Semi Annually (2.95% Above the average of 06 months Gross Treasury Bill rate)	14.12	11.59

iii) Ratios

Year	2012
Debt Equity (Times)	5.39
Interest Cover (Times)	14.08
Liquid Assets Ratio (%)	21.15

- Information pertaining to the material foreseeable risk factors that require disclosures as per the Rule 7.6(vi) of the Listing Rules of the CSE are discussed in the section on Risk Management on page 43.
- There were no material issues pertaining to employees and industrial relations pertaining to the Bank that occurred during the year under review which need to be discussed as per the Rule No. 7.6 (vii) of the Listing Rules of the CSE.

Branch Network

1. Head Office & Kollupitiya

Branch (Ground Floor) No. 450,
Galle Road, Colombo 03
Tel: 011-4667777
Fax: 011-2301150

2. Metro Branch

Level 2, East Tower,
World Trade Center Echelon Square,
Colombo 01
Tel: 011-4374003
Fax: 011-2346053

3. Panchikawatta Branch

262 & 266, Sri Sangaraja Mawatha,
Colombo 10
Tel: 011-4374013
Fax: 011-2447457

4. Pettah Branch

64, Keyzer Street, Colombo 11
Tel: 011-4374025
Fax: 011-5363652

5. Kandy Branch

111, Kotugodella Veediya,
Kandy
Tel: 081-4946101
Fax: 081-2232994

6. Rajagiriya Branch

468, Kotte Road, Rajagiriya
Tel: 011-4374033
Fax: 011-2866823

7. Ratnapura Branch

198, Main Street, Ratnapura
Tel: 045-4928691
Fax: 045-2231848

8. Nugegoda Branch

132 C, High Level Road,
Nugegoda
Tel: 011-4374046
Fax: 011-2828228

9. Bambalapitiya Branch

329, Galle Road, Colombo 04
Tel: 011-4374057-61
Fax: 011-2506825

10. Negombo Branch

90, St. Joseph's Street,
Negombo
Tel: 031-4934832
Fax: 031-2231259

11. Gampaha Branch

95, Colombo Road, Gampaha
Tel: 033-4933881
Fax: 033-2220048

12. Kurunegala Branch

22, Suratissa Mawatha,
Kurunegala
Tel: 037-4936785
Fax: 037-2221731

13. Matara Branch

45B, Anagarika Dharmapala
Mawatha, Matara
Tel: 041-4935025
Fax: 041-2231362

14. Dehiwala Branch

104, Galle Road, Dehiwala
Tel: 011-4374079
Fax: 011-2730624

15. Kotahena Branch

215A, George R De Silva Mawatha,
Colombo 13
Tel: 011-434068
Fax: 011-2346066

16. Wattala Branch

134, Old Negombo Road,
Wattala
Tel: 011-4374090
Fax: 011-2945104

17. Panadura Branch

506, Galle Road, Panadura
Tel: 038-4927084
Fax: 038-2243053

18. Old Moor Street Branch

314, Old Moor Street, Colombo 12
Tel: 011-4374121
Fax: 011-2392897

19. Dam Street Branch

22, Dam Street, Colombo 12
Tel: 011-4374132
Fax: 011-2346052

20. Katugastota Branch

161, Madawala Road, Katugastota
Tel: 081-4946141, 081-4946130
Fax: 081-2500362

21. Narahenpita branch

526, Elvitigala Mawatha,
Colombo 05.
Tel: 011-4374143
