



# Growing Strengthening Transforming

Annual Report 2009

**Pan Asia Bank**

# Contents

Key Highlights	3	Financial Information	
Financial Highlights	4	Independent Auditors' Report	51
Message from the Chairman	8	Balance Sheet	52
Message from the Chief Executive Officer	10	Income Statement	53
Management Review		Statement of Changes in Equity	54
Key Performance Indicators	13	Cash Flow Statement	55
Business Review	14	Notes to the Financial Statements	56
Human Capital	16	Capital Adequacy Computation	80
Corporate Social Responsibility	18	Quarterly Statistics	83
Financial Review	20	Analysis of Deposits	84
Risk Management	22	Analysis of Advances	85
Board of Directors	26	Sources & Distribution of Income	86
Corporate Management	30	Value Added Statement	87
Senior Management	32	Ten Year Statistical Summary	88
Annual Report of the Board of Directors on the		Graphical Review	89
Affairs of the Bank	36	Information of Shareholders	90
Directors' Interest Register	39	Top Twenty Shareholders	91
Other Directorships	41	Branch Network	92
Governance Report	42	Correspondent Banks	93
Board Audit Committee Report	44	Glossary of Financial & Banking Terms	96
Board Integrated Risk Management Committee Report	46	Notice of Meeting	98
Board Human Resources and Remuneration Committee Report	47	Form of Proxy	99
Board Nomination Committee Report	48	Corporate Information	Inner Back Cover
Directors' Responsibility on Financial Reporting	49		



## Growing. Strengthening. Transforming.

Despite the challenging economic conditions, Pan Asia Bank recorded a positive growth. As we transformed, our strengths in the areas of liquidity and capital adequacy have fortified our foundations even further. We ended the year both bigger and stronger, a stellar performance indeed.

We have expanded and continue to develop our core products and services with a futuristic vision. Plans for branch expansion and many other schemes are just some of the initiatives Pan Asia Bank has in store.

**The future looks promising as we evolve.**

## Our Vision

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

## Our Mission

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

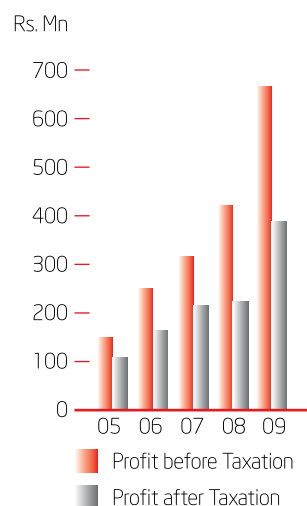
## Key Highlights

- Record earnings: Gross income **grew by 19% to reach Rs. 3,862 Mn** and Operating Profit **up by 69% to Rs. 874 Mn**
- Broad-based growth: Profit Before Tax **recorded Rs. 665 Mn accelerating to 58%** growth over year 2008 and Profit After Tax to **Rs. 388** for 2009, an increase of 73%
- Strong Balance Sheet: Total Assets **grew by 14% to Rs. 21,559 Mn**
- Customer Deposits grew by **13% to Rs. 16,329 Mn**
- Credit Exposures - **76% of Credit Exposures** are either secured by Cash or Property
- **Liquidity and Capital Adequacy Ratios** comfortably above targets
- Shift in focus from mid and retail clients **to growth from corporate clients**
- Recognition Award : Ranaviru Harasara **Project was awarded with a "Merit"** from The Ceylon Chamber of Commerce
- A year of change with several **key changes in personnel, processes** and improvement in controls
- Pan Asia Bank's market capitalisation grew by **98% to Rs. 2,240 Mn.**

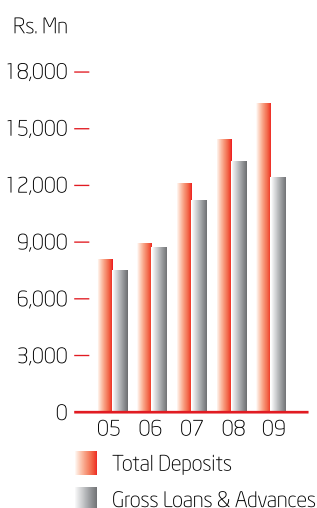
# Financial Highlights

	2009	2008	Change %
<b>Results for the Year (Rs. Mn)</b>			
Gross Income	3,862.06	3,241.16	19.16
Profit Before Financial Services VAT & Taxation	831.48	555.34	49.72
Profit Before Taxation	665.15	421.84	57.68
Profit After Taxation	387.82	223.63	73.42
Revenue to the Government	502.25	323.45	55.28
<b>Position at the Year End (Rs. Mn)</b>			
Shareholders' Funds	1,979.66	1,591.84	24.36
Deposits from Customers	16,328.70	14,448.37	13.01
Gross Loans & Advances to Customers	12,497.65	13,389.86	(6.66)
Total Assets	21,558.83	18,984.34	13.56
<b>Financial Ratios</b>			
Net Asset Value per Share (Rs)	17.89	14.39	24.32
Earnings Per Share (Rs)	3.51	2.02	73.76
Return on Average Assets (%)	1.94	1.29	50.39
Return on Average Shareholders' Funds (%)	20.86	14.80	40.95
Non Performing Advances Ratio (%)			
- Gross	13.17	10.16	29.63
- Net	8.33	6.94	20.03
Provision Cover (%)	32.82	26.66	23.11
<b>Statutory Ratios (%)</b>			
Capital Adequacy			
- Tier 1 (Minimum Requirement - 5%)	15.94	13.26	20.21
- Tier 1 & 11 (Minimum Requirement - 10%)	16.56	14.02	18.12
Liquid Assets (Minimum Requirement - 20%)	42.00	23.09	81.90

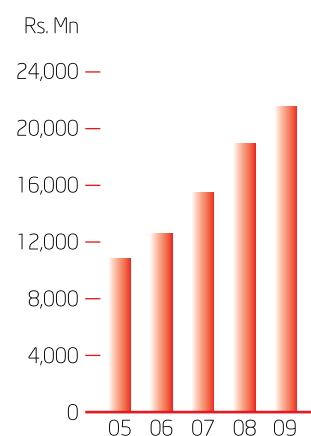
**Profit Before Taxation & After Taxation**



**Total Deposits & Gross Loans and Advances**



**Total Assets**



### Gross Income 2009

Rs. 3,862 Mn

Gross Income 2008 - Rs.3,241 Mn

### Profit After Taxation 2009

Rs. 388 Mn

Profit After Taxation 2008 - Rs.224 Mn

### Net Asset Value per Share

Rs. 17.89

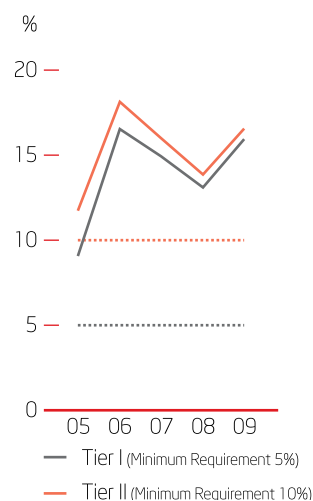
Net Asset Value per Share 2008 - Rs. 14.39

### Earnings Per Share 2009

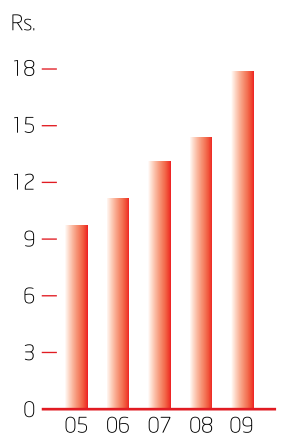
Rs. 3.51

Earnings Per Share 2008 - Rs. 2.02

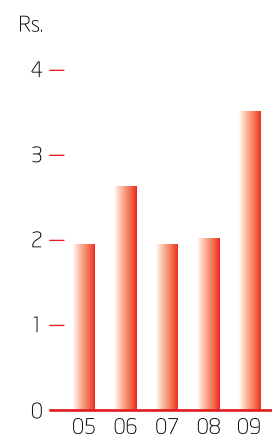
### Capital Adequacy Ratio



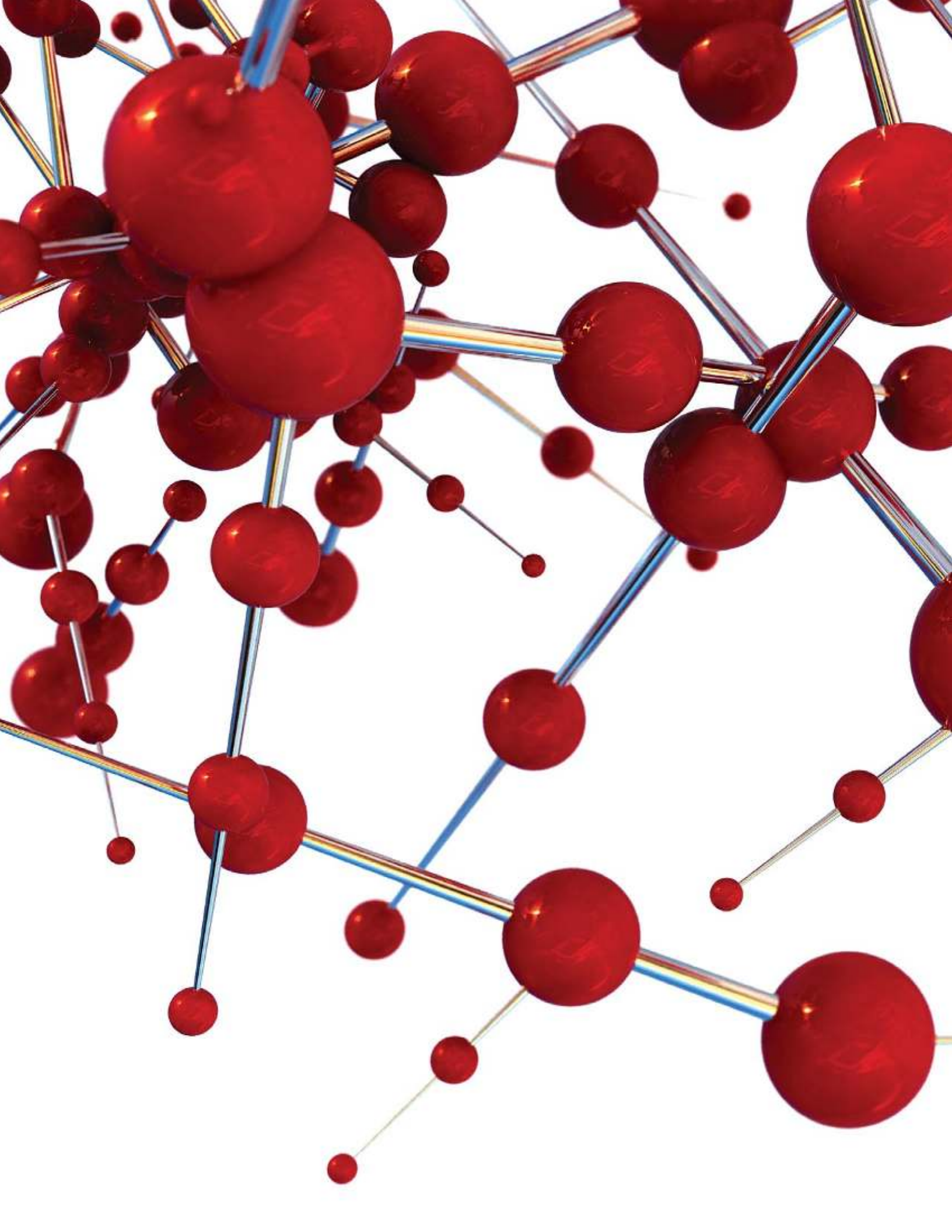
### Net Asset Value per Share



### Earnings per Share











# We're Growing

At Pan Asia Bank we see growth, whether big or small as an opportunity to develop. By expanding our services across the country, especially in the North and East we give our customers nothing short of the best.

# Message from the Chairman

“ I am proud of our bank’s performance during a challenging but rewarding year and look forward to the next...”

Dear Shareholders,

It is with great pleasure that I present to you the Annual Report and Audited Financial Statements of Pan Asia Bank for the year ended December 31, 2009. Having faced many challenges during the year I am happy to say that we were able to withstand numerous obstacles resulting in a strong performance.

Despite the challenging economic conditions, the Bank has increased its Profit After Tax by 73%, strengthened its capital base, improved its efficiency, expanded its services by opening a number of new branches and increased deposits in line with market trends.

The current economic climate proved challenging and difficult for the Bank. Inflation continued to decline during the year recording the lowest rates seen in the last couple of years. Interest rates mirrored this declining trend. Sri Lanka’s external trade was heavily impacted by the global crisis resulting in export earnings declining by 12.7% for the year 2009 due to the contraction in industrial and agricultural sectors. As export revenues dropped significantly, the Government initiated restrictions on imports to safeguard reserves. This drastic decline in imports and exports resulted in a significant decline in business activity.

Due to the ripple effect of the economic downturn, customers lacked the business confidence to warrant borrowing which caused a lack of demand for credit and this resulted in excess liquidity in the banking industry as a whole. Excess funds were deposited in the money market at low rates which in turn caused a reduction in profitability. The lack of quality borrowers as well as low business confidence also resulted in low asset growth. The low interest rate sentiment in the market, for deposits, kept investors looking for more attractive options to invest in and as a result the banking sector saw low growth in deposits.

The deposit base of the Bank grew by 13% to Rs. 16,329 Mn compared to Rs 14,448 Mn as of December 2008. This was in line with the market trends. In keeping with the growth in deposits, the Bank’s total

assets increased to Rs. 21,559 Mn compared with Rs. 18,984 Mn in the previous year attributing a growth of 13.60%. The Return on Average Assets at the end of the year was 1.94% while the Return on Average Shareholders’ Funds amounted to 20.86% as of December 2009.

The Bank’s Profit Before Tax grew appreciably by 58% to Rs. 665 Mn as compared to Rs. 422 Mn in 2008 and the Profit After Tax grew by a phenomenal 73% to Rs. 388 Mn as compared to Rs. 224 Mn in 2008. The Bank has been giving top priority to its asset quality and has been able to control its Non Performing Loan portfolio.

The new regulations require that in order to open a branch in the Western Province, banks have to open two branches outside the Western Province. The Bank is carrying out a plan to open another 15 branches before the end of this year. However, it must be mentioned that whilst the idea of taking banking to developing areas is appreciated, this rule is disadvantageous for the expansion programmes of new banks considering the high capital cost involved in setting up new branches.

The Monetary Authority continued to supervise and direct us concerning prudent Corporate Governance. We have complied with all of their directives and guidelines, especially the recent directives regarding Integrated Risk Management and risks relating to foreign exchange business.

The Bank is required to increase its capital base to Rs 2,500 Mn by the end of June 2010. Our present capital funds stands at Rs. 1,980 Mn and we consider this adequate considering our asset book. However, initiatives are underway and plans are in place to meet the statutory requirements.

As we know and have experienced, the banking sector continues to be heavily taxed at over 60%, which in turn impacts capital formation. Heavy taxes discourage banks and their ability to re invest profits for expansion programmes. The impact on profitability of heavy taxes on the sector is emphasised in our pre tax (before VAT on Financial Services), and post tax profits for the years 2008 & 2009 shown below.

	Pre Tax Profit (Rs.)	Post Tax Profit (Rs.)
2008	555 Mn	224 Mn
2009	831 Mn	388 Mn

The Bank has been lauded for its social responsibility and community service efforts and was awarded the prestigious merit award by The Ceylon Chamber of Commerce for Special Projects on Corporate Social



A.G. Weerasinghe  
Chairman

Responsibility for the Bank's Ranaviru Harasara account - a special savings account launched to upgrade the living standards of the Ranaviru families. In addition, the Bank received an award from the Institute of Chartered Accountants of Sri Lanka for our 2008 Annual Report.

We expect year 2010 to be as challenging but are hopeful for changes and new opportunities. As always, the Bank will meet these challenges head on and embrace opportunities to not only maintain and improve on our achievements, but to continue growth in 2010.

I would like to show my sincere appreciation to the Board of Directors and the top management for their effort in shaping the strategic goals for the Bank. I am also grateful to all our loyal staff for their dedication to duty and commitment to the Bank's success.

A.G. Weerasinghe  
Chairman

Colombo  
February 08, 2010

"Despite the challenging economic conditions, the Bank has increased its profit by 73%, strengthened its capital base, improved its efficiency, expanded its services by opening a number of new branches and increased deposits in line with market trends."

# Message from the Chief Executive Officer

Growing in numbers,  
strengthening our brand,  
transforming our future.

## Our business environment

In year 2009, we saw the continuation of the challenging financial and economic environment in Sri Lanka which we all experienced in 2008. The global financial crisis didn't let up and continued to plague local economies, including ours.

Though the global meltdown had a significant negative impact on Sri Lanka, the banking sector weathered the storm due to the industry being governed by the strong regulated economic policies prevalent in the country. Some of the areas that heavily impacted the banking sector were an increase in Non Performing Advances, high interest rates during the first part of the year, which saw a declining trend towards the mid and end of the year, and the lack of credit demand due to the uncertainty that prevailed in the market. With Pan Asia Bank's conservative business model, our clear strategy and our focus on the basics, we were able to deliver record profits.

## Maintaining our growth- what we've accomplished

Despite the challenging economic, political and financial environment, the Bank showed growth in several areas including profitability and the Balance Sheet. We increased our bank branch network, improved our brand image in the market and maintained our staff headcount at an optimal level.

We continue to do business with our long standing and loyal customers and support them with a deep understanding of their business, their challenges and their future goals and we help them to overcome economic turmoil.

Internally we managed our key ratios to such levels that have made the Bank as strong as is required to meet the challenging environment that persevered during the year.

## Growth in numbers

We achieved 73% growth in our Profits After Tax compared to year 2009. This is an impressive achievement under any circumstances and we are proud to have achieved it. Being able to deliver such results and a performance in a situation of volatile interest rates amidst internal conflict is a reflection of the prudent management strategy and the innovativeness and creativity of the management team.

The numbers speak for themselves; Our total asset base grew by 14% to Rs. 21,559 Mn and our deposit base grew by 13% to Rs. 16,329 Mn. Our gross income per employee grew from Rs. 6.4 Mn to Rs. 7.6 Mn in 2009. We improved our liquidity position to 42% compared to 23% in previous year which far exceeds the required benchmark for the banking industry of 20%. Capital Adequacy ratios also grew marginally and are well above the statutory requirements.

## Growth through expansion and managing risks

Continuing with our branch expansion programme in 2009, we opened three new branches of which one was the Bank's first branch in the Northern province, namely Vavuniya. At the end of 2009, the Bank had a network of 35 branches and 33 ATMs which are all linked to a real time online network.

Retail Banking transaction capabilities, wide product range, an extensive network of branches, ATMs, Internet and Mobile banking technology proved powerful tools to gather deposits.

We have always taken a conservative approach to our liquidity by keeping our deposit levels well above our loans, maintaining our ability to repay the former. Managing liquidity is always crucial in banking, but in 2009 it became the difference between survival and success. Our investments in the more liquid portfolios were done at opportune times and we not only achieved the dual advantage of maintaining liquidity when it mattered but also realised substantial profits on the marketable investments.

Our asset quality is conservative, diverse, secured by collateral and is of short term duration. We continued to tighten standards and to reduce unsecured exposures. We have taken some tough decisions, for example, stopping clean lending to small and medium businesses and individuals. We are not seeking to avoid risk as banking is a risk taking business, but we want to ensure we are consciously taking the right risks, that we understand them fully and that we are managing them as effectively as we can.

We have a lending portfolio which is secured almost 76% by property mortgages, gold and cash. Our exposure to the Corporate Banking segment is mainly in the form of very large Corporates in the industry whose external credit risk ratings are well above acceptable.

Operational weaknesses such as system or process failures, documentation errors, fraud, and compliance issues are addressed from time to time. When identified, such potential loose ends are tightened up. We have embarked on several initiatives which included refining our processes and workflows. To improve internal controls we have strengthened our Internal Audit team and to minimise credit and operational risk, we recruited experts to manage risks in these areas.





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

"We achieved 73% growth in our Profits after tax compared to last year. This is an impressive achievement under any circumstances and we are proud to have achieved it."

**Strengthening from the inside out**

Being flexible and adapting to the changing needs of our country's political and economical climate is critical to our success in this industry. That is why we constantly strive to monitor, transform and tailor our strategies, outlook and initiatives. During the past year we brought a new management team on board to head different functions to help us better meet the current market needs and expand our reach.

We amplified our training efforts and extensively focused on training which prepare our staff for growth and expansion. We also provided staff training on regulations and guidelines and we have invested in training our staff on all aspects of anti money laundering.

We continue expanding our delivery channels by opening branches in the Northern and other provinces, providing access in rural economies and joining the ATM network of other banks, which further strengthens our presence in the market. We also plan to enhance growth by targeting certain segments of the market place and tailoring our strategy and services to those specific segments to provide customised services.

We keep focused on building strong relationships with our customers. We will continue to maintain and further improve our services, products and unique value by striving to be as innovative and creative as possible to keep up with changing needs and make our presence felt in the areas we are located.

## Message from the Chief Executive Officer (Contd.)

### Looking to the future.....

Thanks to the Bank's strong liquidity position we were able to survive and thrive during the global crisis. Our strong Capital Adequacy provided us with comfortable bandwidth for credit expansion and we are confident we will continue to do so.

In our business environment, we need to be flexible, anticipating and responding to the changes around us. We will have a clear and consistent strategy which is understood by customers, staff, regulators and investors.

The Bank's three main business lines were launched this year with different priorities. In Retail Banking, we are aiming to reshape the business to enhance income and grow the Balance Sheet. In Corporate Banking, we aim to sustain the momentum which commenced during 2008 and in Treasury to improve growth through the increased customer base that would be forthcoming through the initiatives of the Retail and Corporate Banking divisions.

We will keep our focus on the basics of banking. We see many opportunities to further deepen our relationships with clients, increase market share and improve margins. We will continue to gather deposits, focus on liquidity and we will maintain a strong capital position. We have taken a proactive approach to risk and positioned our loan book defensively to meet any economic downturn. We will continue to keep a firm grip on costs.

Disciplined and timely execution of our strategy, our diverse income streams, long standing customer relationships and effective management of capital, liquidity and risk remain key to the Bank's success in 2010.

I wish to thank the staff of Pan Asia Bank for the commitment and teamwork showed in 2009 and for their continued dedication in 2010 and wish to place on record my appreciation of the contribution made by the former CEO Mrs. Kimarli Fernando during her tenure in the Bank and wish her all the very best in her future endeavours. I also look forward to the continued support of our valued customers and other respected stakeholders during the year 2010 which will undoubtedly be another very challenging year.



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

Colombo  
February 08, 2010



# Management Review

## Key Performance Indicators (KPIs)

### Financial KPIs

Earnings Per Share (EPS)	Net Income	Tier 11 Capital Adequacy Ratio	Return on Average Shareholders' Funds																																																
EPS is calculated as profit attributable to ordinary shareholders of the Bank , divided by the weighted average of the number of shares in issue during the year.	Net income is calculated as the sum of the net interest income, net commission income, net trading income and other operating income.	Tier 11 Capital Adequacy Ratio, the components of which are summarised on page 80, is measured by the ratio of Tier 11 capital to risk weighted assets.	Return on Average Shareholders' Funds is calculated as the profit attributable to ordinary shareholders as a percentage of average Shareholders' Funds.																																																
<b>Earnings Per Share     Rs. 3.51</b>	<b>Net Income             Rs. 1,984Mn</b>	<b>Tier 11 Capital Adequacy Ratio             16.56%</b>	<b>Return on Average Shareholders' Funds             20.86%</b>																																																
<div>Earnings per Share</div> <div><table><caption>Earnings per Share (Rs.)</caption><thead><tr><th>Year</th><th>2005</th><th>2006</th><th>2007</th><th>2008</th><th>2009</th></tr></thead><tbody><tr><td>Value</td><td>2.0</td><td>2.6</td><td>2.0</td><td>2.1</td><td>3.5</td></tr></tbody></table></div>	Year	2005	2006	2007	2008	2009	Value	2.0	2.6	2.0	2.1	3.5	<div>Net Income</div> <div><table><caption>Net Income (Rs. Mn)</caption><thead><tr><th>Year</th><th>2005</th><th>2006</th><th>2007</th><th>2008</th><th>2009</th></tr></thead><tbody><tr><td>Value</td><td>600</td><td>800</td><td>1100</td><td>1400</td><td>1984</td></tr></tbody></table></div>	Year	2005	2006	2007	2008	2009	Value	600	800	1100	1400	1984	<div>Tier II</div> <div><table><caption>Tier II Capital Adequacy Ratio (%)</caption><thead><tr><th>Year</th><th>2005</th><th>2006</th><th>2007</th><th>2008</th><th>2009</th></tr></thead><tbody><tr><td>Value</td><td>12</td><td>18</td><td>16</td><td>14</td><td>16.56</td></tr></tbody></table></div>	Year	2005	2006	2007	2008	2009	Value	12	18	16	14	16.56	<div>Return on Equity</div> <div><table><caption>Return on Equity (%)</caption><thead><tr><th>Year</th><th>2005</th><th>2006</th><th>2007</th><th>2008</th><th>2009</th></tr></thead><tbody><tr><td>Value</td><td>23</td><td>23</td><td>16</td><td>15</td><td>20.86</td></tr></tbody></table></div>	Year	2005	2006	2007	2008	2009	Value	23	23	16	15	20.86
Year	2005	2006	2007	2008	2009																																														
Value	2.0	2.6	2.0	2.1	3.5																																														
Year	2005	2006	2007	2008	2009																																														
Value	600	800	1100	1400	1984																																														
Year	2005	2006	2007	2008	2009																																														
Value	12	18	16	14	16.56																																														
Year	2005	2006	2007	2008	2009																																														
Value	23	23	16	15	20.86																																														
<b>Aim</b> To consistently deliver year on year growth in earnings per share.	<b>Aim</b> To sustain organic momentum	<b>Aim</b> To maintain Tier 11 Capital Adequacy Ratio above 10%	<b>Aim</b> To deliver superior return on Average Shareholders' Funds compared to the industry average																																																
<b>Analysis</b> During 2009, Earnings Per Share grew by 74%, with strong growth in profitability.	<b>Analysis</b> During 2009, net income grew by 37.5%, with 35 branches.	<b>Analysis</b> During 2009, the Bank maintained Tier 11 Capital Adequacy Ratio of 16.56% on BASEL 11 basis, an increase of 18% compared with 2008.	<b>Analysis</b> During 2009, the return on Average Shareholders' Funds is 20.86% against 2008 with a growth of 41%.																																																
<b>Source</b> This measure is reported in the Bank's Audited Financial Statements within note 36.	<b>Source</b> This measure is reported in the Bank's Audited Financial Statements on page 53.	<b>Source</b> This measure is reported in the Capital Adequacy Computation on page 80.	<b>Source</b> This measure is derived by dividing Profit After Tax by Average Shareholders' Funds which is shown in the Bank's Audited Financial Statements on page 52.																																																

## Management Review (Contd.)

### Business Review

#### Overview

Year 2009 was the best year of the fourteen year history of the Pan Asia Bank. It has recorded Rs. 388 Mn post tax profit for the financial year 2009, which is a 73% growth over last year. Growth in Net income as compared to last year was 38% whilst cost growth was contained at 19%. That resulted in the cost to income ratio improving from 55% in 2008 to 48% in 2009, which is probably one of the best in the industry.

