

2013

Seylan Bank PLC - Integrated Annual Report

ALL IN A DAY'S WORK

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With Compliments
from
Seylan Bank.

Taking care of day-to-day affairs with diligence and an eye for detail

It wasn't the best year for the banking sector. Demand for credit declined and margins came under pressure. After a period of rapid growth and expansion, cost management and consolidation became crucially important.

Even amidst such a challenging environment Seylan Bank improved on its performance over 2012. We also responded by taking care of business: concentrating on improving day-to-day affairs, seeking out and cultivating opportunity through redefining and improving relationships, focusing on operational processes with an eye for the profitable detail and the future.

We made best use of the assets - financial, human, structural and reputational - we already possessed. Realising that this was a time for building for the future, we quietly built on our existing strengths, making ready, to take advantage of the impending upturn.

Thus our motto in 2013 was "continuous diligence and improvement, day by day."

Calendar 2014

ANNUAL
GENERAL
MEETING

| January | | | | | February | | | | | March | | | | | April | | | | | | | | | |
|---------|----|----|----|----|----------|----|----|----|----|-------|----|----|----|----|-------|----|----|----|----|----|----|----|----|----|
| M | T | W | T | F | S | S | M | T | W | T | F | S | S | M | T | W | T | F | S | S | | | | |
| | | 1 | 2 | 3 | 4 | 5 | | | | | | 1 | 2 | | | 1 | 2 | 3 | 4 | 5 | 6 | | | |
| 6 | 7 | 8 | 9 | 10 | 11 | 12 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| 13 | 14 | 15 | 16 | 17 | 18 | 19 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| 20 | 21 | 22 | 23 | 24 | 25 | 26 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 |
| 27 | 28 | 29 | 30 | 31 | | | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | | | | |

| May | | | | | June | | | | | July | | | | | August | | | | | | | | | | | | |
|-----|----|----|----|----|------|----|----|----|----|------|----|----|----|----|--------|----|----|----|----|----|----|----|----|----|----|----|----|
| M | T | W | T | F | S | S | M | T | W | T | F | S | S | M | T | W | T | F | S | S | | | | | | | |
| | | | 1 | 2 | 3 | 4 | 30 | | | | | 1 | | | | | | 1 | 2 | 3 | 4 | 5 | 6 | | | | |
| 5 | 6 | 7 | 8 | 9 | 10 | 11 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 12 | 13 | 14 | 15 | 16 | 17 | 18 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 11 | 12 | 13 | 14 | 15 | 16 | 17 |
| 19 | 20 | 21 | 22 | 23 | 24 | 25 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 18 | 19 | 20 | 21 | 22 | 23 | 24 |
| 26 | 27 | 28 | 29 | 30 | 31 | | | | | | 28 | 29 | 28 | 29 | 30 | 31 | | | 25 | 26 | 27 | 28 | 29 | 30 | 31 | | |

| September | | | | | October | | | | | November | | | | | December | | | | | | | | | | | | | |
|-----------|----|----|----|----|---------|----|----|----|----|----------|----|----|----|----|----------|----|----|----|----|----|----|----|----|----|----|----|----|--|
| M | T | W | T | F | S | S | M | T | W | T | F | S | S | M | T | W | T | F | S | S | | | | | | | | |
| | | | | | | | | | | 1 | 2 | 3 | 4 | 5 | | | | | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | | |
| 8 | 9 | 10 | 11 | 12 | 13 | 14 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | |
| 15 | 16 | 17 | 18 | 19 | 20 | 21 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | |
| 22 | 23 | 24 | 25 | 26 | 27 | 28 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | |
| 29 | 30 | | | | | | 27 | 28 | 29 | 30 | 31 | | | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 29 | 30 | 31 | | | | | |



Seylan Bank PLC is a public limited liability company incorporated in Sri Lanka in 1987. The Bank focuses on conventional commercial banking and operates from its Head Office in Colombo and through its island-wide network of branches.

Vision To be Sri Lanka's leading financial services provider - as recognised by all our stakeholders.

Mission We provide our customers with financial services that meet their needs in terms of value, pricing, delivery and service.

We will do so through a team of Seylan Bankers who are recognised and rewarded for results orientation.

We will ensure that our efforts translate to meeting the expectations of our shareholders, whilst always acting as responsible corporate citizens.

Financial Calendar 2013

28TH FEBRUARY 2013
4th Quarter Results 2012

MARCH 2013
Annual Report (2012)

28TH MARCH 2013
26th Annual General Meeting

2ND MAY 2013
1st Quarter Results

29TH JULY 2013
2nd Quarter Results

31ST OCTOBER 2013
3rd Quarter Results

Proposed Financial Calendar 2014

FEBRUARY 2014
4th Quarter Results (2013)

MARCH 2014
Annual Report (2013)

31ST MARCH 2014
27th Annual General Meeting

MAY 2014
1st Quarter Results

AUGUST 2014
2nd Quarter Results

OCTOBER 2014
3rd Quarter Results



ABOUT THE REPORT

Structure

The Seylan Bank Annual Report 2013 adopts a different approach and structure. It is an integrated report; in fact, our very first.

In adopting this approach, we have attempted to communicate coherently and concisely the relationships and interplay between the many aspects of our business in the context of creating value over time. This follows from a process underpinned by integrated thinking that takes a holistic view of aspects such as strategy, business model, risks and opportunities, corporate governance, performance and prospects.

Conceptual Framework

Although our Annual Report 2012 included a Sustainability Report, commencing with the Bank's Annual Report 2013, we have chosen to integrate financial reporting and sustainability reporting, which will be our norm for corporate reporting in future.

In doing so, we have drawn on concepts, principles and guidance given in the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines G3.1,

the International Integrated Reporting Framework (2013) and the Smart Integrated Reporting Methodology™ for integrated reporting, where applicable.

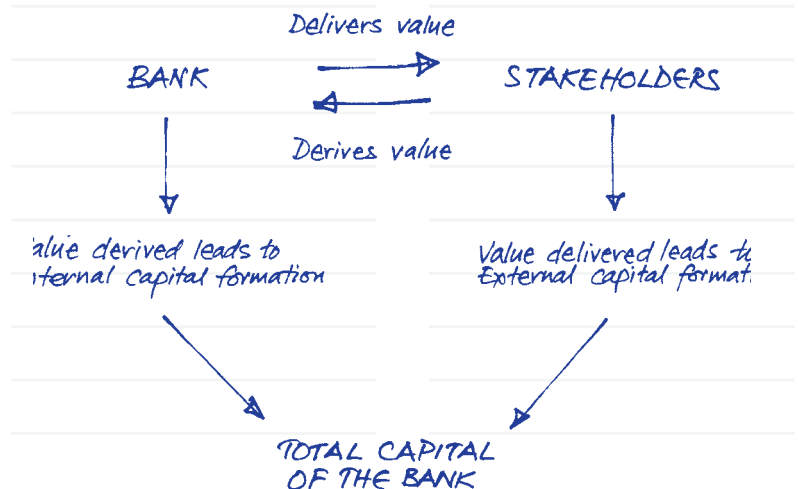
The Dual Aspects of Value Creation

We look at value creation from two angles. It stems from the realisation that the ability of an organisation to create sustainable value for itself is inextricably linked to the value it creates for its stakeholders. The two go hand in hand.

The Bank delivers value, both financial and non-financial, to its key stakeholders in the context of the economic, social and environmental parameters within which it operates. These stakeholders are of value to the Bank, and they are nurtured and

developed over a period of time. As stores of value, they constitute the Bank's stakeholder capital, the primary components being investors, customers, employees, society, environment and government. These forms of capital are external to the Bank.

The Bank in turn derives value through the dynamic interaction between its stakeholder or external capital as well as its own internal capital to drive future earnings. The internal capital to the Bank comprises financial capital and institutional capital. The latter includes intellectual property, knowledge, systems, procedures, brand value, corporate culture, business ethics, integrity and the like.



About the Report

The Multiple Forms of Capital

The various forms of capital are in a state of flux with flows taking place among them. The Bank has access to and makes use of these various forms of capital in creating value for itself (deriving value) and its stakeholders (delivering value) through its business model. They underscore the dual nature of value creation as depicted in the diagram on the adjacent page.

Profiling the Bank

Seylan Bank PLC commenced operations in 1987. It is a public limited liability company incorporated in Sri Lanka and is listed on the Colombo Stock Exchange. The Bank operates from its Head Office in Colombo and through its island-wide net work of branches.

Seylan focuses on conventional commercial banking.

Corporate information regarding the Bank appears on page 340 and information on share ownership is found in the section on 'Investor Relations' of this Annual Report.

Our Presence and Scale of Operations

The Bank maintained its momentum of growth by adding four new delivery points and four ATMs during

the year under review. With this, the number of delivery points rose to 151, while the number of ATMs increased to 158 as at end 2013.

Our Brands, Products, Services and Operational Structure

The operational structure of the Bank comprises five main sections - Branch Banking, Corporate and Offshore Banking, Personal Banking, Treasury & Back-Office Operations and International & Trade Operations. These divisions of the organisation offer a gamut of financial services to customers through various delivery channels. A description of our products appears on page 52 of this Annual Report.

Report Boundary

The primary boundary of our annual report is Seylan Bank PLC (Bank). However, in specific instances, reference is also made to the consolidated financial performance of the Group, which includes the Bank's subsidiary incorporated in Sri Lanka, namely, Seylan Developments PLC.

Materiality

The Bank creates value through a wide range of activities and relationships with its stakeholders. When these are material to the

Bank's ability to create value for itself over the short, medium and long-term, they are included in the integrated report. Relevance and importance thus determine materiality, with importance taking cognizance of both magnitude of the impact as well as its probability of occurrence.

Compliance

The Bank's Annual Report 2013 covers the 12-month period 1 January to 31st December 2013, and is consistent with our usual annual reporting cycle for financial and sustainability reporting.

The information contained in this report, as in the past, is in compliance with all applicable laws, regulations and standards as well as guidelines for voluntary disclosures.

Queries

The Bank will be pleased to answer any inquiry and/or provide any clarifications on any material contained in this report. Please contact:

Finance Department,
Seylan Bank PLC, No. 90,
Seylan Towers, Galle Road,
Colombo 3.

Tel: 2456366, Fax 2452612,
Email: act@seylan.lk

Financial Highlights

| | BANK | | | GROUP | | |
|---|------------------|------------------|-------------|------------------|------------------|-------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | Change % | 2013 Rs. '000 | 2012 Rs. '000 | Change % |
| During the Year | | | | | | |
| Income | 28,090,978 | 23,725,992 | 18.40 | 28,146,292 | 23,791,280 | 18.31 |
| Prof t from Operations before Taxation | 3,454,035 | 3,199,358 | 7.96 | 3,496,491 | 3,234,852 | 8.09 |
| Income Tax Expense | 1,138,496 | 1,135,160 | 0.29 | 1,144,446 | 1,144,202 | 0.02 |
| Prof t for the Year Attributable to Equity Holders of the Bank | 2,315,539 | 2,064,198 | 12.18 | 2,326,148 | 2,074,584 | 12.13 |
| Other Comprehensive Income for the Year, Net of Tax | 913,330 | (139,243) | 755.93 | 1,580,066 | (135,407) | 1,266.90 |
| Total Comprehensive Income for the Year Attributable to Equity Holders of the Bank | 3,228,869 | 1,924,955 | 67.74 | 3,585,047 | 1,937,329 | 85.05 |
| Revenue to Government | 1,887,136 | 1,811,516 | 4.17 | 1,893,086 | 1,820,558 | 3.98 |
| Gross Dividend - Note | 776,161 | 676,160 | 14.79 | 776,161 | 676,160 | 14.79 |
| At the Year - End | | | | | | |
| Total Equity Attributable to Equity Holders of the Bank | 21,761,618 | 18,851,837 | 15.43 | 22,659,585 | 19,389,251 | 16.87 |
| Retained Earnings | 7,209,580 | 6,138,249 | 17.45 | 7,147,589 | 6,061,571 | 17.92 |
| Customer Deposits | 167,371,384 | 146,727,199 | 14.07 | 167,371,384 | 146,727,199 | 14.07 |
| Customer Loans and Receivables | 136,552,857 | 124,728,371 | 9.48 | 136,552,857 | 124,728,371 | 9.48 |
| Total Assets | 215,160,859 | 183,661,676 | 17.15 | 217,509,448 | 185,296,646 | 17.38 |
| Information per Ordinary Share | | | | | | |
| Basic/Diluted Earnings (Rs.) | 6.74 | 6.11 | 10.31 | 6.78 | 6.14 | 10.42 |
| Dividends (Rs.) - Note | 2.25 | 2.00 | 12.50 | 2.25 | 2.00 | 12.50 |
| Net Assets Value (Rs.) | 63.08 | 55.76 | 13.13 | 65.69 | 57.35 | 14.54 |
| Market Value (Rs.) - As at End of the Year | | | | | | |
| - Voting Shares | 64.20 | 56.00 | 14.64 | | | |
| - Non-Voting Shares | 31.00 | 35.10 | (11.68) | | | |
| Statutory/Other Ratios (%) | | | | | | |
| Core Capital Adequacy (Minimum Requirement - 5%) | 14.58 | 14.36 | 1.53 | 15.01 | 14.70 | 2.11 |
| Total Capital Adequacy (Minimum Requirement - 10%) | 15.75 | 14.37 | 9.60 | 16.13 | 14.71 | 9.65 |
| Liquidity | | | | | | |
| - Domestic Banking Unit Operations % (Minimum Requirement - 20%) | 26.74 | 21.51 | 24.31 | | | |
| - Foreign Currency Banking Unit Operations % (Minimum Requirement - 20%) | 25.93 | 23.06 | 12.45 | | | |
| Price Earnings Ratio - Voting (Times) | 9.53 | 9.17 | 3.93 | | | |
| Dividend Cover (Times) - Note | 2.98 | 3.05 | (2.30) | | | |
| Capital Funds to Liabilities and Commitments & Contingent Liabilities % | 9.51 | 9.61 | (1.04) | | | |

Note: Dividends for the year 2013 are accounted for as per the Sri Lanka Accounting Standard - LKAS 10.

Operational Highlights

RS. 2.32 Bn.

ACHIEVED HIGHEST EVER
PROFIT AFTER TAX

NET ASSET VALUE PER SHARE
INCREASED TO

RS. 63.08



**RECORDED A 17.15%
GROWTH** IN ASSET BASE

AMOUNTING TO RS. 215 Bn.

CAPITAL ADEQUACY RATIO
AT A STRONG **15.75%**

COST TO INCOME RATIO
REDUCED FROM

67.31% TO 62.59%



SUCCESSFULLY MOBILISED OVER

RS. 20.6 Bn. DEPOSITS

AND GRANTED **RS. 11.8 Bn.**
NET ADVANCES

REFURBISHED

16 BRANCHES

AND RELOCATED ANOTHER
6 BRANCHES TO SERVE
CUSTOMERS BETTER

RETURN ON AVERAGE EQUITY

11.40%

**100 SCHOOL
LIBRARIES**

TO BE OPENED WITHIN THE
NEXT THREE YEARS

UNDER "SEYLAN PAHASARA"

DELIVERY CHANNELS

INCREASED TO 151 BRANCHES
AND 158 ATMs ACROSS
THE ISLAND

Chairman's Letter

OUR 2013 RESULTS REFLECT THE ONGOING SUCCESS OF OUR STRATEGIC FOCUS, DIFFERENTIATING US FROM OUR COMPETITORS AND PROVIDING STABILITY THROUGH CHALLENGING ECONOMIC CONDITIONS.



Chairman's Letter

Dear Shareholders,

It is my privilege and pleasure to present the Annual Report and Financial Statements of Seylan Bank for the financial year ended 31st December 2013.

This year, we have taken an innovative step in annual reporting. For the first time, we have published an Integrated Annual Report of our Bank, capturing economic, social and environmental performance. We have taken this approach to reflect the integrated thinking of the Bank and highlight the connections between our financial and non-financial performance.

A Landmark Year

2013 was a momentous year for us, and one that was marked with the achievement of important milestones. We celebrated 25 years of successful operations and recorded the highest profit ever in our 25-year history. The dedication and commitment of our people and stringent adherence to our strategic plan rewarded the Bank with impressive financial results.

From the very inception, we have built up a banking culture unique to the industry, which has rendered an inimitable personalised service to the citizens of our nation. Over the years, we have faced many challenges, yet emerged victorious and strong. These challenges have taught us some very important lessons, but not fundamentally changed who we are. In fact, they have reaffirmed our standing as a strong and solid Bank.

Economic Snapshot

Looking back at the economic environment in 2013, the recovery of the global economy inched forward with the leading economies at last showing strength. The far reaching effects of monetary policy decisions of developed nations reverberated through emerging markets during the year.

Sri Lanka, recorded a healthy economic growth, higher than most emerging market economies. All three main sectors - Industrial, Services and Agriculture surpassed

the growth rates of the previous year. Inflation remained at single digit level for the fifth year in a row.

The main issues that challenged the banking industry in 2013 were the high cost of credit and the significant drop in gold prices. Although, credit growth was subdued in the first half of the year, a gradual increase was experienced in the latter half. This was as a result of the Reduction in Statutory Reserve Requirement and the gradual decrease in interest rates.

A Year of Execution

Adapting to the evolving paradigms within the industry and the macro sphere, we realigned and extended our strategic plan launched in 2009. Deepening existing client relationships, enhancing customer service, amplifying the branch network, HR development and technology development were key area of emphasis. Exploring new markets, product innovations were also areas of priority, which enabled us to capitalise on emerging trends in the market.

Chairman's Letter

The Bank gained greater visibility during the year, resulting in enhanced brand equity. We were happy to be ranked in the top 20 Brands in Sri Lanka by the LMD magazine Special Brands Edition 2013 launched in April. This reinforces our status as one of the strongest brands and financial institutions in the country.

In the run up to our 25th anniversary, we also unveiled our multi-pronged corporate campaign 'Beyond Just Banking.' Drawing strength from its four main tenets - Trust, Innovation, Service and Commitment, which exemplified the spirit of our Bank.

Our branch expansion initiatives were carried out with the opening of 4 new branches, refurbishing and relocating several others. I am happy to state that now approximately 60% of our branch network is fully refurbished. These efforts have enabled us to step up our corporate image and also enhance the service offered to our customers.

We successfully implemented a Core Banking System upgrade during the year. The resulting benefits in terms of significant cost efficiencies through process improvements will be realised in the coming years. The upgrade will also facilitate enhanced products and service delivery to our customers.

We were one of the first banks in Sri Lanka to outsource our call centre. This initiative helped us to improve the quality of our customer interface and serve our customers better.

Our card operations were taken to a higher and exciting level through innovative and effective promotional campaigns, which enabled us to grow our cards market share during the year.

Risk management has always been a fundamental strength of our Bank. We have identified that a rigorous focus on the fundamentals of risk management is critical for the success of any financial institution. Therefore, with the full involvement of the Board and the Seylan team, we further strengthened the risk

culture of our Bank during the year. Compliance was also given emphasis by the Board. We made a special effort to enhance the financial reporting framework of our Bank. These efforts have further strengthened the public confidence in our Bank. The fact that our Rs. 2 Bn. debenture issued in February 2013 was oversubscribed on the opening day is a testament to this fact.

Remarkable Performance

Our 2013 results reflect the ongoing success of our strategic focus, differentiating us from our competitors and providing stability through challenging economic conditions.

We surpassed our last year's 'best ever' profits by Rs. 251 Mn. recording a Profit After Tax of Rs. 2,316 Mn. for the financial year 2013.

Despite the slow credit growth and industry wide pressure on interest margins our net interest income increased from Rs. 9,014 Mn. to Rs. 9,830 Mn. for the 12 months ended 31st December 2013. Fee and Commission income increased by

Chairman's Letter

25.5% from Rs 1,695 Mn. to Rs. 2,127 Mn. with the Bank increasing its focus on trade finance and fee income-generating products and services.

Despite the decline in gold prices and its impact on the pawning portfolio, we improved the asset quality of our Bank through effective recovery and rehabilitating efforts. As a result, NPA ratio (net of IIS) reduced from 12.99% in December 2012 to 10.58% as at end December 2013.

Further, the Bank's Overall Capital Adequacy increased to 15.75% as of end 2013, which is one of the highest in the local banking industry.

Future

Our total commitment to deliver superior value to our customers in all their interactions has enabled us to maintain our growth momentum over the years. As we journey forward, we fully intend to continue this positive trend through product innovation and improvement, expansion and enhancement of our

branch network and technology improvement. We will also capitalise on emerging market opportunities that we expect to open.

Areas such as risk management, governance, compliance and HR development will also be priority areas in the upcoming year.

I have no doubt that we will achieve significant feats in the coming year, thanks to our service understanding, products, highly competent staff and innovative approach. I truly believe that 2014 will be a year in which we will generate new success stories and deliver value exceeding the expectations of our shareholders, customers, employees and the communities in which we operate.

Appreciation

As we look forward to the opportunities ahead in 2014, I wish to thank the Government of Sri Lanka, the Governor of the Central Bank of Sri Lanka and the Bank Supervision Department of CBSL for the guidance and support.

I am grateful to my colleagues on the Board for their unstinted support and co-operation. I especially thank Mr. Kapila Ariyaratne, General Manager/CEO, for his inspired leadership that continues to bring out the best in the Seylan team to deliver another successful year. My appreciation goes out to the Seylan team for their hard work, passion and the dedication at all times. I am grateful to our customers for their continued patronage and loyalty. I deeply value the trust and confidence that you, our shareholders, have placed in our abilities to guide and direct Seylan Bank. As we journey forward, we will continue to remain committed to increasing the value of your equity. Thank you for your continued support to the Bank.

Nihal Jayamanne PC
Chairman

26th February 2014

Report of the General Manager/Chief Executive Officer

WE SEE A CHALLENGING, YET EXCITING PERIOD AHEAD AS WE EMBRACE THE CHANGES AND THE EMERGING POTENTIAL OF SRI LANKA AND CONTINUE ON THE JOURNEY TO CREATE SUSTAINABLE VALUE TO OUR STAKEHOLDERS.



Report of the General Manager/Chief Executive Officer

2012 was a very good year for Seylan Bank where we achieved or exceeded all our strategic and annual targets. This was all more remarkable since our results were achieved in the midst of a credit squeeze enforced to cool an overheating economy.

Based on this unparalleled success, we made aggressive plans for 2013. However, new challenges obliged us to revise some of these plans. After nearly three years of high asset growth and in an environment of deteriorating asset quality, we deemed it wise to moderate credit growth and focus on quality. As a result, credit growth for the year under review was held at 9.5%.

Other factors also impacted our performance in 2013; The steady rise in interest rates throughout the year contributed to depressed credit demand and the steep decline in gold prices had a significant adverse impact on portfolio growth and quality.

The changing interest rate environment saw many customers migrating more aggressively from low-yielding savings deposits to high-yielding fixed deposits.

These external factors, combined with our focus on prudent risk management, resulted in relatively modest business and revenue growth in the year under review.

Refocusing on the Customer

In 2012, we concentrated on improving human resources and increasing the capability and efficiency of our systems. With this accomplished, our focus in the year under review shifted to building and strengthening customer relationships. On the one hand, we sought to improve the quality and the mutually beneficial nature of customer relationships; on the other, we strove to deliver excellent customer service with a smile that came from the heart.

These are now and will continue to be two of the key characteristics that define and differentiate Seylan Bank in the market.

Report of the General Manager/Chief Executive Officer

As the year went on and the business and competitive environment grew more challenging, many entrepreneurs were forced to rethink their business strategies in order to remain competitive and relevant in an environment of declining margins and deteriorating cash flows. This was particularly true in the middle-income and SME sectors, where most Seylan Bank customers are found. Understanding the difficulties they faced, we set out to work very closely with them to help them control costs and yet make the essential investments in the business while keeping up with their commitments to the Bank and other stakeholders. All our officers threw themselves into this work, especially the branch managers and their teams. Under the prevailing conditions, this approach was beneficial to our customers as well as to us, and paid off well in terms of containing NPAs and retaining/growing relationships.

More generally, from a marketing point of view, we achieved greater visibility and share of mind of the

public. This together with new and improved product launches helped the growth of our deposit base. We relaunched our Seylan Tikiri and Seylan Sure products with improved features and benefits, helping drive growth in current and savings accounts. Our personal current account offering was also improved, with added features like credit and debit card eligibility. We also introduced a new 'flexi' fixed deposit, in which the deposit period can be set by the depositor. A house-to-house marketing campaign during the latter part of the year also helped to connect with potential clients and improve visibility.

On the lending side, card business grew encouragingly; this is now set to be a major area of expansion for the future. We also commenced a drive for new customers in retail banking and were happy to witness an increase in new walk-in customers as a result of our efforts.

WE WILL CONTINUE TO FOCUS ON IMPROVING PERFORMANCE. WE HAVE FOUND THAT PROMOTING TEAMWORK IS AN EFFECTIVE WAY TO ACHIEVE THIS.



Report of the General Manager/Chief Executive Officer

Consolidation in Branch Banking

Branch expansion was moderated in line with the prevailing conditions. We opened four new branches in 2013 (as compared to 15 in 2012) but focused heavily on improving our offer to customers by refurbishing and relocating branches where necessary. Over 60% of our branches have now been refurbished and modernised; by mid-2015, all branches will have been refurbished to make them more appealing to customers and more conducive to staff productivity and comfort.

Reducing the Cost of Deposits

In 2012, deposit growth was achieved mainly in fixed deposits - a relatively expensive source of funding. In the year under review, we made a concerted effort to build the current and savings account base. In this we were successful, despite the prevailing interest-rate regime, which created a preference for higher-yielding fixed deposits. The fact that Seylan Bank has always preferred to offer guaranteed premiums and rewards to our depositors worked strongly

in our favour especially with the lottery-based promotions to attract depositors being discouraged.

Managing Risk Exposure

Over the years, pawning has developed from being a mode of distress financing to a popular mode of regular financing to farmers and small scale entrepreneurs who invested in gold and gold jewellery in good times. As gold prices declined dramatically in the second quarter of the year under review, this easy, convenient form of lending became increasingly risky due to the high gold prices that had underpinned the existing portfolio. Although we had always priced our pawning products cautiously being conscious of the possible swings in gold prices which had enjoyed and unprecedented bull run, drastic and somewhat painful measures were necessitated to contain losses, which also contributed to the shrinking of the lending portfolio. While managing the decline, we responded by strengthening and improving our credit-approval structure and put more emphasis

on promoting conventional loans, especially in the Northern and Eastern regions where we have always been net lenders with our loan portfolio being twice the size of our deposits.

The year saw continued emphasis by the Government on infrastructure development. While we were not direct lenders to these large state sponsored projects, we played our part through lending to mid-level construction companies and suppliers to the Government and these projects. Helping such customers resolve their liquidity issues and difficulties with funding their ongoing project commitments and loan repayments, we made our own contribution to the national effort of infrastructure development.

Improving Recovery Rates

With the banking industry experiencing marginal growth and the overall quality of advances worsening, Seylan Bank was one of the few banks to report a decrease in its non-performing-advances portfolio. While non-performing figures are still above the industry average due largely to legacy bad loans, growth in non-performing

Report of the General Manager/Chief Executive Officer

loans, were contained and the legacy portfolio was handled more assertively with the focus being on helping genuine customers to rehabilitate and revive their businesses. Many advances were wholly or partially recovered while many others were rescheduled on concessionary terms to enable receptive customers to revive their business operations and take advantage of new financing opportunities. On the other hand, wilful defaulters, customers were dealt with aggressively. Through such efforts, we were able to reduce the portfolio of NPAs significantly.

Systemic and Operational Improvements

The drive to strengthen internal systems and procedures, begun in 2012, continued unabated.

Given the prevailing market conditions, special importance had to be given to improving our risk management framework. New

or updated policies were defined and emplaced, and staff members received continuous training in the practical aspects of risk management.

Our core banking system received an important upgrade, which has helped to improve transaction turnaround time and simplified our back-office operations. This has left our people with more time to attend to customers. It has also given us a platform on which to build exciting new products, as well as to gather and use customer and business intelligence in imaginative and profitable new ways to the benefit of all our stakeholders.

Human Resources

We took a close, critical look at staff skills and strength and made the necessary improvements. This involved recruiting over a hundred new members to the Seylan family that helped improve overall customer service. Despite this, total staff strength actually fell slightly in the year under review.

We continued to invest time and effort in training; focusing on marketing, credit, HR development and compliance. We took training out to the regions, conducting over a total of 33 regional training programmes with minimal disruption to daily operations.

Updating our Strategic Plan

Our four-year strategic plan, launched in 2011, was based on projected economic and market conditions that no longer was relevant following recent environmental and policy changes. The speed and direction of these changes justified a revision of our strategy. Accordingly, in mid-2013, we took stock of our current position, assessed prevailing and projected conditions and re-evaluated our strategic options. New strategies and an action plan for their implementation were developed and are now in the implementation phase.

Report of the General Manager/Chief Executive Officer

OUR FOCUS IN THE YEAR UNDER REVIEW SHIFTED TO BUILDING AND STRENGTHENING CUSTOMER RELATIONSHIPS.

Operationalising Sustainability

We put a lot of effort into making our operations more sustainable. One aspect of sustainability for us is simply our continuance as a going and profitable concern; in order to assure this, we strive to make our products and services relevant and affordable to customers, maintain our reputation, and make our operations efficient and profitable. We also help protect society and the environment by enhancing our customers' commitment to sustainability through the conditions we place on lending.

In our own operations, we focused on reducing resource use and waste, began tracking our carbon footprint and educated our people on environmentally more responsible practices.

As a corporate citizen, Seylan Bank now discharges its social responsibilities in large measure through an ambitious programme to support reading among underprivileged schoolchildren by building and endowing school

libraries. Commencing this year, we plan to build and fit out a total of one hundred libraries by the middle of 2016.

Another very relevant and timely initiative in 2013 was the series of training programmes we conducted for our existing and potential SME customers on how they can improve their businesses including updates on subjects such as taxation and trade finance.

Annual Report Award

It gives me great pride to report that Seylan Bank received the Bronze Award for Overall Excellence and the Silver Award in the Banking Institutions Category for the 2012 Annual Report at the CA Sri Lanka Awards on 10th December 2013.

Report of the General Manager/Chief Executive Officer

Silver Jubilee

Seylan Bank celebrated its journey of 25 years on 24th March 2013. We celebrated the day with our customers, staff and well wishers conducting multi religious ceremonies with their participation at all our branches. Additionally, a Buddhist ceremony was held at Sri Maha Bodhiya and the Ruwanweliseya in Anuradhapura, a Hindu Ceremony at Nallurkovil, Jaffna, a Muslim Ceremony at Chilaw and a Christian Ceremony at Seeduwa with the participation of staff members, customers and their families.

Looking Ahead

The regulator intends to promote consolidation in the banking industry. The landscape we inhabit is likely to change significantly as a result. Bigger institutions will emerge, and in order to ensure that Seylan Bank is one of them, we

have committed ourselves to grow more aggressively. This is currently the principal medium-term concern and focus of Board and management.

In operational terms, capital is increasingly becoming a limiting factor for the banking sector. Our 2013 debenture issue broadened our funding resources while strengthening our capital adequacy. Through this issue, combined with previous right issues and profit retention, Seylan Bank is well-capitalised. Our capital plan is reviewed every three months; we are confident that, given the current rate of growth and our strategic priorities, we shall be fairly comfortable until at least 2016.

We will continue to focus on improving performance. We have found that promoting teamwork is an effective way to achieve this; hence most incentives and awards

we offer are now team-based rather than individual. We no longer have a 'best employee' award; but we do have an award for the best team believing that the best potential of each member is better manifested in a team effort. Nevertheless, we still recognise, cultivate and reward effective individuals in a number of ways.

Overall we see a challenging, yet exciting period ahead as we embrace the changes and the emerging potential of Sri Lanka and continue on the journey to create sustainable value to our stakeholders. As in the past the entire Seylan family stands together dedicated, committed and united to achieve our ambitious goals.



Kapila Ariyaratne
General Manager/
Chief Executive Officer

26th February 2014



Management Discussion and Analysis

OPERATING ENVIRONMENT

The Global Economy

The global economy continued to recover at a modest pace, its growth averaging around 2.5% during the first half of 2013. Advanced economies showed signs of increasing momentum, though the Euro area remained weak; emerging economies enjoyed better growth, though still below expected levels.

Globally, inflation pressures were subdued. Inflation remained below targeted levels in advanced economies. In emerging and developing economies, inflation eased as a result of reduced economic activity and more stable commodity prices. However, unemployment continued to be unacceptably high in many advanced economies, Eurozone as well as in various emerging market economies.

Outlook

Global economic activities are expected to strengthen moderately but the risks to the forecast remain. Growth is anticipated to generate from the advanced economies, where growth it is expected to grow at considerably higher rates. Low growth will be expected in the Euro

area. Meanwhile developing and emerging economies are projected to expand by higher rates than the advanced economies.

The Sri Lankan Economy

In spite of tight monetary policies, and slow growth around the world, the Sri Lankan economy grew faster than most emerging-market economies at an annualised rate of 7.2%. Industrial sector was the key driver, with sectoral growth of 9.2%, largely driven by construction and manufacturing. Services grew by 6.7% compared to 4.6% in 2012, mainly due to expansion in hotels, transport and export trade. Agriculture grew by 4.1% in spite of adverse weather in September. Significantly, all three primary sectors achieved higher growth than in 2012.

Inflation was held at single-digit levels for almost the fifth consecutive year. Core inflation declined to historical lows, driven by tight fiscal policy and the absence of significant domestic supply-side shocks.

Credit expansion in the first half of the year was mainly due to high level of credit obtained by public sector. Further, gradual increase

was recorded in private sector credit demand after removal of the credit ceiling which was imposed in 2012, and reduction in the Central Bank's policy rates followed by the reduction in Statutory Reserve Requirement (SRR). A projection for private sector credit growth in 2013 was revised downwards from 18.5% to 11%.

Based on cross-currency rate movements, the Sri Lankan rupee experienced noticeable positive and negative fluctuations against major international currencies, appreciating against the Japanese yen, Indian rupee and Australian dollar, while falling slightly against the US dollar, euro and pound sterling.

The performance of the Colombo Stock Exchange improved, all main indicators reflecting the rising trend. Market capitalisation increased to Rs. 2.5 Tn, while the All-Share Price Index and the S & P SL 20 index increased considerably compared to previous year. Two new listing, nine rights issues and thirty debenture issues were conducted during the year.

Management Discussion and Analysis

Outlook

With the recovery in the global economy, continued expansion of internal economic activities and the impact of policy measures implemented in 2013, Sri Lankan economy is expected to grow at a higher rate of 8% in 2014, while inflation to remain at mid single digit levels during the year. Budget deficit is expected to decline further to 5.2% in 2014 from 5.8% in 2013.

Export earnings are expected to increase with the ongoing recovery of the country's main traditional export markets, while present tightened import controls will be relaxed to cushion the demand created by an increase in production for exports leading to higher economic growth. Further, diversification of export services and goods is to be expected.

The Banking Sector

The sector provided a supportive environment for economic growth, displaying reassuring stability and reaching out to customers through branch-network expansion and the offer of new banking services.

Reflecting the health of the overall banking sector were a capital-adequacy ratio of 15.4% (3Q) and

statutory liquid assets ratio reported above 22% at the end of December, all well above statutory minimum requirements.

Though a few local banks successfully diversified their funding by attracting debt capital on the international markets, deposits continued to be the main source of industry funds. Deposits with licensed commercial banks increased by 15% in the year 2013.

Total assets of the sector grew at a slower rate (16.6%) than in recent years, while asset quality decreased marginally. This was mainly due to an increase in non-performing pawning advances caused by a sudden fall in the price of gold in the international market.

Infrastructure of the banking sector, especially branch network expanded at a slow pace compared to the previous years. 66 new banking outlets were added to the network during the first three quarters. A common ATM switch was launched in mid 2013, fulfilling a long felt need in the financial system in Sri Lanka. New regulations were issued and several new technologies were introduced to strengthen the payment and settlement system.

Outlook

Continuous growth in the macroeconomic environment of the country will result in the banking sector being broadened and strengthened. As proposed in the budget 2014, the banking sector is heading towards radical structural changes such as consolidation and mergers of finance companies and smaller banks.

Quality and quantity wise capital requirements of the banking sector are expected to enhance and strengthen in coming years to be on par with the local and international standards. Further, integrated risk management process and governance practices will also be strengthened in due course.

It is expected that Sri Lankan banks will continue to explore the opportunities to raise funds from international markets and these borrowings would reduce banks' reliance on customer deposits as a source of funding.

Sector infrastructure is to be further strengthened and expanded with increase of delivery channels and moving towards advanced technologies.

Management Discussion and Analysis

SUSTAINABLE STRATEGY

VISION

"To be Sri Lanka's leading financial services provider - as recognised by all our stakeholders"

As depicted in our vision statement, we will;

Recognise the investors' contribution and make all possible efforts to recognise them through superior value creation process:
Focus on delivering sustainable shareholder value by serving the needs of our customers through our operations.

Our key differentiator is our people who are passionate about our strategy.

We are committed to enhance and improve the living standards of the community as a responsible corporate citizen.

We safeguard the environment as a primary role of a corporate citizen

and contribute for the saving of energy and other resources for the future generations.

We consider government as a very important stakeholder and our contribution by way of taxes supports the government's developmental initiatives for the well being of the society at large.

Our Strategic Priorities

| Investors (Page 42) | Customers (Page 47) | Employees (Page 54) | Community (Page 62) | Environment (Page 68) | Regulatory Capital (Page 71) |
|--------------------------------------|---|--|---|--|---|
| Financial Value creation | Faster reach at preferred locations and channels | Remuneration and benefits | Legal and regulatory compliance | Safeguard environment through internal processes | Contribution to the government revenue for national development initiatives |
| Respecting our statutory obligations | Refining our portfolio to cater to customer needs | Fostering employee satisfaction | Entrepreneur development, self employment and local suppliers | Conserving resources for future generations | Compliance and being a responsible corporate citizen |
| | | Performance management and recognition | Fostering education | | |
| | | Creating culture for learning | | | |
| | | Creating a safe and sound workplace | | | |

Management Discussion and Analysis

Stakeholder Engagement

The Bank defines 'Stakeholders' as individuals or groups who can affect or be affected by the activities of the Bank. The Bank engages with a number of key stakeholder groups. The frequency of engagement varies from periodic to ad-hoc meetings, discussions and other forms of communication:

We employ a range of channels and mechanisms to gather stakeholder feedback and address the same then and there effectively strengthening the two-way communication with the stakeholder and the Bank. Bank uses a decentralised model to engage with the shareholders where individual business units/branches or head office undertake the engagement activities appropriate to the particular subject. Our stakeholder related forums comprising business units liaise with the stakeholders based on our codes and ethics and values that are predetermined. Our staff are well educated and trained to handle the stakeholder engagement effectively.

We are committed to developing and maintaining appropriate relationships with our stakeholders across all business units and functions. Our stakeholder engagement policy describes the responsibility and the approaches in handling stakeholder engagement. We are responsible for co-ordinating our engagement effectively with all stakeholders and our strategic priorities are to:

- Build a meaningful and mutually beneficial partnership with all levels to enable us to partner with and support for the effective engagement achieving economic, social and environmental aspects.
- Participate appropriately and effectively in policy and regulatory dialogue with regulators and other stakeholders.
- Understand and mitigate potential risk.
- Develop appropriate systems and relationships to enable us to respond proactively to the stakeholder related issues and areas.



25th Anniversary Celebrations at Head Office, with the participation of the Honourable Governor of the Central Bank of Sri Lanka.

Management Discussion and Analysis

| Stakeholder Group and their Goals | | |
|--|---|---|
| Stakeholder | Goals | Our Commitment |
| Investors | Creating wealth, sustainable growth, enhancing shareholder value, aligning national marco-level objectives, being a responsible corporate citizen and giving due recognition. | <p>Manage the business effectively and efficiently to deliver sustainable wealth and a superior return.</p> <p>Implement risk management policies effectively and adequate internal control.</p> <p>Protect and facilitate rights and ensure fairness and transparency.</p> |
| Customers | Product innovation, convenient banking, value addition, service excellence, financial literacy, entrepreneurial building. | <p>Product innovation and management.</p> <p>Make banking convenient and flexible.</p> <p>Delivering superior customer services with constant value addition.</p> <p>Shared values.</p> |
| Employees | Due recognition that inculcates team spirit within the Seylan family while enhancing the tangible and intangible worth of employees. | <p>Remuneration, rewards and recognition policies.</p> <p>Provide necessary training and development.</p> <p>Effective performance appraisal systems.</p> <p>Maintain equal opportunity, human rights and best labour practices.</p> |
| Community | Create sustainable communities through education, entrepreneurial assistance and health care measures. | <p>Integrate with the community to improve the well-being of the people.</p> <p>Provide assistance for self-employment through micro financing.</p> <p>Empower the society through inculcation of banking habits.</p> <p>Support needy children in education and other activities.</p> <p>Other contributions and sponsorships.</p> |
| Environment | Ensure a sustainable environment through conservation and preservation of resources by adopting best practices. | <p>Promote compliance.</p> <p>Save resources and power.</p> <p>Educational and awareness programmes.</p> |
| Government and government institutions | Meet national objectives, contribute to the revenue of the country, and promote economic development and entrepreneurship. | <p>Ensure regulatory compliance and being a responsible corporate citizen.</p> <p>Effective utilisation of resources.</p> |

Management Discussion and Analysis

MANAGEMENT APPROACH

Sustainability as an Integral Part of Our Core Business

The Bank's business strategy has and continues to pivot on the end achievement of national priorities of the entire community and the country. The Bank strives to address the requirements of the country and the community and meet national objectives through the effective implementation of its own business strategy. The Bank consistently devises its own unique approach and business case for sustainability as a part of the core business that delivers long lasting economic, social and environmental benefits with the unique value system of being a business partner who contributes for the economically stable, ecologically responsible and socially fair development of the society.