Fax: 011-2368667

22. Maharagama Branch

173/1, High Level Road,
Maharagama
Tel: 011-4374165
Fax: 011-2838397

23. Kirulapone Branch

100, High Level Road,
Kirulapone, Colombo 06
Tel: 011-4374154
Fax: 011-2515227

24. Moratuwa Branch

18, New Galle Road,
Moratuwa
Tel: 011-4374176
Fax: 011-2641354

25. Galle Branch

32, Old Matara Road, Galle
Tel: 091-4941222
Fax: 091-2226835

26. Kadawatha Branch

138, Kandy Road, Kadawatha
Tel: 011-4374187
Fax: 011-2925192

27. Kegalle Branch

72 & 74, Main Street, Kegalle
Tel: 035-4928085
Fax: 035-2221018

28. Wennappuwa Branch

6, Chilaw Road,
Wennappuwa
Tel: 031-4934872
Fax: 031-2249556

29. Wellawatte Branch

150, Galle Road, Colombo 06
Tel: 011-4374198
Fax: 011-2362399

30. Gampola Branch

73E, Nuwara-Eliya Road, Gampola
Tel: 081-4944781
Fax: 081-2353998

31. Borella Branch

996A, Maradana Road, Colombo 8
Tel: 011-4374209
Fax: 011-2696461

32. Anuradhapura Branch

49, Main Street, Anuradhapura
Tel: 025-4927153
Fax: 025-2234763

33. Kalutara Branch

264, Main Street, Kalutara
Tel: 034-4947177
Fax: 034-2221258

34. Vauniya Branch

14, 2nd Cross Street, Vauniya
Tel: 024-4924872
Fax: 024-2225444

35. Malabe Branch

410/2, Athurugiriya Road,
Malabe
Tel: 011-4374220
Fax: 011-2744405

36. Chilaw Branch

15 & 17, Bazaar Street, Chilaw
Tel: 032-4928371
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, 293 & 295, Trincomalee Road,
Batticaloa
Tel: 065-4976777
Fax: 065-2228486

41. Ambalangoda Branch

103, Galle Road,
Ambalangoda
Tel: 091-4943164
Fax: 091-2258064

42. Pilimathalawa Branch

207, Colombo Road,
Pilimathalawa
Tel: 081-4951872
Fax: 081-2575335

43. Kalmunai Branch

100 & 104, Batticaloa Road,
Kalmunai.
Tel: 067-4976777
Fax: 067-2225590

44. Kilinochchi Branch

161, A9 Road, Kilinochchi
Tel: 021-4925952
Fax: 021-2280075

45. Kandy City Centre Branch

05A, Lower Ground Floor,
Kandy City Centre,
5, Dalada Veediya, Kandy
Tel: 081-4951034
Fax: 081-2205776

46. Badulla Branch

22A, Bank Road, Badulla
Tel: 055-4976777
Fax: 055-2225771

47. Kuliyaipitiya Branch

74/3, Kurunegala Road, Kuliyaipitiya
Tel: 037-4943733
Fax: 037-2284141

48. Kalubowila Branch

46A, S D S Jayasinghe Mawatha,
Kalubowila
Tel: 011-4374254
Fax: 011-2828338

49. Bandarawela Branch

340/1A, Badulla Road,
Bandarawela
Tel: 057-4976777
Fax: 057-2233554

50. Dambulla Branch

Jayalanka Building, Matale Road,
Dambulla
Tel: 066-4928970-76
Fax: 066-2284844

51. Ratmalana Branch

446, Galle Road, Ratmalana
Tel: 011-4374261
Fax: 011-2738840

52. Peradeniya Branch

767, 769 & 769/1/1,
Sirimawo Bandaranayake Mawatha,
Kandy
Tel: 081-4951180
Fax: 081-2232441