Overall most business segments contributed to the growth, with Treasury recording outstanding performance.

Our liquidity and capital adequacy ratios have remained comfortably above targets throughout 2009, reflecting our vigilant and prudent approach to risk management.

The Bank's strong liquidity and Balance Sheet position has given us the confidence to pursue key strategic priorities such as sustaining the growth momentum of the business, continuously improving our business propositions, strengthening our leadership and reinforcing the Pan Asia brand. These priorities had allowed us to pursue growth, value creation and seize strategic business opportunities in 2009.

This report explores some of these priorities and their importance in assessing our performance in 2009, while clearly outlining how we aim to make progress in 2010.

#### Branch Banking

Branch banking is the backbone of the Bank and the engine for deposit mobilisation and marketing of our product and services. All client accounts including Corporate and Private banking though managed separately are booked at branches. During 2009 we operated through 35 online branches, equipped with state of the art technology to serve the clients in an efficient and professional manner. Branches can offer all the products and services available with the Bank. Branches are divided into 3 regions, with a Head responsible for the specific region. During the year we expanded our reach to Vavuniya in commitment to support the Northern Province and rural economy with the state of the art modern banking services. We also opened new branches in Malabe and Kalutara. Branches in Panchikawatte and Wattala were relocated and upgraded to modern branches. Pan Asia "Nivasa" home loan, Consumer Loans were some new products introduced during the year. The Bank also joined the "Moneygram" network which will enable our customers as well as non customers to receive remittances at any of our branches from anywhere in the world, within a few minutes.

Lending at branch level is mostly done on secured basis. Credit and most of the operations were centralised at head office to achieve economies of scale, expertise and better controls. We have ambitious expansion plans for 2010 including further expansion in the North and East and other parts of the country where we are not yet represented. We are also in the process of obtaining a wider ATM network facility for our valuable customers by linking up with other local ATM networks in the country and thereafter to the VISA network which will give our clients global access.

#### Leasing

The Bank was selective in granting new leases. We also commenced automating the leasing process which is almost completed with some finer changes to be done. We plan to develop this profitable business further in 2010.

#### Pawning

The year 2009 was a good year for pawning, portfolio grew by 112% to Rs. 1,482 Mn. Revenue grew from Rs. 98 Mn to Rs. 265 Mn a growth of 170% over last year. This was as result of the work done during latter half of the previous year through media advertisements and campaigns to create customer awareness in areas where our branches are located. Pawning is considered to be one of the safest method of creating advances, we plan to capitalise these opportunities in 2010.

#### Credit Cards

Pan Asia Bank is authorised to issue Master International cards. In 2009, a major reorganisation of this area was done and a clean up of the portfolio was undertaken, with appropriate provisions being made. While this is not a major revenue source for the Bank we will continue this business in order that we have a complete product suite for those of our customers who require a card.

#### Corporate Banking

Corporate Banking business continued to grow during 2009 with addition of new corporate names to our portfolio. These names have supplemented more risky retail names, which we have exited. Our Corporate Banking portfolio now accounts for approximately 28-30% of our loan portfolio in addition to the trade business it generates. Excess market liquidity created pressure on the margins and utilisation during the last quarter of 2009. We have set up a Corporate Banking Division and introduced a dedicated Relationship Management concept to serve our corporate customers better. The team has been strengthened with



staff of the appropriate background who have been tasked with growing the business in 2010. Plans for 2010 for this segment is to focus on increased fee based income, growth in credit and diversify our exposures to industries where we have limited or no exposures etc.

### Margin Trading & Custodian Services

Pan Asia Bank commenced Margin Trading business during the last quarter of 2009 after registering itself as a licensed Margin Trader with Colombo Stock Exchange (CSE). With the improved activity levels at CSE which was one of the best performing Stock Exchanges in the world, Margin Trading gives our customers additional liquidity to trade in the stock market. The portfolio has grown quite rapidly and we expect significant contributions from this activity in 2010.

Pan Asia Bank is also a registered Custodian Service (Custodian Bank) provider with the Central Depository Service (CDS). As a Custodian Bank, we could provide core domestic custody services by opening accounts at the CDS for trading purposes, settle trades, invest cash balances as directed, collect income, processes corporate actions, prices securities positions, and provide recordkeeping and reporting services. We provide custodian services to investors in keeping with the 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.

### Private Banking

Pan Asia Bank launched its First Class Private Banking during the latter part of 2008. First Class Private Banking will provide enhanced customer convenience and an array of free services which include "At your service", the convenient banking solution that revolutionises the way you do your banking. It will also provide first class and efficient services through its dedicated Relationship Managers. This segment mainly focuses on growing the deposit base of the Bank and recorded a growth of 13% in terms of deposits.

We also opened a dedicated desk for Japanese clientele, with staff conversant in Japanese recruited to serve them. We conducted a Road Show in Japan to promote investment opportunities in Sri Lanka and specifically focussed on the SFIDA (Special Foreign Investment Deposit Accounts) and SIERA (Share Investment External Rupee Accounts) Accounts. Results are seen with increase in deposit base together with contribution to foreign exchange income on the conversion of remittances.

### Treasury

Treasury had an exceptionally good year with 212% growth in profit, mainly due to timely decision taken by the management to invest in high yield Treasury Bonds when the interest rate was at its peak during the latter part of 2008. Against a declining market interest rate scenario bank was able to book in wider spreads on interest income and capital gains.

Quick decisions on investments, state of the art services for our valuable customers, innovation on new products, forecasting future market movements and providing investment opportunities and foreign exchange solutions are the main pillars of our success.

### Commodity Corporates

This segment consists of commodity traders mainly from the Pettah region, which has been an important segment to the Bank over the years in terms of contribution to interest and fee based income and the overall bottom line. In order to provide a speedy services to clientele we have set up a dedicated trade counter at our Pettah branch, with necessary expertise who could directly execute a trade transaction without referring it to Head office, which facilitates speedy turnaround times expected from the clients.



Take aim at your life's target with our services...


**PAN ASIA BANK CONSUMER LOANS ARE HERE TO STAY**

So many things to do but little time? There's time to relax up as Pan Asia Bank brings you the most convenient Consumer Loan Facility with the most benefits and low documentation.

The Consumer Loan facility lets you take care of those little desires and important events in your life without having to feel your wallet is dried empty! The facility is open to all permanent, private and government sector employees and allows for multiples of one's salary to be taken along with flexible repayment periods and extremely low interest rates.

For more information on the eligibility criteria and related information, please feel free to Call Studio: 0777 704932, Assistant: 0773 060944, Channel: 0777 152144

**PAN ASIA BANK**



WE 'KNOW' WHAT YOUR HEART DESIRES...

**A house to call a home**

**PAN ASIA HOME LOAN**

**PAN ASIA BANK**

## Management Review (Contd.)

### Human Capital

Our strength is our employees. Our constant effort is to maintain an environment where our employees are able to unleash their full potential and become high performing and a motivated workforce. We are dedicated in nurturing their growth and well being to strive to deliver outstanding shareholder value.

Whilst the Bank continues to grow, we seek to retain the personal touch which has hitherto given us the edge in forging a work environment that is both competitive and caring.

### Training and Development

The Bank is committed to harnessing the talent and skills while empowering and motivating employees to develop themselves. During the year 2009, the Bank organised various development programmes on technical and soft skills based on the needs identified through a structured process. A total of 5,133 days of training were completed during the year out of which 4,356 days being internal training programmes, 777 days being external training programmes.

With the objective of positioning the Bank that provides superior customer service and improve service standards, the Bank tied up with Mantra Holdings, a leading training and development consultancy group and conducted training for its employees attached to the Branches on Sales and Customer Service during the year. The training sessions focused on creating a sales driven culture among the branches in facilitating Branch Entrepreneurship among the sales personnel.

### Human Resource Management System

The Bank laid the background work towards implementing an integrated Human Resources Management System. The system includes the integration of the Bank's leave and attendance system along with on line modules for performance appraisal system and recruitment and selection. This would enable HR to focus on strategic initiatives which the Bank has lined up for the year 2010.

### Employee Relations

A key feature of the Bank is the "open door policy" and the "concern for people". The Bank promotes a culture which is open and transparent. Employees can walk in and meet the members of senior management at any time. The Bank has a non unionised environment.

The Bank's social calendar of the year included various events such as the annual trip, dinner dance and the kiddies Christmas party which gave our employees to interact with each other and have some fun outside work.

Some of the new initiatives to be rolled out during the next year include a sports event, a talent competition and a quiz competition. The Bank also intends to launch the concept of Joint Consultative Council (JCC) through which it aims to have a partnership approach to matters of mutual interest to both the employer and employees, so that, matters of mutual concern are addressed speedily and informally in discussion with those concerned.

The Bank encourages close working relationships between its employees and trusts the formation of JCC would lead to close collaborative relations between all employees in the Bank and would increase communication, goodwill, commitment and cooperation of all concerned for the long-term benefit of the Bank and the employees.

### Recruitment and Selection

We practice stringent recruitment practices to ensure that we hire the right person for the right job. Recruitments done at managerial level, go through strict selection procedure which includes a final interview done by a Board Sub Committee.

The year started with 507 employees and ended with 511 employees. The Bank attracted premier quality talent for a number of its key positions which was aimed at its future growth and development over the coming year. The Bank also attracted quality talent during the year for several other positions in the Manager and Senior Manager grades. During the year 2009, the Bank also introduced a formal procedure in recruiting and selecting Trainee Banking Assistants.

### Staff Analysis - Grade wise

	Number of Staff	
	2009	2008
Corporate Management	6	7
Senior Management	18	19
Managers & Assistant Managers	74	61
Executives	96	91
Senior Banking Assistants & Banking Assistants	235	220
Other Staff (Management Trainees, Trainee Banking Assistants, Sales Executives, Contract & Minor Staff)	82	109
<b>Total Staff</b>	<b>511</b>	<b>507</b>

**Employee - Gender & Category wise**

Year Category	2009			2008		
	Male	Female	Total	Male	Female	Total
Corporate Management	5	1	6	5	2	7
Senior Management	15	3	18	16	3	19
Managers & Assistant Managers	56	18	74	50	11	61
Executives	53	43	96	45	46	91
Senior Banking Assistants & Banking Assistants	111	124	235	105	115	220
Other Staff (Management Trainees, Trainee Banking Assistants, Sales Executives, Contract & Minor Staff)	52	30	82	71	38	109
Total	292	219	511	292	215	507

Amongst its other initiatives the Bank introduced an induction and orientation programme spread over 8 days which covers core banking operations and key support services of the Bank including policies and procedures. This helped new employees to successfully and speedily adopt themselves to the processes, systems and culture of the Bank.

**Staff Analysis - Service wise**

Number of years in service	Number of Staff	
	2009	2008
Above 13	6	8
12 - 13	4	5
9 - 12	80	45
7 - 9	14	51
5 - 7	57	19
3 - 5	108	95
1 - 3	172	221
Below 1	70	63
Total Staff	511	507

**Rewards and Performance Driven Culture**

The Bank believes in competitive and equitable reward schemes. The Bank streamlined the salary anomalies of its employees after a salary survey, which was carried out amongst the other institutions in the industry.

The Bank introduced Balanced Scorecard as its performance management system in December 2009 in order to facilitate effective performance management. The Bank will introduce this to all employees belonging to Assistant Manager and above grades during the year 2010.

**HR Indicator**

	2009	2008	2007
Staff Strength	511	507	546
Staff Growth	1%	-7%	26%

**HR Investment Ratio**

	2009	2008	2007
Total HR cost (Rs Mn)	354.49	323.16	254.56
HR cost per employee (Rs Mn)	0.69	0.64	0.47
HR Cost to Revenue	9.13%	9.97%	10.99%

## Management Review (Contd.)

### Corporate Social Responsibility

Making a difference, proving we care, we take our commitment to our corporate and sustainability responsibilities very seriously and continue to make an impact every year

#### Improving lives in the communities we serve

Pan Asia Bank recognises the importance of serving our communities and the importance of sustaining our environment which in turn helps the Bank thrive and sustain itself both physically and morally. We have always been committed to doing business responsibly and conducting ourselves in ways that earn the trust and respect of our customers and the community.

#### Giving back to those who gave much more – The Ranaviru Harasara Project

The success of our Ranaviru Harasara project continues to grow, thanks to our committed employees, and has earned the recognition it deserves. The goal of this project is to provide specialised savings accounts to help those who put their lives on the line to bring peace for all citizens of Sri Lanka. The price they have paid for the peace we enjoy cannot be repaid, however, we can only strive to enhance and make their lives and those of their families better.

The goal is to encourage the habit of savings, and as an incentive, the Bank offers free accounts to participants, with an initial deposit provided by the Bank for each and every Ranaviru children's account. This service is offered to the 600,000 service personnel in the forces and their families which totals over 4 Mn people and affected service personnel of approximately 50,000 as well as their families which totals over 350,000 people.

This passionate commitment is personal and shared bank wide. In 2009, each Pan Asia Bank employee contributed monthly to a Ranaviru welfare fund and every branch has an assigned staff member who provides priority service to the Ranaviru Harasara project participants.

#### Objectives of the Ranaviru Harasara Project

- To upgrade the lifestyle of the Ranaviru families
- To provide them with a secure future
- To teach them the habit of savings through awareness programmes
- To strengthen the education of the Ranaviru child through scholarships for high achieving students
- To care for the health of the Ranaviru child
- To provide grief counselling
- To empower the Ranaviru families mentally, psychologically, economically and socially

Our Ranaviru Harasara project was recognised with a merit award from The Ceylon Chamber of Commerce for Special CSR projects – 2009.

#### Enhancing the lives of disabled children

We have partnered with two philanthropic foundations, The Sunera Foundation and the Rotary Club, to help disable children feel empowered by providing them a day of activity and recognition focusing on what they can achieve. The Bank sponsors many of the organisations' events for challenged children including the Sunera Foundation's fund raiser and the Rotary Club's Sunshine games, which involves participation from children all over the island.



*A Ranaviru Child being encouraged to develop the habit of savings*

#### Encouraging savings through education

##### Starting young

We continue to strive to teach the importance of savings to our young through our Mithuru children's savings account programme. Each child who opens a Mithuru account receives the following:

- Hospitalisation reimbursement coverage up to a maximum of Rs.30, 000 per annum if the account is opened with a minimum of Rs.20,000 and that balance is maintained for one year.



- Scholarships to those students who make the top ten list for the Year 5 scholarship exam from each of the Bank's operating districts.
- Gifts based on the amount accumulated in their savings account.
- Additional gifts awarded as incentives to meet certain set targets.

To encourage and spread the growth of this rewarding habit, the Bank has pledged to open two school banking units every year.

### Encouraging savings for further education

Highlighting the importance of education and encouraging higher education, the Bank provides the Siya Daru savings plan. This savings plan is specifically tailored for secondary education, where parents can deposit a lump sum now and receive a certificate for the value of what they would require for their child's secondary education when the time comes. Parents can also continue to deposit money for a maximum of five years and receive a certificate which they can cash in when their child turns 18 years of age.

### Sustaining our environment

We realise the importance of our efforts in contributing to a better and sustainable environment that is being threatened every day. The Bank's first step toward this goal is to provide funding for energy-creating hydro projects which embrace environmentally friendly practices compared to other sources of energy. Such hydro projects also qualify for carbon credits from the The UN's Clean Development Mechanism (CDM) which provides an additional source of income for these specific types of projects. We hope such lending will grow our sustainable lending practice and be the first of many steps in our commitment to caring for our environment.

### More on the Ranaviru Harasara project

The project provides a total financial solution to Ranaviru families showing the way to a financially secure future.

Whilst educating them on the habit of savings, the Bank also provides incentives to encourage the habit of savings. The accounts opened for Ranaviru personnel are paid an additional 2.5% p.a interest along with a free, unique ATM card.



*Encouraging a student to save*



*Recognising services of the commandant of 55th Division of SL Army*



*Soldiers of STF Katukurunda are being educated about the value of savings*

## Management Review (Contd.)

### Financial Review

#### Overview

In 2009 Sri Lanka witnessed significant fluctuations in key macro economic variables such as interest rates, inflation and exchange rates. Those had a mixed reaction towards growth and profitability of the financial industry. Despite the challenges, our hardheaded and incisive policies and best practices established and implemented over the last few years, assisted us in riding the gale and continuing the growth momentum this year that is far better than any year in the history of Pan Asia Bank.

Regardless of the challenging environment, the Bank was able to post a profit attributable to shareholders of Rs. 388 Mn for the year ended 31 December 2009 as compared to Rs. 224 Mn for the previous year, an increase of 73%.

The main contributors to the excellent result was the Bank's core revenue sources, Net Interest Income which grew by a pleasing 20% from Rs. 1,066 Mn in 2008 to Rs. 1,282 Mn in 2009 and Other Operating Income which grew quite significantly as a result of the Bank taking advantage of the reducing interest rates in the liquidation of our Treasury Bond portfolio.

Basic Earnings Per Share (EPS) which shows the level of earnings generated per ordinary share was Rs. 3.51 for 2009 which is a 74% increase over 2008.

Costs were contained to a 19% increase and the Bank took the opportunity this year to make provisions on account of all identified issues which could impact us negatively in 2010.

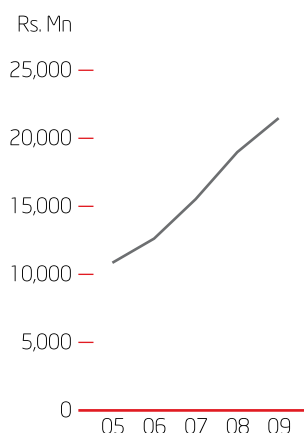
All in all, a very good year for Pan Asia Bank which will set the base for the growth phase which is planned for the next few years.

#### Balance Sheet

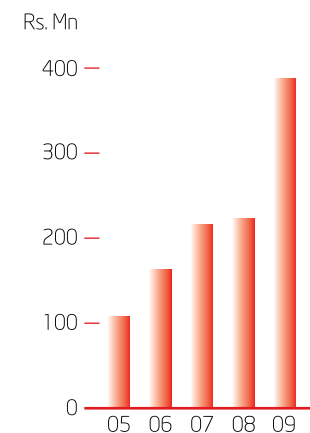
##### Total Assets growth

Total assets increased by 13% to Rs. 21,559 Mn. The increase in customer deposits and the lack of demand for quality credit resulted in an increase in the Treasury Bills/ Bonds portfolio. The Bank's liquidity position remained quite strong during the year which was a situation to be pleased about especially during the uncertainties that prevailed in the financial services industry during 2009.

#### Total Assets Growth



#### Profit After Taxation



#### Deposits and Advances Growth

The total portfolio of customer deposits reached Rs. 16,329 Mn at the end of 2009 when compared with Rs. 14,448 Mn in 2008, a growth of 13% during the year despite many challenges faced during the year. While customer advances as a whole decreased due to a general lack of demand in the industry, it is worth mentioning that the pawning advances portfolio of the Bank increased remarkably by 112% during the year, growing from Rs. 699 Mn in 2008 to Rs. 1,482 Mn in 2009.

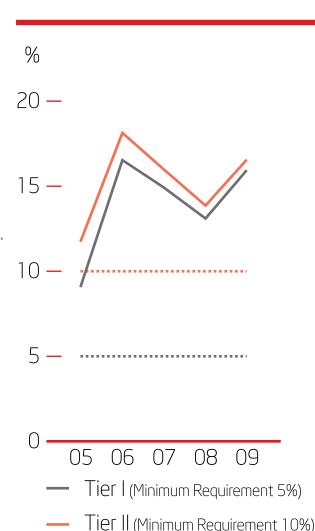
#### Shareholders' Funds

The total Shareholders' Funds increased from Rs. 1,592 Mn in 2008 to Rs. 1,980 Mn resulting a growth of 24%. The Bank retained its entire profits during 2009, with a view to expanding future business operations and in order to meet the regulatory capital requirements.

#### Capital Adequacy Ratio

The Bank's total Capital Adequacy Ratio (Tier 11) stood at 16.56% as at end 2009 (Minimum requirement is 10%) compared to 14.02% as at end 2008, which showed a significant improvement during the year. The Tier 1 ratio was 15.94% as at the year end.

#### Capital Adequacy Ratio



### Statutory Liquid Asset Ratio

The Bank's liquidity ratio as at 31 December 2009 was 42% (Minimum requirement is 20%) as against 23% in 2008.

### Income Statement

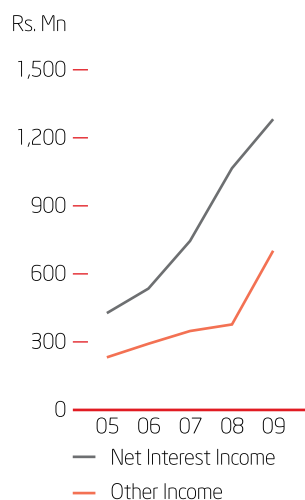
#### Net Interest Income

Interest income improved by 10% from Rs. 2,865 Mn in 2008 to Rs. 3,160 Mn in 2009 whilst interest expense marginally increased by 4%, resulted an overall Net Interest Income increase of 20%.

#### Other Income

Other income for 2009 was Rs.702 Mn as compared with Rs.376 Mn an increase of 87%. This was mainly due to the gains made at treasury coupled with commission from corporate and personal banking segments and foreign exchange income.

### Net Interest Income and Other Income Growth



### Operating Expenses

The operating expenditure excluding provisioning and Financial Services VAT had increased by 19% over the previous year. The increased expenditure were mainly due to the effect of the total cost of branches that were opened and expanded during the year of 2009.

Despite the increased expenditure, Bank's Cost to Income ratio has improved from 55% in 2008 to 48% during 2009 probably one of the best Cost to Income ratio in the industry.

### Provision for Loan Losses

Net provision for 2009 was Rs. 209 Mn as compared with Rs. 95 Mn at the previous year. Given the difficult economic environment, our Credit Card portfolio faced major difficulties and a consolidation exercise was done during the year and appropriate provisions were made.

While the gross NPA ratio increased from 10.16% (net 6.94%) to 13.17% (net 8.33%) in 2009, this was also due to the decrease in Total Advances. Though provision cover on NPA was 33%, the unprovided portfolio is secured by tangible assets which will be of value and in demand once the economy improves as expected in the second half of 2009.

### Taxation

Income Tax provisions increased from Rs. 198 Mn to Rs. 277 Mn an increase of 40%. Inclusive of the Financial Services VAT, taxes paid as a percentage of profit is quite significant. It is expected that the tax rates will be reduced in line with the announcements made by the authorities.

## Management Review (Contd.)

### Risk Management

Although banks embark on strategies on expansion programmes and thriving on profit, the persistent opportunities in banking business are relatively controlled with the stringent regulations and standards that prevail. Thus with such controls available still the risk element could not be totally eliminated. We at Pan Asia Bank believe in managing the risk with a continuous process and methodical and practical ways of risk identification, measurement and mitigation. The Bank has been able to address the main generic risks namely Credit Risk, Operational Risk, Market Risk and have also entered into more detail by managing liquidity, regulatory, legal & reputational risk which constitute major part of Risk Management. The proper management of risk will also assist us in minimising losses in pursuit of new business opportunities.

We are cautious in the risk taking and efforts were emphasised at all levels to ensure that risks taken fall within the capacity of the Bank's ability to absorb losses and to enhance returns by minimising the risk involved in novel prospects available for investments.

The Bank has identified the following as the main elements and have formulated a framework to capture and control the impact in a more integrated manner.

#### Credit Risk

Credit Risk will comprise the major portion of the total risk exposure of the Bank. Greater emphasis is given for the management of credit risk and to mitigate any losses arising out of it with the development of policies. Risk divisions will ensure that the Bank's credit guidelines are being strictly adhered to by lending officers and adequately scrutinised before decisions are made. The asset growth of the Bank would be under high quality diversified policies for Retail, SME and Corporate within the changes of economic conditions in the country. The scope of the sector is recognised early and expansion and more deep concentration of potential areas are done for the growth of the portfolio. The Risk and growth in such sectors are closely looked at for asset writing strategy for all markets.

With the restructuring of Credit Risk Management Unit (CRMU), the Bank has commenced transition towards developing the integrated risk management system. CRMU independently reviews lending undertaken by business units and ensures the quality of the advances portfolio identifying early warnings where close monitoring is needed. The Bank plans to have early warnings on automated report with future MIS developments. The introduction of mid year reviews and quarterly review of high value unsecured facilities are some of the latest monitoring tools adopted. The CRMU also monitors sector wise exposures and assist to update and improve on the Bank's portfolios. The Bank was able to

curtail ill effects of economic downturn experienced in the first half of 2009 due to close monitoring and careful selection of the lending opportunities. Following steps have also been taken to strengthen credit risk:

- Ensure that more than 75% of the total lending book falls within the low risk categories according to customer risk grading. This position is reviewed every month for exposures among Corporate, SME and Retail lending categories. Bank will also review the risk scoring methods in accordance with current market trends
- The Single Borrower Limits are within the maximum accommodation as permitted by Central Bank of Sri Lanka (CBSL) guidelines for both individual and groups.
- Monitor sectoral exposure of lending as a percentage of the total lending book according to sectors identified by CBSL and ensure exposure at manageable levels.
- Monitor Non Performing Advance ratio to achieve industry levels.
- Emphasis is also given on improving the provision cover and to reduce the open credit exposure ratio.

#### Market Risk

We saw phenomenal activities during 2009 with the markets being liquid towards latter part of the year. The Bank's income grew on treasury related activities. Bank's investment was prudent within the year and was able to match the exposure with regard to investment in Bonds, Asset & Liability products and foreign exchange products.

The Bank was able to meet the impact of reduction of interest rates due to prudent management of Interest Rate Risk (IRR), especially during the latter part of 2009. With the fiscal policy changes to reduce rates in the market the impact was significantly seen throughout the banking sector.