Bank has been recognised as the 'Bank with a Heart' that continuously provides assistance to Micro and Small & Medium

Entrepreneurs (SME) from its inception over twenty five years.

The Bank is considered a pioneer in the introduction of financial services to persons considered otherwise as 'less-bankable' through its island-wide network and the committed loyal staff strength. We are known by the name across the country for the service excellence and passion for service.

Our Sustainability Strategy

Our CSR Strategy which is described in detail in the report has been revolving around the stakeholders of the Bank towards the economic prosperity of the entire nation. It is amalgamated with the core business strategies and implemented for the best interest of the stakeholders to meet the objectives as explained in detail under stakeholder engagement.

Sustainability Governance

Committed to upholding the highest standards of business integrity and professional ethics on all scores, Seylan corporate

governance framework rewards the stakeholders with a greater creation of value, year-on-year. Sustainability is one of our core determinants of the core banking business which works around maximising our shareholders' wealth in a sustainable manner and safeguarding the rights of all our stakeholders, as paramount. We supports initiatives across the corporate world to improve governance and disclosures.

With all our activities, the Bank's sustainability too is governed by our corporate ethics and values. Our governance framework is set out in detail in the 'Corporate Governance' segment of this Annual Report.

Risk is an integral aspect of the banking business and the Bank consistently aims towards delivering superior long-term shareholder value by achieving an appropriate trade-off between risk and returns. The details of the approach are explained in the Risk Report segment of this Annual Report.

Management Discussion and Analysis

Sustainability Precept

| Project | Responsibility |
|-----------------------------------|--|
| Commitment to Sustainability | To comprehensively integrate social economic and environmental considerations into the core business and to actively strive for business transactions that promote sustainability. |
| Transparency and Governance | The Bank is at all times transparent in its dealings with its stakeholders and undertakes sustainability projects for the benefit of the society at large. |
| Environmental Protection | Prevent/minimise environmentally and/or socially detrimental impacts of the Bank's portfolios and operations and improve social and environmental conditions |
| Responsibility and Accountability | Bears responsibility for the environmental and social impacts of all its transactions |

Our Sustainability Policy

Economic Policy

Seylan Bank is committed to delivering economic value to all its stakeholders. As such, our core activities are structured and managed to create economic prosperity through value addition.

Environmental Policy

We have a long-standing commitment to minimizing both the direct and indirect impact on our environment arising from our business activities, whilst doing everything we can to protect and replenish the natural resources around us.

Labour Practices and Decent Work Policy

We believe that the key to our success and competitive advantage is our unique commitment to continuous improvement and

results. We are committed to encourage our team members to enhance their skills; map out their careers and grow both personally and professionally. We also ensure that Bank espouses and practices an equal opportunity approach which fosters high levels of motivation.

Human Rights Policy

Seylan Bank is committed to uphold the human rights standards enshrined in the Universal Declaration of Human Rights and the conventions of the International Labour Organisation (ILO). These cover the elimination of all forms of compulsory labour; the effective abolition of child labour; and the elimination of discrimination with respect to employment.

Community Policy

Seylan Bank is committed to community development and believes it to be process of empowering individuals and groups to improve their livelihood within their community as opposed to fostering dependency.

Product policy

The Bank takes great care to ensure that every product and service we offer is relevant, meets and exceeds customer expectations, is non-exploitative and embodies the optimum levels of clarity and transparency in their features, presentation and advertisement and other such like areas that impact our customers and the wider stakeholder community.

Management Discussion and Analysis

DELIVERING AND DERIVING VALUE

Value Creation

This is our first integrated annual report. While we have not compromised on disclosures, the adopted format is one that focuses on how we create value over the short, medium and long term.

As discussed on page 4 and 5, the conceptual framework hinges on two aspects of value creation, namely:

- **Deriving value:** The value that the Bank creates for itself, which leads to internal capital formation, and
- **Delivering value:** The value that the Bank creates for stakeholders, which leads to external capital formation.

Capital Formation

The Bank uses various forms of capital for its sustained growth and success. The capitals are stores of value that are transformed continually through our business activities and results achieved. In the pages that follow, we will discuss capital formation and capitals using the categorisation given below:

Internal capital formation is discussed in the context of financial capital and institutional capital.

External capital formation is discussed in the context of our key stakeholders, duly identified through a materiality matrix. They comprise investors, customers, employees, society, environment and government.

INTERNAL CAPITAL FORMATION

Financial Capital

1. Statement of Income

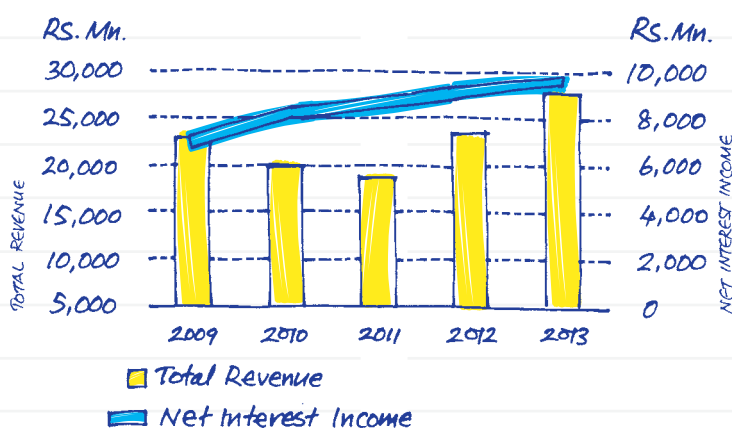
Interest and Other Income

Interest income of the Bank grew by 18.15% as a result of a 21.56%

increase in interest earning assets compared to 2012. However, the interest income growth was affected to an extent by un-redeemed pawning advances during the year. Interest expense too increased by 24.92% as a result of interest bearing liabilities being repriced at higher rates at the early part of the year. Consequently, Net Interest Income grew by 9.05%.

Increasing the fee income remained a key strategic priority. Our efforts in this regard saw the Bank increasing its commission income by 25.47% over 2012. Growth came from our related fee income and other banking service income.

TOTAL REVENUE / NET INTEREST INCOME



Management Discussion and Analysis

Operating Expenses

Substantial productivity improvements were effected in 2013, improving our cost-to-income ratio from approximately 67.31% to 62.59%. This was achieved despite the renewal of the collective agreement during the year, which prompted approximately 12% revision in staff salaries over the year.

Other expenses, including premises, equipment and establishment costs, decreased by 5.61% during 2013. The Bank implemented a core banking system upgrade in February 2013, which brought about cost efficiencies to many of the banking processes.

Taxation

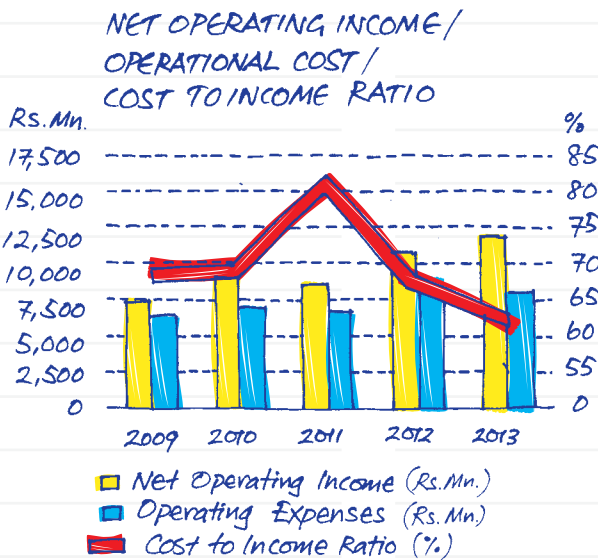
The corporate tax charge for 2013 increased by 0.29% against the figure for 2012, while the effective tax rate declined from 35% in 2012 to 33% in 2013, reflecting improved tax efficiencies during the year.

Profitability

Pre-tax profits grew (by 8.44%) to a total of Rs. 4,203 Mn. compared to 2012. Group pre-tax profits also improved by 8.54%, to Rs. 4,245 Mn.

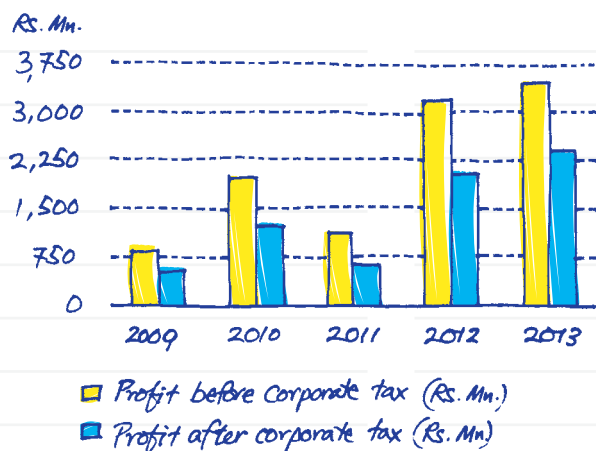
After tax, net profit earned by the Bank was Rs. 2,316 Mn., a year-on-year increase of 12.18%. Group net profit after tax was Rs. 2,352 Mn.

Improved margins, a higher ratio of non-interest income to net income and a lower cost-to-income ratio all contributed positively to the bottom line. Return on equity was maintained at 11.40%.

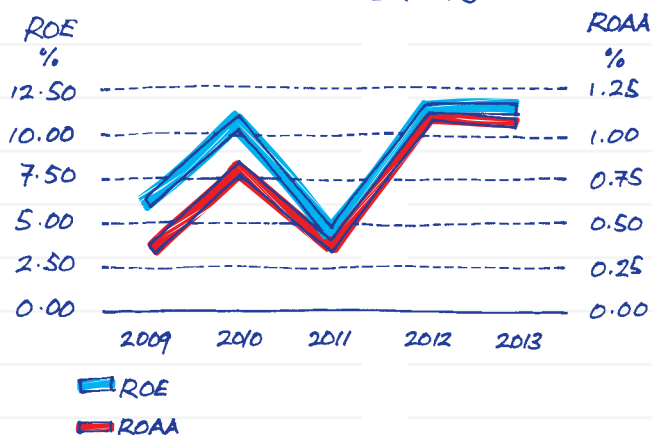


Management Discussion and Analysis

PROFIT BEFORE & AFTER CORPORATE TAX



RETURN ON AVERAGE ASSETS AND RETURN ON EQUITY

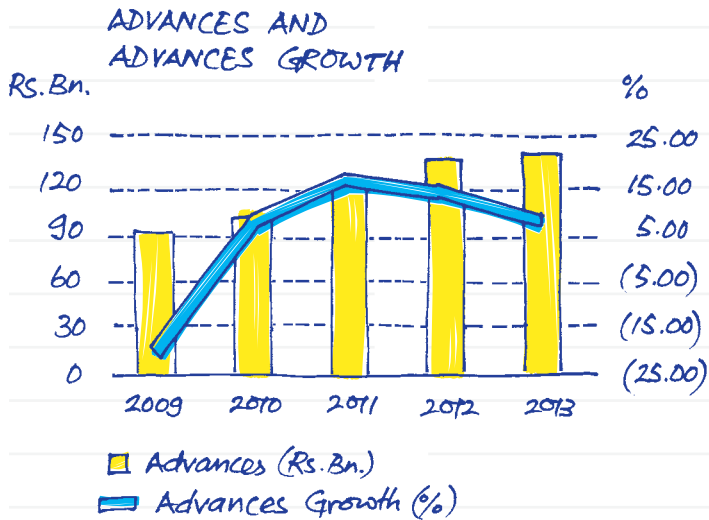


2. Statement of Financial Position

Business Volumes

The slowdown in market demand for credit growth was evident in the industry. The Bank's net credit growth was 9.48% in 2013. Total net loans and advances grew by Rs. 11,824 Mn. The leasing business witnessed a slow growth due to an increase in the import duty on vehicles, while the pawning business lost momentum due to gold price volatility in the international market.

Management Discussion and Analysis



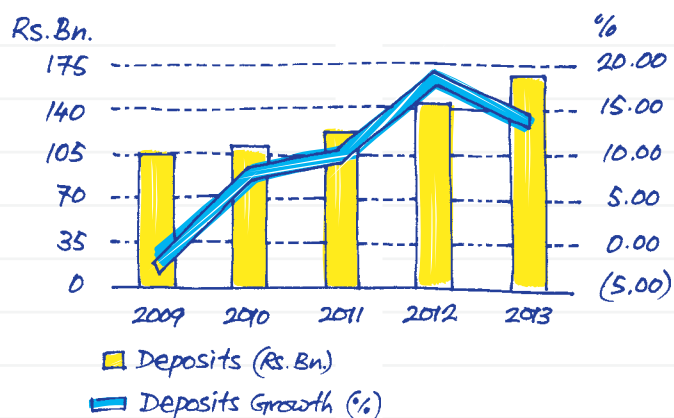
Other term loans and overdrafts witnessed robust growth during the year.

Growth in assets was predominantly funded by deposits, which grew by a healthy 14.07%. The Bank also raised Rs. 2 Bn., through listed debentures, during the year.

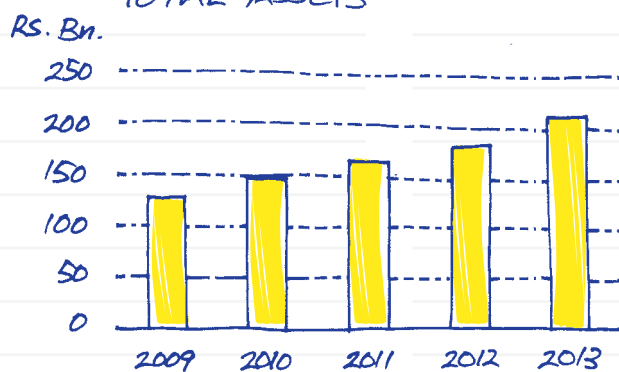
Due to the prevailing interest regime, many customers had the tendency to convert their low-cost savings to high-yielding fixed deposits. Despite this, the Bank managed to defend its low-cost savings base. The growth in fixed deposits caused only a marginal decline in the Current Account to Savings Account (CASA) ratio from 34.45% to 32.89% by December 2013.

Management Discussion and Analysis

DEPOSITS AND DEPOSITS GROWTH



TOTAL ASSETS



Asset Quality

The rise in interest rates brought with it an increase in impaired loans and advances during the first half of the year. The significant drop in gold prices too affected the pawing portfolio base of the Bank. Rigorous recovery and risk-management efforts were made to reduce the impaired-loans and advances.

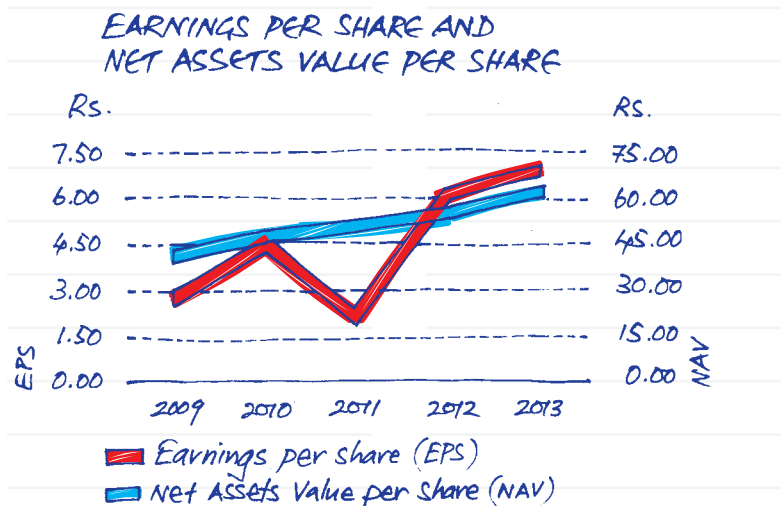
With the transition from time-based to incurred-loss-based provisioning for loans and advances under LKAS 39, Seylan Bank made provision of approximately Rs. 1,355 Mn. against impairment losses for loans and receivables for 2013. (In 2012, the Bank made a provision of Rs. 419 Mn.)

Shareholders' Funds

The net asset value per share improved from Rs. 55.76 to Rs. 63.08, while the net asset value per share of the Group improved from Rs. 57.35 per share in 2012 to Rs. 65.69 in 2013.

Management Discussion and Analysis

The directors propose a final cash dividend of Rs. 2.25 per share for the year. This amounts to a gross dividend payment of approximately Rs. 776 Mn.



Outlook

The Bank would continue to provide its customers with financial services that meet their needs in terms of reach; products and services portfolio, benchmarked service standards and streamlined internal processes and thereby maximise ROA and ROE. Further, the Bank would actively participate in the consolidation of finance companies according to the budget proposals and invest in the acquisition and/or mergers that would further

strengthen the diversified operations and superior return to the stakeholders, while supporting the national objectives of the country.

The Bank remains committed to better financial reporting, compliance and risk management practices to safeguard the interest of stakeholders as a primary role in strengthening the business lines and related processes.

THE DRIVERS OF FINANCIAL CAPITAL FORMATION

1. Branch Banking

Accounting for more than 90% of our operations, branch operations are the Bank's main source of business. Our branches serve all segments of the community in all geographical areas of the country.

The following strategies supported branch banking growth in 2013:

- Reach and access were enhanced by opening new business outlets and improving delivery through automated banking channels. 4 new branches were opened, bringing the total number to 151. In addition, 16 branches were refurbished and another 6 branches relocated to more customer friendly locations.
- Branch managers were given greater autonomy with respect to low-risk decisions.
- Area offices were decentralized to speed up and improve service.
- Recovery drives were carried out at branches, together with special recovery clinics for customers who had difficulty making payments.

Management Discussion and Analysis

Performance of the Branch Banking Unit

| | Actual 2013 Rs. Mn. | Actual 2012 Rs. Mn. | Variance Rs. Mn. | Budget 2013 Rs. Mn. |
|---------------------|------------------------|------------------------|---------------------|------------------------|
| Deposits | 148,345 | 127,701 | 20,644 | 152,745 |
| Advances | 95,296 | 83,576 | 11,720 | 101,379 |
| Net Interest Income | 5,557 | 6,004 | -447 | 7,291 |
| Fee-based Income | 1,375 | 999 | 376 | 1,160 |
| Operating Expenses | 5,091 | 4,438 | 653 | 5,300 |
| Profit Before Tax | 1,841 | 2,565 | -724 | 3,151 |

ATM Network

We added four new ATMs to our network; bringing the total up to 158. Seylan now boasts one of the most widely-distributed ATM networks in the country.

Overseas Network

Seylan Bank representatives operate at our agents' offices in Lebanon, Oman, Qatar, Saudi Arabia and the United Arab Emirates. They undertake remittance business on behalf of Sri Lankan expatriates in these countries while promoting the Bank's other products to them.

Outlook

We will continue to focus on improving our customer service quality, which is what sets us apart from our competitors. In addition, we will enhance our exposure to profitable and growing sectors of the economy such as renewable and non-renewable energy, export agriculture, the dairy industry, food processing, tourism, education, information technology, business-process outsourcing, construction, transportation and health.

2. Corporate and Offshore Banking

Corporate Banking serves a varied clientele in diverse fields of business activity, including large and medium-sized local firms as well as blue-chip multinational companies operating in Sri Lanka.

The ambitious growth plans of CSE-listed and other strong companies in 2013 offered opportunities that we were swift to take advantage of market changes. Strategies that drove the division's strong contribution to overall performance in 2013 included:

- Strict and selective lending to grow the credit book, while reducing credit risk.
- Active focus on fee-based services such as trade finance, transaction services and foreign exchange transactions.
- A focus on emerging sectors such as leisure and tourism, together with continued assistance to sectors such as export trade, renewable energy, etc.

Management Discussion and Analysis

Performance of the Corporate and Offshore Banking Unit

| | Actual 2013 Rs. Mn. | Actual 2012 Rs. Mn. | Variance Rs. Mn. | Budget 2013 Rs. Mn. |
|---------------------|------------------------|------------------------|---------------------|------------------------|
| Deposits | 11,812 | 12,620 | -808 | 13,943 |
| Advances | 31,152 | 33,229 | -2,077 | 38,055 |
| Net Interest Income | 975 | 758 | 217 | 1,051 |
| Fee-based Income | 176 | 192 | -16 | 242 |
| Operating Expenses | 405 | 195 | 210 | 407 |
| Profit Before Tax | 746 | 755 | -9 | 886 |

Outlook

The outlook for the financial sector is favourable: the forecast is for accelerated and sustained domestic economic growth. The improvement in business conditions and a resurgence of economic activity are expected to lead to credit growth and enhanced opportunities for the banking sector.

We will leverage these favourable conditions by

- Attracting non-funded facilities in order to increase fee-based income
- Growing our export loans business by funding export business in line with national policy
- Introducing e-Treasury services for corporate clients.

3. Personal Banking

Closely supervised by the Senior Deputy General Manager (Retail Banking), this division serves its customers through the branch network and other delivery channels such as ATMs, Internet and mobile telephony. It has three main subdivisions, each dealing with a specific product range: (1) credit cards, (2) home loans and (3) pawning services.

Credit Cards

In 2013, the Personal Banking division undertook a number of operational initiatives, including:

- Upgrading all electronic delivery channels in line with our 2013-2016 strategic plan.

- Encouraging customers to use these channels by providing various value-added incentives.
- Enhancing system security by introducing the 'Verified by Visa' facility, SMS alerts for every card transaction and a 3DS security system.
- Enabling MasterCard™ secure credit-card payments by enhancing payment modes for merchants.
- Introduced AUD and SAR Travel Cards and re-launched Travel Card in September.
- Credit Card system upgraded to better service the cardholders.

Management Discussion and Analysis

Performance of the Seylan Card Centre

| | Actual 2013 Rs. Mn. | Actual 2012 Rs. Mn. | Variance Rs. Mn. | Budget 2013 Rs. Mn. |
|---------------------|------------------------|------------------------|---------------------|------------------------|
| Advances | 2,551 | 2,197 | 354 | 2,536 |
| Net Interest Income | 220 | 237 | -17 | 262 |
| Fee-based Income | 520 | 444 | 76 | 510 |
| Operating Expenses | 455 | 353 | 102 | 392 |
| Profit Before Tax | 285 | 328 | -43 | 380 |

Outlook

- Ground work for EMV Platinum Cards completed and to be launched in early 2014.
- Extended Payment Plan system to be automated.
- Multi Currency Travel Card to be introduced.
- PoS using a mobile phone to be introduced in 2014.

Alternative Banking Channels

Our Alternative Banking Channels have shown remarkable growth over the recent years. Following is the growth of our alternate channels from 2011 - onwards;

Year-on-year growth figures for our alternative banking channels are given below:

Growth in Alternative Banking Channels

| No. of Customers | 2013 | 2012 | 2011 |
|---|---------|---------|---------|
| Internet Banking | 19,811 | 16,216 | 13,603 |
| SMS Banking | 116,345 | 85,712 | 48,628 |
| Phone Banking | 88,066 | 88,038 | 87,514 |
| No. of Payment gateway Merchants | 36 | 29 | 23 |
| No. of Call Centre Call Handling | 403,090 | 399,670 | 437,621 |
| Corporate Web Hits (Average per Month) | 35,030 | 33,611 | 28,016 |

Outlook

The Bank plans to allocate a considerable budget to the development of alternative channels in 2014/15 with a view to enhance effectiveness of automated services to its clients to make banking easy and faster.

Pawning Advances

Fluctuating international gold prices and adverse domestic market conditions brought about a steady reduction in the portfolio (together with interest losses) and reduced the market value of collateral, obliging us to make heavy provision for matured and non-performing advances and resulting in reduced profitability in 2013.

Performance of Pawning Advances

Strategies that were adopted in 2013.

- Strengthening of monitoring mechanisms and implementing additional controls.
- Adjust the pricing for advances by maintaining a 65% loan to collateral value since September 2013.

Management Discussion and Analysis

| | Actual 2013 Rs. Mn. | Actual 2012 Rs. Mn. | Variance Rs. Mn. | Budget 2013 Rs. Mn. |
|--------------------------|------------------------|------------------------|---------------------|------------------------|
| Advances | 14,370 | 17,477 | -3,107 | 19,791 |
| Interest Income | 2,020 | 2,391 | -371 | 3,720 |
| Capital Provisions Made | 205 | 6 | 199 | N/A |
| Interest Provisions Made | 221 | - | 221 | N/A |
| Auction Losses Incurred | 125 | - | 125 | N/A |

Outlook

- Selective lending.
- Close scrutiny of the portfolio.
- Advances to be predominantly based only on densimeter readings.

Housing Loans

The housing loans portfolio witnessed a contraction of 4.11% during the year. following strategies were adopted during the year:

Strategies for Housing

- Amalgamated the portfolio with our branches to gain more effective service.
- Adjust pricing and increase the margin to the branches to promote lending on housing sector.
- Re-pricing the portfolio once in every 2 years based on market interest movements.

Performance of Housing Loans

| | Actual 2013 Rs. Mn. | Actual 2012 Rs. Mn. | Variance Rs. Mn. | Budget 2013 Rs. Mn. |
|-----------------|------------------------|------------------------|---------------------|------------------------|
| Advances | 8,683 | 9,055 | -372 | 9,917 |
| Interest Income | 1,120 | 1,161 | -41 | 1,455 |

Outlook

- Actively promote the housing loan product for approved condominium properties.
- Further improve the internal processes to facilitate faster approval and disbursements.
- Centralisation of housing loan credit approval.

4. Treasury and Back-Office Operations

This division contributed significantly to the Bank's overall profitability during the latter part of the year. Operational initiatives during the year included,

- Reducing our exposure on the equity portfolio.
- Strengthening the division with new recruitments to the Treasury front office.
- Setting up a market-focused corporate sales desk within the Treasury.

Management Discussion and Analysis

Performance of Treasury and Back-Office Operations

| | Actual 2013 Rs. Mn. | Actual 2012 Rs. Mn. | Variance Rs. Mn. | Budget 2013 Rs. Mn. |
|---|------------------------|------------------------|---------------------|------------------------|
| Net Interest Income | 1,289 | 58 | 1,231 | 505 |
| Fee-based Income (excluding foreign- exchange income) | 47 | 25 | 22 | 223 |
| Exchange Income | 367 | 378 | -11 | 468 |
| Operating Expenses | 247 | 335 | -88 | 218 |
| Prof t Before Tax | 1,456 | 126 | 1,330 | 978 |

Outlook

In 2014 and going forward, this division will energetically pursue growth through greater operational efficiencies, closer monitoring of the market and environment, and more rapid responses to market conditions and opportunities. In particular, we will undertake the following steps:

- Implement new Treasury front-, back-and middle-office system.
- Leverage operational effectiveness to improve volumes in automated Treasury services.
- Adopt strategies to increase volumes in dollar/rupee trading by leveraging the possibilities of a stronger rupee.
- Roll out strategies we have developed to increase our corporate client base and attract prospective customers.

- Bid more aggressively in the primary market for Treasury bills.
- Target corporate and retail clients in T-bill secondary-market operations.

5. International and Trade Operations

The division was restructured to operate its trade and remittance business through the branch

network while giving added support to branch staff to promote these services and undertake the necessary work. These joint efforts by branches, the Corporate Banking division and the International division proved successful: business grew significantly.

Seminars and customised workshops on international business were held for existing and potential clients while calls were made on major clients to promote our products and services.

A Corporate Trade Sales team was formed to bring in new trade business.

Performance of International and Trade Services

| | Actual 2013 Rs. Mn. | Actual 2012 Rs. Mn. | Variance Rs. Mn. | Budget 2013 Rs. Mn. |
|--|------------------------|------------------------|---------------------|------------------------|
| International and Trade-Related fee Income | 509 | 447 | 62 | 537 |

Outlook

- Our plans include; Enhancing the capabilities of the current trade finance platform.
- Further expanding trade business in line with expansion of the branch network.
- Set up dedicated Trade desks at identified branches.
- Introduce internet banking for trade clients.

Management Discussion and Analysis

FUNCTIONS SUPPORTING FINANCIAL CAPITAL FORMATION

6. Recoveries

A major effort was necessary to reduce the Bank's NPA portfolio under the prevailing financial conditions. We reached amicable settlements with customers in genuine difficulty, providing them with a range of appropriate concessions, while hard-core defaulters found themselves facing litigation - though even in such cases we remained open to discussions. The Recoveries Department liaised closely with regional and branch managers to monitor borderline cases.

Strategies Adopted in 2013

Close monitoring was essential to avoid creating new non-performing assets. This involves passing information on new entrants from the Credit Control Unit to the relevant regional and branch managers as quickly as possible. Steps are now being taken to further improve this process, as well as to improve risk-related controls and automate the NPA system.

Improving Credit Quality

Stringent lending criteria were imposed to ensure an optimal balance of credit expansion, portfolio quality and default. Though credit operations expanded,

Net NPA levels fell from 12.99% in 2012 to 10.58% in 2013 - one of the lowest ratios in the recent history of the Bank. Careful monitoring of loans and prudent recovery action by regional offices, branches and the Recoveries Department all contributed to this.

Credit proposals beyond a stipulated threshold were subject to review by the Chief Risk Officer, while the health of the credit portfolio as a whole was monitored by the Risk Management Unit.

Outlook

The Bank plans to allocate considerable attention to reduce the NPA base down to industry levels; strategies include:

- To automate NPA information so that branches could review it daily on line for effective monitoring.
- Enhancing recovery efforts by incentivising staff.
- Strengthening call centre monitoring and follow up.
- Outsourcing the collections of identified NPA customers.
- To control new entrants to the non performing category through stringent and close monitoring.

Change in NPA Position (Based on CBSL Directions)

| | 2013 Rs. Mn. | 2012 Rs. Mn. | 2011 Rs. Mn. |
|---|-----------------|-----------------|-----------------|
| Gross NPA (Including Interest Receivable) | 18,231 | 20,613 | 20,923 |
| Gross NPA Ratio (Including Interest Receivable) | 12.44% | 15.25% | 17.67% |
| Net NPA (Including Interest Receivable) | 15,181 | 17,099 | 16,193 |
| Net NPA Ratio (Including Interest Receivable) | 10.58% | 12.99% | 14.24% |

Management Discussion and Analysis

7. Marketing

Our key strategy in 2013 was to build business with our most profitable customers. Each Seylan Bank branch drew up a list of prime customers, who were then targeted with initiatives aimed at expanding and diversifying the business relationship. The prime-customer portfolio of each branch continued to grow during the year, while business with existing prime customers too grew significantly.

Monitoring and Evaluation

The Bank conducted a number of customer surveys during the course of the year in order to measure perceptions of service quality and effectiveness, customers' knowledge about key Seylan Bank products, perceptions relating to specific branches, access to services, etc.

A few important marketing strategies adopted in 2013 are discussed below:

Marketing Strategies

- Introduced Selyan Flexi-FD as a new product to the market.
- Re-vamped and re-launched the Seylan Sure saving product.
- Re-vamped and re-launched 'Seylan Thilina Sayura' for NRFC/ RFC and remittance customers.

- Re-vamped the entire Tikiri Gift Scheme and re-launched to the market.
- Increased Seylan Bank's facebook fan base to over 75,000.

Outlook

- Focus on minor saving and the youth segment as strong potential areas.
- Focus on Below the Line (BTL) campaigns for SME customers.
- Enhance brand equity and corporate brand image of the Bank.
- Launch Seylan cards with a new proposition.

IT Strategies

IT department provides the technology backbone for operations and branches to carry out their business in a successful manner.

During 2013 IT department focused on the following areas;

- The BFEQ (Bank Fusion Equation) upgrade of the Core Banking system was carried out during the year and with this upgrade several new functionalities were added to the portfolio such as Fast Pass Book Printing, Deal Account Mobility and Salary Monitor Module.
- The hardware platform was upgraded during the year and we are one of the pioneer banks in Sri Lanka to implement the latest i-series POWER 7 architecture from IBM.
- Certain other upgrades were made such as Sigcap Version Upgrade, Indus Recoveries module upgrade, which encompasses the Bank's requirements and has been helping the Bank in collections and follow-up and Cheque imaging truncation system. Several new functionalities were added to the existing cheque imaging and truncation system including integration to the Bank's Sigcap signature module.
- The Bank's network architecture was changed during 2013 with a view to utilise the Bank's communication infrastructure efficiently and effectively.
- Visual dashboards and network management tools that were implemented as part of the project helps IT Support Center staff to monitor overall real time network health statistics.

Management Discussion and Analysis

- The Seycash remittance module which was developed in house was enhanced to accommodate direct communication with other exchange house systems and allows straight-through processing of remittances.
- Upgrade of Card system (The Base version of the Euronet Card management system was upgraded during the year to the latest version of 4.3.

Outlook

- Implementation of a robust Business Intelligence (BI) and Data Warehousing solution.
- The implementation of Anti Money Laundering System and Treasury Management System scheduled for 2014.
- Implementation of digital channels and revamping of the Internet Banking solution will be undertaken in 2014.
- The implementation of new change management system (System Development Lifecycle management system) which will improve the quality and consistency of in-house software development will be completed in 2014.

- The Bank's Disaster Recovery site will be shifted to a purpose built fully managed data center facility during 2014.

Seylan Developments PLC

The Company was formed in 1992 for the construction of the Head Office building of the Bank. It is a listed company quoted on the Main Board of the Colombo Stock Exchange. Seylan Developments operates as the main provider of utility services to the Bank. The main source of income of the Company is building rent. The Bank presently holds 52.37% stake in the Company.

The Company achieved a rent income growth of 7% in 2013 compared to 2012. The Company has recorded Profit Before Tax of Rs. 96 Mn., before adjusting fair value losses on investment properties.

Institutional Capital

Institutional capital is inextricably linked to the financial capital of the Bank in that the former plays an important role throughout the entire value creation process. It provides a solid foundation on which the activities of the Bank can be undertaken in delivering value to the various stakeholders. Seylan Bank's institutional capital comprises of its intellectual property, knowledge, systems and procedures, brand value, corporate culture, business values, ethics and integrity etc.

From its beginning in 1987, our motto 'Bank with a Heart' unambiguously defined our offer to the customers of a welcoming, service-oriented alternative in a banking culture that was generally perceived to be formal and regimented. Since then, it caught up the attention of the customers and we continue to live by it presenting ourselves as a flexible, customer-friendly choice. The

Management Discussion and Analysis

motto has given a unique identity to the Bank among customers of all walks of life across the country. We understand the relationship between brand equity and key value drivers in the business, and we view brand management as a strategic enhancer of value for stakeholders.

Over the years, the Bank has developed a sound system of internal control addressing all operational aspects for effective accountability and enhancing productivity. The system minimises room for errors, omissions and frauds while ensuring accuracy and completeness of the information for decision making. It also helps us to fine tune the internal processes for providing fast, efficient customer service. The components of our system range from basic control procedures such as segregation of duties to Board approved and documented policies & procedures; from our Code of Conduct to advanced risk management and corporate governance practices.

Bank extensively uses Information & Communication Technology systems in the process of its activities, both for serving the customer as well as for its back office operations. Apart from software from internationally reputed vendors such as our core banking system, the Bank also uses software that have been internally developed by our own staff. The Bank's database capturing our relationships with the customers over the years is certainly another valuable asset. Aided by the software interfaces we have developed, information we extract from the data base help us to enhance customer convenience by addressing such variables as reach, range of products & services, service standards and internal processes. Our product offering has evolved over the years and now encompass a wide range of branded products catering to our customer needs and connecting them better to the Bank.

Seylan Bank wants it to be perceived as a serious, dependable and long-term business partner. We therefore have high standards in business ethics and integrity, give priority to the interests of customers, meet customers with respect, meet and refer to competitors in a professional manner, offer high quality products & services as well as in all parts of business processes, respect the culture of the business segments and regions in which we operate.

Unlike financial capital, we cannot place a value to the various components of institutional capital. In addition, various forms of external capitals the Bank has built over its 26 years of existence, viz. investor capital, customer capital, employee capital, community capital, environmental capital and regulatory capital too supplement the Bank's institutional capital. Relationship between brand value and customer capital, for example, demonstrates that linkage.

EXTERNAL CAPITAL FORMATION

Investor Capital



Value Creation and Distribution

We recognise our accountability to the investors and the other stakeholders, therefore, the performance of the Bank is measured and monitored regularly at different levels. The budgets are prepared annually and monitored continuously at the Board level and various management and operational levels. Management accounts are prepared on a monthly basis and the variances with the justifications are tabled at board meetings for discussion, and action is taken where required.

Management Discussion and Analysis

Financial Value Added Statement

| | 2013 | | | 2012 | | |
|---|---------|----------|--------|---------|----------|--------|
| | Rs. Mn. | Rs. Mn. | % | Rs. Mn. | Rs. Mn. | % |
| Value Added | | | | | | |
| Income Earned by Providing Banking Services | | 28,037 | | | 23,623 | |
| Cost of Services | | (18,286) | | | (15,472) | |
| Value Added by Banking Services | | 9,751 | | | 8,137 | |
| Non-Banking Income | | 54 | | | 103 | |
| Provision for Loan Losses | | (1,361) | | | (574) | |
| | | 8,444 | | | 7,666 | |
| Value Allocated | | | | | | |
| To Employees | | | | | | |
| Salaries, Wages and Other Benefits | | 3,668 | 43.44 | | 3,231 | 42.15 |
| To Providers of Capital | | | | | | |
| Dividends to Shareholders | | 776 | 9.19 | | 676 | 8.82 |
| To Government | | | | | | |
| Income Tax | 1,138 | | | 1,135 | | |
| Stamp Duty | 8 | | | 11 | | |
| VAT on Financial Services | 749 | | | 676 | | |
| VAT and Crop Insurance Levy | 25 | 1,920 | 22.74 | 1 | 1,823 | 23.78 |
| Other | | | | | | |
| To Expansion and Growth | | | | | | |
| Surplus/(Deficit) | 1,540 | | | 1,388 | | |
| Depreciation | 540 | 2,080 | 24.63 | 548 | 1,936 | 25.25 |
| | | 8,444 | 100.00 | | 7,666 | 100.00 |

Economic Value Addition

| | 2013 Rs. Mn. | 2012 Rs. Mn. |
|---|-----------------|-----------------|
| Equity | | |
| Shareholders' Funds | 21,762 | 18,852 |
| | 21,762 | 18,852 |
| Earnings | | |
| Profit Attributable to Shareholders | 2,316 | 2,064 |
| Add: Impairment on Advances | 1,361 | 574 |
| | 3,677 | 2,638 |
| Economic Cost % (12 months average Treasury Bill rate plus 2% Risk Premium) (%) | 12.52 | 14.07 |
| Cost of Average Equity | 2,542 | 2,557 |
| Economic Value Addition | 1,135 | 81 |

Management Discussion and Analysis

Financial Obligations

Financial Obligations to Shareholders

While recognising the great importance of economic, social and environmental sustainability as well as the responsibility of management to assure this, the Bank remains conscious that its principal financial and statutory obligations are to its shareholders. Retaining and building the value of Bank shares is part of this responsibility, as is ensuring that shareholding is reasonably broad based. The tables below depict share-price movements in recent years and the present distribution of holdings.

Share Prices (Year-end), 2009-2013

| Year | Share Price (Rs.) | | Stated Capital Rs. Mn. | EPS Rs. |
|------|-------------------|-------------|---------------------------|------------|
| | Voting | Non- Voting | | |
| 2009 | 37.00 | 16.00 | 5,567.82 | 2.83 |
| 2010 | 97.80 | 49.00 | 5,567.82 | 4.60 |
| 2011 | 67.60 | 30.80 | 10,259.35 | 2.18 |
| 2012 | 56.00 | 35.10 | 10,225.45 | 6.11 |
| 2013 | 64.20 | 31.00 | 10,529.72 | 6.74 |

Seylan shares are largely in the hands of a few strategic corporate investors. Despite this, a large number of shares of the Bank were traded in 2013. The distribution of shares among various investors as of 31st December 2013 is shown below:

| Share range | No. of shareholders | No. of shares | % |
|---------------------|---------------------|--------------------|---------------|
| 1 - 1,000 | 11,196 | 2,952,324 | 0.87 |
| 1,001 - 10,000 | 6,243 | 17,422,259 | 5.05 |
| 10,001 - 100,000 | 1,140 | 28,468,628 | 8.25 |
| 100,001 - 1,000,000 | 144 | 34,170,431 | 9.90 |
| Over 1,000,000 | 32 | 261,946,768 | 75.93 |
| Total | 18,755 | 344,960,410 | 100.00 |

Capital Adequacy

Central Bank regulations demand that all commercial banks maintain a minimum Tier I and Tier II capital-adequacy ratios of 5% and 10%. Seylan Bank maintained a capital-adequacy ratio well above this minimum, enhancing financial stability and providing resources for future expansion and growth. A detailed report on the Bank's capital-adequacy position appears on page 167.

Recognition and Acceptance

In recognition of our commitment to excellence to financial reporting, governance, risk management, compliance and HR practices, the Bank was honoured with following awards:

- Ranked among the 'Business Today Top 25'.

Management Discussion and Analysis

- The Bank's Annual Report 2012, won the Silver Award for the 'Banking Institution' category and was awarded a Bronze for the 'Overall Excellence in Financial Reporting' at the CA Sri Lanka Annual Report Awards Ceremony.



- The Bank won a Silver award at the 'People's Development Awards' conducted by Sri Lanka Institute of Training and Development (SLITAD).



Outlook

The national policy objective of achieving per capita GDP of USD 4,000 by 2016 places significant responsibility on banks and other financial institutions to provide the necessary funding for economic growth. While deposits will continue to be their main source of funding, banks will need to supplement this with income from value-added products, mainly leveraging the convenience of automation. The challenge will be to maintain margins while making credit easily and widely available.

