

Opportunities to grow

A N N U A L R E P O R T 2 0 1 3



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

Contents

An overview of the Bank and commentary by the Executive Management on the Bank's operations.

Management Information

| | |
|-----------|----------------------------------|
| 06 | Financial Highlights |
| 10 | Chairman's Review |
| 13 | Chief Executive Officer's Review |
| 16 | Board of Directors' |
| 18 | Board of Directors Profiles |
| 20 | Corporate Management |
| 24 | Senior Management |
| 28 | Key Product Offerings |

A detailed description of Our Approach to Governance, Risk and Remuneration.

Management Discussion & Analysis

| | |
|-----------|------------------|
| 34 | Business Review |
| 37 | Financial Review |
| 40 | Risk Management |
| 49 | Human Capital |

“ We are currently weighing options that the Bank could leverage on to enhance its positioning further. ”



See page 10 for more information on the Chairman's Message

A look at how we embed sustainability thinking and sustainable business practices at every level of the Bank.

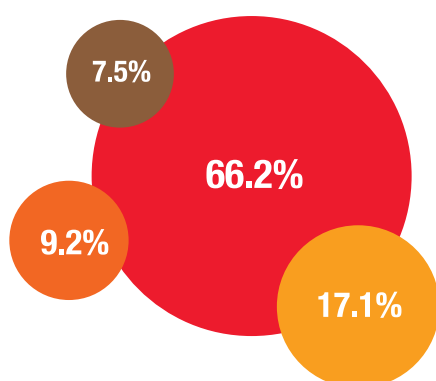
Sustainability Report

| | |
|-----------|---|
| 54 | Corporate Social Responsibility Report |
| 56 | Corporate Governance Report |
| 74 | Bank's Compliance with Prudential Requirements |
| 76 | Directors' Statement on Internal Controls over Financial Reporting |
| 78 | External Auditors' Assurance Report on Bank's Internal Controls |
| 79 | Annual Report of the Board of Directors' on the Affairs of the Bank |
| 82 | Directors' Interest Register |
| 84 | Other Directorships |
| 86 | Board Audit Committee Report |
| 88 | Board Integrated Risk Management Committee Report |
| 89 | Board Human Resources and Remuneration Committee Report |
| 90 | Board Nomination Committee Report |
| 91 | Board Credit Committee Report |
| 92 | CEO's & CFO's Responsibility for Financial Reporting |
| 93 | Directors' Responsibility for Financial Reporting |

The Comprehensive Financial Statements of the Bank.

Financial Information

| | |
|------------|--|
| 96 | Financial Information |
| 97 | Independent Auditors' Report |
| 98 | Statement of Comprehensive Income |
| 99 | Statement of Financial Position |
| 100 | Statement of Changes in Equity |
| 101 | Statement of Cash Flows |
| 102 | Notes to the Financial Statements |
| 161 | Compliance with Disclosure Requirements Specified by the Central Bank of Sri Lanka |
| 164 | Capital Adequacy Computation |
| 166 | Quarterly Statistics |
| 167 | Analysis of Due to Other Customers |
| 168 | Analysis of Loans & Receivables to Other Customers |
| 169 | Sources & Distribution of Income |
| 170 | Value Added Statement |
| 171 | Ten Year Statistical Summary |
| 172 | Investor Relations |
| 178 | Branch Network |
| 181 | Correspondent Banks |
| 184 | Glossary of Financial & Banking Terms |
| 190 | Notice of Meeting |
| 191 | Form of Proxy |



% of Total Operating Income

- ▶ **Net Interest Income**
- ▶ **Net Fees and Commission Income**
- ▶ **Other Operating Income**
- ▶ **Net Trading Income**



See page 95 for more information on the Financial

Opportunities to grow

Reliable, friendly, dynamic and accessible.

As one of the nation's fastest expanding banks we are very aware of our responsibilities to always be a bank that our customers trust and respect, whatever we do.

This report offers the reader a detailed look at our governance and risk management processes as well as our triple bottom line results. We also analyse the challenges we face and how we plan to use our strategic vision, insights and deep local experience to turn each one into a powerful opportunity to grow even bigger in the years ahead.

Financial Highlights

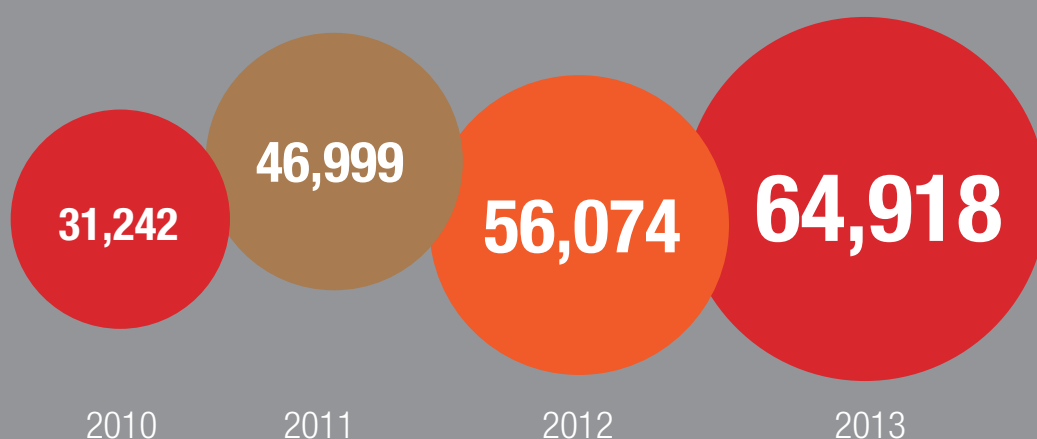
Gross Income (LKR Million)



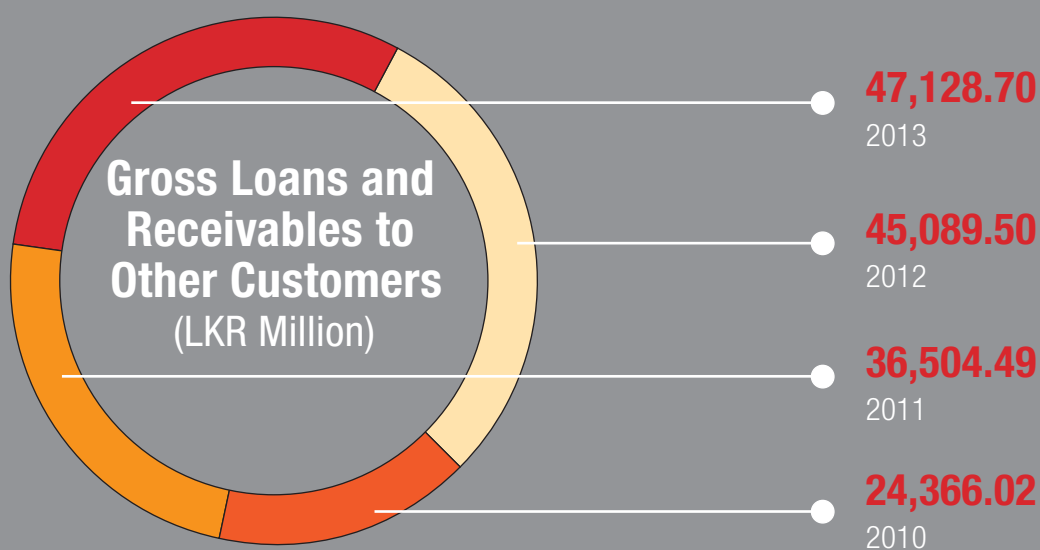
Profit for the Year (LKR Million)



Total Assets (LKR Million)



| | 2013 | 2012 | Change % |
|--|-----------|-----------|----------|
| Results for the Year (Rs. Mn) | | | |
| Gross Income | 9,054.04 | 7,766.22 | 16.58 |
| Profit Before VAT on Financial Services | 228.44 | 1,354.71 | (83.14) |
| Profit Before Taxation | 123.91 | 1,145.41 | (89.18) |
| Profit for the Year | 114.86 | 860.05 | (86.64) |
| Position at the Year End (Rs. Mn) | | | |
| Shareholders' Funds | 4,048.76 | 4,232.59 | (4.34) |
| Due to Customers (Deposits) | 53,835.90 | 47,911.09 | 12.37 |
| Gross Loans and Receivables to Other Customers | 47,128.70 | 45,089.50 | 4.52 |
| Total Assets | 64,918.45 | 56,074.29 | 15.77 |
| Financial Ratios | | | |
| Net Assets Value per Share (Rs) | 13.72 | 14.35 | (4.37) |
| Earnings Per Share (Rs) | 0.39 | 2.92 | (86.67) |
| Return on Average Assets (%) | 0.19 | 1.67 | (88.62) |
| Return on Average Shareholders' Funds (%) | 2.89 | 22.79 | (87.32) |
| Non Performing Advances Ratio (%) | | | |
| Gross | 8.01 | 4.17 | 92.09 |
| Net | 6.49 | 3.03 | 114.19 |
| Statutory Ratios | | | |
| Capital Adequacy | | | |
| Tier 1 (Minimum Requirement - 5%) | 10.27 | 13.34 | (23.01) |
| Tier 1 & 11 (Minimum Requirement -10%) | 11.91 | 15.76 | (24.43) |
| Liquid Assets (Minimum Requirement -20%) | 23.77 | 21.15 | 12.39 |





Management Information

An overview of the Bank and commentary by the Executive Management on the Bank's operations.



W. D. N. H. Perera
Chairman

Chairman's Review

I am pleased to welcome you to the 19th Annual General Meeting of Pan Asia Bank and to present the Audited Financial Statements and the Annual Report for the year 2013.

Our esteemed shareholders will be proud to note the resilience and fortitude demonstrated by the Bank in its determined commitment to lead the way forward for inclusive growth in the year what has proved to be most challenging. Driven by this challenge the Bank consolidated with credible strategic policy imperatives to be well positioned over the long term. Parallel with the new focus the Bank pushed forward in consolidating its position and foraying into new business avenues to fortify its business foundation stronger and more resilient to navigate the rough road successfully through the year. The Bank throughout stood steadfast to the legacy of its exemplary customer care ethic at the heart of the business operations. Prudent financial discipline and an exceptional team effort moved the Bank in the right direction. By and large

developed world. The growth slowed in the giant economies of China and India, yet recording GDP growth rates of 7.7% and 4.5% respectively. The US economy also picked up during the year as it reported greater employment creation and upbeat stock markets. Growth continued to climb in the UK as well, further infusing optimism. Meanwhile, EU countries such as Germany succeeded in reducing unemployment and raising living standards, while the struggling economies of Italy, Spain, Portugal and Greece remained under a cloud of rising unemployment. All in all, the world is being reshaped for a global recovery.

Sri Lankan Economy Falls Short of Target

The Sri Lankan economy grew by 6.3% in 2013, weighted down by inclement weather conditions and slower global growth with tighter monetary policy measures introduced during 2012. These factors served to slow the growth momentum substantially and although the growth expanded to 7.3% eventually, it fell short of industry expectations.

Parallel with the new focus the Bank pushed forward in consolidating its position and foraying into new business avenues to fortify its business foundation stronger

Highlights of 2013

Prudent financial discipline and an exceptional team effort further helped steer the Bank into safe waters.

USD 20 million credit loan granted by the Global Climate Partnership Fund (GCPF) to Pan Asia Bank via a seven year senior unsecured loan.

The Bank showed initiative in launching unique pension products which cater to a need felt in the market

this year landmarked a stress test for our systems and processes and we are proud to account that the results have been most inspiring.

Global Economy Turns the Corner

It holds true that the world economy fared reasonably through the period under review. Despite languishing in recession for much of 2013, the Eurozone seemed to emerge from the turmoil by end of the year. Significantly, growth was marked in emerging markets rather than the

The Industry sector continued to post strong growth of 10.4%, largely driven by construction and manufacturing sub-sectors. The continuation of major public infrastructure programmes and an increase in private sector construction activities contributed to the strong growth in the construction sector. The Services sector grew by 5.5% despite the continuing slowdown of wholesale and retail trade activity, as transport and financial services continued to expand. The Agriculture sector recorded a marginal growth of 0.5% and adverse weather conditions prevailing at the beginning of the year affected domestic agricultural production.

Market liquidity which hung in the balance at the beginning of the year increased thereafter. The purchase of Treasury bills from the primary market and the absorption of foreign currency from the domestic foreign exchange market by the Central Bank of Sri Lanka (CBSL) largely contributed to the excess liquidity during the first few months of the year. However, with the outright sale of Treasury bills and the reversal of foreign exchange swap arrangements, excess Rupee liquidity gradually declined. CBSL has conducted term repo auctions and retired a part of its holdings of Treasury bills to maintain liquidity at a level consistent with the monetary programme.

Chairman's Review

The soundness and stability of the financial sector was maintained, while the sector continued to facilitate economic growth. The outreach of the financial sector also widened with the expansion of the branch network of banks as well as licensed finance companies. The key indicators of financial stability, namely, the capital adequacy ratio and the liquidity ratio of the banking sector were maintained at healthy levels. However, banks experienced a slowing down of credit as well as some deterioration in asset quality and profitability. Tight monetary policy measures adopted in 2012 continued to affect credit to the private sector.

Drop in Gold Prices Proves a Game-changer

The deterioration in asset quality was mainly in the pawning portfolio, resulting from the sharp fall in the price of gold. The narrowing of interest rate margins as well as increased provisioning and write-offs contributed to the decline in profitability of the banking sector and for Pan Asia Bank as well. The direct effect of this impacted on our pawning portfolio adversely proving to be a setback this financial year. Pan Asia Bank, which held a portfolio of Rs. 6.7 Bn in Pawning at the beginning of the year, incurred a loss more than a billion as a result of this debacle in prices of gold. However, we are confident of recouping this loss in profitability in the months ahead. Further, the credit squeeze and high interest rates proved dampeners, but lending has eased since.

During the year under review, the Bank showed initiative in launching unique pension products which cater to a need felt in the market for such products. We have exciting plans for this segment going ahead.

Despite these challenges, Pan Asia Bank succeeded in making headlines during the year because of its USD 20 Million credit loan granted by the Global Climate Partnership Fund (GCPF) to Pan Asia Bank via a seven year senior unsecured loan. GCPF is an investment fund which provides financing for sustainable energy projects. We are excited about the opportunity to support and encourage sustainable projects in the country and anticipate abundant opportunities to spearhead noteworthy green projects in line with our sustainability agenda.

We are also proud to announce the acquisition of a 15% stake in the Bank's shareholding by Bansei Securities Co.Ltd, and we look forward to a further strengthening of this partnership in a way that adds value to the Bank's bottomline.

Looking ahead, Pan Asia Bank is taking a strategic view of the CBSL's request for mergers and acquisitions in the financial industry in a bid to strengthen the sector. We are currently weighing options that the Bank could leverage on to enhance its positioning further.

Appreciation

It is my pleasure to welcome the newly appointed CEO, Mr. Dimantha Seneviratne who will take over as CEO with effect from 1st March 2014. Mr. Seneviratne brings with him valuable experience of over 23 years in the field of banking specialising in the areas of Corporate Banking, Retail & Wealth Management, Risk Management, Internal Controls, Investment Banking and Finance. I have no doubt that he will infuse the Bank with a greater strength dynamism and lead the Bank to greater heights.

In the same breath, on behalf of the Pan Asia Bank management and team, I bid farewell to CEO Mr. T.C.A. Peiris for his loyal and spirited service to the Bank from 2009 to the current financial year. He has provided valuable leadership and direction to the Bank through some tough times and his leadership will be missed. On behalf of the Bank I would like to wish him the very best in his retirement and wish him fruitful years ahead.

Acknowledgements

Last but never the least I would like to thank the management and staff for their untiring effort and cooperation. The Pan Asia Bank team demonstrated their sense of loyalty to the Bank by tireless pursuit of the Bank's vision to ensure that Pan Asia Bank retained its sustainability goals and upheld its reputation. Our customers and shareholders too deserve special mention for placing their faith in us. By all counts, we are confident of making 2014 a year of financial and operational reckoning for your Bank.



W. D. N. H. Perera

Chairman

Colombo

18th February 2014

Chief Executive Officer's Review



K. Sourjah

Acting Chief Executive Officer

It gives me pleasure to present the Annual Report and Audited Financial Statements of the Bank for Financial Year 2013. I am proud to report that the Bank has made considerable progress by optimising every possible opportunity for growth amidst an unprecedentedly challenging macro economic conditions that prevailed during the year. Most significantly, the Bank succeeded in delivering on strategic priorities which would serve to strengthen the institution in the long term. Although the Bank's profitability was impacted due to harsh macro economic realities, the Bank maintained an undeterred focus on long term measures such as aggressive deposit mobilisation and development of new products & services that would effectively add value to shareholder wealth in the medium and long term.

Performance

As you are aware the sudden drop in Gold prices from USD 1,700 to USD 1,200 levels impacted the entire local banking industry and the pawning business. Pawning has traditionally been a lucrative product for all Banks and 'Pan Asia' was no exception. As a result Bank had to write off / make provision of Rs. 1,183 Mn in both interest and capital as opposed to interest income of over Rs. 1,000 Mn the previous years. Further Bank had to pay an opportunity cost of Rs. 155 Mn funding the non performing pawning portfolio and loss of income from the product. This impact is reflected in the profit for the year of Rs. 115 Mn and the Loan growth, which shows year on year 4.5% growth. If the impact of pawning is taken out, the growth is high as 17% which is above the

Chief Executive Officer's Review

industry average. Notwithstanding the impact of pawning, deposits grew at healthy rate of 12% to Rs. 53,836 Mn with an increase in Current Accounts and Savings Accounts (CASA) base from 18% to 21% of the total deposits. Bank was able to maintain a healthy liquidity ratio and was a net lender in the market.

USD 20 Million Raised through the Global Climate Partnership Fund

A significant achievement during the period under review undoubtedly would be the credit line the Bank negotiated with the Global Climate Partnership Fund (GCPF). In 2013, Pan Asia Bank entered into an agreement with GCPF to raise USD 20 Mn through a seven-year senior unsecured loan. GCPF is an investment fund which provides financing for sustainable energy projects. The Bank intends to utilise these funds to finance renewable energy and energy efficiency projects in Sri Lanka. Securing this loan marked a milestone in Sri Lankan Banking arena as it was the first time that any Bank in South Asia has been able to source funds from this reputed institution for a long term tenor of seven years. The acquisition of the loan speaks volumes for the confidence that the Bank evokes and reflects its inherent strong fundamentals. Obtaining this credit line has underscored the Bank's commitment to align its business objectives with its sustainability goals.

Primary Dealer Status

In another significant development, the Bank's Treasury Department obtained Primary Dealer status which enables it to have direct access to bid for primary auctions conducted by Public Debt Department of Central Bank of Sri Lanka for Treasury Bills, Bonds and any Other Government/Central Bank Securities.

Pan Asia Bank Treasury has been maintaining a fairly large Government securities portfolio for the Bank with a proven track record of generating good revenue by way of capital gains in managing these funds during the recent past. In addition, they have also been successful in attracting large foreign investments to Government securities in the recent past and the Bank's new accreditation as a Primary Dealers is expected to further strengthen Bank's ability to promote more foreign investments to Government securities in the future. In light of the exciting growth opportunities opening up in Sri Lankan economy, Pan Asia Bank Treasury expects to introduce new products and services relating to Government securities and be a "One Stop Shop" for all our customers' investment needs.

Facing upto Challenges

We are acutely aware of the fact that the drastic drop in global gold prices and the Bank's exposure to pawning could have caused major financial

upheaval during the year. However, the Bank took cognizance of this evolving trend early on in the year and ensured that adequate measures were taken to limit the fallout of this serious development. In addition, the Bank shifted its focus to other areas of opportunity in a bid to offset negative impact arising from pawning related operations which is reflected in the performance is considered with out the negative impact of pawning.

Our first step was to put the customer ahead of all priorities. Just as much as banks were affected by the decline in pawning portfolios, so was the customer. By directing our energies to innovating products and services that enhance customer convenience, the Bank further leveraged on expansion and strengthening branch network, developing niche products, exploring new channels for customers to access our services and encouraged every avenue for growth.

The results of our single-minded customer focus were unprecedented. Despite the trying economic conditions, the Bank successfully maintained capital adequacy ratios, above industry liquidity levels and a robust deposits and advances portfolio. The direct consequence of this is a strengthened institution that nurtured its customer base and earned valuable new business during the year. Also the Bank emerged as a net lender for the inter-bank market during the period.

In a nutshell, our adoption of a stance to reshape the Bank through focused measures, allowed us not only to test our agility in times of crisis and our capacity to adapt to changing situations in real time, but also to bring the entire Pan Asia Bank team together as one unit, working towards a common goal.

Moreover, we continued to invest in advanced technology tools throughout the year and altered our core banking system in a manner that it is now poised to accommodate any upsurge in business volumes over the next 5 to 10 years with ease.

Intellectual capacity continued to be strengthened and to maximise this we ensured training and development activities were sustained. Our renewed customer focus through the year was underscored by sustaining exceptional service standards through out the year.

Product Innovation

In our attempt to leverage on niche opportunities, we continued to develop unique products targeted at fulfilling unmet customer requirements.

'Suwasavi' Fixed Deposit is one such innovative product which was introduced in 2013 and provides a free medical insurance cover for the depositor and his/her family in addition to paying an attractive interest on the deposit. Hence, Suwasavi Fixed deposits allow customers to continue to build their future savings while being able to provide the best healthcare to their loved ones, when needed.

Also, Sammana, the first of its kind in Sri Lanka, is an attractive loan scheme offered to retired Government servants. The main objective of "Sammana" Loan scheme is to empower the increasing elderly population of the country by providing them an opportunity to uplift their lifestyle or initiate self employment ventures. The Senior citizen category, is an often neglected market segment which has unique requirements that cannot be fulfilled by products which are aimed at younger professionals. Hence Sammana has helped the senior citizen category customers to retain their dignity by becoming self sufficient and productive even after retirement. The response that the product has received from the pensioner category has been extremely heartening and we gained valuable new business by marketing this product aggressively through all our branches.

The Bank was also able to make a breakthrough in the crowded credit card market with a distinctive product 'Black Mastercard', which offers the lowest interest rate amongst in the market of 19.75% as against the norm of 24%. Credit card owners who are paying very high interest rates and hidden charges on their card balances will find relief through the value additions and offerings aimed at making life easy through Pan Asia Bank credit cards.

We have also initiated the process of applying for a Trustee license which will supplement our Custodian business and increase our fee income.

Branch Expansion

During the year we reached out to more customers across the country with the addition of 4 new branches which brings our total branch network to 77. of these, 19 operate until 6 pm while 10 other branches are open 365 days of the year while one branch remains open 24 hours a day all 365 days. By extending banking hours to suit the busy lifestyle of our customers, we ensure that they can complete their banking transactions in a timely manner and at their convenience. We also geared our 24 hour call centre for quicker response by sending call centre staff through advanced customer service training.

Enhancing Visibility

We now engage with our stakeholders through many channels. In our bid to improve the corporate brand image we revamped the Bank website in a way that enhanced the presence of your Bank in the digital domain. Greater sophistication amongst customers implies that they want to have a greater number of choices in how they transact with their bank. By ensuring an easy to use website, our customers can complete transactions online, without having to physically visit the Bank. We also took another bold move to step up our online presence on the social media platform by increasing visibility on Facebook, Twitter, LinkedIn and Youtube.

Fitch Ratings Maintains Stable Rating

As a result of many more far-reaching initiatives undertaken during the year to deepen stability levels and strengthen our fundamentals, Fitch Ratings reaffirmed Pan Asia Bank's rating as BBB (lka).

Future Outlook

We expect 2014 to offer a fresh start to the Bank and the banking industry as a whole. We learnt valuable lessons about team effort and dedication during the year and the end results demonstrated how our efforts reaped rich dividends for the Bank. We have assimilated these lessons into our best practices and will apply with greater determination in becoming an agent of change, by catalyzing opportunities sparked by the wealth of talent we possess amongst our people. Our customer focus through the year underscores our commitment to ensure that the Bank offers an indispensable service to people, uplifting lives and offering financial security solutions.

In Appreciation

I wish to express my gratitude and appreciation to the Chairman and the Board of Directors for their guidance and support, Team "Pan Asia" for their contribution to see us through the challenging year for the Bank.

I also wish to thank the Customers for the business, Regulators for their guidance, shareholders for the trust and confidence, External Auditors for their advice and guidance and other stakeholders for their support.

Bank has successfully faced the challenges of the financial year 2013, which effected the entire industry. It proved it is blessed with a rock solid foundation and is backed with the unstinted support of its stakeholders, to reach greater heights in 2014 and beyond.



K. Sourjah

Acting Chief Executive Officer

Colombo

18th February 2014

Board of Directors





9



10



11



12



13

- | | | | |
|---------------------------------|-----------------|------------------------------------|--|
| 1. W. D. N. H. Perera | Chairman | 8. T. Igarashi | Director |
| 2. R. E. U. De Silva | Deputy Chairman | 9. T. Muarkami | Director |
| 3. H. K. Seneviratne | Senior Director | 10. J. D. N. Kekulawala | Director |
| 4. J. A. S. S. Adhihetty | Director | 11. T. C. A. Peiris | Director / Chief Executive Officer (Retired w.e.f. 31 st January 2014) |
| 5. M. D. S. Goonatilleke | Director | 12. P. L. D. N. Seneviratne | Director / Chief Executive Officer (w.e.f. 01 st March 2014) |
| 6. T. G. Thoradeniya | Director | 13. N. Fernando | Company Secretary / Assistant General Manager |
| 7. G. A. R. D. Prasanna | Director | | |

Board of Directors' Profiles

W. D. N. H. Perera

Chairman

Mr. Nimal Perera is the Chairman of Pan Asia Bank with 31 years of experience in the fields of Finance, Capital Market Operations, Manufacturing, Marketing and Management Services. Mr. Perera first joined the Board of Pan Asia Bank as a Director in September, 2007 and was appointed as the Deputy Chairman in March, 2008 and as Chairman in April, 2012. He serves as a Director in several public quoted Companies. He is the Managing Director of Royal Ceramics Lanka PLC and Chairman of Lanka Floortiles PLC, Lanka Walltiles PLC, Horana Plantations PLC, Lanka Ceramics PLC, Swisstek Ceylon PLC & Don Willbert Capital Ltd and Deputy Chairman of Vallibel Finance PLC and Vallibel One PLC and holds the position of Director in several quoted companies which includes Amaya Leisure PLC, The Kingsbury PLC, LB Finance PLC, Hayleys PLC, Talawakelle Tea Estates PLC, Haycarb PLC. He is a member of the Sri Lanka Institute of Marketing.

R. E. U. De Silva

Deputy Chairman

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

H. K. Seneviratne

Senior Director

Mr. Seneviratne is a LLB Graduate and an Attorney-at-Law by profession was the Legal Consultant and the Secretary to the Board 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.

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 34 years of experience in the Finance Sector. He was formerly the Deputy Managing Director of Mercantile Investments Limited and served as a Director of Nuwara Eliya Hotels Limited, Grand Hotel (Pvt) Limited, Royal Palm Beach Hotels Limited, Tangerine Beach Hotels PLC, Nilaveli Beach Hotels Limited,

Mercantile Fortunes (Pvt) Limited, Tangerine Tours Limited and Security Ceylon (Pvt) Limited. Presently he holds the position of Managing Director of LB Finance PLC and The Fortress Resorts PLC and serves on the Boards of Vallibel Finance PLC and Vallibel One PLC.

M. D. S. Goonatilleke

Director

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

T. G. Thoradeniya

Director

A marketer by profession, Tharana Thoradeniya was in the pioneering batch of Sri Lankans to be awarded the title of Chartered Marketer. He counts over 21 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, Delmege Limited, Lanka Walltiles PLC, Lanka Floortiles PLC, Lanka Ceramic PLC and Ceytea Plantation Management Limited.

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.

T. Igarashi**Director**

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

He is one of the Founder members and 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. Muarkami**Director**

Mr. Toyohiko Murakami is the President & CEO of Bansei Securities Co. Ltd. Mr. Murakami has over 30 years of experience in managing various business fields consisting of Securities, Finance, Insurance, Real Estate. Mr. Murakami has a degree in Bachelor of Law from Kyoto University, Japan. Mr. Murakami joined Bansei Securities Co. Ltd. in November 2005. He was appointed as the Executive Vice President in February 2006 and since June 2009 is the President & CEO of the company. He is also the Chairman of Bansei Hoken (Insurance) Community Co. Ltd. which is a wholly owned subsidiary of Bansei Securities Co. Ltd. Formerly Mr. Murakami was with Zenkoku Hosho Co. Ltd. from November 2005 - February 2006 and as a Director of H.S. Securities Co. Ltd. from October 2000 to August 2005. He is a Director of Coral Rock Hotel (Pvt) Ltd.

J. D. N. Kekulawala**Director**

Mr. Kekulawala began with an audit environment in the UK, moved to the banking sector in Australia and then to Sri Lanka, he counts more than 25 years of results oriented financial management experience in the Financial Services Industry. Have contributed and played a strategic role in the diversification of Hatton National Bank PLC from commercial banking to investment banking, venture capital, stock broking and life/general insurance through Subsidiary Companies. Titles have ranged from Chief Accountant, Assistant General Manager - Finance and Planning, Chief Financial Officer, Senior Deputy General Manager - Strategy & Compliance. He is a Director of Richard Peiris Arpico Finance Ltd. He is a fellow member of the Institute of Chartered Accountants of England and Wales and also Sri Lanka. He is a fellow member of the Chartered Institute of Bankers of London. Mr. Kekulawala has a MBA from University of Manchester.

T. C. A. Peiris**Director / Chief Executive Officer - Retired w.e.f. 31st January 2014**

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.

P. L. D. N. Seneviratne**Director / Chief Executive Officer - w.e.f. 01st March 2014**

Mr. Seneviratne joins Pan Asia Bank as Director / CEO with effect from 01st March 2014. He counts more than 23 years of Banking of which 15 years with the HSBC Group including several senior overseas postings covering Thailand, Bangladesh and Saudi Arabia. Mr. Seneviratne commenced his Banking career with Sampath Bank and thereafter moved on to Overseas Trust Bank, Colombo, prior to joining HSBC. He has extensive exposure in Corporate Banking, Retail Banking and Wealth Management, Credit Risk Management, Operations and Market Risk Management, Internal Control, Investment Banking and Finance. His last three postings were as Chief Risk Officer, Sri Lanka / Maldives, Bangladesh and Thailand, where he was instrumental in setting high credit standards whilst directing quality asset growth, and as a member of the country leadership team, was responsible for strategy and governance.

Mr. Seneviratne holds a MBA from the Postgraduate Institute of Management, and a BSc, from the University of Sri Jayawardenapura. He is a Fellow Member of the Institute of Bankers, Sri Lanka. Mr. Seneviratne was a Past President of The Association of Professional Bankers (APB- Sri Lanka).

N. Fernando**Company Secretary / Assistant General Manager**

With 23 years of experience as an Attorney-at-Law, she joined the Bank in 1998 as Company Secretary.

Corporate Management



T. C. A. Peiris

Director / Chief Executive Officer
(Retired w.e.f. 31st January 2014)



Dimantha Seneviratne

Director / Chief Executive Officer
(w.e.f. 01st March 2014)



Kamoor Sourjah

Acting Chief Executive Officer /
Chief Operating Officer /
Deputy General Manager - Corporate Banking



S. Umakanthan

Deputy General Manager - Recoveries



Lalith Fernando

Deputy General Manager
Chief Risk Officer



G. G. Mangala

Deputy General Manager
Chief Financial Officer



Irishad Ally

Deputy General Manager - Retail
Banking & SME



Richie Dias

Deputy General Manager
Head of Treasury



Nalaka Wijayawardana

Chief Marketing Officer



Jeremy De Silva

Head of Internal Audit



Varuni Egodage

Head of Legal

Corporate Management

T. C. A. Peiris

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Kamoor Sourjah

Acting Chief Executive Officer /

Chief Operating Officer /

Deputy General Manager - Corporate Banking

Kamoor has over 21 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 32 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 Jayawardenapura.

Lalith Fernando

Deputy General Manager - Chief Risk Officer

A Banker with over 43 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 23 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 18 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 33 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 20 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 Silva**Head of Internal Audit**

Jeremy is a Banker with over 25 years of Banking experience in both local and foreign Banks. His previous work experience includes Hong Kong Shanghai Banking Corporation, ABN AMRO and National Development Bank. He is a veteran in Banking Operations and Audit. 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.

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



Naleen Edirisinghe

Assistant General Manager - Branch Operations and Credit



Prasanna Fernando

Head of Institutional Liability Sales



Shiyan Perera

Head of Leasing



Udaya Thuduwwewatta

Head of Margin Trading & Custodial Services



Takura Abhayasinghe

Head of Branch Sales



Nimal Ratnayake

Head of Compliance



Harsha Kurukulasuriya

Head of Central Operations



Jayanath Dias
Head of Credit Card



Maithri Bandaranaike
Head of Human Resources



Prakash Selvarajah
Senior Manager - Branch Operations



Indraka Liyanage
Senior Manager - Credit Risk



Rangith Rajendran
Senior Manager - Branch Credit



Niroshima Wijesena
Area Manager - Colombo North



Umaharan Jeganathan
Senior Manager - Personal Credit Unit

Senior Management



Anil De Silva

Senior Manager - Operational Credit



Rajitha Silva

Senior Manager - Administration



Thilani Peiris

Area Manager - Colombo South



Jehan Perera

Senior Manager - Trade Operations



Sameera Senerath

Senior Manager - Consumer Sales



Thushara Suraweera

Senior Manager - Branch



Kapila Peiris

Senior Manager - Internal Audit



Saman Kottawatta
Area Manager - South



Gamini Jayaweera
Senior Manager - Credit Administration



Pali Jayasekera
Senior Manager / Consultant



Anuradha Gamage
Senior Manager

Key Product Offerings

Saving Accounts

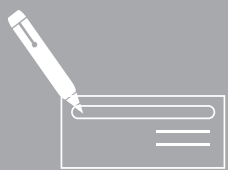


CHAMPION SAVER Savings Account

- An interest of up to 8% (AER 8.33%)
- Freedom to withdraw your money any number of times while receiving interest
- Ability to access money from any ATM carrying the VISA logo



Current Accounts



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



Children's 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



Fixed Deposits



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



Prime



You deserve more!

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



Ranawiru Harasara



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



Easy Pension



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



Hybrid Leasing



- Lowest interest rates
- Minimum Documentation
- Doorstep Service



Key Product Offerings

Home Loans



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



Gold Loan Services



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



World MasterCard



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



Safety Lockers



- Maximum security for your valuables
- Safety Lockers are available in 3 sizes



Global Travellers' Card



- A secure way to carry foreign exchange
- Free Travel Insurance
- Competitive exchange rates
- Ability to choose the currency



Sammana



- Obtain loans of up to Rs.500,000/-
- Repayment periods up to 5 years
- Ability to repay until 70 years of age



Suwasavi Fixed Deposit



- A free medical insurance cover for depositor and his/her family
- High returns and maximum security for the deposit
- Ability to include parents in the medical insurance



Black Credit Card



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





Management Discussion & Analysis

A detailed description of Our Approach to Governance,
Risk and Remuneration.



Business Review

Branch Banking and Enhancement of Accessibility

Pan Asia Bank continued to enhance its accessibility with the addition of four new branches across the country namely in Tangalle, Hatton, Homagama and Horana. With these new additions, Bank's total number of branches reached 77 out of which 18 branches operate till 6.00 pm on weekdays and till 1.00 pm on Saturdays. Pan Asia Bank also operates 365 day Banking at 12 branches in selected main cities that are open till 6.00 pm on weekdays and till 1.00 pm on weekends.

Taking the Bank's accessibility to a whole new level, the Bank commenced operating its Head Office Branch 24 hours of the day on all 365 days to provide an unparalleled level of convenience to its customers. Pan Asia Bank also operates a 24/7 Call Centre with advanced technology and extensively trained personnel to provide customers with a superior quality service and product related information anytime of the day.

In addition, the Bank is in the process of continually improving its alternate channels to provide customers added accessibility by focusing on enhancing its services via channels such as ATMs, Internet Banking, and SMS alerts. As a part of this strategy the Bank did a total revamp to its corporate web portal in early 2013 with the intention of creating a stronger presence in the digital domain. Also, the Bank took several initiatives to enhance its presence in the social media space and reach out to customers online. As a result, the Bank maintains an active interaction with its stakeholders via Facebook, Twitter, LinkedIn and YouTube pages.

Credit Rating

Pan Asia Bank's overall performance was reaffirmed by Fitch Ratings as BBB (Ika).

Key Product Offerings

Suwasavi Fixed Deposit

"Suwasavi Fixed Deposit" is yet another innovative product which was introduced in 2013. Suwasavi Fixed Deposit provides a free medical insurance cover for the depositor and his/her family in addition to paying an attractive interest on the deposit. Hence, Suwasavi Fixed deposits allow customers to continue to build their future savings while being able to provide the best healthcare to their loved ones, when needed.

Sammana

Sammana which is the first of its kind in Sri Lanka, is an attractive loan scheme offered to retired Government servants. The main objective of Sammana Loan scheme is to empower the increasing elderly population of the country by providing them an opportunity to uplift their lifestyle or initiate self employment ventures.

Champion Saver

Champion Saver is a specialised savings account that offers an attractive interest rate of up to 8% while 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 - 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.

Housing Loan

Pan Asia "Nivasa" is a customised and hassle free plan with a repayment period of up to 25 years that makes it easier to invest in one's own house or even a second house, land or to modify or extend the existing home.

Credit Cards

Pan Asia Bank redefined the local credit card arena with the introduction of MasterCard Black Card which comes with the lowest interest rate of 19.75% p.a. giving a human face to credit card transactions. Credit card owners who are paying very high interest rates and hidden charges on their card balances are going to be relieved through the value additions and offerings aimed at making life easy through Pan Asia Bank credit cards. MasterCard Black which was launched in September 2013 with lowest interest rate in the market also contains value additions such as EMV chip card with added security, attractive discounts from local merchants, many international benefits, a free credit period of 51 days, free SMS alerts on mobile phones of customers and ATM cash advances through Cirrus ATM network world wide. It also allows cardholders to transfer their high interest paying balances from other credit cards to this card free of charge and start paying a much lower interest on those balances immediately. MasterCard Black is being offered without Joining Fees for the primary as well as supplementary cards.

Pan Asia Bank is now offering three card products targeted at three distinct customer segments, namely World MasterCard, Pan Asia Black and Pan Asia Gold.

Easy Pension

Easy Pension caters specially 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.

Leasing

2013 was yet another successful year for Leasing at Pan Asia Bank. The product offering in the vehicle financing business was broadened by introduction of 'Auto Loans' to cater to the permit vehicle market which contributed impressively to enhance the Bank's asset book. Another special product offering introduced by the Leasing Department was the "Hybrid Leasing" which is a leasing package that is offered at a special low interest to purchase Hybrid vehicles.

Prime Banking

Introduced in 2010, "Prime" is a special banking solutions package targeted at mass affluent segment of the country and has been a phenomenal success in terms of attracting and retaining deposits. "Prime" offers an enhanced level of service that is guaranteed to make clients feel special.

Pawning

2013 was a challenging year for Pawning due to unprecedented decrease in global gold prices. Hence the Bank focused mainly on streamlining operational processes of pawning business rather than on portfolio growth.