The daily monitoring with the corrective Gap Analysis prompt the authorities to take corrective action before hand. Asset and Liability Committee (ALCO) is mainly responsible for review of the Market Risk policies as directed by the Board and the Treasury division takes appropriate steps as directed by ALCO.

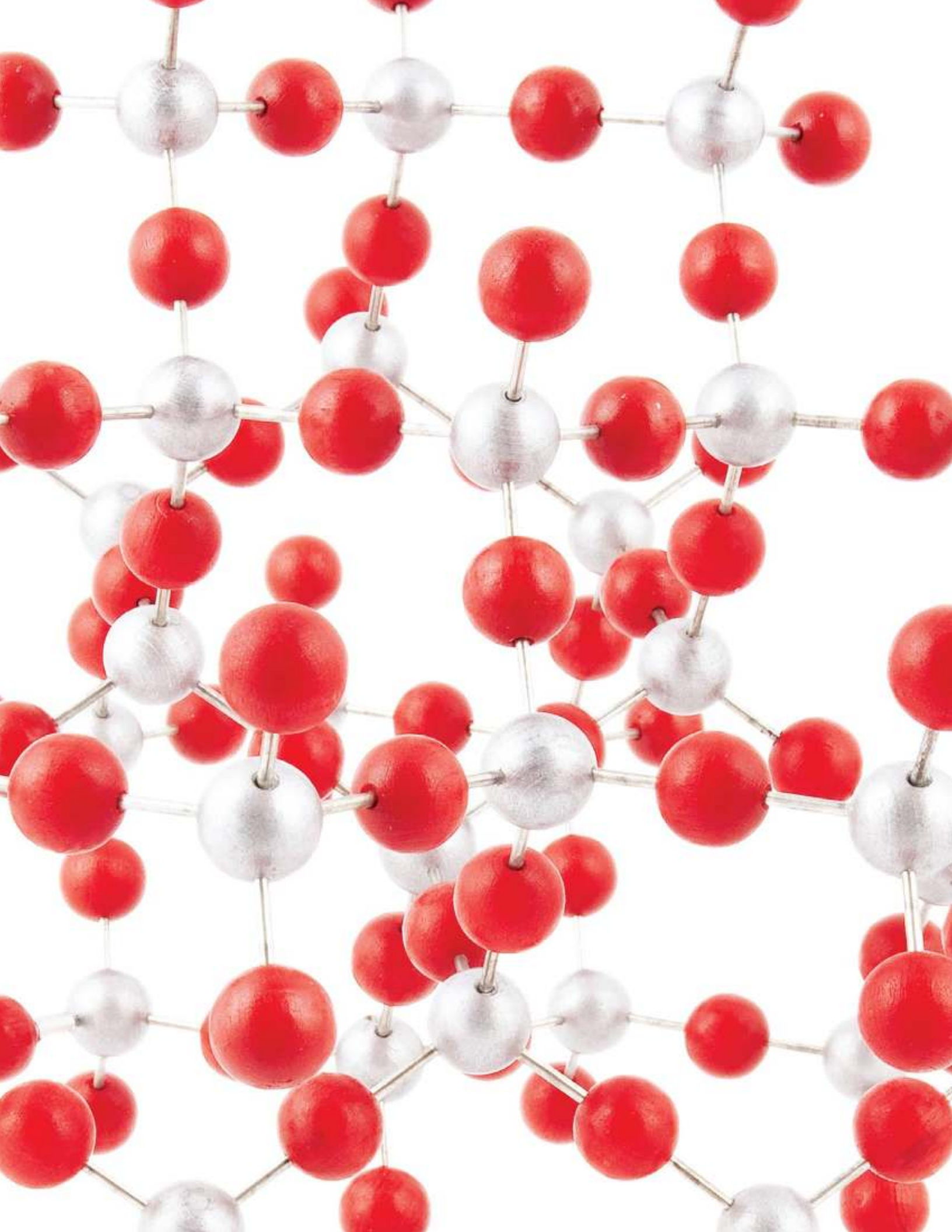
#### Operational Risk/Compliance

Operational Risk is the risk due to failure of internal processes, which consist of people related such as fraud, unauthorised activities, errors & omissions and also could be system failures or external events. At Pan Asia Bank, we have introduced internal process system for each activity of all departments together with the CBSL guidelines taken

into consideration. The more practical methods are introduced with the centralizing of most of the activities to minimise losses arising from operations. Bank has managed to minimise losses with the centralised operations and credit administration unit, where most activities are now being monitored by specialised and trained staff. Proper guidelines and instructions are issued from time to time in addition to training programs for staff. Each process of the Bank is now documented and branches as well as departments carry out the duties accordingly to minimise losses.

The Board Audit Committee reviews duties carried out by the Internal Audit department. Regular reviews are carried out to ensure adherence to internal controls and the effectiveness of the Bank's procedures. In addition, the Compliance department headed by the Compliance officer checks implementation and monitors all regulatory controls including Know Your Customer (KYC) requirements and customer due diligence procedures. Compliance is also responsible for Anti -Money Laundering and combat of Financing for Terrorism activities.









## We're Strengthening

At Pan Asia Bank we see the benefits of continuous building, in every area of our work. By consistently empowering and adding to our workforce through training and other ventures, we are fortifying our strong points.

## Board of Directors







## Board of Directors (Contd.)

### (1) A.G. Weerasinghe

#### *Chairman*

An experienced Senior Banker who joined the Board of Pan Asia Bank as a Director in June 2005 was appointed as Acting Chairman in December 2007 and was appointed as the Chairman in March, 2008. Serves as a Director at George Steuarts Financial Services PLC, South Asia Financial Exel Investments PLC and Sun City Property Developers PLC and as a Member of the Sri Lanka Cricket Board. Holds a B.A. (Econ) Degree, from University of Ceylon, Peradeniya. Served as an Assistant Lecturer in Economics University of Ceylon, Peradeniya. Fellow of the Institute of Bankers, Sri Lanka. He was the former Deputy General Manager, Corporate Banking at Bank of Ceylon. He has served as Country Manager, Bank of Ceylon, London, and Deputy General Manager, International at Seylan Bank. He was also a former President of Sri Lanka FOREX Association.

### (2) W.D.N.H. Perera

#### *Deputy Chairman*

With over 28 years of experience in the fields of Finance, Capital Market Operations, Manufacturing, Marketing and Management services, Mr. Perera joined the Board of Pan Asia Bank as a Director in September, 2007 and was appointed as the Deputy Chairman in March 2008. He serves as a Director in several public quoted Companies. He is the Managing Director of Royal Ceramics Lanka PLC and The Fortress Resorts PLC. He also serves as the Group Finance Director of Amaya Leisure PLC, and as Director Finance of Hotel Reef Comber PLC and holds the position of Director at LB Finance PLC, Vallibel Finance Ltd., Vallibel Power Erathna PLC, Asian Alliance Insurance PLC, Sathosa Motors PLC and Hayleys PLC. He is a member of the Sri Lanka Institute of Marketing.

### (3) 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 over 31 years of experience in the finance sector. He was formerly the Deputy Managing Director of Mercantile Investments Ltd and served as a Director of Nuwara Eliya Hotels Ltd, Grand Hotel (Pvt) Ltd, Royal Palm Beach Hotels Ltd, Tangerine Beach Hotels PLC, Nilaveli Beach Hotels Ltd, Mercantile Fortunes (Pvt) Ltd, Tangerine Tours Ltd and Security Ceylon (Pvt) Ltd.

Presently he holds the position of Managing Director of LB Finance PLC and serves on the Board of Directors of Vallibel Finance Ltd. He is the 1st Vice President of the Finance Houses Association of Sri Lanka.

### (4) A.A. Page

#### *Director*

Mr. Page joined the Board of Pan Asia Bank in April 2008. He is the Chairman of Ceylon Theatres Group of Companies and counts over 39 years of management experience in a diverse array of businesses. He is Chairman of Lanka Ceramic PLC, Lanka Walltiles PLC, Lanka Tiles PLC, Horana Plantations PLC and Parquet (Ceylon) PLC. He is also a Director of Cargills (Ceylon) PLC, CT Land Development PLC, Ceylon Printers PLC, Kalamazoo Systems PLC, Office Equipment PLC and Paragon (Ceylon) PLC. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka. He was also previously on the Board of the Colombo Stock Exchange and a former Council Member of the Employers' Federation of Ceylon.

### (5) R.E.U. De Silva

#### *Director*

He joined the Board of Pan Asia Bank in July, 2008. He is the Chairman of Esna Holdings (Pvt) Ltd., Shermans Logistics (Pvt) Ltd, Shermans Transport (Pvt) Ltd, Chamber of Young Entrepreneurs (CYE) and Esna Villas (Pvt) Ltd. He serves as the Deputy Chairman / Managing Director of Shermans International (Pvt) Ltd. and as a Director at Board of Investment (BOI), Sherman De Silva & Co. Ltd, Sri Lanka Ports Authority, Mc Marine (Pvt) Ltd, Sherman Sons (Pvt) Ltd, and Dimension X (Pvt) Ltd.

### (6) M.D.S. Goonatilleke

#### *Director*

He joined the Board of Pan Asia Bank in August 2008. He is a financial professional with over 25 years of post qualification experience and has held Senior Managerial Positions in Financial Management, Credit Management, Treasury, Export & Import trade, General Management & Operations in leading Private sector organisations in Sri Lanka. He is the Group Executive Director of Douglas & Sons (Pvt) Ltd., Group of Companies. In addition, he serves as a Director in number of other Companies including L B Finance PLC, Amaya Leisure PLC and Royal Ceramics PLC. Mr. Goonatilleke possesses a Post Graduate Diploma in Business Administration from PIM of University of Sri Jayawardenapura and is an Associate Member of the Institute of Chartered Management Accountants (UK) and a passed finalist of the Institute of Chartered Accountants of Sri Lanka.

**(7) Kimarli Fernando****Director**

Counting nearly 21 years of experience in the Banking Industry in Sri Lanka, including in Germany, being the first Asian to have been seconded to Deutsche Bank, Frankfurt, Mrs. Fernando joined the Bank as a Director in March 2008 and was appointed as the Chief Executive Officer of the Bank in May 2008 and resigned from the position of CEO with effect from 31st August, 2009 but continues to be a Director of the Bank. She also serves as a Director of L B Finance PLC and as a Management Committee Member – Waters Edge. She is an Attorney-at-Law, and also a Barrister-at-Law, Lincoln's Inn, UK. She holds LLB (Hons), from London School of Economics and Political Science, London, UK and successfully completed the Post Graduate Certificate Course in Human Resources Management at the Post Graduate Institute of Management (PIM), Sri Lanka. She was awarded the "Professional Woman of the Year 2007" by Women's Chamber of Industry & Commerce, for her professional excellence.

**(8) Z.H. Zavahir****Consultant to the Board of Directors**

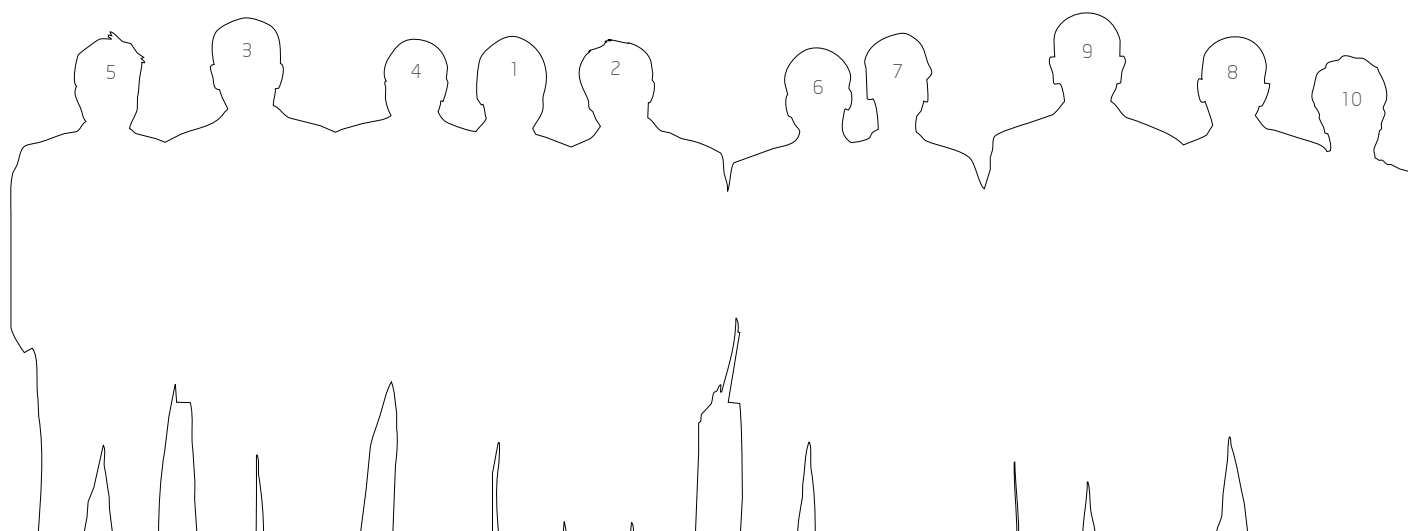
Mr. Zavahir is the Consultant to the Board of Directors. He has over 30 years of Banking experience, having served in various senior management positions with ANZ Grindlays Bank and Nations Trust Bank, where he was the Chief Executive Officer from 2004 and Director from October 2006 till his retirement in August 2009. He is a fellow member of the Chartered Institute of Management Accountants, UK and an Associate member of the Chartered Institute of Bankers London.

**(9) T.C.A. Peiris****Acting Chief Executive Officer**

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

**(10) N. Fernando****Company Secretary**

She is an Attorney-at-Law, who joined the Bank in 1998 as Company Secretary.



## Corporate Management



### **(1) Lasith Nanayakkara**

#### **Chief Information Officer**

Has over 20 years of experience in Information Technology in senior roles, dealing with project implementation, software development and managing the information technology function in multinational organisations.

His previous roles include Chief Information Officer with Nations Trust Bank for the last seven years and Principal Consultant/ Senior Technology Specialist with PeoplesSoft Inc, Australia for over five years. He has also served as a Technology Consultant at Quality Software Products Australia.

### **(2) Mangala Gamage**

#### **Chief Financial Officer**

Has over 20 years of experience in Banking and Financial Services, most of it overseas. He was previously the Chief Financial Officer of Bank Sohar in Oman. He also worked with HSBC, both in UAE and Oman. He served as the Head of Finance in HSBC Oman. Mr. Gamage is an Associate Member of the Chartered Institute of Management Accountants, UK.





### (3) T.C.A. Peiris

#### *Acting Chief Executive Officer*

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

### (4) Lalith Fernando

#### *Chief Risk Officer*

A Senior Banker with over 39 years of experience covering Operations, Corporate Banking and Credit Risk, has previously been a member of Corporate management of ANZ Grindlays, People's Bank and Nations Trust Bank. He headed Corporate Banking division before retiring from ANZ Grindlays in 2001 as Chief Operating Officer and later worked for People's Bank as Head of Branch Credit. At Nations Trust he was Head of Credit Risk Management and joined us in October 2009

### (5) Shashi Jayatunga

#### *Head of Human Resources Development*

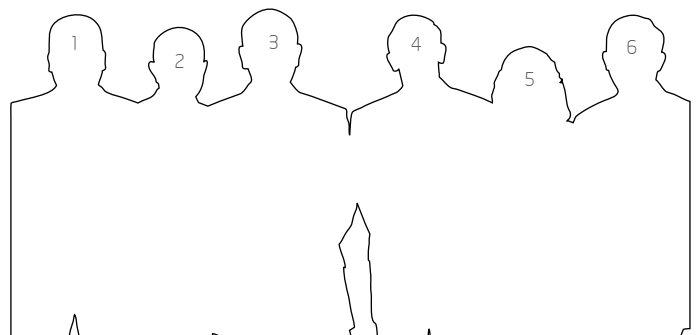
Shashi is an internationally certified HR Professional from IPMA-HR USA and holds the IPMA-HR CP status. She is currently reading for her MBA from Edith Cowan University, Perth, Australia. She holds a Diploma in HRM and also holds certificates in Industrial Relations. Shashi is a member of the Association of Human Resources Professionals (HRP) and was a member of the Executive Committee of the AHRP in 2007.

She counts over 11 years of experience as a HR Generalist working in diverse industry segments covering both service and manufacturing environments. During her career she has worked at John Keells Holdings PLC, Royal Ceramics Lanka PLC and MAS Linea Aqua (Pvt) Ltd.

### (6) Kamoor Sourjah

#### *Deputy General Manager - Corporate Banking*

Joined Pan Asia Bank in May 2008. Kamoor has over 15 years of banking experience with State Bank of India, Deutsche Bank AG and Standard Chartered Bank. Prior to joining Pan Asia Bank, he held the post of Director, Head of Global Corporate at Standard Chartered Bank. He is an Associate Member of the Institute of Bankers Sri Lanka, Member of Association of Professional Bankers and an ACCA (UK) finalist.

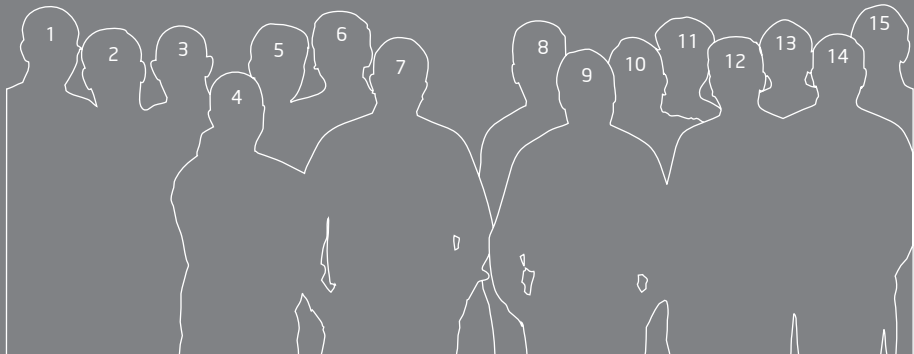


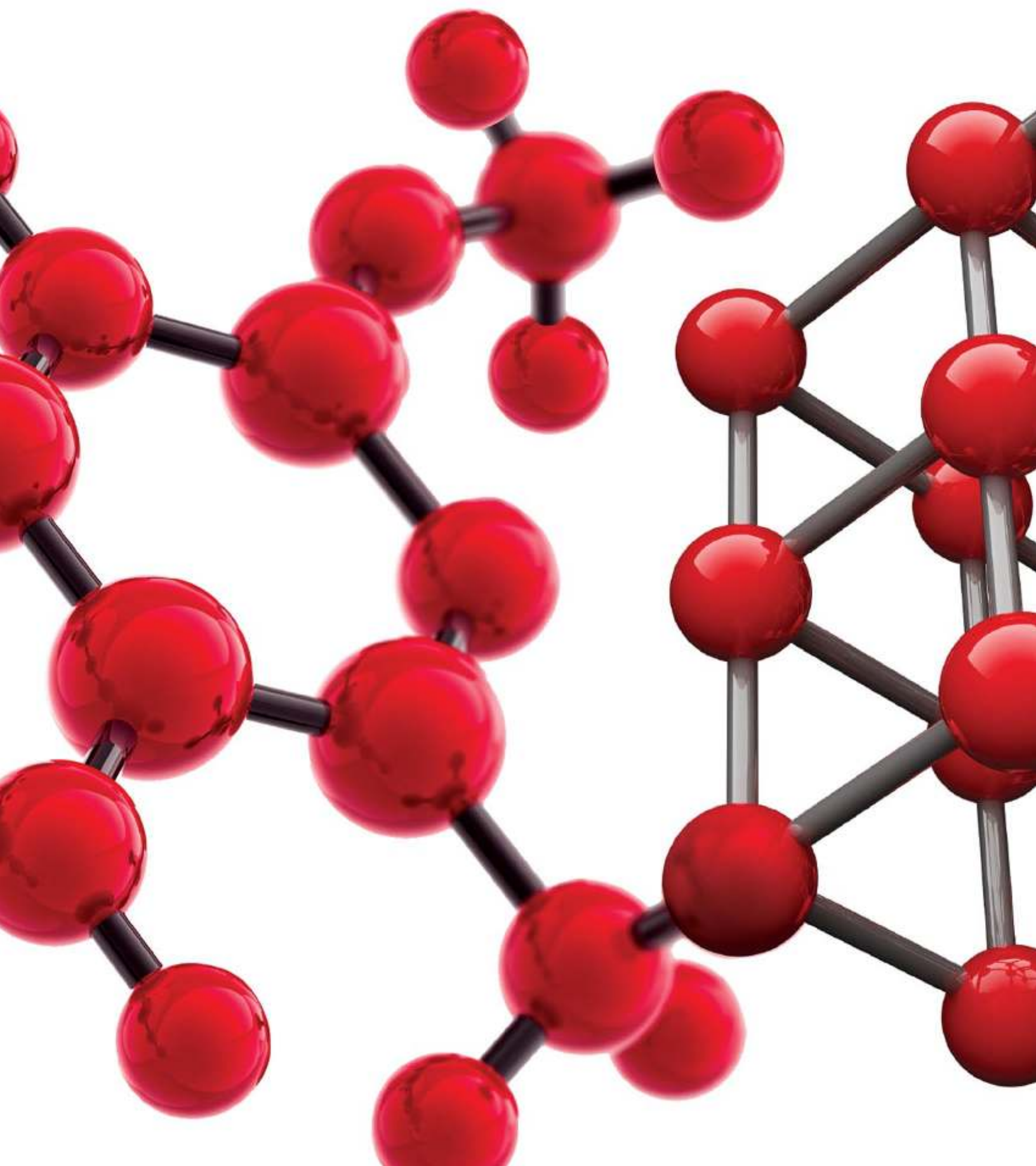
## Senior Management



(1) S Anandarajah - Head of Region 1, (2) Prasanna Fernando - Head of Liability Sales,  
(3) Naleen Edirisinghe - Head of Region 2, (4) Thilani Peiris - Senior Manager (Region 2), (5) Maduwantha Liyanage - Head of Audit  
(6) Mewan Dissanayake - Senior Manager Finance, (7) Dinesh Perera - Head of Region 3, (8) Ryan Perera - Head of Private Banking,  
(9) Nimal Ratnayake - Senior Manager (Region 1), (10) Takura Abhayasinghe - Senior Manager (Region 3),  
(11) S. Umakanthan - DGM Recoveries, (12) Indraka Liyanage - Senior Manager (Credit Risk), (13) Francis Holmes - Head of Compliance,  
(14) Kasun Herath - Acting Head of Treasury, (15) Jayantha Chandrapala - Senior Manager (Trade Operations)  
(16) Varuni Egodage - Senior Manager (Legal) (Absent)











## We're Transforming

At Pan Asia Bank we are in the process of becoming all that we have set out to be. Our futuristic vision keeps us focused on evolving into the most customer preferred bank in the country.



# 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, 2009.

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

The Annual Report of the Board of Directors and the Financial Statements were approved by the Board of Directors on 08th February, 2010.

## PRINCIPAL ACTIVITIES

The Bank's principal business activities are commercial banking and related financial services.

## PROFIT AND APPROPRIATION

The Bank's profits and appropriations were as follows

	2009 Rs. 000	2008 Rs. 000
Profit before Taxation	665,146	421,837
Taxation	(277,330)	(198,204)
Profit after taxation	387,817	223,633
Retained Profit brought forward	425,136	287,929
Transfer to Reserve fund	(19,391)	(11,181)
Dividends Paid	-	(82,980)
Transfer from Revaluation Reserve	12,212	7,735
Un-appropriated profit to be carried forward	805,773	425,136

## FINANCIAL STATEMENTS

The Financial Statements of the Bank are given on page 52 to 79 of this Annual Report.

## INCOME

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

### Total Income for 31.12.2009

Rs. 3,862,065,467/-

Details are given in Note 29 to the Financial Statements.

### Total Income for 31.12.2008

Rs. 3,241,156,951/-

## PROFIT AND RESERVES

The Bank's reserves as at 31st December 2009 stood at Rs. 873,256,344/- This comprises a Statutory Reserve Fund of Rs. 61,837,239/- Revaluation Reserve of Rs. 5,645,661/- and Revenue Reserve of Rs. 805,773,444/- The movement in Reserve Fund and Revaluation Reserve are shown in Note 26 & 27 to the Financial Statements respectively.

## AUDITORS' REPORT

The Auditors of the Bank are M/s Ernst & Young, Chartered Accountants. Their report on the Financial Statements is given on page 51 They come up for re-election at the Annual General Meeting, with the approval of the Board Audit Committee and the Board of Directors.

## ACCOUNTING POLICIES

The accounting policies adopted in preparation of the Financial Statements are given on page 56 to 61.

## DIRECTORS' INTEREST REGISTER

Under the provisions of Section 192 of the Companies Act No. 07 of 2007, the Interest Register is maintained by the Bank. Directors have made the necessary declarations which are recorded in the Interest Register and is available for inspection in terms of the Act. The entries made in the register with regard to Directors dealings with the Bank during the accounting period is given as a foot note to this report on page 39 to 40.

## DIRECTORS' REMUNERATION

Directors' remuneration and other benefits of Directors in respect of the Bank is given in Note 39.1.1 to the Financial Statements on page 79.

## DONATIONS

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

## DIRECTORATE

The names of the Directors of the Bank during the period 01.01.2009 to 31.12.2009 are given below and changes occurred in the composition of the Board during the period under review. The classification of Directors into Executive, Non-Executive and Non-Executive Independent Directors is given against the names as per the Corporate Governance Rules of the Colombo Stock Exchange Listing Rules and Central Bank Mandatory Rules on Corporate Governance under the Banking Act Directions.

All the Non-Executive Directors of the Bank have given a signed declaration in terms of Colombo Stock Exchange Continuing Listing Rules clarifying their position either as an Independent Director or Non-Independent Director.

A.G. Weerasinghe :	Non-Executive Independent Director since 15/06/2005, Acting Chairman since 04/12/2007 and Chairman since March, 2008.
W.D.N.H. Perera :	Non-Executive Independent Director since 01/09/2007 and appointed as Deputy Chairman in March, 2008.
J.A.S.S. Adhihetty :	Non-Executive Director since June, 2005.
A.A. Page :	Non-Executive Independent Director since April, 2008.
R.E.U. De Silva :	Non-Executive Independent Director since July, 2008.
M.D.S. Goonatilleke :	Non-Executive Independent Director since August, 2008.
Kimarli Fernando :	Served as the Director/Chief Executive Officer from March 2008 to August 2009 and continues to serve as a Non-Executive Director.
T.C.A. Peiris :	Acting Chief Executive Officer since August, 2009
J.D.C. Coonghe :	Non-Executive Director since 2006. Resigned in April 2009.
L. Wickremarachchi :	Non-Executive Independent Director since 2006. Resigned in October 2009.
H.V. Amarasekera :	Non-Executive Independent Director since 2005. Resigned in November 2009.