Management Discussion and Analysis

For Seylan Bank, profitable balance sheet growth supplemented by increases in fee income and improved productivity will be the key to delivering sustainable returns to shareholders. We will achieve this through the following strategies:

Enhancing Return on Assets (ROA) and Return on Equity (ROE)

We will work to improve these indicators of efficient asset allocation and effective investment in keeping with the targets for 2014 as set out below:

| Year | ROA % | ROE % |
|------|-------|--------|
| 2011 | 0.42 | 4.43 |
| 2012 | 1.18 | 11.42 |
| 2013 | 1.16 | 11.40 |
| 2014 | >1.25 | >13.00 |

Increasing the Volume of Business that We Do

Leveraging every opportunity and exploring potentially lucrative lines of business, delivery channels, etc, we will seek to increase our total asset base as shown below:

| Year | Total Asset Growth % |
|------|----------------------|
| 2011 | 10.46 |
| 2012 | 10.68 |
| 2013 | 17.15 |
| 2014 | >17% |

Improving Process Efficiency and Service Quality

We are currently developing the following strategic initiatives to enhance operational efficiency, service quality and pricing in order to optimize returns to stakeholders.

| Project | Responsibility |
|-----------------------------|---------------------------|
| Centralisation | Head of Branch Operations |
| Cost Optimisation | Chief Financial Officer |
| Service Quality Improvement | Head of Branch Operations |

Further Strengthening Risk Management and Compliance

We have taken several measures to strengthen our Risk Management unit, including the recruitment, in a consultant capacity, of a well-known regional specialist.

We are also working to improve our risk-management policies, procedures and implementation to increase our risk appetite. Moving to the advanced approaches of Basel II, Internal Capital Adequacy Assessment Process (ICAAP) are some of the Risk Management areas to be implemented in 2014. The detail Risk Management Report is on pages 137 to 167.

Management Discussion and Analysis

Customer Capital



Customer Analysis

The customer Deposits and Advances bases of the Bank have grown significantly over the past few years.

We recognise the paramount importance of our customers and therefore our customer base has significantly been enriched over the past few years.

We serve with the heart and are committed to the execution of robust customer-centric strategies from inception. Seylan has emerged and is recognised as a leading service provider with customer orientation.

Management Discussion and Analysis

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|--------------------------------------|--------|--------|--------|--------|--------|
| Customer Deposits (Rs. Bn.) | 167.37 | 146.73 | 123.98 | 112.88 | 104.82 |
| Loans and Advances (Gross) (Rs. Bn.) | 144.17 | 132.97 | 116.58 | 100.22 | 92.68 |
| Number of Banking Centres | 151 | 147 | 133 | 122 | 117 |
| Number of ATM's | 158 | 154 | 133 | 125 | 121 |
| Branches Refurbished/Relocated | 22 | 22 | 8 | 2 | - |



Upgrading of the
Kantale CBC to a Branch



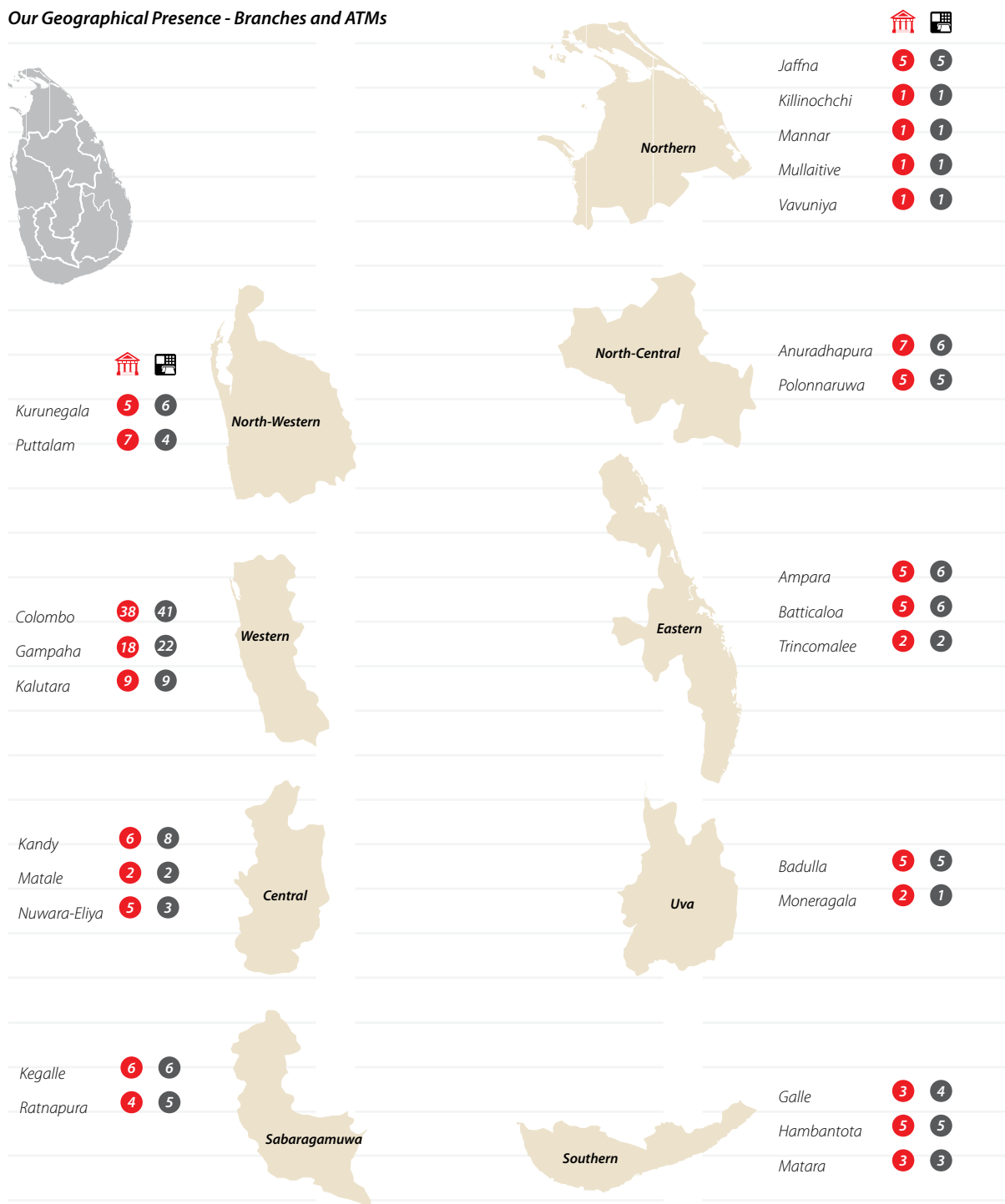
Upgrading of the
Veyangoda CBC to a Branch

Organisational Responsibility

In keeping with Bank policy, all our products and services are marketed transparently, with terms and conditions clearly communicated to customers at the time of purchase. All products and services we offer are in compliance with the relevant laws, rules and regulations. The Bank has not been found to be non-compliant with relevant rules and regulations by any authority in any jurisdiction.

Management Discussion and Analysis

Our Geographical Presence - Branches and ATMs



Management Discussion and Analysis

Reach

Branch Network

In 2013, the Bank continued to expand its reach by opening new branches. We are now present in all districts in all nine provinces.

Geographical Presence - Branches

Distribution of Branches in 9 provinces

| Province | 2013 | 2012* | 2011* |
|---------------|------------|------------|------------|
| Central | 13 | 13 | 13 |
| Eastern | 12 | 11 | 11 |
| Northern | 9 | 9 | 9 |
| North Central | 12 | 12 | 6 |
| North Western | 12 | 11 | 7 |
| Sabaragamuwa | 10 | 10 | 10 |
| Southern | 11 | 11 | 9 |
| Uva | 7 | 7 | 5 |
| Western | 65 | 63 | 63 |
| Total | 151 | 147 | 133 |

* Includes branches and convenient banking centres.

Bank's Product Policy

The Bank takes great care to ensure that every product and service we offer is relevant, meets and exceeds customer expectations, is non-exploitative and embodies the optimum levels of clarity and transparency in their features, presentation and advertisement. The Bank exercises strict control to ensure that there is no misrepresentation of facts in terms of its operations, products and services.

New Products

i. Seylan Flexi FD

Seylan Flexi FD is a revolutionary change in Fixed Deposits, where a customer has the freedom to decide the number of days of the deposit at real Fixed Deposit rates.

Key features.

- Deposit period 31 days to 365 days.
- Minimum deposit amount Rs. 100,000

- Real Fixed Deposit rates
- Instant loan or free credit card at a lower interest rate.

ii. Seylan Sure

The Seylan Sure benefit scheme was re-vamped and launched in November 2013.

Seylan Sure that operates as a helping hand to our loyal customers provides many benefits and value additions to enhance their lives. It supports our customers at various ages and instances where they need moral and financial support. Thus, this scheme is not an insurance scheme and the whole expectation of the scheme is to support our loyal customers and share their happiness and sorrow where it is necessary.

Customer Satisfaction

For reasons of competitiveness, we regularly monitor customer satisfaction levels through surveys. Mystery shopper exercises were carried out in 2013 and the overall satisfaction level stood at 76%. The Survey reflects the improved level of service quality of our branch network.

Management Discussion and Analysis

Product Responsibility

On going training for our staff on service excellence has helped us extremely to meet our customers' expectations to the maximum satisfaction and delivering high level of service to our valued customers, Our staff are specially trained to handle customer privacy and manage data with due care.

Products and Services Policy, Governance and Risk Management Practices

The products and services of Seylan Bank do not pose a threat to the health or safety of customers. Bank branches and all other premises accessible to customers are kept clean, well lit, temperature-controlled and properly ventilated. ATMs and other equipment are designed so as to be safe to operate.

No incidents of customer injury or illness attributable to Bank operations or policies were recorded during the year, nor were any complaints received in this regard.

Our Product Policy includes the following procedures, Governance and Risk Management Practices.

Customer Health and Safety

Life cycles Stages in which health and safety impacts of products and services.

Introduced a service 'Suhada Sewa' to provide special attention to care for pregnant mothers, elderly people, clergy, disabled people etc.

Non compliance with regulations and voluntary codes in respect of health and safety issues.

There were no incidents reported during the year.

Product and service Labelling

Type of product and Service information.

The Bank always make available all the required information in clearly visible areas to compare products and make an informed decision.

Incidents of non compliance for service information and labelling.

No such incidents were encountered during the year.

Customer Privacy

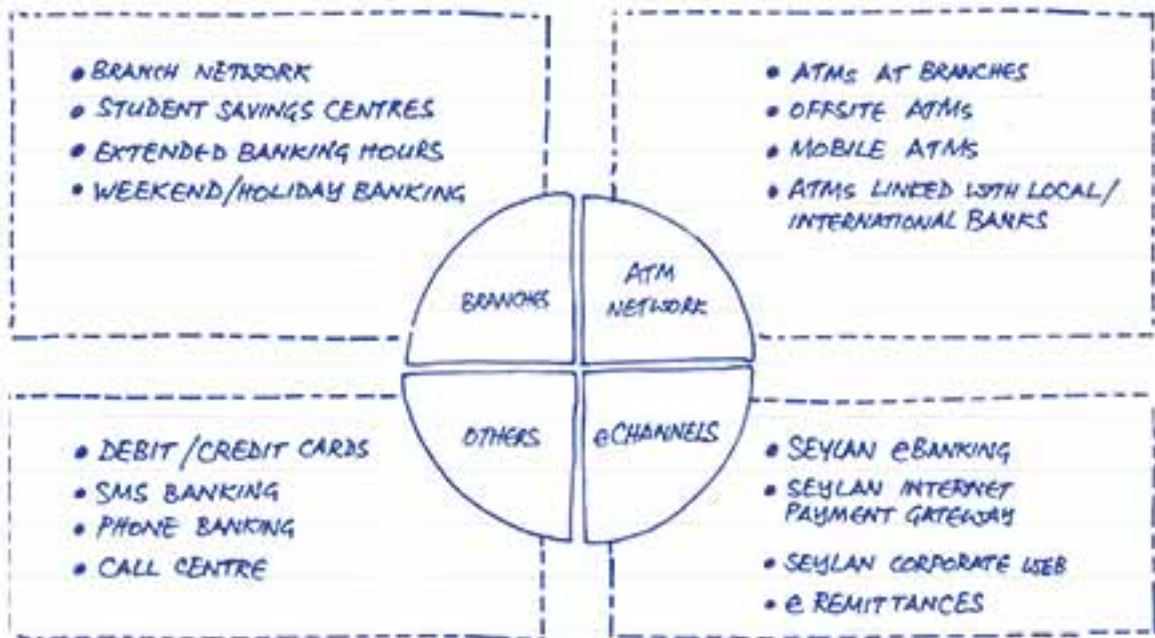
Number of complaints regarding customer privacy and loss of customer data .

We have provided an opportunity to our customers to lodge their complaints directly with the Personal Assistant (PA) to the GM/CEO who handles each case with strict confidentiality and speedy action.

Compliance

Monetary value of significant fines.

During the year the Bank has not paid any fine or any other surcharge for any breach of provisions on product responsibility.



Products and Services



Management Discussion and Analysis

Customer Complaints

The Bank has a well-established and functional procedure for dealing with customer complaints. Complaints regarding service levels, breaches of privacy or loss of data are channelled directly to the GM/CEO via his personal assistant for prompt resolution.

– A total of 77 customer complaints was received and resolved in the year under review.

40% of those were resolved within one week and rest were resolved within two weeks of time.

Outlook

Bank would continue to invest in the enhancement of customer, satisfaction levels and service quality. Further the Bank will increase its reach through branches and automated channels. We will also continue to invest in new products to suit changing customer needs. Simplification of processes and centralisation would further enhance the customer experience.

Strategies Include;

- Continue to improve service delivery by identifying areas where access to banking services is limited and opening new delivery channels to them.
- Improve our appeal to customers with value additions and customised new product developments.
- Establish a 'priority banking' unit to attract customers of high net worth.
- Give more autonomy to regional banking to improve efficiency and response times.
- Improve service quality through training and development.

Employee Capital

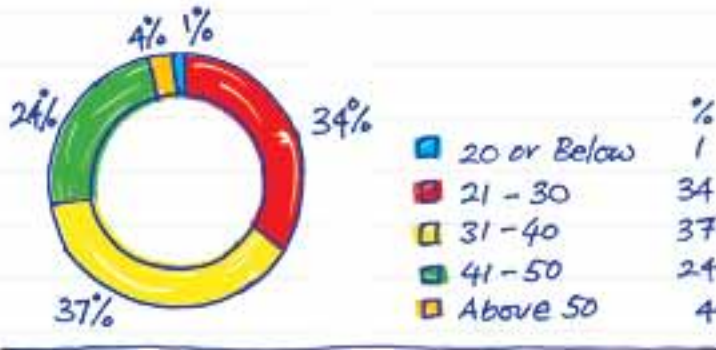
People are the most valuable asset. Prudent development, deployment and management of human resources has been the key contributor to the Bank's recorded success over the year.

Employee Analysis

Seylan Bank had 3,049 employees on its payroll as at 31st December 2013, compared with 3,061 a year previously. Despite this negligible contraction, staff numbers have remained much the same relative to the growth in business volume and financial turnover the Bank has enjoyed.

Management Discussion and Analysis

AGEWISE ANALYSIS OF EMPLOYEES - 2013



GENDERWISE ANALYSIS OF EMPLOYEES - 2013



SERVICEWISE ANALYSIS OF EMPLOYEES - 2013



Management Discussion and Analysis

Analysis by Type of Employment

| | 2013 | | 2012 | | 2011 | |
|--------------|--------------|---------------|--------------|---------------|--------------|---------------|
| | No. | % | No. | % | No. | % |
| Permanent | 2,863 | 93.9 | 2,954 | 96.5 | 3,072 | 97.5 |
| Contract | 16 | 0.5 | 16 | 0.5 | 48 | 1.5 |
| Trainee | 170 | 5.6 | 91 | 3.0 | 30 | 1.0 |
| Total | 3,049 | 100.00 | 3,061 | 100.00 | 3,150 | 100.00 |

Analysis by Employee Grade

| | 2013 | 2012 | 2011 |
|------------------------|--------------|--------------|--------------|
| Corporate Management | 31 | 32 | 35 |
| Middle Management | 156 | 167 | 174 |
| Operational Management | 1,009 | 997 | 1,057 |
| Other Staff | 1,853 | 1,865 | 1,884 |
| Total | 3,049 | 3,061 | 3,150 |

Recruitment

Recruitment policy

All recruitments to Seylan Bank are made according to a formal and transparent process, the goal of which is to ensure that we hire the best possible person for the job. All senior-management recruitments are based on thorough evaluation and approval by the Bank's Nominations Committee.

Discrimination based on gender, ethnicity, religion or caste has no place in our process.

New Appointments

| | 2013 | 2012 | 2011 |
|------------------------|------------|-----------|-----------|
| Corporate Management | 4 | 1 | 3 |
| Middle Management | 4 | 1 | - |
| Operational Management | 6 | 2 | 11 |
| Other | 119 | 95 | 21 |
| Total | 133 | 99 | 35 |

Basic Salary Analysis by Gender

| | Total Basic Salary (Rs. Mn.) | | Total No. of Staff | | Average Basic Salary (Rs. Mn.) | |
|------------------------|---------------------------------|--------|-----------------------|--------|-----------------------------------|--------|
| | Male | Female | Male | Female | Male | Female |
| Corporate Management | 86 | 14 | 26 | 5 | 3.30 | 2.70 |
| Middle Management | 196 | 67 | 114 | 42 | 1.72 | 1.60 |
| Operational Management | 434 | 354 | 552 | 457 | 0.79 | 0.77 |
| Others | 524 | 299 | 1,165 | 688 | 0.45 | 0.43 |

Remuneration and Benefits

Staff remuneration at Seylan Bank compares well with industry averages. Continuous dialogue between and among employee unions, corporate peers and labour authorities allows the Bank to keep abreast of current trends and policies pertaining to wages in the banking industry.

In addition to statutory benefits and salaries that compare with industry norms, Seylan Bank employees are entitled to a range of additional benefits, including but not limited to:

- A comprehensive health plan, including medical insurance coverage, for all employees
- Holiday pay
- Annual bonus
- Housing and vehicle loans at concessionary interest
- Holiday bungalows facilities

In addition, special allowances are paid to cashiers, employees at difficult stations and temporarily empowered signatories.

Management Discussion and Analysis

Defined Benefits and Contributions

The Bank operates a retirement gratuity (defined-benefit plan) for employees in accordance with the Gratuity Act, No. 12 of 1983.

In the year under review the Bank duly carried out its actuarial valuation of the retirement benefit obligation at year's end using the projected unit credit method prescribed in LKAS 19.

Additionally, the Bank contributes to the Bank's internal defined-contribution plans and the Employees' Trust Fund.

Employee Satisfaction

The Bank conducts an annual staff satisfaction survey, which is the primary source of information concerning staff attitudes, training and development needs. The survey is in the form of a confidential questionnaire. In 2013, the annual survey had 1,308 respondents. It recorded overall satisfaction level of 74% in 2013, compared to 73% reported in 2012. Employees were surveyed on culture, growth opportunities, job responsibilities, recognition, salary and benefits, guidance from senior leaders, supervisor/management support and work environment.

Staff Turnover

These benefits, along with the potential for career development offered by the Bank, have a positive influence on employee retention.

Staff turnover fell from 5.27% in 2012 to 4.44% in 2013 even as a sharp improvement was seen in productivity.

Performance Management and Recognition

Eschewing conventional performance appraisal systems, Seylan Bank applies a key-performance-indicator method to set targets and objectively manage the performance of employees. The method is based on a well-developed Web-based performance-appraisal model that facilitates quick appraisal and target-setting for all employees. Individual goals and departmental

targets were aligned to business goals. In 2013, all confirmed officers of the Bank were evaluated by this method and ranked according to performance.

The Bank's performance orientation and staff-related policies have earned it recognition in the industry as a preferred employer.

Rewards and Recognition

Honouring and rewarding outstanding work is an important part of our performance culture. This year, at our annual awards ceremony, awards and certificates were awarded to the best-performing branches, strategic business units and departments in terms of contribution, profitability, credit growth, NPA reduction and fund mobilisation. The best CSR project too was also recognised and rewarded.

Winner - Export Division
Seylan Knowledge Quest
2013.



Management Discussion and Analysis

Other Parameters of Employment

| | 2013 | 2012 | 2011 |
|-------------------------------------|------|------|------|
| Average Age (Years) | 35 | 35 | 32 |
| Average Service Period (Years) | 11.9 | 11.4 | 11.5 |
| Average Training Hours per Employee | 25 | 24 | 21 |
| No. of Promotions | 326 | 334 | 755 |
| - Female | 120 | 68 | 244 |
| - Male | 206 | 266 | 511 |

Training and Development

Our policy is to help our people improve their job performance and contribute to the attainment of corporate objectives through personalised, needs-based training.

Professional Education

In the year under review, 71 of staff members have obtained professional qualification increasing the total academically and professionally qualified staff to 1,170.

| Age | Academic Qualifications | | Professional Qualifications | | Total |
|--------------|-------------------------|------------|-----------------------------|------------|--------------|
| | Female | Male | Female | Male | |
| Below 20 | 0 | 0 | 1 | 0 | 1 |
| 21 - 30 | 13 | 16 | 54 | 98 | 181 |
| 31 - 40 | 38 | 53 | 221 | 245 | 557 |
| 41 - 50 | 35 | 53 | 132 | 156 | 376 |
| Above 50 | 5 | 14 | 9 | 27 | 55 |
| Total | 91 | 136 | 417 | 526 | 1,170 |

Management Discussion and Analysis

Training Needs Analysis

We identify training needs for individual personnel in several ways:

- Individual analysis based on annual staff appraisals
- Competency mapping in identified work areas
- Consultations with department heads and line managers
- Focus-group discussions
- Directions from the Board of Directors.

Training Programmes in 2013

The following table documents training programmes and modules conducted by Seylan Bank for staff members in 2013. In-house and structured on-the-job training programmes are designed to meet the individual training needs of staff members; regional and external training programmes mainly focus on providing identified competencies in order to achieve the Bank's business goals.



Training Sessions at
Training Centre

Management Discussion and Analysis

Training Analysis 2013: Overview

| Type | No. of Programmes | No. of Participants | Total Hours |
|--------------|-------------------|---------------------|---------------|
| Internal | 210 | 7,966 | 71,888 |
| External | 121 | 373 | 3,735 |
| Foreign | 10 | 15 | 412 |
| Total | 341 | 8,354 | 76,035 |

Diversity and Inclusion

Diversity and inclusion are important to us, and we have always given emphasis on recruiting from semi-urban and rural communities. We also have a fair representation of employees from every province in the country and consciously work to maintain this diversity. In 2013, we made special efforts to recruit staff from the north and the east of the country.

Staff Distribution by Province and Gender

| Province | Branches | Employees | Male | | Female | |
|---------------------------------|------------|--------------|--------------|-----------|--------------|-----------|
| | | | No. | % | No. | % |
| Central | 13 | 194 | 111 | 57 | 83 | 43 |
| Eastern | 12 | 127 | 86 | 68 | 41 | 32 |
| Northern | 9 | 97 | 68 | 70 | 29 | 30 |
| North-Central | 12 | 112 | 87 | 78 | 25 | 22 |
| North-Western | 12 | 125 | 80 | 64 | 45 | 36 |
| Sabaragamuwa | 10 | 135 | 88 | 65 | 47 | 35 |
| Southern | 11 | 148 | 94 | 64 | 54 | 36 |
| Uva | 7 | 72 | 55 | 76 | 17 | 24 |
| Western (Including Head Office) | 65 | 2,039 | 1,188 | 58 | 851 | 42 |
| Total | 151 | 3,049 | 1,857 | 61 | 1,192 | 39 |

Distribution by Ethnic Group

| | 2013 | | | 2012 | | | 2011 | | |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Female | Male | Total | Female | Male | Total | Female | Male | Total |
| Sinhalese | 1,059 | 1,662 | 2,721 | 1,058 | 1,691 | 2,749 | 1,092 | 1,751 | 2,843 |
| Tamil | 107 | 135 | 242 | 100 | 127 | 227 | 91 | 131 | 222 |
| Moor | 14 | 41 | 55 | 13 | 37 | 50 | 12 | 36 | 48 |
| Burgher | 12 | 13 | 25 | 11 | 11 | 22 | 12 | 12 | 24 |
| Other | – | 6 | 6 | 1 | 12 | 13 | 2 | 11 | 13 |
| Total | 1,192 | 1,857 | 3,049 | 1,183 | 1,878 | 3,061 | 1,209 | 1,941 | 3,150 |

Organisational Responsibility Employee-Management Relations

1. Unionisation and Collective Bargaining

We recognise the Ceylon Bank Employees' Union and the Seylan Bank Employees' Union. They work as a consultative and support group for better communication, grievance handling, career counselling and creating an environment conducive to healthy employee relations.

2. Minimum Notice Period

One month's notice is given where practical, in order to minimize adverse organisational impacts stemming from operating changes. However, no notice period is stipulated or defined in the collective agreements.

3. Code of Ethics and Protection for Whistle-blowers

The code of conduct of the Bank is communicated to all staff on appointment and is, additionally,

Management Discussion and Analysis

available for reference in all departments.

The Board of Directors have appointed two officers to receive complaints on corruption and malpractice. This is a regulatory requirement of the Central Bank.

4. Dissemination and Discussion of HR Information

Nearly every Seylan Bank employee has access to the Bank's internal email network and intranet. Rules, procedures and initiatives related to HR affairs are available for inspection on the latter, as well as in emails sent from time to time to the relevant employees.

The development of the Bank's human-resources information system continues; modules so far implemented have enabled management to obtain more timely HR information. Increased use of the system has had a visible impact on performance management and staff deployment.

5. Open-Door Policy

All employees have direct access to senior management at any time should the need arise.

Health and Safety

Bank work does not normally expose employees to unusual health and safety threats. Nonetheless, we implement a range of health and safety measures, such as good housekeeping practices, to maintain a hazard-free office environment.

Supplementary to the comprehensive Health Plan where all Bank staff and their family members are covered, the following measures have been taken by the Bank to assess and maintain health and safety:

- 22 branches were fully refurbished/re-located with new facilities in 2013.
- Arrangements were made to implement a standard lighting system at all branches.
- The Bank's Business Continuity Plan makes provision for the safety of all staff in emergencies.

Employees exposed to additional health and safety threats, such as cashiers, managers and employees at 'difficult' stations, are paid compensatory Risk Allowances.

1. Illness, injuries and lost days

No work-related injuries were reported in 2013.

2. Counselling, Safety Training and Risk Prevention

Seylan Bank undertakes full medical screening of all employees for major or critical illnesses at entry level.

Appropriate counselling is made available to staff where a specific need has been identified.

Outlook

Our policy for the year ahead is to follow human-resources-related strategies and practices that will uphold and reinforce our status as an employer of choice while building a dedicated, professional team.

Strategies include:

- The introduction of assessment-centre techniques to facilitate succession planning and career development
- Job enrichment, job rotation plans and other developmental initiatives
- Reinforcing our performance-driven culture through improving systems and methods for goal setting and performance evaluation.
- Increase staff recognition schemes to reward employees' achievements.

Community Capital

**Introduction**

The primary route by means of which the Bank discharges its responsibility to society is its business operations, which provide an essential economic and social service and are conducted with probity, transparency and fairness.

It is Bank policy to ensure that the businesses to which we offer facilities, are to the best of our knowledge following due diligence in conformance with all relevant laws and regulations, including those relating to society and the environment.

Management Discussion and Analysis

Our financial support for business and industry generates a broad range of indirect benefits such as increased employment, poverty alleviation, GDP growth, better living standards, etc., although these cannot be quantified for reporting purposes.

Additionally, Seylan Bank recognises a duty to promote sustainable human and economic development in our society through direct action. The duty is simply one of good citizenship. To discharge it as effectively as possible, the Bank also further concentrates its activities in the area of education.

Legal and Regulatory Compliance

The reputation of the Bank for probity and honest dealing is of incalculable value to the success of our operations. Given the nature of our business, banks are at particular risk from embezzlement, money-laundering, political and other forms of corruption, and monopolistic behaviour.

Seylan Bank operates a very strict system of codes of conduct, internal controls, audit procedures and disciplinary action to prevent such occurrences, both in the public interest and that of its own reputation.

To avoid the dangers of political corruption, the Bank makes no donations or contributions, financial or in kind, to political parties and politicians; this policy was held into 2013.

The Bank has faced neither any legal action, nor any accusations, with respect to monopolistic or anti-competitive behaviour during the year, nor did it become liable to any fines or sanctions with respect to this or any other aspect of its operations.

Training for Compliance

Special training programmes and workshops were held for Bank officers during the course of the year, covering various aspects of regulatory compliance. These are listed in the following table:

| Subject | Sessions | Attendance |
|---------------------------|------------|--------------|
| General Banking Practice | 144 | 4,433 |
| Anti-Money-Laundering/KYC | 105 | 2,521 |
| System Security | 75 | 1,161 |
| Accounting and Auditing | 17 | 239 |
| Total | 341 | 8,354 |

Management Discussion and Analysis

Promoting the Well-being of Society

We recognise and respect the laws and the regulations as an important yardstick to manage our day to day operations in a manner which benefits to the stakeholders, and country as a whole.

| Aspect of Compliance | Level/Status of Compliance and Action Taken |
|---|--|
| Action taken in responses to incidents of corruptions. | Bank operates with very rigid controls, internal audit procedures, and disciplinary procedures to safe guard the public interest. |
| Participation in public policy development. | Bank is invited by the government to submit the proposals for consideration when formulating the government budget, implementation of SLFRS/LKAS and various other tax and statutory issues. |
| Total Value of financial and in kind contribution to political parties and politicians. | Bank has carried out its transaction in the ordinary course of the business and arms length basis and there are no contributions made to political parties or politicians. |
| Number of legal action for anti competitive behaviour | Bank did not encounter any legal action for any anti competitive behaviour during the year. |
| Monetary value of significant fines and total number of non monetary sanctions for non compliance with laws and regulations. | There were no fines or non monetary sanctions during the year under review. |
| Percentage and total number of business units analysed for risk relation to corruption and percentage of employees trained in the bank's anti-corruption policies and procedures. | Bank continuously conduct training programmes to make its staff aware on the threats and issues from corruption. |

Fostering Entrepreneurship

A financial relationship with Seylan Bank is often the beginning of a journey to prosperity for aspiring entrepreneurs of modest means.

They, in turn, foster economic growth in their local communities and contribute to that of the country. This process also benefits the Bank by creating opportunities for the provision of supplementary financial services.

In addition, we support small businesses around the country through our policy of sourcing locally many of the consumables and services used by our branches from the local community. In the year under review, the value of such services amounted to Rs. 173.97 Mn.

Management Discussion and Analysis

Branch Local Procurement in and around the local community, Year on Year

| | 2013 Rs. Mn. | 2012 Rs. Mn. |
|---|-----------------|-----------------|
| Tea and Coffee | 31.24 | 27.07 |
| Subsidised Lunch for Staff | 52.25 | 46.99 |
| Supply of Foliage/Maintenance of Fish Tanks | 5.92 | 5.53 |
| Janitorial Services | 48.25 | 42.20 |
| Repairs and Maintenance | 25.47 | 16.14 |
| Drinking Water | 8.64 | 3.85 |
| Newspapers | 2.20 | 1.39 |
| Total | 173.97 | 143.17 |

Procurement Policy and Practice

All Bank procurements follow a transparent tender procedure. Price negotiations are conducted by designated teams and committees whose constitution depends on the nature and value of the contract in question. Suppliers and supplier information is treated in confidence.

The Bank recognises a responsibility to carry out its procurement activities in an environmentally and socially responsible manner. It is our policy to encourage and support suppliers who minimise negative environmental and social effects associated with the products and services they provide.

Opening of the
"Seylan Paharasari" Library
at Fathima Muslim
Girls' School, Puttalam.



Opening of the
"Seylan Paharasari" Library
at Highlands College,
Hatton, Nuwara Eliya.



Management Discussion and Analysis

Supporting Education

A Hundred Libraries

This year, the Bank embarked on an ambitious four-year project to create one hundred libraries at schools in underprivileged or remote locations. Twelve libraries were opened in 2013 at:

| District | Name and Address of School |
|--------------|---|
| Ampara | EP/AM - Saddhatissa Maha Vidyalaya, Ampara |
| Anuradhapura | NCP/ANU - Swarnapali Balika Maha Vidyalaya, New Town, Anuradhapura |
| Galle | SP/GA - Sangamitta Girls' School, Wackwella Road, Galle |
| Gampaha | WP/KA - De Mazenod College, Hapugoda, Kandana |
| Gampaha | WP/MEE - Raddolugama Kanishta Vidyalaya, Raddolugama |
| Jaffna | NP/YA - Kopai Maha Vidyalaya, Kondavil Road, Irupali Junction, Kopai |
| Kegalle | SG/KE/MA - Mayurapada Central College, National School, Dewaragampola Road, Mawanella |
| Kegalle | SG/WARA - Tholangamuwa Dudley Senanayaka Central College, Kandy Road, Warakapola |
| Kurunegala | NWP/KU/GI - Mayurapada Kanishta Vidyalaya, Narammala |
| Nuwara Eliya | CP/HE - Highlands College, Danwar Road, Hatton |
| Puttalam | NWP/PU - Fathima Muslim Girls' School, Poles Road, Puttalam |
| Ratnapura | SG/RA/EMB - President College, Centuria Road, New Town, Embilipitiya |

In addition, a library was setup at 'Padavi 'E' Yaya 05 Kanuwa Vidyalaya' with the shareholders' money (fractions of scrip dividend). Our gratitude goes to our valuable shareholders for their contribution made to setup this library. This would support over 350 students of that school and enhance their knowledge and reading habit.

Management Discussion and Analysis

Outlook

The Bank is cognizant of the fact that social sustainability is as important as economic sustainability. Hence, the Bank continues to engage with the community to ensure its wellbeing. Uplifting education is one of the key commitments of the Bank and in this respect, we are planning to set up 100 libraries over the next three years to support education.

The Bank has planned to buy an automated solution for monitoring any money laundering activities and enhance compliance with KYC policies. This would strengthen the compliance function and operational risk management.

In addition, the Bank continues to work with the community in its day-to-day business by supporting entrepreneurs thereby contributing to the generation of employment opportunities.



Opening of Library at
Mayurapura Kamishita
Vidyalaya, Narammala,
Kurunegala.



Opening of Library at
Raddolugama Kamishita
Vidyalaya, Raddolugama
Gampaha.

Environmental Capital



Introduction

Our environmental policy is based on a standing commitment to minimise both direct and indirect impacts on the environment arising from our business activities while doing all we can to protect and replenish the natural resources around us.

Management Discussion and Analysis

Accordingly, we ensure not only that our own products and services comply with applicable laws and regulations; we also assess the environmental and social impacts of the projects we are called upon to support in the normal course of business.

Effectively, the Bank's strategic priorities are to:

1. Minimise danger to the environment arising from our operations
2. Conserve resources used in our operations.

Environmental Protection

Relatively speaking, banking does not contribute much to pollution. However, Seylan Bank works to further diminish the environmental impact of our operations by:

- Reducing emissions, effluents and waste
- Monitoring and working to reduce our carbon footprint
- Educating our staff in sustainable practices at work

The Environmental Impact of Our Lending

Though banking is itself a relatively benign activity in environmental terms, the same cannot always be said of the businesses and

industries that make use of financial services. To ensure that the indirect impacts of our operations are kept to a minimum, the Bank follows a policy of encouraging and requiring environmental responsibility on the part of our customers through the conditions we apply to the offer of facilities.

Pursuant to this, the Bank engages in systematic assessments of the environmental (as well as the social and ethical) risks and opportunities associated with the projects we finance.

Encouraging Eco-friendly Projects

Seylan Bank provides loans to business and industry for the purchase of equipment to reduce emissions, waste, energy consumption and use of resources, as well as to improve workplace

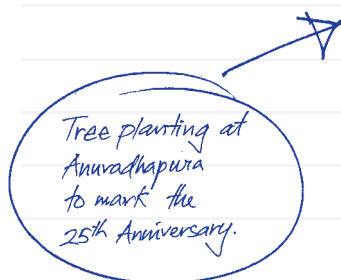
safety through the control of hazardous substances and noise pollution. This line of credit also covers purchases of pollution-monitoring equipment.

Conserving Resources

Recycling and efficient resource use

A considerable amount of paper is used in the Bank's day-to-day operations and administration. Used paper is recycled and re-used wherever possible. Meanwhile, we continue to move towards a paperless environment through the use of emails, scanned documents, etc.

Water is another important 'conservable'. Staff education promotes responsible water use; the Bank also monitors water consumption at all its centres on a quarterly basis.



Management Discussion and Analysis

The third important 'conservable' is electricity, used for lighting and to run air conditioners, computers and other office equipment. The Bank carries out various energy-saving measures at all operational centres, such as a lights-off policy, gradual conversion to LED illumination etc.

| | 2013 | 2012 | 2011 |
|--|--------|--------|--------|
| No. of A4 Paper Consumed (Packets) | 18,009 | 16,950 | 18,527 |
| Water Consumed (Units) | 77,746 | 83,967 | 72,907 |
| Electricity Consumed (Units, kWh) '000 | 9,587 | 9,450 | 9,187 |

Biodiversity

Banking sector directly is not exposed to the bio diversity aspects. However we indirectly help to safeguard the biodiversity through our business and various community projects.

Outlook

We track and manage environment related aspects of our operations such as energy, water, carbon, emission and waste management. Further, the Bank is planning to install separate meters in each floor of its head office to measure electricity consumption for effective utilisation. We have also planned to implement several cost containment initiatives as a part of our strategic plan. Accordingly, all sources of cost including stationery, electricity, rent, water etc. will be scrutinised and an officer will be assigned responsibility for close monitoring and effective management.



← Seylan Battini Gee



← Seylan Carots

Management Discussion and Analysis

Regulatory Capital!

Introduction

Seylan Bank contributes to national life and development by providing various services to Sri Lankans all over the country. When appropriate, we make effective use of subsidies and re-finance schemes from the government and other sources to promote and support economic growth and social upliftment.

The Bank also contributes to the national economy as a taxpayer and a source of finance.

Supporting National Initiatives

The Bank participates in national development by acting as a channel for specially-funded re-finance schemes. In 2013, it was active with respect to the following schemes:

25th Anniversary Celebrations at Amuradhapana.



Hindu religious Ceremony at Nallur Kovil at Jaffna.



Management Discussion and Analysis

Refinance Schemes (Development Lending)

| Name of Scheme | Terms and Funding Agency | Eligibility | Loans in 2013 | Value* Rs. Mn. |
|--------------------------------------|---|--|---------------|----------------|
| Awakening North Sector | 90% ref nanced by Agency francaise de development | Any legally-accepted income-generating activities in the Northern Province | 20 | 2.25 |
| Eastern Province Special Loan Scheme | 100% ref nanced by Government of Sri Lanka | Any legally-accepted income-generating activities in the Eastern Province | 29 | 9.80 |
| Saubhagya Prosperity Loan Scheme | 100% ref nanced by Government of Sri Lanka | Micro-small and medium-scale enterprises | 6 | 34.34 |
| Kapraka Ayojana Credit Scheme | 100% ref nanced by Coconut Cultivation Board | Small and medium-term coconut cultivation | 9 | 5.63 |
| SMILE - 3 | Japanese Bank for International Cooperation | SMI Clients engaged in Manufacturing | 10 | 41.90 |

* Cumulative value of all loans as at 31st December 2013.

Facilities Granted under Interest Subsidy Scheme

| | | Eligible Sector | No. of Loans Granted as at 31.12.2013 | Cumulative of Loan Granted as at 31.12.2013 Rs. Mn. |
|--|-------------------------------|-----------------|---------------------------------------|---|
| New Comprehensive Rural Credit Scheme (NCRCS) | 8% interest subsidy from CBSL | Agriculture | 449 | 43.07 |
| Commercial Scale Dairy Development Loan Scheme (CSDDL) | | Dairy Farmers | 11 | 29.65 |

Contribution to National Revenue

Bank has contributed 45% of its profits to the government revenue during the year. In Rupee terms this amounts to Rs. 1,887 Mn. paid as taxes during 2013.

| | 2013 | 2012 | 2011 |
|--|-------|-------|-------|
| Prof t before VAT and Tax (Rs. Mn) | 4,203 | 3,876 | 1,575 |
| Value Added Taxation (Rs. Mn.) | 749 | 676 | 405 |
| Income Tax (Rs. Mn) | 1,138 | 1,135 | 505 |
| Income Tax and VAT as a % of Prof t before Tax and VAT | 45% | 47% | 58% |

Management Discussion and Analysis

Compliance and Corporate Responsibility

As a responsible corporate citizen, the Bank complies with all applicable statutes, laws and regulations. Compliance forms a key aspect in our day-to-day operations and is the subject of monitoring at Board level on a monthly basis. The Bank also operates a defined-benefit plan and contributes to a defined-contribution plan in accordance with the applicable regulations.

Compliance in Financial Reporting

Shareholders and the general public are regularly kept up to date with Bank activities and finances through the publication of annual and interim reports as well as through other announcements made by the Board or management from time to time.

Quarterly accounts in 2013 were published well in advance of the regulatory deadlines in order to support the decision-making of investors and stakeholders.

For more information on the reporting processes of the Bank, see the section on corporate governance in this annual report.

Outlook

The Bank will continue to closely work with the government institutions and contribute to the national economy directly by way of taxes and indirectly promoting investments, entrepreneurs and employment.



Catholic Holy Mass at "Supunath Arana" Church, Seeduwa.