Remittances

Every year, thousands of Sri Lankans leave the country to work in foreign lands making tremendous sacrifices, leaving behind their loved ones with the hope of providing a better life for their families.

Western Union Money Transfer services, offer customers the freedom to withdraw the money sent by their loved ones, from any of our branches island wide. Pan Asia Bank started offering WU services as a Primary agent in April 2013 and since then has witnessed a strong growth in terms of transactions. In addition, for the more tech savvy migrant workers the Bank offers "Money 2 anywhere" which is a convenient way to receive

money straight to a Pan Asia Bank Account. The transactions are made online by the remitter using a Debit/Credit card or through Bank Accounts. Pan Asia Bank also tied up with UAE Exchange which offers account based transfers from all corners of the world to a Pan Asia Bank account with ease.

Raising of Funds with GCPF for Green Initiatives

In 2013, Pan Asia Bank entered into an agreement with the "Global Climate Partnership Fund (GCPF)" to raise USD 20 Million through a seven year senior unsecured loan. GCPF is an investment fund which provides financing for sustainable energy projects. The German Federal Environment Ministry, KfW, the Ministry of Foreign Affairs of Denmark and IFC are among the investors in GCPF. Deutsche Bank AG is the investment manager for GCPF.

The funds raised would be utilised to finance renewable energy and energy efficiency projects in Sri Lanka. Securing this loan marks a milestone in Sri Lankan banking arena as it is the first time a Bank in South Asia has been able to source funds from this reputed institution for a long term tenor as seven years.

Pan Asia Bank expects to channel these funds to finance Green economic activities such as renewable energy and energy saving projects which are also in line with its CSR vision. The Bank is confident that this funding will create a perfect opportunity to generate long term sustainable economic benefits while being more responsible towards preserving our environment. In addition, this initiative will also result in many strategic economic benefits to the country as development of renewable energy sources such as solar energy, wind power and biomass etc. would reduce Sri Lanka's vulnerability to global oil price volatilities.

Appointment as a Primary Dealer

Pan Asia Bank was appointed as a Primary Dealer in Government securities, under license from the monetary Board of Central Bank of Sri Lanka, and the Bank commenced its Primary Dealer activities on 16th September 2013. As a Primary Dealer the Bank can bid for Primary Auctions conducted by Central Bank of Sri Lanka for Treasury Bills, Bonds and any other Government/Central Bank securities, promote and develop a secondary market in Treasury Bills/Bonds and any other government securities and engage in many other transactions related to Primary Dealing.

International and Trade Services

Pan Asia Bank possesses a well experienced Trade Services department centralised at Head Office and the Bazaar Unit (Pettah Region) catering to all business segments with a range of fully fledged trade products such as Import Letters of Credits, Documentary Collections, Avalisation,

Business Review

Advice of Export Letters of Credits, Export Bills discounting and cross border financing. Also, the increased international recognition from leading foreign Banks offering credit lines enhanced the ability to issue confirmed Letters of Credit to any part of the World. Hence, despite the stagnated growth in international trade in 2013, the Bank managed to maintain the same momentum as the previous year with a steady growth in fee based trade revenue. In 2014 the main focus will be on growing the Export business and increasing the Bank's market share.

Correspondent Banking Relationships

Pan Asia Bank signed up new correspondent banking relationships with the following Banks. In addition the Bank is in the process of re-activating Nostro account with Standard Chartered Bank.

| Name of the Bank | City | Country |
|--------------------------------------|--------------------|--------------|
| Hellenic Bank Public Company Limited | Nicosia (LEFKOSIA) | Cyprus |
| Banca Lombardae Peimontese S.P.A. | Brescia | Italy |
| Habib Metropolitan Bank Limited | Karachi | Pakistan |
| Mashreq Bank | Dubai | U.A.E. |
| Bank of Al Jazira | Jeddah | Saudi Arabia |
| Calyon | Singapore | Singapore |
| DBS Bank Limited | Taipei | Taiwan |
| Habib Bank AG Zurich | Zurich | Switzerland |

Corporate Banking

Despite low credit growth and challenging market conditions, Corporate Banking portfolio was able to grow through 2013 with strong performance in both Advances and Deposits. In 2013, there was a tendency among corporates to issue quoted debentures which was tax free, replacing the traditional borrowings. To counter the negative impact to Bank's portfolio from this trend it was decided to invest in some of the debenture issues of highly rated corporates, generating high tax free returns for the Bank in years to come. Further, these instruments are tradable in the secondary market which gives the Bank the ability to dispose if/when required. The current set up of Corporate Banking Division which includes a dedicated Relationship Management concept to serve corporate customers better, has worked well during the year. Plans for 2014 for this segment are to continue focus on increased fee based income through enhanced trade business, growth in credit and diversify exposures to industries where the Bank has limited or no exposure.

Margin Trading & Custodian Services

Pan Asia Bank is one of the leading Margin providers and offers greater flexibility to investors and additional liquidity to customers for investments. In 2013, the Margin Trading business, continued to maintain a sustainable loan portfolio despite challenging market conditions. During the year 2014 the Bank will further consolidate the Margin Trading business to be in line with the growth in the Asset book focusing on providing more value additions such as more personalised and efficient customer service, on line view of portfolio statements, daily balances etc. and growing in the corporate and high net worth segments. The Bank is a registered Custodian Service (Custodian Bank) provider with the Central Depository System (CDS) for both overseas and local clients. As a Custodian Bank, the Bank provides the full array of domestic custodian services such as opening accounts at the CDS for trading (which can be accessed by any broker which is an advantage to the customer), efficient settlement of trades, follow up, providing information to customers on corporate actions while providing record keeping and reporting services etc. Pan Asia Bank provides custodian services to investors in keeping with traditional global practices which enable us to cater to the complex custodian needs of customers resulting in direct access to markets. Custodian services give the Bank an additional source to earn fee income as well as foreign exchange income. The Bank provides these services to customer through a team of dedicated and experienced staff who adheres to best practices. The unit is geared to service the operational needs of investors in the capital market via any mode of communication.

Financial Review

Industry Overview

Year 2013 was one of the most challenging years for the entire Banking and Financial Services industry in recent times. Though the yield curves were high at the beginning of the year, the Banks had to move interest rates downwards in accordance to policy directive from the industry prudential regulator on caps on interest rates towards the latter part of the year. Further, a significant deterioration in the credit matrices were seen through-out the industry mainly due to high volume of gold backed lending in delinquent status. These along with the arduous business climate led to an overall decrease in the industry profit margins. Sri Lankan banking sector has been given a negative outlook by credit rating agencies as the country continues to face an 'uncertain' macroeconomic environment with delinquent portfolios expected to rise and profitability was moderate.

Financial Performance

Net Interest Income

Across the industry Net Interest Margins were dropped due to the rising cost of funds, rising competition and drop in interest income from Pawning activities due to the constant reduction of gold prices in the market. The impact of rising cost of funds of the Bank was due to the growth of high cost deposits. However, the increase in the cost of funds was curtailed to some extent due to the significant increase in the CASA portfolio during the year. This had been a challenging task to achieve due to fierce competition in the market. Further, the Bank lost a significant amount of interest income from Gold backed lending being in the delinquent status as a result of the drastic drop in market gold prices during 2013. In order to face these unexpected market conditions the Bank frequently reviewed its internal pricing strategies to balance risk and rewards on customer assets to manage the margin pressure.

Interest income of the Bank recorded a growth of 18% from Rs. 6,767 Mn in 2012 to Rs. 7,977 Mn in 2013 despite adverse macro-economic conditions. This growth was achieved despite the sluggish growth in the loan book which made excess funds being invested in low-yielding liquid assets and significant part of gold backed lending being written off during the last quarter.

Interest expenses increased by 35% during the year mainly due to growth of high cost deposits, higher deposit rates prevailed in early part of the year and conversion of short term borrowings to time deposits at higher rates. Customer deposits volume growth was 12% which was at a much higher weighted average cost of funds rate than in 2012.

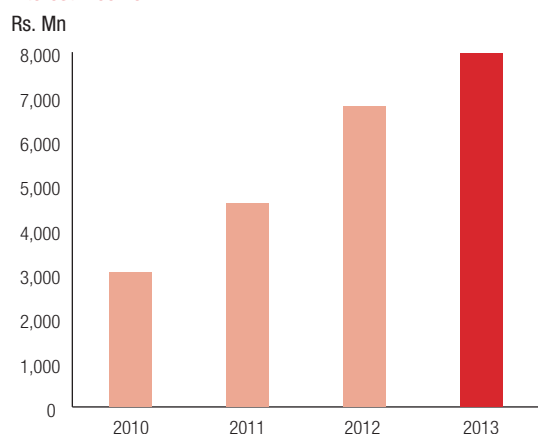
The Loan Book growth was not sufficient to compensate the increase in interest costs which grew at a faster rate than interest income and thereby narrowing the Net Interest Margins. Due to the aforementioned factors, the Bank was able sustain a Net interest margin of 3.38% for the year 2013.

Non Fund Based Income

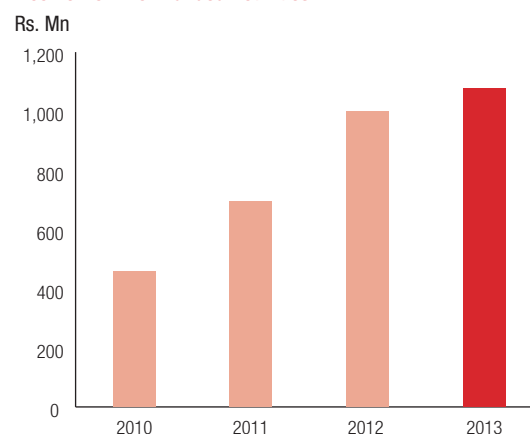
Main contributions in Non fund based income growth were credit cards at a robust 155% with the introduction of "Black" credit card to the market during the 3rd quarter of the year along with a 21% growth in commission income from loans. This growth was offset by a significant drop in cheque return commission by 38% over the previous period due to the effective operational procedures implemented by the Bank. As a result the overall Net Fee and Commission recorded a marginal growth of 2.76% during the year from Rs. 525 Mn in 2012 to Rs. 539 Mn in 2013.

Net Gain from Trading showed a remarkable growth of 176% in 2013 from Rs. 86 Mn in 2012 to Rs. 238 Mn in 2013 mainly due to gains from investments in Guilt Unit Trusts yielding tax concessions and Government Treasury Bills and Bond portfolios and exchange gains from financial

Interest Income



Income from Non Funded Activities



Financial Review

derivatives reaping the benefits of effective hedging strategies. Non Trading Foreign Exchange Gains accounted for 26% of non interest income despite the drop in absolute terms over the previous year.

Despite the internal and external impediments faced during the year to grow our non-fund based revenue, we were able to achieve a Non Fund Based Income to Total Operating Income ratio of 34% which is an improvement from 29% in 2012.

Operating Expenses

The rationalisation of costs continued to be a priority during the year under review. The employee costs accounted for 43% of non interest costs which were mainly driven by new recruitments, promotions and salary increments. Opening of new branches, relocation of branches, enhanced customer service, investments in new IT systems, improved working conditions for employees and training programs which were targeted towards formulating a strong human capital base contributed for the growth in other operating expenses during the year. Apart from the aforementioned drivers inflationary pressure also had its role in accelerating other operating expenses.

The growth in non interest expenses were only limited to 10% from 1,988 Mn in 2012 to 2,192 Mn in 2013 despite all aforementioned triggers. The cost to income ratio rose during the year mainly due to descend in Net Interest Income.

The Bank has laid down strategies towards managing costs and is committed to continuously monitor the changes in the non interest expense and strictly adhere to be in line with the strategies decided.

Impairment for Loans & Other Losses

The Bank witnessed concurrent increase in impaired loans and advances mainly attributable to the high default rates in gold backed lending and stocks as a consequence of significant decline in gold prices. Further higher interest rates prevailed in the first half of the year also contributed to the increase in impaired loans and advances and related losses in absolute terms. The gross impaired asset ratio and the impaired asset cover ratio at the end of year 2013 stood at 6% and 58% respectively.

Even the regulatory Gross Non-Performing Advances (GNPA) ratio of the Bank stood at 8.01 % at end of 2013 which recorded a growth of 92% which is partly due to the slower growth in loan book whilst absolute Non Performing Advances also increased similar to the industry. Net Non Performing Advances (NNPA) ratio of the Bank stood at 6.49%.

Taxation

Income tax expense for the year ended up with Rs. 9 Mn compared to Rs. 285 Mn in 2012 & The effective Income tax rate ended up at 29% in 2013. VAT on Financial services charge has dropped in absolute terms in year 2013, however the effect of such on the total effective tax rate was adverse due to drop of profit for the year.

Financial Position

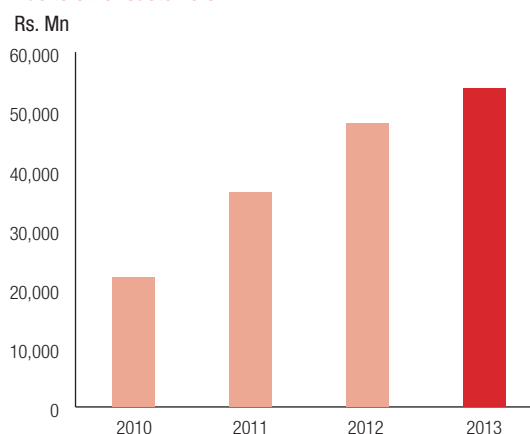
Asset Growth

After reaching Rs.50,000 Mn milestone of total asset base in year 2012, an increase in total assets of 16% was registered in year 2013 ending up with Rs.64,918 Mn. A large component of the Bank's assets consist of lending to Corporates, Individuals and SME's via conventional lending products such as Overdrafts, Term Loans, Leasing and Hire Purchase, Pawning Advances and non conventional products such as Commercial Papers, Trust Certificates, Margin Trading, Debentures and Unit Trust Investments. Despite the sluggish growth in traditional loan book during the year, the Bank was able to grasp higher yields from non traditional investments such as Quoted Debentures and Guilt Unit Trusts (GUT's). A notable feature of the Bank's Balance Sheet at the end of 2013 is that Held for Trading Investments portfolio consisting of GUT's, Quoted Debentures, Quoted Equities and Sri Lanka Government Securities - Treasury Bills and Bonds which accounted for 14% of the total assets.

Liability Growth

Bank's customer deposit base consist of over 75% of the deposits from Retail sector customers giving the ability to enjoy a stable source of funding and potential for cross selling of other products. Balance is on corporate and institutional deposits which accounts over 20% of the deposit base. Due to Other Customers of the Bank grew by Rs. 5,925 Mn recording a year on year growth of 12%. Though the overall

Due to Other Customers



growth remained at this level the Bank was able to strengthen its Current and Savings deposits (CASA) base which comprises 21% of the total deposit base. It showed a remarkable year on year growth rate of 31% reflecting the enhancing public confidence of the Bank and outpacing industry growth and the budgets set for the year. Time Deposits recorded a slow growth in 2013 mainly due to low yields on such towards the latter part of the year.

The funding of the Advances through deposits was not impressive as the slow growth in the Advance book. This resulted in a deterioration of the Loans to Deposit ratio from 89% in 2012 to 80% in 2013. However, the Bank was successful in raising USD 20 Mn from international capital markets at very attractive interest rates which is a sound reflection of international investors' perceptions

Total Equity

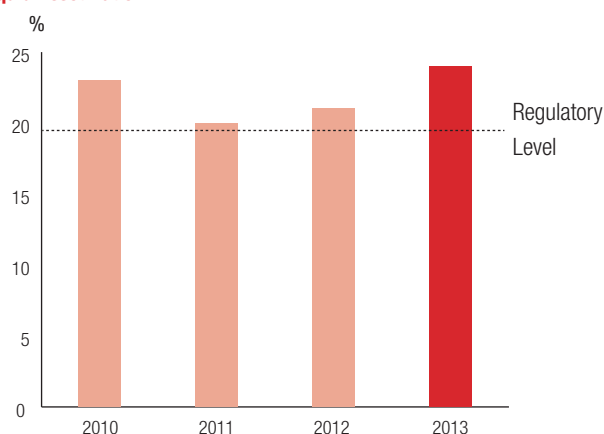
The Bank's total equity stood at Rs. 4,049 Mn in December 2013 resulting in a decline of 4% year on year reflecting the distribution of Rs. 295 Mn in the form of dividends to shareholders. The Bank's Basic Earnings per Share (EPS) ended up at Rs.0.39 for the year 2013 compared to Rs. 2.92 in 2012 while Return on Equity (ROE) and Return on Assets (ROA) for 2013 stood at 2.90% and 0.19% respectively.

Regulatory Ratios

Capital Adequacy

The Bank's Core Capital as at the end of 2013 stood at Rs. 4,049 Mn while the Total Capital was displayed at Rs.4,695 Mn. The Bank was able to maintain a healthy Capital Adequacy ratio throughout the year 2013 for both Core Capital (Tier I) and Total Capital (Tier II) levels. Core Capital Ratio and Total Capital Adequacy ratio at the end of year 2013 stood at 10.27% and 11.91% respectively.

Liquid Asset Ratio



Liquidity

The Bank was able to maintain a healthy Statutory Liquid Asset Ratio (SLAR) throughout the year and it stood at 23.77% as at close of the year 2013.

Credit Rating

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

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 2014. In the face of a dynamic banking landscape, Pan Asia bank will remain steadfast in its quest to partner Sri Lanka's future growth and prosperity. Testament to this stance is the Bank's 77 branches that form rapidly expanding network offering superior services and convenience. Leveraging on a strong balance sheet and overall stability, the Bank envisions to expand its network focusing on customer loyalty that will pave the way for diversifying the Bank's customer base while expanding market scope. The policy directive from the industry prudential regulator on cap on penal interest rates could even turn out to be positive to the overall economy because despite yields coming down, borrowers would be encouraged to repay in larger volumes, leaving more funds for relending, leading to credit growth.

Risk Management

Vision and Culture

Managing risk constitutes an integral part in the role of banking operations and also in the areas of strategic decisions of Pan Asia Bank. The Bank has now adopted overall risk management policies with a vision to mitigate risks identified within the entire banking operations. It is established with well structured mechanism encompassing the ability of assessing and quantifying the risks in order to manage exposures in all areas. These risks will include main areas of credit risk, market risk and operational risks. In addition the policies also explore the areas of Interest rate risks, liquidity risks, foreign currency risks, equity prices risks, business & strategic risks, legal risks and compliance risks. The regulatory requirements and both quantitative & qualitative aspects in risk are recognised in the risk management policies of the Bank. Though credit risk is considered as the main category in risk faced by the Bank significant attention is also directed towards other risks mentioned above as way forward with adopting Basel accord requirements implemented

the Bank's income and capital and any exceptions are directed towards hierarchical levels for concurrence. The business units act as the first line of defence followed by the senior managers and management level Committees to prevent an impact on the Banks' books. The independent risk supervision by the respective risk units and the Board Integrated Risk Management Committee will be supported by the compliance for the second line of defence. The independent assurance by both internal and external audit functions as the third line of defence for risk management.

The following processes are carried out to ensure smooth functioning of the risk management activities throughout the Bank;

- The Board of Directors ensures the effectiveness of risk management function of the Bank by ensuring the responsibility and maintenance of risk management policies and procedures
- Effective communication of the risk management concepts adopted by the Bank according to the risk appetite to the relevant business units of the Bank

| Board of Directors | Board Appointed Committees for Risk Management | Management Level Committees |
|--|--|--|
| <ul style="list-style-type: none"> • Involves in adopting policies and procedures of risk management | <ul style="list-style-type: none"> • Monitor risk management goals directed by the Committee and Board of Directors | <ul style="list-style-type: none"> • Separately monitor the impact which could have on Credit, Market and Operational risks |
| <ul style="list-style-type: none"> • Ensure implementation of prudent concepts and methods in risk management | <ul style="list-style-type: none"> • Ensure thresholds of risk management concepts are not violated and operated within the limits | <ul style="list-style-type: none"> • Carries out risk identification assessment and mitigating activities |
| <ul style="list-style-type: none"> • Evaluation of the progress of the risk management policies of the Bank | <ul style="list-style-type: none"> • Review the policies and methodology adopted in risk management process in the Bank | <ul style="list-style-type: none"> • Follow up on the risk tolerance levels directed as per risk appetite of the Bank |
| | <ul style="list-style-type: none"> • Updates the Board of Directors on the outcome of monitoring and submits risk commentaries from time to time to review the policies of the Board. | |

by the regulator. Therefore, well balanced risk management policies are adopted to manage the main risks and other contingencies with efficient capital allocation to absorb any shock from all areas.

A well diversified and integrated organisational structure is in place as a supporting tool for implementing the risk management practices within the organisation and robust governance within the Bank for monitoring purposes is also in place. The policy framework is also designed as per risk appetite of the Bank to manage and monitor risks within the Bank and any impact from external sources. Businesses are implicated in the risk management process as the front line owners of risk identification and prevention activities. These are imposed based on the tolerance levels of

- Adopting a viable structure to ensure Banks' risk management is maintained within the tolerance levels of the Bank policies and procedures, which will also be linked with the compliance and audit function
- Adherence to Regulatory thresholds and directions is according to the specifications within the business lines
- Establishing an independent risk management function within the Bank for monitoring risk tolerance levels and breaches and also to ensure taking precautionary action to mitigate risk prior to implementation of the major business products

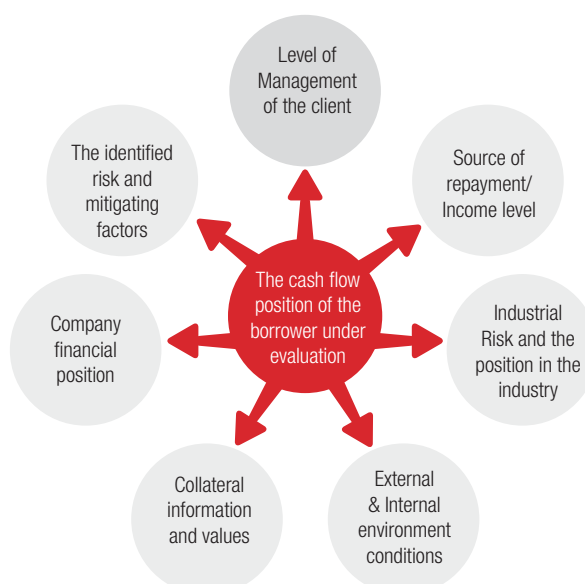
- Proposing risk based pricing methods to ensure higher profitability
- Ensuring the regulatory requirements of maintaining minimum internal capital adequacy levels by identification of risk weighted assets
- Ensuring a well designed structural level in place for risk monitoring and controlling as shown below



Credit Risk

Credit Risk arises due to risk of potential financial loss resulting from the failure of borrowers or counterparties to meet their debt or contractual obligations. This could be due to the risks both on and off balance sheet activities. Lending has always been a primary function of banking, and accurately assessing a borrower's credit worthiness via several

risk management tools has always been the most effective method of maintaining high credit quality. The method of analysis required varies from borrower to borrower. It also varies in function of the type of lending being considered. Pan Asia's credit analysis could be elaborated in the following chart.



Risk Management

In this process the Bank considers credit risk management as an integral part in the lending process and also as a value enhancing activity that is beyond the requirement of the principle norms in lending. These processes will include;

- Building a credit risk management environment which necessitates a risk optimisation
- A well designed credit delegated authority process and disbursement procedure with policy adherence in line with regulatory requirements
- Best practices in credit administration, identification of credit risks & monitoring processes with benchmarking the top level performances in the industry
- Better methodologies for business continuity with the high level credit risk controls

Risk mitigating factors above will ensure the optimum rewards out of the lending exposure of Bank with thorough evaluation process. Risk department will also evaluate all exposures independently in the credit granting process. The exposures are spread over short and medium terms mainly to reduce the overall exposures in the long run to a greater extent. The exposures are monitored according to the identified risk goals and mitigating factors to ensure minimum impact

Credit risk management function is broadly categorised in following areas for better risk identification and managing process;

Credit Risk Mitigation

Risk Rating of Borrowers

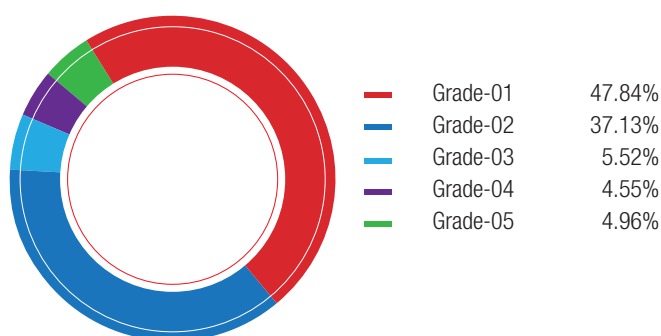
All borrowers are being rated as per bank's borrower risk rating process, which was automated during the year under review. The procedure was introduced in conjunction with the internal rating module to be introduced for Basel requirements on way forward. The risk rating consists of both quantitative and qualitative measurement methodology which is benchmarked with developed evaluation systems in the sector.

The collateral is considered as a second way out and is introduced as per outcome of the rating modules. The Bank request for collateral as when the borrower's primary source of repayments becomes volatile. The securities are obtained as per bank's credit policy and the acceptability of the said collateral.

Portfolio management is done based on the risk rating of the individual advances. The risk identification is done on the basis of collateral held for a particular product which falls on to similar categories of exposure.

| | |
|---------------------------------|--|
| Credit risk mitigating function | <ul style="list-style-type: none"> • Evaluation of all credit granting processes independently to suggest improvements or additional mitigating factors as per risk policy of the Bank • Periodic evaluation of portfolios for impact on future risks • Overall monitoring of key risk areas in the Bank at Board level Committees • Follow up and prevention of new NPAs getting in to the Bank's books by timely following up on predictions on weakening credit |
| Review of credit facilities | <ul style="list-style-type: none"> • Evaluate the position of pending reviews and ensure timely update on same • To do a periodic review independently on performance of the newly granted facilities • Review of risk rating process and identification of watch list of accounts and review at Board level Committees |
| Portfolio management in risk | <ul style="list-style-type: none"> • New product review and position of same in the Bank's book • The impact on particular portfolio depending on the external environment • Maintaining transparency in all social and environment-related activities |

The risk rating exposure of the Bank is given below; (Interpretations of the ratings are given in page 139)



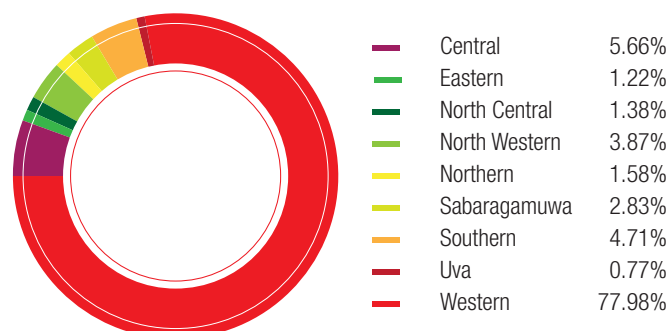
Classification and Accounting

The risk on industrial exposure is also an area perused in lending activity of the Bank's monitoring process. Exposures, when reaching 10% of the lending portfolio will be brought to the notice of the business units as a controlling factor. These thresholds are monitored by the Board Integrated Risk Management Committee periodically as part of portfolio management policy. Risk concentration is also considered as a part of indicator to ensure a better portfolio mix. These behavioral and characteristics of credit within the Bank are subject to close monitoring to ensure the least impact when changes take place in the environment.

Geographical Distribution of Credit Exposure

High concentration of the lending portfolio was observed within the Western Province as per geographical distribution of the lending exposure of the Bank. Both retail and corporate banking activities were high within the Western Province. As a lending strategy bank has embarked on developing credit in the urban and suburbs as part of its expansion projects. Identification of credit and lending to retail and SME sectors will also be extensively developed.

The geographical distribution of the Bank's portfolio is given below.

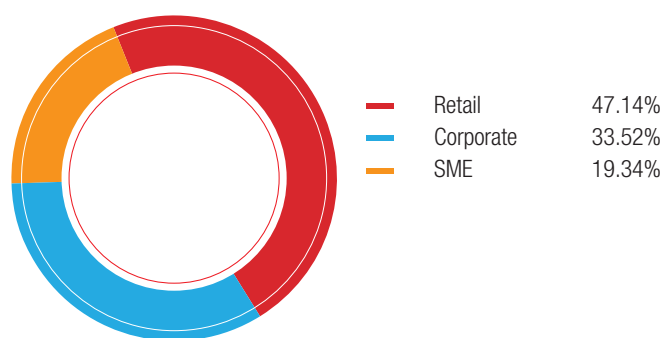


The industry analysis of the Bank's lending portfolio is given below;



Risk Management

The Bank has the following exposure for lending activities as per Retail, SME and Corporate portfolios. As part of the lending development process Bank has now established a separate SME division under the supervision of a business unit head to expand SME portfolio. Area managers have been deployed for the development of the Bank's SME products.



Other contingencies in risk mitigating in lending activities such as social and environment changes are constantly monitored by credit risk and to safeguard the portfolio. The Bank's strategy for lending is also based on the said development and suggested sectors for lending are also identified as per trends and developments in the local and world market conditions. Trade related activities especially in the area of exports connected facilities are analysed before hand when sanctioned. Development in the world economies and shifting of wealth is a factor to consider in bank's international trading operations.

Market Risk

Market Risk is the risk that 'on' or 'off' balance sheet positions will be adversely affected by market variables such as interest rates, exchange rates, equity and commodity prices. This will have an impact on the fair value or future cash flows of financial instruments which are exposed to general and specific market fluctuations. The Bank has established policies which has taken into account these key risks. The key market risks are as follows;

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. It is the policy of the Bank to ensure that adequate liquidity is maintained in all currencies to meet its obligations. This is performed through cash flow management, maintenance of liquidity ratios such as Statutory Reserve Ratio, Statutory Liquid Asset Ratio and Advances/Deposit Ratio.

Foreign Exchange Risk

Foreign Exchange risk is the risk that the Bank may incur losses as a result of adverse exchange rate movement during a period in which the Bank has an open position. Forex risk is managed through a framework of BOD approved limits, including currency specific open position limits, dealer limits, daylight/ overnight limits, take profit and loss limits, CBSL overnight position limits, counterparty limits etc.

Interest Rate Risk

Interest rate risk is a critical component of market risk management. Interest Rate Risk is created from volatility of interest rates, when pricing of assets and liabilities is not matched. Any adverse changes in interest rates can impact the net interest margins of the Bank. The management of Interest rate risk is monitored and controlled by Assets and Liabilities Committee.

Equity Risk

Equity risk is the financial risk involved in holding equity in a particular investment. During the year under review, Bank continued to maintain a small portfolio of quoted equities for trading purposes.

Commodity Risk

Commodity risk refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. During the year under review, Bank did not have investments in commodity instruments.

Assets and Liabilities Committee (ALCO)

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

Treasury Risk Assessment Committee

The Treasury Risk Management Committee focuses on strengthening the risk management process with clear responsibilities. The Committee is responsible and accountable to the Board Integrated Risk Management Committee (IRMC). The Committee suggests appropriate action to improve the Treasury Risk Management Policies/Procedures based on Key Risk Indicators. The Committee is required to report the identified loss events & key risk indicators to IRMC on quarterly basis.

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

Treasury Middle Office

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

- Daily monitoring of adherence to Board approved counterparty limits and exposure limits set by the Central Bank
- Monitoring activities prescribed by Central Bank such as Liquidity ratio, Reserve Requirements etc.
- Monitoring of trading platform conversations of dealing staff including take profit and loss limits
- Mark to market calculations of trading, investment and pawing/'Ran loan' portfolios.
- Monitoring of Primary Dealer Unit (PDU) transactions including detailed checks on transactions such as performing sanity checks in order to avoid adjusted trading.

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

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

The Bank will continue to strengthen its Middle Office function in 2014 by further strengthening its market risk assessment and monitoring with the expectation of implementing a sophisticated treasury risk management system.

Operational Risk

Operational risk is a distinct class of risk from all other risks inherent in the business of banking although all risks are highly interdependent. Operational risk management focuses on a menu of risk events namely internal frauds, employment practices and work place safety, systems and communication failures, distribution channels failures, execution, delivery and process failures, customers, products & services and business practices, external frauds, damage to physical assets, etc. Banks with a strong culture of risk management are less likely to experience potentially damaging operational risk events and are better placed to deal effectively with those events that do occur.

Objectives and Benefits

The Bank increasingly values the contribution and efforts of operational risk management on the business. In addition to the adherence to regulatory guidelines and directions, such efforts are important to minimise losses and protect the Bank's capital. Some of the objectives

Risk Management

and benefits of the operational risk management framework of the Bank are as follows:

- **Identifies the Risk Exposures**

Operational risk management framework enables the Bank to identify measure, monitor and control the inherent risk exposures of the operation of various business lines to mitigate the losses.

- **Develops Visibility**

The operational risk management strategy provides visibility to the ongoing risk management efforts and brings high risk areas to the focus of management and enhances capability to compile and submit reports to appropriate risk management committees and forums and the regulators.

- **Risk Smart Workforce**

The application of risk management framework and strategy support a cultural shift in the Bank to have a risk-smart employees and a risk sensitive work environment, which help the Bank to have a competitive edge in the market.

- **Personal Accountability of Employees**

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

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

Under the contemporary international and local regulatory directions, the Banks are required to maintain capital on operational risk sensitivity of each line of business, and further requested to migrate to more advanced approaches to calculate the capital requirements. With streamlined risk management processes the Bank strives for efficient allocation of risk sensitive capital.

- **Brand Image of the Bank**

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

Management Policy which is approved by the Board of Directors and annually reviewed and updated.

- Currently the Bank is contemplating to migrate to advanced approaches in calculation of capital of the Bank sensitive to the business lines. Since business line related operational risk capital is to be maintained, it provides the Board of Directors and Key Management Personnel with an opportunity to decide upon the focus or otherwise on a particular line of business keeping a view on net profit of each business line. These approaches are well defined and documented in the Income Segregation Policy which is approved by the Board of Directors.
- The Bank's operational risk management practices are subject to independent review by internal and external auditors.
- The Bank has a separate Operational Risk Management Unit for risk monitoring of on-going operations of the Bank and suggest improvements to the systems and processes.
- Based on the requirement to strengthen the operational risk management process with clear responsibilities, an Operational Risk Management Sub Committee is established within the Bank, consisting management personnel in operations and related activities chaired by the Chief Risk Officer of the Bank. The sub committee is responsible, accountable and answerable to the Board Integrated Risk Management Committee (IRMC).

Methodologies and Strategy

For effective monitoring and mitigation of operational risk, the Bank has implemented following methodologies and strategies:

- The Operational Risk Management Unit is supervised by the Head of Operational Risk, which is involved in monitoring of identified operational risk areas across the branch network and departments on a daily, monthly and quarterly basis.
- The identified risk exposures on daily monitoring are directed to relevant management personnel for immediate rectification. The follow-up on such rectifications are also being carried out and reported to relevant Key Management Personnel.
- Significant risk exposures are reported to senior management on a weekly and monthly basis.
- The identified key risk indicators are managed through data gathering and report to IRMC on a quarterly basis.

Philosophy and Principles

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

- The internal operating policies of the Bank's operational risk management framework is outlined in the Operational Risk

- The Chief Risk Officer has an effective monitoring mechanism of operational risk by way of active communications and discussions with employees attached to the Operational Risk Management Unit and Head of Operational Risk.
- Provide continuous training to employees of the branch network and operations related departments on correct operational procedures and risk mitigation.
- Provide suggestions to minimise risks and losses in new product development and at the review of existing products.
- Minimise the financial impact of operational losses through adequate monitoring, follow-up and utilisation of insurance cover.

Due Diligence Tests on Activities Outsourced

In the provision of banking services, the Bank outsource service providers to obtain services for activities directly related to the financial services and core banking activities, to meet the challenges of rapid changes and innovations in technology, increasing specialisation in the market, cost control of operations by minimising costs of directly handling such activities, and effectively compete in the market.

The outsourcing activities are governed by the laws applicable to the banking industry and directions issued by the regulator. Further, the Bank has an Outsourcing Policy approved by the Board of Directors which clearly stipulates internal controls and due diligence in obtaining outsourced services. Under this policy, a Due Diligence Committee consisting relevant Key Management Personnel and the Head of the Department for which the outsourced activity obtained is in place, which ensure the adherence to correct procedures and processes in assessment and obtaining such services.

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 Burglary, 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.

The Business Continuity Plan (BCP)

The Business Continuity Plan (BCP) is an essential part of any organisation's response planning. It sets out how the business will operate following an incident and how it expects to return to 'business as usual' in the quickest possible time afterwards. The BCP of the Bank covers all areas of banking operations with agreed arrangements for bringing events under control, the necessary resources for maintaining critical business functions and the staff required for co-ordinating actions etc. This document is reviewed periodically and updated. Disaster Recovery Drills are conducted at least once in six months to test the effectiveness of BCP.

Investment in Information Technology

IT is considered an enabler rather than mere supporting unit, since the dependency in IT is far greater in modern day Banking. In recognising this, Bank took a decision to replace the existing core Banking system which is 10 years old with "Finacle" core banking system, after carefully considering the current local deployments, the gaps and user needs. Finacle is expected to go live during the 3rd quarter of 2014. Once the Finacle project is completed Bank will focus on upgrading other Electronic channels such as mobile and internet banking etc. We have also commenced sms alerts service to all our customer where we will initiate sms alerts for transactions providing value addition to client while enhancing the security.

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.

Risk Management

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 this 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.

Trends in Key Indicators

| As at | 31 December 2013 | 31 December 2012 |
|---|---------------------|---------------------|
| Net Loans to Total Assets | 68.90% | 77.06% |
| Loans to Customer Deposits | 80.49% | 89.20% |
| Liquid Assets to Short-term Liabilities | 4.59 | 7.69 |
| Large Liabilities to Earning Assets | 0.70 | 0.81 |
| Purchased Funds to Total Assets | 88.22% | 87.28% |
| Commitments to Total Loans | 9.24% | 7.01% |

Human Capital

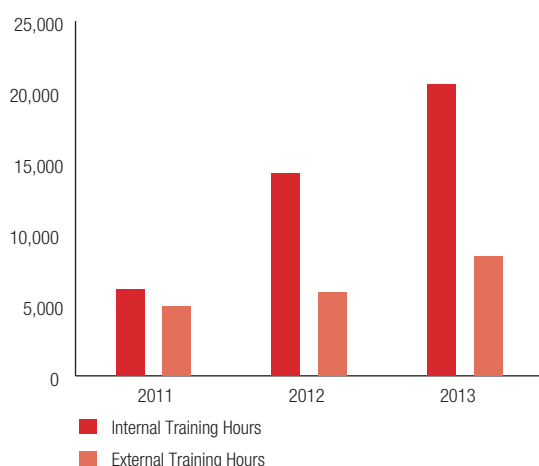
We firmly believe that the effectiveness and success of our Bank lies not only in our products and service, but in the Bank's resources. As a Bank we have many resources of which clearly contribute directly to our organisation in terms of knowledge, ability, decision making and intelligence, which are our Human Capital. As a direct result of the value of our employees, it is empirical that we take special care to ensure the job satisfaction of our employees, regardless of how major or minor the job may be. The people behind the scenes, operating and running the organisation, are by far, the most valuable resource we as a Bank have to utilise. We have recognised having good people in the right place makes a significant difference, laying the platform of our competitive advantage.