## RE-APPOINTMENTS

In terms of Article Nos. 93 and 94 of the Articles of Association of the Company, 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 100 of the Articles of the Association of the Company Kimarli Fernando being eligible offers herself for election, on an unanimous recommendation by the Board of Directors.

## DIRECTORS' INTEREST

Related party transactions of the Bank are disclosed in Note 39 to the Financial Statements on page 79. The Directors have no direct or indirect interest or proposed contract other than those disclosed.

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

## DIRECTORS' INTEREST IN SHARES

Name	No. of Shares as at 31.12.2009	No. of Shares as at 01.01.2009
A.G. Weerasinghe	17,300	5,000
W.D.N.H. Perera	1,601,875	1,601,875
J.A.S.S. Adhihetty	35,000	35,000
A.A. Page	40,000	40,000
R.E.U. De Silva	-	-
M.D.S. Goonatilleke	-	-
Kimarli Fernando	175,000	306,700
T.C.A. Peiris	-	-

## AUDITORS

Bank's Auditors during the period under review were M/s Ernst & Young Chartered Accountants.

A sum of Rs. 1,998,920/- is payable to them as audit fees and re-imbursable expenses for the year 2009 and fees payable for other services is Rs. 339,824/-.

## STATED CAPITAL

The Stated Capital of the Bank is Rs. 1,106,404,070/- the details are given in note 25 to the Financial Statements.

## INTERNAL CONTROLS

The Board of Directors have put in place an effective and comprehensive system of internal controls covering financial operations, compliance

## Annual Report of the Board of Directors on the Affairs of the Bank (Contd.)

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 1988 and Amendments thereto and the Listing Rules of the Colombo Stock Exchange.

### CORPORATE GOVERNANCE FOR LICENSED COMMERCIAL BANKS IN SRI LANKA

Bank has complied with the Colombo Stock Exchange Rules & Banking Act Directions on Corporate Governance and a detailed statement is given on pages 42 to 43.

### DIVIDEND

Dividend for the year 2009 has not been declared by the Board of Directors due to the following reasons:

- To maintain CBSL minimum capital requirement of Rs. 2,500 Mn.
- To strengthen the Shareholders' Funds of the Bank

### CAPITAL EXPENDITURE

Expenditure on Property, Plant & Equipment at cost amounted to Rs. 83,298,037/- during 2009, details of which are given in Note 19 to the Financial Statements. Expenditure on Intangible Asset at cost amounted to Rs. 11,454,795/- during 2009, details of which are given in Note 20 to the Financial Statements.

### STATUTORY PAYMENTS

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

### SHAREHOLDING

The number of registered shareholders of the Bank as at 31st December, 2009 was 3,099 compared to 1,524 as at 31st December 2008. The schedule indicating the shareholders' analysis is on page 90.

### REGISTER OF DIRECTORS & SECRETARIES

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

### BOARD COMMITTEES

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

### NEW BRANCHES

Three new branches were opened in Kalutara, Vavuniya and Malabe during the year under review, bringing the total number of branches to 35 at the end of 2009. A branch at Chilaw was opened on the 20th of January, 2010 bringing the total No. of branches to 36.

### PROVISION FOR TAXATION

Total taxable profit was charged at 33.33%. In accordance with Sri Lanka Accounting Standards, Deferred tax was calculated based on the Balance Sheet liability method.

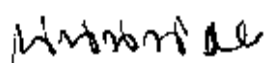
### ANNUAL GENERAL MEETING

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

The Annual General Meeting will be held at Taj Samudra at No. 25, Galle Face Center Road, Colombo 03 on 31st March, 2010. The Notice of Meeting can be found on page 98.

### 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.



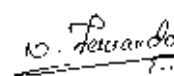
A.G. Weerasinghe  
Chairman



W.D.N.H. Perera  
Deputy Chairman



T.C.A. Peiris  
Acting Chief Executive Officer



N. Fernando  
Company Secretary

February 8, 2010

# Directors' Interest Register

DIRECTOR NAME/ COMPANY NAME	RELATIONSHIP	ACCOMMODATION GRANTED /DEPOSITS	BALANCE OUTSTANDING AS AT 31.12.2009
<b>A.G. Weerasinghe</b>	Chairman	Personal Deposits Credit Card	153,596.27 22,934.79
<b>W.D.N.H. Perera</b>	Deputy Chairman	Personal Deposits	753,079.33
LB Finance PLC	Director	Loans & Advances Deposits Off Balance Sheet Accomodations	3,762.13 551,725,246.43 4,091,945.00
Amaya Leisure PLC	Group Finance Director	Loans & Advances Deposits	101,853,150.24 103,336.25
Hotel Reefcomber PLC	Director Finance	Loans & Advances Deposits	6,758,257.89 -
Asian Alliance Insurance PLC	Director	Loans & Advances Deposits	3,931,318.73 22,601,672.31
Vallibel Finance Ltd	Director	Loans & Advances Deposits	2,547,930.24 13,405,315.06
Royal Ceramics Lanka PLC	Managing Director	Loans & Advances Deposits	- 4,385,374.06
The Fortress Resorts PLC	Managing Director	Loans & Advances Deposits	- 15,253.80
<b>J.A.S.S. Adhihetty</b>	Director	Personal Deposits	320,039.24
L B Finance PLC	Managing Director	Loans & Advances Deposits Off Balance Sheet Accomodations	3,762.13 551,725,246.43 4,091,945.00
Vallibel Finance Ltd	Director	Loans & Advances Deposits	2,547,930.24 13,405,315.06
<b>A.A. Page</b>	Director	Personal Deposits	208,542.07
Lanka Walltile PLC	Chairman	Loans & Advances Deposits	7,930.32 -

## Directors' Interest Register (Contd.)

DIRECTOR NAME/ COMPANY NAME	RELATIONSHIP	ACCOMMODATION GRANTED /DEPOSITS	BALANCE OUTSTANDING AS AT 31.12.2009
<b>R.E.U. De Silva</b>	Director	Personal Deposits	292,968.27
<b>M.D.S. Goonatilleke</b>	Director	Personal Deposits	165,053.25
L B Finance PLC	Director	Loans & Advances	3,762.13
		Deposits	551,725,246.43
		Off Balance Sheet Accomodations	4,091,945.00
Vallibel Finance Ltd	Director	Loans & Advances	2,547,930.24
		Deposits	13,405,315.06
Hotel Reefcomber PLC	Director	Loans & Advances	6,758,257.89
		Deposits	-
Amaya Leisure PLC	Director	Loans & Advances	101,853,150.24
		Deposits	103,336.25
Royal Porcelain (Pvt) Ltd	Director	Loans & Advances	--
		Deposits	266,541.94
Royal Ceramics Lanka PLC	Director	Loans & Advances	--
		Deposits	4,385,374.06
<b>Kimarli Fernando</b>	Director	Personal Deposits	3,555,142.30
		Credit Card	2,709.21
		Loans & Advances	881.05
LB Finance PLC	Director	Loans & Advances	3,762.13
		Deposits	551,725,246.43
		Off Balance Sheet Accomodations	4,091,945.00



# Other Directorships

as at 31.12.2009

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

Directorship / Officer / Trustee in other Entities

Company Name	Director
George Steuarts Financial Services PLC	Director
South Asia Financial Excel Investments PLC	Director
Suncity Property Developers PLC	Director
Sri Lanka Cricket Board	Board Member

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

Directorship / Officer / Trustee in other Entities

Company Name	Director
Royal Ceramics Lanka PLC	Managing Director
Fortress Resorts PLC	Managing Director
Amaya Leisure PLC	Group Finance Director
Hotel Reefcomber PLC	Director Finance
LB Finance PLC	Director
Vallibel Finance Ltd	Director
Vallibal Power Erathna PLC	Director
Asian Alliance Insurance PLC	Director
Sathosa Motors PLC	Director
Hayleys PLC	Director

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

Directorship / Officer / Trustee in other Entities

Company Name	Director
LB Finance PLC	Managing Director
Vallibel Finance Ltd	Director

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

Directorship / Officer / Trustee in other Entities

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

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

Directorship / Officer / Trustee in other Entities

Company Name	Director
Esna Holdings (Pvt) Ltd	Chairman
Shermans Logistics (Pvt) Ltd	Chairman
Shermans Transport ( Pvt )	Chairman
Chamber of Young Entrepreneurs	Chairman
Shermans International (Pvt) Ltd	Deputy Chairman/ MD
Board of Investment of Sri Lanka (BOI)	Director
Sherman De Silva & Co . Ltd	Director
Sri Lanka Ports Authority	Director
Mc Marine (Pvt) Ltd	Director
(A member of the McLarens Group)	
Sherman Sons (Pvt) Ltd	Director
Dimension X (Pvt ) Ltd	Director
Esna Villas (Pvt) Ltd	Chairman

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

Directorship / Officer / Trustee in other Entities

Company Name	Director
Douglas & Sons (Pvt) Ltd	Group Executive Director
LB Finance PLC	Director
Vallibel Finance Ltd	Director
Amaya Leisure PLC	Director
Hotel Reefcomber PLC	Director
Royal Ceramics PLC	Director
Rocell Bathware Ltd	Director
Royal Porcelain (Pvt) Ltd	Director
DSL Lanka (Pvt) Ltd	Director
DSL Toys (Pvt) Ltd	Director
Douglas Travells and Tours (Pvt) Ltd	Director

## 07. Kimarli Fernando ( Director )

Directorship / Officer / Trustee in other Entities

Company Name	Director
LB Finance PLC	Director
Waters Edge	Management Committee Member

# Governance Report

One of the key attributes to the Bank's success has been recognizing good Governance Rules, Regulations and Best Practices which are meant to provide the foundation upon which companies are to build their framework for better Governance. However the essence of good Corporate Governance is not about mere compliance with the law. The Corporate Governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities. The strategic guidance of the Company, the effective monitoring of management by the Board and the Board accountability to the Company and the shareholders have been ensured by the framework.

## The Bank has always maintained

- Conformance to the structure of Corporate Governance to ensure a positive, transparent and enabling environment for investment and
- Performance by fit & proper, qualified professional Directors as leaders of this organisation.

A crucial element of good governance is the quality of Non Executive Board members i.e the ability to effectively monitor and control the management without stifling its entrepreneurial drive. The Board has ensured that efficient and sophisticated internal controls and risk management systems have been installed.

Central to the effectiveness and the quality of the Board is obviously the standing and independence of the Non-Executive Directors. It is paramount that independence is not only confirmed by the formal absence of material conflicts of interest. What matters even more is that Non-Executive Directors openly discuss and stand firm to well reasoned positions. The general requirement of Stock Exchange is one third of the Board should be Independent Directors is an important element that when implemented gives the opportunity for a good Board control, and which has been complied by the Bank.

The Annual General Meeting is the premier Governance instrument for shareholders to directly articulate their concerns.

## Board of Directors :

The Board assures the overall responsibility in respect of:

- the management of the affairs of the Bank
- determines the structure of the management of affairs of the Bank
- delegates business operations to key management personnel led by the Chief Executive Officer designated by the Board
- policy making and risk management for the business
- ensures the effective role of the key management personnel
- strengthening the safety and soundness of the Bank.

The Board has a healthy mix of Independent and Non-Executive Directors, and are fit and proper persons in order to be eligible to hold office as Directors of the Bank. Names of the Directors and their status are given in the Annual Report of the Board of Directors as per the Central Bank of Sri Lanka and Colombo Stock Exchange guidelines. There is a strong commitment and effective contribution to the prudent management of the affairs of the Bank. Board has a formal schedule of matters specifically reserved to it for decision. The division of responsibilities between the Chairman and the Chief Executive Officer is clearly established. The aggregate remuneration paid to the Directors is stated in the Financial Statements.

Regular Board Meetings are held monthly during the later part of each month while Special Board Meetings are held as and when the need arises. Adequate time is allocated for Board Meetings and relevant information given to the Board of Directors well in advance as per the Central Bank of Sri Lanka Governance Rules.

Provision has been made for the Directors to seek independent professional advice from external sources whenever the Board members deem it necessary.

As per Section 7:10 of the Listing Rules of the Colombo Stock Exchange the following disclosures are made accordingly and have complied with the Corporate Governance Rules.

7.10.1 Non Executive Directors – complied. All 7 Directors are Non-Executive Directors.

7.10.2 a) Independent Directors-complied. 5 Directors out of 7 Directors are independent. Independent Directors should be at least 1/3 of the total number of Directors. A.G. Weerasinghe, A.A.Page & R.E.U.De Silva satisfy all the Colombo Stock Exchange Rules criteria for being treated as Independent Directors. The Board is also of the opinion that the under mentioned persons are also Independent Directors notwithstanding the fact that they are not in compliance with the undermentioned criteria required by the Colombo Stock Exchange.

**W.D.N.H. Perera** - Director of another Company in which a majority of the other Directors of the Listed Company are Directors.

**M.D.S. Goonatileke** - Director of another Company in which a majority of the other Directors of the listed Company are Directors.

7.10.2 b) signed declaration – complied. All Directors have submitted a signed dated declaration annually of his/her independence or non-independence against the specified criteria.

7.10.5 c) Remuneration Committee - Complied.

7.10.6 d) Audit Committee – Complied

As per Banking Act Direction No. 11 of 2007 on Corporate Governance, the relevant disclosures are made accordingly and complied with the rules.

The Bank has complied with the Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka and the Governance Rules issued by the Central Bank of Sri Lanka and the Colombo Stock Exchange.

The establishment of Board Committees – with at least a majority of independent members has been implemented by the Bank which is today an international best practice. Such committees enable intensive discussions, ensure quality decision making and reasonable control of the financial reporting. Schedule indicating the names of the relevant Board Committee members are given below.

The following Board Committees have been formulated by the Board requiring each Committee to report to the Board.

Reports with regard to each Committee dealing with the functions of the committees as per the Corporate Governance Rules are published in the Annual Report.

#### Board Audit Committee

M.D.S. Goonatilleke - Chairman

A.A. Page

R.E.U. De Silva

#### Board Integrated Risk Management Committee

A.G. Weerasinghe - Chairman

W.D.N.H. Perera

Kimarli Fernando

#### Board Human Resources & Remuneration Committee

A.G. Weerasinghe - Chairman

W.D.N.H. Perera

Kimarli Fernando

#### Board Nomination Committee

A.G. Weerasinghe - Chairman

W.D.N.H. Perera

Kimarli Fernando

#### Board Credit Committee

A.G. Weerasinghe - Chairman

W.D.N.H. Perera

J.A.S.S. Adhihetty

## Meetings

Number of meetings held for 2009 and the attendance register of Directors

Name of Director	Board Meetings		Board Audit Committee		Board Credit Committee		Board Integrated Risk Management Committee		Board Human Resources & Remuneration Committee		Board Nomination Committee	
	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance
A.G. Weerasinghe	13	13			12	11	07	07	04	04	01	01
W.D.N.H. Perera	13	13			12	11	02	02	04	04	01	01
J.A.S.S. Adhihetty	13	12			12	11						
A.A. Page	13	11	14	12								
R.E.U. De Silva	13	10	08	07								
M.D.S. Goonatilleke	13	13	14	14								
Kimarli Fernando	13	12							02	01		

# Board Audit Committee Report

## Composition of the Audit Committee

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

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

The Chairman of the Audit committee, an Independent Non Executive Director, is an Associate member of the Institute of Chartered Management Accountants (UK) and a passed finalist of the Institute of Chartered Accountants, (SL) with over 25 years of post qualifying experience.

Mr. R.E.U. De Silva was appointed as a member of the Committee during the year subsequent to, Mrs. H.V. Amaraseka's resignation on 25th November, 2009. I wish to take this opportunity to place on record the Committee's appreciation for the services rendered by Mrs. H.V. Amarasekara as a member of the Audit Committee.

## Role of the Committee

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

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

- Monitor the integrity of the Financial Statements and reviewing of significant financial reporting judgments contained in them to be in compliance with Sri Lanka Accounting Standards;
- Review the internal financial controls and internal control and risk management systems;
- Review bank's compliance with legal and regulatory requirements.
- Monitor and review the effectiveness of the internal audit function;
- Make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- Review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process.

- Ensure the Bank policies are firmly committed to the highest standards of good Corporate Governance Practices and operations confirm to the highest ethical standards, in the best interest of all stakeholders.

## Meetings

The committee held 14 meetings (including one special meeting) during the period under review. Head of Audit Department functions as the secretary to the Committee. Consultant to Board of Directors, Chief Executive Officer, Chief Financial Officer and Chief Information Officer attends the meetings by invitation. Members of the Senior Management of the Bank were invited to participate at meetings as and when required. The proceedings of the Audit Committee meetings are regularly reported to the Board of Directors.

## Activities

The committee carried out the following activities.

## Financial Statements

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

## Regulatory Compliances

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

## Internal Audit

During the year under review, the Committee reviewed the audit reports presented by the Internal Audit Department together with Management responses. The Committee regularly reviewed and monitored the internal audit function and performances of the Internal Audit Department. Updated Internal Audit Manual was approved by the committee, which greatly focuses on adequacy of internal controls and risk management.

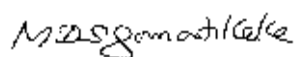
## External Audit

The Committee met with M/s Ernst & Young prior to commencement of the Annual Audit to discuss the audit scope, approach and methodology to be adopted. The Management Letter of the External Auditors and the responses of the management thereto were discussed at the Audit Committee. The meetings were held without the presence of the management and auditors have assured that they have no cause to compromise their independence

The Audit Committee having evaluated independence and performance of the External Auditors has recommended to the Board of Directors that M/s Ernst & Young, Chartered Accountants, be reappointed as the auditors of the Bank for the financial year ending 31 st December 2010, subject to the approval of the Shareholders at the Annual General Meeting.

**Conclusion**

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

**M.D.S. Goonatilleke***Chairman**Board Audit Committee*

Colombo

February 08, 2010



# Board Integrated Risk Management Committee Report

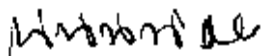
The Board Integrated Risk Management committee is headed by the Chairman of the Board of Directors and consists of two independent Directors. The Consultant to the Board, The Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Deputy General Manager (Legal & Recoveries), Head of Internal Audit and Chief Dealer attends meetings by invitation. The committee held seven meetings during the year under review and its proceedings were reported to the Board of Directors.

The Board Integrated Risk Management Committee assists the Bank's Board in fulfilling their oversight responsibilities with respect to the existence, operation and effectiveness of the Risk Management Conditions, Programmes, Policies, and Practices employed by the Bank to manage various types of risks, which include the compliance with all regulatory and statutory requirements.

- Reviewing and oversight of the risk profile and portfolio composition of the Bank.
- Making recommendations to the Board on Risk Management concerns of the committee.
- Reviewing existing policies and procedures for mitigation of risks faced by various business units of the Bank.
- Oversight and development of Risk Management policies, procedures and techniques encompassing all products and services.
- Oversight of implementation and review of risk management and internal control system of the Bank.

During the course of the year the committee, with the approval of the Board of Directors, adopted an updated charter, which will enable it to meet the above responsibilities and regulatory requirements effectively.

Monetary Authority continued to supervise and direct us concerning prudent Corporate Governance. We have complied with all of their Directives and Guidelines specially the recent directives regarding Integrated Risk Management and risks relating to foreign exchange business.



**A.G. Weerasinghe**

*Chairman*

*Board Integrated Risk Management Committee*

Colombo

February 08, 2010

# Board Human Resources and Remuneration Committee Report

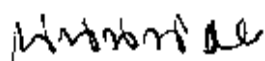
The Board Human Resources and Remuneration Committee is comprised of three Non-Executive Directors. The Committee is headed by Mr. A.G. Weerasinghe, Chairman and the other members of the Committee are Mr. W.D.N.H. Perera, Director and Mrs. Kimarli Fernando, Director. The Committee held four meetings during the year 2009.

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

The key functions of the Committee are as follows.

- Determine the remuneration policy relating to CEO and key management personnel of the Bank.
- Set up goals and targets for the CEO and the key management personnel.
- Evaluate the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.
- Ensure that salaries are reviewed periodically and evaluated against industry norms.
- Approve the selection of the candidates for the positions of Manager level and above and approve their salary and other terms and conditions for the elected candidates.
- Approve the interview panel for recruitment of other positions.
- Review key positions regularly and have a succession plan in place.

In addressing the principal task of the Committee relating to compensation and benefits, it ensures that all compensation and benefit decisions are consistent and aligned with the overall compensation philosophy which strengthens the performance driven culture of the Bank. During the year, the Bank streamlined the salary anomalies of its employees after a remuneration survey which was carried out amongst the other institutions in the industry.



**A.G. Weerasinghe**

*Chairman*

*Board Human Resources and Remuneration Committee*

Colombo

February 08, 2010

# Board Nomination Committee Report

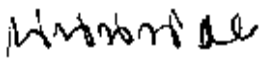
The Nomination Committee comprises of three Non Executive Directors of which two Directors are Independent. The Committee is headed by the Chairman Mr. A.G. Weerasinghe. The committee members are appointed by the Board of Directors of the Bank. The other two members are the Deputy Chairman, Mr. W.D.N.H. Perera who is a Non Executive Independent Director and Mrs. Kimarli Fernando who is also a Non Executive Director. Company Secretary of the Bank functions as the Secretary of the Committee.

As and when desired or when suitable, names are proposed to this Committee. It deliberates and recommends names to fill the Board.

The Board has approved a procedure to be adopted by the Committee and functions within that scope.

The vacancy created by the resignation of Mr. Wickremarachchi, was filled by the appointment of Mrs. Kimarli Fernando to the Committee.

The Committee has held one meeting for the year. The Committee continues to work closely with the Board in reviewing regularly, the skills needed for the Bank and the Board. The Committee is satisfied that the representation of skills on the Board is appropriate for the Bank's current Board level needs.



**A.G. Weerasinghe**

*Chairman*

*Board Nomination Committee*

Colombo

February 08, 2010

# Directors' Responsibility on Financial Reporting

As per the provisions of the Companies Act No. 7 of 2007 the Directors are responsible for ensuring that the Company to prepare Financial Statements comprising a Balance Sheet as at 31st December 2009 and the Income Statement, Statement of Changes in Equity and Cash Flow for the year then ended and notes thereto for each financial year and place before a general meeting.

The Financial Statements of the Bank gives a true and fair view of the state of affairs of the Bank as at Balance Sheet date and Profit or Loss of the Bank for the year ended on the Balance Sheet date. In preparing these Financial Statements Directors are required to:

1. Select suitable accounting policies and apply them consistently and material departures if any have been disclosed and explained.
2. Make judgements and estimates that are reasonable and prudent.
3. State whether they have been prepared in accordance with all relevant Accounting Standards.

The Directors should ensure to prepare the Financial Statements on the going concern basis unless it is not appropriate. Since the Directors are satisfied that the Bank has the resources to continue in business for the foreseeable future, the Financial Statements continue to be prepared on the going concern basis.

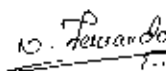
The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Directors are responsible for ensuring that proper accounting records are kept, that are disclosed with reasonable accuracy at any time the financial position of the Company and enable them to ensure that it's Financial Statements comply with the Companies Act, the Banking Act and the Listing Rules of the Colombo Stock Exchange. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

Directors are required to prepare Financial Statements and to provide the External Auditors, M/s Ernst & Young, with every opportunity to carry out whatever reviews and sample checks they consider to be appropriate for the purpose of enabling to give their Audit 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 have been paid or where relevant provided for. Directors are of the view that they have discharged their responsibilities as set out in this statement.

By Order of the Board



**N. Fernando**  
*Company Secretary*

Colombo  
February 08, 2010

# Financial Information

## Content

Independent Auditors' Report	51
Balance Sheet	52
Income Statement	53
Statement of Changes in Equity	54
Cash Flow Statement	55
Notes to the Financial Statements	56

## Financial Calendar

### Financial Calendar - 2009

1st Quarter Results 2009	May 2009
2nd Quarter Results 2009	August 2009
3rd Quarter Results 2009	November 2009
Annual Report for 2009	March 2010
15th Annual General Meeting	March 2010

### Financial Calendar - 2010

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



# Independent Auditors' Report



**ERNST & YOUNG**

## Chartered Accountants

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

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

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF PAN ASIA BANKING CORPORATION PLC

#### Report on the Financial Statements

We have audited the accompanying Financial Statements of Pan Asia Banking Corporation PLC ("Bank"), which comprise the Balance Sheet as at 31 December 2009 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### Management's Responsibility for the Financial Statements

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

#### Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the

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

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

#### Opinion

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended 31 December 2009 and the Financial Statements give a true and fair view of the Bank's state of affairs as at 31 December 2009 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Report on Other Legal and Regulatory Requirements

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

Colombo  
08 February 2010

**Partners:** A D B Talwatte FCA FCMA, M P D Cooray FCA FCMA, Ms. Y A De Silva ACA, W R H Fernando FCA FCMA, W K B S P Fernando FCA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA, I B (Iond) A S M Ismail FCA FCMA, H M A Jayasinghe FCA FCMA, Ms. G G S Manatunga ACA, Ms. L C G Nanayakkara FCA FCMA, B E Wijesuriya ACA ACMA

# Balance Sheet

As at 31 December 2009

	Note	2009 Rs.	2008 Rs.
<b>ASSETS</b>			
Cash and Short Term Funds	9	682,845,453	903,089,777
Statutory Deposit with Central Bank of Sri Lanka	10	807,205,000	704,589,138
Government Treasury Bills / Bonds	11	6,842,210,489	3,424,114,574
Commercial Paper		-	50,000,000
Bills of Exchange	12	280,409,141	331,589,018
Loans and Advances	13	10,130,651,656	11,167,980,378
Interest Receivable	14	228,673,543	181,891,106
Lease Rentals Receivable	15	527,173,688	645,758,242
Investment Securities	17	789,261,000	494,260,000
Other Assets	18	638,707,574	462,181,312
Property, Plant and Equipment	19	595,563,844	587,167,850
Intangible Assets	20	36,126,522	31,718,920
<b>TOTAL ASSETS</b>		<b>21,558,827,910</b>	<b>18,984,340,315</b>
<b>LIABILITIES</b>			
Deposits	21	16,328,703,201	14,448,367,028
Borrowings	22	1,045,120,952	1,345,085,632
Due to Foreign Banks		281,658,454	54,516,988
Other Liabilities	23	1,617,594,254	1,256,546,182
Debentures	24	50,000,000	110,810,000
Income Tax Payable		245,563,594	121,563,903
Deferred Tax Liability	35	10,527,041	55,606,675
<b>Total Liabilities</b>		<b>19,579,167,496</b>	<b>17,392,496,408</b>
<b>SHAREHOLDERS' FUNDS</b>			
Stated Capital	25	1,106,404,070	1,106,404,070
Statutory Reserve Fund	26	61,837,239	42,446,414
Revaluation Reserve	27	5,645,661	17,857,208
Retained Earnings		805,773,444	425,136,215
		1,979,660,414	1,591,843,907
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b>21,558,827,910</b>	<b>18,984,340,315</b>
Commitments and Contingencies	37	3,151,959,261	2,772,802,673

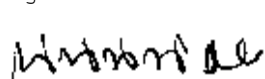
## Certification

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



**Mangala Gamage**  
Chief Financial Officer

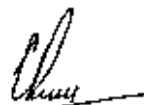
The Board of Directors and the Acting Chief Executive Officer are responsible for the preparation and presentation of these Financial Statements  
Signed for and on behalf of the board by



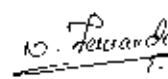
**A.G. Weerasinghe**  
Chairman



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



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



**N. Fernando**  
Company Secretary

The accounting policies and notes on pages 56 through 79 form an integral part of the Financial Statements.

