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## 1 General

### 1.1 a) APPLICATION OF SRI LANKA ACCOUNTING STANDARDS (SLFRS/LKAS).

The Institute of Chartered Accountants (ICASL) has issued a new volume of Sri Lanka Accounting Standards (LKAS/SLFRS) which have become applicable for financial periods commenced on or after 1<sup>st</sup> January 2012. Therefore interim results shall be required to be reported by entities in accordance with LKAS 34, Interim Financial Reporting.

However the Institute of Chartered Accountants of Sri Lanka has granted three alternatives for the entities when preparing the interim Financial Statements during the first financial year commencing on or after 1<sup>st</sup> January 2012. Such options are

1. To prepare Interim Financial Statements in accordance with Sri Lanka Accounting Standards (LKAS/SLFRS) or
2. Prepare Interim Financial Statements in accordance with Sri Lanka Accounting Standards existed immediately prior to 1<sup>st</sup> January 2012 (SLASs), with disclosures on impact to the Statement of Comprehensive Income for the period and net assets based on LKAS/SLFRS or
3. Prepare Interim Financial Statements presenting the current period figures based on Sri Lanka Accounting Standards (LKAS/SLFRS) effecting from 1<sup>st</sup> January 2012, while presenting the comparative figures under the Sri Lanka Accounting Standards existed immediately prior to 1<sup>st</sup> January 2012 (SLASs).

Accordingly, these Interim Financial Statements have been prepared in line with the first option given by the Institute of Chartered Accountants of Sri Lanka (ICASL).

For all periods up to and including the year ended December 31, 2011 the group prepared its financial statements in accordance with SLAS which were effective up to December 31, 2011. The financial statements for the period ended December 31, 2012 are the first financial statements prepared and presented in accordance with Sri Lanka Accounting Standards (LKAS/SLFRS) immediately effective from January 01, 2012. These LKAS/SLFRSs have materially converged with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

A brief explanation of how the transition to LKAS/SLFRSs and impact to Total Comprehensive Income & Equity are given in note 1.5 and 1.6 to these Interim Financial Statements.

### 1.1 b) AUDIT OF THE INTERIM FINANCIAL STATEMENTS

These Interim Financial Statements for the year ended 31<sup>st</sup> December 2012 are audited.

## 1.2 DISCLOSURE REQUIREMENTS

The Bank published its Annual Report for the year ended 31<sup>st</sup> December 2012 including all the disclosure requirements under LKAS/SLFRS, which has been the first Annual Financial Statements after the issue of the new accounting standards.

## 1.3 SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

The significant accounting policy changes with those of the Audited Financial Statements presented for the year ended 31<sup>st</sup> December 2011 are as follows.

### (i) Presentation of financial statements (LKAS 1)

It requires an entity to present all items of income and expenses recognized in a period either in a single statement of comprehensive income or in two statements, separate Statement of Comprehensive Income and a Statement of other Comprehensive Income. The Company has selected to present comprehensive income in two separate statements, Income Statement and a Statement of Comprehensive Income.

### (ii) Financial Instruments – Presentation, recognition, measurement and disclosure (LKAS 32, 39 and SLFRS 7)

The above standards require an entity to recognize the financial assets and liabilities and apply the measurement presentation and disclosure requirements set out by the standards.

Therefore, the Bank has classified its financial assets as follows,

<b>Financial Asset</b>	<b>Category</b>
- Treasury Bonds	Fair value Through Profit or Loss, Available for Sale and Held to Maturity
- Treasury Bills	Fair value Through Profit or Loss, Available for Sale and Held to Maturity
- Equity Shares	Available for sale & Fair Value the Profit & Loss
- Debentures	Held to Maturity
- Corporate Debt	Loans and Receivables
- Term Deposits	Amortized Cost
- Loans and Receivables	Loans and Receivables
- Derivative Financial Instruments	Fair Value through Profit & Loss

### (iii) Operating Leases

Company utilizes the premises, its branches and Head office through Operating Leased agreements. According to the LKAS 17 (Leases), Lease payments under an operating lease shall be recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. Therefore, the Company changed the method of recognizing rent expenses to the straight-line basis over the lease term as required by accounting standards after incorporating the impact of the escalation clauses, where applicable.

## 1.4 COMPARATIVE INFORMATION

Comparative information has been restated in line with the changes to the new Sri Lanka Accounting Standards (LKAS/SLFRS) which are effective from 1<sup>st</sup> January 2012.