Islamic Ceremony at Grand Mosque, Puttalam.

Management Discussion and Analysis

Stakeholder Strategic Priorities and Achievements - Performance Indicators

An analysis of Bank operations in terms of the strategic priorities of its various stakeholders is given below:

| Stakeholder Group | Indicator of Performance | Achievement/Contributions | | | | Indicator |
|---------------------------------------|---|---------------------------|---------|---------|---------|-----------|
| | | 2013 | 2012 | 2011 | 2010 | |
| Investors | Financial Value Added (Rs. Mn.) | 8,444 | 7,660 | 6,022 | 6,529 | ↑ |
| | Economic Value Added (Rs. Mn.) | 1,135 | 81 | (322) | 929 | ↑ |
| | Profit After Tax (Rs. Mn.) | 2,316 | 2,064 | 675 | 1,228 | ↑ |
| | Earnings Per Share (Rs.) | 6.74 | 6.11 | 2.18 | 4.6 | ↑ |
| | Return on Equity (%) | 11.40 | 11.42 | 4.43 | 10.88 | ↔ |
| | Return on Assets (%) | 1.16 | 1.18 | 0.42 | 0.87 | ↔ |
| | Dividend Per Share (Rs.) | 2.25 | 2.00 | 1.00 | 1.00 | ↑ |
| | Customer Deposits (Rs. Mn.) | 167,371 | 146,727 | 123,981 | 112,880 | ↑ |
| | Penalties Arising from Non-Compliance of Laws | NIL | NIL | Nil | Nil | ↔ |
| | Training Programmes on Anti-Corruption Policies Procedures and Compliance | 236 | 234 | 109 | 103 | ↑ |
| KYC, Anti-Money Laundering Programmes | 105 | 43 | 19 | 5 | ↑ | |
| Customers | No. of Delivery Channels | 151 | 147 | 134 | 122 | ↑ |
| | No. of ATMs | 158 | 154 | 133 | 125 | ↑ |
| | Total Gross Customer Advances (Rs. Mn.) | 144,167 | 132,974 | 116,584 | 100,224 | ↑ |
| | Number of Housing Loans Outstanding | 6,089 | 6,433 | 6,450 | 5,369 | ↔ |
| | Value of Housing Loans (Rs. Mn.) | 8,683 | 9,055 | 8,755 | 8,323 | ↔ |
| | SME Loans Portfolio (Rs. Mn.) | 37,149 | 31,001 | 26,966 | 20,801 | ↑ |
| | No. of SME Customers | 16,728 | 15,597 | 15,303 | 14,484 | ↑ |
| | No. of Kids Banking Day Events Held | 56 | 45 | 47 | N/A | ↑ |
| | No. of Students Banking Centres | 86 | 81 | 83 | 83 | ↑ |
| No. of Customer Complains | 77 | 91 | 76 | 70 | ↔ | |
| Employees | Turnover Rate (excluding VRS) (%) | 4.44 | 5.27 | 5.36 | 3.40 | ↓ |
| | Permanent Employees (%) | 93.9 | 96.5 | 97.5 | 97.8 | ↓ |
| | Women Employees (%) | 39 | 39 | 38 | 39 | ↔ |
| | Women in Corporate and Middle Management (%) | 25 | 24 | 25 | 27 | ↔ |
| | Union Membership (%) | 88 | 91 | 89 | 89 | ↔ |
| | Employees Covered by Collective Agreements (%) | 62 | 71 | 67 | N/A | ↔ |
| | Average Benefits Per Employee Excluding VRS (Rs.'000) | 1,205 | 1,060 | 975 | 806 | ↑ |

Management Discussion and Analysis

| Stakeholder Group | Indicator of Performance | Achievement/Contributions | | | | Indicator |
|-------------------|---|---------------------------|-----------|-----------|-----------|-----------|
| | | 2013 | 2012 | 2011 | 2010 | |
| | Staff Covered by Health Plan (%) | 100 | 100 | 100 | 100 | ↔ |
| | Work Related Fatalities or Lost Days | Nil | Nil | Nil | Nil | ↔ |
| | No. of Pending Human Rights Case Against the Bank | Nil | Nil | Nil | Nil | ↑ |
| | External Training Programmes participants | 388 | 325 | 421 | 312 | ↑ |
| | Total Training Cost (Rs. '000) | 27,546 | 14,402 | N/A | N/A | ↑ |
| Community | Contribution to Community Projects (Rs. Mn.) | 4.54 | 0.19 | 1.5 | 0.2 | ↑ |
| | Contribution to Education-Related Pursuits (Rs. Mn.) | 2.49 | 0.34 | 1.91 | 1.04 | ↑ |
| | Sponsored Year 5 Scholarship Seminars | 12 | Nil | Nil | Nil | ↑ |
| | No. of Loans Granted Under 'Seylan Scholar' | 166 | 165 | 131 | - | ↑ |
| | Branch level Purchases from Local Community (Rs. Mn.) | 173.97 | 143.17 | 129.2 | 98 | ↑ |
| Environment | Electricity Consumed, (units kwh) '000 | 9,587 | 9,450 | 9,187 | 9,362 | ↑ |
| | Electricity Consumption - Units per Employee (Kwh) | 3,144 | 3,087 | 2,917 | 2,584 | ↑ |
| | Water Consumption, Units | 77,746 | 83,967 | 72,907 | 90,346 | ↔ |
| | Water Consumption - Units per Employee | 25.50 | 27.43 | 23.15 | 24.94 | ↔ |
| | Generator Diesel Consumption (Litres) | 71,603 | 97,189 | N/A | N/A | ↓ |
| | Petrol Consumption (Litres) | 24,923 | 27,436 | 37,066 | 45,929 | ↓ |
| | Diesel Consumption (Litres) | 32,387 | 56,531 | 32,720 | 47,237 | ↓ |
| | Lubricant Consumption (Litres) | 387 | 591 | 1,050 | 900 | ↓ |
| | Total Outsourced Business Travels (Km.) | 386,410 | 420,150 | N/A | N/A | ↓ |
| | No. of A4 Paper Purchased - Packets | 18,009 | 16,950 | 18,527 | 21,341 | ↔ |
| | Weight of A4 Paper (Kg) | 216,108 | 203,400 | 222,324 | 256,092 | ↔ |
| | A4 Packets usage per Business Unit | 119 | 115 | 139 | 175 | ↔ |
| | No. of Toner Usage | 5,587 | N/A | N/A | N/A | ↔ |
| | Waste Paper Recycled (Kg.) | 79,237 | 120,032 | 72,382 | 58,860 | ↓ |
| | Savings From Recycled Papers | | | | | |
| | Trees | 1,347 | 2,044 | 1,230 | 983 | ↓ |
| | Water (Litres) | 2,518,151 | 3,822,497 | 2,175,546 | 1,838,790 | ↓ |
| | Electricity (Kwh) | 316,948 | 481,120 | 289,528 | 1,838,790 | ↓ |
| | Oil (Litres) | 139,060 | 211,091 | 251,783 | 101,544 | ↓ |
| | Land Fill (Cubic Meters) | 237 | 361 | N/A | N/A | ↓ |

Management Discussion and Analysis

| Stakeholder Group | Indicator of Performance | Achievement/Contributions | | | | Indicator |
|--|--|---------------------------|-------|------|------|-----------|
| | | 2013 | 2012 | 2011 | 2010 | |
| Government and Government Institutions | Tax payments | | | | | |
| | Income Tax (Rs. Mn.) | 1,138 | 1,135 | 505 | 769 | ↑ |
| | Value Added Tax (Rs. Mn.) | 749 | 676 | 405 | 857 | ↑ |
| | Total Tax (VAT & Income tax as a % of PBT) | 45% | 47% | 58% | 57% | ↓ |

↑ Increase
 ↓ Decrease
 ↔ Variable



Library opening at Sri Ramapathi Balika Maha Vidyalaya, Arunachapuram.



Annual book donation ceremony at Devamulla Kamishita Vidyalaya.



Board of Directors



MR. NIHAL JAYAMANNE
Independent Director/Chairman



MR. ISHARA C. NANAYAKKARA
Non-Executive Director/Deputy Chairman



MR. RANANATRAN NADARAJAH
Executive Director



REAR ADMIRAL ANANDA PEIRIS
Independent Director



MR. SAMANTHA P.S. RANATUNGA
Independent Director



MR. KATULA JAYAWARDENA
Non-Executive Director



MR. P.L. SISIRA KUMAR PERERA
Independent Director



MS. M. CORALIE PIETERSZ
Independent Director



MR. HMASHE ISHIRI BALAPATABENDI
Non-Executive Director

Profiles of the Board of Directors

Mr. Nihal Jayamanne

President's Counsel
Independent Director/Chairman
(Age 67 years)

Qualifications: Attorney-at-Law of the Supreme Court of Sri Lanka.

Appointed to the Board:

30th December 2008 as an Independent Director and was appointed as its Chairman with effect from 17th January 2013.

Membership on Board Sub-

Committees: Board Audit Committee, Board Nomination Committee, Board Human Resources and Remuneration Committee (Chairman) and Board Marketing and Product Development Committee.

Other Positions: Director of SriLankan Airlines Limited and SriLankan Catering (Pvt) Limited, Chairman of the Law Commission of Sri Lanka, Company Law Advisory Commission and Law College Foundation and a member of the Board of Trustees of the Judicial Infrastructure Maintenance Trust. Trustee of Seylan Bank Employees' Gratuity Trust Fund.

Skills and Experience: An eminent lawyer and holds key offices in the fields of law. Was a former President of the Bar Association of Sri Lanka, Vice-President of SAARCLAW and the National Police Commission of Sri Lanka and has also been a Member of the Council of Legal Education, a Member of the Advisory Council of Jurists of the Asia Pacific Forum for the Advancement of Human Rights and Commissioner of the Telecommunication Regulatory Commission of Sri Lanka.

Mr. Ishara C. Nanayakkara

Non-Executive Director/Deputy Chairman
(Age 41 years)

Qualifications: Diploma in Business Accounting and Finance (Aus.).

Appointed to the Board:

24th November 2009 as a Non-Executive Director and was appointed as its Deputy Chairman with effect from 17th January 2013.

Membership on Board Sub-

Committees: Board Nomination Committee, Board Human Resources and Remuneration

Committee, Board Credit Committee (Chairman) and Board Sustainability Committee (Chairman).

Other Positions: Chairman of Commercial Leasing and Finance PLC, Brown & Company PLC and Browns Investments PLC. Deputy Chairman of Lanka ORIX Leasing Company PLC, Director of Lanka ORIX Finance PLC, Agstar Fertilizers PLC, LOLC Micro Credit Limited, PRASAC Micro Finance Institution, Sierra Constructions Limited, BRAC Lanka Finance PLC and LOLC Myanmar Microfinance Co. Limited.

Skills and Experience: An astute businessman who holds directorships in many corporates and conglomerates in Sri Lanka. Has ventured into the arena of financial services with the strategic investment in the LOLC Group and was appointed to the Board of Lanka ORIX Leasing Company PLC in 2002.

Mr. Nanayakkara is also the Executive Chairman of Brown & Company PLC, which has a leading market position in trade,

Profiles of the Board of Directors

leisure, manufacturing, consumer appliances and agriculture equipment. His interest in microfinance is evident through his recurrent contribution to PRASAC - the largest microfinance Company in Cambodia and the latest initiative in the region - LOLC Myanmar Microfinance Company Limited. He is the Chairman of LOLC Micro Credit Limited - the largest private sector microfinance institution in Sri Lanka. He is also a Director of BRAC Lanka Finance PLC, which is a joint venture between LOLC Micro Credit Limited and BRAC - the largest NGO dedicated for Microfinance in the world.

Mr. Nanayakkara's vivid exposure in non-financial sector include growth sectors such as Leisure, Agriculture, Plantation, Construction and Renewable Energy.

Mr. Ramanathan Nadarajah
Executive Director
(Age: 69 years)

Qualifications: B.Sc. (Hons.), MBA, FCIB (London).

Appointed to the Board:
8th January 2009 as a Director and appointed as an Executive Director on 12th January 2009.

Membership on Board Sub-

Committees: Board Credit Committee, Board Sustainability Committee and Board Marketing and Product Development Committee.

Other Positions: Chairman of the Bank's subsidiary, Seylan Developments PLC, Director of The Finance Co. PLC, Chairman of Seyfest (Pvt) Limited, Seybest (Pvt) Limited, Seyshop (Pvt) Limited, Sesot (Pvt) Limited, Sotse (Pvt) Limited, Esots (Pvt) Limited and Trustee of Seylan Bank Employees' Gratuity Trust Fund.

Skills and Experience: 44 years of banking experience in both state and private sector banks. Served as Managing Director/General Manager/CEO of Pan Asia Bank for six years, subsequent to his retirement from the Bank of Ceylon where he served in various capacities including as a Deputy General Manager. He was the inaugural President of the Primary Dealers Association and has also been a Past President of the Association of Professional Bankers of Sri Lanka.

Rear Admiral Ananda Peiris

Independent Director
(Age: 60 years)

Qualifications: Qualified at the National Defence College, Bangladesh and at the Staff College, USA, Obtained Diploma in Security Studies, UK, International Patrol Vessel Course, UK, Completed the Long Navigation Course, India and Completed Sub Lieutenant Course, Technical Course, India.

Appointed to the Board:

8th January 2009 as an Independent Director.

Membership on Board Sub-

Committees: Board Nomination Committee (Chairman), Board Human Resources and Remuneration Committee, Board Credit Committee, Board Sustainability Committee.

Other Positions: Trustee of Seylan Bank Employees' Gratuity Trust Fund and Director General of the Sri Lanka Civil Defence Force.

Skills and Experience: A decorated officer of the Sri Lanka Navy counting a service record of over 34 years during which period he had undergone extensive training in the Indian Navy, Bangladeshi

Profiles of the Board of Directors

Navy, Royal Navy and US Navy. His naval experience includes serving as the Area Commander - Eastern Naval Command, Western Naval Command and Southern Naval Command. Twice appointed as the Deputy Area Commander of Northern Naval Command and Squadron Commander Fast Attack Craft and has taken part in almost all major operations in the North and East. Had also been the Director - Naval Administration and Welfare, Director - Naval Personnel and Training and Director General (Services), Sri Lanka Navy.

Was granted the accolades of Rana Sura Padakkama (RSP), Vishishta Sewa Vibhushanaya (VSV) and Uttama Seva Padakkama (USP) for his service to the nation, while he was also awarded several medals during his tenure of service in the Navy including Sri Lanka Navy 50th Anniversary Medal, President's Inauguration Medal (1978), North East Operation Medal and Purna Bumi Padakkama.

Mr. Samantha P.S. Ranatunga

Independent Director
(Age: 48 years)

Qualifications: MBA (UK), B.Sc. (Hons.) - University of Delhi.

Appointed to the Board:

12th January 2010 as a Non-Executive Director and was re-designated as an Independent Director in 2011.

Membership on Board Sub-

Committees: Board Audit Committee, Board Nomination Committee, Board Integrated Risk Management Committee (Chairman), Board Human Resources and Remuneration Committee and Board Sustainability Committee.

Other Positions:

Managing Director/CEO of CIC Holdings PLC, Director of Akzo Nobel Paints Lanka (Pvt) Limited, Chemanex PLC, CIC Agribusiness (Pvt) Limited, CIC Bio Security Breeder Farms Limited, CIC Feeds (Pvt) Limited, CIC Poultry Farms Limited, CIC Vetcare (Pvt) Limited, CISCO Speciality Packaging (Pvt) Limited, Kelani Valley

Canneries Limited, CIC Mahaweli Livestock & Dairies Limited, Link Natural Products (Pvt) Limited, CIC Seeds (Pvt) Limited, CIC Agri Produce Export (Pvt) Limited, CIC Environmental Management Liquid (Pvt) Limited, Crop Management Services (Pvt) Limited, CIC Lifesciences Limited, CIC Dairies (Pvt) Limited and Rahimafrooz CIC Agro Limited, Bangladesh.

Skills and Experience:

Over 20 years experience in the field of marketing and managing FMCG business.

President of the Sri Lanka-Africa-Middle East Business Council of the Ceylon Chamber of Commerce and the Vice-President of the Sri Lanka-Maldivian Business Council. Vice-Chairman of the Ceylon Chamber of Commerce. Has led the Sri Lankan Chamber of Commerce delegations to many countries. A Committee Member of the Mercantile Services Provident Society representing the Ceylon Chamber of Commerce by virtue of his committee membership in the Ceylon Chamber of Commerce.

Profiles of the Board of Directors

Mr. Kapila Jayawardena

Non-Executive Director

(Age: 54 years)

Qualifications: MBA (Financial Management), FIB, Associate, ICEA (London).

Appointed to the Board:

1st August 2013 as a Non-Executive Director.

Membership on Board Sub-

Committees: Board Integrated Risk Management Committee.

Other Positions: Managing

Director/CEO of Lanka ORIX Leasing Co. PLC, Director of Lanka ORIX Finance PLC, LOLC General Insurance Limited, LOLC Insurance Company Limited, LOLC Life Insurance Limited, LOLC Micro Credit Limited, LOLC Securities Limited, Speed Italia (Pvt) Limited, United Dendro Energy (Pvt) Limited, Commercial Leasing & Finance PLC, Palm Garden Hotels PLC, Riverina Resort (Pvt) Limited, Eden Hotel Lanka PLC, Brown & Company PLC and Browns Investments PLC and BRAC Lanka Finance PLC.

Skills & Experience: Former

CEO and Country Head of Citibank N.A. Sri Lanka. Has varied experience in the fields of Investment Banking, Banking Operations, Audit, Relationship Management, Corporate Finance, Corporate Banking and Treasury Management. Was appointed as the Chairman of the Sri Lanka Banks Association (SLBA) in 2003/04. Has served as a President of the American Chamber of Commerce in Sri Lanka in 2006/07 and was appointed to the Financial Sector Reforms Committee (FSRC). A member of the National Council of Economic Development (NCED) and has also served as a Board Member of the United States-Sri Lanka Fulbright Commission. Joined LOLC in the year 2007 as the Group Managing Director/CEO and heads all business and operating functions of LOLC Group as a member of the main Board of the LOLC Group.

Mr. P.L. Sisira Kumar Perera

Independent Director

(Age: 63 years)

Qualifications: B.Sc. (Special) (Mathematics), University of Colombo, M.Sc. in Statistics, University of Ibadan, MA (Economics and Econometrics), University of Manchester.

Appointed to the Board:

23rd September 2013 as an Independent Director.

Membership on Board Sub-

Committees: Board Audit Committee, Board Integrated Risk Management Committee, Board Credit Committee.

Other Positions: Consultant of Tiruchelvam Associates and Expo Lanka Holdings PLC.

Skills and Experience: Over 22 years of executive and managerial experience in the Central Bank of Sri Lanka. Has received extensive training and exposure in capital markets, portfolio management and new financial instruments locally and overseas. Held the position of Additional Controller

Profiles of the Board of Directors

of Exchange at the time of his retirement from the Central Bank of Sri Lanka and has also held the position of Deputy Director, Marketing of the Agricultural Development Authority prior to his post at the Central Bank of Sri Lanka. Serves as a Consultant in reputed private sector organisations. Has served the Task Force appointed by the Central Bank on Reforms to Exchange Control and represented the Central Bank at several international conferences.

Ms. M. Coralie Pietersz

Independent Director
(Age: 53 years)

Qualifications: B.Sc. (Hons.) Physics (University of Sussex), MBA (Heriot-Watt University, Edinburgh), ACA (ICAEW), FCA (ICASL).

Appointed to the Board:

23rd September 2013 as an Independent Director.

Membership on Board Sub-

Committees: Board Audit Committee (Chairperson), Board Integrated Risk Management Committee, Board Human Resources and Remuneration Committee.

Other Positions: Director of Finlays

Colombo PLC, Finlay Rentokil Ceylon (Pvt) Limited, Finlay Teas (Pvt) Limited, Finlay Properties (Pvt) Limited, Finlay Cold Storage (Pvt) Limited, Finlays Linehaul Express (Pvt) Limited, Bogala Graphite Lanka PLC, Finlay Tea Solutions Colombo (Pvt) Limited, Finlay Insurance Brokers (Pvt) Limited.

Skills and Experience: Has over 20 years experience in corporate finance, accounting and auditing at senior levels in several industries, in both private and public sectors, including several years of experience at senior levels in the banking industry. Prior to joining Finlay Colombo PLC, Coralie Pietersz was Group Chief Financial Officer of Richard Pieris and Co. PLC.

Mr. Himashe Isuru Balapatabendi

Non-Executive Director
(Age: 34 years)

Qualifications: L.L.M. University of Pittsburgh School of Law, Pittsburgh, Pennsylvania, USA, Attorney-at-Law of the Supreme Court, Sri Lanka.

Appointed to the Board:

27th November 2013 as a Non-Executive Director.

Membership on Board Sub-

Committees: Board Audit Committee and Board Sustainability Committee.

Other Positions: Director of Sri Lanka Insurance Corporation Limited and ZRI Corporate Consultants (Pvt) Limited.

Skills and Experience: Has functioned as a State Counsel of the Attorney General's Department of Sri Lanka. Has also functioned as a Diplomat and Head of Chancery - Embassy of Sri Lanka in The Hague, Netherlands (2008-2010). Serves as an Advisor to Hon. Deputy Minister of Investment Promotion.

Senior Management Team



- | | |
|---|---|
| 01. Mr. Kapila Ariyaratne - General Manager/Chief Executive Officer | 07. Dr. P. Niranjan - Deputy General Manager - Zone II |
| 02. Mr. Sunil De Silva - Senior Deputy General Manager - Recoveries | 08. Mr. Ranjith Fonseka - Deputy General Manager - Alternate Banking Channels |
| 03. Mr. Tissa Nanayakkara - Senior Deputy General Manager - Retail Banking | 09. Mr. S. Palihawadana - Chief Dealer |
| 04. Mr. Samuel Jebarathnam - Senior Deputy General Manager - Human Resources and Administration | 10. Ms. Shalini Perera - Deputy General Manager - Corporate and Off-shore Banking |
| 05. Mr. Nimal Tillekeratne - Senior Deputy General Manager - Branch Operations | 11. Mr. Chithral De Silva - Deputy General Manager - Zone III |
| 06. Mr. K.D.W. Rohana - Deputy General Manager - Branch Credit | 12. Mr. Aruna Ranasinghe - Deputy General Manager - International |

Senior Management Team



13. Mr. Tilan Wijesekara - Deputy General Manager - Marketing
 14. Mr. Ramesh Jayasekara - Chief Financial Officer
 15. Mr. Delvin Pereira - Deputy General Manager - Zone I
 16. Mr. Christie Nanayakkara - Chief Risk Officer
 17. Mr. Chanaka Goonewardene - Deputy General Manager - Information Technology
 18. Ms. Rohini Weerakkody - Assistant General Manager - Operations

19. Mr. Kamal Deshapriya - Assistant General Manager - International Finance Service
 20. Ms. Yasanthi Udurawane - Assistant General Manager - Corporate Banking
 21. Mr. Shanaka Perera - Senior Dealer - Treasury
 22. Mr. Wasantha Karunaratne - Assistant General Manager - Supplies
 23. Mr. Kapila Rathnayaka - Assistant General Manager - Premises Maintenance
 24. Mr. Gerald Wanigaratne - Assistant General Manager - Information Technology

Senior Management Team



Consultant



25. Ms. Champika Dodanwela - Assistant General Manager - Finance
 26. Mr. A.W. Sarath Kumarasiri - Assistant General Manager - International
 27. Mr. Ajith R. Perera - Assistant General Manager - Compliance
 28. Ms. Kaushalya Hatch - Assistant General Manager/Head of Legal

29. Mr. Wasanthe Senanayake - Assistant General Manager - Human Resources
 30. Mr. Aruna Fernando - Assistant General Manager - Credit Risk
 31. Mr. Derek John Kelly - Consultant - Risk Management

Corporate Governance Report

STATEMENT ON CORPORATE GOVERNANCE

Dear Stakeholders,

In our Annual Report 2012 we presented and explained in detail the commitment of Seylan Bank PLC ('the Bank') to corporate governance practices and the extent of our compliance with the regulations, rules, guidelines and principles as required mainly under the Banking Act Direction No. 11 of 2007 (as amended) on Corporate Governance; the Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance (2008) jointly issued by the Securities & Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL), as at 31st December 2012.

We have endeavoured to sustain and further improve the level of compliance with the said guidelines and principles during the year 2013 as presented in this Report on Corporate Governance. The report outlines the extent of compliance of the Bank under the Banking Act Direction No. 11 of 2007 (as amended) and the Code of Best Practice on Corporate Governance

(2008) jointly issued by the SEC and the ICASL. Reporting the extent of compliance on corporate governance based on the Rules of the Colombo Stock Exchange (CSE) has been dispensed with due to the exemption granted by the CSE to licensed commercial banks which are mandatorily required to disclose their compliance with the Corporate Governance Directions issued under the Banking Act Direction No. 11 of 2007 (as amended).

Effectiveness of the Board and Commitment to Good Corporate Governance Practices

As Chairman of the Board, I am responsible for the effective performance of the Board and one of my areas of focus has been to ensure that we have a strong and a well-functioning Board comprising of individuals not only with the required technical or business experience, but with the personal qualities required to be effective stewards of the business and the dedication and commitment to the Company.

The constitution of the Board changed during the year with Independent Director/Chairman, Mr. Mohan Pieris PC, Independent

Director, Mr. Lalith Withana and Non-Executive Directors, Mr. Ajith Devasurendra, Mr. Piyadasa Kudabalage and Mr. Mohan De Alwis resigning from the Board. I wish to record my appreciation for the valuable contributions made by these Directors during their tenure of directorship.

Four new Non-Executive Directors were also appointed to fill the vacancies pursuant to being approved by the Director - Bank Supervision of the Central Bank of Sri Lanka, namely, Ms. Coralie Pietersz and Mr. P.L.S. Kumar Perera as Independent Directors and Messrs Kapila Jayawardena and Isuru Balapatapendi as Non-Executive Directors.

I am happy to state that all Directors on the Board recognise the importance of good corporate governance and corporate social responsibility in promoting and preserving the trust of its stakeholders and the public and are conscious of the fact that these corporate governance measures have to be sustained and further improved where necessary. The Statutory Examination conducted

Corporate Governance Report

by the Central Bank of Sri Lanka at the beginning of the year, 2013 reviewed those areas under its Directions on Corporate Governance.

We, at Seylan Bank will continuously strive to work within a well-defined and well-structured corporate governance framework to support a long-term and sustainable shareholder value. However, it is imperative that it is supported by the right culture, values and behaviours, at the Board level, at the Senior Management level and throughout the entire organisation.

Board Sub-committees

Board committees play a vital role in the effectiveness of the Bank's corporate governance framework. The reports that follow this Corporate Governance Report describe how the Bank has applied the principles and guidelines of the Banking Act Directions on Corporate Governance No.11 of 2007 and the Code of Best Practice on Corporate Governance issued by the SEC and the ICASL in 2008.

External Auditors' Review of the Bank's Compliance with Banking Act Directions on Corporate Governance and on the Board's Statement on Internal Controls Relating to Financial Statements

The External Auditors, Messrs KPMG, Chartered Accountants carried out a review of the Bank's compliance with the Banking Act Direction No. 11 of 2007 (as amended) in accordance with the Sri Lanka Related Services Practice Statement 4750 and has provided a Factual Findings Report on the extent of the Bank's compliance with the said Directions.

The Auditors were also engaged to carry out a review on the Board's Statement on Internal Controls relating to Financial Reporting System based on Sri Lanka Standard on Assurance Engagement 3050 and have issued a report to be included in the Annual Report.

In addition, the Bank voluntarily initiated an interim review by its Auditors on its six months' performance in accordance with SLSAE 2400.

Statement of Compliance

I wish to confirm that to the best of my knowledge, there were no material violations of any of the provisions of these Directions, Rules and Codes including the provisions of the Code of Business Conduct and Ethics for Directors and Code of Conduct and Ethics for employees including the corporate management. On behalf of the Board of Directors, I state that Seylan Bank will continuously improve the corporate governance practices and sustain the corporate governance values in Seylan Bank.

We kindly call upon our stakeholders to provide their valuable feedback on this Corporate Governance Report and/or advise on any new areas which they consider will enhance our governance practices, as we believe that stakeholder engagement is a key aspect of maintaining effective corporate governance practices at highest levels.

Yours sincerely,



Nihal Jayamanne PC
Chairman

26th February 2014
Colombo

Corporate Governance Report

CORPORATE GOVERNANCE PHILOSOPHY OF SEYLAN BANK

Seylan Bank PLC ('Seylan', 'the Bank' or 'the Company') believes that Corporate Governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth, discharge of social responsibility for sustainable development and to optimise sustainable value to all stakeholders through adherence to corporate values, codes of conduct and other standards of appropriate behaviour.

The vision of the Bank is to be Sri Lanka's leading financial services provider - as recognised by all its stakeholders.

- **Customers** - provides its customers with financial services that meet their needs in terms of value, pricing, delivery and service.
- **Employees** - are recognised and rewarded for results orientation.
- **Shareholders and General Public** - ensures that its efforts translate to meeting the expectations of its shareholders, whilst always

acting as responsible corporate citizens.

The Code of Business Conduct and Ethics for Directors of Seylan Bank, the Bank's Policy Governing Insider Dealing and the Policy on Related Party Transactions and Avoidance of Conflicts on Interests cover principles and guidelines which the Directors are expected to abide by to protect the business interests of the Bank; maintain the Bank's reputation and foster compliance with applicable legal and regulatory obligations. The Board of Directors annually attest their familiarity with and confirm adherence to the principles of the Code of Business Conduct and Ethics for Directors of Seylan Bank and the Bank's Policy Governing Insider Dealing.

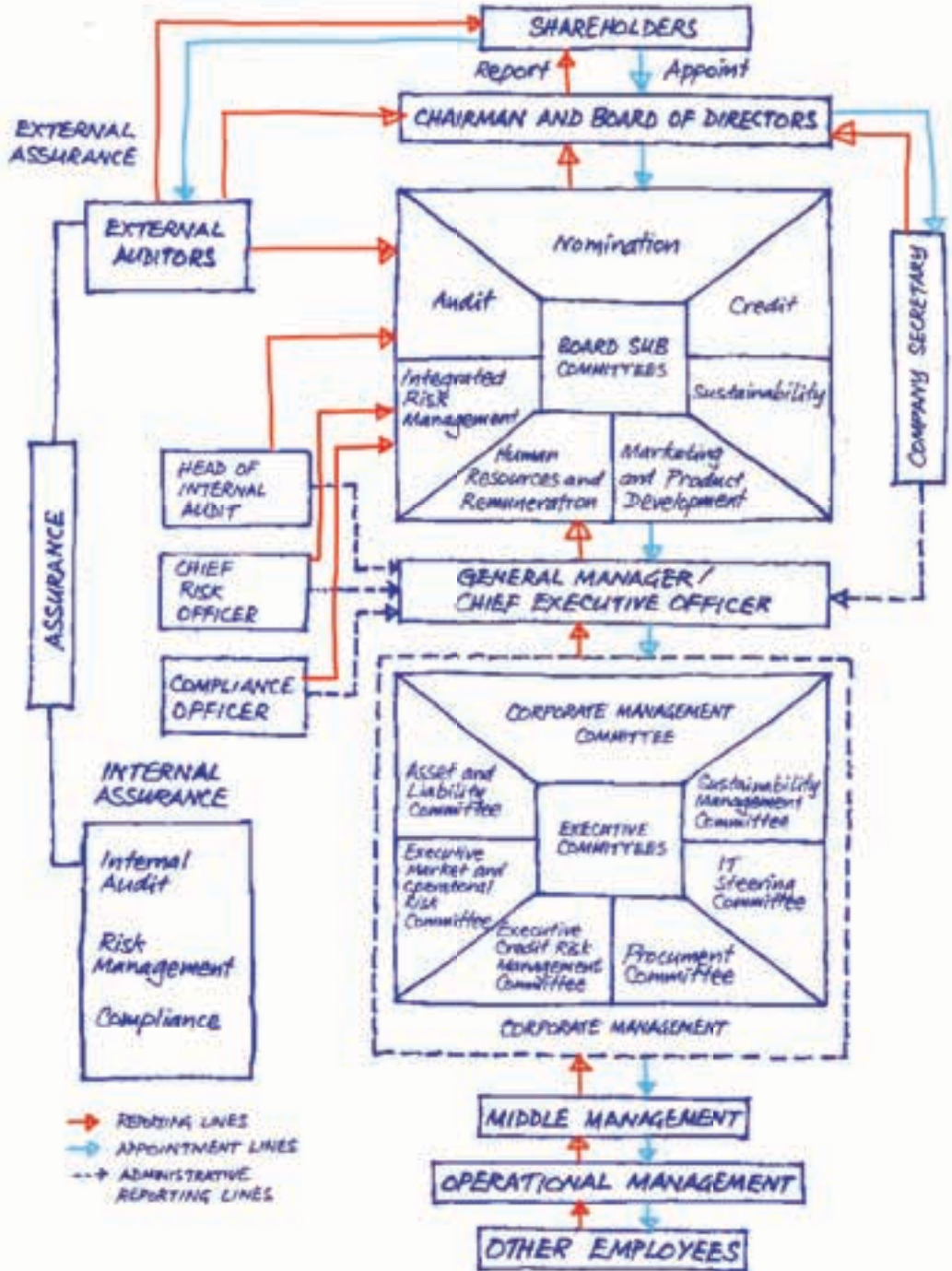
How the Board Understands the Views of its Shareholders

We, at Seylan Bank understand the need to be transparent in our dialogue and communications with our shareholders, improving dialogue between investors and the Bank and strive to facilitate meaningful engagement with our shareholders.

The minutes of the Bank's Annual General Meetings (AGMs) are circulated to the Members of the Board together with action points of issues raised and requests made by the shareholders present at the AGMs for their review. The Board provides necessary instructions to the management to address concerns and/or expedite any suggestions or requests made by the shareholders if and as applicable.

Communications to shareholders are disseminated through announcements made on the Colombo Stock Exchange (CSE) and published in its website www.cse.lk. The Company Secretary also dispatches information circulars to the shareholders as deemed required from time to time.

The information pertaining to the Bank's financials and other corporate information are published in the newspapers as well as on the Bank's website www.eseylan.com and CSE's website for the information of shareholders, stakeholders and prospective investors.



Corporate Governance Report

An Overview of the Governance Structure at Seylan Bank PLC

Seylan Bank PLC, being a licensed commercial bank and a quoted, public limited liability company with its principal activity being commercial banking is governed by its Articles of Association and regulated by the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 (as amended), the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 (as amended), the Rules of the Colombo Stock Exchange (and its amendments from time to time) and further by other applicable regulations and directions.

Seylan's corporate governance framework is mainly based on the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Monetary Board of the Central Bank of Sri Lanka under Section 41 (6) of the Banking Act No. 30 (as amended) including subsequent amendments to the said Directions whilst also complying with the Code of Best Practice on Corporate Governance (2008) jointly issued by the Securities

& Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. How Seylan Bank set out and established itself within the said culture over the last five years is enumerated below:

CORPORATE GOVERNANCE FRAMEWORK AND CULTURE BUILT AND SUSTAINED 2009 - 2013

2009

1. The new Board of Directors, comprising Mr. Eastman Narangoda (as Chairman) and Independent Directors, Mr. Nihal Jayamanne PC, Mr. Naomal Goonewardena and Mr. Lalith Withana all of whom were appointed pursuant to the resumption of the business of the Bank on 30th December 2008 held their first Board meeting (which was the 172nd Board meeting of the Bank) on 5th January 2009.
2. Directors, Rear Admiral Ananda Pieris and R. Nadarajah joined the Board on 8th January 2009 and Mr. Nadarajah was appointed as an Executive Director on 12th January 2009.



Corporate Governance Report

3. The following Board Sub-Committees were formed or reconstituted as appropriate and the respective scope and terms of reference of the Committees were approved during the year:

- Board Audit Committee (reconstituted with Mr. Lalith Withana being appointed as its Chairman).
- Board Risk Committee (reconstituted with Mr. Naomal Goonewardena as the Chairman of the Committee) - The Committee was later renamed as Board Integrated Risk Management Committee.
- Board Nomination Committee (Rear Admiral Ananda Peiris was appointed as the Chairman).
- Board Remuneration Committee (with Mr. Nihal Jayamanne PC as the Chairman). The Committee was later renamed as Board Human Resources and Remuneration Committee.
- Board Credit Committee (reconstituted with Mr. Eastman Narangoda as Chairman).

4. Declarations from the Directors were obtained to ascertain and confirm their independent and non-independent status as per

the Rules of the Colombo Stock Exchange and the Banking Act Corporate Governance Directions. These declarations are since being submitted on an annual basis by the Directors on the Board.

5. Declarations and Affidavits in terms of Section 42 of the Banking Act No. 30 of 1988 were obtained from the Directors appointed to the Board and submitted to the Director, Bank Supervision for approval.
6. The Bank divested its investment in Seylan Merchant Bank PLC and consequently the said Company ceased to be a subsidiary of the Bank with effect from 1st October 2009.
7. A Directors' Liability Indemnity Insurance Policy empowered under the Companies Act No. 07 of 2007 and the Articles of Association of the Bank was arranged.
8. A three-year Strategic Plan 2009 to 2011 was approved by the Board and was facilitated by External Consultants, Messrs Ernst & Young and the Board monitored the progress periodically. Changes to the

corporate management structure were made based on the Strategic Plan whilst the budget for the year 2010 was also agreed upon based on same.

A Board Strategic Planning Committee was also established for this purpose which was discontinued with effect from 18th October 2010.

9. Several policies and procedures were approved and adopted to be implemented by the Bank in line with the strategic plan initiatives and to comply with the Central Bank's concerns as reported in their Statutory Examination Report for the year ended 31.12.2008 conducted in early 2009. Corporate Information Security Policy, Policy on Disposal of Foreclosed Properties, Human Resources Policy, Investment Policy, Procurement and Supplies Procedure Manual and Revaluation Policy are some of the important policies adopted during the year.
10. Pursuant to the Direction of the Monetary Board of the Central Bank of Sri Lanka the Bank pursued and successfully

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completed a share investment plan for the recapitalisation and raised a total capital of Rs. 3,025,400,000/- of the Bank through a private placement (to designated state institutions) and a public issue of ordinary voting shares.

11. Consequent to the aforementioned recapitalisation, Mr. P.G.S. Kariyawasam and Dr. Nalaka Godahewa representing the Sri Lanka Insurance Corporation Limited (SLIC) (by virtue of the 15% stake) were appointed on 10th November 2009 and Messrs Ajith Devasurendra and Ishara Nanayakkara representing Brown Investments Limited (subsidiary of Brown & Company PLC) and LOLC Investments Limited (subsidiary of LOLC PLC) (by virtue of the joint stake of 19.1% of the said two companies) were appointed on 24th November 2009, pursuant to obtaining the approval of the Central Bank of Sri Lanka in terms of Section 42 of the Banking Act No. 30 of 1988 (as amended).

12. Independent Director, Mr. Naomal Goonewardena resigned from the Board with effect from 4th December 2009.

2010

1. Mr. Samantha Ranatunga was nominated to the Board by the Bank of Ceylon by virtue of the majority stake of 10% acquired by the Bank of Ceylon in the recapitalisation. He was appointed as a Non-Executive Director on 12th January 2010.
2. Pursuant to obtaining the approval of the Central Bank of Sri Lanka, the Bank amalgamated its fully-owned Subsidiary, Seylan Bank Asset Management Limited on 31st March 2010.
3. In compliance with Section 3 (1) (xvii) of the Banking Act Direction No. 11 of 2007 on Corporate Governance, the Board members carried out their self-assessments and this process is since being continued on an annual basis.
4. Apart from reviewing the proceedings of the Board Sub-committees on a regular basis and concurring and/or approving where relevant with the decisions of the

Sub-committees, the Board also undertook an evaluation process to review the effectiveness of the Board Sub-committees which is being continued on an annual basis to date.

5. Approved and adopted a Code of Ethics and Conduct for Directors. The said Code is annually perused and attested by the Directors on the Board.
6. Approved and adopted a Policy Governing Insider Dealing to be abided by the Directors and staff, their close relations and all other parties who are privy to insider information of the Bank.
7. Two further Board Sub-committees, namely, the Board Marketing and Product Development Committee and the Board Sustainability Committee were formed with Board approved Terms of Reference.
8. Non-Executive Directors, representing SLIC, Mr. P.G.S. Kariyawasam and Dr. Nalaka Godahewa resigned and were replaced by Messrs A.M.M. De Alwis and P. Kudabalage. Pursuant to these appointments, the Board Sub-committees were reconstituted during the year.