08 February 2010  
Colombo

# Income Statement

Year ended 31 December 2009

	Note	2009 Rs.	2008 Rs.
<b>GROSS INCOME</b>	29	3,862,065,467	3,241,156,951
Interest Income	30	3,159,664,837	2,864,603,074
Less : Interest Expense	31	1,878,013,546	1,798,442,416
<b>NET INTEREST INCOME</b>		1,281,651,291	1,066,160,658
Other Income	32	702,400,630	376,553,877
<b>Net Income</b>		1,984,051,921	1,442,714,535
<b>LESS : OPERATING EXPENSES</b>			
Operating Expenses		312,326,856	226,211,027
Personnel Costs		344,959,651	312,493,798
Premises, Equipment and Establishment Expenses		272,925,302	237,395,843
Provision for Staff Retirement Benefits		7,681,989	10,665,750
Other Overhead Expenses		171,888,963	138,660,328
<b>TOTAL NON INTEREST EXPENSES</b>		1,109,782,761	925,426,746
<b>PROFIT BEFORE PROVISIONING FOR LOAN LOSSES</b>		874,269,160	517,287,789
Less :			
Provision for Loan Losses	16.1	209,123,073	95,450,521
<b>PROFIT BEFORE TAXATION</b>		665,146,087	421,837,268
Less : Income Tax Expense	34	277,329,580	198,203,848
<b>PROFIT FOR THE YEAR</b>		387,816,507	223,633,420
Earnings Per Share - Basic	36	3.51	2.02
Dividends Per Share	28	-	0.75

The accounting policies and notes on pages 56 through 79 form an integral part of the Financial Statements.

# Statement of Changes in Equity

Year ended 31 December 2009

	Note	Stated Capital Rs.	Statutory Reserve Fund Rs.	Revaluation Reserve Rs.	Retained Earnings Rs.	Total Rs.
<b>Balance as at 1 January 2008</b>		1,106,404,070	31,264,743	25,592,497	287,929,482	1,451,190,792
Profit for the Year		-	-	-	223,633,420	223,633,420
Transfer to Reserve Fund	26	-	11,181,671	-	(11,181,671)	-
Dividends Paid for 2007	28	-	-	-	(82,980,305)	(82,980,305)
Realisation of Revaluation Reserve	27	-	-	(7,735,289)	7,735,289	-
<b>Balance as at 31 December 2008</b>		<u>1,106,404,070</u>	<u>42,446,414</u>	<u>17,857,208</u>	<u>425,136,215</u>	<u>1,591,843,907</u>
Profit for the Year		-	-	-	387,816,507	387,816,507
Transfer to Reserve Fund	26	-	19,390,825	-	(19,390,825)	-
Realisation of Revaluation Reserve	27	-	-	(12,211,547)	12,211,547	-
<b>Balance as at 31 December 2009</b>		<u>1,106,404,070</u>	<u>61,837,239</u>	<u>5,645,661</u>	<u>805,773,444</u>	<u>1,979,660,414</u>

The accounting policies and notes on pages 56 through 79 form an integral part of the Financial Statements.

# Cash Flow Statement

Year ended 31 December 2009

	Note	2009 Rs.	2008 Rs.
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest Received		3,093,522,016	2,713,178,784
Fees and Commission Received	32	259,399,401	284,651,199
Interest Payments		(1,783,097,994)	(1,684,690,584)
Exchange Income	32	81,965,585	71,865,516
Receipts from Other Operating Activities		358,036,877	9,015,496
Cash Payments to Employees and Suppliers		(546,913,674)	(496,207,752)
Payments on Other Operating Activities		(426,480,550)	(369,852,748)
<b>Operating Profit before changes in Operating Assets</b>		<u>1,036,431,661</u>	<u>527,959,911</u>
<b>(Increase)/Decrease in Operating Assets</b>			
Bills of Exchange		52,584,842	22,142,563
Loans and Advances		847,413,587	(2,023,314,942)
Other Assets		(234,261,531)	25,181,622
Lease Rentals Receivable		117,332,035	160,275,990
Treasury Bills / Bonds / Reverse Repos		(3,415,097,148)	(2,003,511,919)
		<u>(1,595,596,554)</u>	<u>(3,291,266,775)</u>
<b>Increase/(Decrease) in Operating Liabilities</b>			
Deposits		1,880,336,173	2,318,153,645
Other Liabilities		266,132,521	113,158,840
Borrowings		(299,964,680)	913,998,755
<b>Net Cash from Operating Activities before Income Tax</b>		<u>250,907,460</u>	<u>54,044,465</u>
Taxation Paid		(198,409,523)	(121,674,196)
<b>Net Cash from Operating Activities</b>		<u>52,497,937</u>	<u>(67,629,731)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Realisation of Money at Call and Short Notice		-	59,156,580
Investments/ Realisation of Commercial Papers		50,000,000	120,000,000
Investment in Securities		(295,001,000)	78,292,500
Purchase of Property, Plant and Equipment	19	(83,298,037)	(93,030,650)
Acquisition of Intangible Assets	20	(11,454,795)	(21,407,492)
Proceeds from Sale of Property Plant and Equipment		3,295,967	151,175
<b>Net Cash Flows Used in Investing Activities</b>		<u>(336,457,865)</u>	<u>143,162,113</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from / (Redemption of) Proposed Debentures	24	(60,810,000)	60,810,000
Redemption of Debentures		-	(253,789,000)
Dividends Paid	28	-	(82,980,305)
<b>Net Cash Used in Financing Activities</b>		<u>(60,810,000)</u>	<u>(275,959,305)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents		(344,769,928)	(200,426,923)
Cash and Cash Equivalents at the beginning of the year		1,553,161,927	1,753,588,850
<b>Cash and Cash Equivalents at the end of the year</b>		<u>1,208,391,999</u>	<u>1,553,161,927</u>
<b>Reconciliation of Cash and Cash Equivalents</b>			
		<b>2009 Rs.</b>	<b>2008 Rs.</b>
Cash and Short Term Funds		682,845,453	903,089,777
Balances with Central Bank of Sri Lanka		807,205,000	704,589,138
Due to Foreign Banks		(281,658,454)	(54,516,988)
		<u>1,208,391,999</u>	<u>1,553,161,927</u>

The accounting policies and notes on pages 56 through 79 form an integral part of the Financial Statements.



# Notes to the Financial Statements

Year ended 31 December 2009

## 1. Corporate Information

Pan Asia Banking Corporation PLC ("The Bank") is a public quoted company incorporated on March 6, 1995 with limited liability and domiciled in Sri Lanka. The registered office of the Bank is situated at No.450, Galle Road, Colombo 03. The staff strength of the Bank as at December 31, 2009 is 511 (2008 – 507). The shares of the Bank have a primary listing on the Colombo Stock Exchange.

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

The Financial Statements for the year ended December 31, 2009 were authorised for issue on February 08, 2010 in accordance with a resolution of the Board of Directors passed on February 08, 2010.

## 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 financing, pawning, issuing of local and international credit cards, telebanking facilities, internet banking, SMS banking.

## 3. Accounting Policies

### 3.1 Basis of Preparation

The Financial Statements of the Bank are prepared under the historical cost convention, except that Government treasury bills and bonds held for trading and certain classes of Property, Plant and Equipment are stated at valuation as explained in note 19.4 to the Financial Statements. Assets & Liabilities are grouped by the nature and listed in an order that reflects their relative liquidity. These Financial Statements are prepared in Sri Lankan Rupees unless otherwise stated. Where appropriate the Significant Accounting Policies are disclosed in the succeeding notes.

### 3.2 Statement of Compliance

The Financial Statements of the Bank have been prepared in accordance with Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 7 of 2007 and Banking Act No. 30 of 1988 and amendments thereto.

### 3.3 Changes in Accounting Policies

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

## 3.4 Significant Accounting Judgments, Estimates and Assumptions

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

### Defined Benefit Plans

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

## 3.5 Going Concern

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

## 3.6 Comparative Information

The accounting policies have been consistently applied by the Bank and are consistent with those used in the previous year. Comparative information is re-classified wherever necessary to comply with the current presentation which is fully described in Note 41 to these Financial Statements.

## 4. Summary of Significant Accounting Policies

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

### 4.1 Foreign Currency Translation

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

#### (a) Transactions and Balances

Transactions in foreign currencies are initially recorded using the closing exchange rate of the functional currency ruling at the date of the translation. Monetary assets and liabilities denominated in foreign currencies are re-translated at the middle exchange rate of the functional currency ruling at the Balance Sheet date. All

differences are taken to Income Statement. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of initial translations.

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

## 4.2 Taxation

### (a) Current Taxation

Current tax Assets and Liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the Balance Sheet date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No.10 of 2006 and the amendments thereto, at the rates specified in Note 34 to the Financial Statements.

### (b) Deferred Taxation

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

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

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

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

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

### (c) Value Added Tax

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

### (d) Economic Service Charge (ESC)

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

## 4.3 Events after the Balance Sheet Date

All the material events after the Balance Sheet date have been considered and appropriate adjustments/disclosures have been made in Note 40 to the Financial Statements.

## 4.4 Assets and Bases of their Valuation

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

## Notes to the Financial Statements (Contd.)

Year ended 31 December 2009

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

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

In addition a general provision is made at the rate of 1% on performing and overdue loans and advances portfolio as per the direction from the Central Bank of Sri Lanka.

### 4.5 Finance Leases

#### (a) Lease Receivable

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Amounts receivable under finance leases are included under 'Lease Rentals Receivable'. Leasing balances are stated in the Balance Sheet after deduction of initial rentals received, unearned lease income and the provisions for rentals doubtful of recovery.

#### (b) Provision for Lease Rental Receivable

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

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

#### 4.6 Credit Card receivable

- (a) Amounts receivable on Credit Cards are included in advances to customers at the amounts expected to be recovered
- (b) Provision for Credit Card Receivable

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

#### 4.7 Investments

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

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

##### (b) Investment in Treasury Bills/ Bonds held for Maturity

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

##### (c) Securities purchased under Resale Agreement

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

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

#### 4.8 Property, Plant and Equipment

##### (a) Cost and Valuation

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

depreciation thereon. All other Property, Plant and Equipment are stated at historical cost less depreciation.

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

##### (b) Restoration Cost

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

#### 4.9 Impairment of Non-Financial Assets

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

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

## Notes to the Financial Statements (Contd.)

Year ended 31 December 2009

### 4.10 Intangible Assets

#### (a) Basis of Recognition

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

#### (b) Subsequent Expenditure

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

#### (c) Amortization

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

#### (d) Impairment

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

### 4.11 Other Assets

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

## 5. Liabilities & Provisions

### 5.1 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation, in accordance with the Sri Lanka Accounting Standard No. 36 on Provisions, Contingent Liabilities and Contingent Assets.

### 5.2 Proposed Dividends

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

### 5.3 Commitments and Contingencies

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

### 5.4 Retirement Benefit Obligations

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

The liability recognised in the Balance Sheet is the present value of the defined benefit obligation at the Balance Sheet date using the projected unit credit method.

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

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

### 5.5 Securities Sold under Resale Agreements

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

Securities sold under repurchase agreements are included under borrowings.

## 6. Income Statement

### 6.1 Revenue Recognition

#### (a) Interest Income

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

#### (b) Lease Income

In terms of the provisions of Sri Lanka Accounting Standard No. 19 on Leases, the recognition of finance income on leasing is accounted based on pattern reflecting a constant periodic rate of return on capital outstanding. The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned finance income at the commencement of lease. The unearned finance income included in the lease rentals receivable is taken into revenue over the term of the lease commencing from the month in which the lease is executed in proportion of the capital outstanding.



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

**(c) Income on Discounting of Bills of Exchange**

Income on the endorsement of Bills of Exchange is recognised only when the Bills are received and either issued or endorsed and the payment under the particular instrument has been effected.

**(d) Fees and Commission Income**

Fees and Commission Income comprise mainly of fees received from customers for guarantees and other services provided by the Bank together with foreign and domestic tariffs. Such income is recognised as revenue as the services are provided.

**(e) Interest Income on Investments in Commercial Papers and Trust Certificates**

Interest income on investment in Commercial Papers and Trust Certificates is recognised on accrual basis.

**(f) Interest and Fees receivable on Credit Cards**

Interest and fees receivable on Credit Cards are recognised on accrual basis. Interest recognised is reversed when accounts if any become Non Performing (3 months arrears). Thereafter, interest and fees are accounted for on cash basis.

**(g) Off-Balance Sheet Transactions**

The Bank enters into Off Balance Sheet transactions such as forward exchange contracts and currency swaps. At the year-end, the recognised losses are dealt with through the Income Statement; where as recognised gains are deferred in other liabilities.

## 7. Cash Flow Statement

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

## 8. Future Changes in Accounting Policies

### Standards Issued but not yet Effective:

The following standards have been issued by the Institute of Chartered Accountants of Sri Lanka and are effective for the accounting periods on the dates specified below.

- a) **Sri Lanka Accounting Standard 44 Financial Instruments; Presentation (SLAS 44) and Sri Lanka Accounting Standard 45 Financial Instruments; Recognition & Measurement (SLAS 45).**  
SLAS 44 and 45 become effective for financial years beginning on or after 1 January 2011. Accordingly, the Financial Statements for the year ending 31 December 2011 will adopt SLAS 44 and 45, for the first time.

These two standards together provide comprehensive guidance on identification, classification, measurement and presentation of financial instruments (including Derivatives) into financial assets, financial liabilities and equity instruments.

In order to comply with the requirements of these standards, the Bank is in the process of assessing the effect of adoption of the aforesaid two standards. Due to the complex nature of the effect of these standards the impact of adoption is not estimable as at the date of publication of these Financial Statements.

- b) **Sri Lanka Accounting Standard 39- Share Based Payments (SLAS 39)**

SLAS 39 - Share based payments, effective for periods beginning on or after 01 January 2010 will be first adopted in the year ending 31 December 2010. This standard require an expense to be recognised where the Bank buys goods or services in exchange for shares or rights over shares (equity-settled transactions), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (cash-settled transactions). For equity-settled share-based payment transactions, the Bank is required to apply SLAS 39 to grants of shares, share options or other equity instruments that were granted after 1 January 2010.

The Bank is in the process of evaluating to impact of this standard, and the impact of the same is not currently estimable as at the date of the publication of these Financial Statements.

## Notes to the Financial Statements (Contd.)

Year ended 31 December 2009

### 9. CASH AND SHORT TERM FUNDS

	2009 Rs.	2008 Rs.
Local Currency in Hand	512,825,646	382,044,087
Foreign Currency in Hand	50,637,087	38,675,523
Balances with Foreign Banks	24,864,600	423,213,587
Money at Call and Short Notice	94,518,120	59,156,580
	<u>682,845,453</u>	<u>903,089,777</u>

### 10. STATUTORY DEPOSIT WITH CENTRAL BANK OF SRI LANKA

	2009 Rs.	2008 Rs.
Statutory Deposit with Central Bank of Sri Lanka	<u>807,205,000</u>	<u>704,589,138</u>

**10.1** As required by the provision of section 93 of Monetary Law Act, a cash balance is required to be maintained with the Central Bank of Sri Lanka according to statutory requirements. At present, the minimum cash reserve requirement is 7% of the local currency deposit liabilities of the Domestic Banking Unit.

### 11. GOVERNMENT TREASURY BILLS / BONDS

	2009 Rs.	2008 Rs.
Treasury Bills / Bonds held for Maturity	2,225,220,752	543,612,802
Treasury Bills / Bonds held for Trading	3,717,105,149	2,830,501,772
Treasury Bills under Reverse Repurchase Agreements	899,884,588	50,000,000
	<u>6,842,210,489</u>	<u>3,424,114,574</u>

### 12. BILLS OF EXCHANGE

	2009 Rs.	2008 Rs.
Export Bills	94,121,896	158,114,093
Import Bills	128,261,201	168,678,137
Local Bills	108,862,905	55,774,566
	<u>331,246,002</u>	<u>382,566,796</u>
Less : Specific Provision (16.2)	(13,763,605)	(14,202,000)
General Provision (16.2)	(1,857,786)	(2,824,356)
Interest in Suspense (16.2)	(35,215,470)	(33,951,422)
	<u>280,409,141</u>	<u>331,589,018</u>

**13. LOANS AND ADVANCES**

	<b>2009 Rs.</b>	<b>2008 Rs.</b>
Sri Lanka Rupees Overdrafts	4,284,159,839	5,036,469,162
Import Loans	436,158,418	404,187,072
Foreign Currency Overdrafts	31,178,957	30,028,995
Export Loans	188,034,243	169,061,576
Term Loans, Pledge Loans	4,433,525,954	5,383,894,644
Margin Trading	127,159,168	-
Pawning Loans	1,482,048,202	698,777,598
Other Foreign Currency Loans	10,097,543	23,483,389
Staff Loans	212,218,313	183,304,818
Credit Card Advances	382,869,331	389,464,158
	<u>11,587,449,968</u>	<u>12,318,671,412</u>
Less : Specific Provision for Non-Performing Loans and Advances (16.2)	(450,268,264)	(294,063,564)
General Provision (16.2)	(53,000,128)	(56,543,865)
Interest In Suspense (16.2)	(953,529,920)	(800,083,605)
	<u>10,130,651,656</u>	<u>11,167,980,378</u>

**14. INTEREST RECEIVABLE**

	<b>2009 Rs.</b>	<b>2008 Rs.</b>
Money Market Placements	2,287,534	22,252
Treasury Bills and Bonds	206,593,631	162,134,297
Commercial Papers	-	7,974,878
Trust Certificates	19,696,298	11,574,182
Debentures	96,080	185,497
	<u>228,673,543</u>	<u>181,891,106</u>

**15. LEASE RENTALS RECEIVABLE**

	<b>2009 Rs.</b>	<b>2008 Rs.</b>
Gross Investment in Finance Leases	736,869,128	896,199,057
Less : Unearned Income	(157,915,993)	(207,574,048)
	<u>578,953,135</u>	<u>688,625,009</u>
Less : Specific Provision for Non- Performing Leases (16.2)	(32,957,613)	(31,819,361)
General Provision (16.2)	(4,936,834)	(4,822,568)
Interest in Suspense (16.2)	(13,885,000)	(6,224,838)
	<u>527,173,688</u>	<u>645,758,242</u>

## Notes to the Financial Statements (Contd.)

Year ended 31 December 2009

	2009 Rs.	2008 Rs.
<b>15.1 Lease Rentals Receivable within One Year</b>		
Total Lease Rentals Receivable	736,869,128	896,199,057
Lease Rentals Receivable after One Year from the date of Balance Sheet (15.2)	(374,408,088)	(478,938,401)
Lease Rentals Receivable within One Year from the date of Balance Sheet	362,461,040	417,260,656
Unearned Lease Income	(104,383,194)	(115,573,481)
	<u>258,077,846</u>	<u>301,687,175</u>
<b>15.2 Lease Rentals Receivable after One Year</b>		
Lease Rentals Receivable after One Year from the date of Balance Sheet	374,408,088	478,938,401
Unearned Lease Income	(53,532,799)	(92,000,567)
	<u>320,875,289</u>	<u>386,937,834</u>

**16. MOVEMENT IN THE PROVISION FOR LOAN LOSSES AND INTEREST IN SUSPENSE**

Provision and Interest Suspended against Loans and Advances, Bills of Exchange and Lease Rentals Receivables

	General Rs.	Specific Rs.	Total Rs.	Suspended Interest Rs.
As at 01.01.2009	64,190,789	340,084,925	404,275,714	840,259,865
Provision/ (Reversals) made during the year ( Note 16.1)	(4,396,041)	210,448,940	206,052,899	-
Amounts written off	-	(53,544,383)	(53,544,383)	-
Interest in Suspense Net of Recoveries	-	-	-	162,370,525
As at 31.12.2009 (Note 16.2)	<u>59,794,748</u>	<u>496,989,482</u>	<u>556,784,230</u>	<u>1,002,630,390</u>

**16.1 Provision for Loan Losses during the Year**

	2009 Rs.	2008 Rs.
Total provision made during the year	266,049,426	141,889,369
Recoveries/Reversals/Transfers during the year	(59,996,527)	(31,976,000)
	<u>206,052,899</u>	<u>109,913,369</u>
Recovery from Loan Losses written off previously	-	(14,967,323)
Amounts Directly written off	3,070,174	504,475
Net Provision / (Reversal) for the year	<u>209,123,073</u>	<u>95,450,521</u>

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

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

<b>2008</b>	<b>Loan Loss Provision</b>		<b>Suspended Interest</b>
	<b>General</b>	<b>Specific</b>	
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
Bills of Exchange (Note 12)	2,824,356	14,202,000	33,951,422
Loans and Advances (Note 13)	56,543,865	294,063,564	800,083,605
Lease Rentals Receivable (Note 15)	4,822,568	31,819,361	6,224,838
	<u>64,190,789</u>	<u>340,084,925</u>	<u>840,259,865</u>

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

	<b>2009</b>	<b>2008</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>
Bills of Exchange	90,024	58,347
Loans and Advances	2,328,685	1,949,779
Lease Rentals Receivable	97,989	107,877
	<u>2,516,698</u>	<u>2,116,003</u>
Less: Provision for Loan Losses (Note 16.2)	(556,784)	(404,276)
Interest in Suspense (Note 16.2)	(1,002,630)	(840,260)
	<u>957,284</u>	<u>871,467</u>



# Notes to the Financial Statements (Contd.)

Year ended 31 December 2009

## 16.4 Concentration of Credit Risk

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

	2009 Rs.	%	2008 Rs.	%
Exports	756,414,812	6%	1,471,716,685	11%
Tourism and Allied	180,496,485	1%	275,775,373	2%
Industrial	714,155,957	6%	584,553,005	4%
Agriculture and Fishing	563,908,265	5%	168,324,754	1%
Commercial Trading	1,278,659,328	10%	2,543,586,719	19%
Imports	2,036,689,259	16%	1,548,106,008	12%
Consumption	3,287,370,321	26%	1,830,205,832	14%
Services	319,640,090	3%	1,461,150,555	11%
Housing	250,413,422	2%	323,787,558	2%
Others	3,109,901,166	25%	3,182,656,728	24%
	<u>12,497,649,105</u>	<u>100%</u>	<u>13,389,863,217</u>	<u>100%</u>
Loans and Advances (Note 13)	11,587,449,968		12,318,671,412	
Bills of Exchange (Note 12)	331,246,002		382,566,796	
Lease Rentals Receivable (Note 15)	578,953,135		688,625,009	
	<u>12,497,649,105</u>		<u>13,389,863,217</u>	

## 17. INVESTMENT SECURITIES

### 17.1 Summary

	2009 Rs.	2008 Rs.
Shares - Unquoted (Note 17.2)	2,140,000	2,140,000
Debentures - Unquoted (Note 17.3)	11,446,000	11,320,000
Bonds - Unquoted (Note 17.4)	715,375,000	367,900,000
Trust Certificates (Note 17.5)	60,300,000	112,900,000
	<u>789,261,000</u>	<u>494,260,000</u>

### 17.2 Shares- Unquoted

	2009 Rs.	2008 Rs.
Credit Information Bureau of Sri Lanka (300 Ordinary shares )	30,000	30,000
Society for Worldwide Interbank Financial Telecommunication - SWIFT	110,000	110,000
Lankaclear (Private) Limited. (100,000 Ordinary Shares)	1,000,000	1,000,000
Lanka Financial Services Bureau Limited. (1 000 Ordinary Shares)	1,000,000	1,000,000
	<u>2,140,000</u>	<u>2,140,000</u>

	2009 Rs.	2008 Rs.
<b>17.3 Debentures - Unquoted</b>		
Bank of Ceylon	11,446,000	11,320,000
100 Debentures of USD1,000/- each redeemable on 09.04.2010. (2008 - 100 Debentures at USD 1,000/- matured in 2009 & re-invested)	11,446,000	11,320,000
<b>17.4 Bonds - Unquoted</b>		
Sri Lanka Development Bonds	715,375,000	367,900,000
	715,375,000	367,900,000
The above Development Bonds amounts to USD 6,250,000/- and matures in the year 2010. (2008- USD 3,250,000/- matured in 2009)		
<b>17.5 Trust Certificates</b>		
Alliance Finance Company PLC	60,300,000	60,300,000
Mercantile Investments Limited	-	52,600,000
(Trust Certificates - Alliance Finance matures in the year 2010 & 2011 - Mercantile Investment Ltd matured in the year 2009)	60,300,000	112,900,000

**17.6** The Director's valuation of unquoted investments of the Bank amounts to Rs. 789,261,000/- (2008 - Rs.494,260,000/-)

## 18. OTHER ASSETS

	2009 Rs.	2008 Rs.
Deposits and Prepayments	82,428,344	75,884,584
Other Debtors	615,400,794	387,123,218
	697,829,138	463,007,802
Less : Provision in respect of Other Debtors	(59,121,564)	(826,490)
	638,707,574	462,181,312

## Notes to the Financial Statements (Contd.)

Year ended 31 December 2009

## 19. PROPERTY, PLANT AND EQUIPMENT

## 19.1 Gross Carrying Amounts

	Balance As at 01.01.2009 Rs.	Additions Rs.	Transfers Rs.	Disposals Rs.	Balance As at 31.12.2009 Rs.
<b>At Cost</b>					
Land	183,969,895	-	-	-	183,969,895
Building	154,029,105	1,073,982	-	-	155,103,087
Office Equipment	67,768,264	18,562,637	(1,123,000)	(1,437,870)	83,770,031
Computer Hardware	108,826,203	24,269,109	1,123,000	(1,570,636)	132,647,676
Furniture and Fittings	69,094,043	39,392,309	-	(2,419,092)	106,067,260
Motor Vehicles	16,044,122	-	-	-	16,044,122
	<u>599,731,632</u>	<u>83,298,037</u>	<u>-</u>	<u>(5,427,598)</u>	<u>677,602,071</u>
<b>At Valuation</b>					
Office Equipment	27,955,726	-	(510,000)	(210,350)	27,235,376
Computer Hardware	86,957,100	-	510,000	(304,500)	87,162,600
Furniture and Fittings	35,724,842	-	-	(409,000)	35,315,842
	<u>150,637,668</u>	<u>-</u>	<u>-</u>	<u>(923,850)</u>	<u>149,713,818</u>
<b>Total Value of Depreciable Assets</b>	<u>750,369,300</u>	<u>83,298,037</u>	<u>-</u>	<u>(6,351,448)</u>	<u>827,315,889</u>

## 19.2 Depreciation

	Balance As at 01.01.2009 Rs.	Charge for the year Rs.	Transfers Rs.	Disposals Rs.	Balance As at 31.12.2009 Rs.
<b>At Cost</b>					
Building	8,024,645	3,858,427	-	-	11,883,072
Office Equipment	19,509,604	12,746,800	(310,055)	(519,333)	31,427,016
Computer Hardware	25,931,034	19,678,822	310,055	(640,377)	45,279,534
Furniture and Fittings	12,687,819	8,586,017	-	(599,104)	20,674,732
Motor Vehicles	6,153,956	3,208,824	-	-	9,362,780
	<u>72,307,058</u>	<u>48,078,890</u>	<u>-</u>	<u>(1,758,814)</u>	<u>118,627,134</u>
<b>At Valuation</b>					
Office Equipment	18,683,906	4,699,288	(425,085)	(172,483)	22,785,626
Computer Hardware	57,965,833	14,492,850	425,085	(203,645)	72,680,123
Furniture and Fittings	14,244,653	3,590,884	-	(176,375)	17,659,162
	<u>90,894,392</u>	<u>22,783,022</u>	<u>-</u>	<u>(552,503)</u>	<u>113,124,911</u>
	<u>163,201,450</u>	<u>70,861,912</u>	<u>-</u>	<u>(2,311,317)</u>	<u>231,752,045</u>

### 19.3 Net Book Values

	2009 Rs.	2008 Rs.
<b>At Cost</b>		
Land	183,969,895	183,969,895
Building	143,220,015	146,004,460
Office Equipment	52,343,015	48,258,660
Computer Hardware	87,368,142	82,895,169
Furniture and Fittings	85,392,528	56,406,224
Motor Vehicles	6,681,342	9,890,166
	<u>558,974,937</u>	<u>527,424,574</u>
<b>At Valuation</b>		
Office Equipment	4,449,750	9,271,820
Computer Hardware	14,482,477	28,991,267
Furniture and Fittings	17,656,680	21,480,189
	<u>36,588,907</u>	<u>59,743,276</u>
<b>Total Net Book Value</b>	<u>595,563,844</u>	<u>587,167,850</u>

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

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

Class of Asset	Cost Rs.	Cumulative Depreciation If assets were carried at cost Rs.	Net Carrying Amount 2009 Rs.	Net Carrying Amount 2008 Rs.
Office Equipment	43,354,385	43,354,385	-	-
Computer Hardware	131,850,696	131,850,696	-	-
Furniture and Fittings	91,520,227	91,520,227	-	1,018,223
	<u>266,725,308</u>	<u>266,725,308</u>	<u>-</u>	<u>1,018,223</u>

**19.5** Property, Plant and Equipment include fully depreciated assets amounting to Rs.1,335,000/- (2008 - Nil).

**19.6** During the financial year, the Bank acquired Property, Plant and Equipment to the aggregate value of Rs. 83,298,037/- (2008 - Rs. 93,030,650/-) by means of Cash payments were made during the year for purchase of Property, Plant & Equipment.