People Development

Considering today's economic pace and the demands placed on the Bank by the modern consumer it is empirical that the Bank has a learning and fostering culture. Our employees are the ones that produce, refine, protect, deliver and manage the Bank's products and services every day, year in, year out. With the rapid pace and international reach of the 21st century marketplace, continual learning is critical to our Bank's success.

We completed 20,565 internal training hours and 8,389 external training hours. The total training hours completed in the year 2013 was 28,954. The figures indicate that in comparison with the previous year, we have increased our training hours considerably during the year 2013 by recording a 44% of increase on internal training hours and 42% on external training hours. One of the most significant programs launched during the year 2013 was the Management Trainee program. This program was branded as 'Aspire' Management Trainee Program, projecting our belief of 'where potential meets opportunity' through the 'Aspire' program. This program has opened up many avenues for the selected Management Trainees who were handpicked to aspire their careers with Pan Asia Bank.

Training Hours



The Bank placed an emphasis on the development of staff and launched our first ever Speech Craft program conducted by the Colombo Toast Masters Club. Two successful batches of employees were taken through the successful speech craft program which resulted in an immersive development of the respective employees. Further, in order to enhance the corporate image, in-house trainers deployed a grooming training program covering all staff members, to be continued on an ongoing basis for all new employees as well. In the Banking industry where the service extended by our employees is the main differentiator, a unique Service Excellence Training program was launched aiming to elevate the customer service standards of the Bank to a unique and competitive platform. Branch Operations and Credit Training was extensively focused in the year 2013 to meet the business demand and to enable staff members to serve customers in a new perspective.

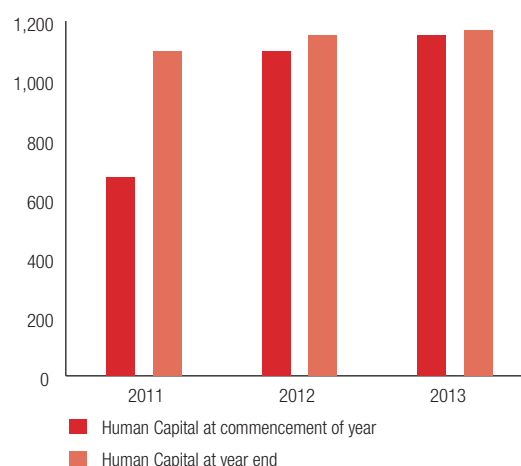
To create a learning culture in our Bank, we place an emphasis on clearly communicating our expectation that employees should take the steps necessary to hone their skills to stay on top of their professions or fields of work. We assist their efforts in this area by supplying the resources they need to accomplish this goal by way of relevant Training programs, both internally and externally.

Talent Acquisition

Having expanded rapidly during the past 2 years the Bank concentrated on consolidating its presence in 2013. Thereby expanding our Branch network by 4 strategically located Branches while our staff strength grew by 16 employees and remained at 1,169 employees as at the end of 2013.

Our employees were given the opportunity to aspire their career aspirations by way of promotional opportunities. This not only motivated the hard work of the deserving employees but also fulfilled the Bank's

Number of Employees



Human Capital

existing and new vacancies. A total of 153 employees were promoted in 2013. Considering the Bank's expansion rate in 2013 as against 4 new branches commencing operations, the promotional opportunities offered were much greater to that of the previous year.

Apart from the promotional opportunities provided the Bank's employees also had the opportunity of moving laterally into different roles as per the Bank's Job Rotation Policy. This not only enabled the Bank to have a more potent range of employees but also develop the employees further in terms of building job capabilities within them to become all-round bankers.

Performance Management

The overall performances of the employees were done utilising the Performance Management system implemented in 2010. As per the practice of the Bank the objectives of the Chief Executive Officer were set at the beginning of the year and cascaded down to all other grades of employees ensuring that they understand and deliver their expectations in terms of performance and results generation.

Remuneration Policy

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



Vesak Lantern Competition and Bana Sermon

Employee Relations and Engagement

At Pan Asia, Employee Relations involves the body of work concerned with maintaining healthy employer-employee relationships that contribute to satisfactory productivity, motivation, engagement and morale. Essentially, we focus on preventing and resolving problems involving individuals who arise out of or affect work situations and provide motivation and guidance to the staff through Employee Relations. We actively encourage and invite our employees to share the decision making process of the Bank by participating in activities such as setting goals, determining work schedules and making suggestions.

The Joint Consultative Council (JCC) has made valuable contribution towards fostering and furthering employee relations over the year. The JCC meetings held throughout the year enabled us to address matters of mutual interest through the positive relations formed between the employees and the Management. The committee of the JCC is made up of employees from the grade of Assistant Manager and below, whilst the Corporate and Senior Management members participate by invitation to address matters of mutual interest.

Employee Engagement Programmes

Each year several staff events are organised with the intention of boosting the morale and motivating the staff. These events are looked forward to with much anticipation by the entire body of employees and contribute immensely towards the performance and team spirit of the employees while furthering the goodwill between the Management and staff.



Vesak Lantern Competition and Bana Sermon

Vesak Lantern Competition and Bana Sermon

Each year the Pan Asia Bank Human Resources Department together with the Sports Club organise the Vesak Bana Serman and Lantern Competition in keeping with National traditions and festivities. This year too, this event

was a huge success providing opportunity for staff to work together voluntarily to show off their creativity and engage in a friendly competition. The Bana sermon and the refreshments served afterwards, provided yet another opportunity for staff to gather and interact in a relaxed frame of mind.

Poson Bhakthi Gee



Poson Bhakthi Gee



Poson Bhakthi Gee

Staff from the branches and support departments participated in singing Poson Bhakthi Gee at the Poson Bhakthi Gee evening organised in front of the Head Office. It was a successful and pleasurable evening which provided an opportunity for staff members to gather and enjoy fellowship transcending religion and race.

Kiddies Party

The Kiddies Christmas Party is an annual event looked forward to by staff and their little bundles of joy. Kids and parents alike enjoyed the many games, prizes, cartoon characters and the arrival of Santa which were the highlights of this year's Kiddies party, organised by the Sports Club as the culminating event for the year 2013.



Kiddies Party



Kiddies Party

Human Resource Management System

Modern business practice requires an integrated human resource system to replace manual processes of business operations, resulting in reduced administrative procedures and processes. The corresponding increase in productivity due to centralised and automated systems, assists us to focus on more mission critical aspects as well as achieve operational efficiencies. Although paperwork hasn't been totally reduced at present our main aim is for our Human Resource Management System to take us closer towards a paper-less environment.



Sustainability Report

We apply high environmental and social standards to our business to support a sustainable future.

Corporate Social Responsibility Report

Pan Asia Bank believes that the best way to implement a meaningful CSR initiative is to integrate it deeply into business decision making at every level of a company. Hence, while actively promoting and engaging in social activities that help strengthen communities and contribute to the enrichment of society, we make every endeavor to align it with our core business activities thus creating a sustainable synergy between both. This is why, apart from numerous CSR activities conducted by our branches in their localities year around, we have been developing product offerings that add value to our core business as well as to the society we live in.

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 introduced an innovative product called "Suwasavi Fixed Deposit" which provides a free medical insurance cover for the depositor and his/her family. The main idea behind introduction of this product was to enable every person to provide the best healthcare to their loved ones, without eroding the family's future savings. In fact, this product allows customers to build their future savings by earning an attractive interest while being able to provide the best healthcare to their loved ones when the need arise.
- Pan Asia Bank conducted awareness campaigns in several districts 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, missing and action soldiers. Majority of these parties currently do not actively operate as a part of the labour force in Sri Lanka and "Ranaviru Harasara" loan scheme expects to provide them with capital to start self employment ventures which will empower them to become productive citizens of the country again.
- Pan Asia Bank initiated yet another breakthrough community service by introducing "Sammana", a personal loan scheme targetted at the retired government servants which is a segment that has been largely ignored by credit providers in Sri Lanka. Introduction of "Sammana" has enabled many senior citizens to actively contribute to the country's economy by allowing them to start self employment projects and enhance their living standards.

Art & Culture

- Pan Asia bank was the main sponsor in the launch of screening the internationally featured film "Midnight's Children" which was filmed in several locations around Sri Lanka. This initiative was aimed at creating an opportunity for the general public to experience a rare artistic cinematic production while generating awareness on Sri Lanka as a recognised location for cinema industry.
- In year 2013 Pan Asia Bank sponsored a "Sinhala and Tamil New Year Festival" held in Japan organised by the Sri Lankan community in Japan to create awareness about the Sri Lankan culture among the citizens of Japan.

Sports

- Pan Asia Bank as one of Sri Lanka's fastest growing dynamic banks, took the initiative to sponsor the Sri Lanka schools under 19 Girls & Boys - "A" Division All Island Basketball Championship in 2013 which was organised by the Sri Lanka Schools Basketball Association (SLSBA). The main objective of sponsoring this tournament was to develop the young talent and raise the standards of school basketball in Sri Lanka as a dynamic sport that is fast gaining popularity among youngsters and teenagers alike.



Basketball sponsorship

- Pan Asia Bank once again sponsored the Sunshine Games 2013, a sports meet organised by the Rotary Club of Colombo Metropolitan for the differently abled children annually to enhance their hidden potential in sports and other activities as well as to enhance their self confidence by giving them a full day of fun and entertainment.



Sunshine Games



Navy Cap

- Pan Asia Bank sponsored the Navy Cap 2013, a sporting event organised jointly by the Sri Lanka Navy and the Municipal Council of Nuwara Eliya, in April 2013. The main objective of Navy Cap 2013 was to create an attraction for tourists while promoting Water Sports in the country. The First Lady Madam Shiranthi Rajapakse was the honorable chief guest at the occasion.

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 Controls.
- Assurance Report for Banks on the Directors' Statement on Internal Controls.
- 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 86
- Board Integrated Risk Management Committee - Page 88
- Board Human Resources & Remuneration Committee - Page 89
- Board Nomination Committee - Page 90
- Board Credit 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 | Overall business strategy and the risk management policies and procedures have been approved by the Board. |
| (c) | Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently | A process is in place. |
| (d) | Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers | A shareholder communication policy approved by the Board is in place. |
| (e) | Review the adequacy and the integrity of the Bank's internal control systems and management information systems | The Bank has separate Internal Audit department which directly report to the Board Audit Committee. The Board Audit Committee relies on the internal audit department to determine the adequacy and the integrity of the internal control system and Management Information Systems |

| Section | Principle | Compliance & Implementation |
|---------|--|---|
| f. | Identify and designate Key Management Personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: <ul style="list-style-type: none"> (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management | Identification of the Key Management Personnel is made 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” of the Bank |
| 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. Defined areas of authority and the goals and targets for the Board have been approved by the Board. The Chief Executive Officer’s responsibilities have been identified. |
| h. | Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy; | Key Management Personnel are requested to attend Board Meetings as and when need arises to explain matters relating to their respective areas. The Key Management Personnel affairs are monitored by the Board. |
| i. | Periodically assess the effectiveness of the Board Directors’ own governance practices, including: <ul style="list-style-type: none"> (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary; | 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 and meetings of Board Committees by invitation to make presentation on their respective areas. |
| l. | Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators | The Compliance Officer keeps abreast with the regulatory Requirements. 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 Board Audit Committee charter approved by the Board specifies these requirements |

Corporate Governance Report

| Section | Principle | Compliance & Implementation |
|-------------|--|--|
| 3(1)(ii) | The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3(5) of these Directions. | The Chairman and the Chief Executive Officer are appointed by the Board. Functions and responsibilities of the Chairman has been defined and approved by the Board. |
| 3 (1) (iii) | The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/ papers shall be avoided as far as possible | 12 Board Meetings were held during the year and the regulation has been complied accordingly. The attendance of the Board and the committee meetings are given in the page no 73. |
| 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 | Notice and agenda are issued to Directors 7 days in advance for the Board meetings. |
| 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. |
| 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. | All Directors have access to the advice and services of the Company Secretary. |
| 3(1)(ix) | The Company Secretary shall maintain the Minutes of Board meetings and such Minutes shall be open for inspection at any reasonable time, with reasonable notice by any Director | 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. |

| Section | Principle | Compliance & Implementation |
|-------------|---|---|
| 3(1)(x) | <p>Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The Minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board Meetings. Therefore, the Minutes of a Board Meeting shall clearly contain or refer to the following:</p> <ul style="list-style-type: none"> (i) a summary of data and information used by the Board in its deliberations; (ii) the matters considered by the Board; (iii) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (iv) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (v) the Board's knowledge and understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (vi) the decisions and Board resolutions | <p>Board Minutes contain a summary of data and information used by the Board in its deliberations, decisions and Board resolutions. Board minutes also contain and refer to the fact-finding discussions, matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations. The 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. The Minutes are maintained to provide the details stipulated.</p> |
| 3(1)(xi) | <p>There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the Bank</p> | <p>Approved Board procedure includes a provision to enable the Directors to seek independent professional advice at the Bank's expense.</p> |
| 3(1)(xii) | <p>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</p> | <p>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.</p> |
| 3(1) (xiii) | <p>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</p> | <p>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.</p> |

Corporate Governance Report

| Section | Principle | Compliance & Implementation |
|-------------|--|--|
| 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 2013. |
| 3(1)(xv) | The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds | The Bank is in compliance with the Capital Adequacy requirements stipulated by the Central Bank of Sri Lanka. |
| 3(1) (xvi) | The Board shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction | The Corporate Governance Report is published in page 56 to 72 of Annual Report. |
| 3(1) (xvii) | The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments. | Self assessment of each director is performed annually and filed with the Company Secretary. |
| 3(2) | The Board's Composition | |
| 3(2)(i) | The number of Directors on the Board shall not be less than 7 and not more than 13. | 11 Directors constitute the Board. |
| 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 he is not an Independent Director. |

| Section | Principle | Compliance & Implementation |
|-------------|---|--|
| (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 2013. |
| (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 2013. |
| (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 2013. |
| (e) | represents a specific stakeholder of the Bank; | The Bank has not come across any such situation during the year 2013. |
| (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 | 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. | Company Secretary ensures that the Alternate Director appointed to represent an Independent Director is also an Independent Director. |
| 3(2)(vi) | Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources. | Nomination Committee is in place to consider the appointment of Non Executive Directors. |
| 3(2)(vii) | A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non-Executive Directors. | Required quorum 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 with. Please refer page 73 "Present Composition of the Directors" |

Corporate Governance Report

| Section | Principle | Compliance & Implementation |
|-------------|---|--|
| 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. | 02 Directors were appointed to fill casual vacancies who will be subject to election by shareholders at the Annual General Meeting to be held in 2014. |
| 3(2) (xi) | If a Director resigns or is removed from office, the Board shall: <ul style="list-style-type: none"> (i) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (ii) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders' | Director resignations and removals are duly communicated to the relevant regulatory authorities as per Colombo Stock Exchange regulations. Mr. G. C. A. De Silva resigned from the Board and Mr. A. A. Page ceased to be a Director. |
| 3(2)(xii) | A Director or an employee of a Bank shall not be appointed, elected or nominated as a director of another bank except where such Bank is a subsidiary company or an associate company of the first mentioned Bank | None of the present Directors of the Bank act as a Director of another Bank. Directors have been requested to inform the Board if the Director concerned is appointed, elected or nominated as a Director of another Bank. |
| 3(3) | Criteria to Assess the Fitness and Propriety of Directors | |
| 3(3)(i) | The age of a person who serves as Director shall not exceed 70 years. | No Director has reached 70 years. The Company Secretary maintains records of the age of the Directors. |
| 3(3)(ii) | A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank. 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 1 January 2009 comply with the above mentioned limitation and notify the Monetary Board accordingly. | As per the declarations provided by the Directors, no Director holds Directorships in more than 20 Companies |
| 3(4) | Management Functions Delegated by the Board | |
| 3(4)(i) | The Directors shall carefully study and clearly understand the delegation arrangements in place. | Delegation arrangements have been approved by the Board. |

| Section | Principle | Compliance & Implementation |
|-------------|---|---|
| 3(4)(ii) | The Board shall not delegate any matters to a Board committees, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions | Complied with. All delegations are made in a manner that would not hinder/reduce the Board's ability to discharge its functions. |
| 3(4)(iii) | The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank. Delegation arrangements are reviewed based on business requirements. | The delegation powers are reviewed periodically based on the needs of the Bank. |
| 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 | 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 | The Chairman is responsible for conducting of the Board meetings, preserves order and ensures that the proceedings of the meetings are conducted in a proper manner. |
| 3(5)(v) | The Chairman shall be primarily responsible for drawing up and approving the agenda for each board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary | The Company Secretary circulates 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 | 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 |

Corporate Governance Report

| Section | Principle | Compliance & Implementation |
|-----------------|--|---|
| 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 | The Chairman ensures that the Non-Executive Directors actively contributed to the decisions of the Board. |
| 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, Credit, HR & Remuneration and Integrated Risk Management Committees. All Board Committees submit minutes to the Board. Each Committee report is published in the Annual Report in pages 86 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 an Independent Non-Executive Director. Qualifications and experience are disclosed in page 18 & 19 of the Annual Report. New BAC Chairman appointed w.e.f. 28 th August 2013 as former Chairman was indisposed and resigned from Board w.e.f. 14 th October 2013 |
| (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: <ul style="list-style-type: none"> (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 | <p>The Audit Committee has made the following recommendations;</p> <ul style="list-style-type: none"> -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. <p>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.</p> |
| (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. |

| Section | Principle | Compliance & Implementation |
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| (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> <ul style="list-style-type: none"> (i) whether the skills and experience of the audit firm make it a suitable provider of the non-audit services; (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and (iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the external auditor. | A policy in place to ensure compliance with the requirement. |
| (f) | <p>The Committee shall, before the audit commences, discuss and finalise with the external auditors the nature and scope of the audit, including:</p> <ul style="list-style-type: none"> (i) an assessment of the Bank's compliance with the relevant Directions in relation to Corporate Governance and the management's internal controls over financial reporting; (ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between firms where more than one audit firm is involved | The nature and scope of the audit was discussed at the Board Audit Committee meeting held on 27 th September 2013 |
| (g) | <p>The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the Bank's annual report and accounts and quarterly reports before submission to the Board, the committee shall focus particularly on:</p> <ul style="list-style-type: none"> (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant Accounting Standards and other legal requirements. | The Annual and Quarterly Financial Statements prepared ongoing concern basis in accordance with Sri Lanka Accounting Standards and other legal requirements are presented to the Committee by the Chief Financial Officer. |

Corporate Governance Report

| Section | Principle | Compliance & Implementation |
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| (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 | The Committee has met external auditors independently and discussed related matters. |
| (i) | The Committee shall review the external auditor's Management Letter and the management's response thereto | The Committee has reviewed the external auditor's Management Letter and the management response thereto. |
| (j) | <p>The Committee shall take the following steps with regard to the internal audit function of the Bank:</p> <ul style="list-style-type: none"> (i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work; (ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department; (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; (v) Ensure that the Committee is appraised of resignations of senior staff members of the internal audit department including the chief internal 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 was 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. |
| (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 | Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Chief Internal Auditor normally attend meetings. Other Corporate and Senior Management members may also attend meetings upon the invitation of the Committee. The Committee has met the external auditors independently at the Board Audit Committee meetings held on 15 th July 2013 & 27 th September 2013 without the executive management |

| Section | Principle | Compliance & Implementation |
|------------------|---|--|
| (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. | The Terms of the Reference of the Board Audit committee include this scope and the responsibility and the Committee exercises the authority accordingly. |
| (n) | The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities. | The Committee has met 15 times in 2013. (12 Regular and 3 Special meetings) |
| (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 86 & 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 records and keeps 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 | The Committee has reviewed and approved Whistle Blowing Policy which 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. | The key functions of the Human Resources & Remuneration Committee are disclosed in Page 89. |
| (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. |

Corporate Governance Report

| Section | Principle | Compliance & Implementation |
|----------------|--|--|
| (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. Succession arrangements for retiring 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. |
| (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. | A process is in place to assess 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. |

| Section | Principle | Compliance & Implementation |
|-------------|---|--|
| (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. | 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 assessment 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. |
| 3(7) | Related Party Transactions | |
| 3(7)(i) | The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as "Related Parties" for the purposes of this Direction: (a) Any of the Bank's subsidiary companies; (b) Any of the Bank's associate companies; (c) Any of the Directors of the Bank; (d) Any of the Bank's Key Management Personnel; (e) A close relation of any of the Bank's Directors or Key Management Personnel; (f) A shareholder owning a material interest in the Bank; (g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest | A 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 | There is a documented policy approved by the Board on Related Party Transactions for Bank to avoid conflict of interest. |
| (b) | The creation of any liabilities of the Bank in the form of deposits, borrowings and investments | There is a documented policy approved by the Board on Related Party Transactions for Bank to avoid conflict of interest. |
| (c) | The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank | There is a documented policy approved by the Board on Related Party Transactions for Bank to avoid conflict of interest. |

Corporate Governance Report

| Section | Principle | Compliance & Implementation |
|-----------|---|---|
| (d) | The creation or maintenance of reporting lines and information flows between the Bank and any Related Parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such Related Parties | There is a documented policy approved by the Board on Related Party Transactions for Bank to avoid conflict of interest. |
| 3(7)(iii) | The Board shall ensure that the Bank does not engage in transactions with Related Parties as defined in Direction 3(7) (i) above, in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the Bank carrying on the same business. In this context, "more favorable treatment" shall mean and include treatment, including the | There is a documented policy approved by the Board on Related Party Transactions of the Bank to avoid conflict of interest. Monitoring and reporting of such transactions and retrieving of such transactions through the branch network is expected to strengthen further. |
| (a) | Granting of "Total Net Accommodation" to Related Parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board. For purposes of this sub-direction (I) "Accommodation" shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation. (II) The "Total Net Accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such Related Parties in the Bank's share capital and debt instruments with a maturity of 5 years or more. | There is a documented policy approved by the Board on Related Party Transactions of the Bank to avoid conflict of interest. Monitoring and reporting of such transactions and retrieving of such transactions through the branch network is expected to strengthen further. |
| (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. T. G. Thoradeniya whose facilities to be formalised in February 2014. |

| Section | Principle | Compliance & Implementation |
|-------------|--|--|
| 3(7)(v)(a) | Where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director | The Bank follows guidelines issued by Central Bank of Sri Lanka for related party transactions. |
| (b) | Where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier | The Bank follows guidelines issued by Central Bank of Sri Lanka for related party transactions. |
| (c) | Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of Director and the Bank shall disclose such fact to the public. | The Bank follows guidelines issued by Central Bank of Sri Lanka for related party transactions. |
| (d) | This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank | The Bank follows guidelines issued by Central Bank of Sri Lanka for related party transactions. |
| 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 favorable 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: | |

Corporate Governance Report

| Section | Principle | Compliance & Implementation |
|-------------|---|---|
| (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" |
| (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 76 of the Annual Report under "Directors' Statement on Internal Controls over Financial Reporting" |
| (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 | External Auditors' Assurance Report on Bank's Internal Controls are published in page 78 of the Annual Report |
| (d) | Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/ remuneration paid by the Bank | Relevant disclosures are include in; (i) Profiles of Board of Directors in pages 18 to 19 (ii) Notes to the Financial Statements on "Directors Emoluments" in page 115 and Related Party Disclosure in page 155 of the Annual Report |
| (e) | Total net accommodation as defined in 3(7) (iii) granted to each category of Related Parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital. | Relevant disclosures are included in the Annual Report page 157 |
| (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 155 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 56 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) | Transitional and other General Provisions | |
| 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 | | Board Budget Review Committee | |
|-----------------------|----------------|------------|-----------------------|------------|------------------------|------------|--|------------|--|------------|----------------------------|------------|-------------------------------|------------|
| | Eligibility | Attendance | Eligibility | Attendance | Eligibility | Attendance | Eligibility | Attendance | Eligibility | Attendance | Eligibility | Attendance | Eligibility | Attendance |
| W. D. N. H. Perera | 12 | 12 | - | - | 12 | 12 | - | - | 03 | 03 | 07 | 07 | - | - |
| R. E. U. De Silva | 12 | 12 | - | - | 12 | 07 | - | - | - | - | - | - | - | - |
| H. K. Seneviratne | 12 | 12 | 15 | 15 | - | - | 05 | 05 | 03 | 03 | 07 | 07 | - | - |
| J. A. S. S. Adhihetty | 12 | 12 | - | - | 12 | 12 | - | - | - | - | - | - | 01 | 01 |
| M. D. S. Goonatilleke | 12 | 11 | 15 | 14 | | | 05 | 05 | - | - | - | - | 01 | 01 |
| T. G. Thoradeniya | 12 | 12 | - | - | 12 | 10 | - | - | 03 | 03 | - | - | - | - |
| G. A. R. D. Prasanna | 12 | 11 | - | - | - | - | - | - | - | - | - | - | - | - |
| T. Igarashi | 12 | 12 | - | - | - | - | 05 | 02 | - | - | - | - | - | - |
| T. Murakami | 08 | 07 | 09 | 06 | - | - | - | - | - | - | - | - | - | - |
| J. D. N. Kekulawala | 05 | 05 | 05 | 05 | - | - | - | - | - | - | 03 | 03 | 01 | 01 |
| A. A. Page | 09 | 06 | 10 | 06 | - | - | - | - | - | - | 04 | 03 | - | - |
| G. C. A. De Silva | 06 | 06 | 07 | 06 | 06 | 05 | - | - | - | - | - | - | - | - |

Present Composition of the Directors

| Name of the Director | Category |
|-------------------------|--|
| W. D. N. H. Perera | Non Executive Director |
| R. E. U. De Silva | Independent, Non Executive Director |
| H. K. Seneviratne | Independent, Non Executive Director |
| J. A. S. S. Adhihetty | Non Executive Director |
| M. D. S. Goonatilleke | Non Executive Director |
| T. G. Thoradeniya | Non Executive Director |
| G. A. R. D. Prasanna | Non Executive Director |
| T. Igarashi | Independent, Non Executive Director |
| T. Murakami | Non Executive Director |
| J. D. N. Kekulawala | Independent, Non Executive Director |
| P. L. D. N. Seneviratne | Director / Chief Executive Officer - w.e.f. 01 st March, 2014 |

Bank's Compliance with Prudential Requirements

With the introduction of new regulations on Anti-Money Laundering (AML), Anti-Terrorism rules, recommendations of Financial Actions Task Force (FATF) and guidance on compliance from the BASEL Committee on banking supervision, the need for effective compliance management in the banking industry and financial services is stronger than ever. Industry examples have demonstrated that a failure to adhere to laws and regulations can lead to regulatory sanctions and monetary penalties etc on a bank and can even cost its license and business. In this context the compliance environment in the Bank is designed to persuade employees to protect its integrity and reputation as a leading financial services provider in Sri Lanka. Compliance department works closely with other support functions and departments in order to achieve the highest level of compliance, mitigating its exposure to legal and regulatory risk.

The responsibility of the Compliance Department is to assist the Bank in adhering to the rules and regulations with a special emphasis on

- lawful and ethical business conduct in the interests of all stakeholders of the Bank and public
- preventing and detecting violations of law by identifying and managing regulatory risk

Structure

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

The Board of Directors of the Bank has undertaken the responsibility to oversee regulatory and legal compliance, controls and governance process of the Bank. Corporate Management for their part remains responsible for promoting and monitoring compliance with all applicable laws, rules and regulations.



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.

To achieve the highest level of compliance the focus of the Bank is aimed at:

- Identifying emerging compliance risks and sharing best practices
- Exchanging information and resources
- Evaluating compliance needs and opportunities
- Overseeing and implementing compliance initiatives

Compliance Responsibilities

On a quarterly basis the Board of Directors review the timely submission of returns by all responsible divisions. Such review ensures that all mandatory regulatory requirements have been complied with and the Bank is free from such compliance risk. Central Bank of Sri Lanka (CBSL), as the regulator issues directions under the powers vested in it to commercial banks. The Bank ensures that all such directions are complied with, within the permitted time frame.

The Bank is also subject to on-site and off-site supervision by CBSL. Off-site supervision is carried out based on returns submitted to CBSL on a weekly, monthly and quarterly basis. Returns submitted to CBSL covers a host of financial aspects including Capital Adequacy, Classified Loans & Advances, Liquid Asset Ratio, Government Exposure, Related Party Exposure, etc. In terms of on-site supervision, statutory inspection of the Bank is provided for under the Banking Act. Under such legislation teams of regulators review various aspects of the Bank by inspection of internal documents and records of any single operating division or the entire Bank.

AML Compliance Unit of the Bank submits returns on every 15-day intervals to the Financial Intelligence Unit (FIU) of CBSL on Cash Transactions and Electronic Fund Transfers above Rs. 1,000,000/-. In addition, the AML Compliance Unit carries out branch-wide awareness programmes on the subject capturing a wide segment of employees. The awareness programmes include Know Your Customer (KYC) Policies covering both existing and new customers. With the introduction of AML related legislation, the legal environment covering the banking industry in Sri Lanka underwent a significant change enabling Financial Institutions to combat money laundering and terrorist financing. Given its premier status

locally and largest presence via its network of correspondents globally, the Bank has developed and applied AML and KYC processes that covers;

1. Appointment of an AML Compliance Officer
2. Having a Board approved AML Policy
3. Issuing Instructions to employees relating to AML/CTF
4. Raising Suspicious Transaction Reports
5. Co-ordinating with FIU in AML investigations
6. Conducting Comprehensive Training Programmes for employees
7. Assessment of AML compliance of Correspondent Banking Relationships
8. Monitoring of high value transactions
9. Conducting compliance reviews at branches and internal Departments
10. Reviewing of new products of the Bank prior to launching

In summary the negative consequences of non compliance go beyond the mere financial value of a transaction or the resulting monetary penalty that may be imposed by the regulator. In the event of non compliance the entire hard earned reputation of an entity can suffer and be tarnished beyond repair jeopardising its franchise. Such reaction can prove to be catastrophic with the ultimate loss of banking licenses. The Bank is aware of the possibility of such consequences and as responsible financial institution, it remains vigilant at all times to ensure that its reputation remains intact.

Directors' Statement on Internal Controls over Financial Reporting

Responsibility

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

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at the Pan Asia Banking Corporation PLC, ("the Bank"). In considering such adequacy and effectiveness, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls over financial reporting as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Controls issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal controls over financial reporting taking into account principles for the assessment of internal control system as given in that guidance.

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

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

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

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

- Various Committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The Annual Audit Plan is reviewed and approved by the Board Audit Committee. Findings of the Internal Audit Department are submitted to the Board Audit Committee for review at their periodic meetings.
- The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Department, the External Auditors, Regulatory Authorities and the Management: and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of the same. The minutes of the Board Audit Committee meetings are forwarded to the Board on a periodic basis. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Audit Committee Report on pages 86 to 87.
- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis.

- The Bank adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012. The processes and procedures initially applied to adopt the aforementioned Accounting Standards were further strengthened during the year 2013 based on the feedback received from the external auditors, internal audit department, regulators and the Board Audit Committee. The Bank is in the process of updating relevant procedure manuals pertaining to these new requirements. The Bank has also recognised the need to introduce an automated financial reporting process in order to comply with the requirements of recognition, measurement, classification and disclosure of the financial instruments more effectively and efficiently.
- The comments made by the External Auditors in connection with internal control system over financial reporting in previous years were reviewed during the year and appropriate steps have been taken to rectify them. The recommendations made by the External Auditors in 2013 in connection with the internal control system over financial reporting will be dealt with in the future.

Confirmation

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

Review of the Statement by External Auditors

The External Auditors, Messrs Ernst & Young, have reviewed the above Directors Statement on Internal Controls over Financial Reporting included in the Annual Report of the Bank for the year ended 31 December 2013 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 controls over financial reporting of the Bank. Their Report on the Statement of Internal Controls over Financial Reporting is given on page 78 of this Annual Report.

By Order of the Board



J. D. N. Kekulawala
Chairman - Board Audit Committee



W. D. N. H. Perera
Chairman



K. Sourjah
Acting Chief Executive Officer

Colombo

18th February 2014

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



Ernst & Young
Chartered Accountants
201 De Saram Place
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Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

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

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

We were engaged by the Board of Directors of Pan Asia Banking Corporation PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the Annual Report for the year ended 31 December 2013.

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.

18th February 2014
Colombo

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

Your Directors have pleasure in presenting to the members their report together with the Audited Financial Statements for the year ended 31st December, 2013.

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

General

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

The Report of the Board of Directors and the Financial Statements were approved by the Board of Directors on the 18th February 2014.

Principal Activities

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

Profit and Appropriations

The Bank's profit and appropriations were as follows;

| | 2013 | 2012 |
|--|-----------|-----------|
| | Rs. 000 | Rs. 000 |
| Profit Before Taxation | 123,906 | 1,145,408 |
| Taxation | (9,046) | (285,357) |
| Profit for the Year | 114,860 | 860,051 |
| Other Comprehensive Income | (3,648) | (13,103) |
| Retained Profit Brought Forward | 2,171,841 | 1,849,459 |
| Transfer to Reserve Fund | (5,743) | (43,003) |
| Transfer to Investment Fund Reserve | (120,637) | (186,522) |
| Dividends Paid | (295,041) | (295,041) |
| Un appropriated profit to be carried Forward | 1,861,631 | 2,171,841 |

Financial Statements

The Financial Statements of the Bank are given on pages 98 to 160 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:

| | 2013 | 2012 |
|--------------|---------------|---------------|
| | Rs. | Rs. |
| Total Income | 9,054,036,569 | 7,766,219,032 |

Shareholders' Funds and Reserves

The Bank's total reserves as at 31st December 2013 stood at Rs. 2,499,797,832/- This comprises a Statutory Reserve Fund of Rs. 169,260,757/-, Investment Fund Reserve of Rs. 468,905,905/- and Revenue Reserve of Rs. 1,861,631,170/- . The movement in Reserve Fund and Investment Fund Reserve are shown in Note 35 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 pages 102 to 112.

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. The Directors have made the necessary declarations which are recorded in the Interest register and are available for inspection in terms of the Act. The entries made in the register with regard to Directors dealings with the Bank during the accounting period is given as a foot note to this report on page 82 & 83.

Directors' Remuneration

Directors' remuneration and other benefits of the Directors are given in Note 11 to the Financial Statements.

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

Donations

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

Directorate

The names of the Directors of the Bank during the period 01.01.2013 to date are given below and changes occurred in the composition of the Board during the period under review. The classification of Directors into Executive, Non-Executive and Non-Executive Independent Directors are given against the names as per the Central Bank mandatory rules on Corporate Governance under the Banking Act directions.

| | |
|-------------------------|--|
| W. D. N. H. Perera | Non-Executive Director since September 2007 and appointed as Deputy Chairman in March 2008 and Chairman since April 2012. |
| R. E. U. De Silva | Independent Non-Executive Director since July 2008 and appointed as Deputy Chairman in April 2012. |
| H. K. Seneviratne | Independent Non-Executive Director since April 2010 and appointed as Senior Director in June 2013. |
| J. A. S. S. Adhihetty | Non-Executive Director since 2005. |
| M. D. S. Goonatilleke | Non-Executive Director since August 2008. |
| T. G. Thoradeniya | Non-Executive Director since June 2010. |
| G. A. R. D Prasanna | Non-Executive Director since May 2012 |
| T. Igarashi | Independent Non-Executive Director since October 2012. |
| T. Murakami | Non-Executive Director since, April 2013. |
| J. D. N. Kekulawala | Independent Non- Executive Director since, August 2013 |
| P. L. D. N. Seneviratne | Chief Executive Officer w.e.f 01 st March 2014. |
| T. C. A. Peiris | Served as the Acting Chief Executive Officer from August 2009 and appointed as Director/ Chief Executive Officer in May 2010 and retired on 31 st January 2014. |
| G. C. A. De Silva | Non-Executive Director since May 2012. Resigned in July 2013. |
| A. A. Page | Non-Executive Independent Director since April 2008. Ceased to be a Director from October 2013. |

Re-Appointments

In terms of Article No's. 82 and 83 of the Articles of Association of the Bank, W. D. N. H. Perera and M. D. S. Goonatilleke retire by rotation and being eligible offer themselves for re-election, on an unanimous recommendation by the Board of Directors.

In terms of Article 89 of the Articles of the Association of the Bank T. Murakami and J. D. N. Kekulawala 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 44 to the Financial Statements on page 155 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 31.12.2013 | No. of Shares As at 01.01.2013 |
|-----------------------|-----------------------------------|-----------------------------------|
| W. D. N. H. Perera | 6,807,070 | 8,518,645 |
| R. E. U. De Silva | 1,288,639 | 80,000 |
| H. K. Seneviratne | - | - |
| J. A. S. S. Adhihetty | 108,266 | 108,266 |
| M. D. S. Goonatilleke | 422 | 422 |
| T. G. Thoradeniya | 36 | 36 |
| G. A. R. D. Prasanna | - | - |
| T. Igarashi | - | - |
| T. Murakami | - | - |
| J. D. N. Kekulawala | - | - |
| 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 & Young for the year under review amounted to Rs. 3,285,000/- and Rs. 600,000/- respectively.

Stated Capital

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

Internal Controls

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

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of Financial Statements of the Bank to reflect a true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards and Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act No. 30 of 1998 and amendments thereto and the Listing Rules of the Colombo Stock Exchange and the mandatory Corporate Governance Code for Licensed Commercial Banks issued by Central Bank of Sri Lanka.

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 pages 56 to 72.

Capital Expenditure

Expenditure on Property, Plant & Equipment at cost amounted to Rs. 136,777,565/- during 2013, details of which are given in Note 24 to the Financial Statements. Expenditure on Intangible Asset at cost amounted to Rs. 6,020,598/- during 2013, details of which are given in Note 25 to the Financial Statements.

Statutory Payments

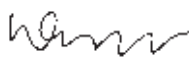
The Directors are satisfied to the best of their knowledge and belief, that statutory payments to all authorities have been paid up to date, on a timely basis.

Shareholding

The number of registered shareholders of the Bank as at 31st December, 2013 was 4,838 compared to 5,070 as at 31st December 2012. The schedule indicating the shareholders' analysis is on pages 175 & 176.



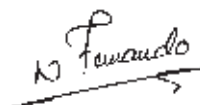
W. D. N. H. Perera
Chairman



R. E. U. De Silva
Deputy Chairman



K. Sourjah
Acting Chief Executive Officer



N. Fernando
Company Secretary

Debt Capital

The Bank has issued 750,000 rated, unsecured, subordinated, Redeemable 5 years Debenture of Rs.1,000/= each, which are listed on the Colombo Stock Exchange. The details are given in note 33 to the Financial Statements.

Register of Directors & Secretaries

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

Board Committees

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

New Branches

4 new branches were opened during the year under review, bringing the total number of branches to 77 at the end of 2013.

Provision for Taxation

Total taxable profit was charged at 28% in accordance with income tax legislations. Deferred tax was calculated based on the Balance Sheet Liability Method in accordance with Sri Lanka Accounting Standards (LKAS/SLFRS).