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9. The Terms of Reference of the Board Integrated Risk Management Committee was reviewed and approved.
10. An IT Strategic Plan was approved by the Board.
11. Several important policies and procedures including the Internal Audit Manual, Compliance Policy, Business Continuity Management, Policy for Board Appointments, Employment Manual and the Code of Conduct, Risk Management Framework, Recruitment and Selection Policy for Key Management Personnel, Succession Policy for key positions, Stakeholder Engagement Policy, Policy on Engaging and Hiring of External Auditors and Policy on Visa Pin Security Implementation were adopted during the year.
- 2011**
1. The External Auditors, Messrs KPMG, Chartered Accountants were engaged to carry out a review of the Bank's compliance with the Banking Act Direction No. 11 of 2007 as amended, on Corporate Governance in accordance with the Sri Lanka Related Services Practice Statement 4750 commencing the year ended 31st December 2010 and the External Auditors provided a Factual Findings Report on the extent of the Bank's compliance with the said Directions. The Auditors were assigned henceforth, to carryout this engagement annually.
2. The Auditors were also engaged to carry out a review on the Board's Statement on Internal Controls relating to Financial Reporting System based on Sri Lanka Standard on Assurance Engagement 3050 and the Auditors issued an Assurance Report to be included in the Annual Report. Henceforth, this engagement and process is being carried out annually.
3. The Board ensured that key persons of the Bank as defined in Section 44 of the Banking Act No. 30 of 1988 (as amended) comply with the Banking Act Determination No. 03 of 2010 relating to 'Assessment of Fitness and Propriety of Officers Performing Executive Functions'.
4. Pursuant to obtaining the approval of the Director-Bank Supervision, Central Bank of Sri Lanka, the Board appointed Mr. Kapila Ariyaratne as the General Manager/Chief Executive Officer of the Bank with effect from 3rd March 2011.
5. Performance based bonus, based on achievement of KPIs was introduced and implemented.
6. Consequent to the resignation of Ms. M.R.S. Gunasekara, Mrs. N.N. Najumudeen, ACIS (UK) was appointed as the Company Secretary with effect from 4th April 2011.
7. The Bank successfully raised a total sum of Rs. 4,691,533,285/- by way of a Rights Issue resulting in the Stated Capital of the Bank being increased from Rs. 5,567,820,324/- to Rs. 10,259,353,609/-. Monetary Board approval was sought for the increase in stake of Brown and Company PLC from 9.55% to 13.87% and the consequent enhancement of the aggregate holding of Brown & Company PLC and LOLC Investments Limited from 19.1% to 23.42%. Approval was granted subject

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- to the shareholding of Brown & Company PLC being reduced from 13.87% to 9.55% within five years from 16th June 2011 and the joint holding of Brown & Company PLC and LOLC Investments Limited being reduced from 23.42% to 15% within a period of 15 years from 13th October 2009.
8. The membership of the Board Credit Committees and the Board Sustainability Committee were reconstituted with Non-Executive Directors being appointed as Chairpersons of the said Committees.
9. Consequent to the reduction in the substantial shareholding held by Bank of Ceylon pursuant to the Rights Issue, Non-Executive Director, Mr. Samantha Ranatunga was deemed and confirmed as an Independent Non-Executive Director of the Board with effect from 28th December 2011.
10. The Capital Augmentation Plan 2011-2013 was approved and was henceforth reviewed on a quarterly basis.

11. Approved the adoption of the new/revised standards to comply with the IAS and IFRS with effect from 1st January 2012.
12. A four-year Strategic Plan 2012-2015 was launched with the facilitation of MTI Consultants.
13. Several important new policies and procedures were adopted whilst some of the existing policies and procedures were reviewed and revised during the year. The new policies adopted included the Operations Procedure Manual, Operational Risk Management Policy and Policy on Disposal of Land, Building and Fixed Assets and the Terms of Reference of IT Steering Committee.

2012

1. Mr. E. Narangoda who functioned as the Chairman in an Executive capacity from 5th of January 2009 was re-designated as a Non-Executive Director/Chairman with effect from 1st January 2012.
2. Mr. Mohan Pieris PC was appointed as Independent Director/Chairman with effect from 20th April 2012 consequent

- to the resignation of Mr. E. Narangoda with effect from 28th March 2012.
3. The Terms of Reference of the Board Human Resources and Remuneration Committee was reviewed and revised.
4. Important new policies and procedures were adopted for implementation during the year including Policy on Related Party Transactions and Avoidance of Conflicts of Interest, Whistle-Blowing Policy, Policy on Anti-Money Laundering, Compliance Policy and Policy on Exposure to Politically Exposed Persons, Staff Recognition Policy, Treasury Policy Guideline, Integrated Risk Management Framework in compliance with the Banking Act Directions on Risk Management No. 07 of 2011 and the Credit Standard and Policy Manual.

2013

1. Independent Director/Chairman, Mr. Mohan Pieris PC resigned from the Board on 15th January 2013 consequent to his assuming office as the Chief Justice. Senior Independent Director,

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- Mr. Nihal Jayamanne PC was appointed as the Chairman and Non-Executive Director, Mr. Ishara Nanayakkara was appointed as the Deputy Chairman of the Bank with effect from 17th January 2013.
2. Budget 2013 aligned with the Strategic Plan 2012-2015 was approved.
 3. The Stated Capital of the Bank was increased from Rs. 10,225,452,000/- to Rs. 10,529,724,017/- with effect from 28th March 2013 subsequent to the allotment and issue of new shares in respect of the scrip dividend of Rs. 1.00 per share.
 4. The required quorum for meetings of the Board of Directors was revised from minimum three members to minimum five members or above 50% of the number on the Board whichever is higher. A special resolution is proposed for shareholders' approval to amend Article 94 in the Articles of Association of the Bank accordingly at the Annual General Meeting of the Bank.
 5. Non-Executive Directors, Messrs P. Kudabalage, Ajith Devasurendra and A.M.M. De Alwis and Independent Director, Mr. Lalith Withana resigned during the year.
 6. Messrs Kapila Jayawardena and Isuru Balapatabendi were appointed as Non-Executive Directors and Ms. Coralie Pietersz and Mr. Kumar Perera were appointed as Independent Directors during the year.
 7. The Board Sub-committees were reconstituted.
 8. The Terms of Reference of the Board Nomination Committee, Board Integrated Risk Management Committee and the Board Credit Committee were reviewed and revised during the year.
 9. The Credit Procedure Manual was approved and adopted.
 10. The Employment Manual was revised to include both Code of Conduct and Code of Ethics for employees.
 11. The Remuneration Policy of the Bank was revised and adopted.
 12. A Communication Policy was adopted.
 13. A document on the areas of authority and key responsibilities for the Board of Directors and for the Key Management Personnel was recommended by the Board Nomination Committee and approved by the Board.
 14. The four-year Strategic Plan 2012-2015 was extended up to 2016 after an extensive review process. 95 implementation areas categorised under 19 key areas were indentified for adoption.

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COMPLIANCE BEYOND 2013

The year 2013 witnessed several important Directives and Codes being issued by the Securities and Exchange Commission through the Colombo Stock Exchange to all Listed Public Companies and the Bank has pledged its assurance that it will comply with these Directives and Codes as far as it is applicable to the Bank commencing 2014.

Directive on Disclosure of Directors' Dealings in Shares (Effective 1st April 2014)

Whilst the Bank has been hitherto disclosing to the Colombo Stock Exchange (CSE) its Directors dealings in the shares of the Bank, a procedure will be put in place to ensure that its Directors and the Chief Executive Officer informs the Board relevant interest in shares of the Bank in a timely manner so that the announcement could be made to the CSE as per the Directive.

Directive on Minimum Public Float (Effective 1st January 2014)

The Directive requires that a listed entity on the Main Board shall maintain -

- i. A minimum public holding of 20% of its total listed ordinary voting shares in the hands of a minimum 750 public shareholders, or
- ii. A market capitalisation of Rupees 5 Bn. of its public holding in the hands of a minimum 500 public shareholders while maintaining a minimum public holding of 10%.

Seylan Bank PLC is in compliance with this Directive as at 31st December 2013.

Code of Best Practices on Related Party Transactions (Voluntary Compliance with effect from 1st January 2014 and Mandatory Compliance with effect from 1st January 2016)

The Bank has adopted a Board approved Policy on Related Party Transactions which ensures compliance with and adherence to

all relevant Regulations, Guidelines and Directives, mainly the Banking Act No. 30 of 1988 (as amended) and its Directions and the Sri Lanka Accounting Standards.

The Board has decided to take into consideration and adopt and comply with those provisions of the new Code which are applicable to the Bank and its business.

Code of Best Practice on Corporate Governance Issued by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka - 2013 (Voluntary Compliance Effective 1st January 2014)

Whilst the Bank is in compliance with the Code issued by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka in 2008. The Board Audit Committee of the Bank reviewed the new Code and guided the management to take steps to adopt and comply with the new Code during 2014.

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REPORT ON THE EXTENT OF COMPLIANCE AS AT 31ST DECEMBER 2013

The extent of compliance as required under the Banking Act Direction No. 11 of 2007 on Corporate Governance (as amended) issued by the Monetary Board of the Central Bank of Sri Lanka under Section 41 (6) of the Banking Act No. 30 of 1988 (as amended) including subsequent amendments to the said Directions; and the Code of Best Practice on Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL) as at 31st December 2013 are disclosed below:

For purposes of compliance with Section 3 (1) (xvi) of the aforementioned Banking Act Directions and with Section D.5.1 of the aforementioned Code of Best Practice, the disclosures made shall be deemed to be the Annual Corporate Governance Report of the Bank.

Directions of the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka (as amended) (hereinafter referred to as the Banking Act Directions).

The disclosures reflecting the Bank's compliance and the extent of its compliance under this Direction covers the following eight sub-sections.

- The Responsibilities of the Board - Section 3 (1) of the Directions (Page Nos. 101 to 106)
- The Composition of the Board - Section 3 (2) of the Directions (Page Nos. 99 to 101)
- Fitness and Propriety of Directors - Section 3 (3) of the Directions (Page No. 101)
- Management Functions Delegated by the Board of Directors - Section 3 (4) of the Directions (Page No. 106)
- Chairman and Chief Executive - Section 3 (5) of the Directions (Page Nos. 107 to 108)
- Board Appointed Committees - Section 3 (6) of the Directions (Page Nos. 109 and 116 to 132)
- Related Party Transactions - Section 3 (7) of the Directions (Page Nos. 109 to 110)
- Disclosures - Section 3 (8) of the Directions (Page Nos. 110 to 111)

The External Auditors have carried out an agreed upon procedure in respect of the Bank's compliance with the above Directions in accordance with the Sri Lanka Related Services Practice Statement 4750 and have issued their report on same.

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Code of Best Practice on Corporate Governance (2008) jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL) (hereinafter referred to as the Code of Best Practice).

The Bank's compliance with this Code is on a voluntary basis.

The extent of compliance by the Bank of the above Code of Best Practice promulgated by ICASL and SEC are disclosed and the references to the relevant sections covering the following main areas in the Code are also indicated in the report that follows -

- Directors - Sections A.1 to A.11
- Directors' Remuneration - Sections B.1 to B.3
- Relations with Shareholders - Sections C.1 to C.2
- Accountability and Audit - Sections D.1 to D.5
- Investors - Sections E and F

Compliance with the Banking Act Directions and the SEC/ICASL Code

Reference Complied (✓)

Composition of Directors

Board of Directors as at 31st December 2013

The Board comprised nine Directors as at 31st December 2013, with one Executive Director, namely, Mr. R Nadrajah and eight Non-Executive Directors, namely Mr. Nihal Jayamanne PC (Chairman), Mr. Ishara Nanayakkara (Deputy Chairman), Rear Admiral Ananda Peiris, Mr. Samantha Ranatunga, Mr. Kapila Jayawardena, Mr. Kumar Perera, Ms. Coralie Pietersz and Mr. Isuru Balapatabendi. The tenure of directorship of the nine Directors have not exceeded nine years as they were appointed on or after 30th December 2008. No employees of the Bank were appointed as Executive Directors during the year.

3 (2) (i), (ii), (iii)
A.1
A.5.1. - A.5.5



Independent Directors

Throughout the year the Board maintained the minimum requirement of three independent Non-Executive Directors which was equal or more than one-third of the total number of Directors on the Board. Independent Non-Executive Directors, Mr. Mohan Pieris PC (former Chairman) and Mr. Lalith Withana resigned whilst Mr. Kumar Perera and Ms Coralie Pietersz were appointed as Independent Non-Executive Directors during the year. Mr. Nihal Jayamanne PC (Chairman), Rear Admiral Ananda Peiris and Mr. Samantha Ranatunga are the other three Independent Directors.

3 (2) (iv)
A.5.5



The Board determines the independent and non-independent status of the Non-Executive Directors based on the declarations submitted by them in accordance with the criteria defined in the Banking Act Directions No. 3 (2) (iv) and the Rules of the Colombo Stock Exchange.

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| Compliance with the Banking Act Directions and the SEC/CASL Code | Reference | Complied (✓) |
|--|----------------------------|--------------|
| <p>Alternate Directors</p> <p>During the year Independent Directors, Mr. Lalith Withana and Rear Admiral Ananda Peiris appointed each other as the alternate directors. However, the alternate directorship positions ceased with the resignation of Mr. Lalith Withana on 19th June 2013.</p> | 3 (2) (v) | ✓ |
| <p>Non-Executive Directors</p> <p>The Non-Executive Directors of the Board are eminent personnel with extensive experience in the fields of banking, finance, law, insurance, marketing and other related fields serves this purpose.</p> <p>The Board has adequate number of Directors who have sufficient financial expertise to guide the Board on matters relating to finance as evident from the Profiles of the Directors which are included in the Annual Report.</p> | 3 (2) (vi) A.4 | ✓ ✓ |
| <p>Meetings of the Board held during the year were duly constituted with more than one half of the number of Directors present at the meetings being Non-Executive Directors.</p> | 3 (2) (vii) | ✓ |
| <p>The Bank has identified the Executive/Non-Executive and independent/Non-Independent status of the Directors in all corporate communications that disclose the names of Directors of the Bank including this annual Corporate Governance Report. Please also refer Composition of Board described in the schedule appended to this Report.</p> | 3 (2) (viii) | ✓ |
| <p>Appointment of Directors</p> <p>A Board approved procedure is in place for the appointment of new Directors to the Board which acts as a guideline to the Board when appointments to the Board are being considered. The Board Nomination Committee played a lead role in identifying new Directors or considering the suitability of nominee Directors to the Board in place of Directors who resigned during the year.</p> | 3 (2) (ix) A.7.1, A.7.2 | ✓ ✓ |
| <p>Directors Training</p> <p>The Board recognises that the need for continuous training and development of knowledge and skills to effectively carry out the duties as Directors of the Bank. During the year, Directors attended symposiums and seminars including those arranged by the Securities and Exchange Commission of Sri Lanka and the Central Bank of Sri Lanka. Directors appointed during the year were presented with an Introductory document with relevant material information of the Bank and other guidelines for new Directors such as Responsibilities of Directors and relevant policies.</p> | A.1.7 | ✓ |
| <p>Election of Directors Appointed to fill Casual Vacancy on the Board</p> <p>No Director was subject to election by shareholders at the Annual General Meeting during the year 2013 in terms of the above. Mr. P.M.M. Pieris PC who was the only Director appointed to the Board on 20th April 2012 to fill the vacancy created by former Chairman, Mr. E. Narangoda. However, Mr. P.M.M. Pieris PC resigned on 15th January 2013. Directors, Mr. Kapila Jaywardena, Mr. Kumar Perera, Ms. Coralie Pietersz and Mr. Isuru Balapatabendi were appointed to fill the casual vacancies on the Board during the year 2013 and will be subject to election by shareholders at the forthcoming Annual General Meeting in 2014.</p> | 3 (2) (x) | ✓ |

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Compliance with the Banking Act Directions and the SEC/ICASL Code

Reference Complied (✓)

Re-election of Directors by Rotation

Re-election of Directors is carried out in accordance with the provisions of the Articles of Association. One-third of the Directors (excluding the executive Directors) longest in office retires by rotation at the Annual General Meeting and are re-elected if eligible. The Board Nomination Committee and the Board recommended the re-election of Directors, Messrs I.C. Nanayakkara, S.P.S. Ranatunga and A.M.M. De Alwis who were due to retire by rotation in terms of Article 82 of the Articles of Association of the Bank and were re-elected by the shareholders at the Annual General Meeting held on 28th March 2013.

A.8.1



A.8.2



Change of Directorate

Change of directorate (resignations and appointments of Directors) are informed to the shareholders and other interested parties vide announcements made to the Colombo Stock Exchange (CSE) and are also notified through press articles. A brief profile of each of the Directors appointed was also released to and published on the CSE's website. Information pertaining to change in directorate are incorporated in the notes to the interim (quarterly) Financial Statements issued to the CSE and published in the newspapers. The Bank's Annual Report published also carries information pertaining to changes to the directorate during the year.

3 (2) (xi)



Criteria to Assess the Fitness and Propriety of Directors

3 (3)

Declarations in the case of new Directors were submitted by the Directors for the approval of the Director Bank Supervision, prior to being appointed to the Board and annually by the continuing Directors prior to the Annual General Meeting. The declarations submitted confirm that the Directors meet the criteria of fitness and propriety as per Section 42 of the Banking Act No. 30 of 1988 (as amended) and its Directions. Further, the Directors who were on the Board during the year and the current Directors have not exceeded the age of 70 as at the dates of appointments or resignations and as at date. The Directors hold directorships in less than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.

3 (3) (i)

and

3 (3) (ii)

(as amended)



Responsibilities of the Board

3 (1)

Processes and Procedures Carried out by the Board to Ensure to Strengthen the Safety and Soundness of the Bank

Strategic Objectives and Corporate Values

The Board approved the 4-year Strategic Plan 2012-2015 on 12th December 2011 and communicated the new strategic objectives and corporate values to the staff. The timely implementation of strategies was monitored by the CEO and Corporate Management and reviewed periodically by the Board at Board meetings. The Strategic Plan 2012-2015 was reviewed and 19 key areas were identified for adoption. After an extensive review process, the 2012-2015 Strategic Plan was extended up to 2016 with the approval of the Board.

3 (1) (i) (a)-(d)

A.1.2



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| Compliance with the Banking Act Directions and the SEC/CASL Code | Reference | Complied (✓) |
|---|-------------------------------|--------------|
| <p>The Strategic Plan addresses the Bank's overall business strategy. Overall risk policy and risk management framework in line with the strategies have been formulated by the Risk Unit and regularly monitored by the Board Integrated Risk Management Committee and the Board. The Board also approved in December 2012 a revised Risk Management Policy Framework formulated in accordance with the Banking Act Direction No. 07 of 2011.</p> <p>The Board Integrated Risk Management Committee ensures that the Bank's Risk Unit headed by the Chief Risk Officer identifies principal risks and puts in place policies and guidelines to be reviewed and approved by the Committee. Systems put in place were being tested by the Risk Unit. A Risk Assessment Report following the meeting of the Board Integrated Risk Management Committee (BIRMC) is submitted/circulated to the Board for its review and concurrence and/or comments.</p> | 3 (1) (i) | ✓ |
| <p>Stakeholder Communication Policy</p> <p>A Stakeholder Engagement Policy has been approved and implemented in respect of communication with all stakeholders, including depositors, creditors, shareholders and borrowers. A Communication Policy was also recommended by the Board Marketing and Product Development Committee and approved by the Board.</p> | 3 (1) (i) (d) A.6.1; A.6.2 | ✓ ✓ |
| <p>Internal Control Systems and Management Information Systems</p> <p>Adequacy and integrity of the Bank's internal control systems and management information systems were reviewed by the Board Audit Committee. The decisions and/or actions taken are submitted for Board's information and/or action if deemed necessary.</p> <p>Timely and adequate information is provided by Management to the Board prior to the regular Board meetings. Management also make themselves available on call to respond to queries raised at Board meetings and to provide additional information when required by the Board Members.</p> | 3 (1) (i) (e) | ✓ |
| <p>Identification of Key Management Personnel</p> <p>The Board has identified Key Management Personnel who are in a position to influence and exercise control over business activities, operations and risk management and deemed as 'related parties' in order that necessary steps could be taken to abide by/comply with the relevant Banking Act Directions (ref: 3 (7) of this report) and the Sri Lanka Accounting Standard disclosures on related party transactions. The KMPs were reviewed and approved by the Board during the year with the appointment of a new Head of Branch Operations.</p> | 3 (1) (i) (f) | ✓ |
| <p>Defining of Areas of Authority and Key Responsibilities</p> <p>The key responsibilities of Key Management Personnel are defined in their job responsibilities, whilst the Directors derive their responsibilities from the regulations and directions, mainly, the Banking Act Directions. A document on the areas of authority and key responsibilities for the Board of Directors and for the Key Management Personnel was recommended by the Board Nomination Committee and approved by the Board during the year.</p> | 3 (1) (i) (g) | ✓ |

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| Compliance with the Banking Act Directions and the SEC/ICASL Code | Reference | Complied (✓) |
|--|--|-------------------|
| <p>Oversight of the Affairs of the Bank by Key Management Personnel</p> <p>Communication of Board approved policies and decisions conveyed through Board and Board Sub-committee minute extracts and the appropriate follow up actions and reports/decisions of the relevant Key Management Personnel at corporate management meetings headed by the General Manager/CEO which are submitted to the Board and Board Sub-committee when required, ensure that there is appropriate oversight of the affairs of the Bank by key management personnel.</p> <p>Further General Manager/CEO and other Key Management Personnel heading different areas of authority are met at the regular meetings of the Board Sub-Committees as well as at the regular Board meetings wherein the Board and the Board Sub-committees review and discuss the implementation of the policies and corporate objectives approved and delegated.</p> | <p>3 (1) (i) (h)</p> <p>3 (1) (i) (k)</p> | <p>✓</p> <p>✓</p> |
| <p>Effectiveness of the Board's Own Governance Practices and Scheme of Self-Assessment</p> <p>Effectiveness of the Board's own governance practices is annually assessed by the Board. Individual Board Performance Evaluation Reports and Self-Assessment Reports are submitted by the Directors and the collective opinions are reviewed and discussed by the Board. Board Sub-committees also carry out assessment of the respective Committee's performance during the year and submit their reports to the Board for review. The Board carried out the review of the Self-Assessments and noted the performance of each of the Committees as satisfactory.</p> | <p>3 (1) (i) (i)</p> <p>and</p> <p>3 (1) (xvii)</p> <p>A.9.1 - A.9.3</p> | <p>✓</p> <p>✓</p> |
| <p>Succession Plan for Key Management Personnel</p> <p>The appropriate succession plan for Key Management Personnel including development plans for the successors is reviewed and prepared by the Head of Human Resources in consultation with the General Manager/CEO and submitted to the Board Nomination Committee for its review and/or concurrence annually or when deemed necessary. A review of the succession plan was carried out during the year and was approved by the Board Nomination Committee.</p> | <p>3 (1) (i) (j)</p> | <p>✓</p> |
| <p>Regulatory Environment</p> <p>The Board is updated of the changes in the regulatory environment by the relevant Key Management Personnel at the Board Sub-committee level and at Board level. The Board and discusses and/or endorses the steps taken to comply with such changes as appropriate and ensures that an effective dialogue and relationship is maintained by the relevant officers, mainly the General Manager/CEO and the Compliance Officer.</p> | <p>3 (1) (i) (l)</p> | <p>✓</p> |
| <p>Hiring of External Auditors</p> <p>A Board approved Policy for hiring and engagement of External Auditors is in place. The Board Audit Committee is vested with the responsibility of exercising due diligence and oversight in making the necessary recommendation for the hiring of the External Auditors in accordance with the said Policy.</p> | <p>3 (1) (i) (m)</p> | <p>✓</p> |

Corporate Governance Report

| Compliance with the Banking Act Directions and the SEC/CASL Code | Reference | Complied (✓) |
|--|--------------------------------|--------------|
| <p>Appointment of Chairman and Chief Executive Officer</p> <p>Mr. Nihal Jayamanne PC was appointed as Independent Non-Executive Chairman on 17th January 2013 consequent to the resignation of Mr. P.M.M. Pieris PC with effect from 15th January 2013.</p> <p>Mr. Kapila Ariyaratne who was appointed on 3rd March 2011 functions as the General Manager/Chief Executive Officer of the Bank. The functions and responsibilities of the Independent Non-Executive Chairman and the Chief Executive Officer are clearly defined and documented.</p> | 3 (1) (ii) | ✓ |
| <p>Frequency of Board Meetings</p> <p>Regular meetings are held monthly with special meetings held as and when required. Twelve regular meetings and three special meetings were held during the year. Directors actively contribute to the Board proceedings. Resolutions by circulation are kept at a minimum and restricted to matters of a routine and/or urgent nature. Directors have devoted adequate time for Board meetings as well as for Board Sub-committee meetings during the year. The details of the meetings held and the Directors attendance are disclosed in the schedule appended to this report.</p> | 3 (1) (iii) | ✓ |
| <p>Agenda</p> <p>There is a formal schedule of matters that are included in the agenda of regular Board meetings held monthly which also includes matters which require the approval of the Board where they are not within the delegated authority of the management and/or the Board Sub-committees. At the Board meetings, Directors' propose and collectively agree on matters to be included in the agenda of the next Board meeting or future Board meetings. They are also noticed of the date of the next meeting in advance enabling them to include matters and proposals prior to the next Meeting.</p> | 3 (1) (iv) and 3 (i) (xiii) | ✓ |
| <p>Notice of Meeting</p> <p>Email notice of the next monthly meeting of the Board of Directors is issued to the Directors as well as to the Management by the Company Secretary, within three days after the conclusion of a Board meeting whilst formal notice of meeting, agenda and Board papers are circulated to the Directors seven days prior to such regular monthly meeting. Special meetings are called with lesser notice period due to the urgency of the matters concerned.</p> | 3 (1) (v) | ✓ |
| <p>Attendance</p> <p>All Directors have attended more than two-thirds of the meetings held during the year and have not been absent for three consecutive meetings held. At every Board meeting, Directors are apprised of their record of attendance at the Board meetings held in the period of twelve months immediately preceding.</p> <p>Quorum - The Board increased the number of members required for a quorum from minimum 3 members, to minimum 5 members or above 50% of the number on the Board whichever is higher with majority Non-Executive Directors. The quorum required in this manner was maintained from commencement to the conclusion of Board proceedings held during the year.</p> | 3 (1) (vi) | ✓ |

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| Compliance with the Banking Act Directions and the SEC/ICASL Code | Reference | Complied (✓) |
|---|--------------------------------------|--------------|
| <p>Company Secretary</p> <p>Mrs. N.N. Najumudeen who is a Chartered Secretary is the Company Secretary of the Bank appointed by the Board. Her primary responsibilities include but are not limited to, induction of new Directors on the Board, assisting the Chairman of the Board and the Chairpersons of the Board Sub-committees in determining the arrangements with regard to meetings, the agenda thereto and procedures, and to carry out other corporate secretarial functions specified in the statutes and other regulations.</p> | 3 (1) (vii) A.I.4 | ✓ ✓ |
| <p>The Directors have access to the advice and services of the Company Secretary in ensuring that Board responsibilities and procedures and all applicable rules and regulations are followed in that regard.</p> | 3 (1) (viii) A.5.9 | ✓ ✓ |
| <p>Minutes of Board Meetings</p> <p>Minutes of Board meetings are recorded by the Company Secretary in sufficient detail to enable a proper assessment to be made of the extent of deliberations at the meetings. Minutes of Board meetings are prepared and circulated to the Directors to enable them to peruse same and confirm/rectify and record any discrepancy at the next Board meeting. Minutes are maintained by the Company Secretary for inspection of any Director on reasonable notice.</p> | 3 (1) (ix) and 3 (1) (x) A.I.3 | ✓ ✓ |
| <p>Independent Professional Advice</p> <p>A board approved procedure is in place for the Directors, both individually and collectively to consult professional advisers and, if necessary, seek independent professional advice at the Bank's expense in the furtherance of their duties as Directors of the Bank and as members of the Board Sub-committees.</p> | 3 (1) (xi) A.I.5 | ✓ ✓ |
| <p>Avoidance of Conflicts of Interest</p> <p>Directors avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to other organisations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter is dealt with at a Board meeting, Directors abstain from voting on any such resolution in which the Directors have related party interests or are interested by virtue of their directorships. The interested Directors are also not counted in the quorum for the relevant agenda item.</p> | 3 (1) (xii) | ✓ |

Corporate Governance Report

| <i>Compliance with the Banking Act Directions and the SEC/CASL Code</i> | <i>Reference</i> | <i>Complied (✓)</i> |
|---|-----------------------------|---------------------|
| <p>Bank's Ability/Inability to Meet its Obligations on Payments</p> <p><i>The Board has approved and adopted a Contingency Funding Plan which addresses the procedures to be followed by the Bank and keeping the Director Bank Supervision informed in a liquidity crisis situation, i.e., if it considers that it is, or is unlikely to be able to meet its obligations or is about to suspend payments due to depositors and other creditors. However, such a situation has not arisen as at date.</i></p> | 3 (1) (xiv) | ✓ |
| <p>Capitalisation of the Bank</p> <p><i>The Board has ensured that the Bank duly complies with Capital Adequacy Ratio requirements as required by the Monetary Board. The Three-year Capital Augmentation Plan was reviewed and revised in 2013. A five-year Debenture Issue was completed in February 2013 to raise a Tier 2 capital of LKR 2 Bn.</i></p> | 3 (1) (xv) | ✓ |
| <p>Management Functions Delegated by the Board of Directors</p> | | |
| <p><i>The Board is empowered by the Articles of Association subject to the provisions in the Companies Act to delegate any of its powers to committees consisting of such member or members as the Board thinks fit.</i></p> <p><i>The Board has delegated matters pertaining to the affairs of the Bank to the Board Sub-committees within the scope of the respective terms of reference as approved by the Board, and to the CEO and other Key Management Personnel/line management through approved delegated authority limits.</i></p> <p><i>The delegation processes are reviewed by the Board taking into account any structural changes as approved by the Board from time to time. The Board ensures that the delegation processes do not hinder or reduce the Board's overall powers to effectively discharge its functions and ensures that they remain relevant to the needs of the Bank.</i></p> | 3 (4) (i) to 3 (4) (iii) | ✓ |

Corporate Governance Report

Compliance with the Banking Act Directions and the SEC/ICASL Code

Reference Complied (✓)

Chairman and the Chief Executive Officer

3 (5)

- i.** The positions of the Chairman and the Chief Executive Officer (CEO) are separate. A document defining the areas of authority and responsibilities of the Board of Directors and of the Key Management Personnel which was reviewed by the Board Nomination Committee and approved by the Board defined the role and responsibilities of the Chairman and that of the CEO.
- ii.** Mr. Nihal Jayamanne PC who was appointed as Chairman on 17th January 2013 is a Non-Executive Independent Director of the Board since 30th December 2008.
- iii.** The declarations submitted by new Directors upon appointment and by the continuing Directors (including the Executive Director) annually as well as the Declaration submitted by the CEO confirm that no relationship of any nature exists between the Chairman and the CEO and between the Chairman and the other members on the Board.

3 (5) (i) to



3 (5) (iii)

A.2



Other than the following, there were no other relationships among members of the Board (including the Chairman):

- Directors, Messrs Ishara Nanayakkara and Kapila Jayawardena held common directorships and related party interests in companies within the LOLC Group and the Browns Group, material shareholders of the Bank.
- Directors, Messrs A.M.M. De Alwis (resigned on 20th December 2013) and Isuru Balapatabendi (appointed on 27th November 2013) represented the Bank's material shareholder, Sri Lanka Insurance Corporation Limited (SLIC) and held directorships in SLIC.

1. As required under Section 3 (5) (iv) - (x), the Chairman -

3 (5) (iv) to



- provides leadership to the Board and ensures that the Board effectively discharges its responsibilities and that all key issues are discussed and resolved;
- ensures that the agenda for the Board meetings preparation of which is delegated to the Company Secretary ensures that it takes into account any matters proposed by the other Directors for inclusion in the agenda and that Board papers covering adequate information is circulated to the Directors at least seven days prior to the meeting;
- all Directors, especially new Directors are properly briefed by the Chairman on issues arising at Board meetings;
- encourages all Directors to make an active contribution to the Board's affairs. Majority of the Non-Executive Directors chairs the Board Sub-committees and by virtue of their membership in the committees contribute effectively in the best interests of the Bank.

3 (5) (x)

A.3.1



Corporate Governance Report

| Compliance with the Banking Act Directions and the SEC/ICASL Code | Reference | Complied (✓) |
|---|--------------------------------------|--------------|
| <p>2. Chairman, Mr. Nihal Jayamanne PC functions in an independent Non-Executive capacity and does not engage in direct supervision of the Key Management Personnel or any other executive duties. The organisation structure in place ensures that all Key Management Personnel report directly to the Chief Executive Officer except the Head of Audit, and the Chief Risk Officer and the Compliance Officer who report directly to the Board Audit Committee and the Board Integrated Risk Management Committee respectively with administrative reporting lines to the CEO.</p> | 3 (5) (iv) to 3 (5) (x) C.1, E, F | ✓ ✓ |
| <p>3. The Chairman ensures that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board. The Annual General Meeting/Extraordinary General Meetings are forums utilised by the Board as well as the shareholders of the Bank to have an effective dialogue with one another. Individual shareholders are encouraged to participate at General Meetings and exercise their voting rights.</p> <p>The principles set out in Section C.1.1 to C.1.5 in regard to notice of general meetings, notices, proxies, resolutions, voting, etc., are duly taken into consideration and complied with as relevant.</p> <p>In addition, the Bank has institutional shareholder representations on the Board consequent to its re-capitalisation process in 2009.</p> <p>The Company Secretariat also ensures that all shareholder queries/requests are duly addressed and responded as soon as possible. Any correspondence which requires the Board's attention are referred to the Board. Shareholders are advised to seek independent advice in investing and divesting decisions.</p> | 3 (5) (iv) to 3 (5) (x) C.1, E, F | ✓ ✓ |
| <p>4. Major Transactions</p> <p>There were no major transactions as defined in Section 185 of the Companies Act No. 07 of 2007 which materially affected the Bank's net asset base necessitating shareholder approval at a General Meeting.</p> | C.2 | ✓ |
| <p>Chief Executive Officer</p> <p>Mr. Kapila Ariyaratne, General Manager/Chief Executive Officer (GM/CEO) of the Bank heads the senior management team of the Bank and reports to the Board of Directors as well as to the Board Sub-committees. His main functions and responsibilities are the overall management of the operations and business of the Bank in line with its strategic objectives.</p> <p>The performance of GM/CEO was evaluated by the Board Human Resources and Remuneration Committee and the Board annually, to review the extent of completion of the targets set by the Board. The Board also sets goals and targets (KPIs) for the GM/CEO at the beginning of year.</p> | 3 (5) (xi) A.11 | ✓ ✓ |

Corporate Governance Report

| Compliance with the Banking Act Directions and the SEC/ICASL Code | Reference | Complied (✓) |
|---|---|------------------|
| Board Appointed Committees | 3 (6) | |
| The Board appointed Sub-committees which function within the Board approved Terms of Reference are as follows: | 3 (6) (i) | ✓ |
| <ul style="list-style-type: none"> – Audit Committee – Human Resources and Remuneration Committee – Nomination Committee – Integrated Risk Management Committee – Credit Committee – Sustainability Committee – Marketing and Product Development Committee | | |
| Company Secretary, Mrs N N Najumudeen functions as the Secretary to each of these committees. Minutes of the meeting proceedings and matters arising from the minutes as well as reports that require Board's attention and/or decision were circulated to the Board by the Secretary. | | |
| The Reports of the Board Sub-committees mentioned above as reviewed and approved by the Board of Directors are annexed to this Corporate Governance Report. The Reports of the following committees provide confirmation and/or extent of compliance with the respective Sections of the Banking Act Directions on Corporate Governance No. 11 of 2007 (as amended) - | D.3.1 - D.3.4; B.1.1- B.3.1; A.7.1 A.1.2 | ✓ ✓ ✓ ✓ |
| – Board Audit Committee (Pages 116 to 120) | 3(6)(ii) | * ✓ |
| – Board Human Resources and Remuneration Committee (Pages 121 to 123) | 3(6)(iii) | ✓ |
| – Board Nomination Committee (Pages 124 to 126) | 3(6)(iv) | ✓ |
| – Board Integrated Risk Management Committee (Pages 127 to 132) | 3(6)(v) | ✓ |
| * The Bank partly complied with Section 3(6)(ii)(l) of the Directions as, although the Committee met the External Auditors twice during the year, it met the External Auditors without the presence of the Executive Director only once during the year. | | |
| Related Party Transactions | 3 (7) | |
| i. The Board takes necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with related parties of the Bank. A Policy on Related Party Transactions and Conflicts of Interest was formulated and approved by the Board for due implementation. The procedures set out in the Policy were reviewed and revised during the year to ensure a better monitoring mechanism in its implementation. | 3 (7) (i) | ✓ |
| ii. Transactions are carried out with related parties in the normal course of business as disclosed in the Annual Report under Notes to the Financial Statements on 'Related Party Disclosures'. The relevant officers who deal in related party transactions consider the Policy guidelines in their evaluation of the related party transactions and declare their confirmation in respect of same. | 3 (7) (ii) | ✓ |
| iii. The Board ensures that the Bank does not engage in transactions with related parties, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the Bank carrying on the same business. The Board approved Policy ensures that all staff are aware of these guidelines and periodical confirmations are obtained from the Heads of Divisions which have had transactions during the respective period. | 3 (7) (iii) (a) to 3 (7) (iii) (c) 3 (7) (iii) (d) 3 (7) (iii) (e) | ✓ * ✓ |
| * Delays in loan documentation of two related party loans were noted and the Bank will implement stringent procedures to prevent such delays. | | |

Corporate Governance Report

| Compliance with the Banking Act Directions and the SEC/CASL Code | Reference | Complied (✓) |
|--|-----------------------|--------------|
| iv. Accommodation to a Director or to a close relation of a Director (if any) are granted with the approval of the Board of Directors with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. Such accommodation is also secured by such security as may from time to time be determined by the Monetary Board. | 3 (7) (iv) | ✓ |
| v. Directors appointed during the year or their close relations had not been granted any accommodation by the Bank prior to the said Directors being appointed to the Board. The Bank has complied with the said Direction in respect of the other Directors as well, where it has obtained required security for accommodation granted to related parties. | 3 (7) (v) | ✓ |
| vi. No accommodation has been granted to employees on a favourable basis other than general schemes applicable to the staff such as staff loan facilities. | 3 (7) (vi) | ✓ |
| Disclosures | 3 (8) | |
| Annual Audited Financial Statements and Quarterly Financial Statements The Quarterly (unaudited) Financial Statements as well as Audited Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS) and the formats prescribed by the Supervisory Regulatory Authorities. The statements are published in the newspapers in all three languages. The quarterly Financial Statements as well as the Annual Report containing the annual Audited Financial Statements are submitted to the Colombo Stock Exchange (CSE) as well which makes them available on Seylan Bank PLC's page (search symbol: SEYB) in CSE's website, www.cse.lk for the information of interested stakeholders. The Bank also publishes the quarterly Financial Statements as well as the Annual Report on its website www.eseylan.com (financial information page) for this purpose. | 3 (8) (i) | ✓ |
| Disclosures in the Annual Report as Required under the Banking Act Directions | 3 (8) (ii) | ✓ |
| a. The Financial Statements for the year ended 31st December 2013 are in conformity with all rules and regulatory requirements. Compliance with applicable accounting standards and regulatory requirements has been reported in the Directors' Responsibility Statement for Financial Reporting on page 186 and CEO and CFO's Responsibility Statement for Financial Statements on page 187. | D.1.1 D.1.3 | ✓ ✓ |
| b. Directors' Report on the effectiveness of the internal control system over financial reporting, 'Directors' Statement of Internal Control' is given on pages 184 to 185. | 3 (8) (ii) b D.2.1 | ✓ ✓ |
| c. The Bank has obtained an Assurance Report on the Internal Controls over financial reporting based on the auditing framework issued by The Institute of Chartered Accountants of Sri Lanka. The External Auditor's Report on the internal control mechanism is reported in page 183. | 3 (8) (ii) c | ✓ |

Corporate Governance Report

| <i>Compliance with the Banking Act Directions and the SEC/ICASL Code</i> | <i>Reference</i> | <i>Complied (✓)</i> |
|--|-------------------------|--------------------------------|
| d. The details of the Directors can be perused from Profile of Directors on pages 79 to 83, and the Report of the Board of Directors provide details on Directors interests in other entities whilst Note 48.6 to the Financial Statements provide particulars relating to fees/ remuneration paid to Directors. | 3 (8) (ii) d A.10 | ✓ ✓ |
| e. Accommodation granted to related parties is given in Note 48 and 49 to the Financial Statements on pages 281 to 298. | 3 (8) (ii) e | ✓ |
| The net accommodation granted to each category of related parties is given below as a percentage of the Bank's regulatory capital: | | |
| <i>Category of Related Party Transactions</i> | <i>Amount (Rs. Mn.)</i> | <i>% of Regulatory Capital</i> |
| Credit Card balances outstanding from Key Management Personnel | 0.414 | 0.002 |
| Facilities to KMPs | 18.440 | 0.095 |
| Loans and advances outstanding from subsidiary | – | 0.000 |
| Advance payments to subsidiary | 15.000 | 0.077 |
| Transactions with concerns in which a Director of the Bank or material shareholder has a substantial interest | | |
| - Expenses paid/payable | 827.426 | 4.264 |
| - Income received/receivable | 409.080 | 2.108 |
| - Non-funded loan | 563.251 | 2.903 |
| - Funded loan | 4,747.019 | 24.462 |
| f. Remuneration paid to Key Management Personnel and transactions of the Bank with Key Management Personnel is disclosed in Note 48 and 49.1 to the Financial Statements on 'Related Party Transactions'. | 3 (8) (ii) f | ✓ |
| g. The External Auditors have performed an agreed-upon procedure in respect of the Corporate Governance Directions issued by the Central Bank of Sri Lanka in accordance with the principles set out in the Sri Lanka Standards on Related Service 4750 and have provided a Report of Factual Finding on the Bank's extent of compliance with the Directions as disclosed in this Corporate Governance Report. | 3 (8) (ii) g | ✓ |
| h. Statement of Directors' Responsibility for Financial Reporting on page 186 and Directors' Statement on Internal Controls on pages 184 to 185 set out the extent of compliance of the Bank with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance. | 3 (8) (ii) h D.1.3 | ✓ ✓ |
| i. There were no significant supervisory concerns on lapses in the Bank's risk management system or non-compliance with these Directions that have been pointed out by the Director of the Bank Supervision Department of the CBSL requiring disclosure to the public. | 3 (8) (ii) i | ✓ |