53. Kaduruwela Branch

918, Batticaloa Road, Kaduruwela
Tel: 027-4976777
Fax: 027-2224474

54. Ambalanthota Branch

155/1, Tissa Road, Ambalanthota
Tel: 047-4937850
Fax: 047-2225056

55. Kiribathgoda Branch

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

56. Piliyandala Branch

107 & 107 A, Horana Road,
Piliyandala
Tel: 011-4376251
Fax: 011-2604070

57. Nelliady Branch

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

58. Kattankudy Branch

365, Main Street, Kattankudy
Tel: 065-4926901
Fax: 065-2248468

59. Kundasale Branch

243, Digana Road,
Kundasale
Tel: 081-4951644
Fax: 081-2424624

60. Monaragala Branch

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

61. Akkaraipattu Branch

280, Main Road, Akkaraipattu
Tel: 067-4924071
Fax: 067-2279576

62. Chunnakam Branch

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

63. Balangoda Branch

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

64. Battaramulla Branch

123 C, Pannipitiya Road,
Battaramulla
Tel: 011-4343259
Fax: 011-2885622

65. Puttalam Branch

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

66. Ja-Ela Branch

71A, Negombo Road,
Ja-Ela
Tel: 011-4344168
Fax: 011-2232824

67. Kekirawa Branch

91 & 93, Main Street,
Kekirawa
Tel: 025-4928935
Fax: 025-2264598

68. Thalawathugoda Branch

351/E, Pannipitiya Road,
Thalawathugoda
Tel: 011-4344652
Fax: 011-2796016

69. Minuwangoda Branch

42, Veyangoda Road,
Minuwangoda
Tel: 011-4335772
Fax: 011-2295929

70. Warakapola Branch

139, Kandy Road,
Warakapola
Tel: 035-4928779
Fax: 035-2267544

71. Galewela Branch

201, Kurunegala Road,
Galewela
Tel: 066-4929972
Fax: 066-2288320

72. Akuressa Branch

54, Matara Road,
Akuressa
Tel: 041-4935856
Fax: 041-2284677

73. Trincomalee Branch

459, Dockyard Road,
Trincomalee
Tel: 026-4925527
Fax: 026-2225700

Correspondent Banks

Australia

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

Austria

Bank Austria Creditanstalt AG
Reichische Volksbanken AG

Bahrain

Standard Chartered Bank

Bangladesh

Bank Asia Ltd
Standard Chartered Bank

Belgium

Fortis Bank SA/NV Brussels
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

Chile

Banco Santander Chile

China

ABN Amro Bank
Bank of China
Calyon
Commonwealth Bank of Australia
Credit Suisse
Deutsche Bank
Jinan City Commercial Bank
Laishang Bank Co. Ltd
Oversea-Chinese Banking Corporation
Standard Chartered Bank
Zhejiang Tailong Commercial Bank

Cyprus

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

Czech Republic

HBV Bank Czech Republic A.S.

Denmark

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

France

Commerz Bank
Union De Banques Arabes ET Francaises

Germany

American Express Bank GMBH
Bayerische HYPO – UND Vereins Bank AG
Commerz Bank AG
Deutsche Bank AG
Deutsche Bank Privat UND
Geshaeftskunden AG
Dresdner Bank AG
Landesbank Hessen – Thueringen
Girozen trale
Sparkasse Essen

Hong Kong

ABN Amro Bank N.V.
Australia and New Zealand
Banking Group Ltd.
Banca Intesa S.P.A.
CITIBANK NA
Deutsche Bank AG
HBZ Finance Ltd.
Mashreq Bank PSC
Oversea-Chinese Banking
Coporation Limited
Standard Chartered Bank
(Hong Kong) Limited
UBAF (Hong Kong) Ltd
Unicredito Italiano SPA
Wachovia Bank, NA

Hungary

Kereskedelmi ES Hitelbank RT
Raiffeisen Bank ZRT

India

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

Indonesia

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

Ireland

National Irish Bank

Israel

Israel Discount Bank Ltd
Mercantile Discount Bank Ltd.

Italy

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

Japan

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

Jordan

Standard Chartered Bank

Kenya

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

Korea

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

Kuwait

Burgan Bank
National Bank of Kuwait

Malaysia

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

Maldives

Bank of Ceylon
Bank of Maldives PLC.

Mauritius

Mauritius Commercial Bank Ltd

Mexico

ABN Amro Bank (Mexico), S.A.

Nepal

Himalayan Bank Ltd
Laxmi Bank Ltd.
Standard Chartered Bank Nepal Ltd

Netherlands

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

New Zealand

ANZ National Bank Ltd.
ASB Bank Ltd
Bank of New Zealand
CitiBank N.A

Norway

Skandinaviska Enskilda Banken

Oman

Standard Chartered Bank

Pakistan

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

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 Bank
Saudi Hollandi Bank Ltd.
Unicredit Bank SRBIA A.D

Singapore

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

Slovenia

Bank Austria Creditanstalt D.D.