Annual General Meeting

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

The Annual General Meeting will be held at 'The Kingsbury Hotel' on 31st March 2014. The Notice of Meeting can be found on page 190

Going Concern

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

Directors' Interest Register

| Director's Name / Company Name | Relationship | Accommodation Granted / Deposits | Balance Outstanding as at 31.12.2013 Rs. |
|--------------------------------|-------------------|--|--|
| W. D. N. H. Perera | | | |
| LB Finance PLC | Director | Loans & Advances Deposits & Borrowings Off Balance Sheet Accommodation | 25,224,516 3,238,185,139 3,382,719 |
| Vallibel Finance PLC | Deputy Chairman | Loans & Advances Deposits & Borrowings | 141,224,789 578,043,539 |
| Vallibel One PLC | Deputy Chairman | Deposits & Borrowings | 266,779,654 |
| Royal Ceramics Lanka PLC | Managing Director | Deposits & Borrowings | 8,972,487 |
| Amaya Leisure PLC | Director | Loans & Advances Deposits & Borrowings | 8,355,022 1,064,523 |
| Hayleys PLC | Director | Deposits & Borrowings Debentures | 30,593 73,128,539 |
| Lanka Walltiles PLC | Director | Deposits & Borrowings | 83,460 |
| R. E. U. De Silva | | | |
| Esna Power (Pvt) Ltd | Director | Deposits & Borrowings | 121,987,319 |
| Shermans Logistics (Pvt) Ltd | Chairman | Loans & Advances Deposits & Borrowings | 841,136 95,480 |
| Plumbago Lanka (Pvt) Ltd | Director | Deposits & Borrowings | 1,086,034 |
| J. A. S. S. Adhihetty | | | |
| LB Finance PLC | Managing Director | Loans & Advances Deposits & Borrowings Off Balance Sheet Accommodation | 25,224,516 3,238,185,139 3,382,719 |
| Vallibel Finance PLC | Director | Loans & Advances Deposits & Borrowings | 141,224,789 578,043,539 |
| Vallibel One PLC | Director | Deposits & Borrowings | 266,779,654 |
| M. D. S. Goonatilleke | | | |
| Vallibel Finance PLC | Director | Loans & Advances Deposits & Borrowings | 141,224,789 578,043,539 |
| Hayleys PLC | Director | Deposits & Borrowings Debentures | 30,593 73,128,539 |
| Royal Ceramics Lanka PLC | Director | Deposits & Borrowings | 8,972,487 |

| Director's Name / Company Name | Relationship | Accommodation Granted / Deposits | Balance Outstanding as at 31.12.2013 Rs. |
|--|---|----------------------------------|--|
| T. G. Thoradeniya | | | |
| Royal Ceramics Lanka PLC | Director - Marketing & Business Development | Deposits & Borrowings | 8,972,487 |
| Lanka Walltiles PLC | Director | Deposits & Borrowings | 83,460 |
| Delmege (Pvt) Limited | Director | Loans & Advances | 103,326,430 |
| G. A. R. D. Prasanna | | | |
| Country Energy (Pvt) Ltd | Director | Deposits & Borrowings | 106,112 |
| Delmege (Pvt) Limited | Director | Loans & Advances | 103,326,430 |
| Delmege Forsyth & Co. (Shipping) Limited | Director | Deposits & Borrowings | 20,826,639 |
| Royal Ceramics Lanka PLC | Director | Deposits & Borrowings | 8,972,487 |
| T. Igarashi | | | |
| Ideal Finance Ltd | Director | Deposits & Borrowings | 3,924,932 |
| NWS Management Services (Pvt) Ltd | Director | Deposits & Borrowings | 9,743,028 |
| NWS Financial Services (Pvt) Ltd | Director | Deposits & Borrowings | 6,673,443 |

Other Directorships

W. D. N. H. Perera

Chairman

| Company Name | Position |
|---------------------------------|--------------------|
| 1. Don Wilbert Capital Ltd | Chairman |
| 2. Lanka Ceramics PLC | Chairman |
| 3. Swisstek Ceylon PLC | Chairman |
| 4. Vallibel One PLC | Deputy Chairman |
| 5. Vallibel Finance PLC | Deputy Chairman |
| 6. Horana Plantations PLC | Executive Chairman |
| 7. Royal Ceramics Lanka PLC | Managing Director |
| 8. Amaya Leisure PLC | Director |
| 9. LB Finance PLC | Director |
| 10. Hayleys PLC | Director |
| 11. Haycarb PLC | Director |
| 12. The Kingsbury PLC | Director |
| 13. Talawakelle Tea Estates PLC | Director |
| 14. Lanka Floortiles PLC | Director |
| 15. Lanka Walltiles PLC | Director |

R. E. U. De Silva

Deputy Chairman

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

H. K. Seneviratne

Senior Director

NIL

J. A. S. S. Adhihetty

Director

| Company Name | Position |
|-----------------------------|-------------------|
| 1. LB 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 | Position |
|--|--------------------------|
| 1. Douglas & Sons (Pvt) Ltd | Group Executive Director |
| 2. Vallibel Finance PLC | Director |
| 3. Royal Ceramics Lanka PLC | Director |
| 4. Colombo Land Development & Investment PLC | Director |
| 5. Hayleys PLC | Director |
| 6. Royal Porcelain Ltd | Director |
| 7. Rocell Bathwear Ltd | Director |
| 8. DSL Lanka (Pvt) Ltd | Director |
| 9. Hayleys Consumers (Pvt) Ltd | Director |
| 10. Hayleys Industrial Solutions (Pvt) Ltd | Director |

T. G. Thoradeniya

Director

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

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

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

T. Igarashi**Director**

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

T. Murakami**Director**

| Company Name | Position |
|-----------------------------------|-----------------|
| 1. Coral Rock Hotel (Pvt) Ltd | Director |
| 2. Bansei Royal Resorts (Pvt) Ltd | Director |

J. D. N. Kekulawala**Director**

| Company Name | Position |
|--------------------------------------|-----------------|
| 1. Richard Peiris Arpico Finance Ltd | Director |

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

NIL

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 Directors.

- | | |
|-------------------------|--|
| • J. D. N. Kekulawala | Chairman - Independent Non Executive Director (Appointed in August 2013) |
| • M. D. S. Goonatilleke | Non Executive Director |
| • H. K. Seneviratne | Independent Non Executive Director |
| • T. Murakami | Non Executive Director (Appointed in April 2013) |

The Chairman of the Audit Committee Mr. Kekulawala is an Independent Non-Executive Director and a Fellow Member of the Institute of Chartered Accountants of Sri Lanka. He was previously attached to Hatton National Bank as the Senior Deputy General Manager Strategy & Compliance and possesses over 25 years of financial management experience in the Financial Service Industry in the UK, Australia and Sri Lanka.

Mr. Murakami is the President & Chief Executive Officer of Bansei Securities Co Ltd, Japan and was appointed as a committee member in April, 2013. He holds a Bachelor degree in Law from Kyoto University, Japan.

Mr. Anthony Page was previous Chairman of Audit Committee and served the committee until his cessation as a director from the Board in October, 2013. Mr. Channa De Silva was appointed to the Board Audit Committee with effect from 06th June 2012 and served as a Committee member up to 01st July 2013.

The Committee wish to place its sincere appreciation and gratitude to Mr. Page for his valuable contributions and management expertise extended to the Audit Committee as the Chairman and member during his long service associated with Board of the Bank and Mr. De Silva for his thoughtful new ideas and expertise contributed towards the Audit Committee in enhancement of the auditing process.

Role of the Committee

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

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

- Monitor the integrity of the Financial Statements and 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 the Bank's compliance with legal and regulatory requirements.
- Monitor and review the effectiveness of the internal audit function.
- Make recommendations to the Board in relation to the appointment of the external 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 15 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 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 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 is in place to ensure compliance with mandatory banking and other regulatory requirements which were under close scrutiny.

Internal Audit

During the year under review, the Committee reviewed the independence, objectivity and performance of the Internal Audit Department, the annual audit plan for the year was based on a Risk 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 coverage of the annual audit plan.

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

External Audit

The Bank 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 Committee reviewed and ensured that the lead audit partner was rotated every five years in accordance with Banking Act Direction No 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka. The Management Letter of the External Auditors and the responses of the management thereto were discussed at a Special Audit Committee Meeting. The auditors have assured that they have no cause to compromise their independence.

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

The Audit Committee having evaluated the independence and performance of the External Auditors has recommended to the Board of Directors that M/s Ernst & Young, Chartered Accountants, be reappointed as the auditors of the Bank for the financial year ending 31st December 2014, 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.



J. D. N. Kekulawala

Chairman

Board Audit Committee

Colombo

18th February 2014

Board Integrated Risk Management Committee Report

Members of the Board Integrated Risk Management Committee

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

- | | |
|-------------------------|--|
| • M. D. S. Goonatilleke | Chairman - Non Executive Director |
| • H. K. Seneviratne | Independent Non Executive Director |
| • T. Igarashi | Independent Non Executive Director |
| • T. C. A. Peiris | Executive Director (Retired w.e.f. 31 st January 2014) |

In addition, the Committee also includes the Chief Operating Officer, Chief Risk Officer, Chief Financial Officer, Head of Treasury, Head of Internal Audit, Head of Information Technology, Head of Operational Risk, Senior Manager-Credit Risk and Manager -Treasury Middle office out of the Management.

Responsibilities and Meetings

The Committee is established as per directions of the regulator and scope consists of the overall risk management of the Bank. The members review the risk goals established by the charter and ensure any threats are mitigated beforehand. The functions of the Committee also fall within the risk management framework of the Banks overall risk management responsibilities. The Committee had five meeting during the year that included a special meeting to review the scope and policies in risk management. The Committee meets quarterly for its monitoring and review activities. These meetings ensure the overall purview of the risk management and the adequacy of the actions and operations in place to safeguard the business activities of the Bank. A commentary on the risk assessment is submitted to the Board of Directors subsequent to every meeting and the measures taken effectively on controlling risk and its adequacy is discussed in the said report. The key areas perused by the Committee include Credit, Market and Operational risk and other contingencies which could have an impact on the functions of the Bank. The reports discussed at the meetings are further deliberated with the Key Management Personnel in the Bank before implementation for effectiveness of such directions. Directives are also given by the Board of Directors on risk management based on the recommendation of the IRMC to ensure statutory, fiduciary and regulatory responsibilities.

Functions of the Committee

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

- Review the risk goals determined by the Committee from time to time on Credit, Market, Operational and other contingencies. Also

to provide further directions when thresholds are breached and to impose additional mitigating parameters for better monitoring

- To peruse the activities of the management Committees set up for risk management in the Bank to deal with specific risks identified. These Committees include;
 - i) Assets and Liabilities Committee (ALCO)
 - ii) Credit Control Committee (CCC)
 - iii) Treasury Risk assessment Committee (TRAC)
 - iv) Operational Risk Management Committee (ORC)
- Review the strategic work plan, policies and framework of the business approaches to ensure a good perception of the mandate of such decisions taken by the Bank. The Committee will ensure that adequate mechanisms are available to identify, transfer, manage and mitigate these risks recognised as per Bank's overall risk management policies set by the Committee
- To maintain a good communication between senior management directly or indirectly when implementing risk mitigating practices. This will eliminate any hindrance, obstacle, constraints or discouragements in performing such risk management activities and implementing Committee decisions
- To review the compliance function and to ensure Banks policies and procedures are within the regulatory guidelines issued by statutory bodies. This will also ensure all policies and practices adopted by the Bank are within the scope of the regulatory framework
- Review the business continuity plan and disaster recovery plan of the Bank
- The risk indicators will be scrutinised by the Committee to ensure minimum impact on the Bank from such goals identified and to prevent any future occurrences out of such indicators in both qualitative and quantitative aspects

During the year the Committee has reviewed the process for identification, evaluation and management of all significant risk indicators of the Bank.



M. D. S. Goonatilleke

Chairman

Board Integrated Risk Management Committee

Colombo

18th February 2014

Board Human Resources and Remuneration Committee Report

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

- W. D. N. H. Perera Chairman - Non Executive Director
- H. K. Seneviratne Independent Non Executive Director
- T. G. Thoradeniya Non Executive Director
- T. C. A. Peiris Executive Director
(Retired w.e.f. 31st January 2014)

The Committee held three meetings during the year 2013.

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 and above Grades whilst approving their salary as well as other terms and conditions for the selected candidates.
- Approve interview panels for recruitment to other positions.
- Review key positions regularly and have a succession plan in place.

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



W. D. N. H. Perera

Chairman

Board Human Resources and Remuneration Committee

Colombo

18th February 2014

Board Nomination Committee Report

The Board appointed Nomination Committee comprises of the following Directors;

- H. K. Seneviratne Chairman - Independent Non Executive Director
- W. D. N. H. Perera Non Executive Director
- J. D. N. Kekulawala Independent Non Executive Director (Appointed w.e.f. 28th August 2013)
- A. A. Page Independent Non Executive Director (Ceased to be a director w.e.f. 14th October 2013)

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, Chief Executive Officer 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 recommendation of the Board, the affidavit and the Declaration of the proposed Director are submitted to Central Bank for their approval, and once approval is received the Board makes the formal appointment.

- b) to set eligibility criteria encompassing academic and professional qualifications, experience and other attributes 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 statutes and other mandatory directives.



H. K. Seneviratne
Chairman

Board Nomination Committee

Colombo

18th February 2014

Board Credit Committee Report

The Board Credit Committee comprises of the following Directors;

- W. D. N. H. Perera Chairman - Non Executive Director
- R. E. U. De Silva Independent Non Executive Director
- J. A. S. S. Adhihetty Non Executive Director
- T. G. Thoradeniya Non Executive Director
- T. C. A. Peiris Executive Director
(Retired w.e.f. 31st January 2014)

The main functions of the Committee derived from the charter include the following:

- Sanctioning of credit over and above the credit authority delegated to Credit Committee
- Provide direction and decide on delegated credit authority limits for credit chain of the Bank and evaluate risk-based pricing mechanisms
- Ensuring risks and controls are adhered to when granting credit whilst regulatory compliance are fulfilled in the said processes
- Periodic review of credit policies and formulating guidelines for overall lending activities of the Bank
- Periodically review the large exposures and give direction on the way forward of lending based on present economic/market conditions
- Review Bank's overall credit portfolio through reports submitted by various business units
- To monitor and review the Watch List of Accounts identified in the advances portfolio and recommend suitable, timely remedial action
- Monitor the non performing advances and review the progress in recovery action taken by the Bank and look at provision requirements
- Evaluate and review special directions given by Board of Directors on lending

Committee met 13 times during the year and minutes were reported to the Board of Directors. Credit approvals are subject to deliberation among the members and the business unit heads as per policy guidelines of the Bank.

Any policy directions required by the Bank on credit is initially reviewed by Board Credit Committee prior to being referred to Board of Directors.



W. D. N. H. Perera
Chairman

Board Credit Committee

Colombo

18th February 2014

CEO's & CFO's Responsibility for Financial Reporting

The Financial Statements of the Pan Asia Banking Corporation PLC ("The Bank") for the year ended 31st December 2013 are prepared and presented in compliance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act No. 30 of 1988 and amendments thereto and the Directions, Determinations, and Guidelines issued by the Central Bank of Sri Lanka, and the Listing Rules of the Colombo Stock Exchange. The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Bank. There are no material departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation.

The significant accounting policies and estimates that involved a high degree of judgment and complexity were discussed with the Audit Committee and External Auditors. The Board of Directors and the Management of the Bank accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to the Financial Statements were made on a prudent and reasonable basis; in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and that the Bank's state of affairs is reasonably presented. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our Internal Audit Department has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting. Further the Board assessed the effectiveness of the Bank's internal controls over financial reporting during the year ended 31st December 2013, as required by the Banking Act Direction No. 11 of 2007, result of which is given on page 76 & 77 in the Annual Report, "Directors' Statement on Internal Controls Over Financial Reporting". "External Auditors' Assurance Report on the Bank's Internal Controls Over Financial Reporting" is given on page 78 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.

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 42 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.



K. Sourjah
Acting Chief Executive Officer



M. D. J. S. Fernando
Manager - Finance

Colombo

18th February 2014

Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the Bank prepared in accordance with the Provisions of the Companies Act No 7 of 2007 is set out in the following statements. The responsibilities of the External 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 date of the Statement of Financial Position and the profit of the Bank for the financial year ended on the date of the Statement of Financial Position and place them before a general meeting. The Financial Statements comprise the Statement of Financial Position as at 31st December 2013, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow for the year then ended and notes thereto.

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

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

The Financial Statements of the Bank have been certified by the Bank's Manager - Finance, 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 18th February 2014 as required by the 150 (1) of the Companies Act.

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

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

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

The Directors are also required to ensure that the Bank has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements. The Financial Statements

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

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

The Directors have also instituted effective and comprehensive system of internal controls. This comprises internal check, internal audit and the whole system of financial and other controls required to carry on the banking business in an orderly manner, safeguard assets, prevent and detect frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31st December 2013 is given on page 76 & 77 of the Annual Report, "Directors' Statement of Internal Controls Over Financial Reporting". External Auditors' Assurance Report on the Bank's Internal Controls Over Financial Reporting is given on page 78 of the Annual Report.

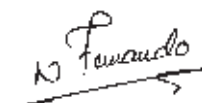
The Board of Directors wish to confirm that, as required under Section 56 (2) of the Companies Act No. 07 of 2007, they have authorised distribution of the dividends upon being satisfied that the Bank would satisfy the solvency test after such distributions are made in accordance with Section 57 of the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

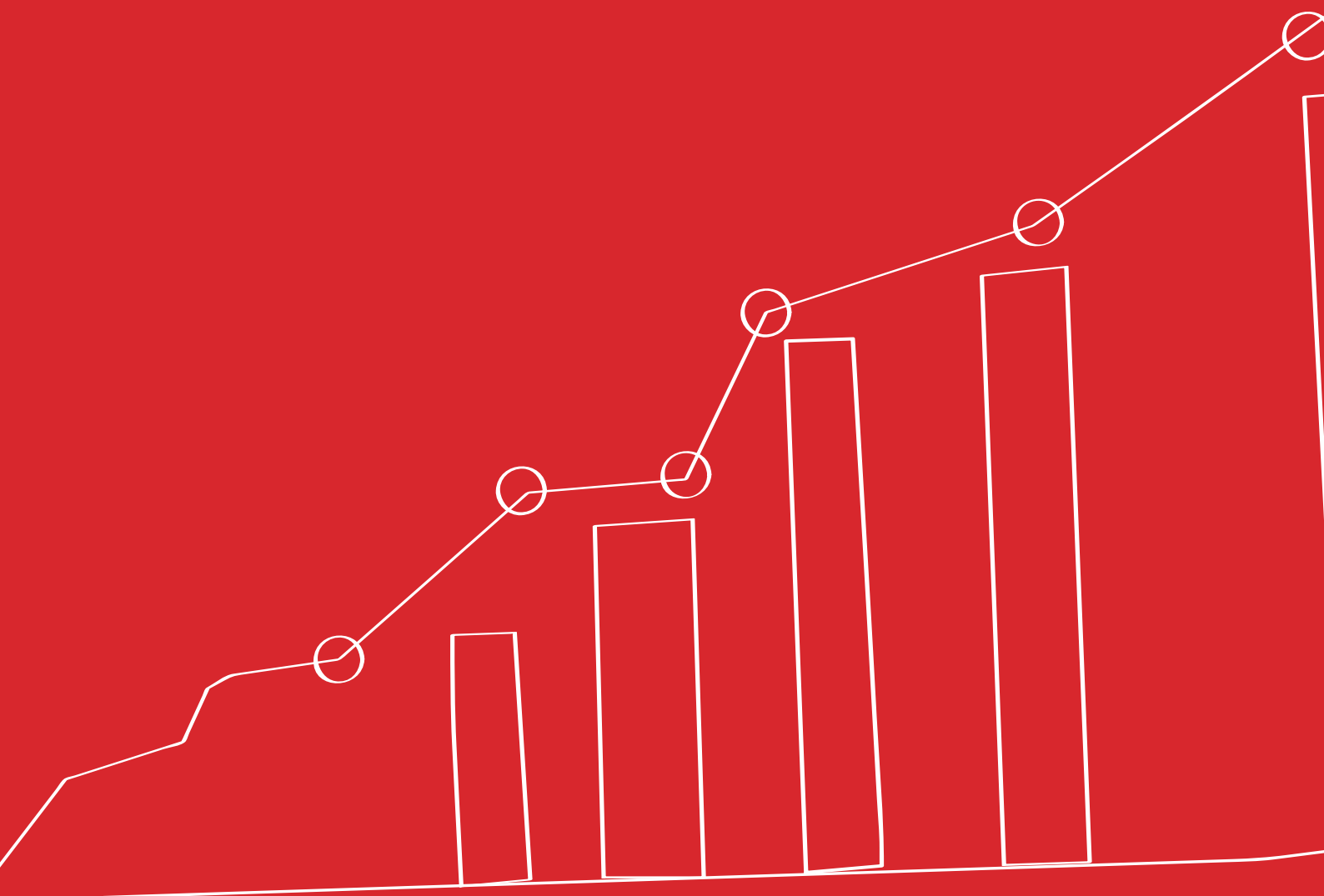
The Directors of the Bank are of the view that they have discharged their responsibilities as setout in this statement.

By Order of the Board



N. Fernando
Company Secretary

Colombo
18th February 2014





Financial Information

The Comprehensive Financial Statements of the Bank.

Financial Information

Financial Calendar

2013

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

2014

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

Independent Auditors' Report



Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

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Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PAN ASIA BANKING CORPORATION PLC

Report on the Financial Statements

We have audited the accompanying Financial Statements of Pan Asia Banking Corporation PLC ("Bank"), which comprise the Statement of Financial Position as at 31st December 2013, 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 31st December 2013 and the Financial Statements give a true and fair view of the Bank's financial position as at 31st December 2013 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 Section 151(2) of the Companies Act No. 07 of 2007.

18th February 2014
Colombo

Statement of Comprehensive Income

Year ended 31 December 2013

| | Notes | 2013 Rs. | 2012 Rs. |
|--|-------|-----------------|-----------------|
| Gross Income | | 9,054,036,569 | 7,766,219,032 |
| Interest Income | | 7,976,952,155 | 6,766,832,718 |
| Interest Expense | | (5,881,652,784) | (4,360,677,832) |
| Net Interest Income | 4 | 2,095,299,371 | 2,406,154,886 |
| Fees and Commission Income | | 548,298,304 | 540,197,414 |
| Fees and Commission Expense | | (8,950,701) | (15,342,809) |
| Net Fee and Commission Income | 5 | 539,347,603 | 524,854,605 |
| Net Gain/(Loss) from Trading | 6 | 238,301,635 | 86,430,781 |
| Net Gain/(Loss) from Financial Investments | 7 | 211,250 | 135,000 |
| Other Operating Income | 8 | 290,273,225 | 372,623,119 |
| Total Operating Income | | 3,163,433,084 | 3,390,198,391 |
| Impairment for Loans and Other Losses | 9 | (743,261,202) | (47,881,996) |
| Net Operating Income | | 2,420,171,882 | 3,342,316,395 |
| Personnel Expenses | 10 | 942,166,929 | 894,064,030 |
| Other Operating Expenses | 11 | 1,249,564,424 | 1,093,538,820 |
| Total Operating Expenses | | 2,191,731,353 | 1,987,602,850 |
| Operating Profit Before Value Added Tax on Financial Services | | 228,440,529 | 1,354,713,545 |
| Value Added Tax on Financial Services | | 104,534,804 | 209,305,260 |
| Profit Before Tax | | 123,905,725 | 1,145,408,285 |
| Income Tax Expense | 12 | 9,045,929 | 285,357,426 |
| Profit for the Year | | 114,859,796 | 860,050,859 |
| Other Comprehensive Income Net of Tax | | | |
| Actuarial Gains/(Losses) on Defined Benefit Plans | 32 | (3,648,098) | (13,103,315) |
| Other Comprehensive Income for the Year Net of Tax | | (3,648,098) | (13,103,315) |
| Total Comprehensive Income for the Year | | 111,211,698 | 846,947,544 |
| Earnings Per Share - Basic/Diluted | 13 | 0.39 | 2.92 |
| Dividends Per Share | 14 | - | 1.00 |

The Accounting Policies and Notes on pages 102 through 160 form an integral part of the Financial Statements.

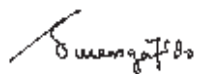
Statement of Financial Position

| As at | | 31 December 2013 Rs. | 31 December 2012 Rs. |
|--|-------|----------------------------|----------------------------|
| Assets | Notes | | |
| Cash and Cash Equivalents | 15 | 1,203,739,630 | 1,203,051,981 |
| Balances with Central Banks | 16 | 2,799,581,915 | 3,516,871,043 |
| Placements with Banks | 17 | 104,622,304 | 500,134,932 |
| Derivative Financial Instruments | 18 | 2,758,216 | 51,693 |
| Financial Assets - Held for Trading | 19 | 9,170,415,067 | 12,381,034 |
| Loans and Receivables to Banks | 20 | 12,002,143 | - |
| Loans and Receivables to Other Customers | 21 | 44,728,686,421 | 43,213,363,249 |
| Financial Investments - Available for Sale | 22 | 6,157,847 | 6,157,847 |
| Financial Investments - Held to Maturity | 23 | 2,849,475,281 | 4,896,053,586 |
| Property, Plant and Equipment | 24 | 1,204,302,416 | 1,224,239,627 |
| Intangible Assets | 25 | 65,804,221 | 73,581,901 |
| Other Assets | 26 | 2,770,900,087 | 1,428,405,308 |
| Total Assets | | 64,918,445,548 | 56,074,292,201 |
| Liabilities | | | |
| Due to Banks | 27 | 1,861,565,058 | 895,325,932 |
| Derivative Financial Instruments | 18 | 24,634,054 | 631,663 |
| Due to Other Customers | 28 | 53,835,897,400 | 47,911,087,381 |
| Term Debt and Other Borrowed Funds | 29 | 2,881,945,943 | 226,320,568 |
| Current Tax Liabilities | | - | 151,314,829 |
| Deferred Tax Liabilities | 12 | 150,787,101 | 177,130,511 |
| Other Provisions and Accruals | 30 | 78,547,938 | 82,757,743 |
| Other Liabilities | 31 | 1,251,611,229 | 1,611,303,767 |
| Subordinated Debentures | 33 | 784,693,291 | 785,826,885 |
| Total Liabilities | | 60,869,682,014 | 51,841,699,279 |
| Equity | | | |
| Stated Capital | 34 | 1,548,965,702 | 1,548,965,702 |
| Retained Earnings | | 1,861,631,170 | 2,171,840,674 |
| Other Statutory Reserves | 35 | 638,166,662 | 511,786,546 |
| Total Equity | | 4,048,763,534 | 4,232,592,922 |
| Total Liabilities and Equity | | 64,918,445,548 | 56,074,292,201 |
| Commitments and Contingencies | 42 | 26,124,671,965 | 13,743,918,829 |

The Accounting Policies and Notes on pages 102 through 160 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.



M. D. J. S. Fernando

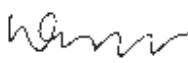
Manager - Finance

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



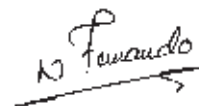
R. E. U. De Silva

Deputy Chairman



J. D. N. Kekulawala

Director



N. Fernando

Company Secretary

18th February 2014

Colombo

Statement of Changes in Equity

Year ended 31 December 2013

| | 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 2012 | | 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 | | - | (295,041,086) | - | - | (295,041,086) |
| Transfer to Statutory Reserve Fund | 35 | - | (43,002,543) | 43,002,543 | - | - |
| Transfer to Investment Fund | 35 | - | (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 |
| Profit for the Year | | - | 114,859,796 | - | - | 114,859,796 |
| Other Comprehensive Income Net of Tax | | - | (3,648,098) | - | - | (3,648,098) |
| Total Comprehensive Income for the Year | | - | 111,211,698 | - | - | 111,211,698 |
| Dividends to Equity Holders | | - | (295,041,086) | - | - | (295,041,086) |
| Transfer to Statutory Reserve Fund | 35 | - | (5,742,990) | 5,742,990 | - | - |
| Transfer to Investment Fund | 35 | - | (120,637,126) | - | 120,637,126 | - |
| Balance as at 31 December 2013 | | 1,548,965,702 | 1,861,631,170 | 169,260,757 | 468,905,905 | 4,048,763,534 |

The Accounting Policies and Notes on pages 102 through 160 form an integral part of the Financial Statements.

Statement of Cash Flows

Year ended 31 December 2013

| | Notes | 2013 Rs. | 2012 Rs. |
|---|-------|------------------------|------------------------|
| Cash Flows from Operating Activities | | | |
| Profit Before Tax | | 123,905,725 | 1,145,408,285 |
| <i>Adjustment for:</i> | | | |
| Other Non Cash Items Included in Profit Before Tax | 40 | 934,312,035 | 207,125,086 |
| Change in Operating Assets | 40 | (11,908,748,078) | (9,991,467,533) |
| Change in Operating Liabilities | 40 | 7,878,022,177 | 7,732,278,385 |
| Interest Expense on Subordinated Debentures | | 105,643,360 | 87,577,861 |
| Defined Benefits Paid | | (7,575,980) | (4,948,818) |
| Income Tax Paid | | (334,488,816) | (306,501,058) |
| Net Cash Flows from/(Used in) Operating Activities | | (3,208,929,577) | (1,130,527,792) |
| Cash Flows from Investing Activities | | | |
| Purchase of Property, Plant and Equipment | 24 | (136,777,565) | (331,139,686) |
| Proceeds from the Sale of Property, Plant and Equipment | | 4,284,518 | 2,952,668 |
| Purchase of Financial Investments - Available for Sale | | - | (4,017,847) |
| Net Proceeds from Financial Investments - Held to Maturity | | 2,046,578,305 | 364,573,414 |
| Purchase of Intangible Assets | 25 | (6,020,598) | (32,011,430) |
| Net Cash Flows from/(Used in) Investing Activities | | 1,908,064,660 | 357,119 |
| Cash Flows from Financing Activities | | | |
| Net Proceeds from the Issue of Subordinated Debentures | | - | 750,000,000 |
| Net Proceeds from Term Borrowings | | 1,307,857,978 | - |
| Interest Paid on Subordinated Debentures | | (106,776,954) | (51,750,976) |
| Dividends Paid to Equity Holders | | (295,041,086) | (295,041,086) |
| Net Cash Flows from/(Used in) Investing Activities | | 906,039,938 | 403,207,938 |
| Net Increase/(Decrease) in Cash & Cash Equivalents | | (394,824,979) | (726,962,735) |
| Cash and Cash Equivalents at 1 January | | 1,703,186,913 | 2,430,149,648 |
| Cash and Cash Equivalents at 31 December | 40 | 1,308,361,934 | 1,703,186,913 |
| Operational Cash Flows from Interest and Dividends | | | |
| Interest Paid | | 5,158,969,216 | 3,822,335,107 |
| Interest Received | | 7,774,238,255 | 6,643,354,375 |
| Dividend Received | | 690,075 | 338,462 |

The Accounting Policies and Notes on pages 102 through 160 form an integral part of the Financial Statements.

Notes to the Financial Statements

1. Corporate Information

1.1 Reporting Entity

Pan Asia Banking Corporation PLC ("the Bank") is a public quoted company incorporated on March 6, 1995 with limited liability and domiciled in Sri Lanka. 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 2013 is 1,169 (2012:1,153). The Ordinary Shares and Subordinated Debentures of the Bank have a primary listing on the Colombo Stock Exchange.

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

The Financial Statements for the year ended 31st December 2013 were authorised for issue on 18th February 2014 in accordance with a resolution of the Board of Directors on 18th February 2014.

1.2 Principal Activities and Nature of Operations

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

2. 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, Defined Benefit Obligations and certain items of Property, Plant and Equipment are stated at fair value as explained in Note 24 to the Financial Statements, all of which have been measured at fair value. The Financial Statements are presented in Sri Lankan Rupees except when otherwise indicated.

2.1.1 Statement of Compliance

The Financial Statements of the Bank for the year ended 31 December 2013 have been prepared 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 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.

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 41.

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 Receivables

The Bank reviews its individually significant Loans and Receivables at each Statement of Financial Position date to assess whether an impairment loss should be recorded in 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 Receivables that have been assessed individually and found not to be impaired and all individually insignificant Loans and Receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio and judgements on the effect of concentrations of risks and economic data.

The impairment losses on Loans and Receivables are disclosed in more detail in Note 9, Note 21 and further described in Note 38.

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

Defined Benefit Plan Obligation

The cost of the defined benefit plan obligation is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used are disclosed in Note 32.

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 final tax guidelines on the treatment of the adoption of LKASs/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 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'.

Notes to the Financial Statements

(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, equities and unit trusts 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 Bank and Other Customers

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

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

After initial measurement, 'Placements with Banks' 'Loans and Receivables to Banks' and 'Loans & Advances to Other Customers' are subsequently measured at amortised cost using the Effective Interest Rate less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the Effective Interest Rate. The amortisation is included in 'Interest income' in the Statement of Comprehensive Income (Profit or loss). The losses arising from impairment are recognised in the Statement of Comprehensive Income (Profit or loss) in 'Impairment for Loans and Other Losses' and detailed under Note 09.

(ix) Subordinated Debentures and Unsecured Term Debt

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

2.5.3 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 37.

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.

Notes to the Financial Statements

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

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after then impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the 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 09 and, an analysis of the impairment allowance on Loans and Receivables are given in Note 21.

(ii) Financial Investments - Available for Sale

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

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

(iii) Renegotiated Loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original Effective Interest Rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original Effective Interest Rate.

(iv) 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 margin 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 38.2

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:

Notes to the Financial Statements

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 (Profit or loss) 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 |
|-------------------|---|---------|

2.5.13 Other Assets

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

2.5.14 Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses on a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. Capital work-in-progress would be transferred to the relevant asset when it is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

2.5.15 Impairment of Non Financial Assets

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

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

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

2.5.16 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

Notes to the Financial Statements

'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.

2.5.17 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.

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

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 R - "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.

2.5.18 Other Liabilities

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

2.5.19 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 (Profit or loss).

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

Crop Insurance Levy

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

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.

2.5.20 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.

2.5.21 Investment Fund Account

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

As and when taxes are paid after 1st January 2011 up to 31st December 2013, 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 3 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 7 years
- Lend on maturities not less than five years at interest rates not exceeding 5 year Treasury bond rate plus 2% for the following purposes:
 - a) Long term loans for cultivation of plantation crops/agriculture crops including fruits, vegetables, cocoa and spices and for livestock and fisheries
 - 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.

2.5.22 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.

2.5.23 Materiality and Aggregation

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

Notes to the Financial Statements

2.5.24 Related Party Transactions

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

2.5.25 Events after the Reporting Period

All the material events after end of the reporting period have been considered and appropriate adjustments/disclosures have been made in Note 45 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, 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.

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 as defined in LKAS 39. Pending the completion of full study of this standard, the financial impact is not yet known and reasonably estimable.

This standard was originally effective for the periods commencing on or after 01 January 2015. However effective date has been deferred subsequently.

(ii) SLFRS 13 -Fair Value Measurement

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

This standard will be effective for the financial period beginning on or after 01st January 2014. However, uses of principles of measurement in these standards are recommended.

The following standards were also issued by the Institute of Chartered Accountants of Sri Lanka and is effective for the periods commencing on or after of 01st January 2014.

SLFRS 10 - Consolidated Financial Statements

SLFRS 11 - Joint Arrangements

SLFRS 12 - Disclosure of Interests in Other Entities

None of these are expected to have a significant effect of the Financial Statements of the Bank, except for SLFRS 9 Financial Instruments which is expected to impact the classification and measurement of financial assets. The extent of the impact has not been determined as at to date.