Corporate Governance Report

| Compliance with the Banking Act Directions and the SEC/CASL Code | Reference | Complied (✓) |
|--|-----------|--------------|
| Other Disclosures as Required under the Code of Best Practice on Corporate Governance | | |
| <p>a. <i>Declarations/confirmations that the Company has not engaged in any activities which contravenes laws and regulations; material interests in contracts; equitable treatment of shareholders; company is a going concern with supporting assumptions or qualifications as necessary; and effectiveness of internal controls are disclosed in the Report of the Board of Directors on the State of Affairs of the Company.</i></p> | D.1.2 | ✓ |
| <p>b. <i>The Management Discussion and Analysis Report is published in the Annual Report presenting the Bank's structure and developments, internal control systems, financial performances, corporate social responsibility activities, future prospects, etc.</i></p> | D.1.4 | ✓ |
| <p>c. Code of Business Conduct and Ethics <i>A Code of Business Conduct and Ethics for Directors and a separate Code of Conduct and Ethics for all employees including the corporate management is in place. The Codes address the management and/or avoidance (as relevant) of conflict of interest and corporate opportunities; maintenance of confidentiality; fair dealing with all stakeholders of the Company; protection and proper use of company assets; compliance with laws, rules and regulations and encouraging the reporting of any illegal or unethical behaviour. The Policy on Related Party Transactions and avoidance of Conflicts of Interest, Policy Governing Insider Dealing and the Policy on Whistle Blowing adopted by the Bank further supplements the policies covered in the Code of Business Conduct and Ethics. The Directors annually read and attest the Code of Business Conduct and Ethics for Directors. All employees are made aware of the Code of Conduct and the Code of Ethics for employees which was reviewed, revised and incorporated in the Employees' Manual and published in the Bank's intranet. In terms of the Policy Governing Insider Dealing, the Directors and all staff are informed of the 'black-out' periods (i.e., when unpublished price sensitive information of the Bank, such as Financial Statements is available) and advised to refrain from transactions of the Bank's securities until such time the 'black-out' period is lifted.</i></p> | D.4 | ✓ |
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Corporate Governance Report

Board of Directors/Board Sub-committees

Members' Attendance at Board and Board Sub-committee Meetings during 2013

| Directors in Office During the year 2013; Status; Dates of Appointment and Resignations | Attendance at Board Meeting | Membership in Board Sub-committees; Status; Dates of Appointment and Resignations from the Committees | Attendance at Committee Meetings |
|--|------------------------------------|--|---------------------------------------|
| | Attended/ Eligibility to Attend | | Attended/ Eligibility to Attend |
| Mr. P.M.M. Pieris PC Independent Director/Chairman Date of appointment: 20.04.2012 Resigned on 15.01.2013 | N/A | – | – |
| Mr. N.M. Jayamanne PC Independent Director/Chairman Date of appointment: 30.12.2008 (Appointed as Chairman on 17.01.2013) | 15/15 | Audit Committee Human Resources and Remuneration Committee (Chairman) Nomination Committee Marketing and Product Development Committee (Appointed on 27.09.2013) | 9/9 6/6 5/5 1/1 |
| Mr. I.C. Nanayakkara* Non-Executive Director Date of appointment: 24.11.2009 (Appointed as Deputy Chairman on 17.01.2013) | 13/14 | Credit Committee (Chairman on 20.12.2013) Sustainability Committee (Chairman) Nomination Committee (Appointed on 27.09.2013) Human Resources and Remuneration Committee (Appointed on 27.09.2013) Integrated Risk Management Committee - (Chairman/member from 26.07.2013 to 27.09.2013) | 18/27 3/3 1/1 1/2 1/1 |
| Mr. R. Nadarajah Executive Director Date of appointment: 08.01.2009 | 15/15 | Credit Committee Marketing & Product Development Committee Sustainability Committee | 26/27 2/2 3/3 |
| Mr. P.L.P. Withana Independent Director Date of appointment: 30.12.2008 Resigned on 19.06.2013 | 7/8 | Audit Committee - Former Chairman of the Committee (Resigned on 19.06.2013) Human Resources and Remuneration Committee (Resigned on 19.06.2013) Integrated Risk Management Committee (Resigned on 19.06.2013) Nomination Committee (Resigned on 19.06.2013) | 4/4 3/3 1/1 1/2 |

Corporate Governance Report

| <i>Directors in Office During the year 2013; Status; Dates of Appointment and Resignations</i> | <i>Attendance at Board Meeting</i> | <i>Membership in Board Sub-committees; Status; Dates of Appointment and Resignations from the Committees</i> | <i>Attendance at Committee Meetings</i> |
|---|--|--|--|
| | <i>Attended/ Eligibility to Attend</i> | | <i>Attended/ Eligibility to Attend</i> |
| <i>Rear Admiral B.A.J.G. Peiris Independent Director Date of appointment: 08.01.2009</i> | <i>14/15</i> | <i>Credit Committee Human Resources and Remuneration Committee Nomination Committee (Chairman) Sustainability Committee (Appointed on 27.09.2013)</i> | <i>22/27 5/6 4/5 0/1</i> |
| <i>Mr. A.L. Devasurendra Non-Executive Director Date of appointment: 24.1.2009 Resigned on 01.08.2013</i> | <i>7/10</i> | <i>Credit Committee (Resigned on 01.08.2013) Integrated Risk Management Committee - Former Chairman of the Committee (Resigned on 01.08.2013) Marketing & Product Development Committee (Resigned on 01.08.2013) Nomination Committee (Resigned on 01.08.2013) Sustainability Committee (Resigned on 01.08.2013)</i> | <i>6/15 2/2 0/1 1/3 0/1</i> |
| <i>Mr. S.P.S. Ranatunga Independent Director Date of appointment : 12.10.2010</i> | <i>13/15</i> | <i>Human Resources and Remuneration Committee Marketing & Product Development Committee (Chairman) Nomination Committee Sustainability Committee Audit Committee (Appointed on 27.05.2013) Integrated Risk Management Committee (Appointed on 26.07.2013 and as Chairman on 27.09.2013)</i> | <i>6/6 2/2 5/5 1/3 6/6 2/2</i> |
| <i>Mr. A.M.M. De Alwis* Non-Executive Director Date of appointment: 20.08.2010 Resigned on 20.12.2013</i> | <i>9/13</i> | <i>Credit Committee - Former Chairman of the Committee (Resigned on 20.12.2013) Integrated Risk Management Committee (Resigned on 20.12.2013) Marketing & Product Development Committee (Resigned on 20.12.2013) Audit Committee Was member from 24.07.2013 to 26.09.2013 (Resigned on 20.12.2013)</i> | <i>20/26 3/4 1/2 1/1</i> |

Corporate Governance Report

| Directors in Office During the year 2013; Status; Dates of Appointment and Resignations | Attendance at Board Meeting | Membership in Board Sub-committees; Status; Dates of Appointment and Resignations from the Committees | Attendance at Committee Meetings |
|---|------------------------------------|---|-------------------------------------|
| | Attended/ Eligibility to Attend | | Attended/ Eligibility to Attend |
| Mr. P. Kudabalage* Non-Executive Director Date of appointment: 20.08.2010 Resigned on 29.03.2013 | 3/5 | Audit Committee (Resigned on 29.03.2013) | 1/1 |
| Mr. W.D.K. Jayawardena Non-Executive Director Date of appointment: 01.08.2013 | 5/5 | Integrated Risk Management Committee (Appointed on 27.09.2013) | 1/1 |
| Mr. P.L.S.K. Perera Independent Director Date of appointment: 23.09.2013 | 3/4 | Audit Committee (Appointed on 27.09.2013) | 3/4 |
| | | Integrated Risk Management Committee (Appointed on 27.09.2013) | 1/1 |
| | | Credit Committee (Appointed on 27.09.2013) | 7/7 |
| Ms. M.C. Pietersz Independent Director Date of appointment: 23.09.2013 | 4/4 | Audit Committee (Chairperson) (Appointed on 27.09.2013) | 4/4 |
| | | Integrated Risk Management Committee (Appointed on 27.09.2013) | 1/1 |
| | | Human Resources and Remuneration Committee (Appointed on 27.09.2013) | 2/2 |
| Mr. H.I. Balapatabendi Non-Executive Director Date of appointment: 27.11.2013 | 2/2 | Audit Committee | N/A |
| | | Sustainability Committee (Appointed w.e.f 20.12.2013) | N/A |

* Special Emergency Board Meeting held on 28th March 2013 was not considered for eligibility in respect of these Directors due to the interest of the said Directors in the proceedings/matters considered at the Meeting.

Report of the Board Audit Committee

This Report of the Board Audit Committee is prepared and presented in conformity with the directions set out in the Banking Act Direction No. 11 of 2007 on Corporate Governance and the Code of Best Practice on Corporate Governance of 2008 jointly issued by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka.

Overall Objectives of the Board Audit Committee

Seylan Bank's Board Audit Committee (Audit Committee or the Committee) was constituted with the overall objective of assisting the Board to fulfil its responsibilities for the financial reporting process, its systems of internal control, the audit process and the process for monitoring compliance with laws, regulations and codes of conduct.

Composition of the Committee

The Committee was reconstituted during the year. Messrs P Kudabalage and Lalith Withana (Chairman of the Committee) and Mr. Mohan De Alwis, who was appointed for a short period resigned

during the year and Ms. Coralie Pietersz, Mr. Kumar Perera and Mr. Isuru Balapatabendi were appointed. As at the year-end, the Committee comprised Ms. Coralie Pietersz (Chairperson), Mr. Nihal Jayamanne PC, Mr. Samantha Ranatunga, Mr. Kumar Perera and Mr. Isuru Balapatabendi. Mr. Isuru Balapatabendi is a Non-Executive Director, whilst the other four members are Independent Non-executive Directors. Company Secretary, Mrs. N.N. Najumudeen functions as the Secretary to the Board Audit Committee.

The General Manager/CEO, Deputy General Manager, Chief Financial Officer and the Head of Internal Audit are co-opted to the Board Audit Committee, whilst Executive Director and other Management members attend the meetings on invitation. The External Auditors also participate at meetings of the Committee when deemed necessary.

Chairperson of the Committee

Ms. Coralie Pietersz who was appointed as Chairperson of the Committee, with effect from 27th September 2013 in place of Mr. Lalith Withana [MBA, BA (Hons.), FCMA FCA], is an Associate Member of the Institute of Chartered Accountants in England and Wales and a Fellow Member of The Institute of Chartered Accountants of Sri Lanka and possesses adequate experience in auditing, finance, accounting and banking. The profiles of the other members of the Committee who are also eminent personnel with adequate qualifications and financial insight, are given on pages 79 to 83 of this Annual Report.

The Board Audit Committee Charter

The Committee functions within the scope of its Board approved terms of reference set out in the Board Audit Charter which provides the Committee explicit authority to investigate into any matter within its terms of reference; the resources which it needs to do so; full access

Report of the Board Audit Committee

to information; authority to obtain external professional advice; and to invite outsiders with relevant experience to attend, if necessary. The Board Audit Charter was last reviewed and revised in September 2012. A further review and revision of the Charter was carried out by the Committee in December 2013 and was approved by the Board in January 2014.

The Committee ensures that its role, composition and responsibilities comply with International Best Practices and Corporate Governance Rules as laid down in Section 3 (6) (ii) of the Banking Act Direction No. 11 of 2007 titled 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' and subsequent amendments thereto; Section 7.10.6 of the Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance (2008) jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL).

The Audit Committee continues to assist the Board of Directors to carry out its responsibilities relating to financial controls and reporting and other connected affairs of the Bank. Whilst the management is primarily responsible for the Financial Statements, for maintaining effective internal control over financial reporting and assessing the effectiveness of such control systems, the Committee has always maintained vigilance in exercising its oversight role in respect of financial reporting, internal controls and risk management.

Meetings of the Board Audit Committee

The Committee met regularly during the year with due notice of issues to be discussed and the related papers (where applicable) being provided.

The Committee held 9 meetings during the year 2013. Four were regular quarterly meetings whilst five were special meetings held to consider urgent and important matters requiring the Committee's

review including the review of the draft audited final accounts and quarterly Financial Statements. One meeting was held exclusively with the External Auditors without the presence of the Executive Management. The External Auditors also participated at a regular meeting of the Committee held in February 2013. The proceedings of the Committee meetings are recorded by the Secretary and copies of the minutes and follow up actions arising out of the minutes which require the Board's attention were circulated and considered and/or approved at Board meetings as relevant.

Report of the Board Audit Committee

Attendance of Members at Meetings during the year

| Board Audit Committee Member | Eligible to Attend | Attendance |
|---|--------------------|----------------|
| Mr. Lalith Withana (Independent Non-Executive Director) - former Chairman of the Committee (Resigned on 19.06.2013) | 4 | 4 |
| Mr. Nihal Jayamanne PC (Independent Non-Executive Director) - Member | 9 | 9 |
| Mr. Piyadasa Kudabalage (Non-Executive Director) - former Member (Resigned on 29.03.2013) | 1 | 1 |
| Mr. Samantha Ranatunga (Independent Non-Executive Director) - Member (appointed w.e.f. 27.05.2013) | 6 | 6 |
| Mr. Mohan De Alwis (Non-Executive Director) - former Member from 24.07.2013 to 27.09.2013 (Resigned on 20.12.2013) | 1 | 1 |
| Ms. Coralie Pietersz (Independent Non-Executive Director) - Present Chairperson of the Committee (Appointed w.e.f. 27.09.2013) | 4 | 4 |
| Mr. Kumar Perera (Independent Non-Executive Director) - Member (Appointed w.e.f. 27.09.2013) | 4 | 3 |
| Mr. Isuru Balapatabendi (Non-Executive Director) - Member (Appointed w.e.f. 20.12.2013) | Nil | Not applicable |

Internal Audit

The Bank's internal audit function is independent of the activities it audits and is performed with impartiality, proficiency and professionalism. The Committee ensures that the internal audit function conforms with the terms and guidelines of the Internal

Audit Charter. The Committee reviewed and recommended revisions to the Internal Audit Charter during the year. The Internal Audit Charter defines the scope, functions, authority, responsibility, adjudication, external relationship management and ethics that

assist and direct/guide the Internal Audit Department to discharge its functions independently.

The Committee reviewed and monitored the effectiveness of the internal audit and inspection functions and the performance of the Internal Audit Department. The Committee reviewed the progress of the risk-based internal audits and inspections carried out in accordance with the Internal Audit Plan for 2013. The Internal Audit Plan for 2014 was also approved by the Committee at its meeting held on 19th December 2013.

The Committee reviewed the adequacy of the Internal Audit Department and with a view to strengthening the internal audit functions recommended appointments, succession planning and outsourcing of services. The Committee was also apprised of appointments to and resignations of senior staff of the Internal Audit Department and further reviewed the reasons for resignations of senior staff attached to the Internal Audit Department. The Committee reviewed and evaluated the performance of the Head of Audit and the senior staff of the Internal Audit Department.

Report of the Board Audit Committee

Internal Controls

The Committee reviewed the effectiveness of the Bank's internal controls over financial reporting and other controls relating to core areas such as deposit accepting, credit approval, operations, compliance and risk management systems as required by the Banking Act Direction No. 11 of 2007 on Corporate Governance (Direction 3 (8) (ii) b.) based on the guidance for Directors of banks on the Directors' Statement of Internal Control issued by The Institute of Chartered Accountants of Sri Lanka (ICASL) in 2010. The Board's statement on the effectiveness of Bank's internal control mechanism as reviewed by the Committee, is published on page 184 to 185 of this Annual Report.

In accordance with Sri Lanka Standards on Assurance Engagements SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Control, an independent assurance report on the Bank's internal control mechanism was issued by the External Auditors and is reproduced on page 183 of this Annual Report.

A Whistle-blower Policy which was approved by the Board in 2012 is currently in place. Employees of the Bank confidentially raise concerns about possible improprieties in financial reporting, internal control or other matters. The investigations undertaken by the Internal Audit Division on whistle blower complaints are regularly reported to the Committee. The Committee reviews whether fair and independent investigations have been carried out on such matters. The Committee has also ensured that staff are duly apprised of and advised on the use of the whistle blower process.

Financial Reporting

The Committee reviewed and discussed with the Management as well as the External Auditors, the draft annual Financial Statements and the interim unaudited Financial Statements during the year focusing on the quality and relevance of accounting policies and practices, the going concern assumption, the clarity of disclosures and compliance with the required reporting standards, both financial and governance related. The draft

interim Financial Statements were reviewed by the internal audit before they were submitted to the Committee. The Committee recommended to the Board, the release of the Financial Statements of the Bank which conformed to the required standards and regulations.

The Committee recommended the reappointment of Messrs KPMG, Chartered Accountants as the Bank's External Auditors in respect of the year 2013 for audit services in accordance with the Policy on Hiring and Engagement of Auditors which is in compliance with the relevant statutes, Central Bank of Sri Lanka's Guidelines applicable to appointment of auditors and the principles set out in the Codes of Best Practices. The re-appointment was approved by the Shareholders at the Annual General Meeting held on 28th March 2013. The current audit partner of the Bank was engaged in the year 2009. The External Auditors have declared their independence and have confirmed that the audit is carried out in accordance with the Sri Lanka Accounting and Auditing Standards (SLFRS/LKAS).

Report of the Board Audit Committee

A policy on non-audit services is also in place which provides the necessary guidelines to the Committee to be considered prior to awarding such an assignment to an External Auditor.

External Audit

During meetings of the Committee with the External Auditors, Messrs KPMG, Chartered Accountants discussed the findings reported in their Management Letter for 2012; the external audit plan, viz. the scope, audit approach, methodology and procedures proposed to be adopted to carry out the internal audit for the year 2013 including the requirement to adopt the Sri Lanka Financial Reporting Standards (SLFRS/LKAS) complying with the IAS and the IFRS in all material respects. The members of the Audit Committee have also shared their understanding of the Bank's internal control mechanism and compliance, with the External Auditors.

The meeting of the Committee with the External Auditors without the presence of the executive management ensured that there was no limitation of scope or

incidents that could have a negative impact on the effectiveness of the external audit.

The Audit Committee reviewed the non-audit services provided by the External Auditors and was of the view that such services were not within the category of services identified as restricted under the Guidelines issued by the Central Bank of Sri Lanka for External Auditors relating to their statutory duties in terms of Section 39 of Banking Act No. 30 of 1988 and as amended by Banking Act No. 33 of 1995. The Committee is also guided by the Bank's Policy on non-audit services in this regard.

Governance

The Committee has ensured that good corporate governance was practised in conformity with the Banking Act Direction No. 11 of 2007 and subsequent amendments thereto (Central Bank Code of Corporate Governance for licensed commercial banks), the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance (2008) issued jointly by the SEC and ICASL. As required by Direction 3 (8) (ii) (g) of

the Banking Act Direction No. 11 of 2007, the External Auditors engaged in and issued a report based on the factual findings made by them on the compliance of the Bank with the Banking Act Directions on Corporate Governance.

Evaluation of the Board Audit Committee

The Board Audit Committee carried out a self-evaluation/appraisal of its performance and effectiveness during the year under review and submitted its self-assessment report to the members of the Board for their review and comments. The Board concurred that the Committee had carried out its responsibilities satisfactorily during the year.

Coralie Pietersz
Chairperson

26th February 2014

Report of the Board Human Resources and Remuneration Committee

The Board Human Resources and Remuneration Committee presents its report prepared in conformity with the Directions of the Banking Act Direction No. 11 of 2007 on Corporate Governance and the Code of Best Practice on Corporate Governance (2008) jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL).

Overall Objectives of the Board Human Resources and Remuneration Committee

The Board Human Resources and Remuneration Committee ('the Committee' or 'the BHRRC') was established with the objective of assisting the Board of Directors in fulfilling its role and responsibilities involving human resources and remuneration of the Directors and all employees of the Bank.

Composition of the Board Human Resources and Remuneration Committee

The Committee which was reconstituted due to change in directorate during the year, comprised 4 Independent Directors and one Non-Executive Director as

Members as at the end of the year, 2013. The Committee is chaired by Independent Director and Chairman of the Bank, Mr. Nihal Jayamanne PC. The other Members are Mr. Ishara Nanayakkara, Rear Admiral Ananda Peiris, Mr. Samantha Ranatunga and Ms. Coralie Pietersz. Company Secretary, Mrs. N.N. Najumudeen functions as the Secretary to the Committee.

The General Manager/Chief Executive Officer (GM/CEO) and Head of Human Resources attend the meetings on the invitation of the Committee and participate in the deliberations except when matters

of their own interest, performance and compensation are discussed.

Meetings

The Committee held 6 meetings during the year which included two special meetings. Resolutions by circulation were also passed on two occasions to decide on important issues on an urgent basis.

Decisions and minutes and/or papers on recommendations made by the Committee were circulated to the Board of Directors for concurrence or approval as appropriate.

Attendance of Members at Meetings during the Year

| Member of BHRRC | Eligible to Attend | Attendance |
|---|--------------------|------------|
| Mr. Nihal Jayamanne PC (Independent Non-Executive Director) - Chairman of the Committee | 6 | 6 |
| Mr. Lalith Withana (Independent Non-Executive Director) - former Member (resigned on 19.06.2013) | 3 | 3 |
| Rear Admiral Ananda Peiris (Independent Non-Executive Director) - Member | 6 | 5 |
| Mr. Samantha Ranatunga (Independent Non-Executive Director) - Member | 6 | 6 |
| Mr. Ishara Nanayakkara (Non-Executive Director) - Member (Appointed to the Committee w.e.f. 27.09.2013) | 2 | 1 |
| Ms. Coralie Pietersz (Independent Non-Executive Director) - Member (Appointed to the Committee w.e.f. 27.09.2013) | 2 | 2 |

Report of the Board Human Resources and Remuneration Committee

Terms of Reference and Scope of the Committee

The Committee reviewed and revised its Terms of Reference in 2012. The overall scope of the Committee is to review all significant human resource and remuneration policies of the Bank and to strategically direct the building of an effective and efficient human resource structure for the Bank.

The Board has vested upon the Committee, the power to evaluate, assess, decide and recommend to the Board of Directors matters that have an impact on the human resource management of the Bank, including determination of the remuneration policy that is fair, equitable and consistent to all staff including the Chief Executive Officer and Key Management Personnel of the Bank. The Committee exercises such authority within the scope of its approved Terms of Reference.

Remuneration Policy

The Remuneration Policy of the Bank aims to establish a formal and transparent procedure for determining remuneration, salaries, allowances and other financial

benefits and perquisites to Directors, the CEO, the Key Management Personnel and all other employees of the Bank.

The Policy aims for good corporate governance as well as sustained and long-term value creation for shareholders and ensures that the Bank's overall remuneration policy and practices are linked to the short-term and long-term strategic direction of the Bank. It aims to attract, motivate and retain qualified and competent persons (Directors as well as employees at all levels) to achieve its strategic and operational objectives.

Pursuant to the recommendation of the Committee, the Bank's Remuneration Policy was reviewed and revised and a comprehensive remuneration policy was adopted during the year. The policy was updated with the changes approved by the Board from time to time. It also aimed to conform with the Directions on Corporate Governance and the Principles of the Code of Best Practice on Corporate Governance (2008) issued jointly by the SEC and the ICASL. The main changes taken into consideration in

preparing the Remuneration Policy included the remuneration structure for both Executive and Non-Executive Directors; the guidelines issued by the Central Bank of Sri Lanka in recommending special payments to retiring directors; performance based bonus scheme for management, remuneration structure, benefits and allowances to staff in line with the Collective Agreement.

Aggregate remunerations paid to the Directors and to the Key Management Personnel are disclosed in Notes 48.6 to the Financial Statements.

Goals and Targets and Evaluation of Performance of Key Management Personnel

Goals and targets (Key Performance Indicators - [KPIs]) aligned with the Bank's approved budget for the year were set and agreed upon by the Key Management Personnel including the GM/CEO.

Performance Evaluation of Key Management Personnel

The Committee carried out an annual performance evaluation of the GM/CEO and Key Management Personnel against the agreed

Report of the Board Human Resources and Remuneration Committee

KPIs and determined the basis for revising the remuneration, benefits and other performance based incentives.

Other Key Initiatives during the Year

The Committee advised, guided and reviewed the progress/development and recommended/approved, as appropriate many human resources and remuneration initiatives including the following during the year:

1. Revision of staff salaries and allowances/benefits pursuant to the successful negotiations by the Management with the Employees' Unions.
2. Succession arrangements for key positions and other impending retiring positions.
3. Revision of the existing Employment Manual and Code of Conduct and the incorporation of the Code of Ethics to the said Employment Manual which paid attention to the requirements as per the Customer Charter and Policy on Related Party Transactions and Avoidance of Conflicts of Interests.

4. Adoption of a policy on Internship.
5. Adoption of a Policy on avoidance of discrimination and harassment.

Evaluation of the Committee

The Board Human Resources and Remuneration Committee carried out a self-appraisal of the performance/ effectiveness of the Committee and submitted a Self Assessment Report to the Members of the Board for review. The Board expressed its satisfaction that the Committee had carried out its responsibilities effectively during the year.



Nihal Jayamanne PC

Chairman
Board Human Resources and
Remuneration Committee

26th February 2014

Report of the Board Nomination Committee

The Board Nomination Committee presents its report prepared in conformity with the Directions of the Banking Act Direction No. 11 of 2007 on Corporate Governance and the Code of Best Practice on Corporate Governance (2008) jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL).

Overall Objectives of the Board Nomination Committee

The Board Nomination Committee (the Committee) was established by the Board of Directors with the primary objective of assisting the Board in fulfilling its role and responsibilities involving the appointment of Directors and Key Management Personnel of the Bank.

Composition of the Board Nomination Committee

The Committee which comprised five Non-Executive Directors at the beginning of the year was reconstituted during the year. Messrs Lalith Withana and Ajith Devasurendra resigned and Non-Executive Director/Deputy Chairman, Mr. Ishara Nanayakkara was appointed to the Committee.

As at 31st December 2013, the Committee comprised four Non-Executive Directors, three of whom were Independent Directors, namely, Rear Admiral Ananda Peiris (Chairman of the Committee), Mr. Nihal Jayamanne PC, Mr. Samantha Ranatunga and one Non-Executive Non-Independent Director, Mr. Ishara Nanayakkara. General Manager/CEO and Head of Human Resources attended the meetings of the Committee on invitation. Company Secretary, Mrs. N.N. Najumudeen functions as Secretary to the Board Nomination Committee.

Meetings of the Board Nomination Committee

The Committee held 5 meetings during the year whilst two Resolutions were passed by circulation to recommend the appointment of Messrs Kapila Jayawardena and Isuru Balapatabendi as Non-Executive Directors. Copies of the minutes of the meetings and reports on the recommendations and decisions of the Committee were submitted to the Board for perusal and consideration for concurrence/ approval of the decisions as appropriate.

Attendance of Members at Meetings During the Year

| Nomination Committee Member | Eligible to Attend | Attendance |
|--|--------------------|------------|
| Rear Admiral Ananda Peiris (Independent Non-Executive Director) - Chairman of the Committee | 5 | 4 |
| Mr. Nihal Jayamanne PC (Independent Non-Executive Director/Chairman) - Member | 5 | 5 |
| Mr. Ajith Devasurendra (Non-Executive Director) - former Member (resigned on 01.08.2013) | 3 | 1 |
| Mr. Samantha Ranatunga (Independent Non-Executive Director) - Member | 5 | 5 |
| Mr. Lalith Withana (Independent Non-Executive Director) - former Member (resigned on 19.06.2013) | 2 | 1 |
| Mr. Ishara Nanayakkara (Non-Executive Director/Deputy Chairman) - Member (appointed on 27.09.2013) | 1 | 1 |

Report of the Board Nomination Committee

Terms of Reference of the Board Nomination Committee

The terms of reference of the Committee which was last approved by the Board in March 2009 was reviewed and revised and the Board approved its adoption on 28th January 2013.

Scope of Work and Responsibilities of the Committee

The responsibilities carried out by the Committee within the scope and powers vested in it by the Board approved Terms of Reference which said responsibilities conformed with the Directions and Guidelines set out in the Banking Act Directions and Code of Best Practice principles on Corporate Governance are summarised below:

- The Board approved procedures in place are followed in the selection and appointment of new directors, the Chief Executive Officer and Key Management Personnel.
- The Committee has considered and recommended the re-election of Directors, taking into account the contribution made by the Directors concerned towards the overall discharge of

the Board's responsibilities.

The Committee as well as the Board recommended the re-election of Rear Admiral Ananda Peiris who is due to retire by rotation in terms of Article 82 and Mr. Kapila Jayawardena, Mr. Kumar Perera, Ms. Coralie Pietersz and Mr. Isuru Balapatabendi who are due to retire in terms of Article 89 of the Articles of Association of the Bank. The recommendations are subject to the approval of the shareholders at the Annual General Meeting.

- The Committee reviewed and recommended the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of Chief Executive Officer and Key Management Positions. The job descriptions of General Manager/CEO and the Key Management Personnel were reviewed during the year by the Committee and the process for setting and agreeing on the authority and responsibilities for the Board and for the Key Management Personnel was considered.

- The Committee has ensured that the Directors, CEO and the Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the Statutes. The Committee reviewed the fit and proper declarations of the Key Management Personnel who were appointed and/or designated as Key Management Personnel during the year. The fit and proper declarations of the Directors appointed during the year were reviewed by the Board prior to submitting them to the Central Bank for approval. The fit and proper declarations submitted annually by the continuing Directors were also reviewed by the Board and submitted to the Central Bank for approval prior to the Annual General Meeting (AGM). The Central Bank approved the continuation of the directorships of those Directors who held office as at the date of the AGM on 28th March 2013.

Report of the Board Nomination Committee

- Profiles of the Directors indicating their executive/non-executive status and independent/non-independent status; expertise in relevant functional areas and key positions held by them in other entities were disclosed to the Colombo Stock Exchange (CSE) at the time of announcing their appointment to the CSE. The announcements along with the profile were published in the CSE's website www.cse.lk for the information of the investors. Profiles of all Directors are also published in the Bank's website www.eseylan.com and in the Annual Report of the Bank.
- The Committee considered and recommended the requirements of additional/new expertise and the succession arrangements for Directors who resigned during the year. The Committee is guided by the Policy for appointment of new Directors to the Board. The Committee constantly

reviewed the adequacy of the succession arrangements for Key Management Personnel and approved the Succession Plan for Key Management Personnel at its meeting held in August 2013.

Evaluation of the Committee

The Board Nomination Committee carried out a self-assessment of the responsibilities carried out by the Committee and submitted its Self-Assessment Report for perusal of the Members of the Board who recorded their satisfaction of the Committee's performance during the year.



Rear Admiral B.A.J.G. Peiris
Chairman
Board Nomination Committee

26th February 2014

Report of the Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee ('BIRMC' or 'the Committee') operates in conformity with Section 3 (6) (i) of the Banking Act Direction No. 11 of 2007 on Corporate Governance.

This report explains the extent of compliance with Section 3 (6) (v) of the said Direction during 2013.

Overall Objective of the Board Integrated Risk Management Committee

The BIRMC has been vested by the Board of Directors of Seylan Bank PLC with responsibility to ensure that a robust and pervasive group-wide risk culture is established in the Bank and its subsidiary. The Committee ensures that an approved policy framework with defined procedures and systems for identifying, measuring, monitoring, controlling and reporting all risks affecting the Bank and its reputation and managing those risks within the Board's pre-approved prudential limits for risk appetite is implemented. The BIRMC uses this framework to assess all material risk exposures on a regular basis and reviews the expeditiousness and effectiveness of corrective actions taken by Senior Management under the leadership

of GM/CEO to resolve material risk exceptions, violations and concerns and improve the accountability of the officers responsible for their management.

Composition of the BIRMC

The Committee was reconstituted due to the change in directorate during the year and further to comply with the Banking Act Direction No. 3 (6) (v) on Corporate Governance, Key Management Personnel primarily responsible for originating and managing credit, market, liquidity, operational and strategic risks were included as members of the Committee.

As at 31st December 2013, the Committee comprised the following members:

| | |
|---|--------------------------------------|
| Mr. Samantha Ranatunga (Chairman of BIRMC) | Independent Non-Executive Director |
| Mr. Kapila Jayawardena | Non-Executive Director |
| Ms. Coralie Pietersz | Independent Non-Executive Director |
| Mr. Kumar Perera | Independent Non-Executive Director |
| Mr. Kapila Ariyaratne | General Manager/CEO |
| Mr. Christie Nanayakkara | Chief Risk Officer |
| Mr. Ramesh Jayasekara | Chief Financial Officer |
| Mr. Tissa Nanayakkara | Senior DGM - Retail Banking |
| Mr. S. Palilhawadana | DGM - Treasury |
| Mr. Nimal Tillekeratne | Senior DGM - Branches and Operations |
| Mr. K.D.W. Rohana | DGM - Branch Credit |
| Mrs. Shalini Perera | DGM - Corporate Banking |
| Mr. Ajith Perera | AGM - Compliance |

Mrs. N.N. Najumudeen, Company Secretary functions as the Secretary of the BIRMC.

Other members from the management including executives assisting CRO to manage credit risk, market risk and operational risk across the entire organisation and executives responsible for audit and Information Technology are invited to attend the meetings of the Committee as required.

Meetings of the BIRMC

The Committee met four times during 2013. The minutes of the Committee meetings were recorded by the Company Secretary and made available to the Board of Directors for their information and action/instructions where necessary. The Committee submitted regular reports to the Board assessing material risk, reporting progress

Report of the Board Integrated Risk Management Committee

in improving the implementation of the risk management policy framework, significant actions taken by officers and executive committees responsible for risk management and directions given by the Committee.

Directors who were members of the Committee and their level of attendance at the BIRMC meetings during the year is as follows:

| Director | Eligible to Attend | Attendance |
|---|--------------------|------------|
| Mr. Ajith Devasurendra (Non-Executive Director) - former Chairman of the Committee (resigned on 01.08.2013) | 2 | 2 |
| Mr. Lalith Withana (Independent Non-Executive Director) - former Member (resigned on 19.06.2013) | 1 | 1 |
| Mr. Mohan De Alwis (Non-Executive Director) - former Member (resigned on 20.12.2013) | 4 | 3 |
| Mr. Ishara Nanayakkara (Non-Executive Director) - former Member (functioned as Chairman/Member from 26.07.2013 to 27.09.2013) | 1 | 1 |
| Mr. Samantha Ranatunga - Present Chairman (appointed w.e.f. 26.07.2013 and as Chairman w.e.f. 27.09.2013) | 2 | 2 |
| Mr. Kapila Jayawardena - Member (appointed w.e.f. 27.09.2013) | 1 | 1 |
| Mr. Kumar Perera - Member (appointed w.e.f. 27.09.2013) | 1 | 1 |
| Ms. Coralie Pietersz - Member (appointed w.e.f. 27.09.2013) | 1 | 1 |

Activities of the BIRMC During 2013

In order to discharge its responsibilities the Committee carried out the following during 2013:

1. Reviewed Terms of Reference of BIRMC

The Board reviewed and improved the Terms of Reference of the Committee during the year in

accordance with best standards of corporate governance to address the current structure, scope and functions of the Committee including its responsibilities for reviewing the effectiveness of the Key Management Personnel and the three Executive Sub-Committees in undertaking their responsibilities for managing various risks as reported by CRO.

The responsibilities carried out by the Committee within its reviewed Terms of Reference and the Directions and Code on Corporate Governance are enumerated below:

2. Ensured the Independence and Effectiveness of the Integrated Risk Management Department

The Bank Independent Risk Management Department under the leadership of the Chief Risk Officer (CRO) is responsible for risk management across the entire Group. The Risk Management Department supports the CRO to bring to the attention of line management any situation that is of concern from a risk management perspective including those that could materially violate any risk appetite limits or guidelines. CRO

Report of the Board Integrated Risk Management Committee

and the department review the largest and most complex risks that the Bank is considering assuming and provide independent recommendations to the approving authority to approve or decline the business.

The Committee ensured that CRO and the Risk Management Department had the ability, resources, determination and assertiveness to influence key decision-makers in the Bank and held them accountable to further develop the robust risk culture embedded in the way that the Bank operates so that all members of staff understand the priority the bank gives to risk management. A comprehensive report on the activities of the Bank's risk management function is presented in pages 137 to 167 of this Annual Report.

3. Reviewed the Activities of the Compliance Function

One of the Bank's Key Management Personnel was been appointed as Compliance Officer during 2013 and is held accountable to ensure that the Bank complies with all laws, regulations and

regulatory guidelines in all aspects of its business and operations. The Compliance Officer reports the extent of compliance to the Board at their monthly meetings and brings any material exceptions to their attention together with time bound plans to correct them.

The Compliance Officer reports his activities and plans to the Committee at its quarterly meetings enabling the Committee to provide further direction and guidance.

4. Reviewed the Effectiveness of the Executive Risk Management Committees

The BIRMC reviewed the activities of the three Executive Sub-committees appointed by the BIRMC, namely the Asset Liability Management Committee, the Executive Credit Risk Management Committee and the Executive Market and Operational Risk Management Committee. These Sub-committees are required to assess all risks facing the Bank on a regular basis through appropriate risk indicators and management information and direct management accordingly. Following from these meetings CRO brought all material risks to the

attention of BIRMC together with his independent analysis and briefed BIRMC on the Executive Sub-committee's action plans. The BIRMC used this information to evaluate risk exposures and appetite and further guide management. The Committee additionally reviewed these Sub-committees' progress in further improving and implementing aspects of the risk management framework and policies for better management of risk.

5. Reviewed Actions taken to Improve Accountability of Officers who Failed to Identify Specific Risks or Take Prompt Effective Action to Correct Them

Specific incidents where officers assumed unacceptable risk or failed to identify risks which could result in material loss as highlighted by the Internal Audit Reports to the Bank Audit Committee and elsewhere together with CRO's interpretation of the underlying risk issues involved were reviewed by BIRMC which considered reports on actions taken to improve the accountability of officers to identify and better manage risks to prevent the recurrence of similar emerging

Report of the Board Integrated Risk Management Committee

or unidentified risks/incidents/losses or initiate early action to minimise their impact.

6. Reviewed the Effectiveness of Risk Reporting and Communications

The Committee provided guidance to management on improving the reporting and disclosure of risk to stakeholders during the year and recommended the new Risk Management Disclosure Policy to the Board for their approval. They also required Risk Management Department to improve communication of risk appetite and responsibilities so that officers at all levels in the Bank have a better understanding of the business the Bank wishes to attract and how to structure, secure, price and manage the banking facilities provided to such customers so that the Bank can improve its overall risk adjusted return on each relationship.

7. Reviewed Implementation of Integrated Risk Management Policy Framework and Systems

The Bank's External Auditor's independent evaluation of the Bank's level of compliance with the Banking Act Direction

No. 07 of 2011 together with management's planned actions and responsibilities for further implementation to eliminate identified gaps in the framework were reviewed by the Committee which monitored and followed up on management's progress in this regard. This included reviewing the improvement of existing risk-related policies, the addition of further policies and monitoring progress in implementing such policies.

8. Reviewed Actions Taken to Improve the Alignment of Risk to Capital Usage and Profitability

The Committee reviewed the Bank's plans to undertake an Internal Capital Adequacy Assessment Process (ICAAP), with the aid of an independent consultant. The ICAAP when completed during the first half of 2014 will enable the Board and BIRMC to monitor measures aggregating all the risks and better evaluate the sufficiency of risk-related capital and management systems to support measure and manage the risks in compliance with Banking Act Direction No. 05 of 2013.

9. Reviewed Credit Risk Management

- The Committee considered the effectiveness of Credit Policy and Procedures Development and Implementation and approved and oversaw the implementation of the greatly improved Credit Standards and Policy and Credit Procedure Manuals.
- During its meetings the BIRMC reviewed the diversification and quality of the Credit Portfolio, including the development of credit concentration exposures to business sectors, products and geographies in relation to the approved limits for risk appetite. They also reviewed the concentration of credit exposures to large borrowers and groups against Board approved maximum prudential levels and scrutinised other higher risk concentration exposures.
- The Committee studied and approved management's plans for upgrading the Bank's Credit Risk Rating system, adding further models, back-testing and revalidating existing models so

Report of the Board Integrated Risk Management Committee

that the ratings will better reflect the probability of default and can be more directly linked to pricing.

- BIRMC scrutinised summary reports received from the Credit Risk Review function and the manner in which the common material risk issues identified were communicated with the aim of ensuring that qualitative improvements across the lending portfolio are obtained.

10. Reviewed Market, Interest Rate and Liquidity Risk Management

The Committee reviewed material issues arising from:

- The Bank's exposure to Interest Rate Risk (IRR) including the IRR embedded in the Bank's holdings of Government Security Instruments.
- Consolidated market risk including foreign exchange, commodity and equity risk exposures compared with approved limits considering the impact of such risks on the Bank's capital, current and future profitability due to changes in market valuations.

- The Bank's exposure to Liquidity Risk and the reviewed updated Liquidity Management Policy and Contingency Funding Plan designed to improve the management of such risks, vis-à-vis the current position of the Bank.
- A revised and more comprehensive Market, Interest Rate and Liquidity Risk Management Policy was adopted-building market best practices into our framework. The new policy more clearly specifies responsibilities for ensuring compliance with Banking Act Direction No. 07 of 2011 and other relevant Directions. The Committee recommended the revised policy to the Board for its approval.
- The effectiveness of the Bank's Middle Office Management function in identifying all risks originating in and managed by the Bank's Treasury, making recommendations for improvement and compliance with the recommendations.