South Africa

ABSA Bank Ltd
 NED Bank Ltd
 HBZ 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
 Deutsche Bank AG,
 Standard Chartered Bank
 Wachovia Bank, NA

Thailand

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

Turkey

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

U.A.E

Commerz Bank AG Dubai branch
 Emirates Bank International PJSC
 Emirates Islamic Bank
 Habib Bank AG Zurich
 Habib Bank Ltd.
 Mashreq Bank PSC
 Standard Chartered Bank
 UAE Exchange Centre

UK

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

USA

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

Vietnam

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

Zimbabwe

Standard Chartered Bank Zambia Ltd
 Standard Chartered Bank Zimbabwe Ltd

Glossary of Financial & Banking Terms

Acceptance

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

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis

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

Amortisation

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

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.

Commitments

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

Contingencies

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

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent Bank

A Bank in a foreign country that offers banking facilities to the customers of a bank in another country.

Credit Ratings

An evaluation of a corporate ability to repay its obligations or likelihood of not defaulting, carried out by an independent rating agency.

Credit Risk

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

Currency Swaps

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

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.

Depreciation

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

Derecognition

Removal of a previously recognised financial assets or financial liability from an entity's statement of financial position.

Derivatives

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

Documentary Letters of Credit (L/Cs)

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

Earnings per Share

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

Effective Tax Rate

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

Equity Instruments

Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Fair Value

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

Finance Lease

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

Financial Instruments

Any contract that gives rise to a financial assets of one entity and financial liability or equity instrument of another entity

Foreign Exchange Profit

Foreign Exchange Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transactions/last 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.

Interest rate risk

The risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market interest rates.

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.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

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 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 Assets Value per Share

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

Net Interest Income

The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds 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.

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.

Risk Weighted Assets

On-Balance Sheet assets and the credit equivalent of

Off- Balance Sheet facilities multiplied by the relevant risk weighting factors.

Segment Reporting

Segment reporting indicates the contribution to the revenue derived from business segments such as retail banking, corporate banking and treasury.

Shareholder's Funds

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

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

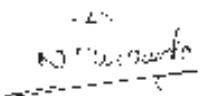
Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the **EIGHTEENTH ANNUAL GENERAL MEETING** of **PAN ASIA BANKING CORPORATION PLC** will be held at Kingsbury Hotel, The Winchester – (Location - Basement Level), No. 48, Janadhipathi Mawatha, Colombo 01, on **28th March, 2013 at 9.30 a.m.** for the following purposes :-

1. To receive and consider the Report of the Board of Directors on the affairs of the Bank and the Audited Financial Statements for the year ended 31st December, 2012 with the Report of the Auditors thereon.
2. To re-elect Mr. J. A. S. S. Adihetty, 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, Mr. H. K. Seneviratne, who retires by rotation at the Annual General Meeting in terms of Articles 93 & 94 of the Articles of Association as a Director.
4. To re-elect, Mr. G. C. A. De Silva, in terms of Article 100 of the Articles of Association as a Director.
5. To re-elect, Mr. G. A. R. D. Prasanna, in terms of Article 100 of the Articles of Association as a Director.
6. To re-elect, Mr. Takashi Igarashi, in terms of Article 100 of the Articles of Association as a Director.
7. To authorise the Directors to determine donations for the year 2013.
8. To re-appoint the Auditors of the Bank, and to authorise the Directors to determine their remuneration.
9. To determine the remuneration of the Directors.

By Order of the Board



N. Fernando

Company Secretary

Colombo

22 February 2013

NOTES :

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her stead.
2. A proxy need not be a member of the Company. The form of proxy is enclosed herewith.
3. The completed form of proxy must be deposited with the Company Secretary at the Registered Office of the Company, 450, Galle Road, Colombo 3 not later than 48 hours prior to the time appointed for the holding of the meeting.
4. Shareholders/proxies attending the meeting are requested to bring their National Identity Cards.