## Notes to the Financial Statements (Contd.)

Year ended 31 December 2009

### 19.7 The useful lives of the assets is estimated as follows:

	2009	2008
Building	40 Years	40 Years
Office Equipment	06 Years	06 Years
Computer Hardware	06 Years	06 Years
Furniture and Fittings	10 Years	10 Years
Motor Vehicles	05 Years	05 Years

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

## 20. INTANGIBLE ASSETS

	2009 Rs.	2008 Rs.
Computer Software (Note 20.1)	<u>36,126,522</u>	<u>31,718,920</u>
<b>20.1 Cost</b>		
As at the beginning of the year	133,173,368	111,765,876
Incurred during the year	11,454,795	21,407,492
As at the end of the year	<u>144,628,163</u>	<u>133,173,368</u>
<b>Amortisation</b>		
As at the beginning of the year	101,454,448	95,202,784
Amortised during the year	7,047,193	6,251,664
As at the end of the year	<u>108,501,641</u>	<u>101,454,448</u>
<b>Net Book Value</b>		
As at the beginning of the year	<u>31,718,920</u>	<u>16,563,092</u>
As at the end of the year	<u>36,126,522</u>	<u>31,718,920</u>

### 20.2 Amortisation Method

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

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



**21. DEPOSITS**

	<b>2009 Rs.</b>	<b>2008 Rs.</b>
<b>Local Currency Deposits</b>		
Current Accounts Deposits	3,117,691,331	2,180,472,540
Savings Deposits	1,435,210,869	1,377,185,436
Time Deposits	8,493,846,449	7,255,138,779
Certificates of Deposits	1,713,726,170	1,844,604,202
Margin Deposits	320,261,519	243,100,484
	<u>15,080,736,338</u>	<u>12,900,501,441</u>
<b>Foreign Currency Deposits</b>		
Current Accounts Deposits	89,619,782	118,514,413
Savings Deposits	648,237,008	850,770,646
Time Deposits	504,343,693	578,577,698
Margin Deposits	5,766,380	2,830
	<u>1,247,966,863</u>	<u>1,547,865,587</u>
	<u>16,328,703,201</u>	<u>14,448,367,028</u>

**22. BORROWINGS**

	<b>2009 Rs.</b>	<b>2008 Rs.</b>
Call Money Borrowings	214,460,000	-
Borrowings under Repurchase Agreement	817,805,296	1,280,504,476
Other Borrowings from Banks	12,855,656	20,475,375
Borrowings under Commercial Paper	-	44,105,781
	<u>1,045,120,952</u>	<u>1,345,085,632</u>

**23. OTHER LIABILITIES**

	<b>2009 Rs.</b>	<b>2008 Rs.</b>
Cheques Pending Realisation	511,011,086	340,003,497
Accrued Expenditure and Interest	585,558,525	502,723,329
Claims Payable	359,096,960	289,457,096
Other Deferred Liability - Gratuity (23.1)	31,575,752	28,261,498
Other Creditors	130,351,931	96,100,762
	<u>1,617,594,254</u>	<u>1,256,546,182</u>

**23.1** Actuarial valuation of the defined benefit plan / gratuity was last carried out on 31st December 2008 by Messrs. Actuarial & Management Consultants (Pvt) Ltd, Actuaries. As at 31st December 2009 the Bank obtained an estimation from the Actuaries in determining defined benefit plan / gratuity. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

Long Term Rate of Interest	12% per annum
Future Salary Increases	10% per annum

The demographic assumptions underlying the valuation are retirement age (55 years), early withdrawal from service, retirement on medical grounds, death before and after retirement, etc.

## Notes to the Financial Statements (Contd.)

Year ended 31 December 2009

### 24. DEBENTURES

	2009 Rs.	2008 Rs.
Unsecured Redeemable Subordinated Unlisted Debentures (Note 24.1)	50,000,000	50,000,000
Advance Received on Proposed Debentures	-	60,810,000
	<u>50,000,000</u>	<u>110,810,000</u>

#### 24.1 Terms of Debentures

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

### 25. STATED CAPITAL

	Number	2009 Rs.	Number	2008 Rs.
Fully paid Ordinary Shares	110,640,407	1,106,404,070	110,640,407	1,106,404,070
	<u>110,640,407</u>	<u>1,106,404,070</u>	<u>110,640,407</u>	<u>1,106,404,070</u>

### 26. STATUTORY RESERVE FUND

	2009 Rs.	2008 Rs.
Balance as at the beginning of the year	42,446,414	31,264,743
Transferred during the year		
5% of Net Profit after Taxation	19,390,825	11,181,671
Balance as at the end of the year	<u>61,837,239</u>	<u>42,446,414</u>

5% of Profit after Tax is transferred to the Reserve Fund as required by Section 20 (1) of the Banking Act No. 30 of 1988. This Reserve Fund will be used only for the purpose specified in Section 20 (2) of the Banking Act No. 30 of 1988.

### 27. REVALUATION RESERVE

	2009 Rs.	2008 Rs.
<b>On: Property, Plant and Equipment</b>		
Balance as at the beginning of the year	17,857,208	25,592,497
Disposal/ Excess Depreciation Transferred to Retained Earnings	(12,211,547)	(7,735,289)
Balance as at the end of the year	<u>5,645,661</u>	<u>17,857,208</u>

**28. DIVIDENDS**

	2009 Rs.	2008 Rs.
<b>Declared and paid during the year</b>		
Equity dividends on Ordinary shares :		
Final dividends for 2007 : Rs. 0.75 per share	-	82,980,305
	-	82,980,305

**29. GROSS INCOME**

	2009 Rs.	2008 Rs.
Summary		
<b>29.1 Gross Income</b>	3,862,065,467	3,241,156,951
<b>29.2 Interest Income (Note 30)</b>	3,159,664,837	2,864,603,074
Other Income (Note 32)	702,400,630	376,553,877
	3,862,065,467	3,241,156,951

**30. INTEREST INCOME**

	2009 Rs.	2008 Rs.
Loans and Advances	2,185,388,695	2,148,535,244
Treasury Bills/ Bonds and Placements with Other Banks	859,437,966	564,689,485
Interest from Leases	107,983,292	143,606,182
Other Interest Income	6,854,884	7,772,163
	3,159,664,837	2,864,603,074

**31. INTEREST EXPENSE**

	2009 Rs.	2008 Rs.
Customer Deposits	1,674,923,519	1,471,146,333
Borrowings - Banks	26,468,027	76,038,287
- Others	166,910,712	192,820,829
Debentures	9,711,288	58,436,967
	1,878,013,546	1,798,442,416

## Notes to the Financial Statements (Contd.)

Year ended 31 December 2009

**32. OTHER INCOME**

	2009 Rs.	2008 Rs.
Fee and Commission Income	259,399,401	284,651,199
Net Foreign Exchange Gain	81,965,585	71,865,516
Other Operating Income	358,036,877	9,015,496
Gain from Treasury Bills/Bonds held for Trading	2,998,767	11,021,666
	<u>702,400,630</u>	<u>376,553,877</u>

**33. PROFIT BEFORE INCOME TAX  
is stated after charging/(crediting)**

	2009 Rs.	2008 Rs.
Directors' Emoluments	13,350,109	10,456,594
Auditors' Fees and Expenses - Current Year	1,998,920	1,515,000
- Under/(Over) Provision in respect of Previous Year	505,648	220,116
Depreciation	70,861,912	58,019,867
Amortisation of Intangible Assets	7,047,193	6,251,664
Expenses on Litigation	10,101,986	1,687,464
Defined Contribution Costs - EPF & ETF	40,959,094	35,886,008
Defined Benefit Plans - Gratuity	7,681,989	10,665,750
Value Added Tax on Financial Services	166,336,762	133,504,910
Advertising	<u>7,384,924</u>	<u>27,422,322</u>

**34. TAX EXPENSE**

	2009 Rs.	2008 Rs.
Income Tax Expense for the year (Note 34.1)	322,409,214	184,428,810
Charge/ (Reversal) in respect of Deferred Taxation (Note 35)	<u>(45,079,634)</u>	<u>13,775,038</u>
	<u>277,329,580</u>	<u>198,203,848</u>

**34.1** Reconciliation between Current Tax Expense and the product of Accounting Profit.

	2009 Rs.	2008 Rs.
Accounting Profit (Profit before Tax )	665,146,087	421,837,268
Aggregate Disallowed items	659,307,598	656,076,019
Aggregate Allowable Expenses	(329,081,384)	(476,153,621)
Income not subject to Tax	<u>(42,438,664)</u>	<u>(23,652,236)</u>
Taxable Profit	952,933,637	578,107,430
Tax Losses Brought Forward and Utilised	<u>-</u>	<u>(32,997,645)</u>
	<u>952,933,637</u>	<u>545,109,785</u>
Statutory Tax Rate %	33.33%	33.33%
Current Income Tax Expense	317,644,546	181,703,262
Social Responsibility Levy - 1.5% (2008 - 1.5%)	<u>4,764,668</u>	<u>2,725,548</u>
	<u>322,409,214</u>	<u>184,428,810</u>

**34.2** Pan Asia Banking Corporation PLC is liable for Income Tax at 33.33% (2008 - 33.33%) on the taxable income until the year of assessment 2009/10.

## 35. DEFERRED TAX LIABILITY

### 35.1 Movement in Deferred Taxation

	2009 Rs.	2008 Rs.
Balance as at the beginning of the year	55,606,675	41,831,637
Charge for the year (Note 34)	(45,079,634)	13,775,038
Balance as at the end of the year	<u>10,527,041</u>	<u>55,606,675</u>

## 36 EARNINGS PER SHARE

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

**36.2** The following reflects the income and share data used in the basic Earnings Per Share computation

	2009 Rs.	2008 Rs.
<b>Amount Used as the Numerator:</b>		
Net Profit attributable to Ordinary Shareholders for basic Earnings Per Share	<u>387,816,507</u>	<u>223,633,420</u>

	2009 Number	2008 Number
<b>Number of Ordinary Shares Used as Denominator:</b>		
Weighted Average number of Ordinary Shares in issue Applicable to basic Earnings Per Share	<u>110,640,407</u>	<u>110,640,407</u>

## 37. COMMITMENTS AND CONTINGENCIES

### 37.1 Contingencies

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

	2009 Rs.	2008 Rs.
Guarantees	1,982,585,586	1,655,546,946
Documentary Credit	1,167,290,514	1,118,897,399
Forward Exchange Contracts (Net)	2,083,161	(1,641,672)
	<u>3,151,959,261</u>	<u>2,772,802,673</u>

### 37.2 Capital Expenditure Commitments

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



## Notes to the Financial Statements (Contd.)

Year ended 31 December 2009

### 37.3 Material litigation against the Bank

#### 1 Cases regarding Nipuna Telecommunication (Pvt) Ltd Case No. High Court of Colombo - H C (Civil) 42/2002(1) Supreme Court - S C CHC appeal 36/2006

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

The Bank had a suspicion of collusion between the parties to defraud the Bank, hence the payment was not made. Against that TCIL filed the above case. On 2.6.2006 the High Court pronounced the judgment as prayed for by TCIL.

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

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

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

The Bank filed papers against the said cases and after the vacation of the enjoining orders, received an aggregate sum of Rs.10.0 Mn on the respective Bank Guarantees relating to District court Trincomalee Case No.1401/03 (filed by Kantalai Multi Purpose Cooperative Society Ltd), District Court of Colombo Case No.6843/Spl (filed by N H V S R Nanayakkara), District Court of Nugegoda Case No.343/08 (filed by Maharagama Multipurpose Cooperative society Ltd), District Court of Nuwara Eliya case No. M/2340 (new case) District Court of Colombo Case No.47107/MR (filed by new Thalawakele Multi Purpose Cooperative Society Ltd) District Court of Mt. Lavinia Case No. 766/03/Spl (filed by H P C K Jayaratne), District Court of Homagama Case No.7066/Spl (filed by M S Mazerdon and others), District Court Kandy case No. X 12785 (filed by Kandy Multi Purpose Cooperative Society Ltd) District Court of Mt Lavinia Case No.762/03/Spl (new case No. D C Nugegoda 66/08) (filed by Bentota Multi Purpose Cooperative Society Ltd).

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

- (i) District Court of Matara Case No.510/Spl (filed by Dickwella Multi Purpose Cooperative Society Ltd). The Court has issued an Interim Injunction restraining the Bank from receiving monies on the Bank Guarantee. The case is fixed for trial on 21.04.2010.
- (ii) District Court of Colombo 7172/Spl (filed by Gall Multi Purpose Cooperative Society Ltd). The Court has issued an Interim Injunction restraining the Bank from claiming and receiving monies on the Bank Guarantee. The Bank has appealed against the said Order (Court of Appeal Case No. CALA 455/2005). The said appeal is to be mentioned on 30.03.2010 to fix for argument.

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

The Bank has issued an advance Payment Guarantee in favour of the Provincial Road development Authority - Western Province (PRDA) in a sum of Rs.34,803,247/-. The PRDA claimed on the said Guarantee and the customer obtained an enjoining order (H C (Civil) 266/2006 (1)), enjoining the Bank from honouring the claim. Subsequently, the said enjoining order was vacated. However, the payment was not made by the Bank on the basis that the claim on the said Guarantee is invalid as per the terms of the said Guarantee and of no force in Law. The said case is due to be called on 30.04.2010, since the customer and the PRDA have initiated Arbitration proceedings to resolve the issue.

At the same time the customer has filed a case bearing No., H C (Civil) Case No.78/2007/MR, seeking a declaration from the High Court that the said claim on the guarantee is invalid. The case is calling on 30.03.2010.

The PRDA has also filed an action bearing No. H C (Civil) Case No.220/2008/MR, seeking a mandatory Injunction against the Bank, directing the Bank to make the payment on the Guarantee. The said application has been dismissed and the case is to be called on 26.03.2010 due to the appeal lodged by the PRDA against the said order, (SC(CHC)26/2008). The leave to proceed has been granted in the said leave to appeal application and the case is fixed for Argument on 22.03.2010 in the Supreme Court.

**4 Overseas Realty Case No. H C (Civil) 118/99 (1)**

This case was filed by the Bank to recover the security deposit of Rs.4,767,552/- and pro-rata rent in advance of Rs.1,068,030/98 for the 9th floor of the World Trade Centre. Judgment was given in favour of the Bank on 16.07.2009. However, they have appealed. Date not yet given.

**5 Asian Trading Agency - Case No: 00002/DTR**

Case has been instituted by the former owner of the mortgaged property (Plaintiff) that the said property was transferred to our customer on the basis of a constructive trust and enjoining order was obtained staying the sale fixed for 28/11/2008. The Bank has filed its objections stating that when the Bank's mortgage was granted our customer had a valid title to the property. However, the Learned judge in granting relief by way of interim injunction on 29/05/2009 has observed that the issue with regard to the transfer of property to our customer by way of a constructive trust has to be examined by way of documents and evidence placed before court and that until such time the mortgaged property cannot be alienated. The Trial is fixed for 26th March 2010.

**6 Ceylon Packaging- Case No: CHC 493/2009**

The Bank initiated parate action to recover its dues in terms of Recovery of Loans by Banks (Special Provisions) Act No. 04 of 1990 and fixed the sale for 29/09/2009. On the day prior to the sale, the Bank was served with notice of an action filed by persons claiming adverse title claiming that they are the lawful owners of the mortgaged property. They also deny that they transferred the subject property in favour of our customer. An enjoining order was issued on the Bank restraining the Bank from selling the subject property by public auction. The Bank has filed objections on 18/12/2009 and the Trial is fixed for 23-03-2010. The Bank has also made a complaint to the CID to inquire to the purported forgery which is alleged to have been performed by our customer.

**7 High Grow Lanka Private Limited - Case No: HC Civil 670/09**

Property in extent A1 R1 P39.9 at Hingurahena, Arakawil vested with the Bank on 04/09/2008. Another commercial bank published a notice on 27/10/2009 to sell the subject property by public auction pursuant to a Mortgage Bond action instituted by them where an ex-parte judgment has been entered against the company that the said property is bound and executable for the recovery of monies due to the said commercial bank. Our Bank obtained an enjoining order to prevent the execution of the said decree. The enjoining order has been extended until 22/02/2010. The issue as to whether our bank has priority over the mortgage of the other bank is to be determined by courts.

**8 P S Company - Case No: DC Negombo 7261/L**

The Bank initiated parate action and fixed the sale for 25/09/2009. A third party claiming adverse title on the basis that there has been a forgery in the devolution of title obtained an enjoining order against the Bank on 17/09/2009. The said party has also made a complaint to the CID and a case is pending against the former owner of the property in the Magistrates Court of Negombo. The Bank claimed on the title insurance which was declined by Ceylinco Insurance, on the basis that for a claim to be maintainable it is mandatory that the matter (ie.forgery) is determined conclusively by a court of competent jurisdiction and disposition of all appeals there from adverse to the title. Ceylinco Insurance is defending the case on behalf of the Bank and objections and answer is due on 17/02/2009.

## Notes to the Financial Statements (Contd.)

Year ended 31 December 2009

**38. Maturity Analysis**

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

	<b>Upto 3 months Rs.</b>	<b>3 to 12 months Rs.</b>	<b>1 to 3 Years Rs.</b>	<b>3 to 5 Years Rs.</b>	<b>Over 5 Years Rs.</b>	<b>2009 Rs.</b>	<b>Total 2008 Rs.</b>
<b>Interest Bearing Assets</b>							
Bills of Exchange	266,107,334	4,396,958	4,753,093	2,992,320	2,159,436	280,409,141	331,589,018
Loans and Advances	3,846,219,713	2,323,286,001	2,064,961,762	1,232,510,920	663,673,260	10,130,651,656	11,167,980,378
Lease Receivable	73,229,713	177,905,633	156,389,750	112,979,285	6,669,307	527,173,688	645,758,242
Balances with Foreign Banks	24,864,600	-	-	-	-	24,864,600	423,213,587
Short Term Funds (Placements)	94,518,120	-	-	-	-	94,518,120	59,156,580
Treasury Bills/Bonds/ Commercial papers & Others	3,232,419,798	2,549,911,740	874,459,578	185,419,373	-	6,842,210,489	3,474,114,574
Investment Securities	554,485,000	202,690,000	18,500,000	11,446,000	2,140,000	789,261,000	494,260,000
	<u>8,091,844,278</u>	<u>5,258,190,332</u>	<u>3,119,064,183</u>	<u>1,545,347,898</u>	<u>674,642,003</u>	<u>18,689,088,694</u>	<u>16,596,072,379</u>
<b>Non-Interest Bearing Assets</b>							
Cash in Hand	563,462,733	-	-	-	-	563,462,733	420,719,610
Statutory Deposit with CBSL	605,050,685	202,154,315	-	-	-	807,205,000	704,589,138
Property, Plant and Equipment	-	-	-	-	595,563,844	595,563,844	587,167,850
Intangible Assets	-	-	-	-	36,126,522	36,126,522	31,718,920
Other Assets and Interest Receivables	807,484,390	34,690,440	-	-	25,206,287	867,381,117	644,072,418
	<u>1,975,997,808</u>	<u>236,844,755</u>	<u>-</u>	<u>-</u>	<u>656,896,653</u>	<u>2,869,739,216</u>	<u>2,388,267,936</u>
<b>TOTAL ASSETS</b>	<u>10,067,842,086</u>	<u>5,495,035,087</u>	<u>3,119,064,183</u>	<u>1,545,347,898</u>	<u>1,331,538,656</u>	<u>21,558,827,910</u>	<u>18,984,340,315</u>
<b>Interest Bearing Liabilities</b>							
Deposits	7,260,200,002	3,940,011,418	708,905,604	671,562,993	214,684,171	12,795,364,188	11,988,169,821
Borrowings including due to Foreign Banks	1,274,386,807	41,771,599	10,621,000	-	-	1,326,779,406	1,399,602,620
Debentures	-	-	50,000,000	-	-	50,000,000	110,810,000
	<u>8,534,586,809</u>	<u>3,981,783,017</u>	<u>769,526,604</u>	<u>671,562,993</u>	<u>214,684,171</u>	<u>14,172,143,594</u>	<u>13,498,582,441</u>
<b>Non-Interest Bearing Liabilities</b>							
Deposits	1,383,381,209	706,667,803	320,731,111	320,731,111	801,827,779	3,533,339,013	2,460,197,207
Other Liabilities and Tax Payable	1,281,703,112	504,161,359	35,513,148	32,399,878	19,907,392	1,873,684,889	1,433,716,760
Shareholders' Funds	-	-	-	-	1,979,660,414	1,979,660,414	1,591,843,907
	<u>2,665,084,321</u>	<u>1,210,829,162</u>	<u>356,244,259</u>	<u>353,130,989</u>	<u>2,801,395,585</u>	<u>7,386,684,316</u>	<u>5,485,757,874</u>
<b>TOTAL LIABILITIES</b>	<u>11,199,671,130</u>	<u>5,192,612,179</u>	<u>1,125,770,863</u>	<u>1,024,693,982</u>	<u>3,016,079,756</u>	<u>21,558,827,910</u>	<u>18,984,340,315</u>

**39. RELATED PARTY TRANSACTIONS****39.1.1 Compensation to Key Management Personnel (\*)**

	2009 Rs.	2008 Rs.
Emoluments / Fees / Salaries	13,350,109	10,456,594
Ex-Gratia Payments	-	4,179,100
Post employment benefits	-	2,116,000
Total compensation paid to key management personnel	13,350,109	16,751,694

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

**39.1.2 Transactions, arrangements and agreements involving Key Management Personnel**

	Key Management Personnel and Close Family Members		Personnel have control/ joint control or Significant Influence	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>Assets</b>				
Loans and Advances	881	12,000,000	115,102,350	204,717,244
Credit Cards	25,644	228,000	-	-
Interest Income	-	242,248	28,464,481	28,716,506
<b>Liabilities</b>				
Deposits	5,448,421	102,244,797	592,502,740	279,491,514
Interest Expenditure	133,957	10,384,227	53,951,492	3,104,607
<b>Off Balance Sheet Items</b>				
Guarantees, Letter of Credit and Others	-	-	4,091,945	66,930,000

**40. POST BALANCE SHEET EVENTS**

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

**41. COMPARATIVE INFORMATION**

The presentation and classification of following items in these Financial Statement in respect of 2008 are amended for comparability with the current year.