4 Net Interest Income

| | 2013 Rs. | 2012 Rs. |
|---|---------------|---------------|
| Interest Income | | |
| Placements with Banks | 170,718,419 | 78,849,835 |
| Loans and Receivables to Customers | 6,913,220,866 | 6,242,642,233 |
| Financial Investments - Held to Maturity | 374,396,510 | 363,989,872 |
| Financial Assets - Held for Trading | 369,121,984 | 3,678,516 |
| Interest Income Accrued on Impaired Loans and Receivables | 149,494,376 | 77,672,262 |
| | 7,976,952,155 | 6,766,832,718 |
| Interest Expense | | |
| Due to Banks | 22,752,739 | 143,904,171 |
| Due to Other Customers | 5,585,967,990 | 3,997,499,236 |
| Other Borrowings | 167,288,695 | 131,696,564 |
| Subordinated Debentures | 105,643,360 | 87,577,861 |
| | 5,881,652,784 | 4,360,677,832 |
| Net Interest Income | 2,095,299,371 | 2,406,154,886 |

4.1 Net Interest Income from Sri Lanka Government Securities & related Financial Instruments

| | 2013 Rs. | 2012 Rs. |
|---------------------|---------------|---------------|
| Interest Income | 888,987,091 | 438,985,166 |
| Interest Expense | (152,430,397) | (131,696,564) |
| Net Interest Income | 736,556,694 | 307,288,602 |

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

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

| | 2013 Rs. | 2012 Rs. |
|---------------------|-----------------|-----------------|
| Interest Income | 7,607,830,171 | 6,763,154,202 |
| Interest Expense | (5,881,652,784) | (4,360,677,832) |
| Net Interest Income | 1,726,177,387 | 2,402,476,370 |

Notes to the Financial Statements

5 Net Fee and Commission Income

| | 2013 Rs. | 2012 Rs. |
|----------------------------|-------------|--------------|
| Fee and Commission Income | 548,298,304 | 540,197,414 |
| Fee and Commission Expense | (8,950,701) | (15,342,809) |
| | 539,347,603 | 524,854,605 |
| Comprising | | |
| Loans | 104,485,749 | 86,006,732 |
| Cards | 18,844,547 | 7,383,509 |
| Trade and Remittance | 276,806,709 | 257,471,207 |
| Deposits | 107,744,914 | 143,503,493 |
| Guarantees | 31,465,684 | 30,489,664 |
| | 539,347,603 | 524,854,605 |

6 Net Gain/(Loss) from Trading

| | 2013 Rs. | 2012 Rs. |
|---|-------------|-------------|
| Equities and Unit Trusts | | |
| Realised | 49,283,230 | 83,317 |
| Unrealised | 36,047,653 | (3,754,901) |
| Government Debt Securities - Treasury Bills and Bonds | | |
| Realised | 85,774,666 | 88,114,440 |
| Unrealised | 26,846,000 | - |
| Foreign Exchange - Net Forward Forex Gain/(Loss) | 40,350,086 | 1,987,925 |
| | 238,301,635 | 86,430,781 |

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

7 Net Gain/(Loss) from Financial Investments

| | 2013 Rs. | 2012 Rs. |
|---|-------------|-------------|
| Financial Investments Available for Sale - Equities | 211,250 | 135,000 |
| | 211,250 | 135,000 |

8 Other Operating Income

| | 2013 Rs. | 2012 Rs. |
|--|-------------|-------------|
| Non Trading Foreign Exchange Gain/(Loss) | 273,033,311 | 348,779,623 |
| Gain/(Loss) on Sale of Property, Plant & Equipment | 1,832,839 | 76,480 |
| Recovery of Loans Written-Off | - | 17,454,267 |
| Others | 15,407,075 | 6,312,749 |
| | 290,273,225 | 372,623,119 |

9 Impairment for Loans and Other Losses

| | 2013 Rs. | 2012 Rs. |
|--|---------------|--------------|
| Loans and Receivables to Other Customers (Note 21.4) | | |
| Individual Impairment (Losses)/Reversals | (193,408,204) | 6,936,559 |
| Collective Impairment (Losses)/Reversals | (389,373,806) | (54,818,555) |
| | (582,782,010) | (47,881,996) |
| Other Impairment (Losses)/Reversals (Note 26.1) | (160,479,192) | - |
| | (743,261,202) | (47,881,996) |

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

10 Personnel Expenses

| | 2013 Rs. | 2012 Rs. |
|---|-------------|-------------|
| Salaries, Wages and Other Related Expenses | 789,281,265 | 763,219,062 |
| Defined Contribution Plan Expenses - Employees Provident Fund | 85,563,148 | 77,397,344 |
| - Employees Trust Fund | 19,619,552 | 17,582,131 |
| Defined Benefit Plan Expenses (Note 32.1) | 24,822,295 | 18,376,625 |
| Amortisation of Prepaid Staff Expenses | 22,880,669 | 17,488,868 |
| | 942,166,929 | 894,064,030 |

11 Other Operating Expenses

| | 2013 Rs. | 2012 Rs. |
|---|---------------|---------------|
| Directors' Emoluments | 27,836,541 | 24,650,941 |
| Auditors' Remuneration | 3,285,000 | 2,824,500 |
| Non Audit Fees to Auditors | 600,000 | 569,000 |
| Professional and Legal Expenses | 17,248,418 | 9,101,585 |
| Depreciation of Property, Plant and Equipment | 154,263,099 | 130,361,231 |
| Amortisation of Intangible Assets | 13,798,278 | 10,581,714 |
| Operating Lease Expenses | 164,576,384 | 144,010,439 |
| Administration and Establishment Expenses | 327,607,968 | 268,753,601 |
| Advertising and Promotional Expenses | 136,355,410 | 113,732,564 |
| Other Expenses | 403,993,326 | 388,953,245 |
| | 1,249,564,424 | 1,093,538,820 |

Notes to the Financial Statements

12 Income Tax

The major components of income tax expense for the years ended 31 December 2013 and 31 December 2012 are:

| | 2013 Rs. | 2012 Rs. |
|---|--------------|--------------|
| Current Income Tax | | |
| Current Income Tax Charge (Note 12.1) | 35,389,339 | 322,249,973 |
| 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) | (26,343,410) | 55,441,080 |
| Income Tax Expense Reported in the Statement of Comprehensive Income (Profit or loss) | 9,045,929 | 285,357,426 |

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 2013 and 31 December 2012 is as follows:

| | 2013 Rs. | 2012 Rs. |
|--|---------------|---------------|
| Accounting Profit Before Tax | 123,905,725 | 1,145,408,285 |
| At Statutory Income Tax Rate of 28% | 34,693,603 | 320,714,320 |
| Non Deductible Expenses | 595,628,004 | 492,785,973 |
| Deductible Expenses | (553,061,575) | (474,487,340) |
| Income not Subject to Tax | (67,179,011) | (16,762,980) |
| Tax Effect of Business of Finance Leasing (Tax Losses) | 25,308,318 | - |
| Current Income Tax Charge | 35,389,339 | 322,249,973 |
| Effective Tax Rate | 29% | 28% |

12.2 Deferred Tax

The following table shows deferred tax liabilities recorded on the Statement of Financial Position and changes recorded in the Statement of Comprehensive Income (Profit or loss).

| | 31 December 2013 | | 31 December 2012 | |
|---------------------------------|-----------------------------|---|-----------------------------|---|
| | Deferred Tax Liabilities | Statement of Comprehensive Income | Deferred Tax Liabilities | Statement of Comprehensive Income |
| | Rs. | Rs. | Rs. | Rs. |
| Lease Rentals Receivables | 170,981,564 | 37,705,264 | 133,276,300 | 43,008,295 |
| Property, Plant and Equipment | 93,087,683 | 17,112,871 | 75,974,813 | 21,023,191 |
| Intangible Assets | 11,979,022 | 4,980 | 11,974,042 | 1,353,804 |
| Defined Benefit Plan Obligation | (26,421,178) | (5,850,435) | (20,570,743) | (7,428,715) |
| Impairment of Assets | (73,531,672) | (50,007,771) | (23,523,901) | (2,515,495) |
| Tax Losses | (25,308,318) | (25,308,318) | - | - |
| Total | 150,787,101 | (26,343,410) | 177,130,511 | 55,441,080 |

13 Earnings Per Share

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

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

| | 2013 | 2012 |
|---|-------------|-------------|
| Profit Attributable to Ordinary Shareholders (Rs.) | 114,859,796 | 860,050,859 |
| Weighted Average Number of Ordinary Shares in Issue | 295,041,086 | 295,041,086 |
| Basic/Diluted Earnings Per Share (Rs.) | 0.39 | 2.92 |

There were no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these Financial Statements which would require the re-statement of Earnings Per Share.

14 Dividends Per Share

| | 2013 | 2012 |
|---|------|-------------|
| Gross Dividends Paid/Payable to Ordinary Shareholders (Rs.) | - | 295,041,086 |
| Number of Ordinary Shares in Issue | - | 295,041,086 |
| Dividends Per Share (Rs.) | - | 1.00 |

Dividends Per Share is calculated on the basis of interim dividends paid and final dividend proposed, which is to be approved at the Annual General Meeting.

15 Cash and Cash Equivalents

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|---------------------------------------|----------------------------|----------------------------|
| Cash in Hand (Note 40) | 802,959,815 | 946,924,473 |
| Balances with Foreign Banks (Note 40) | 400,779,815 | 256,127,508 |
| | 1,203,739,630 | 1,203,051,981 |

16 Balances with Central Banks

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|--|----------------------------|----------------------------|
| Statutory Deposit with the Central Bank of Sri Lanka | 2,799,581,915 | 3,516,871,043 |
| | 2,799,581,915 | 3,516,871,043 |

As required by the Provisions of Section 93 of Monetary Law Act, a cash balance is required to be maintained with the Central Bank of Sri Lanka according to statutory requirements. Minimum cash reserve requirement as at the Statement of Financial Position Date is 6% (2012 - 8%) 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 2013 Rs. | 31 December 2012 Rs. |
|-----------------------|----------------------------|----------------------------|
| Placements with Banks | 104,622,304 | 500,134,932 |
| | 104,622,304 | 500,134,932 |

Notes to the Financial Statements

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 2013 | | | 31 December 2012 | | |
|---|------------------|-------------|-----------------|------------------|-------------|-----------------|
| | Assets | Liabilities | Notional Amount | Assets | Liabilities | Notional Amount |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| Forward Foreign Exchange Contracts and Currency Swaps | 2,758,216 | 24,634,054 | 6,463,859,597 | 51,693 | 631,663 | 1,904,200,349 |
| | 2,758,216 | 24,634,054 | 6,463,859,597 | 51,693 | 631,663 | 1,904,200,349 |

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 37.

19 Financial Assets - Held for Trading

| | 31 December 2013 | 31 December 2012 |
|--|------------------|------------------|
| | Rs. | Rs. |
| Quoted Equities (Note 19.1) | 11,286,578 | 12,381,034 |
| Unit Trusts (Note 19.2) | 4,515,666,225 | - |
| Quoted Debentures (Note 19.3) | 1,056,343,374 | - |
| Sri Lanka Government Securities - Treasury Bills and Bonds (Note 19.4) | 3,587,118,890 | - |
| | 9,170,415,067 | 12,381,034 |

19.1 Quoted Equities

| | No. of Shares | 31 December 2013 | | No. of Shares | 31 December 2012 | |
|------------------|---------------|------------------|--------------------------------|---------------|------------------|--------------------------------|
| | | Cost | Carrying Amount/ Fair Value | | Cost | Carrying Amount/ Fair Value |
| | | Rs. | Rs. | | Rs. | Rs. |
| Vallibel One PLC | 684,035 | 17,100,875 | 11,286,578 | 684,035 | 17,100,875 | 12,381,034 |
| | | 17,100,875 | 11,286,578 | | 17,100,875 | 12,381,034 |

19.2 Unit Trusts

| | No. of Units | 31 December 2013 | | No. of Units | 31 December 2012 | |
|----------------------------------|-----------------|------------------|--------------------------------|-----------------|------------------|--------------------------------|
| | | Cost | Carrying Amount/ Fair Value | | Cost | Carrying Amount/ Fair Value |
| | | Rs. | Rs. | | Rs. | Rs. |
| Cey-Bank Guilt Edged Fund | 403,972,924 | 4,110,094,115 | 4,138,460,223 | - | - | - |
| Arpico Ataraxia Guilt Edged Fund | 36,843,000 | 368,430,000 | 377,206,002 | - | - | - |
| | | 4,478,524,115 | 4,515,666,225 | | - | - |

19.3 Quoted Debentures

| | No. of Debentures | 31 December 2013 | | No. of Debentures | 31 December 2012 | |
|-----------------------------|----------------------|------------------|--------------------------------|----------------------|------------------|--------------------------------|
| | | Cost | Carrying Amount/ Fair Value | | Cost | Carrying Amount/ Fair Value |
| | | Rs. | Rs. | | Rs. | Rs. |
| Lion Brewery (Ceylon) PLC | 352,133 | 352,132,844 | 352,132,844 | - | - | - |
| Hayleys PLC | 73,129 | 73,128,539 | 73,128,539 | - | - | - |
| Singer (Sri Lanka) PLC | 212,021 | 212,021,194 | 212,021,194 | - | - | - |
| Central Finance Company PLC | 346,963 | 346,963,154 | 346,963,154 | - | - | - |
| Abans Limited | 72,098 | 72,097,643 | 72,097,643 | - | - | - |
| | | 1,056,343,374 | 1,056,343,374 | | - | - |

19.4 Sri Lanka Government Securities - Treasury Bills and Bonds

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|--|----------------------------|----------------------------|
| Sri Lanka Government Securities - Treasury Bills and Bonds | 3,587,118,890 | - |
| | 3,587,118,890 | - |

19.4.1 Financial Assets Held for Trading Pledged as Collateral

Government of Sri Lanka Securities - Treasury Bills and Bonds (Trading) amounting to Rs.1,481,343,078/- (31 December 2012 - Nil) are pledged as collateral against the Borrowings under Repurchase Agreements as at the Statement of Financial Position Date.

20 Loans and Receivables to Banks

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|--|----------------------------|----------------------------|
| Securities Purchased Under Resale Agreements - Banks | 12,002,143 | - |
| | 12,002,143 | - |

21 Loans and Receivables to Other Customers

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|---|----------------------------|----------------------------|
| Gross Loans and Receivables | 47,128,702,204 | 45,089,504,193 |
| Less: Individual Impairment (Note 21.4) | (1,655,010,750) | (1,418,357,891) |
| Collective Impairment (Note 21.4) | (745,005,033) | (457,783,053) |
| | 44,728,686,421 | 43,213,363,249 |

Notes to the Financial Statements

21.1 Product wise Analysis

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|--|----------------------------|----------------------------|
| Overdrafts | 13,927,292,366 | 14,644,629,616 |
| Trade Finance | 1,588,559,759 | 1,319,973,847 |
| Credit Cards | 213,001,356 | 94,682,750 |
| Pawning & Ran Loans | 2,997,534,263 | 7,412,046,520 |
| Staff Loans | 347,212,305 | 325,277,662 |
| Term Loans | | |
| Short - term | 3,281,074,543 | 1,272,614,682 |
| Long - term | 11,932,825,549 | 8,283,848,391 |
| Lease Rentals Receivable | 5,149,444,647 | 4,591,943,735 |
| Margin Trading Advances | 1,830,968,787 | 2,131,804,536 |
| Securities Purchased Under Resale Agreements - Other Customers | 1,182,697,906 | - |
| Sri Lanka Government Securities - Sri Lanka Development Bonds | 1,984,458,625 | 1,168,674,191 |
| Debentures - Unquoted | - | 12,896,931 |
| Others | 2,693,632,098 | 3,831,111,332 |
| | 47,128,702,204 | 45,089,504,193 |

21.2 Currency wise Analysis

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|----------------------|----------------------------|----------------------------|
| Sri Lankan Rupee | 43,159,702,796 | 41,702,644,189 |
| United States Dollar | 3,882,484,282 | 3,191,256,943 |
| Great Britain Pound | 43,069,098 | 48,702,281 |
| Others | 43,446,028 | 146,900,780 |
| | 47,128,702,204 | 45,089,504,193 |

Industry-wise analysis of the Loans and Receivables to Other Customers are given in Note 38.2. Details of Lease Rentals Receivables are given in note 43.

21.3 Individually Impaired Loans and Receivables

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|--|----------------------------|----------------------------|
| Gross amount of Loans and Receivables individually determined to be impaired, before deducting the individually assessed impairment loss | 2,858,481,492 | 1,908,945,321 |
| Less: Individual Impairment losses (Note 21.4) | (1,655,010,750) | (1,418,357,891) |
| Net Exposure | 1,203,470,742 | 490,587,430 |
| Impairment Cover Ratio (Individual Impairment Losses to Gross Individually Impaired Loans and Receivables) | 57.90% | 74.30% |
| Impaired Loans and Receivable Ratio (Individually Impaired Loans and Receivables to Gross Loans and Receivables) | 6.07% | 4.23% |

21.4 Movements in Individual and Collective Impairment During the Year

| | Individual Impairment Rs. | Collective Impairment Rs. | Total Impairment Rs. |
|--|---------------------------------|---------------------------------|-------------------------|
| At 1 January 2012 | 1,335,351,652 | 549,502,170 | 1,884,853,822 |
| Charge/(Write Back) to Profit or Loss (Note 09) | (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 Receivables | (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 |
| At 1 January 2013 | 1,418,357,891 | 457,783,053 | 1,876,140,944 |
| Charge/(Write Back) to Profit or Loss (Note 09) | 193,408,204 | 389,373,806 | 582,782,010 |
| (Write off)/Recoveries during the Year | - | (102,151,826) | (102,151,826) |
| Interest Accrued on Impaired Loans and Receivables | (149,494,376) | - | (149,494,376) |
| Other Movements | 192,739,031 | - | 192,739,031 |
| At 31 December 2013 | 1,655,010,750 | 745,005,033 | 2,400,015,783 |

22 Financial Investments - Available for Sale

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|---------------------------------|----------------------------|----------------------------|
| Equities - Unquoted (Note 22.1) | 6,157,847 | 6,157,847 |
| | 6,157,847 | 6,157,847 |

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

22.1 Equities - Unquoted

| | 31 December 2013 | | 31 December 2012 | |
|--|------------------|-----------------|------------------|-----------------|
| | No. of Shares | Amount (Rs.) | No. of Shares | Amount (Rs.) |
| Credit Information Bureau of Sri Lanka | 300 | 30,000 | 300 | 30,000 |
| Society for Worldwide Interbank Financial Telecommunication (SWIFT) | 8 | 4,127,847 | 8 | 4,127,847 |
| Lanka Clear (Private) Limited | 100,000 | 1,000,000 | 100,000 | 1,000,000 |
| Lanka Financial Services Bureau Limited | 100,000 | 1,000,000 | 100,000 | 1,000,000 |
| | | 6,157,847 | | 6,157,847 |

23 Financial Investments - Held to Maturity

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|---|----------------------------|----------------------------|
| Government of Sri Lanka Securities - Treasury Bills/Bonds | 2,849,475,281 | 4,896,053,586 |
| | 2,849,475,281 | 4,896,053,586 |

Notes to the Financial Statements

23.1 Financial Assets Held to Maturity Pledged as Collateral

Government of Sri Lanka Securities - Treasury Bills and Bonds (Held to Maturity Portfolio) amounting to Rs.1,242,833,361/- (31 December 2012 - Rs. 576,263,848/-) are pledged as collateral against the Borrowings under Repurchase Agreements as at the Statement of Financial Position Date.

24 Property, Plant and Equipment

24.1 Cost/Fair Value

| | Land Rs. | Buildings Rs. | Office Equipments Rs. | Computer Hardware Rs. | Furniture & Fittings Rs. | Motor Vehicles Rs. | Total Rs |
|-----------------------------|-------------|------------------|-----------------------------|-----------------------------|--------------------------------|--------------------------|---------------|
| At 1 January 2013 | 413,652,558 | 223,252,527 | 289,063,400 | 357,352,435 | 392,671,643 | 19,597,620 | 1,695,590,183 |
| Additions/Transfers at Cost | - | - | 36,915,906 | 23,104,206 | 76,757,453 | - | 136,777,565 |
| Disposals/Transfers | - | - | (20,567,548) | (57,683,318) | (18,248,997) | (8,600,000) | (105,099,863) |
| At 31 December 2013 | 413,652,558 | 223,252,527 | 305,411,758 | 322,773,323 | 451,180,099 | 10,997,620 | 1,727,267,885 |

24.2 Depreciation and Impairment

| | | | | | | | |
|----------------------------------|---|------------|--------------|--------------|--------------|-------------|---------------|
| At 1 January 2013 | - | 24,896,759 | 123,831,511 | 201,664,286 | 110,625,380 | 10,332,620 | 471,350,556 |
| Depreciation Charge for the Year | - | 5,582,427 | 43,038,231 | 44,088,790 | 59,373,651 | 2,180,000 | 154,263,099 |
| Disposals/Transfers | - | - | (20,370,784) | (57,684,029) | (15,993,373) | (8,600,000) | (102,648,186) |
| At 31 December 2013 | - | 30,479,186 | 146,498,958 | 188,069,047 | 154,005,658 | 3,912,620 | 522,965,469 |

24.3 Net Book Value:

| | | | | | | | |
|---------------------|-------------|-------------|-------------|-------------|-------------|-----------|---------------|
| 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 |
| At 31 December 2013 | 413,652,558 | 192,773,341 | 158,912,800 | 134,704,276 | 297,174,441 | 7,085,000 | 1,204,302,416 |

24.4 Freehold Land and Building

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

| Location/Address | Extent | | 31 December 2013 Cost/Valuation | | 31 December 2012 Cost/Valuation | |
|--|-------------------|---------------------------|------------------------------------|-----------------|------------------------------------|-----------------|
| | Land (Perches) | Building (Square Feet) | Land Rs. | Building Rs. | Land Rs. | Building Rs. |
| No 450, Galle Road, Colombo 03 | 23.66 | 43,317 | 183,969,895 | 212,332,737 | 183,969,895 | 212,332,737 |
| 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 | 41,079,210 | 10,919,790 |
| | | | 413,652,558 | 223,252,527 | 413,652,558 | 223,252,527 |

24.5 Certain items of Property, Plant and Equipment in Office Equipment, Computer Hardware, Furniture and Fittings classes are carried at the fair value of those items at the date of transition in accordance with SLFRS 1 : First Time Adoption of Sri Lanka Accounting Standards (SLFRS's).

24.6 There were no capital work in progress outstanding as at the Statement of Financial Position Date.

24.7 Property, Plant and Equipment as at the Statement of Financial Position Date include fully depreciated assets amounting to Rs.110,107,562/- (As at 31 December 2012 - Rs. 66,934,605/-).

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

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

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

25 Intangible Assets

Computer Software

| | Rs. |
|------------------------------------|-------------|
| Cost | |
| At 1 January 2013 | 210,908,877 |
| Additions | 6,020,598 |
| Disposals | - |
| At 31 December 2013 | 216,929,475 |
| Amortisation and Impairment | |
| At 1 January 2013 | 137,326,976 |
| Amortisation Charge for the Year | 13,798,278 |
| Disposals | - |
| At 31 December 2013 | 151,125,254 |
| Net Book Value | |
| At 31 December 2012 | 73,581,901 |
| At 31 December 2013 | 65,804,221 |

Nature and Amortisation Method

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

26 Other Assets

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|-------------------------------------|----------------------------|----------------------------|
| Deposits and Prepayments | 377,751,084 | 221,886,707 |
| Prepaid Staff Cost | 192,727,536 | 171,063,796 |
| Outward Clearing Control Receivable | 454,877,465 | 793,451,120 |
| Other Gold Assets (Note 26.1) | 1,445,032,322 | - |
| Income Tax Receivable | 147,784,648 | - |
| Other Receivables | 152,727,032 | 242,003,685 |
| | 2,770,900,087 | 1,428,405,308 |

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

26.1 Other Gold Assets

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|--------------------------------------|----------------------------|----------------------------|
| Cost | 1,605,511,514 | - |
| Less : Accumulated Impairment Losses | (160,479,192) | - |
| | 1,445,032,322 | - |

Notes to the Financial Statements

27 Due to Banks

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|---|----------------------------|----------------------------|
| Call Money Borrowings | 998,956,752 | 448,289,975 |
| Re-finance Borrowings | 33,885,610 | 8,032,147 |
| Securities Sold under Repurchase Agreements - Banks | 825,157,239 | 350,091,346 |
| Balances with Foreign Banks | 3,565,457 | 88,912,464 |
| | 1,861,565,058 | 895,325,932 |

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

28 Due to Other Customers

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|-------------------------------------|----------------------------|----------------------------|
| Total Amount Due to Other Customers | 53,835,897,400 | 47,911,087,381 |
| | 53,835,897,400 | 47,911,087,381 |

28.1 Product wise Analysis

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|--------------------------|----------------------------|----------------------------|
| Demand Deposits | 4,773,215,040 | 3,559,093,690 |
| Savings Deposits | 5,629,926,572 | 4,533,009,760 |
| Time Deposits | 38,188,235,176 | 35,425,976,961 |
| Certificates of Deposits | 4,558,118,153 | 3,990,846,921 |
| Margin Deposits | 686,402,459 | 402,160,049 |
| | 53,835,897,400 | 47,911,087,381 |

28.2 Currency wise Analysis

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|---------------------|----------------------------|----------------------------|
| Sri Lanka Rupee | 50,475,100,522 | 44,692,635,578 |
| United State Dollar | 2,317,691,931 | 2,021,616,764 |
| Great Britain Pound | 306,725,672 | 217,795,565 |
| Others | 736,379,275 | 979,039,474 |
| | 53,835,897,400 | 47,911,087,381 |

29 Term Debt and Other Borrowed Funds

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|---|----------------------------|----------------------------|
| Securities Sold Under Repurchase Agreements - Other Customers | 1,574,087,965 | 226,320,568 |
| Unsecured Loan Facility Borrowings (Note 29.1) | 1,307,857,978 | - |
| | 2,881,945,943 | 226,320,568 |

29.1 Unsecured Loan Facility Borrowings

| Lender | Receipt Date | Maturity Date | Rate of Interest | Amount USD | Amount Rs. |
|--|------------------------------------|------------------------------------|-----------------------|---------------|---------------|
| Global Climate Partnership Fund S.A. SICAV-SIF | 30 th September 2013 | 30 th September 2020 | 6 Month LIBOR + 4% | 10,000,000 | 1,307,857,978 |

The Bank received USD 10 Mn as the 1st tranche of the total approved borrowing of USD 20 Mn.

30 Other Provisions and Accruals

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|------------------|----------------------------|----------------------------|
| Utility Payables | 67,866,329 | 77,439,401 |
| Other Accruals | 10,681,609 | 5,318,342 |
| | 78,547,938 | 82,757,743 |

31 Other Liabilities

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|---|----------------------------|----------------------------|
| Cheque Pending Realisation | 455,005,455 | 793,306,672 |
| Claims Payable | 328,889,760 | 372,128,571 |
| Defined Benefit Plan - Retiring Gratuity Obligation (Note 32.2) | 94,361,351 | 73,466,938 |
| Other Creditors | 373,354,663 | 372,401,586 |
| | 1,251,611,229 | 1,611,303,767 |

32 Defined Benefit Plan - Retiring Gratuity Obligation

Amounts recognised in Statement of Comprehensive Income in respect of Defined Benefit Plan Costs are as follows;

32.1 Defined Benefit Plan Expense

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|---|----------------------------|----------------------------|
| Service Cost | | |
| Current Service Cost | 16,006,262 | 13,213,685 |
| Net Interest Expense | 8,816,033 | 5,162,940 |
| Components Recognised in the Profit or Loss | 24,822,295 | 18,376,625 |
| Remeasurement of Net Defined Benefit Obligations | | |
| Actuarial Gains or Losses | 3,648,098 | 13,103,315 |
| Components Recognised in Other Comprehensive Income | 3,648,098 | 13,103,315 |

Notes to the Financial Statements

32.2 Defined Benefit Plan - Retiring Gratuity Obligations

Movements in the present value of the Defined Benefit Plan Obligation are as follows:

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|--|----------------------------|----------------------------|
| Balance at the Beginning of the Year | 73,466,938 | 46,935,816 |
| Current Service Cost | 16,006,262 | 13,213,685 |
| Interest Cost | 8,816,033 | 5,162,940 |
| Actuarial (Gains)/Losses Due to Changes in Assumptions | 3,648,098 | 13,103,315 |
| Benefits Paid during the Year | (7,575,980) | (4,948,818) |
| Balance at the End of the Year | 94,361,351 | 73,466,938 |

Actuarial Valuation of Retiring Gratuity Obligation as at 31st December 2013 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 R - "Employee Benefits".

The principal assumptions used in determining the Retiring Benefit Obligation are given below;

| | 31 December 2013 | 31 December 2012 |
|-----------------------|---------------------|---------------------|
| Discount Rate | 11% per annum | 12% per annum |
| Salary Increment Rate | 9% per annum | 9% per annum |

The demographic assumptions underlying the valuation are retirement age (55 years), staff turnover rate, early withdrawal from service, retirement on medical grounds, death before and after retirement, etc. Assumptions regarding future mortality are based on 1967 - 70 Mortality Table and issued by the Institute of Actuaries, London.

Defined Benefit Plan Obligation is not externally funded hence, no contributions are expected for year 2014. The Defined Benefit Plan Obligation is recorded under 'Other Liabilities' in the Statement of Financial Position. Actuarial Gain/Loss of Defined Benefit Plan is recognised in Other Comprehensive Income for the year.

32.3 Sensitivity of Assumptions in Actuarial Valuation of Retiring Gratuity Obligation

The following table demonstrates the sensitivity to a possible changes in key assumptions employed with all other variables held constant in the Retiring Gratuity Obligations measurement as at 31 December 2013. The sensitivity of the Statement of Financial Position and Statement of Comprehensive Income is the effect of the assumed changes in the discount rate and salary increment rate on the profit or loss and Retiring Gratuity obligation for the year.

| Increase/(Decrease) in Discount Rate | Increase/(Decrease) in Salary Increment Rate | Sensitivity Effect on Statement of Comprehensive Income | Sensitivity Effect on Defined Benefit Obligation |
|---|---|---|--|
| 1% | - | 4,188,975 | (4,188,975) |
| (1%) | - | (4,601,590) | 4,601,590 |
| - | 1% | (5,094,912) | 5,094,912 |
| - | (1%) | 4,709,247 | (4,709,247) |

32.4 Maturity Profile of the Defined Benefit Obligation Plan

Maturity Profile of the Defined Benefit Obligation Plan as at the reporting date is given below;

| | Years |
|---|-------|
| Weighted Average Duration of Defined Benefit Obligation | 4.72 |
| Average Time to Benefit Payout | 4.44 |

32.5 Distribution of Defined Benefit Obligation Over Future Lifetime

The following table demonstrates distribution of the future working lifetime of the Defined Benefit Obligation as at the reporting period.

| | Rs. |
|---------------------|------------|
| Less than 1 year | 2,496,669 |
| Between 1 - 2 years | 4,652,227 |
| Between 2 - 5 years | 40,772,543 |
| Over 5 years | 46,439,912 |
| | 94,361,351 |

33 Subordinated Debentures

33.1 Amortised Cost

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|--|----------------------------|----------------------------|
| Unsecured Subordinated Redeemable Debentures | 784,693,291 | 785,826,885 |
| | 784,693,291 | 785,826,885 |

33.2 Debenture Capital

| | Fixed Rs. | Floating Rs. | Total Rs. |
|-----------------------------|--------------|-----------------|--------------|
| At 1 January 2013 | 140,000,000 | 610,000,000 | 750,000,000 |
| Issued during the Year | - | - | - |
| Redemptions during the Year | - | - | - |
| At 31 December 2013 | 140,000,000 | 610,000,000 | 750,000,000 |

Debentures outstanding as at 31 December 2013, 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 2013 Rs. |
|--|---|----------------------------------|----------------|------------------|----------------------------|
| Fixed Rate Debentures | | | | | |
| 2012/2017 - 11.25% p.a. | Listed | Semi Annually | 19.03.2012 | 19.03.2017 | 35,000,000 |
| 2012/2017 - 11.50% p.a. | Listed | Annually | 19.03.2012 | 19.03.2017 | 55,300,000 |
| 2012/2017 - 14.50% p.a. | Listed | Maturity | 19.03.2012 | 19.03.2017 | 49,700,000 |
| | | | | | 140,000,000 |
| Floating Rate Debentures | | | | | |
| 2012/2017 - 6 Month Treasury Bill Rate (Gross) + 2.95% p.a. | Listed | Semi Annually | 19.03.2012 | 19.03.2017 | 610,000,000 |
| | | | | | 610,000,000 |
| | | | | | 750,000,000 |

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

Notes to the Financial Statements

34 Stated Capital

| Voting Ordinary Shares | No. of Shares | Amount Rs. |
|---|---------------|---------------|
| At 1 January 2013 | 295,041,086 | 1,548,965,702 |
| Shares Issued for Cash/Sub-Division of Shares | - | - |
| At 31 December 2013 | 295,041,086 | 1,548,965,702 |

35 Other Statutory Reserves

| | Statutory Reserve Fund Rs. | Investment Fund Rs. | Total Rs. |
|----------------------------------|----------------------------|---------------------|-------------|
| At 1 January 2012 | 120,515,224 | 161,746,817 | 282,262,041 |
| Transferred During the Year 2012 | 43,002,543 | 186,521,962 | 229,524,505 |
| At 1 January 2013 | 163,517,767 | 348,268,779 | 511,786,546 |
| Transferred During the Year 2013 | 5,742,990 | 120,637,126 | 126,380,116 |
| At 31 December 2013 | 169,260,757 | 468,905,905 | 638,166,662 |

35.1 Statutory Reserve Fund

The Statutory Reserve Fund is maintained as required by Section 20 (1) of the Banking Act No. 30 of 1988. A sum equivalent to 5% of the Profit after tax should be transferred to the Reserve until the reserve is equal to 50% of the paid up capital of the Bank and thereafter a sum equivalent to 2% of such profits until the amount of reserve is equal to the paid up capital of the Bank. This Reserve Fund will be used only for the purpose specified in Section 20 (2) of the Banking Act No. 30 of 1988.

35.2 Investment Fund

In terms of Budget Proposals 2011 and subsequent guideline dated 29 April 2011 of Central Bank of Sri Lanka, the Bank has made transfers to the investment fund up to 31 December 2013 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 46 to the Financial Statements.

36 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 02 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 2013

| | 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 | - | - | 1,203,739,630 | - | 1,203,739,630 |
| Balances with Central Banks | - | - | 2,799,581,915 | - | 2,799,581,915 |
| Placements with Banks | - | - | 104,622,304 | - | 104,622,304 |
| Derivative Financial Instruments | - | - | - | 2,758,216 | 2,758,216 |
| Financial Assets - Held for Trading | 9,170,415,067 | - | - | - | 9,170,415,067 |
| Loans and Receivables to Banks | - | - | 12,002,143 | - | 12,002,143 |
| Loans and Receivables to Other Customers | - | - | 44,728,686,421 | - | 44,728,686,421 |
| Financial Investments - Available for Sale | - | 6,157,847 | - | - | 6,157,847 |
| Financial Investments - Held to Maturity | - | - | 2,849,475,281 | - | 2,849,475,281 |
| Total Financial Assets | 9,170,415,067 | 6,157,847 | 51,698,107,694 | 2,758,216 | 60,877,438,824 |
| Financial Liabilities | | | | | |
| Due to Banks | - | - | 1,861,565,058 | - | 1,861,565,058 |
| Derivative Financial Instruments | - | - | - | 24,634,054 | 24,634,054 |
| Due to Other Customers | - | - | 53,835,897,400 | - | 53,835,897,400 |
| Term Debt and Other Borrowed Funds | - | - | 2,881,945,943 | - | 2,881,945,943 |
| Subordinated Debentures | - | - | 784,693,291 | - | 784,693,291 |
| Total Financial Liabilities | - | - | 59,364,101,692 | 24,634,054 | 59,388,735,746 |

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 Banks | - | - | - | - | - |
| Loans and Receivables to Other 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 |
| Term Debt and Other Borrowed Funds | - | - | 226,320,568 | - | 226,320,568 |
| Subordinated Debentures | - | - | 785,826,885 | - | 785,826,885 |
| Total Financial Liabilities | - | - | 49,818,560,766 | 631,663 | 49,819,192,429 |

Notes to the Financial Statements

37 Fair Value of Financial Instruments

37.1 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, Debentures, Unit Trusts and Sri Lanka Government Securities - Treasury Bills and Bonds included in Financial Assets Held for Trading are valued using market prices.

37.2 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 2013

| | Level 1 Rs. | Level 2 Rs. | Level 3 Rs. | Total Rs. |
|---|----------------|----------------|----------------|---------------|
| Financial Assets | | | | |
| Derivative Financial Instruments | - | 2,758,216 | - | 2,758,216 |
| Financial Assets - Held for Trading | | | | |
| Quoted Equities | 11,286,578 | - | - | 11,286,578 |
| Unit Trusts | 4,515,666,225 | - | - | 4,515,666,225 |
| Quoted Debentures | 1,056,343,374 | - | - | 1,056,343,374 |
| Government of Sri Lanka Securities - Treasury Bills and Bonds | 3,587,118,890 | - | - | 3,587,118,890 |
| Financial Investments - Available for Sale | - | 6,157,847 | - | 6,157,847 |
| | 9,170,415,067 | 8,916,063 | - | 9,179,331,130 |
| Financial Liabilities | | | | |
| Derivative Financial Instruments | - | 24,634,054 | - | 24,634,054 |
| | - | 24,634,054 | - | 24,634,054 |

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 - 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 |

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

| | Net Trading Income | |
|---|--------------------|-------------|
| | 2013 Rs. | 2012 Rs. |
| Financial Assets | | |
| Derivative Financial Instruments | 40,350,086 | 1,987,925 |
| Financial Assets - Held for Trading | | |
| Quoted Equities | (1,094,456) | (3,754,901) |
| Unit Trusts | 37,142,109 | - |
| Government of Sri Lanka Securities - Treasury Bills and Bonds | 26,846,000 | - |
| | 103,243,739 | (1,766,976) |

- 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 2013 | | 31 December 2012 | |
|--|------------------------|-------------------|------------------------|-------------------|
| | Carrying Amount Rs. | Fair Value Rs. | Carrying Amount Rs. | Fair Value Rs. |
| Financial Assets | | | | |
| Cash and Cash Equivalents | 1,203,739,630 | 1,203,739,630 | 1,203,051,981 | 1,203,051,981 |
| Balances with Central Banks | 2,799,581,915 | 2,799,581,915 | 3,516,871,043 | 3,516,871,043 |
| Placements with Banks | 104,622,304 | 104,622,304 | 500,134,932 | 500,134,932 |
| Loans and Receivables to Banks | 12,002,143 | 12,002,143 | - | - |
| Loans and Receivables to Other Customers | 44,728,686,421 | 44,728,686,421 | 43,213,363,249 | 43,213,363,249 |
| Financial Investments - Held to Maturity | 2,849,475,281 | 2,842,141,098 | 4,896,053,586 | 4,888,719,403 |
| Total Financial Assets | 51,698,107,694 | 51,690,773,511 | 53,329,474,791 | 53,322,140,608 |
| Financial Liabilities | | | | |
| Due to Banks | 1,861,565,058 | 1,861,565,058 | 895,325,932 | 895,325,932 |
| Due to Other Customers | 53,835,897,400 | 53,835,897,400 | 47,911,087,381 | 47,911,087,381 |
| Term Debt and Other Borrowed Funds | 2,881,945,943 | 2,881,945,943 | 226,320,568 | 226,320,568 |
| Subordinated Debentures | 784,693,291 | 784,693,291 | 785,826,885 | 785,826,885 |
| Total Financial Liabilities | 59,364,101,692 | 59,364,101,692 | 49,818,560,766 | 49,818,560,766 |

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.

Notes to the Financial Statements

37 Fair Value of Financial Instruments (Cont'd)

37.2 Determination of Fair Value and Fair Value Hierarchy (Cont'd)

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.

38 Risk Management

38.1 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.

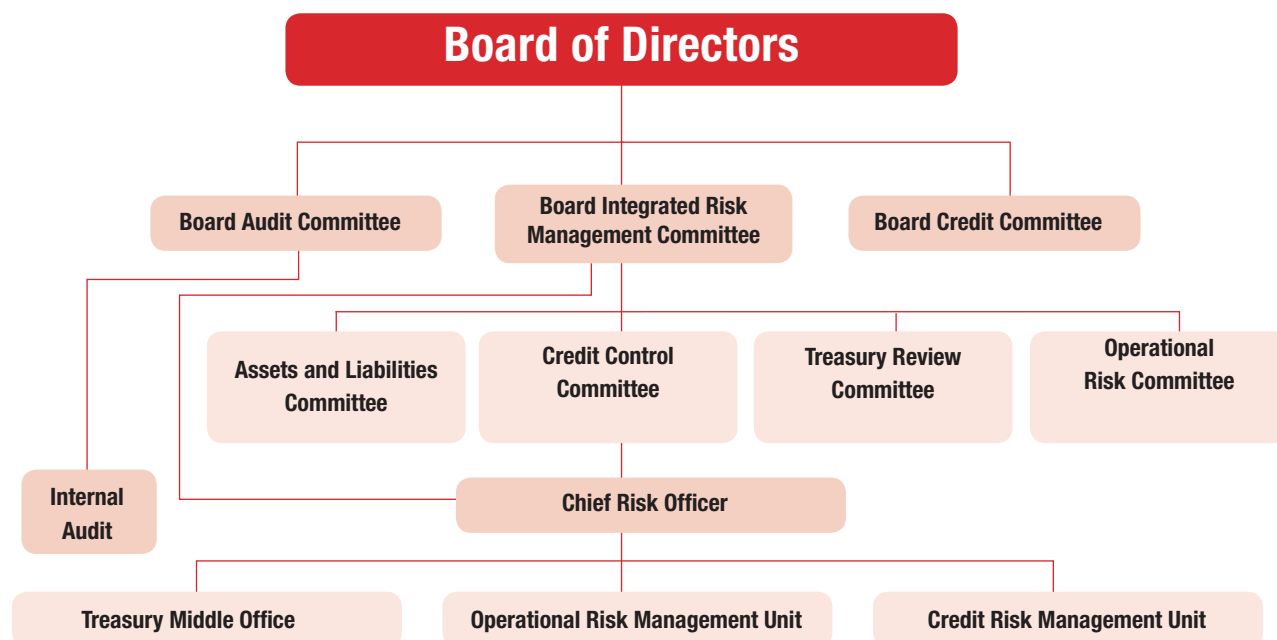
Risk Management Objectives, Policies and Processes

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 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 were introduced for products which needed close monitoring.