11. Reviewed Operational Risk Management

The Committee reviewed material risk issues arising from:

- The highest Key Operational Risks facing the Bank and measures taken to mitigate them.
- A scorecard of Bank-wide material operational risk indicators, considering quarterly comparison of the magnitude of various operational risk concerns compared with threshold limits.
- Material operational loss, incident and near miss reports.
- The effectiveness of the Bank's Business Continuity and Disaster Recovery plans and approved a time bound action plan to eliminate identified vulnerabilities and the remaining gaps between the requirements of the Bank's approved Business Continuity Policy taking into consideration the Central Bank Guidelines on Business Continuity Planning.

Report of the Board Integrated Risk Management Committee

- Operational Risk reviews and Risk and Control Self-Assessment processes to ensure the integrity of the operational risk and internal control management framework.

12. Reviewed Compliance Risk Management

The Committee reviewed material risk issues arising from:

- Compliance Policy Development and Implementation considering the Compliance Officer's Independent analysis of gaps in the implementation of regulatory requirements.
- The Compliance Officer's reports on Business and Branch understanding of their compliance obligations.
- Adoption of the Compliance Handbook which included important directions/determinations/guidelines and circulars of the Central Bank for the responsible officers to gain an understanding and confirm compliance with the required regulations on a regular basis.

13. Evaluated the Effectiveness of the Board Integrated Risk Management Committee

The members of the BIRMC carried out a self-assessment of the Committee's activities during the year and submitted their report to the members of the Board. The Board reviewed and expressed its satisfaction with the Committee's performance during the year 2013. The Committee will continue to guide and support further development of the Bank's risk management systems and ensure the effectiveness of the Bank's integrated risk management functions in the ensuing year.

Samantha Ranatunga

Chairman
Board Integrated Risk Management Committee

26th February 2014

Report of the Board Sustainability Committee

Composition of the Board Sustainability Committee

The present membership consequent to the reconstitution of the Committee during the year consists of Mr. Ishara Nanayakkara (Chairman of the Committee), Mr. R. Nadarajah, Mr. Samantha Ranatunga, Rear Admiral Ananda Peiris and Mr. Isuru Balapatabendi. The General Manager/CEO, Chief Financial Officer, Head of Marketing and other Management Members attend the meetings of the Committee on invitation. Company Secretary, Mrs. N.N. Najumudeen functions as the Secretary to the Committee.

Meetings of the Board Sustainability Committee

Three Meetings of the Board Sustainability Committee were held during the year 2013. Copies of the minutes of the meeting and any recommendations arising out of the minutes of the meetings were submitted to the Board for review and approval and/or concurrence as appropriate.

Scope and Responsibilities of the Board Credit Committee

The Committee is required to determine and review the overall Sustainability Policy of the Bank and ensure that it is current, relevant, effective and functions in line with the Sustainability Reporting Guidelines. It also ensures that the Bank's business principles, policies and activities meet and support sustainability criteria.

Sustainability Activities

The sustainability activities during the year were steered by the internally constituted management committees on Sustainability. The management committees were reconstituted during the year as one Executive Sustainability Committee headed by the General Manager/CEO.

Under the guidance of the Sustainability Committee, the Bank successfully carried out a model village project at Devamulla, Horana and also carried out several corporate social responsibility (CSR) activities with the involvement and contributions from staff members.

Messrs KPMG, Chartered Accountants were engaged by the Bank for assurance services relating to Sustainability Reporting who provided their assurance report in respect of the year (Refer Page 182).

Corporate Social Responsibility Activity - 2013-2016

Schools library projects at hundred schools was approved as the main CSR activity of the Bank for four years 2013-2016. Eleven library projects were completed during the year 2013.

Evaluation of the Committee

The Committee submitted its Self-Assessment Report to the members of the Board who recorded their satisfaction of the Committee's performance during the year.

Ishara Nanayakkara
Chairman
Board Sustainability Committee
26th February 2014

Report of the Board Credit Committee

Composition of the Board Credit Committee

The Committee was reconstituted during the year. Mr. Kumar Perera was appointed as an additional member to the Committee. Mr. Ajith Devasurendra and Mr. Mohan De Alwis (who was also the Chairman of the Committee) ceased to be members of the Committee consequent to their resignations from the Board during the year. The present members are Mr. Ishara Nanayakkara (Chairman), Mr. R. Nadarajah, Rear Admiral Ananda Peiris and Mr. Kumar Perera. The General Manager/CEO and senior management members supervising credit, credit monitoring and risk, attend the meeting by invitation. The Consultant Risk Management, Head of Recoveries and Head of Treasury too attend the meetings as observers.

Meetings of the Board Credit Committee

The Committee held 27 meetings during the year 2013 (32 meetings were held in 2012).

Recommendations of the

Committee are circulated to the Board seeking approval whilst copies of the confirmed minutes are tabled for the perusal of the Board at the monthly Board meetings. Directors abstain from voting on any resolution in which the Directors have related party interests or are interested by virtue of their directorships. The interested Directors are also not counted in the quorum for the relevant agenda item. Attendance of the Committee Members at the Meetings are as follows:

| Committee Member | Eligible to Attend | Attendance |
|---|--------------------|------------|
| Mr. Mohan De Alwis (Non-Executive Director) - former Chairman of the Committee (Resigned 20.12.2013) | 26 | 20 |
| Mr. R. Nadarajah (Executive Director) - Member | 27 | 26 |
| Mr. Ajith Devasurendra (Non-Executive Director) - former Member (Resigned 01.08.2013) | 15 | 6 |
| Mr. Ishara Nanayakkara (Non-Executive Director) - Chairman of the Committee (Appointed on 20.12.2013) | 27 | 18 |
| Rear Admiral Ananda Peiris (Independent Non-Executive Director) - Member | 27 | 22 |
| Mr. Kumar Perera (Independent Non-Executive Director) - Member | 7 | 7 |

Terms of Reference of the Board Credit Committee

The Terms of Reference of the Board Credit Committee was reviewed and revised during the year.

Scope and Responsibilities of the Board Credit Committee

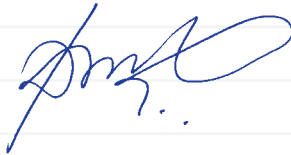
To improve the business and soundness of the Bank by promoting and reinforcing a robust and pervasive credit risk acceptance and management culture by:

Report of the Board Credit Committee

- a. Reviewing and where appropriate approving credit facilities or recommending them to the Board for approval.
- b. Guiding the Management to improve credit policies, procedures and lending guidelines and their implementation as well as processes for recoveries, empowerment and accountability for credit decision making,
- c. Supporting and reinforcing the independent role of Credit Risk Management and ensuring that it has the ability, determination and assertiveness to influence key credit decision-makers at all levels.

Evaluation of the Committee

The report on self-assessment of responsibilities carried out by the Board Credit Committee was submitted for perusal of the Members of the Board who recorded their satisfaction of the Committee's performance during the year.



Ishara Nanayakkara
Chairman
Board Credit Committee

26th February 2014

Report of the Board Marketing and Product Development Committee

Composition of the Board Marketing and Product Development Committee

The Committee which was reconstituted due to change in directorate during the year, presently comprises Mr. Samantha Ranatunga (Chairman of the Committee), Mr. R. Nadarajah and Mr. Nihal Jayamanne PC. General Manager/CEO, Head of Marketing, Chief Financial Officer and Head of Treasury are co-opted to the Committee. Heads of business units attend meetings of the Committee on invitation. Company Secretary, Mrs. N.N. Najumudeen functions as the Secretary to the Committee.

Meetings of the Marketing and Product Development Committee

The Marketing and Product Development Committee held 2 meetings during the year 2013. Whilst the Committee reviewed the overall marketing plan and progress of the marketing strategies at the said meetings, the members also approved by circular resolutions several marketing campaigns in line with the overall marketing plan.

Copies of the minutes of the meetings and resolutions passed by circulation are submitted

periodically for perusal of the Board. Recommendations arising out of the minutes of the Committee Meetings have been taken up at the Board meetings that followed the Committee Meetings for approval as deemed necessary.

Terms of Reference of the Board Marketing and Product Development Committee

The responsibilities of the Committee were reviewed and consequently, the Terms of Reference of the Committee was revised during the year. The scope of the Committee is to review the overall marketing plans of the Bank to ensure that the plans aim at optimising value creation for the Bank and support the strategic goals. The Committee is also required to ensure that the Bank is actively pursuing new product opportunities and developing viable products with the aim of achieving business growth.

Matters Reviewed and Recommended or Approved by the Committee during 2013 Included the Following:

- Approved the Marketing Plan for 2013 and reviewed its progress, growth/performance of the

different products approved as per the marketing plan and the campaigns undertaken during the year with indepth deliberations on competitor strategies, market share, banking sector spends, etc.

- Reviewed and approved the launch of new products and services and re-launch of continuing products in line with the overall marketing plan.
- Recommended the adoption of a communication policy.
- Recommended the Marketing strategy for 2014.

Evaluation of the Committee

The Self-Assessment Report of the Committee was submitted for the perusal of the Members of the Board who recorded their satisfaction of the Committee's performance during the year.



Samantha Ranatunga
Chairman
Board Marketing and Product
Development Committee

26th February 2014

Risk Management Report

1. Executive summary: Most Material and Emerging Risks to which our Business is Exposed

Seylan Bank operates in a dynamic and competitive economic environment. All our activities require us to accept, evaluate, mitigate and manage risks of various types. In 2013 we proved the effectiveness of our risk management capabilities which enabled us to quickly identify emerging risks and strengthen the Bank's resilience to shocks. We were thus able to minimise losses in our pawning portfolio caused by the impact of falling gold prices.

To ensure that we provide a comprehensive picture, this annual report provides meaningful qualitative and quantitative disclosures of the extent and nature of risk exposures of the Bank and the effectiveness of Seylan Bank's risk management practices as required by Banking Act Direction No. 07 of 2011 LKAS 32, 39 and SLFRS 7.

A description of the most material risks and emerging risks and their potential impact is provided below. Seylan Bank's strategies for managing these risks is described in

detail in the various sections of this report.

| Material Risks | Probability | Impact/Severity | Mitigating Technique |
|--|-------------|-----------------|--|
| Default of large counterparty/group | Low | High | Single borrower/prudential limits have been established and reviewed regularly |
| Systemic risk affecting overexposed Industry Sector | Medium | High | Risk appetite limits have been established. |
| Risk of non-recovery of data at a disaster situation | Low | High | Regular testing of disaster recovery capability. |
| Repeating of high risk audit findings | Low | Medium | Strengthening of internal controls |

During the year under review, we further reinforced our risk management resources bringing in qualified, experienced executives with the determination and status to meaningfully impact the largest and most complex risk management decisions and independently evaluate our risk management practices. We also engaged an overseas consultancy firm to build capabilities the Bank needed to develop and use a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) document as required by Pillar 2 of Basel II. This will enable us assess the effectiveness of our risk management framework and processes and align the Bank's risk

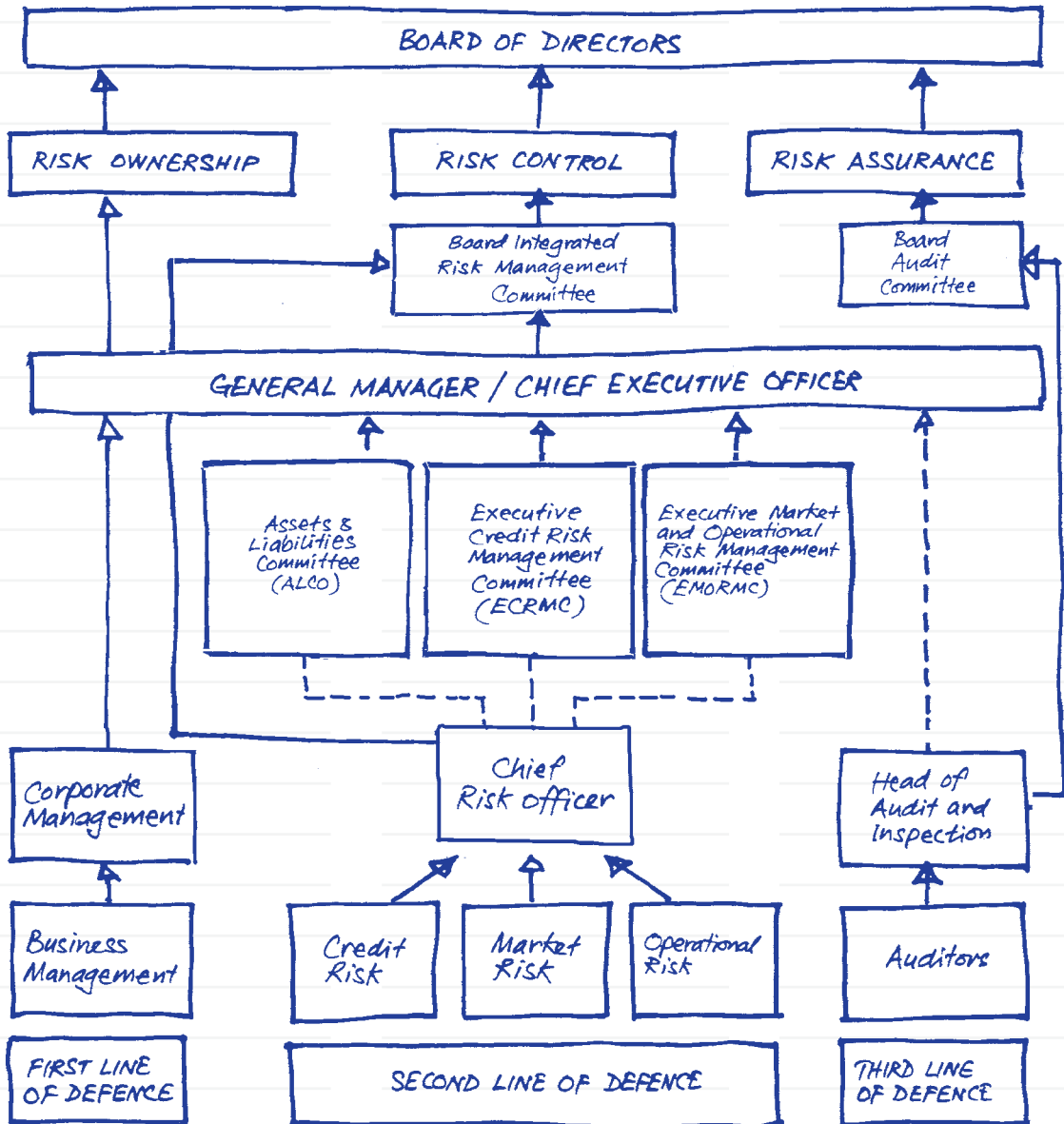
profile as impacted under stress with our capital planning and budgeting.

2. Integrated Risk Management and Governance Structure

Risk management in Seylan Bank comprises three lines of defence. Our General Manager/Chief Executive Officer has delegated responsibility for originating and managing all the risks to business managers within stipulated risk limits (1st line of defence). Risk management across the entire organisation has been assigned to a independent Chief Risk Officer (2nd line of defence). The internal and external audit provides the risk assurance (3rd line of defence).

Risk Management Report

Seylan Bank's Board has established two Board committees supported by three executive risk management committees to oversee risk management as shown on the following chart.



3. Risk Appetite, Strategy and Measurement Tools

Risk appetite is the amount of risk Seylan Bank is prepared to assume in pursuit of its Board approved corporate strategy and budget after considering its overall capital adequacy, liquidity and funding capacity. Risk appetite takes into account the Bank's desired growth and levels of return as well as the potential impact of all the risks on the levels of capital and profitability. Our risk appetite is grounded in the Bank's financials and our ability to handle a range of results that may occur in an uncertain economic environment.

– Within this risk appetite Seylan Bank's risk strategy aims to optimise returns on the capital we need to support our diversified businesses and Balance Sheet whilst maintaining risks within pre-determined prudential limits. These limits are designed to prevent excessive capital and earnings concentrations and thus minimise potential volatilities. Each limit takes account of the projected level of capital required and profit that is expected to be obtained from accepting the specified risk exposure.

As part of our annual budgetary process the Board Integrated Risk Management Committee reviews and affirms the risk appetite and strategy, as proposed by the managers of our businesses through our Chief Risk Officer, after assuring itself that management has comprehensively considered all the Bank's risks and has applied sufficient and appropriate processes and resources to manage those risks.

After the annual budget is approved Business Management and Chief Risk Officer ensures that our appetite and limits for specific risks are cascaded down from the Bank-wide level to the Bank's businesses, areas, branches and trading desks in the form of clear guidelines which will ensure that the business growth and related risks are aligned to the approved risk appetite and strategy.

– Chief Risk Officer identifies developing risks, unanticipated concentrations and other situations and makes recommendations regarding the continued appropriateness of the approved risk appetite, strategy and related limits during monthly meetings of the

Assets and Liabilities Management Committee and Executive Risk Management Committees. These Committees recommend any prudential changes to the Board Integrated Risk Management Committee. The Committees also review all risk exposures at business, portfolio and consolidated levels against the approved risk limits to assess whether the Bank is performing in line with its stated risk appetite and strategy and provide additional directions to management to mitigate risk where necessary.

This risk management committee system further entrenches our strong risk culture through peer group review and dialogue with business owners and through them communicate with branches and other units so that managers at all levels implement business development initiatives and control methods in line with the approved risk appetite.

When measuring the materiality of risk we consider both the probability of loss and the magnitude in the event of such losses in relation to the earnings we derive from the specific risk

Risk Management Report

exposure or activity which gives rise to such potential losses. Seylan Bank recognises that the quality of its risk information plays a central role in determining the quality of its business and uses this to build competitive advantage.

Chief Risk Officer with the support of the Integrated Risk Management Department has devised a comprehensive range of quantitative methodologies for capturing and measuring and managing all material risks in accordance with objective and consistent standards. Where it is not possible to adequately quantify risks qualitative measures and regular stress tests are used. Stress testing is also used to monitor our largest and most complex risks as this methodology provides a forward looking assessment of risk so that prompt action can be initiated at various risk levels and the implications factored into our capital planning.

Using these methods Chief Risk Officer requires all officers responsible for originating or managing risks to clearly identify both the 'gross' risk exposures arising from each activity and

the 'residual' risk exposures after mitigating actions have been taken. Chief Risk Officer provides an integrated view of risk by additionally identifying and assessing potential risk interactions across the entire Bank ensuring that they are understood and quantified by line management. After independently evaluating the material risks identified through these measures the exposures and the results of regular stress tests are reported to the Asset and Liability Management Committee and/or the Executive Risk Management Committees monthly. These committees initiate any corrective actions required and report on these material risks and the impact of measures taken to the Board Integrated Risk Management Committee.

The Bank's capital adequacy is assessed using the Basel II Pillar 1 standardised approach by calculating the risk-weighted asset equivalent of each risk type and allocating capital as per regulatory direction. Capital adequacy on this measure is disclosed quarterly with the Bank's Financial Position and Income Statement.

Capital Adequacy Ratio of the Bank

| | 2013 | 2012 | 2011 |
|---------|-------|-------|-------|
| Tier I | 14.58 | 14.36 | 14.22 |
| Tier II | 15.75 | 14.37 | 14.57 |

Apart from the provisions required by the regulations, additional provisions are made for defaults and events that could occur within near future resulting from credit and operational risks.

4. Credit Risk Management

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet an obligation under a contract. Credit Risk arises from direct lending, trade finance, guarantees, leasing business and credit cards and from the Bank's holdings of debt securities.

Credit risk management in Seylan Bank is designed to be a value enhancing activity rather than being confined only to regulatory compliance, we have therefore:

- i. Established a robust and pervasive credit risk culture and business enabling environment designed to ensure an optimal risk-reward payoff for the Bank;

Risk Management Report

- ii. Established clearly defined delegated limits of authority to empower corporate, business, area, branch, product and relationship managers to lend confidently, whilst responsibly managing the risks within their portfolios;
- iii. Ensured that these empowered managers understand the Bank's lending business development priorities, credit risk appetite and strategy so that they attract suitable customers and submit well evaluated credit proposals;
- iv. Focused on relationship banking so that we know and grow with our valued customers and deliver packages of credit facilities and other services appropriate to their value creating needs;
- v. Developed sound and well disciplined credit evaluation and granting processes;
- vi. Implemented and maintained strong credit administration, measurement and monitoring processes; and
- vii. Established credit risk management and independent credit risk review processes to ensure that the Bank's credit decision-making standards, credit processes, credit risk identification and reporting controls are functional and consistently applied throughout all the Bank's businesses so that we are not exposed to material unexpected or inadequately managed risks.
- The Credit Standards & Policy Manual and the Credit Procedure Manual outline the fundamental standards and disciplines that the Bank has implemented to actively manage credit risk across our lending book. These standards, policies and processes lay down the key roles and responsibilities of those required to originate, identify, analyse, rate, review, price, report, diversify, control/ mitigate and manage credit risks and are applicable to all lending activities undertaken by our Bank. Credit risk management functions independently but is in regular interaction with the business units so that emerging risks and the lessons learnt through our lending and recoveries experiences are used to continuously improve our policies and practices.
- In order to better manage the overall credit, liquidity and interest rate risk the Bank mainly focuses on self liquidating facilities with short to medium term maturities. As well as establishing lending limits for each individual borrower the Bank manages counterparty credit exposures using the 'one obligor principle', so that all facilities to a group of borrowers wholly or substantially owned or controlled by common or related parties are aggregated and evaluated together under the coordination of a designated Lead Relationship Manager.
- The Bank prevents excessive concentrations of credit risk in order to avoid large expected losses in the event of a predictable single or interconnected chain of stress scenarios and diversifies its income streams by establishing limits for credit exposure within the Bank's overall approved risk appetite. These include maximum limits for concentrations of large exposures, as well as for exposure to any one industry, lending product, country and financial institution. Risk Management Committees regularly review the exposure concentrations and quality of credit within each concentration, directing and following up the results of corrective action and monitoring the end results of such actions.

Risk Management Report

CRO and Credit Risk Management also identify and evaluate situations where various types of risks are correlated or where similar types of risks affect both the Bank and its borrowers compounding losses in the event of default, recommending additional limits or other controls where appropriate.

4.1 Assessment of Credit Risk

The Bank has delegated credit approval authority to individual lending officers based upon a consistent set of standards of experience, judgment and ability. The authority levels are subject to annual review. If an individual lending officer's authority is insufficient to establish, materially change or restructure the required credit limits, the proposal must be escalated to an officer or committee with the required higher delegated authority. Large credit proposals require the approval of the Bank's Board of Directors. All customer credit limits are subject to critical annual review and require approval at the appropriate authority level. Managers recommending, reviewing or approving facilities are held accountable for the outcome. This requires monitoring the use of the facility, identifying emerging

risks impacting the customer or the facility, ensuring that the facility or relationship returns the expected profitability and that the facility is repaid as agreed.

4.2 Credit Risk Management (CRM) and Credit Risk Review (CRR) Functions

The Bank's Integrated Risk Management Structure includes two credit functions, namely Credit Risk Management (CRM) and the Credit Risk Review (CRR).

All high value lending proposals and reviews are subject to independent critical examination by Credit Risk Management (CRM) to ascertain whether the risks have been fully identified and evaluated, they are in line with the Bank's lending guidelines and risk acceptance criteria, risks have been adequately mitigated and whether proposed credit exposures are at prudent levels. CRM either then recommends that the approving authority approves the proposal (with additional conditions if necessary) or declines it.

CRM also monitors credit concentrations against approved prudential exposure limits and the achievements of business and lending portfolio managers

in improving credit quality as measured by their success in minimising overdue/non-performing advances portfolios and submits regular reports to the Executive Credit Risk Management Committee recommending corrective action wherever required.

Credit Risk Review (CRR) independently reviews high value facilities within three months of disbursement and a minimum of 30% by value of the Bank's loan portfolio annually focusing on the approval, disbursement, relationship management and credit portfolio management processes and identifies instances of non-compliance with credit standards, policies, procedures and lending guidelines, if any. They identify emerging risks that have not earlier been evaluated and facilities where appropriate remedial action has not already been initiated. Based on this critical assessment, CRR makes recommendations designed to reduce the risk of default and minimise losses in the event of default. The lessons learnt from these reviews and recommended actions are referred to Risk Committees and circulated to all lending officers on a regular

Risk Management Report

basis leading to qualitative improvements across the Bank's lending portfolio.

| | 2013 % |
|------------------------------|-----------|
| Value of Loans Review by CRR | 35 |

A detailed risk assessment of the borrowing counterparties in a standardised and objective manner provides the underlying basis for all sound credit risk assessments. Accordingly, the Bank uses credit score cards 7 main grades and 17 internal rating scales for in-house assessment of the credit worthiness of our borrowers. The ratings are used to guide credit approval and renewal decisions and to measure improvements in the quality of our lending portfolio over time.

These credit risk rating models are regularly back tested and validated against clearly defined verifiable historic data in order to be compliant with Basel II and so that we can demonstrate that they have the capability of predicting the Probability of Default based on borrower specific and transaction specific criteria. The Bank has been using these risk rating models over the last five years and is presently upgrading the system introducing

and adding further models in response to changes in our lending portfolio and current market conditions.

4.3 Mitigation of Credit Risk

The Bank primarily relies on a rigorous assessment of credit applicants, the strength of their business model, sustainable financial condition and our ability to meet their value creating requirements before deciding whether or not to grant facilities. Lending proposals are normally required to evidence more than one independent credible source of repayment. The primary source is established through a conservative evaluation of whether the borrower's realistic projected cash flows will be sufficient to repay their debts. The Bank normally requires this to be supported by at least one alternative way of settling the debt in the event of unforeseen adverse circumstances but the availability of collateral does not in itself make an unacceptable lending proposition acceptable.

In instances where the Bank accommodates highly reputable and financially strong corporate borrowers whose performance is

regularly and rigorously reassessed on the basis of reliable financial information we exceptionally grant facilities on an unsecured basis.

The Bank uses various techniques and controls to limit and mitigate credit risk exposures and reduce potential credit losses. These include documenting credit transactions with adequate terms, conditions and covenants in a comprehensive and legally enforceable basis and obtaining of guarantee, financial or other collaterals to provide a secondary recourse to minimise credit losses. These guarantee collaterals serve to mitigate the inherent risk due to credit default and minimise any related losses by either substituting the borrower default risk or improving recoveries.

The Bank ensures that the collateral accepted for risk mitigation purposes is of high quality and supported by legally effective and enforceable documentation. Collateral assets are inspected, assessed and conservatively valued by experts on a frequent basis to ensure that the Bank has adequate comfort which can be readily realised in an eventuality. An evaluation of the

Risk Management Report

effectiveness and the realisability of collateral and whether this would be affected by a failure of the borrower's business forms a key part of the credit decision process.

Collateral impairment haircuts are applied to security valuations based on conservative and pre-determined Loan/Collateral ratios in compliance with the Banking Act Direction No. 03 of 2008 'Classification of Loans and Advances, Income Recognition and Provisioning'.

Non-Performing Advances* by Collateral Type

| Collateral Type (Secured by) | As at 31st December 2013 Rs. '000 | As at 31st December 2012 Rs. '000 |
|------------------------------|---|---|
| Cash/Shares/Pawned Articles | 527,530 | 409,046 |
| Immovable Property | 10,731,601 | 10,787,267 |
| Movable Assets | 618,382 | 556,597 |
| Pawned Articles | 500,140 | 157,422 |
| Other Securities | 2,301,666 | 2,743,890 |
| Clean | 1,740,374 | 3,949,393 |
| Grand Total | 16,419,693 | 18,603,615 |

* Excluding interest receivables.

4.4 Monitoring, Reporting and Disclosure of Credit Risk

Corporate, Business and Area Management are primarily responsible for monitoring the performance of their lending to ensure that the Bank's portfolio profitability and lending quality objectives are obtained.

Credit Risk Management uses a comprehensive range of quantitative tools and Bank-wide credit limits to monitor lending,

contingent commitments and other off Balance Sheet exposures, profitability, quality trends and concentrations and identifies whether the Bank is growing undue exposure concentrations and whether credit risks are adequately remunerated.

CRO reports these concentrations regularly together with his recommendations for corrective actions where needed to the ECRMC bringing material matters

to the attention of BIRMC. This rigorous process enables the Board of Directors to oversee the Bank's credit risk exposures ensuring that the Bank quickly identifies emerging risks and risks that are not aligned with the Board approved Credit Risk appetite and initiates timely corrective measures.

Below we present the qualitative and quantitative disclosures of credit risk of the Bank.

Risk Management Report

a. Qualitative Disclosures:

Definition of Past due and Impaired

A non-performing loan is any loan that is more than 90 days past due or is otherwise individually impaired (which represents those loans against which individual impairment provisions have been raised) and excludes:

- Loans re-negotiated before 90 days past due and on which no default in interest payments or loss of principal is expected
- Loans re-negotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since re-negotiation, and against which no loss of principal is expected.

'Impaired Loans' Comprise;

- Loans where an individual identified impairment allowance has been raised and also include loans which are fully collateralised or where indebtedness has already been written down to the expected realisable value. This category includes all retail loans that have been charged off to legal recovery. The impaired loan

category may include loans, which, while impaired, are still performing.

- The 'accruing past due 90 days or more' category comprises loans that are 90 days or more past due with respect to principal or interest. An impairment allowance will be raised against these loans if the expected cash flows discounted at the effective interest rate are less than the carrying value.
- The 'impaired and restructured loans' category comprises loans not included above where, for economic or legal reasons related to the debtor's financial difficulties, a concession has been granted to the debtor that would not otherwise be considered. Where the concession results in the expected cash flows discounted at the effective interest rate being less than the loan's carrying value, an impairment allowance will be raised.

Approach on Specific and Collective Loan Loss Provisioning:

- The Bank's loan loss provisions are established to recognise impairment losses incurred

either on specific loan assets or within a portfolio of loans and receivables.

- Impairment allowances may be assessed and created either for individually significant accounts or, on a collective basis, for groups of individually significant accounts for which no evidence of impairment has been individually identified or for high-volume groups of homogeneous loans that are not considered individually significant. Individually impaired loans are those loans against which individual impairment provisions have been raised.
- Estimating the amount and timing of future recoveries involves significant judgment, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market. Loan losses that have been incurred but have not been separately identified at the Balance Sheet date are determined on a portfolio basis, which takes into account past

Risk Management Report

loss experience as a result of uncertainties arising from the economic environment, and defaults based on portfolio trends. Under SLFRS/LKAS, impairment allowances are recognised where there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition, and where these events have had an impact on the estimated future cash flows of the financial asset or portfolio of financial assets. Impairment of loans and receivables is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If the carrying amount is less than the discounted cash flows, then no further allowance is necessary. Impairment allowances are measured individually for assets that are individually significant, and collectively where a portfolio comprises homogenous assets and where appropriate statistical techniques are available.

Credit Risk Concentrations with Limits:

The concentration risk can take many forms and can arise whenever a significant number of credits have similar risk characteristics. These concentrations occur when among other things, the Bank's advances portfolio contains a high level of direct or indirect exposures towards (a) a single counterparty (b) a group of connected counterparties (c) a particular industry or economic sector (d) a geographic region (e) an individual foreign country or group of countries whose economies are strongly interrelated (f) a type of credit facility or (g) a type of collateral. The concentration can occur in credits with the same maturity also.

Concentration risk is mitigated to a large extent by stipulating prudent credit risk limits on various parameters. CBSL also has specified certain guidelines on maximum exposures in respect of single/related party borrower limits and large exposures.

Related Party Lending:

Related parties include the major shareholders, subsidiaries, Directors and Key Management Personnel of the Bank. The Bank has ensured that credit decisions are made on a rational basis, as per the relevant legislation, approved policies and procedures and is based on market terms, with no preferential treatment.

Over Exposure to Geographical Areas, Economic Sectors and Lending Products:

Exposure to a single sector of the economy or lending product or to a narrow geographical region is another dimension of risk concentration. Borrowers may be vulnerable in the event of an economic or market downturn affecting their economic sector which in turn can affect their ability to service the loans and to mitigate this risk the Bank sets individual concentration limits for exposure to various sectors. The Bank closely monitors the quantum and quality of lending by geography (area) but is of the opinion that weaknesses in any local economy will not pose a particular risk for the foreseeable future.

Risk Management Report

b. Qualitative Disclosures:

i. Credit Exposure by Product Types as at 31st December 2013

The core banking products such as Term loans and overdrafts account for 68% of total advances. The specialised products are closely monitored to mitigate the inherent risks.

| Products | Total Gross Loans and Advances | |
|------------------------------|---------------------------------------|---------------------------------------|
| | Total as at 31.12.2013 Rs. '000 | Total as at 31.12.2012 Rs. '000 |
| Credit Cards | 2,551,355 | 2,196,981 |
| Housing | 8,682,549 | 9,054,892 |
| Leasing | 8,690,012 | 8,298,180 |
| Term Loans | 49,942,614 | 47,982,749 |
| Margin Trading | 1,835,792 | 1,773,048 |
| Overdrafts | 39,445,703 | 32,815,746 |
| Pawning | 14,370,126 | 17,477,083 |
| Staff loans | 3,882,440 | 3,360,235 |
| Trade finance related/others | 14,767,093 | 10,014,776 |
| Grand Total | 144,167,684 | 132,973,690 |

ii. The Geographical Distribution of the Advances Portfolio as at 31st December 2013

Based on the economic activity majority of expenses are in the Western Province though the Bank's branch net work is well spread throughout the country.

iii. Past Due and Impaired Portfolio by Product Distribution (Excluding Interest Receivables NPA Loans)

Age Analysis of NPA - 31st December 2013

| Loan Category | 3-6 Months Rs. '000 | 6-12 Months Rs. '000 | 12-18 Months Rs. '000 | 18 Months and above Rs. '000 | Total Rs. '000 |
|--------------------|---------------------------|----------------------------|-----------------------------|------------------------------------|-------------------|
| Credit cards | 64,523 | 72,874 | 49,470 | 263,848 | 450,716 |
| Housing | 505,305 | 181,326 | 97,986 | 345,569 | 1,130,186 |
| Leasing | 218,699 | 103,801 | 58,227 | 160,115 | 540,842 |
| Term loans | 1,498,756 | 976,686 | 685,550 | 6,849,798 | 10,010,790 |
| Margin trading | 12,015 | - | - | - | 12,015 |
| Overdrafts | 566,127 | 347,495 | 421,120 | 1,672,784 | 3,007,526 |
| Pawning | 778,294 | 56,062 | 18,798 | 38,818 | 891,972 |
| Staff Term loans | 24,563 | 2,761 | 14,732 | 10,626 | 52,682 |
| Trade finance | 247,821 | - | - | 75,144 | 322,965 |
| Grand Total | 3,916,103 | 1,741,005 | 1,345,883 | 9,416,702 | 16,419,693 |

Risk Management Report

iv. Industry Sector Wise Comparison

Analysis of Gross Loans and Receivables by Industry-wise

| Sector | As at 31.12.2013 Rs. '000 | As at 31.12.2012 Rs. '000 |
|------------------------------------|------------------------------|------------------------------|
| Agriculture and fishing | 9,700,856 | 8,228,873 |
| Manufacturing | 17,591,107 | 14,095,052 |
| Tourism | 2,935,262 | 2,998,320 |
| Transport | 9,745,576 | 4,015,801 |
| Construction | 23,565,578 | 22,750,169 |
| Traders | 31,133,378 | 20,543,369 |
| New economy | 685,835 | 1,225,554 |
| Financial and business services | 10,807,814 | 14,108,986 |
| Infrastructure | 1,473,710 | 828,295 |
| Other services | 8,509,410 | 4,528,757 |
| Credit card | 2,551,355 | 2,196,981 |
| Pawning | 14,370,126 | 17,477,083 |
| Other | 11,097,677 | 19,976,450 |
| Gross Loans and Receivables | 144,167,684 | 132,973,690 |

V. Spread of Credit Exposures Exceeding Rs. 500 Mn. in Comparison to the Total Advances Portfolio of the Bank

| | Rs. '000 | % |
|---------------------------------------|---------------------|---------------|
| Credit Exposure Exceeding Rs. 500 Mn. | 30,123,037 | 21.51 |
| Credit Exposure Less than Rs. 500 Mn. | 109,910,834 | 78.49 |
| Total Outstanding | 140,033,871* | 100.00 |

* Excluding interest receivables

Risk Management Report

5. Market Risk

Market risk is the risk of loss in earnings or capital impairment as a result of movement of market prices (such as interest, exchange rates, commodity and equity prices) on the value of the Bank's on and off Balance Sheet exposures.

Market Risks principally arise from:

- Trading portfolios as well as spot and forward positions of various asset classes and currencies held to take advantage of perceived speculative and arbitrage opportunities expose the Bank to market risk.
- Different re-pricing maturities and characteristics of the Bank's interest rate sensitive assets and liabilities expose the Bank to interest rate risk.
- The Bank's listed and unlisted equity investments held for strategic reasons are exposed to price volatility.
- Banking transactions for customers in various currencies exposes the Bank to the risk of volatility in foreign currency exchange rates.

- Failure of certain customers to settle their pawning obligations expose the Bank to price fluctuations on the unredeemed gold held as security.

Market and Interest Rate Risk Appetite and Liquidity Risk Tolerance

The Bank has defined the risk appetite for market and interest rate risk in terms of both volatility of earnings and the maintenance of adequate regulatory capital requirements under stress scenarios. We also define a risk appetite with respect to liquidity risk through prudential and regulatory limits.

The Bank carries out regular stress testing through sensitivity analysis which are used to assess the financial and management capability to continue operating effectively under plausible trading conditions. Our stress testing framework is designed to:

- Contribute to the setting and monitoring of risk appetite
- Identify key risks arising through market, interest rate and liquidity affecting our strategy and financial position
- Ensure effective governance, processes and systems are in place to co-ordinate and integrate stress testing.

Market Risk Management

The Market Risk Management Unit (MRMU) being part of the Integrated Risk Management Department ensures effective implementation of risk management policies and procedures in implementing market risk management effectively. The unit which has a direct reporting line to the CRO is also overseen by the specialised risk management committees; the EMORC and the ALCO and finally is accountable to the BIRMC.

MRMU is independent but coordinates their activities closely with the Bank's Finance Department, Treasury and other risk-taking units and has access to obtain information from the risk-taking and operational units in order to carry out the risk management and control functions. Being provided with adequate resources and competent personnel to perform its duties the MRMU is responsible in identifying, quantifying and evaluating the market, interest rate and liquidity risks faced by the Bank and to make practical and well reasoned recommendations to reduce, reward or manage them better, leading to timely and effective action by the managers responsible.

Risk Management Report

MRMU monitors, measures and analyses the market, interest rate and liquidity risk embedded in the Bank's business, Balance Sheet and Off-Balance Sheet contingencies and relates these to the levels of capital absorption and the returns obtained from accepting each category of risk. Based on this analysis MRMU interprets and communicates to ALCO the independent assessment of the material market, interest rate and liquidity risks faced by the Bank and recommend appropriate risk appetite, strategy and limits to

maintain such risks at prudential levels which commensurate with the Bank's overall business and budget strategies.

5.2 Foreign Exchange Risk

It is the risk that earnings or capital may be negatively affected from the fluctuation of exchange rates, due to transactions in foreign currency or from holding assets or debt in foreign currencies.

While maintaining a healthy net open position which was well within regulatory limits the Bank's risk in foreign currency exposures was minimal during the year.

Regulatory limits have been imposed for the maximum net open position exposure that each bank can maintain in the domestic banking unit. In the same manner the foreign currency exposure is regulated as a percentage (%) of total capital funds.

In this regard the Bank maintained an insignificant FX Exposure of less than 2% in regard to capital funds.

Foreign Exchange Position December 2013

| Currency | Spot | | | Forward | | | NOP Net Open Position | Overall Exposure | |
|---|--------|-------------|---------|---------|-------------|---------|-----------------------------|--|---|
| | Assets | Liabilities | Net | Assets | Liabilities | Net | | Overall Exposure in Respective in FCY | Overall Exposure in Sri Lanka Rupees (Rs. '000) |
| USD | 45,407 | 82,460 | -37,053 | 143,065 | 107,538 | 35,527 | -1,526 | -1,526 | -199,319 |
| GBP | 433 | 6,480 | -6,046 | 6,070 | 21 | 6,049 | 3 | 3 | 646 |
| EURO | 557 | 3,909 | -3,352 | 3,547 | 191 | 3,356 | 4 | 4 | 668 |
| JPY | 56,241 | 25,400 | 30,841 | 18,831 | 49,451 | -30,620 | 221 | 221 | 275 |
| AUD | 191 | 6,906 | -6,715 | 7,302 | 575 | 6,727 | 12 | 12 | 1,407 |
| CAD | 147 | 841 | -694 | 700 | 0 | 700 | 6 | 6 | 728 |
| Others | 1,016 | 351 | 665 | 125 | 210 | -85 | 580 | 580 | 18,577 |
| Total Exposure | | | | | | | | | -177,018 |
| Total Capital Funds as per Latest Audited Financial Statements | | | | | | | | | 21,761,618 |
| Total Exposure as a % of Total Capital Funds as per the Latest Audited Financial Statement | | | | | | | | | -0.81% |

Risk Management Report

During the year the USD/LKR depreciated 2.45% from an opening level of Rs. 127.65 and a closing level of Rs. 130.79 reaching highest and lowest levels of Rs. 133.20 and Rs. 125.35 respectively (Source: Bloomberg).

The Bank in most instances held a short position with a strategic view of gaining through the interest rate differential. The Bank believed that through the appreciation of the country's Balance of Payment the rupee to hold without much change and that the exchange rate would be maintained.

The Bank through ALCO; monitors foreign currency exposures closely and through regular sensitivity analysis keeps track on various changes that could take place due to fluctuations in foreign exchange rates and the impact on profitability. The Bank conducts regular stress testing on the NOP due to volatilities in the exchange rates. Shock levels of 1.5%, 2.5% and 3.5% are applied to the exchange rates to derive at the impact on profitability and capital. These analyses are closely monitored at ALCO.