	As reported previously 2008 Rs.	Increase Rs.	Decrease Rs.	Current Presentation 2008 Rs.
<b>Income Statement</b>				
Other Overhead Expenses (a)	5,155,418	133,504,910	-	138,660,328
Value Added Tax on Financial Services (a)	133,504,910	-	(133,504,910)	-
<b>Cash Flow Statement</b>				
Net Cash in Operating Activities (b)	291,515,214	-	(359,144,945)	(67,629,731)
Cash and Cash Equivalants at the beginning of the year (b)	1,394,443,905	359,144,945	-	1,753,588,850
	1,824,619,447	492,649,855	(492,649,855)	1,824,619,447

**Reasons for the change in presentation and classification**

(a) - Expenses where necessary have been reclassified in order to present to the expense category

(b) - Money at Call and Short notice have been classified under cash and cash equivalents

# Capital Adequacy Computation

Capital Base as at 31st December	2009 (Basel II) (Rs' 000)	2008 (Basel II) (Rs' 000)
<b>TIER 1</b>		
Paid up Ordinary Shares	1,106,404	1,106,404
Share Premium	-	-
Statutory Reserve Fund	61,837	42,446
Published Retained Profits	805,773	425,136
General & Other Reserves	-	-
<b>Total Tier 1 Capital</b>	<b>1,974,014</b>	<b>1,573,986</b>
<b>TIER 2</b>		
Revaluation Reserves	-	-
General Provisions	59,795	64,191
Debentures	16,667	26,667
<b>Total Tier 2 Capital</b>	<b>76,462</b>	<b>90,858</b>
Total Tier 1 & Tier 2 Capital	2,050,476	1,664,844
<b>Capital Base</b>	<b>2,050,476</b>	<b>1,664,844</b>
<b>COMPUTATION OF RATIOS</b>		
Core Capital (Tier 1)	1,974,014	1,573,986
Total Capital Base	2,050,476	1,664,844
<b>Risk Weighted Assets</b>		
Risk Weighted amount for Credit Risk	9,673,276	9,745,687
Risk Weighted amount for Market Risk	448,330	444,230
Risk Weighted amount for Operational Risk	2,260,180	1,681,583
<b>Total Risk Weighted amount</b>	<b>12,381,786</b>	<b>11,871,500</b>
<b>Core Capital Ratio</b> (Minimum Requirement 5%)		
Total Tier - I Capital	1,974,014	1,573,986
Total Risk Weighted Assets	12,381,786	11,871,500
	<b>15.94%</b>	<b>13.26%</b>
<b>Total Capital Ratio</b> (Minimum Requirement 10%)		
Total Capital	2,050,476	1,664,844
Total Risk Weighted Assets	12,381,786	11,871,500
	<b>16.56%</b>	<b>14.02%</b>



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

### CREDIT RISK

	Balance	Risk Weight	Risk Adjusted Balance
As at 31st December 2009	(Rs' 000)	%	(Rs' 000)
<b>ASSETS - Exposure</b>			
- To Central Government and CBSL	8,571,384	-	-
- To Banks	133,212	20 - 150	32,306
- To Financial Institutions	173,153	20 - 150	86,963
- To Corporates	2,200,528	20 - 150	2,100,528
- To Retail Sector	3,708,162	75 - 100	3,304,963
- Secured on Residential Property Mortgages	166,560	50 - 100	83,280
- Classified as Non Performing Advances	1,017,078	50 - 150	1,433,729
- Claims Secured by Commercial Real Estate	124,338	100	124,338
- Cash Items	672,326	0 - 20	21,773
- Other Assets	1,272,538	100	1,272,536
<b>Total Assets</b>	<b>18,039,279</b>		<b>8,460,416</b>

### OFF BALANCE SHEET EXPOSURE

	Amount of Off Balance Sheet items	Credit Conversion Factor	Credit Equivalent Amount	Risk Weight	Risk Adjusted Balance
As at 31st December 2009	(Rs' 000)	%	(Rs' 000)	%	(Rs' 000)
Financial guarantees, Bank acceptances and other guarantees	924,864	100	924,864	100	924,864
Performance related guarantees and warranties, stand by credit lines	107,755	50	53,877	100	53,877
Shipping guarantees, Documentary Letters of Credit	1,057,502	20	211,500	100	211,500
Undrawn term and overdraft facilities < 1 year	1,608,477	0 - 20	22,577	100	22,577
Foreign Exchange Contracts	2,083	2	42	100	42
Foreign Interest Rate Contracts	-	2	-	100	-
<b>Total Off Balance Sheet exposure</b>	<b>3,700,681</b>		<b>1,212,860</b>		<b>1,212,860</b>

## Capital Adequacy Computation (Contd.)

### OFF BALANCE SHEET EXPOSURE (Contd.)

#### MARKET RISK

	Capital charge	Risk Adjusted Balance
As at 31st December 2009	(Rs' 000)	(Rs' 000)
Interest rate	-	-
Equity	24,348	243,480
Foreign Exchange & Gold	20,485	204,850
<b>Total risk adjusted balance for market risk</b>	<b>44,833</b>	<b>448,330</b>

#### OPERATIONAL RISK

	Capital charge	Risk Adjusted Balance
As at 31st December 2009	(Rs' 000)	(Rs' 000)
Average Gross income	1,506,791	-
15% of Average Gross income	226,018	-
<b>Total risk adjusted balance for operational risk</b>	<b>226,018</b>	<b>2,260,180</b>

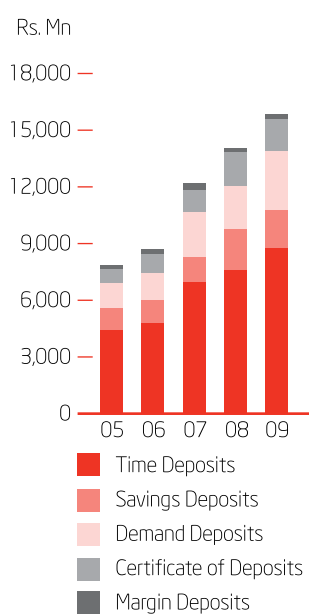
# Quarterly Statistics

For the Quarter ended	2009				2008
	March 31,	June 30,	September 30,	December 31,	December 31,
<b>BALANCE SHEET DATA</b>					
Total Assets	20,141,054,721	20,121,672,959	19,696,639,415	21,558,827,910	18,984,340,315
Loans, Advances & Leases	11,857,989,457	11,785,912,082	10,536,538,321	10,938,234,485	12,145,327,638
Deposits	13,359,485,780	14,766,627,691	14,873,134,777	16,328,703,201	14,448,367,028
Debentures	110,810,000	110,810,000	110,810,000	50,000,000	110,810,000
Shareholders' Funds	1,684,302,755	1,890,993,145	1,959,915,686	1,979,660,414	1,591,843,907
Average Assets	19,211,959,536	19,549,223,142	19,597,048,646	19,975,205,808	18,855,727,334
<b>OPERATING RESULTS</b>					
Net Interest Income	298,841,710	348,992,525	338,700,152	295,116,904	316,694,972
Foreign Exchange Income	27,084,252	11,892,771	16,138,726	26,849,836	8,621,754
Other Income	166,842,783	286,640,403	87,209,523	79,742,336	87,494,685
<b>Operating Income</b>	<b>492,768,745</b>	<b>647,525,699</b>	<b>442,048,401</b>	<b>401,709,076</b>	<b>412,811,411</b>
(Provision)/ Reversal for bad & doubtful Debts & Loans write off	(81,522,621)	(81,415,999)	(55,643,368)	9,458,915	(34,852,175)
Non interest Expenses	(247,489,401)	(246,800,337)	(265,782,732)	(349,710,291)	(246,928,457)
Provision for Income tax	(71,297,875)	(112,618,973)	(51,657,673)	(41,755,059)	(66,316,457)
<b>Net Profit after Tax</b>	<b>92,458,848</b>	<b>206,690,390</b>	<b>68,964,628</b>	<b>19,702,641</b>	<b>64,714,322</b>

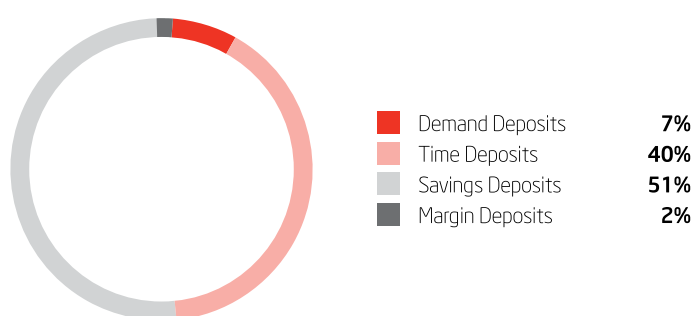
# Analysis of Deposits

	2009 Rs.	2008 Rs.	2007 Rs.	2006 Rs.	2005 Rs.
<b>LOCAL CURRENCY DEPOSITS</b>					
Demand Deposits	3,117,691,331	2,180,472,540	2,248,071,673	1,407,646,138	1,140,216,133
Savings Deposits	1,435,210,869	1,377,185,436	1,011,678,998	805,864,669	697,340,643
Time Deposits	8,493,846,449	7,255,138,779	6,266,932,600	4,381,463,205	4,139,001,485
Certificate of Deposits	1,713,726,170	1,844,604,202	1,166,660,199	1,003,051,323	785,427,533
Savings Certificates	-	-	-	-	11,682
Margin Deposits	320,261,519	243,100,484	323,060,269	297,095,581	244,572,375
	<u>15,080,736,338</u>	<u>12,900,501,441</u>	<u>11,016,403,739</u>	<u>7,895,120,916</u>	<u>7,006,569,851</u>
<b>FOREIGN CURRENCY DEPOSITS</b>					
Demand Deposits	89,619,782	118,514,413	119,000,918	74,078,388	177,647,272
Savings Deposits	648,237,008	850,770,646	332,649,951	439,995,991	489,722,339
Time Deposits	504,343,693	578,577,698	661,664,286	548,905,346	422,412,723
Margin Deposits	5,766,380	2,830	494,489	4,792,195	4,364,306
	<u>1,247,966,863</u>	<u>1,547,865,587</u>	<u>1,113,809,644</u>	<u>1,067,771,920</u>	<u>1,094,146,640</u>
<b>Total Deposits</b>	<u>16,328,703,201</u>	<u>14,448,367,028</u>	<u>12,130,213,383</u>	<u>8,962,892,836</u>	<u>8,100,716,491</u>

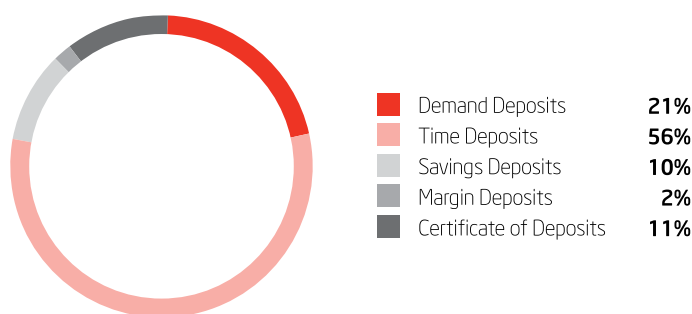
Analysis of Deposits



Foreign Currency - 2009



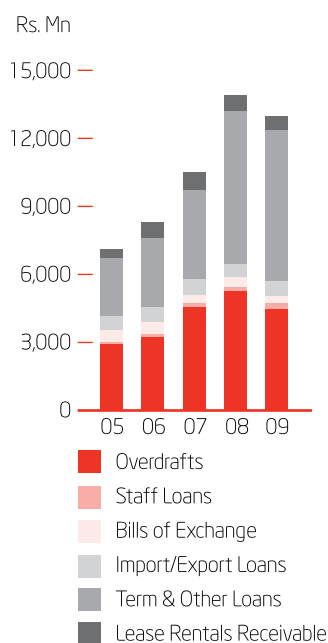
Local Currency - 2009



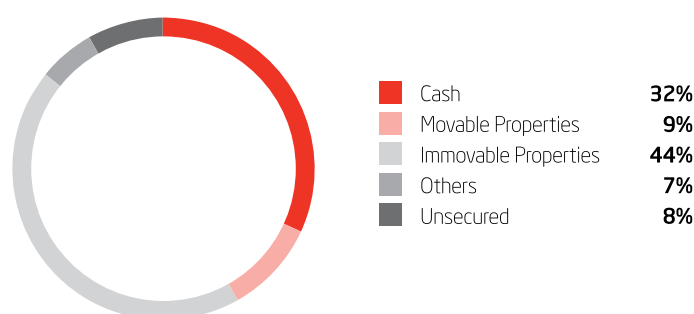
# Analysis of Advances

	2009 Rs.	2008 Rs.	2007 Rs.	2006 Rs.	2005 Rs.
<b>LOANS AND ADVANCES</b>					
Overdrafts	4,315,338,795	5,066,498,157	4,886,140,822	3,470,244,549	3,116,597,987
Import Loans	436,158,418	404,187,072	493,202,365	460,177,352	346,301,847
Export Loans	188,034,243	169,061,576	222,302,073	291,992,815	316,297,187
Term Loans	4,443,623,498	5,407,378,033	3,594,608,399	2,735,403,778	2,422,876,467
Pawning	1,482,048,202	698,777,598	336,074,854	327,644,668	236,212,088
Staff Loans	212,218,313	183,304,818	154,013,864	125,270,568	92,448,603
Credit Card Advances	382,869,331	389,464,158	264,845,844	175,910,060	114,332,391
Margin Trading	127,159,168	-	-	-	-
	<u>11,587,449,968</u>	<u>12,318,671,412</u>	<u>9,951,188,221</u>	<u>7,586,643,790</u>	<u>6,645,066,570</u>
Bills of Exchange	331,246,002	382,566,796	397,508,164	540,293,745	546,166,223
Lease Rentals Receivable	578,953,135	688,625,009	848,395,516	709,616,707	387,641,440
<b>Total Loans and Advances</b>	<u>12,497,649,105</u>	<u>13,389,863,217</u>	<u>11,197,091,901</u>	<u>8,836,554,242</u>	<u>7,578,874,233</u>

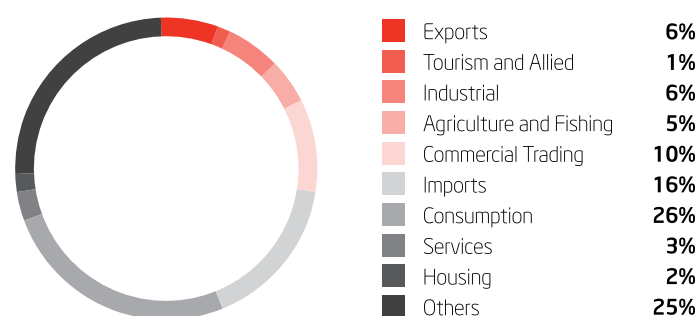
## Analysis of Advances



## Advances by Security - 2009

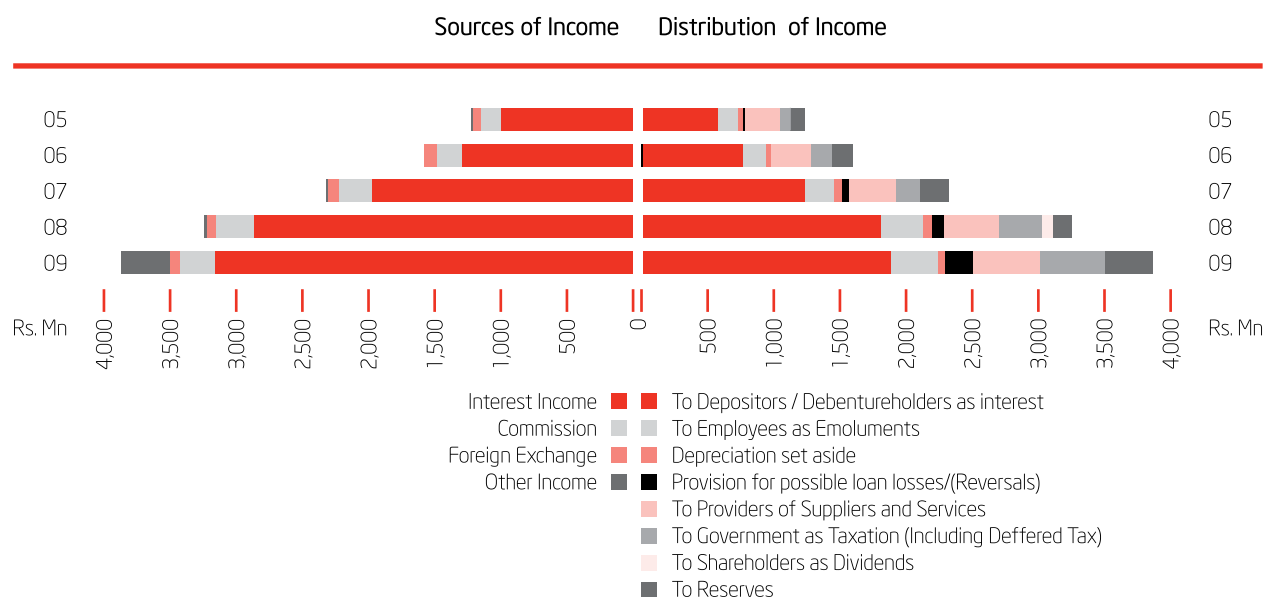


## Advances by Sector - 2009



## Sources & Distribution of Income

	2009 Rs. Mn	2008 Rs. Mn	2007 Rs. Mn	2006 Rs. Mn	2005 Rs. Mn
<b>SOURCES OF INCOME</b>					
Interest Income	3,160	2,865	1,969	1,289	993
Commission	259	285	250	193	158
Foreign Exchange	82	72	90	91	59
Other Income	361	20	9	8	15
	<u>3,862</u>	<u>3,242</u>	<u>2,318</u>	<u>1,581</u>	<u>1,225</u>
<b>DISTRIBUTION OF INCOME</b>					
To Depositors / Debentureholders as interest	1,878	1,798	1,224	754	566
To Employees as Emoluments	353	323	255	175	153
Depreciation set aside	78	64	54	38	35
Provision for possible loan losses/(Reversals)	209	95	60	(12)	16
To Providers of Suppliers and Services	499	401	321	305	264
To Government as Taxation (Including Deffered Tax)	457	337	188	157	83
Income Tax	277	198	101	86	44
Financial Services Value Added Tax	166	133	84	70	39
Debit Tax	14	6	3	1	-
To Shareholders as Dividends	-	83	-	-	-
To Reserves	388	141	216	164	108
	<u>3,862</u>	<u>3,242</u>	<u>2,318</u>	<u>1,581</u>	<u>1,225</u>

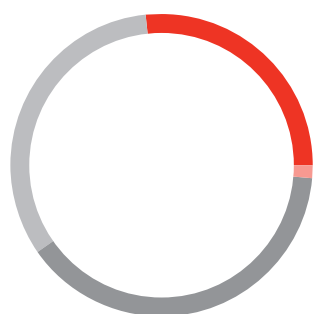




# Value Added Statement

	2009 Rs. '000	%	2008 Rs. '000	%
<b>VALUE ADDED</b>				
Income from Banking Services	3,862,065		3,241,157	
Cost of Services	(2,367,693)		(2,138,976)	
Value added by Banking Services	1,494,372		1,102,181	
Loan Losses and Provisions	(209,123)		(95,451)	
Provision for other Losses	-		-	
	<u>1,285,249</u>		<u>1,006,730</u>	
<b>DISTRIBUTION OF VALUE ADDED</b>				
<b>To Employees</b>				
Salaries & Other Benefits	352,642	27	323,160	32
<b>To Providers of Capital</b>				
Dividends to Shareholders	-		82,980	
Interest to Debentureholders	9,711		58,437	
	<u>9,711</u>	1	<u>141,417</u>	14
<b>To Government</b>				
Income Tax	322,409		184,429	
Financial Services Value Added Tax	166,337		133,505	
Debit Tax	13,504		5,519	
	<u>502,250</u>	39	<u>323,453</u>	32
<b>To Expansion &amp; Growth</b>				
Retained Profit	387,817		140,653	
Depreciation & Amortisation	77,909		64,272	
Deferred Taxation	(45,080)		13,775	
	<u>420,646</u>	33	<u>218,700</u>	22
	<u>1,285,249</u>	100	<u>1,006,730</u>	100

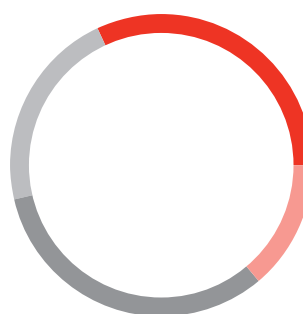
2009



■ To Employees  
■ To Providers of Capital  
■ To Government  
■ To Expansion & Growth

27%  
 1%  
 39%  
 33%

2008



■ To Employees  
■ To Providers of Capital  
■ To Government  
■ To Expansion & Growth

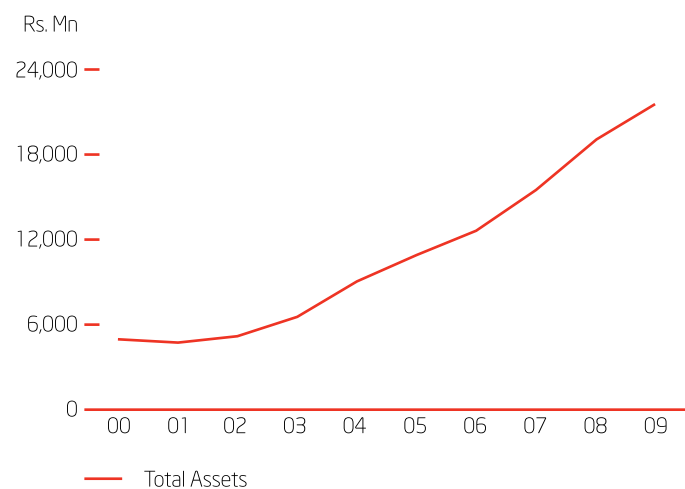
32%  
 14%  
 32%  
 22%

# Ten Year Statistical Summary

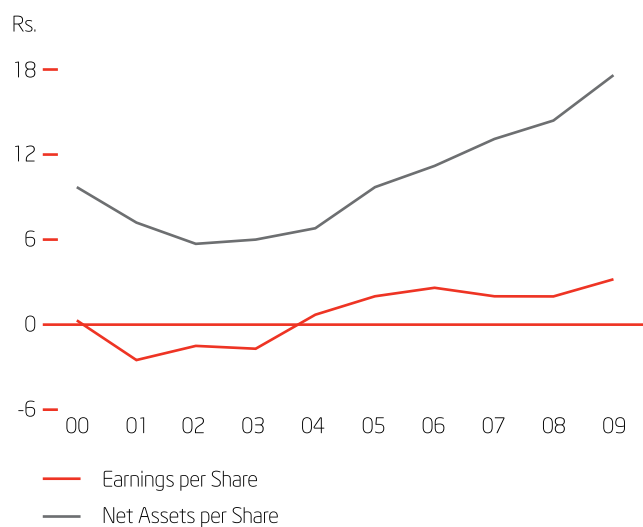
Rs. Mn										
For the Year ended December 31, 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	
OPERATING RESULTS										
Gross Income	669.04	846.12	750.36	752.53	1,033.03	1,224.66	1,580.84	2,317.14	3,241.16	3,862.07
Interest Income	552.75	720.22	650.71	631.83	832.41	993.03	1,289.08	1,968.55	2,864.60	3,159.66
Interest Expense	333.47	567.82	410.24	360.59	476.85	565.95	754.00	1,223.53	1,798.44	1,878.01
Net Interest Income	219.28	152.40	240.47	271.24	355.56	427.08	535.08	745.02	1,066.16	1,281.65
Exchange Income	42.56	42.50	27.36	32.57	61.49	58.70	90.88	90.25	71.87	81.97
Fee based Income	73.73	83.40	72.29	88.13	139.13	172.93	200.88	258.35	304.69	620.44
Operating Expenses & Provisions	321.90	445.16	421.26	487.29	501.32	506.48	576.67	776.83	1,020.88	1,318.91
Profit/(Loss) before Income Tax	13.67	(166.86)	(81.14)	(95.35)	54.86	152.23	250.17	316.79	421.84	665.15
Income tax on Profits	*1.80	*29.15	-	-	13.69	43.90	86.43	100.71	198.21	277.33
Net Profit for the Year	15.47	(137.71)	(81.14)	(95.35)	41.17	108.33	163.74	216.08	223.63	387.82
* Reversal of Timing Differences										
As at December 31,										
ASSETS										
Cash and Short Term Funds	501.71	276.46	307.91	310.91	663.78	780.64	863.85	1,030.63	903.09	682.85
Statutory Deposit with Central Bank of Sri Lanka	190.08	233.37	277.12	290.02	446.35	609.08	704.06	856.28	704.59	807.21
Government Treasury Bills / Bonds	204.08	229.40	120.66	1,424.75	1,426.72	1,865.81	1,679.06	1,409.58	3,424.11	6,842.21
Commercial Paper	-	-	-	14.88	-	-	-	170.00	50.00	-
Bills of Exchange	250.08	317.58	290.63	344.69	379.05	485.16	467.30	363.93	331.59	280.41
Loans and Advances	3,192.67	3,136.57	3,578.01	3,648.27	5,398.96	6,042.27	6,942.05	9,170.67	11,167.98	10,130.65
Lease Rentals Receivable	137.77	138.08	176.34	142.10	270.11	377.80	699.42	822.71	645.76	527.17
Investment Securities	0.14	15.14	16.14	1.14	1.14	1.14	269.77	573.55	494.26	789.26
Other Assets	230.12	208.39	206.66	260.25	303.01	486.76	470.44	559.41	644.07	867.38
Property Plant & Equipment	216.31	177.16	149.40	113.22	159.81	202.68	511.10	552.38	587.17	595.56
Intangible Assets	-	-	-	-	-	-	18.83	16.56	31.72	36.13
TOTAL ASSETS	4,922.96	4,732.15	5,122.87	6,550.23	9,048.93	10,851.34	12,625.88	15,525.70	18,984.34	21,558.83
LIABILITIES										
Customer Deposits	2,995.61	3,487.67	3,963.30	4,460.19	6,557.19	8,100.72	8,962.89	12,130.21	14,448.37	16,328.70
Borrowings & Due to Foreign Banks	314.56	486.86	359.55	1,041.06	1,370.29	1,142.51	1,281.92	505.25	1,399.60	1,326.79
Debentures	690.00	100.00	202.00	388.79	253.79	253.79	303.79	303.79	110.81	50.00
Other Liabilities	355.93	257.62	279.16	325.93	492.23	789.13	763.32	1,034.62	1,256.55	1,617.59
Taxation Payable	-	-	-	-	-	25.22	44.76	58.81	121.56	245.56
Deferred Taxation	29.15	-	-	-	-	-	34.08	41.83	55.61	105.3
Total	4,385.25	4,332.15	4,804.01	6,215.97	8,673.50	10,311.37	11,390.76	14,074.51	17,392.50	19,579.17
SHAREHOLDERS' FUNDS										
Stated Capital	444.97	444.97	444.98	555.72	555.72	555.72	1,106.40	1,106.40	1,106.40	1,106.40
Reserves	92.74	(44.97)	(126.12)	(221.46)	(180.29)	(15.75)	128.72	344.79	485.44	873.26
Total	537.71	400.00	318.86	334.26	375.43	539.97	1,235.12	1,451.19	1,591.84	1,979.66
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS										
	4,922.96	4,732.15	5,122.87	6,550.23	9,048.93	10,851.34	12,625.88	15,525.70	18,984.34	21,558.83
COMMITMENTS & CONTINGENCIES	757.37	719.35	834.57	1,138.66	1,778.67	1,769.47	1,733.70	2,296.66	2,772.80	3,151.96
SHARE INFORMATION										
Earnings per Share (Rs.)	0.28	(2.48)	(1.46)	(1.72)	0.74	1.95	2.63	1.95	2.02	3.51
Net Assets per Share (Rs.)	9.67	7.20	5.74	6.01	6.76	9.72	11.16	13.12	14.39	17.89
OTHER INFORMATION										
Number of Employees	295	306	283	289	371	394	433	546	507	511
Number of Branches	12	12	13	16	18	18	19	27	32	35
Customer Service Centres	-	-	-	-	1	2	2	2	-	-