**1.5** Reconciliation of Total Comprehensive income in accordance with Sri Lanka Accounting Standards effective from 1<sup>st</sup> January 2012 and Sri Lanka Accounting Standards effective prior to 1<sup>st</sup> January 2012

	For the year ended	
	Bank 31 <sup>st</sup> Dec 2011 Rs. '000	Group 31 <sup>st</sup> Dec 2011 Rs. '000
Profit after tax published in accordance with the accounting standards effective immediately prior to 1 <sup>st</sup> January 2012	1,002,652	1,005,798
Restatement of Leave Encashment Provision	(17,214)	(17,214)
Deferred Tax Adjustment on Tax Losses of Subsidiary	-	7,235
Restatement of Subsidiary Company Balances	-	688
Profit after tax (amended) in accordance with the accounting standards effective immediately prior to 1 <sup>st</sup> January 2012	985,438	996,507
<b>Effect of adoption of LKAS/ SLFRS</b>		
Financial Instruments	(389,669)	(389,669)
Operating Lease –Rent	(40,396)	(40,396)
Tax impact	109,506	109,506
<b>Net Profit Reported in the Income Statement</b>	<b>664,879</b>	<b>675,948</b>
Changes in fair value of investment securities - available for sale	(346,147)	(345,826)
Revaluation surplus on property plant & equipment		313
Total Comprehensive income in compliance with accounting standards effective from 1 <sup>st</sup> January 2012	<b>318,732</b>	<b>330,435</b>

**1.6** Reconciliation of Total equity in accordance with Sri Lanka Accounting Standards effective from 1<sup>st</sup> January 2012 and Sri Lanka Accounting Standards effective prior to 1<sup>st</sup> January 2012

	For the year ended	
	Bank As at 31 <sup>st</sup> Dec 2011 Rs. '000	Group As at 31 <sup>st</sup> Dec 2011 Rs. '000
Total Equity in accordance with the accounting standards effective immediately prior to 1 <sup>st</sup> January 2012	17,539,525	17,947,566
Adjustment due to Restatements	(3,151)	114,300
Investment securities - available for sale	130,608	130,923
Effect of adoption of LKAS /SLFRS – other	(174,764)	(174,764)
Total equity in accordance with the accounting standards effective from 1 <sup>st</sup> January 2012	<b>17,492,218</b>	<b>18,018,025</b>

## 2. Information on Ordinary Shares

MARKET VALUE (Rs.)	31/12/2012		31/12/2011	
	Voting	Non Voting	Voting	Non Voting
Market Value Per Share	56.00	35.10	67.60	30.80
Highest price per share for the quarter ended	70.00	37.00	74.50	44.00
Lowest price per share for the quarter ended	54.00	31.50	60.00	27.10

## 3. Shareholders Information

### Twenty Largest Ordinary Voting Shareholders as at December 31, 2012

	No. of Shares	%
1. Sri Lanka Insurance Corporation Ltd <i>[includes Sri Lanka Insurance Corporation Ltd -General Fund – 17,333,333 and Sri Lanka Insurance Corporation Ltd (Life Fund) – 8,666,666]</i>	25,999,999	15.00
2. Brown & Company PLC A/C No. 1	24,049,888	13.87
3. National Development Bank PLC/ Dr T Senthilvel	17,201,683	9.92
4. LOLC Investments Ltd	16,555,954	9.55
5. Employees Provident Fund	15,991,444	9.22
6. Bank of Ceylon No.1 Account	13,000,000	7.50
7. Waldock Mackenzie Limited/Mr D S K Amarasekera	11,152,610	6.43
8. Dr W U N Gamage	7,835,200	4.52
9. Bentota Backwaters (Pvt) Ltd	3,308,565	1.91
10. Seyfest (Private) Limited	2,972,596	1.71
11. Sesot (Private) Limited	2,244,800	1.30
12. Seybest (Private) Limited	2,132,900	1.23
13. Seyshop (Private) Limited	2,132,900	1.23
14. Esots (Private) Limited	2,115,857	1.22
15. Ceylinco Limited	1,680,896	0.97
16. Mr K R B Fernando	1,000,000	0.58
17. Sotse (Pvt) Ltd	962,331	0.56
18. Dr J L B Kotelawala	529,525	0.31
19. Sinharajah Hills Plantation (Pvt) Ltd	512,825	0.30
20. Mr L W Abeywickrama	477,500	0.28

**Twenty Largest Ordinary Non-Voting Shareholders as at December 31, 2012**

	No. of Shares	%
1. Lanka Orix Leasing Company PLC	46,864,489	28.44
2. Employees' Provident Fund	16,399,359	9.95
3. Browns Investments PLC	11,697,418	7.10
4. Mr E Thavagnanasooriyam & Mr E Thavagnanasundaram	2,627,407	1.59
5. Associated Electrical Corporation Ltd	2,540,000	1.54
6. Pershing LLC S/A Averbach Grauson & Co	2,202,933	1.34
7. Merrill J Fernando & Sons (Pvt) Limited	1,830,000	1.11
8. Employees Trust Fund Board	1,722,583	1.05
9. Mr N Balasingam	1,718,503	1.04
10. Bentota Backwaters (Pvt) Ltd	1,509,879	0.92
11. National Savings Bank	1,496,666	0.91
12. Mrs L E M Yaseen	1,340,000	0.81
13. Seylan Bank PLC/Pubudhu Saranga Wijayakumari Rupasinghe	1,178,712	0.72
14. Mr N Ganarajah	1,140,666	0.69
15. Phoenix Ventures Limited	1,129,866	0.69
16. Dr S Yaddehige	1,016,200	0.62
17. Waldock Mackenzie Limited/Mr L P Hapangama	900,000	0.55
18. Mr E Thavagnanasooriyam	832,199	0.51
19. J. B. Cocoshell (Pvt) Ltd	816,527	0.50
20. Mr E Thavagnasundaram	752,834	0.45