Risk Management Structure

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



Board Audit Committee

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

Board Credit Committee

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

Board Integrated Risk Management Committee

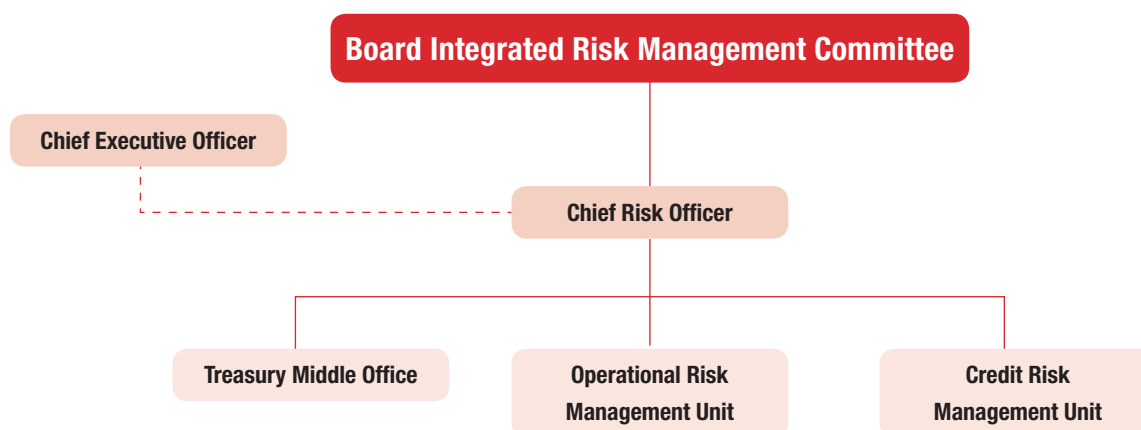
Board Integrated Risk Management Committee mainly looks into the overall Risk Management aspects of the Bank. The Committee adopts Risk strategies, frameworks, and policies and is also responsible for implementation of these strategies and plans. The Committee meets on quarterly basis and discusses the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

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

Notes to the Financial Statements

38 Risk Management (Cont'd)

38.1 Introduction (Cont'd)



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.

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

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

38.2 Credit Risk

Credit Risk is the loss that the Bank will incur due to failure of a customers 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 on borrowers' ability to meet their commitments in a timely manner. The internal risk rating is an important part of the risk assessment of the customers and incorporated in the credit decision process. This numerical rating denotes the borrower's strength relating to repayment ability, financial condition, industry/business outlook and management quality. A separate alphabetical rating is assigned to customers as the security indicator based on Bank's approved policy on security. The Bank minimises risk by granting credit facilities for high rated customers.
- b) Loan approval and sanction of credit facilities - Clear guidelines and policies have been established for loan approvals/renewals within delegated credit approval authorities.
- c) Credit administration and disbursement is performed by Credit Administration Unit, independently reporting to Chief Executive Officer to ensure clear segregation of duties from business units and ensures origination and disbursement of credit are made only after stipulated conditions have been met and relevant security documents are obtained.
- d) Credit Measurement and Monitoring - Credit Risk Management Unit measures and tracks the early warning signals pertaining to deterioration of financial health of the borrowers and customers who need special attention/monitoring is identified and their financial behaviour is discussed at Head Office Credit Committee and Board Credit Committee levels.
- e) Non Performing Advances are managed by the Legal and Recoveries divisions. These units are responsible for all aspects of 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. Limits have been prescribed for Bank's exposure to any single borrower, group of specific borrowers or specific industries/sectors in order to avoid concentration of credit risk.

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

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

Impairment Assessment

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

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

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

Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant Loans and Receivables 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.

Notes to the Financial Statements

38 Risk Management (Cont'd)

38.2 Credit Risk (Cont'd)

Collectively Assessed Allowances

Allowances are assessed collectively for losses on Loans and Receivables are not individually significant and for individually significant Loans and Receivables that have been assessed individually and found not to be impaired.

The Bank generally bases its analysis 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 Policy. These Collateral are evaluated independently by a valuation panel and all significant collateral are vetted through a special panel valuation committee for opinion. The Management monitors the market value of collateral, and will request additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose 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 | Maximum Exposure to Credit Risk | Cash | Gold | Securities | Property Mortgages | Guarantees/ Documentary Credit | Other* | Total Collateral | Net Exposure |
|--|---------------------------------|----------------------|----------------------|----------------------|-----------------------|--------------------------------|-----------------------|-----------------------|-----------------------|
| As at 31 December 2013 | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| Balances with Central Banks | 2,799,581,915 | - | - | - | - | - | - | - | 2,799,581,915 |
| Placements with Banks | 104,622,304 | - | - | - | - | - | - | - | 104,622,304 |
| Derivative Financial Instruments | 2,758,216 | - | - | - | - | - | - | - | 2,758,216 |
| Financial Assets - Held for Trading | 9,170,415,067 | - | - | - | - | - | - | - | 9,170,415,067 |
| Loans and Receivables to Banks - Gross | 12,002,143 | - | - | 12,002,143 | - | - | - | 12,002,143 | - |
| Loans and Receivables to Other Customers - Gross | 47,128,702,204 | 6,492,377,035 | 2,997,534,263 | 4,046,698,783 | 17,434,071,014 | 4,766,210,416 | 8,507,578,726 | 44,244,470,237 | 2,884,231,967 |
| Financial Investments - Available for Sale | 6,157,847 | - | - | - | - | - | - | - | 6,157,847 |
| Financial Investments - Held to Maturity | 2,849,475,281 | - | - | - | - | - | - | - | 2,849,475,281 |
| Total | 62,073,714,977 | 6,492,377,035 | 2,997,534,263 | 4,058,700,926 | 17,434,071,014 | 4,766,210,416 | 8,507,578,726 | 44,256,472,380 | 17,817,242,597 |
| As at 31 December 2012 | | | | | | | | | |
| 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 Other 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 |
| 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 | 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 |
| * Vehicles, machinery, other capital assets, inventory and trade receivables | | | | | | | | | |

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

Notes to the Financial Statements

38 Risk Management (Cont'd)

38.2 Credit Risk (Contd.)

Credit Quality by Class of Financial Assets

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

As at 31 December 2013

| | Neither Past Due Nor Impaired | Past Due But Not Impaired | | | | | | Individually Impaired | | Total | | |
|--|----------------------------------|---------------------------|-------------|-------------|-------------|--------------|---------------|--------------------------|-----|-------|---------------|-----|
| | | Upto 90 Days | | 91-180 Days | | 181-360 Days | | 361-540 Days | | | Over 540 Days | |
| | | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | | Rs. | Rs. |
| Cash and Cash Equivalents | 1,203,739,630 | - | - | - | - | - | - | - | - | - | 1,203,739,630 | |
| Balances with Central Banks | 2,799,581,915 | - | - | - | - | - | - | - | - | - | 2,799,581,915 | |
| Placements with Banks | 104,622,304 | - | - | - | - | - | - | - | - | - | 104,622,304 | |
| Derivative Financial Instruments | 2,758,216 | - | - | - | - | - | - | - | - | - | 2,758,216 | |
| Financial Assets - Held for Trading | 9,170,415,067 | - | - | - | - | - | - | - | - | - | 9,170,415,067 | |
| Loans and Receivables to Banks | 12,002,143 | - | - | - | - | - | - | - | - | - | 12,002,143 | |
| Loans and Receivables to Other Customers - Gross | 38,381,562,589 | 3,936,315,759 | 907,711,664 | 390,939,550 | 181,886,171 | 471,804,979 | 2,858,481,492 | 47,128,702,204 | | | | |
| Financial Investments - Available for Sale | 6,157,847 | - | - | - | - | - | - | - | - | - | 6,157,847 | |
| Financial Investments - Held to Maturity | 2,849,475,281 | - | - | - | - | - | - | - | - | - | 2,849,475,281 | |
| Total | 54,530,314,992 | 3,936,315,759 | 907,711,664 | 390,939,550 | 181,886,171 | 471,804,979 | 2,858,481,492 | 63,277,454,607 | | | | |
| As at 31 December 2012 | | | | | | | | | | | | |
| 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 Other Customers - Gross | 35,577,757,578 | 5,892,310,427 | 874,734,415 | 204,462,175 | 125,971,008 | 505,323,269 | 1,908,945,321 | 45,089,504,193 | | | | |
| 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 | 45,712,459,694 | 5,892,310,427 | 874,734,415 | 204,462,175 | 125,971,008 | 505,323,269 | 1,908,945,321 | 55,224,206,309 | | | | |

SLFRS 7-Financial Instruments : Disclosures specifically require the disclosure of quality of loans that are neither impaired nor past due and an analysis of the age of financial assets that are past due but not impaired as at the reporting date. The Bank consider any amounts uncollected for one day or more beyond their contractual due date as 'past due'. The classification of the previous years have been amended for better presentation and to be comparable with those of the current year.

Individually Impaired Loans and Receivables/ Financial Assets

All individually significant Loans and Receivables/Financial Assets which the Bank determines that there is objective evidence of impairment loss and therefore, may not be able or unable to collect all principal and interest due according to the contractual terms are classified as 'Impaired Loans and Receivables/Financial Assets'.

Past Due But Not Impaired Loans and Receivables/Financial Assets

Past due but not Impaired Loans and Receivables/Financial Assets are those with contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the stage of collection of amounts owed, level of security/collateral available and significance of the Financial Asset.

Credit Risk Exposure for Each Internal Credit Risk Rating

The Bank's policy is to maintain accurate and consistent risk ratings across the 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*

| Risk Rating Grade | Description | 2013 Rs. | 2012 Rs. |
|-------------------|------------------|----------------|----------------|
| Grade 1 | High Safety | 21,032,835,891 | 22,168,481,613 |
| Grade 2 | Moderate Safety | 16,321,533,772 | 14,034,045,373 |
| Grade 3 | Needs Monitoring | 2,426,448,392 | 5,372,597,123 |
| Grade 4 | Substandard Risk | 2,002,410,362 | 789,908,407 |
| Grade 5 | Very High Risk | 2,178,317,256 | 1,542,900,555 |
| | | 43,961,545,673 | 43,907,933,071 |

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

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 42.

Analysis of Risk Concentration

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 2013 was Rs.1,650,220,000/- (2012: Rs. 1,600,417,000/-), before taking account of collateral.

Notes to the Financial Statements

38 Risk Management (Cont'd)

38.2 Credit Risk (Contd.)

Industry Analysis

As at 31 December 2013

| | Banking and Financial Services Rs. | Government Rs. | Exports Rs. | Tourism and Allied Rs. | Industrial Rs. |
|--|--|-------------------|----------------|------------------------------|-------------------|
| Cash and Cash Equivalents | 400,779,815 | 802,959,815 | - | - | - |
| Balances with Central Banks | - | 2,799,581,915 | - | - | - |
| Placements with Banks | 104,622,304 | - | - | - | - |
| Derivative Financial Instruments | 2,758,216 | - | - | - | - |
| Financial Assets - Held for Trading | 4,873,915,957 | 3,587,118,890 | - | - | - |
| Loans and Receivables to Banks - Gross | 12,002,143 | - | - | - | - |
| Loans and Receivables to Other Customers - Gross | 6,929,325,955 | 1,984,458,625 | 871,225,916 | 780,383,240 | 2,383,901,486 |
| Financial Investments - Available for Sale | 6,157,847 | - | - | - | - |
| Financial Investments - Held to Maturity | - | 2,849,475,281 | - | - | - |
| | 12,329,562,237 | 12,023,594,526 | 871,225,916 | 780,383,240 | 2,383,901,486 |

As at 31 December 2012

| | Banking and Financial Services Rs. | Government Rs. | Exports Rs. | Tourism and Allied Rs. | Industrial Rs. |
|--|--|-------------------|----------------|------------------------------|-------------------|
| Cash and Cash Equivalents | 256,127,508 | 946,924,473 | - | - | - |
| 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 Other Customers - Gross | 3,611,255,636 | 1,168,674,191 | 804,108,005 | 434,366,643 | 2,218,448,171 |
| Financial Investments - Available for Sale | 6,157,847 | - | - | - | - |
| Financial Investments - Held to Maturity | - | 4,896,053,586 | - | - | - |
| | 4,386,108,650 | 10,528,523,293 | 804,108,005 | 434,366,643 | 2,218,448,171 |

| Agriculture and Fishing Rs. | Commercial Trading Rs. | Imports Rs. | Consumption Rs. | Other Services Rs. | Housing Rs. | Margin Trading Rs. | Others Rs. | Total Rs. |
|--------------------------------|---------------------------|----------------|--------------------|-----------------------|----------------|-----------------------|---------------|----------------|
| - | - | - | - | - | - | - | - | 1,203,739,630 |
| - | - | - | - | - | - | - | - | 2,799,581,915 |
| - | - | - | - | - | - | - | - | 104,622,304 |
| - | - | - | - | - | - | - | - | 2,758,216 |
| - | 73,128,539 | 284,118,837 | 352,132,844 | - | - | - | - | 9,170,415,067 |
| - | - | - | - | - | - | - | - | 12,002,143 |
| 4,414,583,252 | 7,054,941,421 | 3,620,826,333 | 15,038,569,142 | 1,971,711,290 | 241,174,967 | 1,830,968,767 | 6,631,810 | 47,128,702,204 |
| - | - | - | - | - | - | - | - | 6,157,847 |
| - | - | - | - | - | - | - | - | 2,849,475,281 |
| 4,414,583,252 | 7,128,069,960 | 3,904,945,170 | 15,390,701,986 | 1,971,711,290 | 241,174,967 | 1,830,968,767 | 6,631,810 | 63,277,454,607 |

| Agriculture and Fishing Rs. | Commercial Trading Rs. | Imports Rs. | Consumption Rs. | Other 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 |
| 4,496,224,473 | 8,656,609,370 | 3,183,589,665 | 16,280,095,700 | 1,972,958,376 | 123,953,408 | 2,131,804,536 | 7,416,019 | 45,089,504,193 |
| - | - | - | - | - | - | - | - | 6,157,847 |
| - | - | - | - | - | - | - | - | 4,896,053,586 |
| 4,496,224,473 | 8,656,609,370 | 3,183,589,665 | 16,280,095,700 | 1,972,958,376 | 123,953,408 | 2,131,804,536 | 7,416,019 | 55,224,206,309 |

Notes to the Financial Statements

38 Risk Management (Cont'd)

38.3 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 the Directions, Guidelines, Determinations and instructions issued by Central Bank of Sri Lanka.

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 38.3.

The policy of the Bank is to maintain adequate liquidity at all times, in all locations and for all currencies and hence to be in a position, in the normal course of business, to meet obligations, repay depositors and fulfill commitments. 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 6% of Rupee deposit liabilities of the Domestic Banking Unit. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of Statutory Liquid Asset Ratio to customer liabilities, to reflect market conditions. The significant liquidity ratios during the year were as follows:

Liquidity Ratios

Advances to Deposit Ratio

| | 2013 | 2012 |
|----------|--------|--------|
| Average | 83.70% | 92.53% |
| Year-end | 80.49% | 89.20% |

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

Statutory Liquid Asset Ratio

| | 2013 | 2012 |
|----------|--------|--------|
| Average | 22.44% | 20.59% |
| Year-End | 23.77% | 21.15% |

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

Analysis of Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's assets and liabilities as at the end of the reporting period. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Contractual Maturities of Undiscounted Cash Flows of Assets and Liabilities

As at 31 December 2013

| | Less than 3 Months Rs. | 3 to 12 Months Rs. | 1 to 5 Years Rs. | Over 5 Years Rs. | Total Rs. |
|--|---------------------------|------------------------|-----------------------|------------------------|-----------------------|
| Financial Assets | | | | | |
| Cash and Cash Equivalents | 1,203,739,630 | - | - | - | 1,203,739,630 |
| Balances with Central Banks | 2,799,581,915 | - | - | - | 2,799,581,915 |
| Placements with Banks | 104,622,304 | - | - | - | 104,622,304 |
| Derivative Financial Instruments | 2,758,216 | - | - | - | 2,758,216 |
| Financial Assets - Held for Trading | 5,022,559,336 | 3,091,512,357 | 1,056,343,374 | - | 9,170,415,067 |
| Loans and Receivables to Banks | 12,002,143 | - | - | - | 12,002,143 |
| Loans and Receivables to Other Customers | 27,040,034,993 | 6,050,801,274 | 10,543,716,897 | 1,094,133,257 | 44,728,686,421 |
| Financial Investments - Available for Sale | - | - | - | 6,157,847 | 6,157,847 |
| Financial Investments - Held to Maturity | 51,271,396 | 2,798,203,885 | - | - | 2,849,475,281 |
| Total Undiscounted Financial Assets | 36,236,569,933 | 11,940,517,516 | 11,600,060,271 | 1,100,291,104 | 60,877,438,824 |
| Non Financial Assets | | | | | |
| Property, Plant and Equipment | - | - | - | 1,204,302,416 | 1,204,302,416 |
| Intangible Assets | - | - | - | 65,804,221 | 65,804,221 |
| Other Assets | 2,058,818,107 | 166,149,860 | 262,037,709 | 283,894,411 | 2,770,900,087 |
| Total Undiscounted Non-Financial Assets | 2,058,818,107 | 166,149,860 | 262,037,709 | 1,554,001,048 | 4,041,006,724 |
| Total Undiscounted Assets | 38,295,388,040 | 12,106,667,376 | 11,862,097,980 | 2,654,292,152 | 64,918,445,548 |
| Financial Liabilities | | | | | |
| Due to Banks | 1,827,679,448 | 12,127,000 | 21,758,610 | - | 1,861,565,058 |
| Derivative Financial Instruments | 24,634,054 | - | - | - | 24,634,054 |
| Due to Other Customers | 31,167,067,375 | 19,662,142,085 | 2,980,782,588 | 25,905,352 | 53,835,897,400 |
| Term Debt and Other Borrowed Funds | 826,231,911 | 747,856,054 | - | 1,307,857,978 | 2,881,945,943 |
| Subordinated Debentures | - | - | 784,693,291 | - | 784,693,291 |
| Total Undiscounted Financial Liabilities | 33,845,612,788 | 20,422,125,139 | 3,787,234,489 | 1,333,763,330 | 59,388,735,746 |
| Non Financial Liabilities | | | | | |
| Deferred Tax Liabilities | - | - | - | 150,787,101 | 150,787,101 |
| Other Provisions and Accruals | 78,547,938 | - | - | - | 78,547,938 |
| Other Liabilities | 1,157,249,878 | - | - | 94,361,351 | 1,251,611,229 |
| Equity | - | - | - | 4,048,763,534 | 4,048,763,534 |
| Total Undiscounted Non-Financial Liabilities and Equity | 1,235,797,816 | - | - | 4,293,911,986 | 5,529,709,802 |
| Total Undiscounted Liabilities | 35,081,410,604 | 20,422,125,139 | 3,787,234,489 | 5,627,675,316 | 64,918,445,548 |
| Net Undiscounted Financial Assets/(Liabilities) | 2,390,957,145 | (8,481,607,623) | 7,812,825,782 | (233,472,226) | 1,488,703,078 |
| Net Undiscounted Assets/(Liabilities) | 3,213,977,436 | (8,315,457,763) | 8,074,863,491 | (2,973,383,164) | - |

The classifications of Contratual Maturities of the previous years have been amended to conform with the current year presentation.

Notes to the Financial Statements

38 Risk Management (Cont'd)

38.3 Liquidity Risk (Cont'd)

Contractual Maturities of Undiscounted Cash Flows of Assets and Liabilities

As at 31 December 2012

| | Less than 3 Months Rs. | 3 to 12 Months Rs. | 1 to 5 Years Rs. | Over 5 Years 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 Other 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 | 23,479,481,857 | 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 | 24,439,011,377 | 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 |
| Term Debt and Other Borrowed Funds | 214,703,529 | 11,617,039 | - | - | 226,320,568 |
| Subordinated Debentures | - | - | 785,826,885 | - | 785,826,885 |
| Total Undiscounted Financial Liabilities | 24,726,010,336 | 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 and Equity | 1,257,178,925 | 588,197,414 | - | 4,409,723,433 | 6,255,099,772 |
| Total Undiscounted Liabilities | 25,983,189,261 | 17,676,945,565 | 5,539,199,006 | 6,874,958,369 | 56,074,292,201 |
| Net Undiscounted Financial Assets/(Liabilities) | (1,246,528,479) | (5,809,075,416) | 9,417,926,963 | 1,166,549,868 | 3,528,872,936 |
| Net Undiscounted Assets/(Liabilities) | (1,544,177,884) | (6,202,925,970) | 9,417,926,963 | (1,670,823,109) | - |

Contractual Maturities of Commitments and Contingencies

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

As at 31 December 2013

| | Less than 3 Months Rs. | 3 to 12 Months Rs. | 1 to 5 Years Rs. | Over 5 Years Rs. | Total Rs. |
|---|---------------------------|-----------------------|---------------------|---------------------|----------------|
| Contingencies | | | | | |
| Guarantees | 1,094,503,419 | 1,209,627,157 | 194,349,454 | - | 2,498,480,030 |
| Documentary Credit | 9,426,460,185 | 1,316,439,921 | - | - | 10,742,900,106 |
| Forward Foreign Exchange Contracts / Currency Swaps | 3,736,159,597 | 2,727,700,000 | - | - | 6,463,859,597 |
| Collection Bills | 209,941,277 | 124,386,808 | 1,951,869,769 | - | 2,286,197,854 |
| Acceptances | - | - | - | - | - |
| | 14,467,064,478 | 5,378,153,886 | 2,146,219,223 | - | 21,991,437,587 |
| Commitments | | | | | |
| Undrawn Credit Lines | 4,133,234,378 | - | - | - | 4,133,234,378 |
| | 4,133,234,378 | - | - | - | 4,133,234,378 |
| Total | 18,600,298,856 | 5,378,153,886 | 2,146,219,223 | - | 26,124,671,965 |

As at 31 December 2012

| | Less than 3 Months Rs. | 3 to 12 Months Rs. | 1 to 5 Years Rs. | Over 5 Years Rs. | Total Rs. |
|---|---------------------------|-----------------------|---------------------|---------------------|----------------|
| Contingencies | | | | | |
| Guarantees | 1,354,405,899 | 1,765,148,646 | 224,377,917 | - | 3,343,932,462 |
| Documentary Credit | 1,035,367,072 | 1,712,293,571 | 53,080,745 | - | 2,800,741,388 |
| Forward Foreign Exchange Contracts / Currency Swaps | 1,904,200,349 | - | - | - | 1,904,200,349 |
| Collection Bills | 240,705,327 | 231,005,056 | 2,155,054,772 | - | 2,626,765,155 |
| Acceptances | - | 37,279,935 | - | - | 37,279,935 |
| | 4,534,678,647 | 3,745,727,208 | 2,432,513,434 | - | 10,712,919,289 |
| Commitments | | | | | |
| Undrawn Credit Lines | 3,030,999,540 | - | - | - | 3,030,999,540 |
| | 3,030,999,540 | - | - | - | 3,030,999,540 |
| Total | 7,565,678,187 | 3,745,727,208 | 2,432,513,434 | - | 13,743,918,829 |

Notes to the Financial Statements

38 Risk Management (Cont'd)

38.4 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 a 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 that the risk reward relationship and does not expose to unacceptable losses outside its risk appetite.

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

The Assets and Liabilities Committee (ALCO), in keeping with its terms of reference 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 are in place at Bank to mitigate the market risks. In addition, a policy document defining the responsibilities of each treasury unit 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 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 Bank's 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. Gaps are identified between assets and liabilities and the same is used to prepare the Interest Rate Risk Report.

| | 31 December 2013 | 31 December 2012 |
|---|---------------------|---------------------|
| Increase in interest rates (%) | 2% | 2% |
| Effect on Profit or Loss and Equity (Rs.) | 45,601,366 | 81,372,013 |
| Decrease in interest rates (%) | (2%) | (2%) |
| Effect on Profit or Loss and Equity (Rs.) | (41,142,523) | (87,157,415) |

Interest Rate Sensitivity Analysis

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

As at 31 December 2013

| | Less than 3 Months | 3 to 12 Months | Interest Bearing 1 to 5 Years | Over 5 Years | Non Interest Bearing | Total |
|---|-----------------------|-------------------------|----------------------------------|--------------------|-------------------------|-----------------------|
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| Financial Assets | | | | | | |
| Cash and Cash Equivalents | - | - | - | - | 1,203,739,630 | 1,203,739,630 |
| Balances with Central Banks | - | - | - | - | 2,799,581,915 | 2,799,581,915 |
| Placements with Banks | 104,622,304 | - | - | - | - | 104,622,304 |
| Derivative Financial Instruments | - | - | - | - | 2,758,216 | 2,758,216 |
| Financial Assets - Held for Trading | 495,606,535 | 3,091,512,357 | 1,056,343,374 | - | 4,526,952,802 | 9,170,415,067 |
| Loans and Receivables to Banks | 12,002,143 | - | - | - | - | 12,002,143 |
| Loans and Receivables to Other Customers | 35,199,902,034 | 4,292,397,396 | 4,868,976,008 | 323,870,806 | 43,540,177 | 44,728,686,421 |
| Financial Investments - Available for Sale | - | - | - | - | 6,157,847 | 6,157,847 |
| Financial Investments - Held to Maturity | 51,271,396 | 2,798,203,885 | - | - | - | 2,849,475,281 |
| Total Undiscounted Financial Assets | 35,863,404,412 | 10,182,113,638 | 5,925,319,382 | 323,870,806 | 8,582,730,587 | 60,877,438,824 |
| Financial Liabilities | | | | | | |
| Due to Banks | 1,824,113,991 | 12,127,000 | 21,758,610 | - | 3,565,457 | 1,861,565,058 |
| Derivative Financial Instruments | - | - | - | - | 24,634,054 | 24,634,054 |
| Due to Other Customers | 25,707,449,876 | 19,662,142,085 | 2,980,782,588 | 25,905,352 | 5,459,617,499 | 53,835,897,400 |
| Term Debt and Other Borrowed Funds | 826,231,911 | 2,055,714,032 | - | - | - | 2,881,945,943 |
| Subordinated Debentures | 638,217,210 | - | 146,476,081 | - | - | 784,693,291 |
| Total Undiscounted Financial Liabilities | 28,996,012,988 | 21,729,983,117 | 3,149,017,279 | 25,905,352 | 5,487,817,010 | 59,388,735,746 |
| Total Interest Rate Sensitivity Gap | 6,867,391,424 | (11,547,869,479) | 2,776,302,103 | 297,965,454 | 3,094,913,577 | 1,488,703,078 |

The classification of Bank's interest rate risk exposure on financial assets and liabilities of the previous years have been amended to conform with the current year presentation.

Notes to the Financial Statements

38 Risk Management (Cont'd)

38.4 Market Risk (Cont'd)

Interest Rate Sensitivity Analysis

As at 31 December 2012

| | Less than 3 Months | 3 to 12 Months | Interest Bearing 1 to 5 Years | Over 5 Years | Non Interest Bearing | Total |
|---|-----------------------|------------------------|----------------------------------|--------------------|-------------------------|-----------------------|
| | 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 Other Customers | 27,299,780,167 | 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 |
| Financial Investments - Held to Maturity | 2,521,594,632 | 2,107,649,685 | 266,809,269 | - | - | 4,896,053,586 |
| Total Undiscounted Financial Assets | 30,321,509,731 | 9,125,187,837 | 8,700,682,718 | 462,171,481 | 4,738,513,598 | 53,348,065,365 |
| Financial Liabilities | | | | | | |
| Due to Banks | 888,313,517 | 7,012,415 | - | - | - | 895,325,932 |
| Derivative Financial Instruments | - | - | - | - | 631,663 | 631,663 |
| Due to Other Customers | 26,118,934,722 | 15,183,417,916 | 2,634,010,551 | 13,470,453 | 3,961,253,739 | 47,911,087,381 |
| Term Debt and Other Borrowed Funds | 221,787,312 | 4,533,256 | - | - | - | 226,320,568 |
| Subordinated Debentures | - | - | 785,826,885 | - | - | 785,826,885 |
| Total Undiscounted Financial Liabilities | 27,229,035,551 | 15,194,963,587 | 3,419,837,436 | 13,470,453 | 3,961,885,402 | 49,819,192,429 |
| Total Interest Rate Sensitivity Gap | 3,092,474,180 | (6,069,775,750) | 5,280,845,282 | 448,701,028 | 776,628,196 | 3,528,872,936 |

Currency Risk

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

Management of Currency Risk

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

Equity Price Risk

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

Management of Equity Price Risk

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

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.

38.5 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.

38.6 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.

39 Net Asset Value Per Ordinary Share

| | 2013 | 2012 |
|------------------------------------|---------------|---------------|
| Total Equity Holders Funds (Rs.) | 4,048,763,534 | 4,232,592,922 |
| Number of Ordinary Shares in Issue | 295,041,086 | 295,041,086 |
| Net Assets Value Per Share (Rs.) | 13.72 | 14.35 |

Notes to the Financial Statements

40 Additional Cash Flow Information

| Cash and Cash Equivalents for Cash Flow Purpose | 2013 Rs. | 2012 Rs. |
|---|---------------|---------------|
| Cash in Hand (Note 15) | 802,959,815 | 946,924,473 |
| Balances with Foreign Banks (Note 15) | 400,779,815 | 256,127,508 |
| Placement with Banks (Note 17) | 104,622,304 | 500,134,932 |
| | 1,308,361,934 | 1,703,186,913 |

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 | 2013 Rs. | 2012 Rs. |
|--|------------------|-----------------|
| Net Change in Statutory Deposit with Central Bank of Sri Lanka | 717,289,128 | (1,266,445,385) |
| Net Change in Derivative Financial Instruments | (2,706,523) | 1,460,244 |
| Net Change in Financial Assets Held for Trading | (9,158,034,033) | 178,603,503 |
| Net Change in Loans and Receivables to Banks | (12,002,143) | - |
| Net Change in Loans and Receivables to Other Customers | (2,098,105,182) | (8,641,609,641) |
| Net Change in Other Assets | (1,355,189,325) | (263,476,254) |
| | (11,908,748,078) | (9,991,467,533) |

| Change in Operating Liabilities | 2013 Rs. | 2012 Rs. |
|--|---------------|-----------------|
| Net Change in Due to Banks | 966,239,126 | (2,693,078,837) |
| Net Change in Other Borrowed Funds | 1,347,767,397 | (1,101,362,776) |
| Net Change in Derivative Financial Instruments | 24,002,391 | (629,302) |
| Net Change in Due to Other Customers | 5,924,810,019 | 11,557,698,761 |
| Net Change in Other Provisions and Accruals | (4,209,805) | (7,264,418) |
| Net Change in Other Liabilities | (380,586,951) | (23,085,043) |
| | 7,878,022,177 | 7,732,278,385 |

| Other Non-Cash Items Included in Profit Before Tax | 2013 Rs. | 2012 Rs. |
|--|-------------|-------------|
| Depreciation of Property, Plant and Equipment | 154,263,099 | 130,361,231 |
| Amortisation of Intangible Assets | 13,798,278 | 10,581,714 |
| Loss/(Profit) on Disposal of Property, Plant and Equipment | (1,832,839) | (76,480) |
| Impairment Losses on Loans and Receivables | 582,782,010 | 47,881,996 |
| Impairment Losses on Other Assets | 160,479,192 | - |
| Defined Benefit Plan Expenses | 24,822,295 | 18,376,625 |
| | 934,312,035 | 207,125,086 |

41 Maturity Analysis of Assets and Liabilities

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

As at 31 December 2013

| | Within 12 months Rs. | After 12 months Rs. | Total Rs. |
|--|----------------------------|---------------------------|-----------------------|
| Assets | | | |
| Cash and Cash Equivalents | 1,203,739,630 | - | 1,203,739,630 |
| Balances with Central Banks | 2,799,581,915 | - | 2,799,581,915 |
| Placements with Banks | 104,622,304 | - | 104,622,304 |
| Derivative Financial Instruments | 2,758,216 | - | 2,758,216 |
| Financial Assets - Held for Trading | 8,114,071,693 | 1,056,343,374 | 9,170,415,067 |
| Loans and Receivables to Banks | 12,002,143 | - | 12,002,143 |
| Loans and Receivables to Other Customers | 33,090,836,267 | 11,637,850,154 | 44,728,686,421 |
| Financial Investments - Available for Sale | - | 6,157,847 | 6,157,847 |
| Financial Investments - Held to Maturity | 2,849,475,281 | - | 2,849,475,281 |
| Property, Plant and Equipment | - | 1,204,302,416 | 1,204,302,416 |
| Intangible Assets | - | 65,804,221 | 65,804,221 |
| Other Assets | 2,224,967,967 | 545,932,120 | 2,770,900,087 |
| Total Assets | 50,402,055,416 | 14,516,390,132 | 64,918,445,548 |
| Liabilities | | | |
| Due to Banks | 1,839,806,448 | 21,758,610 | 1,861,565,058 |
| Derivative Financial Instruments | 24,634,054 | - | 24,634,054 |
| Due to Other Customers | 50,829,209,460 | 3,006,687,940 | 53,835,897,400 |
| Term Debt and Other Borrowed Funds | 1,574,087,965 | 1,307,857,978 | 2,881,945,943 |
| Deferred Tax Liabilities | - | 150,787,101 | 150,787,101 |
| Other Provisions and Accruals | 78,547,938 | - | 78,547,938 |
| Other Liabilities | 1,157,249,878 | 94,361,351 | 1,251,611,229 |
| Subordinated Debentures | - | 784,693,291 | 784,693,291 |
| Total Liabilities | 55,503,535,743 | 5,366,146,271 | 60,869,682,014 |
| Net | (5,101,480,327) | 9,150,243,861 | 4,048,763,534 |

Notes to the Financial Statements

41 Maturity Analysis of Assets and Liabilities (Cont'd)

As at 31 December 2012

| | Within 12 months Rs. | After 12 months Rs. | Total Rs. |
|--|----------------------------|---------------------------|-----------------------|
| 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 Other Customers | 24,897,419,593 | 18,315,943,656 | 43,213,363,249 |
| Financial Investments - Available for Sale | - | 6,157,847 | 6,157,847 |
| Financial Investments - Held to Maturity | 4,629,244,317 | 266,809,269 | 4,896,053,586 |
| Property, Plant and Equipment | - | 1,224,239,627 | 1,224,239,627 |
| Intangible Assets | - | 73,581,901 | 73,581,901 |
| Other Assets | 1,153,876,380 | 274,528,928 | 1,428,405,308 |
| Total Assets | 35,913,030,973 | 20,161,261,228 | 56,074,292,201 |
| Liabilities | | | |
| Due to Banks | 895,325,932 | - | 895,325,932 |
| Derivative Financial Instruments | 631,663 | - | 631,663 |
| Due to Other Customers | 40,692,480,324 | 7,218,607,057 | 47,911,087,381 |
| Term Debt and Other Borrowed Funds | 226,320,568 | - | 226,320,568 |
| 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 | 1,611,303,767 | - | 1,611,303,767 |
| Subordinated Debentures | - | 785,826,885 | 785,826,885 |
| Total Liabilities | 43,660,134,826 | 8,181,564,453 | 51,841,699,279 |
| Net | (7,747,103,853) | 11,979,696,775 | 4,232,592,922 |

42 Contingent Liabilities & Commitments

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

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

42.1 Contingencies

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|---|----------------------------|----------------------------|
| Guarantees | 2,498,480,030 | 3,343,932,462 |
| Documentary Credit | 10,742,900,106 | 2,800,741,388 |
| Forward Foreign Exchange Contracts / Currency Swaps | 6,463,859,597 | 1,904,200,349 |
| Collection Bills | 2,286,197,854 | 2,626,765,155 |
| Acceptances | - | 37,279,935 |
| | 21,991,437,587 | 10,712,919,289 |

42.2 Commitments

| | | |
|----------------------------|-----------------------|-----------------------|
| Undrawn Credit Commitments | 4,133,234,378 | 3,030,999,540 |
| | 4,133,234,378 | 3,030,999,540 |
| Total | 26,124,671,965 | 13,743,918,829 |

Capital expenditure approved by the Board of Directors for which provision has not been made in the Financial Statements amounts to Rs.131,199,108/-

42.3 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 15/07/2014.

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 is fixed for argument before a special Bench (of three judges) on 03/03/2014.

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 24/03/2014.

Notes to the Financial Statements

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 27/03/2014 and 03/04/2014. The Bank has also made a complaint to the CID to inquire into the purported forgery which is alleged to have been committed by our customer and the investigation is continuing.

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 12/03/2014 for the said commercial bank to file extracts of title where their mortgage bond is registered.

f) DC Negombo Case No. 7261/L

A third party claiming an adverse title on the basis of a forgery committed at the time the property has been transferred to the previous owner obtained an Interim injunction restraining the parate sale. The said party has also made a complaint to the CID and a case is pending against the former owner of the property in the 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 26/05/2014 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 13/03/2014.

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 Compensation Tribunal.

i) HC (Civil) case No 657/10/MR

Case filed for the recovery of the total balance outstanding due to the Bank. Trial fixed for 04/03/2014.

43 Lease Arrangements

43.1 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 2013 Rs. | 31 December 2012 Rs. |
|---|----------------------------|----------------------------|
| Within one year | 154,312,439 | 139,457,676 |
| After one year but not more than five years | 497,892,499 | 462,625,561 |
| More than five years | 352,434,356 | 330,810,683 |
| | 1,004,639,294 | 932,893,920 |

The Bank has not entered into any agreements with third parties in the capacity of lessor of a Operating Lease Asset.

43.2 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 2013

| | Total Future Minimum Payment Rs. | Unearned Finance Income Rs. | Present Value of Minimum Lease Payment Rs. |
|---|---|-----------------------------------|---|
| Lease Receivable | | | |
| Not later than one year | 2,492,329,100 | 716,635,343 | 1,775,693,757 |
| Later than one year but not later than five years | 4,143,510,847 | 769,759,957 | 3,373,750,890 |
| | 6,635,839,947 | 1,486,395,300 | 5,149,444,647 |

As at 31 December 2012

| | Total Future Minimum Payment Rs. | Unearned Finance Income Rs. | Present Value of Minimum Lease Payment 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 |

Accumulated allowance for uncollectible minimum lease payments are included in impairment for loans and other losses.

44 Related Party Disclosure

The Bank carries out transactions in the ordinary course of business with parties who are defined as "Related Parties" LKAS 24 - 'Related Party Disclosures'. The terms and conditions of such transactions are disclosed under 44.4 and 44.5.

44.1 Parent and Ultimate Controlling Party

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

44.2 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'.

44.3 Compensation of Key Management Personnel of the Bank

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

| | 2013 Rs. | 2012 Rs. |
|---------------------|-------------|-------------|
| Short-term Benefits | 87,743,553 | 97,845,040 |
| | 87,743,553 | 97,845,040 |

Notes to the Financial Statements

44.4 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 2013 Rs. | 31 December 2012 Rs. |
|---|----------------------------|----------------------------|
| Assets | | |
| Loans and Advances | 73,297,300 | 142,757,080 |
| Credit Cards | 722,731 | 240,909 |
| Liabilities | | |
| Deposits and Borrowings | 218,676,085 | 98,356,485 |
| Commitments and Contingencies | | |
| Guarantees, Letter of Credit and Others | 3,619,269 | - |
| Income and Expenses | | |
| Interest Income | 6,446,626 | 17,364,125 |
| Interest Expense | 14,449,637 | 3,026,700 |
| Fee and Commission Income | 37,975 | 205 |

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

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

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|---|----------------------------|----------------------------|
| Assets | | |
| Loans and Advances | 514,873,164 | 1,149,613,442 |
| Credit Cards | 1,410,490 | 366,025 |
| Investments in Quoted Securities | 84,415,117 | 12,381,034 |
| Liabilities | | |
| Deposits and Borrowings | 4,701,420,306 | 1,600,089,641 |
| Commitments and Contingencies | | |
| Guarantees, Letter of Credit and Others | 87,379,988 | 198,200,000 |
| Income and Expenses | | |
| Interest Income | 88,586,558 | 79,805,319 |
| Interest Expense | 221,397,131 | 72,940,968 |
| Fee and Commission Income | 1,814,856 | 2,912,461 |

44.6 Net Accommodation to Key Management Personnel and Related Parties

Net direct and indirect accommodation granted to Key Management Personnel and companies having a substantial interest as at 31st December 2013 amounted to Rs. 95,986,599/- (2012- Rs.142,253,002/-) and Rs. 1,008,166,452/- (2012 - Rs.1,098,378,966/-), which represent 2.02% (2012 -3.48%) and 21.29 % (2012- 26.92%) of the total regulatory capital of the Bank respectively.