Form of Proxy

I/We
 (NIC No/s.....)
 ofbeing
 a shareholder/being shareholders of Pan Asia Banking Corporation PLC, hereby appoint

- | | | |
|----|---|--|
| 1. | Wannakawattawaduge Don Nimal Hemasiri Perera
Ruwanpura Eshana Uvindra De Silva
Anthony Asokumar Page
John Anthony Sunil Sumith Adhihetty
Mestiyage Don Saddhamangala Goonatilleke
Hewapathiranage karunachandra Seneviratne
Tharana Gangul Thoradeniya
Ginige Channa Ajith De Silva
Godewatta Arachchige Rasika Dimuth Prasanna
Takashi Igarashi
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
of Colombo or failing him |
|----|---|--|

2
 (NIC No.....)
 of

as my/our* proxy to vote on my/our* behalf at the Eighteenth Annual General Meeting of Pan Asia Banking Corporation PLC, to be held on **28th March, 2013 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 Report of the Board of Directors on the affairs of the Bank and the Audited Financial Statements for the year ended 31st December, 2012 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. Resolution No. 2 To re-elect Mr. J. A. S. S. Adhihetty, 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 Mr. H. K. Seneviratne, 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"/>

	For	Against
4. Resolution No. 4 To re-elect Mr. G. C. A. De Silva, in terms of Article 100 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
5. Resolution No. 5 To re-elect Mr. G. A. R. D. Prasanna, in terms of Article 100 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
6. Resolution No. 6 To re-elect Mr. T. Igarashi, in terms of Article 100 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
7. Resolution No. 7 To authorise the Directors to determine the donations for the year 2013.	<input type="checkbox"/>	<input type="checkbox"/>
8. Resolution No. 8 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"/>
9. Resolution No. 9 To determine the remuneration of the Directors.	<input type="checkbox"/>	<input type="checkbox"/>

As witness I/we* have set my/our* hand/s* hereunto thisday ofTwo Thousand and Thirteen.

.....
 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 26th of March, 2013 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 06 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

Accounting Year End

31 December

Stock Exchange Listing

295,041,086 Ordinary Shares and 700,300 Unsecured Subordinated Redeemable Debentures of the Bank are listed on the Colombo Stock Exchange of Sri Lanka.

Registered Office / Head Office

No. 450, Galle Road,
Colombo 03.
Sri Lanka.

Telephone : +94112565565
+94114667777

Fax : +94112565558
E-mail : pabc@pabcbank.com
Web Site : www.pabcbank.com
SWIFT Code : PABSLKX

Call Center

Telephone : +94114667222
Fax : +94114655805

Tax Payer Identification Number (TIN)

134005700

Credit Rating

National Long term Rating:
'BBB (lka)' Outlook Positive
Subordinate Debentures: 'BBB - (lka)'

Company Secretary

N. Fernando

Auditors

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

Board of Directors

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

Board Audit Committee

A. A. Page - Chairman
M. D. S. Goonatilleke - Director
H. K. Seneviratne - Director
G. C. A. De Silva - Director

Board Credit Committee

W. D. N. H. Perera - Chairman
R. E. U. De Silva - Director
J. A. S. S. Adhihetty - Director
T. G. Thoradeniya - Director
G. C. A. De Silva - Director

Board Integrated Risk Management Committee

M. D. S. Goonatilleke - Chairman
H. K. Seneviratne - Director
T. Igarashi - Director

Board Human Resources & Remuneration Committee

W. D. N. H. Perera - Chairman
H. K. Seneviratne - Director
T. G. Thoradeniya - Director

Board Nomination Committee

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

Board IT Steering Committee

M. D. S. Goonatilleke - Chairman
T. G. Thoradeniya - Director
G. A. R. D. Prasanna - Director
T. Igarashi - Director



PAN ASIA BANK

At Your Service