**Percentage of Public Holdings as at December 31, 2012**

- Ordinary Voting Shares - 61.53%
- Ordinary Non-Voting Shares - 71.48%

**4. Directors' and General Manager/Chief Executive Officer's Shareholdings as at December 31, 2012**

<u>Name of Director</u>	<u>No of Shares</u> <i>(Ordinary Voting)</i>	<u>No of Shares</u> <i>(Ordinary Non-voting)</i>
Mr. P Mohan Pieris, PC	Nil	Nil
Mr R Nadarajah	13,333	Nil
Mr N M Jayamanne P C	5,500	Nil
Mr P L P Withana	23,363	Nil

Rear Admiral B A J G Peiris	Nil	Nil
Mr A L Devasurendra	Nil	Nil
Mr I C Nanayakkara	Nil	Nil
Mr S P S Ranatunga	Nil	Nil
Mr A M Mohan De Alwis	Nil	Nil
Mr P Kudabalage	Nil	Nil

#### Shares held by General Manager/CEO

Mr K P Ariyaratne	20,800	115,400
Jointly with Mrs. N I Ariyaratne	37	-

#### 5 Impairment Allowances on Loans and Receivables – Ceylinco Group Exposure

In view of the special circumstances under which the Bank was reconstituted by the Direction of the Central Bank of Sri Lanka, the Monetary Board has granted an exemption for providing loan losses for a period of 3 years from December 31, 2010 to Seylan Bank PLC, from the requirement to apply progressive discount on the forced sale value of immovable property, in terms of the Banking Act Direction No. 03 of 2008 on “Classification of Loans and Advances, Income Recognition and Provisioning”, when computing the provisioning to be made as at December 31, 2012, for non-performing facilities of Ceylinco Homes International (since covered under the scope of Act no 43 of 2011 – Revival of Underperforming Enterprises or Underutilized Assets and subsequently placed under the Compensation Tribunal. No adjustments have been made to the valuations used for accounting purposes) and Golden Key Credit Card Company.

However the required impairment allowance on above facilities as required under LKAS-39 have been incorporated in the Interim Financials Statements.

#### 6. Stated Capital as at December 31, 2012

	<b>Rs'000</b>
43,560,000 Voting Ordinary Shares @ Rs. 10/- each	435,600
86,440,000 Voting Ordinary Shares @ Rs. 35/- each	3,025,400
43,333,333 Voting Ordinary Shares @ Rs. 75/- each	3,250,000

123,560,000 Non Voting Ordinary Shares @ Rs.10/- each	1,235,600
41,186,666 Non Voting Ordinary Shares @ Rs.35/- each	1,441,533

Share Premium	837,319
	<b>10,225,452</b>

3,390,100 Redeemable, Non-cumulative, Non-convertible and Non-voting Preference Shares were redeemed on February 13, 2012 and the Stated Capital was reduced by Rs.33,901,000/-.

## 7. Post Balance Sheet Events

The Board of Directors of the Bank by Resolution dated November 28, 2012 decided to proceed with a Public Debenture Issue (listed debentures) of 10,000,000 (Ten Million) Unsecured Subordinated Redeemable Debentures of the par value of Rs. 100/- each aggregating to the value of Rs. 1,000,000,000 (Rupees One Billion) with an option to issue a further 10,000,000 (Ten Million) of the said Debentures in the event of an oversubscription. The Debenture Issue (2013/2018) opened on February 14, 2013 and was over subscribed on the same day.

A first and final dividend of Rs. 2/- per share was recommended by the Board (Rs. 1/- per share as cash dividend and Rs. 1/- per share as scrip dividend) for the year ended 2012 subject to the approval of share holders at the Annual General Meeting

## 8. Others

Mr P M M Pieris, PC resigned from the Board of Directors and as Chairman of the Bank with effect from January 15, 2013.

Independent Director Mr Nihal Jayamanne PC and Non- Executive Director Mr I C Nanayakkara were appointed as the Chairman and Deputy Chairman respectively with effect from January 17, 2013.

748,500 debentures (Rs.100/- each) issued under the Bank's Debenture Issue 2006/2012 (private placement) matured during the months of November & December 2012 and 5,592,850 debentures (Rs.100/- each) issued under the Bank's Debenture Issue 2007/2012 issue 2 (public issue) matured on December 09, 2012 and were redeemed on the respective dates.

There were no material changes in contingent liabilities, composition of Assets and Liabilities and use of funds raised by the Bank other than the classification of assets and liabilities as required by LKAS/SLFRS applicable with effect from January 01, 2012 .

All known expenses including Provision for Impairment as per LKAS/SLFRS have been provided for in these Interim Accounts.