45 Events After The Reporting Date

There were no events after the reporting date which require adjustments to or disclosures in Financial Statements.

46 Investment Fund Account

In terms of Budget Proposals 2011 and subsequent Guideline of Central Bank of Sri Lanka dated 29th April 2011, the Bank has made transfers to the Investment Fund Account up to 31st December 2013 to build up a permanent fund within the Bank.

46.1 Lendings from Investment Fund Account

As at 31 December 2013

| Sector | Number of Loans Granted | Amount Rs. | Interest Rate (%) | Tenure (Years) |
|---|-------------------------|-------------|-------------------|----------------|
| Agriculture | 13 | 27,257,170 | 14.60% | 5 - 7 |
| Factory/Mills Modernisation | 3 | 17,872,024 | 14.60% | 5 - 7 |
| Small and Medium Enterprises | 69 | 222,401,662 | 14.60% - 16.00% | 4 - 7 |
| Education | 2 | 27,032,208 | 14.60% | 7 |
| Housing | 19 | 20,530,101 | 14.60% | 5 - 7 |
| Construction of Hotels and for Related Purposes | 26 | 95,712,399 | 14.50% - 15.00% | 1 - 7 |
| Infrastructure Development | 1 | 19,148,139 | 14.60% | 7 |
| | | 429,953,703 | | |

As at 31 December 2012

| Sector | Number of Loans Granted | Amount Rs. | Interest Rate (%) | Tenure (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 |
| Infrastructure Development | 1 | 1,329,854 | 17.56% | 5 |
| | | 132,976,000 | | |

46.2 Investments in Government Securities from Investment Fund Account

The funds in the Investment Fund Account of Rs 38,952,202/- (2012 - Rs. 215,292,779/-) which has not been utilised for lendings for permitted purposes have been invested in Government of Sri Lanka Treasury Bills/Bonds at prevailing market rates.

Notes to the Financial Statements

47 Exposure To Stock Market

The Bank's 'Exposure to Stock Market' as at the reporting date is given below;

| | 31 December 2013 Rs. | 31 December 2012 Rs. |
|----------------------------|----------------------------|----------------------------|
| On Balance Sheet Exposure | 3,616,050,000 | 4,303,810,000 |
| Off Balance Sheet Exposure | - | - |

48 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 (BIS rules/ratios) 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 to 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 managed to achieve the second milliestone of target Core Capital of Rs. 4 Bn by 31 December 2013 complying with the capital requirements imposed by 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 payment 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. Licensed Commercial banks in Sri Lanka need to maintain a minimum Capital Adequacy Ratio (CAR) of 10% and a Core Tier 1 Capital Ratio of at least 5% . As of 31st December 2013, the Bank reported a Tier 1 ratio of 10.27% and a Capital Adequacy Ratio of 11.91% which remain above the CBSL's capital requirements.

In arriving at the above ratios, the Bank has used profits as per Sri Lanka Accounting Standards (LKAS/SLFRSs) for the purpose of Tier I Capital. However, all other balances including the Risk Weighted Assets are the balances used for regulatory reporting with the industry prudential regulator.

49 Segment Reporting

| | Retail Banking Rs. | 2013 Corporate Banking Rs. | Treasury Rs. | Total Rs. |
|---|--------------------------|-------------------------------------|-----------------|-----------------|
| Operating Income | | | | |
| Third Party | 4,838,370,556 | 2,610,532,111 | 1,605,133,901 | 9,054,036,568 |
| Inter-segment | 1,511,472,261 | (656,310,980) | (855,161,281) | - |
| Total Operating Income | 6,349,842,817 | 1,954,221,131 | 749,972,620 | 9,054,036,568 |
| Extracts of Results | | | | |
| Interest Income | 4,462,979,197 | 2,420,385,252 | 1,093,587,706 | 7,976,952,155 |
| Interest Expense | (4,799,632,888) | (907,876,097) | (174,143,799) | (5,881,652,784) |
| Inter - Segment | 1,511,472,261 | (656,310,980) | (855,161,281) | - |
| Net Interest Income | 1,174,818,570 | 856,198,175 | 64,282,626 | 2,095,299,371 |
| Fees and Commission Income | 358,151,445 | 190,146,859 | - | 548,298,304 |
| Fees and Commission Expense | (2,774,081) | - | (6,176,620) | (8,950,701) |
| Net Fee and Commission Income/(Expense) | 355,377,364 | 190,146,859 | (6,176,620) | 539,347,603 |
| Net Gain/(Loss) from Trading | - | - | 238,301,635 | 238,301,635 |
| Net Gain/(Loss) from Financial Investments Available for Sale | - | - | 211,250 | 211,250 |
| Other Operating Income (Net) | 17,239,913 | - | 273,033,312 | 290,273,225 |
| Impairment for Loans and Other Losses | (711,830,841) | (31,430,361) | - | (743,261,202) |
| Net Operating Income | 835,605,006 | 1,014,914,673 | 569,652,203 | 2,420,171,882 |
| Depreciation of Property, Plant and Equipment | 107,984,169 | 38,565,775 | 7,713,155 | 154,263,099 |
| Amortisation of Intangible Assets | 9,658,795 | 3,449,570 | 689,914 | 13,798,278 |
| Segment Result | 717,962,042 | 972,899,328 | 561,249,134 | 2,252,110,505 |
| Un-allocated Expenses | | | | 2,023,669,976 |
| VAT on Financial Services | | | | 104,534,804 |
| Profit Before Tax | | | | 123,905,725 |
| Income Tax Expense | | | | 9,045,929 |
| Profit for the Year | | | | 114,859,796 |
| Other Comprehensive Income for the Year Net of Tax | | | | (3,648,098) |
| Total Comprehensive Income for the Year | | | | 111,211,698 |
| Segment Assets | 25,157,404,970 | 15,835,890,763 | 19,256,718,290 | 60,250,014,023 |
| Unallocated Assets | - | - | - | 4,668,431,525 |
| Total Assets | 25,157,404,970 | 15,835,890,763 | 19,256,718,290 | 64,918,445,548 |
| Segment Liabilities | 42,288,176,007 | 10,424,461,349 | 7,884,374,855 | 60,597,012,211 |
| Unallocated Liabilities | - | - | - | 4,321,433,337 |
| Total Liabilities and Equity | 42,288,176,007 | 10,424,461,349 | 7,884,374,855 | 64,918,445,548 |

Notes to the Financial Statements

49 Segment Reporting (Cont'd)

| | Retail Banking Rs. | 2012 Corporate Banking Rs. | Treasury Rs. | Total Rs. |
|---|--------------------------|-------------------------------------|-----------------|-----------------|
| Operating 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 Operating 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 Available for Sale | - | - | 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 |
| VAT 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 and Equity | 39,074,138,052 | 7,642,971,905 | 2,194,182,000 | 56,074,292,201 |

Compliance with Disclosure Requirements Specified by the Central Bank of Sri Lanka

The following explains the Other Disclosure Requirements under the Prescribed format issued by the Central Bank of Sri Lanka for the Preparation of Annual Financial Statements of Licenced Commercial Banks.

| 1. Information about the Significance of Financial Instruments for Financial Position and Performance | | |
|--|--|--|
| 1.1 Statement of Financial Position | | |
| 1.1.1 | Disclosures on categories of financial assets and financial liabilities. | Note 36 to the Financial Statements - Analysis of Financial Assets and Liabilities by Measurement basis. |
| 1.1.2 | Other Disclosures | |
| | (i) Special disclosures about financial assets and financial liabilities designated to be measured at Fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement. | Note 37 to the Financial Statements - Fair Value of Financial Instruments |
| | (ii) Reclassifications of financial instruments from one category to another. | Not Applicable |
| | (iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral. | Note 19.4.1 to the Financial Statements - Financial Assets Held for Trading Pledged as Collateral and Note 23.1 - Financial Assets Held to Maturity Pledged as a Collateral. |
| | (iv) Reconciliation of the allowance account for credit losses by class of financial assets. | Note 21.4 - Movement in Individual and Collective Impairment during the Year |
| | (v) Information about compound financial instruments with multiple embedded derivatives. | Not Applicable |
| | (vi) Breaches of terms of loan agreements. | None |
| 1.2 Statement of Comprehensive Income | | |
| 1.2.1 | Disclosures on items of income, expense, gains and losses. | Notes 04 - 12 to the Financial Statements |
| 1.2.2 | Other Disclosures | |
| | (i) Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss. | Notes 4.2 to the Financial Statements - Net Interest Income from Financial Instruments not Measured at Fair Value through Profit or Loss. |
| | (ii) Fee income and expense. | Note 05 to the Financial Statements - Net Fee and Commission Income |
| | (iii) Amount of impairment losses by class of financial assets. | Note 09 to the Financial Statements - Impairment for Loans and Other Losses |
| | (iv) Interest income on impaired financial assets. | Note 04 to the Financial Statements - Net Interest Income |
| 1.3 Other Disclosures | | |
| 1.3.1 | Accounting policies for financial instruments. | Note 02 to the Financial Statements - Significant Accounting Policies |
| 1.3.2 | Information on hedge accounting | Not Applicable |
| 1.3.3 | Information about the fair values of each class of financial asset and financial liability, along with: | |
| | (i) Comparable Carrying Amounts. | Note 37 to the Financial Statements - Fair Value of Financial Instruments |
| | (ii) Description of how fair value was determined. | |
| | (iii) The level of inputs used in determining fair value. | |
| | (iv) (a) Reconciliations of movements between levels of fair value measurement hierarchy. | Not Applicable |
| | (b) Additional disclosures for financial instruments that fair value is determined using level 3 inputs. | Not Applicable |
| | (v) Information if fair value cannot be reliably measured. | Note 22 to the Financial Statements - Financial Investments - Available for Sale |

Compliance with Disclosure Requirements Specified by the Central Bank of Sri Lanka

| 2. Information about the Nature and Extent of Risks Arising from Financial Instruments | | |
|--|---|---|
| 2.1 | Qualitative Disclosures | |
| 2.1.1 | Risk exposures for each type of financial instrument. | Note 38 to the Financial Statements - Risk Management |
| 2.1.2 | Management's objectives, policies, and processes for managing those risks. | Note 38 to the Financial Statements - Risk Management |
| 2.1.3 | Changes from the prior period. | Not Applicable |
| 2.2 | Quantitative Disclosures | |
| 2.2.1 | Summary of quantitative data about exposure to each risk at the reporting date. | Note 38 to the Financial Statements - Risk Management |
| 2.2.2 | Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed. | Note 38 to the Financial Statements - Risk Management |
| | (i) Credit Risk | |
| | (a) Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets. | Note 38.2 to the Financial Statements - Credit Risk |
| | (b) For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset | |
| | (c) Information about collateral or other credit enhancements obtained or called. | |
| | (d) Other disclosures as per the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H). | |
| | (ii) Liquidity Risk | |
| | (a) A maturity analysis of financial liabilities. | Note 38.3 to the Financial Statements - Liquidity Risk |
| | (b) Description of approach to risk management. | Note 38.3 to the Financial Statements - Liquidity Risk |
| | (c) Other disclosures as per the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H). | Note 38.3 to the Financial Statements - Liquidity Risk and Risk Management in Pages 40 - 48 of the Annual Report. |
| | (iii) Market Risk | |
| | (a) A sensitivity analysis of each type of market risk to which the entity is exposed. | Note 38.4 to the Financial Statements - Market Risk |
| | (b) Additional information, if the sensitivity analysis is not representative of the entity's risk exposure. | |
| | (c) Other disclosures as per the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H). | |
| | (iv) Operational Risk disclosures as per the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H). | Note 38.5 to the Financial Statements - Operational Risk and Risk Management in Pages 40 - 48 of the Annual Report. |
| | (v) Equity Risk in the Banking Book | |
| | (a) Qualitative Disclosures | |
| | - Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons. | Note 38.4 to the Financial Statements - Market Risk and Risk Management in Pages 40 - 48 of the Annual Report. |
| | - Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. | Note 38.4 to the Financial Statements - Market Risk |

| | | |
|-----------|---|---|
| | (b) Quantitative Disclosures | |
| | Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value, the types and the nature of investments and the cumulative realised gains/(losses) arising from sales and liquidations in the reporting period. | Note 19.1 to the Financial Statements - Financial Assets Held for Trading (Quoted Equities) and Note 6 - Net Gain/Loss from Trading |
| | (vi) Interest Rate Risk in the Banking Book | |
| | (a) Qualitative Disclosures | |
| | Nature of Interest Rate Risk in the Banking Book (IRRBB) and key assumptions. | |
| | (b) Quantitative Disclosures | Note 38.4 to the Financial Statements - Market Risk |
| | The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant) | |
| 2.2.3 | Information on concentrations of risk | Note 38 to the Financial Statements - Risk Management |
| 3. | Other Disclosures | |
| 3.1 | Capital | |
| 3.1.1 | Capital Structure | |
| | (i) Qualitative Disclosures | |
| | Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments. | Note 48 to the Financial Statements - Capital and Capital Adequacy Computation in the page 164 of the Annual Report. |
| | (ii) Quantitative Disclosure | |
| | (a) The amount of Tier 1 capital, with separate disclosure of | |
| | - Paid-up share capital/common stock | |
| | - Reserves | |
| | - Non-controlling interests in the equity of subsidiaries | |
| | - Innovative instruments | |
| | - Other capital instruments | |
| | - Deductions from Tier 1 capital | Capital Adequacy Computation in the page 164 of the Annual Report. |
| | (b) The total amount of Tier 2 and Tier 3 capital | |
| | (c) Other deductions from capital | |
| | (d) Total eligible capital | |
| 3.1.2 | Capital Adequacy | |
| | (i) Qualitative Disclosures | |
| | A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities. | |
| | (ii) Quantitative Disclosures | Capital Adequacy Computation in the page 164 of the Annual Report. |
| | (a) Capital requirements for credit risk, market risk and operational risk | |
| | (b) Total and Tier 1 Capital Ratio | |

Capital Adequacy Computation

| Capital Base as at 31st December, | 2013 (Basel II) (Rs' 000) | 2012 (Basel II) (Rs' 000) |
|--|---------------------------------|---------------------------------|
| Tier 1 | | |
| Paid up Ordinary Shares | 1,548,966 | 1,548,966 |
| Share Premium | - | - |
| Statutory Reserve Fund | 169,261 | 163,518 |
| Published Retained Profits | 1,861,631 | 2,171,841 |
| General & Other Reserves | 468,906 | 348,269 |
| Total Tier 1 Capital | 4,048,764 | 4,232,593 |
| Tier 2 | | |
| Revaluation Reserves | - | - |
| General Provisions | 158,290 | 129,389 |
| Debentures | 487,500 | 637,500 |
| Total Tier 2 Capital | 645,790 | 766,889 |
| Total Tier 1 & Tier 2 Capital | 4,694,553 | 4,999,481 |
| Capital Base | 4,694,553 | 4,999,481 |
| Computation of Ratios | | |
| Core Capital (Tier 1) | 4,048,764 | 4,232,593 |
| Total Capital Base | 4,694,553 | 4,999,481 |
| Risk Weighted Assets | | |
| Risk Weighted amount for Credit Risk | 32,449,325 | 27,365,141 |
| Risk Weighted amount for Market Risk | 2,188,756 | 129,262 |
| Risk Weighted amount for Operational Risk | 4,774,952 | 4,234,309 |
| Total Risk Weighted Amount | 39,413,033 | 31,728,712 |
| Core Capital Ratio (Minimum Requirement 5%) | | |
| Total Tier - 1 Capital | 4,048,764 | 4,232,593 |
| Total Risk Weighted Assets | 39,413,033 | 31,728,712 |
| | 10.27% | 13.34% |
| Total Capital Ratio (Minimum Requirement 10%) | | |
| Total Capital | 4,694,553 | 4,999,481 |
| Total Risk Weighted Assets | 39,413,033 | 31,728,712 |
| | 11.91% | 15.76% |

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 31st December 2013 | | | |
| Assets - Exposures | | | |
| To Central Government and CBSL | 12,415,335 | - | - |
| To Banks | 505,402 | 20 - 150 | 101,080 |
| To Financial Institutions | 4,537,290 | 20 - 150 | 2,657,037 |
| To Corporates | 5,047,467 | 20 - 150 | 4,328,848 |
| To Retail Sector | 19,803,231 | 75 - 100 | 17,023,646 |
| Secured on Residential Property Mortgages | 899,814 | 50 - 100 | 449,907 |
| Classified as Non Performing Advances | 2,906,236 | 50 - 150 | 4,118,527 |
| Claims Secured by Commercial Real Estate | 160,875 | 100 | 160,875 |
| Cash Items | 9,294,806 | 0 - 20 | 8,708 |
| Other Assets | 2,431,133 | 100 | 2,431,133 |
| Total Assets | 58,001,588 | | 31,279,761 |

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 31st December 2013 | | | | | |
| Financial Gurantees, Bank Acceptances and Other Gurantees | 628,612 | 100 | 628,612 | 100 | 628,612 |
| Performane Gurantees and Warranties, Stand by Credit Lines | 62,014 | 50 | 31,007 | 100 | 31,007 |
| Shipping Gurantees, Documentary Letter of Credit | 23,780 | 20 | 4,756 | 100 | 4,756 |
| | 953,284 | 20 | 190,657 | 100 | 190,657 |
| Undrawn Term and Overdraft Facilities | < 1 year 5,053,118 | 0-20 | 216,390 | 100 | 216,390 |
| | >1 year - | - | - | 100 | - |
| Foreign Exchange Contracts | 4,907,122 | 2 | 98,142 | 100 | 98,142 |
| Foreign Interest Rate Contracts | - | 2 | - | 100 | - |
| Total Off-Balance Sheet Exposures | 11,627,930 | | 1,169,565 | | 1,169,565 |

Market Risk

| | Capital Charge | Risk Adjusted Balance |
|--|----------------|-----------------------|
| | (Rs' 000) | (Rs' 000) |
| As at 31st December 2013 | | |
| Interest Rate | 63,254 | 632,536 |
| Equity | 2,257 | 22,573 |
| Foreign Exchange & Gold | 153,365 | 1,533,647 |
| Total Risk Adjusted Balance for Market Risk | 218,876 | 2,188,756 |

Operational Risk

| | Capital Charge | Risk Adjusted Balance |
|---|----------------|-----------------------|
| | (Rs' 000) | (Rs' 000) |
| As at 31st December 2013 | | |
| Average Gross income | 3,183,301 | |
| 15% of Average Gross income | 477,495 | |
| Total Risk Adjusted Balance for Operational Risk | 477,495 | 4,774,952 |

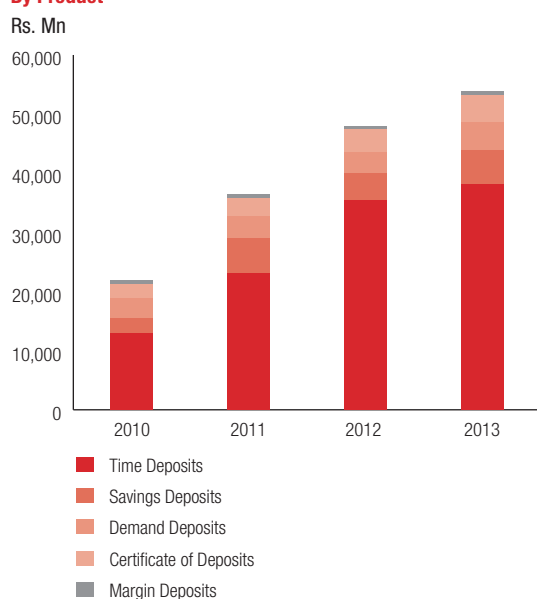
Quarterly Statistics

| For the Quarter ended | 2013 | | | | 2012 | | | |
|---|--|---|------------------------------------|-------------------------------------|--|---|------------------------------------|-------------------------------------|
| | December 31 st Rs'000 | September 30 th Rs'000 | June 30 th Rs'000 | March 31 st Rs'000 | December 31 st Rs'000 | September 30 th Rs'000 | June 30 th Rs'000 | March 31 st Rs'000 |
| Extract of Statement of Financial Position | | | | | | | | |
| Total Assets | 64,918,446 | 65,758,261 | 63,299,728 | 58,660,231 | 56,074,292 | 51,530,340 | 52,467,222 | 48,770,996 |
| Loans and Receivables to Other Customers | 44,728,686 | 43,846,376 | 43,697,089 | 44,077,883 | 43,213,363 | 39,804,829 | 41,215,156 | 37,866,097 |
| Due to Other Customers | 53,835,897 | 52,281,179 | 54,131,755 | 50,769,770 | 47,911,087 | 41,880,549 | 41,437,418 | 40,006,144 |
| Subordinated Debentures | 784,693 | 762,129 | 780,047 | 757,168 | 785,827 | 750,000 | 750,000 | 750,000 |
| Total Equity | 4,048,764 | 4,128,440 | 4,099,519 | 4,089,002 | 4,232,593 | 3,864,562 | 3,669,160 | 3,509,533 |
| Average Total Assets | 61,927,438 | 61,074,093 | 59,909,769 | 57,329,591 | 51,583,093 | 50,545,338 | 49,613,290 | 47,467,860 |
| Extract of Statement of Comprehensive Income | | | | | | | | |
| Net Interest Income | 188,895 | 644,155 | 724,736 | 537,513 | 630,278 | 570,553 | 601,177 | 604,147 |
| Other Income (Net) | 310,672 | 254,659 | 291,813 | 210,990 | 250,666 | 260,845 | 253,032 | 219,500 |
| Total Operating Income | 499,567 | 898,814 | 1,016,549 | 748,503 | 880,944 | 831,398 | 854,209 | 823,647 |
| Impairment for Loans and Other Losses | (61,057) | (244,643) | (399,247) | (38,314) | (2,752) | 4,516 | (27,754) | (21,892) |
| Non-Interest Expenses | (574,664) | (609,713) | (543,958) | (567,931) | (571,967) | (546,335) | (581,482) | (497,124) |
| Income Tax Expense | 60,126 | (15,537) | (62,827) | 9,192 | 2,252 | (94,177) | (85,346) | (108,086) |
| Profit for the Period | (76,028) | 28,921 | 10,517 | 151,450 | 308,477 | 195,402 | 159,627 | 196,545 |

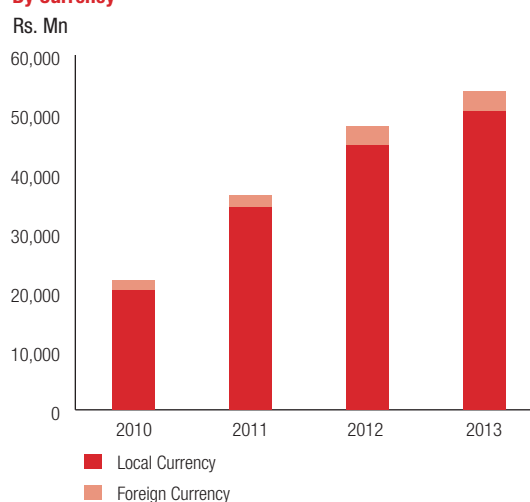
Analysis of Due to Other Customers

| | 2013 Rs. 000 | 2012 Rs. 000 | 2011 Rs. 000 | 2010 Rs. 000 |
|-------------------------|-------------------|-------------------|-------------------|-------------------|
| By Product | | | | |
| Demand Deposits | 4,773,215 | 3,559,094 | 3,826,492 | 3,268,339 |
| Savings Deposits | 5,629,927 | 4,533,010 | 5,919,497 | 2,610,779 |
| Time Deposits | 38,188,235 | 35,425,977 | 23,016,908 | 12,935,902 |
| Certificate of Deposits | 4,558,118 | 3,990,847 | 2,899,155 | 2,519,467 |
| Margin Deposits | 686,402 | 402,160 | 691,337 | 617,338 |
| Total | 53,835,897 | 47,911,088 | 36,353,389 | 21,951,825 |
| By Currency | | | | |
| Sri Lanka Rupee | 50,475,100 | 44,692,636 | 34,212,619 | 20,264,188 |
| United State Dollar | 2,317,692 | 2,021,617 | 1,648,313 | 1,311,039 |
| Great Britain Pound | 306,726 | 217,796 | 205,647 | 213,473 |
| Others | 736,379 | 979,039 | 286,810 | 163,125 |
| Total | 53,835,897 | 47,911,088 | 36,353,389 | 21,951,825 |

By Product



By Currency

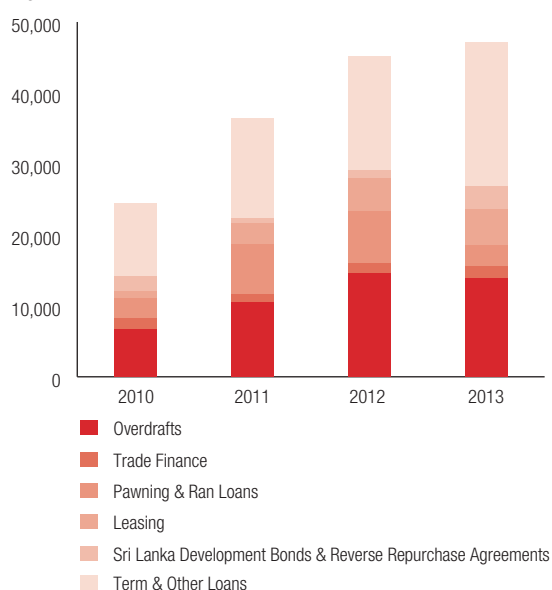


Analysis of Loans & Receivables to Other Customers

| | 2013 Rs.000 | 2012 Rs.000 | 2011 Rs.000 | 2010 Rs.000 |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|
| By Product | | | | |
| Overdrafts | 13,927,292 | 14,644,630 | 10,551,588 | 6,708,888 |
| Trade Finance | 1,588,560 | 1,319,974 | 1,082,081 | 1,464,828 |
| Credit Cards | 213,001 | 94,683 | 266,506 | 312,207 |
| Pawning & Ran Loans | 2,997,534 | 7,412,047 | 7,000,929 | 2,867,781 |
| Staff Loans | 347,212 | 325,278 | 257,147 | 195,491 |
| Term Loans | 15,213,900 | 9,556,463 | 7,272,443 | 6,126,572 |
| Lease Rentals Receivables | 5,149,445 | 4,591,944 | 2,992,612 | 1,061,576 |
| Margin Trading | 1,830,969 | 2,131,805 | 1,924,657 | 3,408,470 |
| Reverse Repurchase Agreements | 1,182,698 | - | 250,096 | 1,400,435 |
| Sri Lanka Development Bonds | 1,984,459 | 1,168,674 | 460,054 | 703,201 |
| Debentures - Unquoted | - | 12,897 | 11,485 | 11,182 |
| Others | 2,693,632 | 3,831,111 | 4,434,890 | 105,393 |
| Total | 47,128,702 | 45,089,506 | 36,504,488 | 24,366,024 |
| By Currency | | | | |
| Sri Lanka Rupee | 43,159,703 | 41,702,645 | 35,407,132 | 23,132,158 |
| United State Dollar | 3,882,484 | 3,191,257 | 1,068,411 | 1,219,957 |
| Great Britain Pound | 43,069 | 48,702 | 13,327 | 12,739 |
| Others | 43,446 | 146,902 | 15,618 | 1,170 |
| Total | 47,128,702 | 45,089,506 | 36,504,488 | 24,366,024 |

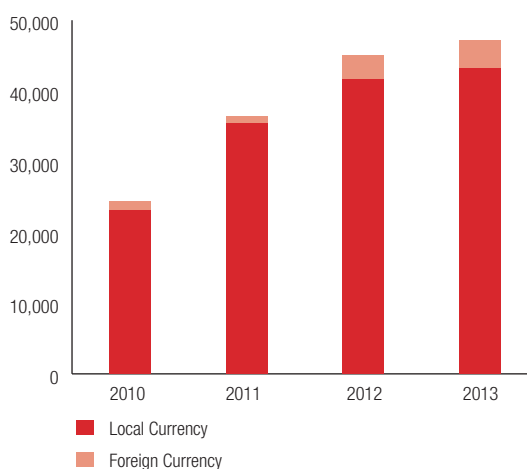
By Product

Rs. Mn



By Currency

Rs. Mn

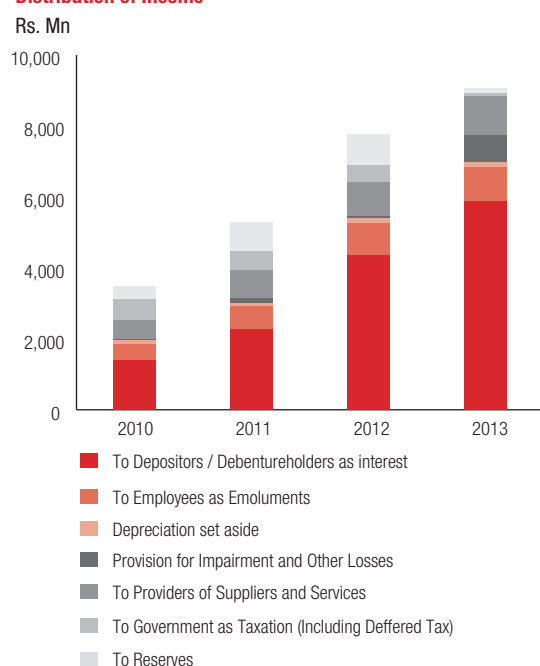


Sources & Distribution of Income

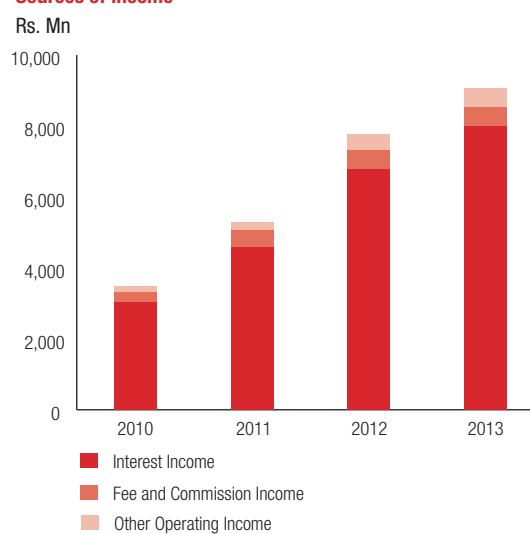
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2010 Rs. '000 |
|--|------------------|------------------|------------------|------------------|
| Sources of Income | | | | |
| Interest Income | 7,976,952 | 6,766,833 | 4,582,661 | 3,027,659 |
| Fee and Commission Income | 548,298 | 540,197 | 473,409 | 293,513 |
| Other Operating Income | 528,786 | 459,189 | 222,144 | 163,239 |
| | 9,054,036 | 7,766,219 | 5,278,214 | 3,484,411 |
| Distribution of Income | | | | |
| To Depositors / Debentureholders as interest | 5,881,653 | 4,360,678 | 2,268,624 | 1,402,263 |
| To Employees as Emoluments | 942,167 | 894,064 | 644,787 | 452,748 |
| Depreciation set aside | 168,061 | 140,943 | 94,144 | 89,111 |
| Provision for Impairment and Other Losses | 743,261 | 47,881 | 121,918 | 34,386 |
| To Providers of Suppliers and Services | 1,090,453 | 967,939 | 799,392 | 558,437 |
| To Government as Taxation | 113,581 | 494,663 | 537,583 | 585,672 |
| Income Tax (Including Deferred Tax) | 9,046 | 285,357 | 342,206 | 332,133 |
| Value Added Tax on Financial Services | 104,535 | 209,306 | 193,087 | 240,342 |
| Debit Tax | - | - | 2,290 | 13,197 |
| To Reserves | 114,860 | 860,051 | 811,766 | 361,794 |
| | 9,054,036 | 7,766,219 | 5,278,214 | 3,484,411 |

Note: Financial data of previous years have been re-classified / re-stated to conform with SLFRSs / LKASs requirements.

Distribution of Income



Sources of Income



Value Added Statement

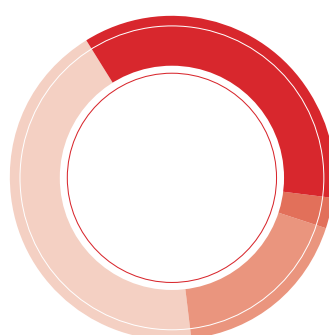
| | 2013 Rs. '000 | % | 2012 Rs. '000 | % |
|---------------------------------------|------------------|------|------------------|------|
| Value Added | | | | |
| Income from Banking Services | 9,054,037 | | 7,766,219 | |
| Cost of Services | (6,866,464) | | (5,241,039) | |
| Value added by Banking Services | 2,187,573 | | 2,525,180 | |
| Impairment for Loans and Other Losses | (743,261) | | (47,882) | |
| | 1,444,312 | | 2,477,298 | |
| Distribution of Value Added | | | | |
| To Employees | | | | |
| Salaries & Other Benefits | 942,167 | 65% | 894,064 | 36% |
| To Providers of Capital | | | | |
| Interest to Debenture Holders | 105,643 | 7% | 87,578 | 3% |
| To Government | | | | |
| Income Tax | 35,389 | | 229,916 | |
| Value Added Tax on Financial services | 104,535 | | 209,305 | |
| | 139,924 | 10% | 439,221 | 18% |
| To Expansion & Growth | | | | |
| Retained Profit | 114,860 | | 860,051 | |
| Depreciation & Amortisation | 168,061 | | 140,943 | |
| Deferred Taxation | (26,343) | | 55,441 | |
| | 256,578 | 18% | 1,056,435 | 43% |
| | 1,444,312 | 100% | 2,477,298 | 100% |

Distribution of Value Added - 2013



| | |
|-------------------------|-----|
| To Employees | 65% |
| To Providers of Capital | 7% |
| To Government | 10% |
| To Expansion & Growth | 18% |

Distribution of Value Added - 2012



| | |
|-------------------------|-----|
| To Employees | 36% |
| To Providers of Capital | 3% |
| To Government | 18% |
| To Expansion & Growth | 43% |

Ten Year Statistical Summary

Rs. Mn.

| For the Year ended December 31 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|-----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Operating Results | | | | | | | | | | |
| Income | 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 | 9,054.04 |
| Interest Income | 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 | 7,976.95 |
| Interest Expense | 476.85 | 565.95 | 754.00 | 1,223.53 | 1,798.44 | 1,878.01 | 1,402.26 | 2,268.62 | 4,360.68 | 5,881.65 |
| Net Interest Income | 355.56 | 427.08 | 535.08 | 745.02 | 1,066.16 | 1,281.65 | 1,625.40 | 2,314.04 | 2,406.15 | 2,095.30 |
| Other Income | 200.62 | 231.63 | 291.76 | 348.60 | 376.55 | 702.40 | 456.75 | 695.55 | 999.39 | 1,077.09 |
| Operating Expenses & Provisions | 501.32 | 506.48 | 576.67 | 776.83 | 1,020.88 | 1,318.90 | 1,388.22 | 1,855.62 | 2,260.13 | 3,048.48 |
| Profit/(Loss) before Income Tax | 54.86 | 152.23 | 250.17 | 316.79 | 421.84 | 665.15 | 693.93 | 1,153.97 | 1,145.41 | 123.91 |
| Income Tax on Profits | 13.69 | 43.90 | 86.43 | 100.71 | 198.21 | 277.33 | 332.14 | 342.20 | 285.36 | 9.05 |
| Profit For The Year | 41.17 | 108.33 | 163.74 | 216.08 | 223.63 | 387.82 | 361.79 | 811.77 | 860.05 | 114.86 |
| As at December 31 | | | | | | | | | | |
| Assets | | | | | | | | | | |
| Cash and Cash Equivalents | 426.19 | 521.57 | 424.32 | 612.33 | 843.93 | 588.33 | 1,110.07 | 2,430.15 | 1,203.05 | 1,203.74 |
| Balances with Central Bank | 446.35 | 609.08 | 704.06 | 856.28 | 704.59 | 807.21 | 1,060.32 | 2,250.43 | 3,516.87 | 2,799.58 |
| Placements with Banks | 237.58 | 259.23 | 440.15 | 422.17 | 59.18 | 96.81 | - | - | 500.13 | 104.62 |
| Derivative Financial Instruments | - | - | - | - | - | - | 1.14 | 1.51 | 0.05 | 2.76 |
| Financial Assets - Held for Trading | - | - | - | - | 2,964.53 | 3,829.34 | 3,432.63 | 190.98 | 12.38 | 9,170.42 |
| Loans and Receivables to Banks | - | - | - | - | - | - | - | - | - | 12.00 |
| Loans and Receivables to Other Customers | 6,799.93 | 7,833.28 | 9,265.88 | 11,431.77 | 12,776.93 | 12,693.80 | 22,792.38 | 34,619.64 | 43,213.37 | 44,728.69 |
| Financial Investments - Available for Sale | 1.14 | 1.14 | 1.14 | 3.14 | 2.14 | 2.14 | 2.14 | 2.14 | 6.16 | 6.16 |
| Financial Investments - Held to Maturity | 717.53 | 992.14 | 855.91 | 1,144.71 | 551.93 | 2,270.81 | 1,210.12 | 5,260.63 | 4,896.05 | 2,849.48 |
| Property, Plant and Equipment | 159.81 | 202.68 | 511.10 | 552.38 | 587.17 | 595.56 | 614.65 | 1,026.34 | 1,224.24 | 1,204.30 |
| Intangible Assets | - | - | 18.83 | 16.56 | 31.72 | 36.13 | 48.67 | 52.15 | 73.58 | 65.80 |
| Other Assets | 260.40 | 432.22 | 404.49 | 486.36 | 462.18 | 638.71 | 969.63 | 1,164.92 | 1,428.41 | 2,770.90 |
| Total Assets | 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 | 64,918.45 |
| Liabilities | | | | | | | | | | |
| Borrowings & Due to Banks | 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 | 4,743.51 |
| Derivative Financial Instruments | - | - | - | - | - | - | 3.23 | 1.26 | 0.63 | 24.63 |
| Due to Other Customers | 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 | 53,835.90 |
| Current Tax Liabilities | - | 25.22 | 44.76 | 58.81 | 121.57 | 245.56 | 262.37 | 227.90 | 151.31 | - |
| Deferred Tax Liabilities | - | - | 34.08 | 41.83 | 55.61 | 10.53 | 83.49 | 121.69 | 177.13 | 150.79 |
| Other Liabilities and Provisions | 384.81 | 620.49 | 537.12 | 641.36 | 753.82 | 1,032.04 | 1,552.03 | 1,697.87 | 1,694.06 | 1,330.16 |
| Subordinated Term Debts | 253.79 | 253.79 | 303.79 | 303.79 | 110.81 | 50.00 | 50.00 | - | 785.83 | 784.69 |
| Total | 8,673.50 | 10,311.37 | 11,390.76 | 14,074.51 | 17,392.49 | 19,579.18 | 28,373.41 | 43,318.20 | 51,841.70 | 60,869.68 |
| Shareholders' Funds | | | | | | | | | | |
| Stated Capital | 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 | 1,548.97 |
| Reserves | (180.29) | (15.75) | 128.72 | 344.79 | 485.44 | 873.26 | 1,319.37 | 2,131.72 | 2,683.62 | 2,499.80 |
| Total | 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 | 4,048.77 |
| Total Liabilities & Shareholders' Funds | 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 | 64,918.45 |
| Commitments & Contingencies | 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 | 26,124.67 |
| Share Information | | | | | | | | | | |
| Earnings per Share (Rs.) | 0.37 | 0.98 | 1.32 | 0.98 | 1.01 | 1.61 | 1.31 | 2.75 | 2.92 | 0.39 |
| Net Asset Value Per Share (Rs.) | 3.38 | 4.86 | 5.58 | 6.56 | 7.20 | 8.95 | 9.44 | 12.48 | 14.35 | 13.72 |
| Other Information | | | | | | | | | | |
| No of Employees | 371 | 394 | 433 | 546 | 507 | 511 | 670 | 1096 | 1153 | 1169 |
| No of Branches | 18 | 18 | 19 | 27 | 32 | 35 | 41 | 64 | 73 | 77 |