# Graphical Review

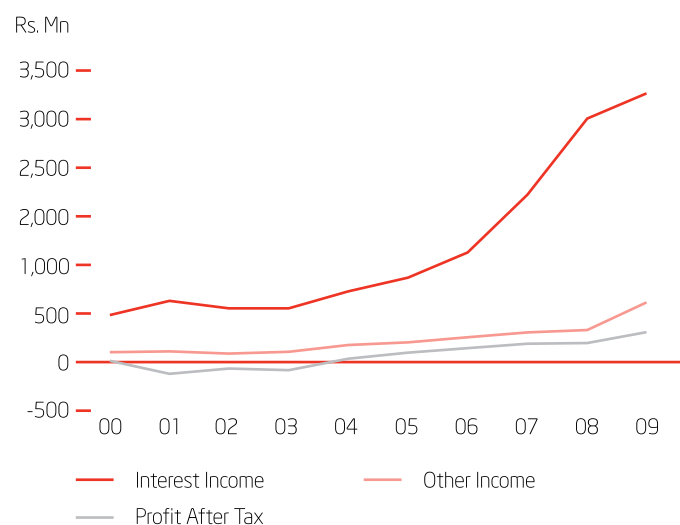
## Asset Growth



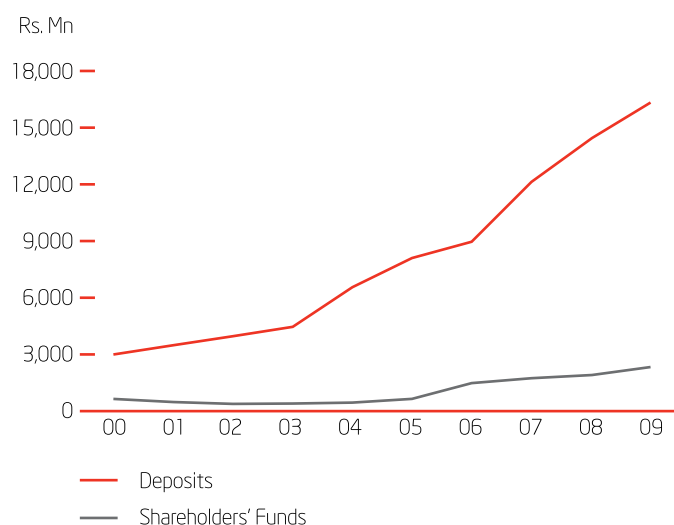
## Earnings & Net Assets per Share



## Income & Profit



## Deposits & Shareholders' Funds



# Information of Shareholders

As at 31 December, 2009

## Analysis 1

Range of Shareholding	No. of Share Holders	Resident			Non- Resident			Totals	
		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	392	28,899	0.03%	1	1	0.00%	393	28,900	0.03%
101 - 1,000	1,135	742,590	0.67%	6	4,800	0.00%	1,141	747,390	0.67%
1,001 - 5,000	849	2,427,496	2.20%	14	48,100	0.04%	863	2,475,596	2.24%
5,001 - 10,000	281	2,380,794	2.15%	6	55,000	0.05%	287	2,435,794	2.20%
10,001 - 50,000	278	6,316,206	5.71%	12	289,825	0.26%	290	6,606,031	5.97%
50,001 - 100,000	46	3,597,600	3.25%	5	414,000	0.37%	51	4,011,600	3.62%
100,001 - 500,000	46	9,589,800	8.67%	2	405,700	0.37%	48	9,995,500	9.04%
500,001 - 1,000,000	10	6,991,700	6.32%	1	800,000	0.72%	11	7,791,700	7.04%
1,000,001 & Above	11	64,909,497	58.67%	4	11,638,399	10.52%	15	76,547,896	69.19%
TOTAL	3,048	96,984,582	87.67%	51	13,655,825	12.33%	3,099	110,640,407	100.00%

## Analysis 2

Range of Shareholding	No. of Share Holders	Individual			Company			Totals	
		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	390	28,600	0.03%	3	300	0.00%	393	28,900	0.03%
101 - 1,000	1,125	738,177	0.67%	16	9,213	0.00%	1,141	747,390	0.67%
1,001 - 5,000	852	2,442,396	2.21%	11	33,200	0.03%	863	2,475,596	2.24%
5,001 - 10,000	270	2,279,594	2.06%	17	156,200	0.14%	287	2,435,794	2.20%
10,001 - 50,000	262	5,911,531	5.34%	28	694,500	0.63%	290	6,606,031	5.97%
50,001 - 100,000	40	3,155,600	2.85%	11	856,000	0.77%	51	4,011,600	3.62%
100,001 - 500,000	34	6,400,300	5.79%	14	3,595,200	3.25%	48	9,995,500	9.04%
500,001 - 1,000,000	3	2,277,900	2.06%	8	5,513,800	4.98%	11	7,791,700	7.04%
1,000,001 & Above	6	59,002,433	53.33%	9	17,545,463	15.86%	15	76,547,896	69.19%
TOTAL	2,982	82,236,531	74.34%	117	28,403,876	25.66%	3,099	110,640,407	100.00%

As per the Rules No.8.7(h) of the Colombo Stock Exchange, Percentage of Public Holding as at 31.12.2009 was 68.32%

	Resident / Non Resident As at 31.12.2009			Resident / Non Resident As at 31.12.2008		
	No. of Share Holders	No. of Shares	% of Share Holding	No. of Share Holders	No. of Shares	% of Share Holding
Resident Shareholders	3,048	96,984,582	87.66%	1,507	91,508,282	82.71%
Non Resident Shareholders	51	13,655,825	12.34%	17	19,132,125	17.29%
Total	3,099	110,640,407	100.00%	1,524	110,640,407	100.00%

	Individuals / Institutions As at 31.12.2009			Individuals / Institutions As at 31.12.2008		
	No. of Share Holders	No. of Shares	% of Share Holding	No. of Share Holders	No. of Shares	% of Share Holding
Individuals	2,982	82,236,531	74.33%	1,452	77,436,531	69.99%
Company	117	28,403,876	25.67%	72	33,203,876	30.01%
Total	3,099	110,640,407	100.00%	1,524	110,640,407	100.00%

Share Trading Market Prices	2009	2008
Highest Price (Rs.)	24.50	15.25
Lowest Price (Rs.)	9.00	9.50
Last Traded Price as at 31st December (Rs.)	20.25	10.25
Pan Asia Bank Market Capitalisation as at 31st December (Rs.)	2,240,468,242	1,134,064,172

# Top Twenty Shareholders

Year Ended 31 December, 2009

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

Year Ended 31 December, 2008

Name of Shareholder	Number of Shares	Holding as a %
1 Mr. K.D.D. Perera	33,181,058	29.99
2 Mr. J.D.C. Coonghe	8,285,376	7.49
3 HSBC Int'l NOM Ltd – UBS AG SINGAPORE Branch (EXSBC)	7,322,300	6.62
4 Mr. K.D.H. Perera	5,826,500	5.27
5 Mr. P.J. Tay	5,479,499	4.95
6 Mr. K.D.A. Perera	4,800,000	4.34
7 Mr. T. Senthilverl	4,291,300	3.88
8 Michelangelo Footwear Limited	3,640,000	3.29
9 Sri Lanka Savings Bank	2,782,000	2.51
10 Samurdhi Authority of Sri Lanka	2,557,188	2.31
11 Jayes Trading Co (Pvt) Ltd	2,267,500	2.05
12 Mr. M. Sriharan	2,083,000	1.88
13 FIRST Capital Markets Ltd/ Mr. W.D.N.H. Perera	1,601,875	1.45
14 ELGIN Investments Ltd	1,575,600	1.42
15 Lizzola Holdings Limited	1,500,000	1.36
16 Mr. A.M.A.R.A. Zalzalal	1,430,000	1.29
17 Bank of Ceylon A/C Ceybank Unit Trust	1,182,500	1.07
18 Mr. C.T. Maliduwapathirana	1,101,800	1.00
19 Favourite Garments Ltd	1,000,000	0.90
20 Alfred Edirisinghe (Pvt) Limited	850,000	0.77
	92,757,496	83.84
Balance held by 1,504 shareholders	17,882,911	16.16
Total Number of shares	110,640,407	100.00

# Branch Network

## 1 Head Office & Kollupitiya Branch

No.450, Galle Road, Colombo 3  
Tel: 011-2565565, 011-4667777

## 2 World Trade Centre Branch

Level 2, East Tower,  
World Trade Center, Echelon Square, Colombo 1  
Tel: 011-4374003-7

## 3 Panchikawatta Branch

221/221A, Sri Sangaraja Mawatha,  
Colombo - 10  
Tel: 011-4374013-7

## 4 Pettah Branch

64, Keyzer Street, Colombo 11  
Tel: 011-4374024-8

## 5 Kandy Branch

No. 111, Kotugodella Vidiya, Kandy  
Tel: 08-4946101-2,4 & 6

## 6 Rajagiriya Branch

468, Kotte Road, Rajagiriya  
Tel: 011-437435-9

## 7 Ratnapura Branch

No. 198, Main Street, Ratnapura  
Tel: 045-4928691-5

## 8 Nugegoda Branch

132 C, C1, C2, C3, High Level Road, Nugegoda  
Tel: 011-4374046-50

## 9 Bambalapitiya Branch

329, Galle Road, Colombo 04  
Tel: 011-4374057-61

## 10 Negombo Branch

90, St. Joseph's Street, Negombo  
Tel: 031-4934832-6

## 11 Gampaha Branch

95, Colombo Road, Gampaha  
Tel: 033-4933881-4, 033-4933812

## 12 Kurunegala Branch

No. 22, Suratissa Mawatha, Kurunegala  
Tel: 037-4936785-9

## 13 Matara Branch

32B, Anagarika Dharmapala Mawatha, Matara  
Tel: 041-4935025-9

## 14 Dehiwala Branch

No 104, Galle Road, Dehiwala  
Tel: 011-4374079-83

## 15 Kotahena Branch

No. 215 A, George R de Silva Mawatha,  
Colombo 13  
Tel: 011-4374068-72

## 16 Wattala Branch

No 134, Old Negomb Road, Wattala  
Tel: 011-4374090-4

## 17 Panadura Branch

506, Galle Road, Panadura  
Tel: 038-4927084-8,9

## 18 OMS Branch

314, Old Moor Street, Colombo 12  
Tel: 011-4374121-5

## 19 Dam Street Branch

No: 22, Dam Street, Colombo 12  
Tel: 011-4374132-6

## 20 Katugastota Branch

161, Madawala Road, Katugastota  
Tel: 081-4946141, 2,8, 081-4946130

## 21 Narahenpita Branch

526, Elvitigala Mawatha, Colombo 5  
Tel: 011-4374143-7

## 22 Maharagama Branch

No: 173/1, High Level Road, Maharagama  
Tel: 011-4374165-9

## 23 Kirulapona Branch

No: 100, High Level Road, Kirulapona  
Tel: 011-4374154-8

## 24 Moratuwa Branch

No: 18, New Galle Road, Moratuwa  
Tel: 011-4374176-80

## 25 Galle Branch

No: 170, Main Street, Galle  
Tel: 091-4941222-6

## 26 Kadawatha Branch

138, Kandy Road, Kadawatha  
Tel: 011-4374187-91

## 27 Kegalle Branch

72/74, Main Street, Kegalle  
Tel: 035-4928085-9

## 28 Wennappuwa Branch

No:6, Chilaw Road, Wennappuwa  
Tel: 031-4934872-6

## 29 Wellawatte Branch

150, Galle Road, Colombo 6  
Tel: 011-4374198-202

## 30 Gampola Branch

73E, Nuwara-Eliya Road, Gampola  
Tel: 081-4944781, 87 & 90  
081-4944625

## 31 Borella Branch

996A, Maradana Road, Colombo 8  
Tel: 011-4374209-13

## 32 Anuradhapura Branch

49, Main Street, Anuradhapura  
Tel: 025-4927153-7

## 33 Kalutara Branch

264, Main Street, Kalutara.  
Tel: 034-4947170, 034-4947177-80

## 34 Vavuniya Branch

14, 2nd Cross Street. Vavuniya  
Tel: 024-4924876

## 35 Malabe Branch

No: 410/2, Athurugiriya Road, Malabe  
Tel: 011-4374220-24

## 36 Chilaw Branch

No: 15 & 17, Bazaar Street, Chilaw  
Tel: 032-4928371-4



# Correspondent Banks

## Australia

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

## Austria

Creditanstalt Bankverein  
Bank Austria AG

## Bangladesh

Bank Asia Ltd  
Standard Chartered Bank

## Bahrain

Standard Chartered Bank  
KOC Bank

## Belgium

Bank Brussels Lambert  
Kbc Bank NV

## Brazil

ABN Amro Bank  
Banco Bradesco SA

## Bulgaria

Hebros Bank

## Brunei

Standard Chartered Bank

## Canada

Toronto Dominion Bank  
Credit Lyonnais  
Royal Bank of Canada

## Channel Islands

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

## Cook Islands

ANZ Banking Group Ltd.

## Chile

Banco Santander, Chile

## China

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

## Cyprus

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

## Denmark

Den Danske Bank A/S  
ABN Amro Bank

## Egypt

Mashreq Bank

## Fiji

ANZ Banking Group Ltd.

## Finland

Nordea Bank Finland plc, Helsinki

## France

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

## Germany

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

## Greece

ANZ Grindlays Bank PLC

## Hong Kong

Hongkong & Shanghai Banking Corp. Ltd.  
Deutsche Bank  
HBZ Finance Limited  
Mashreq Bank  
Standard Chartered Bank  
UBAF

## Hungaria

ABN - Amro

## India

Bank of Ceylon - Chennai  
Standard Chartered Bank  
Citi Bank N.A.  
Mashreq Bank  
Tamilnad Mercantile Bank  
ICICI Bank

## Indonesia

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

## Ireland

ABN Amro Bank N.V. -Dublin

## Iran

Bank - Sedarat

## Italy

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

## Israel

Israel Discount Bank  
Mercantile Discount Bank Ltd.

## Japan

Deutsche Bank AG  
UBAF - Tokyo  
Citi Bank NA  
Overseas Chinese Banking Corp. Ltd.  
Bank of Nova Scotia  
Standard Chartered Bank

## Jordan

Standard Chartered Bank

## Correspondent Banks (Contd.)

### Kenya

Standard Chartered Bank  
Dubai Bank Kenya Ltd.  
Akiba Bank

### Korea

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

### Kuwait

Kuwait Bahrain Int. Exchange Co.  
National Bank of Kuwait (SAK)  
Burgan Bank S.A.K

### Lebanon

Inaash Bank SAL

### Luxembourg

Bankers Trust Co. Americas

### Malaysia

Standard Chartered Bank  
HSBC Bank  
OCBC Bank Malaysia

### Maldives

Bank of Ceylon – Male  
Bank of Maldives

### Mauritius

Mauritius Commercial Bank, Port Louis MU

### Mexico

ABN Amro Bank

### Nepal

Himalayan Bank Ltd  
Standard Chartered Bank Nepal Ltd

### Netherlands

ABN-Amro Bank  
KOC Bank  
Holand Bank  
ING-Bank

### Norway

Skandinaviska Enskilda Banken

### New Zealand

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

### Oman

Habib Bank A G Zurich  
Standard Chartered Bank

### Pakistan

Muslim Commercial Bank Ltd.  
Standard Chartered Bank  
Mashreq Bank

### Papua New Guinea

ANZ Banking Group (PNG) Ltd

### Philippines

ABN Amro Bank  
Citi Bank NA.  
Standard Chartered Bank

### Poland

Bank Handlowy W Warsza wie S.A.

### Qatar

Mashreq Bank  
Standard Chartered Bank

### Russia

Rossiyskiy Kredit Bank  
International Moscow Bank

### Saudi Arabia

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

### Singapore

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

Deutsche Bank  
United Overseas Bank.  
UBAF

### Solomon Islands

ANZ Banking Group Ltd.,

### South Africa

ABSA Bank Limited  
NED Bank  
State Bank of India

### Spain

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

### Sweden

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

### Switzerland

UBS AG  
Credit Suisse

### Taiwan ROC

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

### Thailand

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

### Turkey

Iktisat Bankasi T.A.S  
Bank Kapital T.A.S  
Tekstil Banksai A.S.  
KOC Bank Istambul -Turkey

**UAE**

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

**UK**

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

**USA**

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

**Vietnam**

Citi Bank NA

**Zambia**

Standard Chartered Bank

**Zimbabwe**

Standard Chartered Bank

# Glossary of Financial & Banking Terms

## Accrual Basis

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

## Capital Adequacy Ratio

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

## Cash Equivalents

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

## Contingencies

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

## Corporate Governance

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

## Cost to Income Ratio

Operating expenses as a percentage of net income.

## Deferred Tax

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

## Documentary Letters of Credit (L/Cs)

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

## Earnings Per Share

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

## Fair Value

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

## Finance Lease

Leases which transfer risks and rewards of ownership. Title may or may not eventually be transferred. Foreign Exchange Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transactions/last Balance Sheet date and the settlement/Balance Sheet date. Also arises from trading in foreign currencies.

## Foreign Exchange Profit

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transactions/last Balance Sheet date and the settlement/Balance Sheet date. Also arises from trading in foreign currencies.

## Forward Exchange Contract

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

## General Provisions

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

## Guarantees

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

## Impairment

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

## Intangible Asset

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

## Interest Margin

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

## Interest In Suspense

Interest suspended on Non-Performing Loans and Advances.

## Investment Securities

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

**Key Management Personnel**

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

**Liquid Assets**

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

**Market Capitalization**

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

**Net Assets Value Per Share**

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

**Net Interest Income**

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

**NPA Ratio (Gross)**

Total Non Performing Advances (net of interest in suspense) divided by total advances portfolio (net of interest in suspense).

**NPA Ratio (Net)**

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

**Provision for Loan Losses**

A charge to income added to the allowance for loan losses. Specific provisions are established to reduce the book value of specific assets (primarily loans) to estimated realizable values.

**Related Parties**

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

**Repurchase Agreement**

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

**Reverse Repurchase Agreement**

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

**Return on Average Assets**

Profit after tax divided by the average assets.

**Return on Average Shareholders' Funds**

Net profit for the year, expressed as a percentage of average Shareholders' Funds

**Revenue Reserve**

Reserves set aside for future distribution and investment.

**Risk Weighted Assets**

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

**Shareholders' Funds**

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

**Tier I Capital**

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

**Tier II Capital**

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

**Value Added**

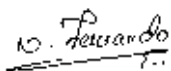
Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

# Notice of Meeting

NOTICE IS HEREBY GIVEN that the FIFTEENTH ANNUAL GENERAL MEETING of PAN ASIA BANKING CORPORATION PLC will be held at the Taj Samudra, Crystal Room- Lower Floor, No. 25, Galle Face Centre Road, Colombo 03, on 31st March, 2010 at 9.30 a.m. for the following purposes :-

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Audited Financial Statements for the year ended 31st December, 2009 with the Report of the Auditors thereon.
2. To re-elect Mr. W.D.N.H. Perera, who retires by rotation at the Annual General Meeting in terms of Articles 93 & 94 of the Articles of Association as a Director.
3. To re-elect Mr. M.D.S. Goonatilleke, who retires by rotation at the Annual General Meeting in terms of Articles 93 & 94 of the Articles of Association as a Director.
4. To elect Mrs. Kimarli Fernando, who retires at the Annual General Meeting in terms of Article 100 of the Articles of Association as a Director.
5. To authorise the Directors to determine donations for the year 2010.
6. To re-appoint the Auditors of the Bank M/s Ernst & Young and to authorise the Directors to determine their remuneration.
7. To determine the remuneration of the Directors.

BY ORDER OF THE BOARD



**N. Fernando**  
*Company Secretary*

Colombo  
February 08, 2010

## NOTES :

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her stead.
2. A proxy need not be a member of the Company. The form of proxy is enclosed herewith.
3. The completed form of proxy must be deposited with the Company Secretary at the Registered Office of the Company, 450, Galle Road, Colombo 3 not later than 48 hours prior to the time appointed for the holding of the meeting.
4. Shareholders/proxies attending the meeting are requested to bring their National Identity Cards.

# Form of Proxy

I/We .....

(NIC No/s.....)

of .....being

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

- |    |  |                           |
|----|--|---------------------------|
| 1. | Aratchige Gunaratne Weerasinghe              | of Colombo or failing him |
|    | Wannakawattawaduge Don Nimal Hemasiri Perera | of Colombo or failing him |
|    | John Anthony Sunil Sumith Adihetty           | of Colombo or failing him |
|    | Anthony Asokumar Page                        | of Colombo or failing him |
|    | Ruwanpura Eshana Uvindra De Silva            | of Colombo or failing him |
|    | Mestiyage Don Saddhamangala Goonatilleke     | of Colombo or failing him |
|    | Kimarli Fernando                             | of Colombo or failing her |

2. ....

(NIC No.....)

of .....

as my/our\* proxy to vote on my/our\* behalf at the Fifteenth Annual General Meeting of Pan Asia Banking Corporation PLC, to be held on 31st March, 2010 at 9.30 a.m. and at any adjournment thereof.

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

- |   | <b>For</b>               | <b>Against</b>           |
|---|--------------------------|--------------------------|
| <b>1. Resolution No. 1</b><br>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 December, 2009 with the Report of the Auditors' thereon. | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>2. Resolution No. 2</b><br>To re-elect Mr. W.D.N.H. Perera who retires by rotation at the Annual General Meeting in terms of Articles 93 & 94 of the Articles of Association as a Director.  | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>3. Resolution No. 3</b><br>To re-elect Mr. M.D.S. Goonatilleke who retires by rotation at the Annual General Meeting in terms of Articles 93 & 94 of the Articles of Association as a Director.  | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>4. Resolution No. 4</b><br>To elect Mrs. Kimarli Fernando who retires at the Annual General Meeting in terms of Article 100 of the Articles of Association as a Director.  | <input type="checkbox"/> | <input type="checkbox"/> |



## Form of Proxy (Contd.)

	For	Against
<b>5. Resolution No. 5</b> To authorise the Directors to determine the donations for the year 2010.	<input type="checkbox"/>	<input type="checkbox"/>
<b>6. Resolution No. 6</b> To re-appoint the Auditors of the Bank, M/s Ernst & Young and to authorise the Directors to determine their remuneration	<input type="checkbox"/>	<input type="checkbox"/>
<b>7. Resolution No. 7</b> To determine the remuneration of the Directors.	<input type="checkbox"/>	<input type="checkbox"/>

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

.....  
 Signature of shareholder.

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

1. To be valid, this form of proxy must be deposited with the Company Secretary at the Registered Office situated at No.450, Galle Road, Colombo 3, before 9.30 a.m. on the 29th March, 2010 being 48 hours before the time appointed for holding the meeting.
2. In perfecting the form of proxy please ensure that all details are legible.
3. The proxy appointed need not be a shareholder of Pan Asia Banking Corporation PLC.
4. If the shareholder is a Company/Corporation, the proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association.
5. A shareholder appointing a proxy (other than a Director of the Bank) to attend the meeting should indicate the proxy holder's National Identity Card (NIC) number on the Form of Proxy and request the proxy holder to bring his/her \* National Identity Card with him/her\*.
6. Please indicate with 'x' in the space provided how your proxy is to vote on each resolution.

\* Delete whichever is inapplicable.

# Corporate Information

## REGISTERED NAME OF THE COMPANY

Pan Asia Banking Corporation PLC

## LEGAL FORM

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

## COMPANY REGISTRATION NUMBER

PQ 48

## REGISTERED OFFICE/HEAD OFFICE

No. 450, Galle Road,  
Colombo 03.  
Sri Lanka.

## TELEPHONE

+94(0)112565565

## FAX

+94(0)112565558

## SWIFT Code

PABSLKLX

## E-MAIL

pabc@pabcbank.com

## WEB SITE

www.pabcbank.com

## TAX PAYER IDENTIFICATION NUMBER (TIN)

134005700

## ACCOUNTING YEAR END

31st December

## BOARD OF DIRECTORS

Mr. A.G. Weerasinghe – Chairman  
Mr. W.D.N.H. Perera – Deputy Chairman  
Mr. J.A.S.S. Adhihetty  
Mr. A.A. Page  
Mr. R.E.U. De Silva  
Mr. M.D.S. Goonatilleke  
Mrs. Kimarli Fernando  
Mr. T.C.A. Peiris – Acting Chief Executive Officer

## COMPANY SECRETARY

Mrs. N. Fernando

## BOARD AUDIT COMMITTEE

Mr. M.D.S. Goonatilleke – Chairman  
Mr. A.A. Page  
Mr. R.E.U. De Silva

## BOARD CREDIT COMMITTEE

Mr. A.G. Weerasinghe – Chairman  
Mr. W.D.N.H. Perera  
Mr. J.A.S.S. Adhihetty

## BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

Mr. A.G. Weerasinghe – Chairman  
Mr. W.D.N.H. Perera  
Mrs. Kimarli Fernando

## BOARD HUMAN RESOURCES & REMUNERATION COMMITTEE

Mr. A.G. Weerasinghe – Chairman  
Mr. W.D.N.H. Perera  
Mrs. Kimarli Fernando

## BOARD NOMINATION COMMITTEE

Mr. A.G. Weerasinghe – Chairman  
Mr. W.D.N.H. Perera  
Mrs. Kimarli Fernando

## AUDITORS

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

## CREDIT RATING

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

## STOCK EXCHANGE LISTING

110,640,407 Ordinary Shares of the Company are listed on the Colombo Stock Exchange in Sri Lanka.