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 the Annual Report In terms of the Listing Rules of the Colombo Stock Exchange

The table below summarises the Bank's degree of compliance with section 7.6 of the Listing Rules issued by Colombo Stock Exchange;

| Rule No. | Disclosure Requirements | Section Reference | Page/s |
|------------|--|---|-----------|
| 7.6 (i) | Names of persons who during the financial year were Directors of the Entity. | Annual Report of Board of Directors on the Affairs of the Bank | 80 |
| 7.6 (ii) | Principal activities of the entity during the year and any changes therein. | Notes to the Financial Statements (Note 01) | 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 | 173 |
| 7.6 (iv) | The Public Holding percentage | Item 02 of the Investor Relations | 174 |
| 7.6 (v) | A statement of each Director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of financial year. | Annual Report of the Board of Directors' 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 | 177 |
| 7.6 (vii) | Details of material issues pertaining to employees and industrial relations. | Item 06 of the Investor Relations | 177 |
| 7.6 (viii) | Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties. | Notes to the Financial Statements (Note 24) | 122 |
| 7.6 (ix) | Number of shares representing the Entity's Stated Capital. | Notes to the Financial Statements (Note 34) | 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 03 of the Investor Relations | 175 |
| 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 | 176 39 |
| 7.6 (xii) | Significant changes in the Entity's fixed assets and the market value of land, if the value differs substantially from the book value. | Notes to the Financial Statements (Note 24) | 122 |
| 7.6 (xiii) | Details of funds raised through public issues, Right Issues, and private Placements during the year. | Notes to the Financial Statements (Note 34) | 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 | — |

1. Stock Exchange Listing

The 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 - Interest Semi Annually | PABC D0166 |
| 2012/2017 – 11.50% p.a. | Fixed Rate - Interest Annually | PABC D0167 |
| 2012/2017 – 6 Month Gross T-Bill Rate + 2.95% p.a. | Floating Rate - Interest Semi Annually | PABC D0168 |
| 2012/2017 – 14.50% p.a. | Fixed Rate - Interest at Maturity | PABC D0169 |

The Audited Statement of Financial Position as at 31st December 2013 and Audited Statement of Comprehensive Income for the year ended 31st December 2013 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 31st December, 2013

| | Name of Shareholder | Number of Shares | Holding as a% |
|----|--|--------------------|---------------|
| 1 | K. D. D. Perera | 88,482,820 | 29.99 |
| 2 | Bansei Securities Co., Ltd. | 44,256,164 | 15.00 |
| 3 | Seylan Bank PLC/ T. Senthilvel - 26,803,985 T. Senthilvel - 2,150 | 26,806,135 | 9.08 |
| 4 | D.C.C. Joseph | 17,010,202 | 5.77 |
| 5 | K.D.H. Perera | 15,537,332 | 5.27 |
| 6 | P. J. Tay | 14,611,996 | 4.95 |
| 7 | K.D.A. Perera | 12,800,000 | 4.34 |
| 8 | Samurdhi Authority of Sri Lanka | 11,114,376 | 3.77 |
| 9 | Sri Lanka Savings Bank Ltd | 6,865,666 | 2.33 |
| 10 | Seylan Bank PLC /W.D.N.H Perera | 6,807,070 | 2.31 |
| 11 | Favourite Garments (Pvt) Ltd | 2,000,000 | 0.68 |
| 12 | Deshabandu D.M.I Dissanayake | 1,538,600 | 0.52 |
| 13 | M. F. Hashim | 1,469,003 | 0.49 |
| 14 | Sri Lanka Insurance Corporation Ltd - Life Fund | 1,394,666 | 0.47 |
| 15 | Sampath Bank Limited – Account No.3 | 1,380,532 | 0.47 |
| 16 | R. E. U. De Silva | 1,288,639 | 0.44 |
| 17 | HSBC Int'l NOM Ltd–KAS Depository Trust Company | 1,238,582 | 0.42 |
| 18 | Navara Capital Ltd | 1,052,000 | 0.36 |
| 19 | Employees Trust Fund Board | 924,266 | 0.31 |
| 20 | H. Beruwalage | 874,432 | 0.29 |
| | Sub Total | 257,452,481 | 87.26 |
| | Balance held by 4,818 Shareholders | 37,588,605 | 12.74 |
| | Total Number of Shares | 295,041,086 | 100.00 |

Investor Relations

As at 31st December, 2012

| | Name of Shareholder | Number of Shares | Holding as a% |
|----|--|--------------------|---------------|
| 1 | 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 | D.C.C. Joseph | 17,010,202 | 5.77 |
| 5 | K.D.H. Perera | 15,537,332 | 5.27 |
| 6 | P. J. Tay | 14,611,996 | 4.95 |
| 7 | K. D. A. Perera | 12,800,000 | 4.34 |
| 8 | Sri Lanka Samurdhi Authority | 11,114,376 | 3.77 |
| 9 | Seylan Bank PLC / W.D.N.H.Perera - 7,818,645 W. D. N. H. Perera - 700,000 | 8,518,645 | 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 | 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 per Rule No. 7.6 (IV) of the Listing Rules of the CSE, percentage of public holding of as at 31st December 2013 was 52.22% (31st December 2012 - 56.99%).

3. Distribution Schedule of the Number of Shareholders and Percentage of Share Holding

The total numbers of registered Shareholders as at 31st December 2013 were 4,838 (31st December 2012 : 5,070).

Analysis 1

| Range of Shareholding | | Resident | | | Non- resident | | | Total | | |
|-----------------------|-----------|----------------------|--------------------|--------------------|----------------------|-------------------|--------------------|----------------------|--------------------|--------------------|
| | | No. of Share holders | No. of Shares | % of Share holding | No. of Share holders | No. of Shares | % of Share holding | No. of Share holders | No. of Shares | % of Share holding |
| 1 | 100 | 835 | 36,224 | 0.01 | 3 | 168 | 0.00 | 838 | 36,392 | 0.01 |
| 101 | 1,000 | 1,811 | 947,942 | 0.32 | 10 | 5,085 | 0.00 | 1821 | 953,027 | 0.32 |
| 1,001 | 5,000 | 1,309 | 3,431,613 | 1.16 | 11 | 27,200 | 0.01 | 1320 | 3,458,813 | 1.17 |
| 5,001 | 10,000 | 328 | 2,540,299 | 0.86 | 11 | 91,164 | 0.03 | 339 | 2,631,463 | 0.89 |
| 10,001 | 50,000 | 349 | 7,862,398 | 2.66 | 18 | 431,642 | 0.15 | 367 | 8,294,040 | 2.81 |
| 50,001 | 100,000 | 55 | 4,044,060 | 1.37 | 5 | 373,250 | 0.13 | 60 | 4,417,310 | 1.50 |
| 100,001 | 500,000 | 59 | 11,072,126 | 3.75 | 7 | 1,957,084 | 0.66 | 66 | 13,029,210 | 4.42 |
| 500,001 | 1,000,000 | 9 | 6,569,198 | 2.23 | 0 | - | 0.00 | 9 | 6,569,198 | 2.23 |
| 1,000,001 | & Above | 15 | 195,544,891 | 66.29 | 3 | 60,106,742 | 20.37 | 18 | 255,651,633 | 86.65 |
| | | 4,770 | 232,048,751 | 78.65 | 68 | 62,992,335 | 21.35 | 4,838 | 295,041,086 | 100.00 |

Analysis 1.1

| | 2013 | | | 2012 | | |
|---------------------------|----------------------|--------------------|--------------------|----------------------|--------------------|--------------------|
| | No. of Share holders | No. of Shares | % of Share holding | No. of Share holders | No. of Shares | % of Share holding |
| Resident Shareholders | 4,770 | 232,048,751 | 78.65 | 5,006 | 244,893,858 | 83.00 |
| Non Resident Shareholders | 68 | 62,992,335 | 21.35 | 64 | 50,147,228 | 17.00 |
| Total | 4,838 | 295,041,086 | 100.00 | 5,070 | 295,041,086 | 100.00 |

Investor Relations

Analysis 2

| Range of Shareholding | | Individual | | | Company | | | Total | | |
|-----------------------|-----------|----------------------|--------------------|--------------------|----------------------|--------------------|--------------------|----------------------|--------------------|--------------------|
| | | No. of Share holders | No. of Shares | % of Share holding | No. of Share holders | No. of Shares | % of Share holding | No. of Share holders | No. of Shares | % of Share holding |
| 1 | 100 | 827 | 35,828 | 0.01 | 11 | 564 | 0.00 | 838 | 36,392 | 0.01 |
| 101 | 1,000 | 1,790 | 936,447 | 0.32 | 31 | 16,580 | 0.01 | 1,821 | 953,027 | 0.32 |
| 1,001 | 5,000 | 1,285 | 3,345,056 | 1.13 | 35 | 113,757 | 0.04 | 1,320 | 3,458,813 | 1.17 |
| 5,001 | 10,000 | 318 | 2,460,238 | 0.83 | 21 | 171,225 | 0.06 | 339 | 2,631,463 | 0.89 |
| 10,001 | 50,000 | 342 | 7,768,156 | 2.63 | 25 | 525,884 | 0.18 | 367 | 8,294,040 | 2.81 |
| 50,001 | 100,000 | 49 | 3,563,337 | 1.21 | 11 | 853,973 | 0.29 | 60 | 4,417,310 | 1.50 |
| 100,001 | 500,000 | 48 | 9,337,074 | 3.16 | 18 | 3,692,136 | 1.25 | 66 | 13,029,210 | 4.42 |
| 500,001 | 1,000,000 | 3 | 2,214,832 | 0.75 | 6 | 4,354,366 | 1.48 | 9 | 6,569,198 | 2.23 |
| 1,000,001 | & Above | 8 | 152,738,592 | 51.77 | 10 | 102,913,041 | 34.88 | 18 | 255,651,633 | 86.65 |
| | | 4,670 | 182,399,560 | 61.81 | 168 | 112,641,526 | 38.19 | 4,838 | 295,041,086 | 100.00 |

Analysis 2.1

| | 2013 | | | 2012 | | |
|--------------|----------------------|--------------------|--------------------|----------------------|--------------------|--------------------|
| | No. of Share holders | No. of Shares | % of Share holding | No. of Share holders | No. of Shares | % of Share holding |
| Individuals | 4,670 | 182,399,560 | 61.82 | 4,874 | 183,420,076 | 62.17 |
| Company | 168 | 112,641,526 | 38.18 | 196 | 111,621,010 | 37.83 |
| Total | 4,838 | 295,041,086 | 100.00 | 5,070 | 295,041,086 | 100.00 |

4. Information on Ratios and Market Prices

4.1 Ordinary Shares

i) Ratios

| Year | 2013 Rs. | 2012 Rs. |
|---------------------------|-------------|-------------|
| Dividend Per Share | - | 1.00 |
| Net Asset Value Per Share | 13.72 | 14.35 |

ii) Market Price

| Year | Highest Rs. | Lowest Rs. | Year End Rs. |
|------|----------------|---------------|-----------------|
| 2013 | 23.30 | 15.40 | 15.50 |
| 2012 | 26.70 | 16.00 | 19.00 |

iii) Market Capitalisation

Market Capitalisation as at December 31, 2013 Rs. 4,573,136,833/- (December 31, 2012: Rs. 5,605,780,634/-)

4.2 Debentures

i) Market Value

The Debentures have not been traded during the year ended 31st December 2013.

ii) Interest Rate

| | Interest Rate % | Interest Rate of Comparable Govt. Security % |
|---|-----------------|--|
| Fixed Rate - Interest Semi Annually - PABC D0166 | 11.25 | 10.36 |
| Fixed Rate - Interest Annually - PABC D0167 | 11.50 | 10.36 |
| Floating Rate - Interest Semi Annually (2.95% above the average 6 months Gross Treasury Bill rate) - PABC D0168 | 17.46 | 8.44 |
| Fixed Rate - Interest Maturity - PABC D0169 | 14.50 | 10.36 |

iii) Ratios

| Year | 2013 | 2012 |
|--|--------|--------|
| Subordinated Borrowings / Equity (%) | 19.38% | 18.55% |
| Subordinated Borrowings Interest Cover (Times) | 2.17 | 14.08 |
| Liquid Assets Ratio (%) | 23.77% | 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 Risk Management on page 48.
- 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 3
Tel: 011-2565565
Fax: 011-2301150
- 2. Metro Branch**
Level 2, East Tower, World Trade Center
Echelon Square, Colombo 1
Tel: 011-4976777
Fax: 011-2346053
- 3. Panchikawatta Branch**
262 & 266, Sri Sangaraja Mawatha,
Colombo - 10
Tel: 011-4374011
Fax: 011-2447452
- 4. Pettah Branch**
64, Keyzer Street, Colombo 11
Tel: 011-4374022
Fax: 011-5363652
- 5. Kandy Branch**
111, Kotugodella Veediya,
Kandy
Tel: 081-4976777
Fax: 081-2232994
- 6. Rajagiriya Branch**
468, Kotte Road, Rajagiriya
Tel: 011-4374033
Fax: 011-2866823
- 7. Ratnapura Branch**
198, Main Street, Ratnapura
Tel: 045-4976777
Fax: 045-2231848
- 8. Nugegoda Branch**
132 C, High Level Road,
Nugegoda
Tel: 011-4374044
Fax: 011-2828228
- 9. Bambalapitiya Branch**
329, Galle Road, Colombo 04
Tel: 011-4374055
Fax: 011-2506825
- 10. Negombo Branch**
90, St. Joseph's Street
Negombo
Tel: 031-4976777
Fax: 031-2231259
- 11. Gampaha Branch**
95, Colombo Road, Gampaha
Tel: 033-4976777
Fax: 033-2220048
- 12. Kurunegala Branch**
22, Suratissa Mawatha,
Kurunegala
Tel: 037-4976777
Fax: 037-2221731
- 13. Matara Branch**
45B, Anagarika Dharmapala Mawatha,
Matara
Tel: 041-4976777
Fax: 041-2231362
- 14. Dehiwala Branch**
104, Galle Road, Dehiwala
Tel: 011-4374077
Fax: 011-2730624
- 15. Kotahena Branch**
215A, George R De Silva Mawatha,
Colombo 13.
Tel: 011-4374066
Fax: 011-2346066
- 16. Wattala Branch**
134, Old Negombo Road,
Wattala
Tel: 011-4374088
Fax: 011-2945104
- 17. Panadura Branch**
506, Galle Road, Panadura
Tel: 038-4976777
Fax: 038-2243053
- 18. Old Moor Street Branch**
314, Old Moor Street, Colombo 12
Tel: 011-4374099
Fax: 011-2392897
- 19. Dam Street Branch**
22, Dam Street, Colombo 12
Tel: 011-4374130
Fax: 011-2346052
- 20. Katugastota Branch**
161, Madawala Road, Katugastota
Tel: 081-4946135
Fax: 081-2500362
- 21. Narahenpita branch**
526, Elvitigala Mawatha,
Colombo 05.
Tel: 011-4374141
Fax: 011-2368667
- 22. Maharagama Branch**
173/1, High Level Road,
Maharagama
Tel: 011-4374163
Fax: 011-2838397
- 23. Kirulapone Branch**
100, High Level Road,
Kirulapone, Colombo 6
Tel: 011-4374152
Fax: 011-2515227
- 24. Moratuwa Branch**
18, New Galle Road,
Moratuwa
Tel: 011-4374174
Fax: 011-2641354
- 25. Galle Branch**
32, Old Matara Road, Galle
Tel: 091-4976777
Fax: 091-4976777
- 26. Kadawatha Branch**
138, Kandy Road, Kadawatha
Tel: 011-4374185
Fax: 011-2925187
- 27. Kegalle Branch**
72 & 74, Main Street, Kegalle
Tel: 035-4976777
Fax: 035-2221018

28. Wennappuwa Branch

6, Chilaw Road,
Wennappuwa
Tel: 031-4934870
Fax: 031-2249556

29. Wellawatte Branch

135, Galle Road, Wellawatte
Tel: 011-4374196
Fax: 011-2362399

30. Gampola Branch

73E, Nuwara-Eliya Road, Gampola
Tel: 081-4944625
Fax: 081-2353998

31. Borella Branch

996A, Maradana Road, Colombo 8
Tel: 011-4374207
Fax: 011-2696461

32. Anuradhapura Branch

49, Main Street, Anuradhapura
Tel: 025-4976777
Fax: 025-2234763

33. Kalutara Branch

264, Main Street, Kalutara
Tel: 034-4976777
Fax: 034-2221258

34. Vavuniya Branch

14, 2nd Cross Street, Vavuniya
Tel: 024-4976777
Fax: 024-2225444

35. Malabe Branch

410/2, Athurugiriya Road,
Malabe
Tel: 011-4374218
Fax: 011-2744405

36. Chilaw Branch

15 & 17, Bazaar Street, Chilaw
Tel: 032-4976777
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: 091-4943166
Fax: 091-2258064

42. Kalmunai Branch

100 & 104, Batticaloa Road,
Kalmunai
Tel: 067-4976777
Fax: 067-2225590

43. Kilinochchi Branch

161, Kandy Road, Kilinochchi
Tel: 021-4925952
Fax: 021-2280075

44. Kandy City Centre Branch

05A, Lower Ground Floor, Kandy City
Centre,
5, Dalada Veediya, Kandy
Tel: 081-4951034
Fax: 081-2205776

45. Badulla Branch

22A, Bank Road, Badulla
Tel: 055-4967777
Fax: 055-2225771

46. Kuliyaipitiya Branch

74/3, Kurunegala Road, Kuliyaipitiya
Tel: 037-4943733
Fax: 037-2284141

47. Kalubowila Branch

46A, S D S Jayasinghe Mawatha,
Kalubowila
Tel: 011-4374254
Fax: 011 2828338

48. Bandarawela Branch

340/1A, Badulla Road,
Bandarawela
Tel: 057-4976777
Fax: 057-2233554

49. Dambulla Branch

Jayalanka Building, Kandy Road,
Dambulla
Tel: 066-4928970
Fax: 066-2284844

50. Ratmalana Branch

446, Galle Road, Ratmalana
Tel: 011-4374261
Fax: 011-2738840

51. Peradeniya Branch

767, 769 & 769/1/1 Sirimawo
Bandaranayake Mawatha,
Kandy
Tel: 081-4951180
Fax: 081-2232441

52. Kaduruwela Branch

918, Batticaloa Road, Kaduruwela
Tel: 027-4976777
Fax: 027-2224474

53. Ambalanthota Branch

155/1, Tissa Road, Ambalanthota
Tel: 047-4931850
Fax: 047-2225056

54. Kiribathgoda Branch

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

55. Piliyandala Branch

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

Branch Network

- | | | |
|--|---|--|
| <p>56. Nelliady Branch 208A, Jaffna Road, Nelliady Tel: 021-4923164 Fax: 021-3734879</p> | <p>64. Puttalam Branch 116A, Kurunegala Road, Puttalam Tel: 032-4929663 Fax: 032 2267967</p> | <p>72. Akuressa Branch 54, Matara Road, Akuressa Tel: 041-4935855 Fax: 041 2284677</p> |
| <p>57. Kattankudy Branch 365, New Kalmunai Road, Kattankudy Tel: 065-4926901 Fax: 065-2248468</p> | <p>65. Pilimathalawa Branch 207, Colombo Rd, Pilimathalawa Tel: 081-4951870 Fax: 081-2575335</p> | <p>73. Trincomalee Branch 459, Dockyard Road, Trincomalee Tel: 026-4925525 Fax: 026-2225700</p> |
| <p>58. Kundasale Branch 248, Digana Road, Kundasale Tel: 081-4951644 Fax: 081-2424624</p> | <p>66. Ja- Ela Branch 71A, Negombo Road, Ja-Ela Tel: 011-4344149 Fax: 011-2232824</p> | <p>74. Tangalle Branch. 03, Annapitiya Road, Tangalle Tel: 047-4929626 Fax: 047-2241215</p> |
| <p>59. Monaragala Branch 25, Bus Stand Road, Monaragala Tel: 055-4929312 Fax: 055-2277223</p> | <p>67. Kekirawa Branch 91 & 93, Main Street, Kekirawa Tel: 025-4928934 Fax: 025-2264598</p> | <p>75. Hatton Branch 68, Co-operative Square Building. Hatton Tel: 051-4932040 Fax: 051-2225665</p> |
| <p>60. Akkaraipattu Branch 280, Kaiyoom Complex Building, Main Street, Akkaraipattu Tel: 067-4924071 Fax: 067-2279576</p> | <p>68. Thalawathugoda Branch 351/E, Pannipitiya Road, Thalawathugoda Tel: 011-4344650 Fax: 011 2796016</p> | <p>76. Homagama Branch 381, High Level Road, Homagama Tel: 011-4385740 Fax: 011 2098484</p> |
| <p>61. Chunnakam Branch 92, Dr. Subramaniam Road Chunnakam Tel: 021-4923422 Fax: 021-2241889</p> | <p>69. Minuwangoda Branch 42, Veyangoda Road, Minuwangoda Tel: 011-4335770 Fax: 011-2295929</p> | <p>77. Horana Branch 95, Rathnapura Road, Horana Tel: 034-4941060 Fax: 034-2266566</p> |
| <p>62. Balangoda Branch 84, Barns Rathwatte Mawatha, Balangoda Tel: 045-4928310 Fax: 045-2289081</p> | <p>70. Warakapola Branch 139, Kandy Road, Warakapola Tel: 035-4928777 Fax: 035-2267544</p> | |
| <p>63. Battaramulla Branch 123 C, Pannipitiya Road, Battaramulla Tel: 011-4343260 Fax: 011-2885622</p> | <p>71. Galewela Branch 201, Kurunegala Road, Galewela Tel: 066-4929970 Fax: 066-2288320</p> | |

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

HVB Bank Czech Republic A.S.

Denmark

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

France

Commerzbank AG
Union De Banques Arabes ET Francaises

Germany

American Express Bank GMBH
Bayerische HYPO – UND Vereins Bank AG
Commerz Bank AG
Deutsche Bank AG
Deutsche Bank Privat UND Geshaeftskunden AG
Dresdner Bank AG
Landesbank Hessen – Thueringen Girozentrale
Sparkasse Essen

Hong Kong

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

Correspondent Banks

Ireland

National Irish Bank

Israel

Israel Discount Bank Ltd

Mercantile Discount Bank Ltd.

Italy

Banca Intesa Spa

Banca Lombarda E Piemontese S.P.A.

Banca Nazionale Del Lavoro S.P.A.

Banca Popolare 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

UBAE Arab Italian Bank S. P. A

Bank of Tokyo Mitsubishi UFJ Ltd

CitiBank NA

Daishi Bank Ltd

Commerzbank AG

Daishi Bank Ltd.

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

Habib Metropolitan Bank Limited

Peru

Banco Wiese Sudameris

Philippines

CitiBank NA

Standard Chartered Bank

Poland

ING Bank Slaski S.A.

Qatar

Standard Chartered Bank

Mashreq Bank

Romania

HVB bank Romania SA

Russia

International Moscow Bank

Saudi Arabia

Al-Rajhi Bank

Saudi Hollandi Bank Ltd.

Bank of Al- Jazira

Serbia

Unicredit Bank SRBIJA A.D

Singapore

Bank of America,N.A. Singapore

Calyon

CitiBank N.A.

Commerzbank AG,

DBS Bank Ltd

Deutsche Bank AG

Fortis Bank S.A./ N.V., Singapore

JP Morgan Chase Bank, N.A.

Malayan Banking Berhad

National Australia Bank

Nordea Bank Finland Plc, Singapore

Overseas Chinese Banking Corporation Ltd

Skandinaviska Enskilda Banken AB

Standard Chartered Bank

U.B.A.F. - Union De Banques Arabes Et Francaises

United Overseas Bank Ltd

Slovenia

Bank Austria Creditanstalt D.D.

South Africa

HBZ Bank Ltd

State Bank of India

Spain

Deutsche Bank Sociedad Anonima Espanola

Sweden

Danske Bank AS, Sverige Filial

Svenska Handelsbanken

Swedbank

Switzerland

BNP Paribas (Suisse) SA

Credit Suisse

Taiwan

ABN Amro Bank N.V.

Bank of New York

CitiBank NA

CitiBank Taiwan Ltd.

Deutsche Bank AG,

Standard Chartered Bank

Wachovia Bank, NA

DBS Bank Ltd

Thailand

CitiBank NA

Kasikornbank Public Company Ltd

Oversea-Chinese Banking Corporation Ltd,

Standard Chartered Bank (Thai) Plc

United Overseas Bank (Thai) Public Company Ltd

Turkey

Tekstil Banksai A.S.

Turkiye Garanti Bankasi A.S.

U.A.E

Commerz Bank AG Dubai branch

Emirates Bank International PJSC

Emirates Islamic Bank

Habib Bank AG Zurich

Habib Bank Ltd.

Mashreq Bank PSC

Standard Chartered Bank

UAE Exchange Centre

UK

Arab National Bank

Bank of Ceylon

Deutsche Bank AG

Habib Bank AG Zurich

Mashreq Bank PSC

Shinhan Bank, London Branch

Standard Chartered Bank

USA

Standard Chartered Bank

ABN Amro Bank N.V.

American Express Bank Ltd.

Bank of New York

Calyon

CitiBank NA

Deutsche Bank AG

Deutsche Bank Trust Company Americas

Habib American Bank

Israel Discount Bank of New York

JP Morgan Chase Bank N.A.

Mashreq Bank PSC

Wells Fargo Bank N.A.

Vietnam

Australia and New Zealand Banking Group Ltd

CitiBank NA

Standard Chartered Bank

Zimbabwe

ABSA Bank Limited

NEB Bank Limited

Standard Chartered Bank Zambia Ltd

Standard Chartered Bank Zimbabwe Ltd

Glossary of Financial & Banking Terms

A

Acceptance

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

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis

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

Amortisation

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

Amortised Cost

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or un-collectability.

B

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.

Bill of Exchange

A signed, written, unconditional order one person (the drawer) directing another person (the drawee) to pay a specified sum of money to the order of the third person (the Payee). The terms bills of exchange and drafts are often used interchangeably.

C

Call Deposits or Call Money

Deposits or funds lent out which are repayable on demand.

Capital Adequacy Ratio

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements and as modified by the Central Bank of Sri Lanka to suit local requirements.

Capital Reserves

Reserves identified for specific purposes and considered not available for distribution.

Cash Equivalents

Short Term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collective Impairment Provisions

Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date.

Commitments

Credit Facilities approved but not yet utilised by the clients at the end of the Reporting Period.

Contingencies

A condition or situation existing at the end of the Reporting Period where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Contractual Maturity

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent Bank

A Bank in a foreign country that offers banking facilities to the customers of a bank in another country.

Cost to Income Ratio

A ratio expressing bank's cost effectiveness which sets operating expenses including Financial Value Added Tax and excluding Loan Loss Provision in relation to operating income.

Credit Ratings

An evaluation of a corporate ability to repay its obligations or likelihood of not defaulting carried out by an independent rating agency.

Credit Risk

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

Currency Swaps

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

Country Risk

The credit risk associated with lending to borrowers within a particular country, sometimes taken to include sovereign risk.

D

Deferred Tax

Sum set aside in the Financial Statements for taxation that may become payable in a financial year other than the Current financial year.

Depreciation

The systematic 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.

E

Earnings per Share

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

Effective Interest Rate

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

Effective Tax Rate

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

Equity Instruments

Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Events after the Reporting Period

Events after the Reporting Period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue.

F

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

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Glossary of Financial & Banking Terms

Financial Asset or Financial Liability at Fair Value through Profit or Loss

Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as 'at fair value through profit or loss.

Financial Investments - Available for Sale

Available for sale financial assets are those non derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity or financial assets at fair value through profit or loss.

Financial Investments - Held to Maturity

Financial investments - Held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

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 reporting date and the settlement/ reporting date. Also arises from trading in foreign currencies.

Forward Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

G

General Provisions

General Provisions are established for all Loans and Advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

Guarantees

Primarily represent irrevocable assurances that a Bank will make payments in the event that its customer cannot meet its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

H

Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements.

Historical Cost Convention

Recording transactions at the actual value received or paid.

I

Individually Impaired Loans and Receivables

Loans and Receivables those are individually significant to the Bank and Impairment of which are measured individual/specific basis.

Impairment

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

Individual Impairment Provisions

Individual impairment provisions are provisions held in account of Individually Significant Loans and Receivables.

Impaired Asset Cover

Impaired Assets Cover is the ratio of total impairment provision to total impaired assets.

Intangible Asset

An identifiable non-monetary asset without physical substance held for use in the production/supply of goods/ services or for rental to others or for administrative purposes.

Interest in Suspense

Interest due on Non Performing assets.

Interest Margin

Net interest income as a percentage of Average Assets.

Interest Rate Risk

The risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market interest rates.

Interest Spread

Represents the difference between the average interest rate earned on interest earning assets and the average interest rate incurred on interest bearing liabilities.

Interest Earning Assets

Includes loans and receivables, placements with Banks, Held to Maturity Financial Investments and interest bearing Held for Trading Financial Assets.

K

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.

L

Liquid Assets

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

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loans and Receivables

Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

M

Market Capitalisation

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

Market Risk

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

Materiality

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

N

Net Accommodation

Total net accommodation computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of five years or more.

Net Assets Value per Share

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

Net Interest Income

The difference between what a Bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds, subordinated term borrowings & inter-bank borrowings.

Non - Performing Advance Ratio (Gross)

Total Non - Performing Advances (net of Interest in Suspense) divided by total advances portfolio (net of Interest in Suspense).

Non - Performing Advance Ratio (Net)

Total Non - Performing Advances (net of Interest in Suspense and Provisions) divided by total advances portfolio (net of Interest in Suspense).

Nostro Account

A foreign currency current account maintained with another bank, usually but not necessarily a foreign correspondent bank.

O

Off-Balance Sheet Transactions

Transactions not recognised as assets or liabilities in the Statement of Financial Position 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.

Glossary of Financial & Banking Terms

Open Credit Exposure Ratio

Total net non-performing loans and advances expressed as a percentage of regulatory capital base.

P

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.

Projected Unit Credit Method

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Probability of Default

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation

Prudence

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

R

Ratio of Impaired Loans and Receivables

Net Ratio for Impaired Loans and Receivables is the ratio of net impaired asset portfolio (Total impaired Loans and Receivables portfolio minus total impairment provision) as a percentage of gross loans and receivables.

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.

S

Segment Reporting

Segment reporting indicates the contribution to the revenue derived from business segments such as retail banking, corporate banking and treasury.

Shareholders' Funds

Total of issued and fully paid share capital and reserves.

Statutory Reserve Fund

Reserve created as per the provisions of the section 20 (1) of the Banking Act No. 30 of 1988.

Sub Division of Shares

Increase in number of shares without a change in Stated Capital of the Bank.

T

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.

U

Undrawn Credit Lines

Credit facilities approved but not yet utilised by the clients as at the end of the reporting period.

Unit Trust

An undertaking formed to invest in securities under the terms of a trust deed.

Unsecured

Repayment of the principal and interest not being secured by any specific asset.

V

Value Added

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

Notice of Meeting

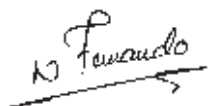
NOTICE IS HEREBY GIVEN that the **NINETEENTH ANNUAL GENERAL MEETING** of **PAN ASIA BANKING CORPORATION PLC** will be held at The Kingsbury Hotel, The Winchester – (Location - Basement Level), No.48, Janadhipathi Mawatha, Colombo 01, on **31st March, 2014 at 1.00 p.m.** for the following purposes :-

1. To receive and consider the Report of the Board of Directors on the affairs of the Company and the Audited Financial Statements for the year ended 31st December, 2013 with the Report of the Auditors thereon.
2. To re-elect W. D. N. H. Perera, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.
3. To re-elect, M. D. S. Goonatilleke, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director.
4. To re-elect, T. Murakami, in terms of Article 89 of the Articles of Association as a Director.
5. To re-elect, J. D. N. Kekulawala, in terms of Article 89 of the Articles of Association as a Director.
6. To authorise the Directors to determine donations for the year 2014.
7. To re-appoint the Auditors of the Bank, and to authorise the Directors to determine their remuneration.

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.

By Order of the Board



N. Fernando
Company Secretary.

Colombo
18th February 2014

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 | of Colombo or failing him |
| | Ruwanpura Eshana Uvindra De Silva | of Colombo or failing him |
| | Hewapathirana Karunachandra Seneviratne | of Colombo or failing him |
| | John Anthony Sunil Sumith Adhihetty | of Colombo or failing him |
| | Mestiyage Don Saddhamangala Goonatilleke | of Colombo or failing him |
| | Tharana Gangul Thoradeniya | of Colombo or failing him |
| | Godewatta Arachchige Rasika Dimuth Prasanna | of Colombo or failing him |
| | Takashi Igarashi | of Colombo or failing him |
| | Toyohiko Murakami | of Colombo or failing him |
| | Joseph Dacius Nihal Kekulawala | of Colombo or failing him |
| | Panagoda Liyanage Dimantha Neomal Seneviratne | of Colombo or failing him |

2.

(NIC No.....)

of

as my/our* proxy to vote on my/our* behalf at the Nineteenth Annual General Meeting of Pan Asia Banking Corporation PLC, to be held on 31st March, 2014 at 1.00 p.m. and at any adjournment thereof.

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

| | For | Against |
|--|--------------------------|--------------------------|
| 1. Resolution No. 1 To receive and consider the Annual Report of the Board of Directors on the Affairs of the Company and the Audited Financial Statements for the year ended 31 st December, 2013 with the Report of the Auditors thereon. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Resolution No. 2 To re-elect W. D. N. H. Perera, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director. | <input type="checkbox"/> | <input type="checkbox"/> |

Form of Proxy

| | | For | Against |
|----|--|--------------------------|--------------------------|
| 3. | Resolution No. 3 To re-elect M. D. S. Goonatilleke, who retires by rotation at the Annual General Meeting in terms of Articles 82 & 83 of the Articles of Association as a Director. | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. | Resolution No. 4 To re-elect T. Murakami, in terms of Article 89 of the Articles of Association as a Director. | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. | Resolution No. 5 To re-elect J. D. N. Kekulawala, in terms of Article 89 of the Articles of Association as a Director. | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. | Resolution No. 6 To authorise the Directors to determine the donations for the year 2014. | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. | Resolution No. 7 To re-appoint the Auditors of the Bank, M/s Ernst & Young and to authorise the Directors to determine their remuneration. | <input type="checkbox"/> | <input type="checkbox"/> |

As witness I/we* have set my/our* hand/s* hereunto thisday of..... Two Thousand and Fourteen.

.....
Signature of Shareholder.

Note : Instructions as to completion of the Form of Proxy.

- 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 1.00 p.m. on the 29th of March, 2014 being 48 hours before the time appointed for holding the meeting.
- In perfecting the form of proxy please ensure that all details are legible.
- The proxy appointed need not be a shareholder of Pan Asia Banking Corporation PLC.
- 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
- 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*.
- Please indicate with 'x' in the space provided how your proxy is to vote on each resolution.

* Delete whichever is inapplicable.

Corporate Information

Registered Name of the Company

Pan Asia Banking Corporation PLC

Legal Form

A Public Limited Liability Company incorporated in Sri Lanka on 06th March 1995 under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007. A Licensed Commercial Bank under the Banking Act No. 30 of 1988 and listed in the Colombo Stock Exchange.

Company Registration Number

PQ 48

Registered Office/Head Office

No. 450, Galle Road,
Colombo 03.

Sri Lanka.

| | | |
|------------|---|------------------------------|
| Telephone | : | +94112565565 +94114667777 |
| Fax | : | +94112565558 |
| E-mail | : | pabc@pabcbank.com |
| Web Site | : | www.pabcbank.com |
| SWIFT Code | : | PABSLKLX |

Call Center

| | | |
|-----------|---|--------------|
| Telephone | : | +94114667222 |
| Fax | : | +94112575023 |

Tax Payer Identification Number (TIN)

134005700

Credit Rating

National Long-term rating ; BBB (lka) Outlook Stable
Subordinate Debentures ; 'BBB - (lka)'

Company Secretary

N. Fernando

Accounting Year End

31st December

Stock Exchange Listing

295,041,086 Ordinary Shares and 750,000 Rated, Unsecured, Subordinated Redeemable Debentures of Rs.1,000/- each (2012 / 2017) are listed on Colombo Stock Exchange of Sri Lanka.

Auditors

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

Board of Directors

| | | |
|-------------------------|---|---|
| W. D. N. H. Perera | - | Chairman |
| R. E. U. De Silva | - | Deputy Chairman |
| H. K. Seneviratne | - | Senior Director |
| J. A. S. S. Adhihetty | - | Director |
| M. D. S. Goonatilleke | - | Director |
| T. G. Thoradeniya | - | Director |
| G. A. R. D. Prasanna | - | Director |
| T. Igarashi | - | Director |
| T. Murakami | - | Director |
| J. D. N. Kekulawala | - | Director |
| P. L. D. N. Seneviratne | - | Director / Chief Executive Officer w.e.f. 01 st March 2014. |

Board Audit Committee

| | | |
|-----------------------|---|----------|
| J. D. N. Kekulawala | - | Chairman |
| M. D. S. Goonatilleke | - | Director |
| H. K. Seneviratne | - | Director |
| T. Murakami | - | Director |

Board Credit Committee

| | | |
|-----------------------|---|----------|
| W. D. N. H. Perera | - | Chairman |
| R. E. U. De Silva | - | Director |
| J. A. S. S. Adhihetty | - | Director |
| T. G. Thoradeniya | - | Director |

Board Integrated Risk Management Committee

| | | |
|-----------------------|---|----------|
| M. D. S. Goonatilleke | - | Chairman |
| H. K. Seneviratne | - | Director |
| T. Igarashi | - | Director |

Human Resources and Remuneration Committee

| | | |
|--------------------|---|----------|
| W. D. N. H. Perera | - | Chairman |
| H. K. Seneviratne | - | Director |
| T. G. Thoradeniya | - | Director |

Board Nomination Committee

| | | |
|---------------------|---|----------|
| H. K. Seneviratne | - | Chairman |
| W. D. N. H. Perera | - | Director |
| J. D. N. Kekulawala | - | Director |

Board Budget Review Committee

| | | |
|-----------------------|---|----------|
| J. D. N. Kekulawala | - | Chairman |
| J. A. S. S. Adhihetty | - | Director |
| M. D. S. Goonatilleke | - | Director |