A Sensitivity analysis on the USD equivalent net open position is presented in Page 227 to the Financial Statements.

5.3 Commodity Risk

Even though the Bank does not trade directly in commodities, it becomes exposed to market risk following pawning defaults until the gold held as security is sold at the prevailing market price.

The pawning advances of the Bank stood at Rs. 14.3 Bn. as on 31st December 2013, out of which Rs. 2.7 Bn. was overdue; this amounts to approximately 19% of the pawning portfolio. Of this overdue portfolio approximately 67% is secured by 22 karat gold.

The gold price (XAU Currency - \$/Oz) has fluctuated within approximately a 30% range during the year, reaching a highest level of \$ 1,693.75 and a lowest level of \$ 1,192 (Source: Bloomberg). Taking into consideration the extreme volatile conditions of the commodity prices the Bank constantly monitors the market value of the pawned portfolio taking necessary trigger actions

to minimise contingent and direct market risk as and when required. Regular auctions are held to dispose the overdue pawned articles. The commodity risk exposure of the remainder is partially mitigated by selling gold forward to foreign counter parties.

Given the systemic risk facing the banking industry as a result of falling and rapidly fluctuating gold prices the Bank has deliberately reduced its risk appetite to protect its future profitability and adopted many additional controls and techniques to reduce and better manage pawning risk. These include reducing the amount advanced to no more than 65% of the loan value and prevent pawning for purely speculative purposes even though these measures may lead to our Bank losing market share in this business. More stringent monitoring and follow-up mechanisms have been implemented Bank-wide to minimise any further losses as to limiting the level of gold stocks to be held for smelting at any given time and dispose immediately or enter into forward sales any excesses that are held with the Bank. We

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are confident that these measures will enable us to continue to serve our valued traditional pawning customers whilst improving the quality of our portfolio.

5.4 Equity Risk

At Seylan Bank we realise that there is a strong relationship between risk and return. The Bank trades or holds shares when it perceives that the risk can be diversified advantageously and produce higher risk related returns over the short to medium term in respect of trading and Available-for-Sale portfolios and higher longer term risk related returns in respect of its investment portfolio than by lending or assuming other types of risk.

The investments in shares are done through the Share Investment Committee that has been empowered and been given full directions to carry out share investments and trading activities within the appetite and guidelines laid out by the Board of Directors. The Committee convenes at least monthly and reviews the market trends and the performance of the Bank's equity portfolio.

There are certain strategies the Bank employs to mitigate the risk in stock trading, such as:

1. Mark To Market
2. Stop Loss Limits
3. Value at Risk Techniques
4. Portfolio Diversification

During the year the Bank opted to phase out on its share trading portfolio due to the poor market conditions and to cut down on further losses through marking to market.

The Bank's exposure in share investments (Net of impairment) is 2% of Capital Funds. Out of this, a mere 0.8% represents the trading investments while the investments in Available-for-Sale portfolio accounts for approximately 1.78% of the Capital Funds. The larger portion of unquoted Equities totalling to Rs. 2.3 Bn. Pertain to Prime Grameen Micro Finance Company, which has been fully provided in the Financial Statements.

The Share Portfolio Movement

The Bank through ALCO closely monitors the equity exposures in the trading and AFS portfolios.

BIRMC is appraised quarterly of a consolidated risk analysis of the exposures the bank holds due to publicly traded and privately held share investments.

Due to the vulnerability to losses which emanate through share trading, regular stress testing is carried where the bank applies shock levels of low, medium and high of 5%, 10% and 20% on the current market value. The ALCO is apprised of the impact on profitability and Capital that arise through these scenarios and management trigger actions are carried out to cut down on further losses as and when necessary.

A Sensitivity analysis on the equity portfolio is provided in page 227 to the Financial Statements.

5.5 Interest Rate Risk (IRR) Measurements

The Bank assumes IRR whenever it takes deposits, grants loans, makes investments or takes on interest rate sensitive contingent commitments which cannot be re-priced for contractual or practical reasons. The Bank's exposure to IRR impacts directly on the Bank's current year

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net interest income, while the long term impact will be on the Bank's equity since the net present value of Bank's assets, liabilities and Off-Balance Sheet exposures will impact the Bank's earning capacity in future years.

The Bank is exposed to IRR through trading activities that takes place as well as the banking activities such as bank lending, short-and long-term funding such as customer deposits and through and investment activities. The direct impact due to movements in interest rates would be on the Bank's net interest income, while the long-term impact will be on the Bank's equity since the economic value of Bank's assets, liabilities and Off-Balance Sheet exposures are affected.

The Bank manages re-pricing risk through the interest sensitive gap exposures. Here the re-pricing risk is assessed taking into consideration the interest sensitive assets and liabilities that get reprised at the same time based on assumed maturities or contractual maturities. The difference or the gap in these amounts exposes the Bank to an interest rate risk. The risk arising

through the re-pricing mismatches are used in assessing the impact on profitability of the Bank. Based on the outcome, the Bank takes measures to mitigate any possible adverse impact.

Interest Rate Risk

The Re-pricing Gap analysis of interest Sensitive Assets and Liabilities as of December 2013 is provided in Note 50 to the Financial Statements.

Going forward as a part of ICAAP, the Bank will implement the Modified Duration Gap analysis to measure IRR and to arrive at the Capital Charge in Economic Value of Equity (EVE) and on the Net Interest Income (NII).

The Bank's Net Interest Margin (NIM) is monitored by ALCO for variances and appropriate remedial action is taken. This initiative resulted in maintaining NIM at acceptable levels, which ensured that earnings of the Bank were within the expected levels.

Due to the magnitude of risk which is attached to the Government Security portfolios. The Bank constantly monitors the risk exposures of these portfolios, through regular stress testing and adopting methodologies such as the weighted duration analysis and the present value on factor sensitivity (PV01) of the portfolios to monitor and mitigate risk. These risk monitoring methods help in adopting management action triggers to be applied when adverse movements or trends are observed.

Sensitivity of the Government Security Trading Portfolio as at 31st December 2013

| Trading Portfolio | Rs. Mn. | |
|-----------------------------------|------------------------|---------------|
| Market Value of Trading Portfolio | 11,090 | |
| At Shock Levels of | Change in Market Value | Effect on NII |
| 200 basis points upward shift | 10,790 | -300 |
| 300 basis points upward shift | 10,643 | -447 |

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Liquidity Risk

Liquidity risk is the risk that the Bank cannot promptly fulfil its payment obligations due to unforeseen factors or be forced to borrow funds on unfavourable terms.

Liquidity risk could principally arise from:

- Failure to liquidate assets or obtain funding quickly enough to meet creditors' demands (this could occur if the Bank experiences extremely large unexpected fund outflows if counterparties refused to deal with the Bank).
- Inability to sell, unwind or offset specific exposures without significantly lowering prices (this could occur in the event of inadequate market depth or a breakdown of normal market conditions affecting the local banking industry).

There were no material changes to the Bank's policies and procedures in the management of liquidity and funding risks in 2013. The objective of our liquidity framework is to allow us to withstand severe liquidity stresses. It is designed to be adaptable to changing business concepts, market conditions and regulations.

The liquidity management framework requires liquidity to be managed by branches while complying with their limits for the advances to deposits ratio. The treasury manages liquidity of the Bank centrally without reliance on Central Bank. Treasury manages short-term liquidity risk through:

- Managing intraday liquidity needs
- Monitor interbank and Repo requirements and daily and short-term cash flow requirements
- Manage foreign currency liquidity and funding

The structural or longer-term liquidity risk is managed by ALCO which includes:

- Identify maturity liquidity mismatches
- Ensure a structurally sound Balance Sheet
- Have in place a diversified funding base
- Assess foreign currency liquidity exposures
- Establish liquidity risk appetite
- Ensure appropriate funds transfer pricing

ALCO also manages the contingency liquidity risk which includes:

- Monitor and manage liquidity early warning indicators
- Establish and maintain a contingency funding plan

The liquidity position of the Bank strengthened in 2013, as we continued to enjoy strong inflows of customer deposits and maintained good access to wholesale money markets. During 2013, customer deposits grew by 14%. While loans and advances to customers increased by 9% leading to a decrease in our advances to deposits ratio (ADR) to 86.15% from 90.63% in 2012.

The Bank constantly monitors the liquidity position through maturity gap reports which are based on assumed maturities as well as contractual maturities. The deviations from the threshold limits are adequately measured to arrest any unfavourable conditions. Contingency plans are in place to meet any unexpected liquidity shortages. These include committed borrowing and swap lines, for Rupee generation and through the maintenance of unencumbered approved securities to be used in

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borrowing through the Central Bank of Sri Lanka Reverse Repo window.

Maturity GAP Analysis of Assets and Liabilities (MAL)

The bank through ALCO monitors the maturity mis-matches of foreign currency assets and liabilities on assumed maturities which are based on assumptions given by the Central Bank of Sri Lanka. By this mechanism the Bank has a clear understanding of the short-and long-term funding needs and is able to adapt necessary strategies and contingencies to overcome any short falls in bridging these gaps.

Maturity Gap Analysis (FCY Denominated)

The Bank also adapts other stringent liquidity risk management methods such as monitoring liquidity through stock approach methods where limits have been established. While some of these approaches have been adapted thru CBSL guidelines other internal prudential limits have been adapted to monitor advances against stable funds, and against deposits plus long-term debt. Limits have also been established to monitor and regulate the funding needs through the internal and external funding concentrations.

Following are the daily ratio monitored by ALCO as at 31st December 2013:

ALCO and Balance Sheet Risk Management Measures

| Ratio | Limit | 31st December 2013 |
|--|------------|--------------------|
| 1 Statutory Liquid Assets Ratio - (DBU) | 21.00% | 26.74% |
| 2 Statutory Liquid Assets Ratio - (FCBU) | 21.00% | 25.93% |
| 3 Advances to Deposits Ratio - LCY | 97.50% | 87.15% |
| 4 Advances to Deposits Ratio - FCY | 97.50% | 72.64% |
| 5 Advances to Deposits Ratio - Bank | 97.50% | 86.14% |
| 6 Advance to Deposits+Debenture - Bank | 95.00% | 84.50% |
| 7 Advance to Stable Funds - Bank | 90.00% | 80.79% |
| 8 Swaps | USD 75 Mn. | USD 57 Mn. |
| 9 External Borrowing - (value in Rs.) | 14 Bn. | 10.54 |
| 9.1 - Borrowings LCY - (value in Rs.) | | 1.47 |
| 9.2 - Borrowings FCY - (value in Rs.) | | 9.07 |
| 10 Medium-Term Funding Ratio | 200% | 169.80% |

6. Operational Risk

Operational risk is the risk of loss or damage resulting from inadequate or failed internal processes, people and systems or from external events.

Operational risk is inherent in all our business activities, products, processes and systems. Operational risk can lead to losses arising from fraud, unauthorised activity, systems failure, inefficiency, error, omission as well as breaches in security, data integrity, laws and regulations. A hands on, forward looking approach to managing operational

risk permeates from the top in Seylan Bank so that we manage and control operational risk in a cost effective manner within risk tolerance levels approved by the Board.

Operational Risk Management Framework and Responsibilities

Specific business and functional heads bear primary responsibility for maintaining an acceptable level of operational control commensurate with the scale and nature of their operations. This requires identifying and assessing risks, designing and implementing controls and

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monitoring the effectiveness of those controls using the Risk Control Self Assessment (RCSA) process.

Chief Manager - Operational Risk Management is accountable to the Chief Risk Officer (CRO) for ensuring that all material operational risks of the Bank have been identified and officers have clearly delegated responsibilities for managing them. The Operational Risk Management (ORM) unit independently and critically reviews and challenges these activities using a number of tools and techniques including:

- Co-ordinating and evaluating the Risk Control Self Assessment process.
- Collecting and analysing internal loss, incident and near-miss data collection.
- Reviewing information risk and integrity.
- Evaluating the effectiveness of business continuity, disaster recovery and data recovery plans and independently assessing the business impact of disasters.

- Interpretation of material risks through operational risk reviews as well as those identified by regulators, External and Internal Auditors; assessing whether they are adequately managed or prompt effective action is taken to correct deficiencies.
- Establishing and reviewing Key Operational Risk Indicators.
- Independently reviewing the risks in new and significantly changed products and services.

After interpreting the data provided by the above, ORM prepare material operational risk assessments and scorecards. These enable CRO to evaluate whether all risks have been identified, measured, monitored, are adequately managed and controlled. He presents his assessment of the Bank's material operational risk exposures to the Executive Market and Operational Risk Management Committee (EMORMC) which gives directions on actions required reducing

the probability and impact of significant losses to levels in line with the Bank's risk tolerance.

Following this, CRO ensures that the Board Integrated Risk Management Committee (BIRMC) has sufficiently informed understanding of the material operational and information risks facing the Bank so that they can evaluate the effectiveness of the risk and control framework and the manner in which it is managed. BIRMC uses this to review and guide the establishment and adjustment of limits for operational risk tolerance.

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Operational Risk Dashboard as at 31st December 2013.

Operational Risk Console

| Risk | Risk Rating | Risk Analysis and Mitigation Actions Implemented in 2013 |
|--|-------------|--|
| Effectiveness of Operational Risk Policy | Low | <p>As part of its integrated risk management framework Seylan Bank follows a robust and comprehensive Operational Risk Management Policy which details the responsibilities and methodologies for identifying, assessing, mitigating, monitoring and managing all aspects and categories of operational risk and establishing risk appetite and tolerance. This has been supplemented by the implementation of the following policies and procedures:</p> <ul style="list-style-type: none"> • Corporate Information Security • Business Continuity Management • Incident and Near Miss Management • Fraud Risk Management • New and Significantly Changed Products and Services • Insurance Governance • Business Process Outsourcing • Risk and Control Self Assessment |
| Material losses arising from non-identification and assessment of operational risk | Low | <p>Risk and Control Self Assessment (RCSA) process is used to identify risk, assess the level of risk and the effectiveness of controls. RCSA includes bottom-up critical analysis of audit findings, review of loss data, incident and near miss reports, risk review meetings and learning from external events.</p> |
| Material risk arising from a poor operational control environment | Moderate | <p>The Bank has maintained a database covering the seven types of internal loss events to record the losses that have occurred across four broad business lines: Trading and Sales, Payments and Settlements, Retail Banking and Commercial Banking which is as required by Basel II since September 2011.</p> <p>Skimming of cards and pawning operational losses were the main areas of operational losses during 2013. Non-compliance with latest technology security requirements and staff negligence were identified as the causes for the skimming of credit cards and the pawning operational losses arising mainly from over-valuations and inaccurate assessments with other operational losses. The risk mitigation actions have been taken to strengthen the internal controls while improving the knowledge and abilities of the staff and disciplinary actions taken against the policy violators.</p> |

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| Risk | Risk Rating | Risk Analysis and Mitigation Actions Implemented in 2013 |
|--|-------------|--|
| Material risk of suffering significant losses from previously identified Key Operational Risks | Low | After reviewing the material operational risks identified the EMORC guided by CRO identifies the top ten Key Operational Risk Indicators (KORI) facing the Bank, directs action plans to mitigate the risks and uses these indicators to critically review residual risk exposures and plan implementation at each monthly meeting. |
| Material risk arising from uncontrollable, catastrophic and high severity loss events where normal risk control actions are inadequate or the lacking of expertise/resources to control the risks. | Moderate | <p>In order to fully mitigate or externalise these types of risk the Bank uses risk mitigation measures such as contingency planning, risk transfer through insurance, outsourced processes, business continuity planning arrangements etc. to contain the severity and/or impact of loss events as part of our integrated risk management solution.</p> <p>Insurance as a Means of Mitigating Operational Risk</p> <p>The Bank buys insurance to mitigate losses exceeding our risk tolerances arising from certain high impact, low frequency and uncontrollable risk events. Insurance is bought after undertaking due diligence tests to identify the capacity of insurance companies to honour possible claims in a stressed situation. The perils covered by insurance include:</p> <ul style="list-style-type: none"> • Damage due to fire and other natural disasters • Fraud and forgery • Errors and omissions • Hold up • Employee fidelity • Public liability <p>Contingency Planning to Handle Failure Situations</p> <p>The Bank undertakes regular awareness campaigns to educate all staff about the personal and physical risks which could arise from external uncontrollable events such as fire and hold ups. These are reinforced by drills and other exercises designed to test the readiness of the Bank and its staff to protect ourselves and respond appropriately in such situations and further improve our procedures.</p> <p>Business Continuity Planning and Risk Management</p> <p>We have established comprehensive and sound business continuity and disaster recovery plans to ensure that the Bank has the capability and resilience to handle failures, business disrupting events and maintain core banking/critical businesses, systems and essential customer services in the event of prolonged or widespread disruption. These plans are systematically reviewed, updated and are being rolled out among business units/branches.</p> |

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| Risk | Risk Rating | Risk Analysis and Mitigation Actions Implemented in 2013 |
|---|-----------------|---|
| <p>Risks affecting our information and technological infrastructure and protection and security of information</p> | <p>Moderate</p> | <p>Information Security and Risk Management The Bank has acquired and continuously updates its investment in best standard information security as part of its information risk management practices. We use sophisticated tools and techniques such as modern firewall technologies, intruder detection and prevention systems, computer-assisted audit/interrogation techniques to monitor data access security so that we can rapidly identify and respond to suspect information flows and intruder attacks.</p> <p>We continuously monitor systems changes to prevent vendor access to live systems and ensure that system changes/upgrades are not installed until their integrity has been thoroughly tested by responsible officers in order to protect Bank's complex information and communication infrastructure.</p> <p>The Bank has appointed a skilled Information Security Officer (ISO) to assist the CRO to ensure that the Bank's material information risks have been identified, reported and are being adequately managed.</p> |
| <p>Risk arises from making poor business decisions, from the substandard execution of decisions, from inadequate resource allocation, or from a failure to respond well to changes in the business environment.</p> | <p>Low</p> | <p>Strategic Risk Management The Bank has the well established four-year strategic plan (extended up to 2016) and will review and update annually. Corporate management and the Board take the responsibility to lead the Bank, while maintaining its vision and mission in order to minimise the failures at the business environment.</p> |
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Compliance Risk

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial losses or loss to reputation a bank may suffer as a result of its failures to comply with law, regulation, rule, related self-regulatory organisation standards and codes of conduct applicable to the banking activities.

Compliance has emphasised standards on integrity and honesty in a compliance policy approved by the Board of Directors.

The Bank has organised its compliance function to set priorities for the management of compliance risk in a way that it is consistent with our own risk management strategy and structure. It is independent and sufficiently sourced. Its responsibilities are clearly specified

and its activities are subjected to periodic and independent review by internal audit.

The Head of Compliance has the overall responsibility for co-ordinating the identification and management of the Bank's compliance risk and supervising the activities of other compliance staff. The professional skills of compliance function staff are kept updated with development in compliance laws, rules and standards.

Conformity to New Regulations Introduced During 2013

| Date Issued | Mandatory Regulations/Directions/Determinations | Bank's Present Status |
|-------------|---|-----------------------|
| 11.02.2013 | Preparation, Presentation and Publication of Annual Audited Accounts of banks | Complied |
| 14.02.2013 | Appointment of Licensed Commercial Banks as Primary Dealers | Complied |
| 04.04.2013 | Banking Act Direction 1 of 2013 on Exposure to Stock Market by Licensed Commercial Banks and Licensed Specialised Banks | Complied |
| 05.04.2013 | Definition of Liquid Assets under Section 86 of the Banking Act No. 30 of 1988, as Amended | Complied |
| 12.04.2013 | Banking Act Direction 3 of 2013 Amendments to Directions on Corporate Governance issued to Licensed Commercial Banks in Sri Lanka | Complied |
| 17.04.2013 | Exempting Foreign Borrowings of Licensed Commercial Banks from Regulatory Limits - Mandatory Lending to the Agriculture Sector | Complied |
| 22.04.2013 | Reserve Requirements - Minimum Daily Deposit | Complied |
| 07.06.2013 | Interest Rates on Credit Cards and other loans and advances | Complied |
| 26.06.2013 | Reserve Requirements | Complied |
| 26.07.2013 | Cap on Penal Interest Rates charged by Licensed Banks on Loans and Advances | Complied |
| 31.07.2013 | Banking Act Direction No. 5 of 2013 on Supervisory Review Process (Pillar 2 of Basel II) for Licensed Commercial Banks and Licensed Specialised Banks | On-going |
| 17.09.2013 | Publication of Financial Statements and other Disclosures on the Websites | Complied |
| 08.11.2013 | Misleading and Unethical Advertisements | Complied |
| 05.12.2013 | Definition of Liquid Assets under Section 86 of the Banking Act No. 30 of 1988 | Complied |

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7. Management of Other Risks

Reputation Risk

Reputation risk arises from the negative effects of public opinion, customer opinion and market reputation, and the damage caused to brands by failing to manage public relations.

During the year, the Bank implemented a comprehensive Customer Grievance Handling Policy, as part of its Reputation Risk Management efforts. Customers have a range of options through which they can forward their grievances to the Bank, including a public help line that is manned 24x7. Further, a dedicated senior officer was appointed to

record and co-ordinate all issues pertaining to customer relations promptly, while significant customer or public grievances are formally submitted for appropriate action by Corporate Management and review by BRMC.

Reputation risk management and mitigation aspects are also embedded within the Bank's policies and procedures such as the product policy, as well as during training programme and through the Audit and Board Risk Management Committees.

Internal Capital Adequacy Assessment Process (ICAAP)

The aim of the Internal Capital Adequacy Assessment Process

(ICAAP) under Basel II Pillar 2 is to ensure that financial institutions have adequate risk management procedures, processes and sufficient capital to commensurate with their risk profiles, and moreover calls for a greater use of stress-testing by financial institutions to capture and understand the consequences of the current economic environment uncertainties. We believe that this process will add stability and value to our Bank and provide security to our shareholders, capital providers and clients. The Bank has complied its 2012 ICAAP report and will forward it to CBSL shortly.

8. Material Integrated Risk Profile and Stress Testing

Comparison of Exposure with Risk Policy Parameters

| | Risk Parameter | Goal | Actual Position as at 31.12.2013 | Compliance |
|----------------------------------|--|-----------|----------------------------------|---|
| Credit Risk Criteria | | | | |
| Quality of the Lending Portfolio | Gross NPL Ratio | 10% | 12.44% | Not achieved Reduced from 15.25% to 12.44% |
| | Net NPA Ratio (Net of IIS & CBSL Provisions) | 8% | 8.45% | Not achieved Reduced from 10.44% to 8.45% |
| | Open Credit Exposure | 60% | 54.5.31 | Complied |
| Concentration | Large Exposures (Over Rs. 500 Mn.) to core Capital | 2.5 times | 1.43 | Complied |
| | Related Party Lending to Total Lending | 5% | 3.4% | Complied |
| | Present Market Value of Gold Pawned to Total Pawning Portfolio | 100% | 108% | Complied |

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| | Risk Parameter | Goal | Actual Position as at 31.12.2013 | Compliance |
|---|---|-------------------------|-------------------------------------|------------|
| Market Risk Criteria | | | | |
| Interest Rate Risk | Re-pricing Gaps | Desired (Times) RSA/RSL | | Complied |
| Liquidity Risk | Overall Statutory Liquid Assets Ratio | 21% | 26.69% | Complied |
| | Net Advances to Deposits Ratio | 97.50% | 86.14% | Complied |
| FX Risk | Net Open position | US\$ 6.0 Mn. | US\$1.526 Mn. | Complied |
| Capital Adequacy Ratio | Tier I | 5% | 14.58% | Complied |
| | Tier II | 10% | 15.75% | Complied |
| Operational Risk Criteria | | | | |
| Overall | Operational Loss Tolerance Limit (Total loss value as a percentage of last three years average gross income) | Desired maximum of 1% | 0.60% | Complied |
| Internal Fraud | Acts of a type intended to defraud, misappropriate property or circumvent regulations etc. | Desired below 0.50 % | 0.0% | Complied |
| External Fraud | Acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party | Desired below 1.0% | 0.11% | Complied |
| Employment Practices and Workplace Safety | Acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events | Desired below 0.10% | Nil | Complied |
| Clients, Products and Business Practices | Unintentional or negligent failure to meet a professional obligation to specific clients etc. | Desired below 0.10% | Nil | Complied |
| Damage to Physical Assets | Loss or damage to physical assets from natural disasters or other events | Desired below 0.25% | 0.0% | Complied |
| Business Disruption and System Failures | Disruption of business or system failure | Desired below 0.25% | 0.0% | Complied |
| Execution Delivery and process Management | Failed transactions processing or process management | Desired below 5.0% | 0.49% | Complied |
| | | | | |
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| | | | | |

Risk Management Report

9. Key Initiatives in Respect of Risk Management in 2013

During the year under review, Bank engaged an overseas consultancy firm to develop a comprehensive Internal Capital Adequacy Assessment Process. We also back tested our Credit Rating Modules to upgrade the rating system. Entire policy framework was reviewed and all the risk management policies required by the regulator were formulated and obtained approval of the Board of Directors. Bank extended its Business Continuity Planning and Disaster Recovery Capabilities covering most of the business units.

10. Future Outlook of Bank's Risk Management

| Initiative | Action Planned |
|---|---|
| Implementation of an Anti-Money Laundering (AML) System | Implementation of an AML system to better address financial crime and detect patterns of wrongdoing over time across accounts. |
| Formalisation of Internal Capital Adequacy Assessment Process (ICAAP) | Development of the Bank's 2013 ICAAP to address the various risks and how they were covered by the Bank. |
| Development of requisite Basel II infrastructure in new credit system | Implement Basel II Advanced IRB approaches for credit portfolio covering corporate, SME and retail pooling. Integration of risk-based pricing for individual credit facilities. |
| Development of stress testing capabilities in ALM System | Focus on enhancing liquidity and interest rate risk monitoring capabilities for better management and allocation of capital. |
| Development of requisite Basel II for Operational Risk | Alternate standardised approach for operational risk calculations to be adopted. |

Risk Management Report

Capital Adequacy Computation - Bank

Computation of Risk Weighted Assets - Credit Risk

| | On Balance Sheet Assets and Credit Equivalent of off Balance Sheet Assets | | Risk-Weight Factor % | Risk - Weighted Assets | |
|--|---|--------------------|----------------------------|---------------------------|--------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | | 2013 Rs. '000 | 2012 Rs. '000 |
| Assets | | | | | |
| Claims on Government of Sri Lanka and Central Bank of Sri Lanka | 58,074,813 | 38,979,344 | 0 | - | - |
| Claims on Banks | 2,754,118 | 1,644,218 | 20 - 150 | 1,495,819 | 1,121,085 |
| Claims on Financial Institutions | 5,433,461 | 6,032,769 | 20 - 150 | 3,816,552 | 4,513,961 |
| Claims on Corporates | 39,157,591 | 30,490,691 | 20 - 150 | 39,008,050 | 30,261,109 |
| Retail Claims | 42,805,976 | 37,031,343 | 75 - 100 | 35,245,503 | 30,117,468 |
| Claims Secured by Residential Property | 10,171,318 | 10,625,725 | 50 - 100 | 5,275,542 | 5,555,670 |
| Non-performing Assets (NPAs) | 11,998,400 | 13,597,425 | 50 - 150 | 16,926,404 | 19,158,605 |
| Cash Items | 4,920,645 | 6,290,654 | 0 - 20 | 54,098 | 80,641 |
| Property, Plant & Equipment, Other Fixed Assets | 2,935,415 | 2,430,403 | 100 | 2,935,415 | 2,430,403 |
| Other Assets | 7,568,280 | 8,625,355 | 100 | 7,568,280 | 8,625,355 |
| Total | 185,820,017 | 155,747,927 | | 112,325,663 | 101,864,297 |

Off Balance Sheet Exposure

| | Off Balance Sheet Assets | | Credit Conversion Factor % | Credit Equivalent | |
|---|-----------------------------|-------------------|-------------------------------------|----------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | | 2013 Rs. '000 | 2012 Rs. '000 |
| Instruments | | | | | |
| Direct Credit Substitutes | 482,843 | 233,460 | 100 | 482,843 | 233,460 |
| Transaction-Related Contingencies | 7,762,512 | 7,197,451 | 50 | 3,881,256 | 3,598,727 |
| Short-Term Self-Liquidating Trade-Related Contingencies | 7,125,193 | 5,846,831 | 20 | 1,425,040 | 1,169,366 |
| Other Commitments with an Original Maturity of up to one year or which can be Unconditionally Cancelled at any time | 14,171,411 | 12,503,531 | 0 | - | - |
| Foreign Exchange Contracts | 70,579,646 | 31,273,976 | 0 - 5 | 1,411,593 | 629,298 |
| Total | 100,121,605 | 57,055,249 | | 7,200,732 | 5,630,851 |

* The Off Balance Sheet Exposure is included in the Risk-Weighted Assets.

Risk Management Report

Capital Charge for Market Risk

| | 2013 Rs. '000 | 2012 Rs. '000 |
|---|------------------|------------------|
| Capital Charge for Interest Rate Risk | 251,242 | 102,108 |
| Capital Charge for Equity | 66,834 | 105,584 |
| Capital Charge for Foreign Exchanges & Gold | 21,115 | 39,329 |
| Total Capital Charge for Market Risk | 339,191 | 247,021 |
| Total Risk-Weighted Assets Market Risk | 3,391,910 | 2,470,210 |

Capital Charge for Operational Risk

| | 2013 Rs. '000 | 2012 Rs. '000 |
|---|------------------|------------------|
| Gross Income | | |
| Year 1 | 10,391,604 | 11,503,470 |
| Year 2 | 11,540,732 | 10,449,273 |
| Year 3 | 12,869,950 | 11,025,696 |
| Average Gross Income | 11,600,762 | 10,992,813 |
| Total Capital Charge for Operational Risk - (15%) | 1,740,114 | 1,648,922 |
| Total Risk-Weighted Assets Operational Risk | 17,401,143 | 16,489,220 |

Risk Management Report

Computation of Capital

| | 2013 Rs. '000 | 2012 Rs. '000 |
|--|------------------|------------------|
| TIER I: Core Capital | | |
| Paid-up Ordinary Shares/Common Stock/Assigned Capital/Stated Capital | 10,529,724 | 10,225,452 |
| Statutory Reserves | 841,964 | 724,905 |
| Published Retained Prof ts/(Accumulated Losses) | 6,433,420 | 5,907,627 |
| General and Other Reserves | 2,528,867 | 1,251,900 |
| LESS: | | |
| Net Deferred Tax Assets | 170,590 | 253,171 |
| Other Intangible Assets | 141,134 | 202,354 |
| 50% Investments in the Capital of Other Banks and Financial Institutions | 616,825 | 302,842 |
| Total Eligible Core Capital (TIER I Capital) | 19,405,426 | 17,351,517 |
| TIER II: Supplementary Capital | | |
| Revaluation Reserves (As approved by Central Bank of Sri Lanka) | 48,827 | 48,827 |
| Approved Subordinated Term Debt | 2,126,113 | 266,736 |
| LESS: | | |
| 50% Investments in the Capital of Other Banks and Financial Institutions | 616,825 | 302,842 |
| Total Eligible Supplementary Capital (TIER II Capital) | 1,558,115 | 12,721 |
| Total Capital Base | 20,963,541 | 17,364,238 |

Risk Management Report

Computations of Ratios

| | 2013 Rs. '000 | 2012 Rs. '000 |
|--|--------------------|--------------------|
| Total Risk-Weighted Assets (RWA) | | |
| Total Risk-Weighted Assets for Credit Risk | 112,325,663 | 101,864,297 |
| Total Risk-Weighted Assets Market Risk | 3,391,910 | 2,470,210 |
| Total Risk-Weighted Assets Operational Risk | 17,401,143 | 16,489,220 |
| Sub Total | 133,118,716 | 120,823,727 |
| Minimum Capital Charge | | |
| Minimum Capital Charge for Credit Risk | 11,232,566 | 10,186,430 |
| Minimum Capital Charge for Market Risk | 339,191 | 247,021 |
| Minimum Capital Charge for Operational Risk | 1,740,114 | 1,648,922 |
| Sub Total | 13,311,871 | 12,082,373 |
| Total Capital available to meet the Capital Charge for Credit Risk | | |
| Total Eligible Core Capital (TIER I Capital) | 19,405,426 | 17,351,517 |
| Total Eligible Supplementary Capital (TIER II Capital) | 1,558,115 | 12,721 |
| Total Capital Base | 20,963,541 | 17,364,238 |
| Core Capital Ratio (Minimum Requirement 5%) | | |
| Total Eligible Core Capital (TIER I Capital) | 19,405,426 | 17,351,517 |
| Total Risk-Weighted Assets | 133,118,716 | 120,823,727 |
| | 14.58% | 14.36% |
| Total Capital Ratio (Minimum Requirement 10%) | | |
| Total Capital Base | 20,963,541 | 17,364,238 |
| Total Risk-Weighted Assets | 133,118,716 | 120,823,727 |
| | 15.75% | 14.37% |



Financial Calendar - Page 170

Report of the Board of Directors of Seylan Bank PLC on the State of Affairs of the Company for the Year 2013 - Page 171

Annexure to the Report of the Board of Directors on the State of Affairs of the Company - Page 179

Sustainability Assurance Report - Page 182

Auditors' Report on Internal Control - Page 183

Directors' Statement on Internal Control - Page 184

Statement of Directors' Responsibility for Financial Reporting - Page 186

Chief Executive Officer's and Chief Financial Officer's Responsibility Statement - Page 187

Independent Auditors' Report - Page 188

Income Statement - Page 189

Statement of Comprehensive Income - Page 190

Statement of Financial Position - Page 191

Statement of Changes in Equity - Page 192

Cash Flow Statement - Page 196

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Financial Calendar

Financial Calendar - 2013

| Financial Statements | Released to the Colombo Stock Exchange (CSE) on | Published in the Newspapers on |
|---|--|--------------------------------|
| Interim (Unaudited) Financial Statements | | |
| 4th Quarter/Year ended 31st December 2012 | 28th February 2013 | |
| 1st Quarter/Three months ended 31st March 2013 | 2nd May 2013 | 13th May 2013 |
| 2nd Quarter/Six months ended 30th June 2013 | 29th July 2013 | 5th August 2013 |
| 3rd Quarter/Nine months ended 30th September 2013 | 31st October 2013 | 8th November 2013 |
| Final Audited Financial Statements | | |
| Year ended 31st December 2012 and Annual Report - 2012 | Issued to the CSE on 5th March 2013 | |
| | Circulated to the Shareholders - March 2013 | |
| | Circulated to the Debenture Holders - April 2013 | |
| 26th Annual General Meeting: | Held on 28th March 2013 | |
| First and Final Ordinary Dividend for the year ended 31st December 2012 paid on: | 9th April 2013 | |

Proposed Financial Calendar - 2014

| | |
|--|--------------------|
| Unaudited Financial Statements 4th Quarter/Year ended 31st December 2013 - Released to the CSE | 26th February 2014 |
| Final Audited Financial Statements - Year ended 31st December 2013 and Annual Report - 2013 - Released to the CSE and circulated to the Shareholders/Debenture Holders (including Notice of Annual General Meeting to the Shareholders) | March 2014 |
| 27th Annual General Meeting (AGM) | 31st March 2014 |
| First and Final Ordinary Dividend payable for the year ended 31st December 2013 (subject to approval of the shareholders at the AGM*) | 9th April 2014* |
| Interim (unaudited) Financial Statements in respect of the four quarters of 2014 will be released/published as per the Rules of the Colombo Stock Exchange | |

Report of the Board of Directors of Seylan Bank PLC on the State of Affairs of the Company for the Year 2013

The Directors of Seylan Bank PLC ('the Board' or 'the Directors') present their Report on the state of affairs of Seylan Bank PLC ('the Bank' or 'the Company') together with the Audited Financial Statements of the Bank and the Consolidated Financial Statements of the Group for the financial year ended 31st December 2013 and the Auditor's Report on those Financial Statements.

This Report hereinafter will also be referred to as 'this Report', 'Report of the Directors' or 'Report of the Board of Directors.'

The Financial Statements and the disclosures made herein conform to the requirements of the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 (as amended) and the Directions issued by the Monetary Board under the Banking Act. The Report also includes relevant disclosures required to be made under the Banking Act Directions, Listing Rules of the Colombo Stock Exchange and is guided by the recommended best practices on accounting and corporate governance.

The Audited Financial Statements were reviewed and approved by the Board of Directors on 26th February 2014.

Seylan Bank PLC

Seylan Bank PLC is a public limited liability company incorporated in Sri Lanka on 28th August 1987 under the Companies Act No. 17 of 1982. The Bank was re-registered as required under the provisions of the Companies Act No. 07 of 2007 on 30th May 2007. The registered office and the head office of the Bank is at 'Seylan Towers', No. 90, Galle Road, Colombo 03.

The Bank has been listed on the Colombo Stock Exchange since January 1989. The Bank's ordinary shares (both voting and

non-voting) and the majority of its unsecured subordinated redeemable debentures are listed in the Colombo Stock Exchange. Fitch Ratings Lanka Limited has affirmed the Bank's National Long-Term Rating at A-(lka) with a stable outlook and has affirmed the Bank's senior unsecured debentures at A-(lka) whilst assigning a BBB+(lka) for its subordinated debt.

Vision and Mission and Corporate Conduct

The Bank's Vision and Mission Statements are given on page 2 of this Annual Report.

The Bank conducts its business activities at a high level of ethical standard in achieving its vision and mission. The Board of Directors of the Bank as well as its employees have pledged to abide by and comply with the respective Codes of Conduct and Ethics.

Principal Activities

There were no significant changes in the nature of the principle activities of the Bank and the Group during the financial year under review.

The principal activities of the Bank during the year 2013 were, commercial banking and provision of related financial services which include acceptance of deposits, personal banking, trade financing, offshore banking, resident and non-resident foreign currency operations, travel-related services, corporate and retail credit, margin trading, pawn broking, project financing, lease financing, rural credit, credit card facilities, money remittance services, dealing in Government Securities and Treasury related products, etc.

Seylan Developments PLC

Subsidiary of the Bank, Seylan Developments PLC is a public limited liability company listed on the Colombo Stock Exchange. The principle activities of Seylan Developments PLC are property development/management. The Bank held a 52.37% stake in Seylan Developments PLC as at 31st December 2013.

Branch Network

As at 31st December 2013, the Bank's branch network consisted of 151 branches and 86 student savings centres. Four new branches were opened at Pitakotte, Akkaraipattu, Godagama, Dummalasooriya whilst branches at Kegalle, Tissamaharama, Matugama, Soysapura, Yakkala and Mawathagama were relocated during the year.

Review of Performance in 2013 and Future Development Plans

The Chairman's Message, the Chief Executive Officer's Review and the Management Discussion and Analysis published in this Annual Report provide an overall assessment and review of the Bank's operations and financial performance during the year 2013 and they also speak about the future development plans of the Bank.

Financial Statements

The Audited Financial Statements of the Bank and the Group for the financial year ended 31st December 2013 certified by the Chief Financial Officer and the General Manager/Chief Executive Officer and signed by two Directors in terms of Sections 151, 152 and 168 (l) (b) of the Companies Act No. 07 of 2007 as published in this Annual Report form an integral part of this Report.

Report of the Board of Directors of Seylan Bank PLC on the State of Affairs of the Company for the Year 2013

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Bank to reflect a true and fair view of its state of affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Companies Act No. 07 of 2007, the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 (as amended), the Listing Rules of the Colombo Stock Exchange and Banking Act Direction No. 11 of 2007 (as amended) and the directions and guidelines thereto.

The Statement of Directors' Responsibility for Financial Reporting which appear on page 186 of this Annual Report, form an integral part of this Report of the Directors.

Auditors' Report

The Auditors of the Company Messrs KPMG, Chartered Accountants have carried out the audit of the Consolidated Financial Statements for the financial year ended 31st December 2013 and their Report on the Financial Statements appear on page 188 of this Annual Report.

Significant Accounting Policies

The significant accounting policies adopted in the preparation of the Financial Statements are given on pages 199 to 230 in this Annual Report.

Financial Reporting

The Bank has adopted Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards (SLFRS/LKAS) in the preparation of the Financial Statements. Consequently, the

necessary quantifications and disclosures have also been made based on SLFRS/LKAS.

Financial Results Income

The income of the Bank and income of the Group as at the end of the year 2013 is given in the table below. An analysis of the income is given in the Notes to the Financial Statements published in this Annual Report:

| Income | 2013 | | 2012 (Restated) | |
|-----------------------|-----------------|------------------|-----------------|------------------|
| | Bank Rs. Bn. | Group Rs. Bn. | Bank Rs. Bn. | Group Rs. Bn. |
| Gross Income (Note 6) | 28.091 | 28.146 | 23.726 | 23.791 |
| Operating Income | 12.870 | 12.943 | 11.541 | 11.619 |

Profit and Appropriations

A summary of the consolidated financial Results of the operations of the Group during the year ended 31st December 2013 is given below:

| | 2013 Rs. '000 | 2012 Rs. '000 (Restated) |
|---|------------------|--------------------------------|
| Profit before Taxation | 3,496,491 | 3,234,852 |
| Less: Taxation | 1,144,446 | 1,144,202 |
| Profit after Taxation | 2,352,045 | 2,090,650 |
| Attributable to Non-Controlling Interest | 25,897 | 16,066 |
| Net Profit Attributable to Equity Holders | 2,326,148 | 2,074,584 |
| Retained Profit Brought Forward after Dividends | 5,383,493 | 4,580,867 |
| Profit Available for Appropriation | 7,709,641 | 6,655,451 |
| Adjustments/Transfer to Reserve Fund | (115,777) | (107,092) |
| Other Transfers/Adjustments | (446,275) | (486,788) |
| Balance Carried Forward | 7,147,589 | 6,061,571 |

Taxation

Provision for taxation has been computed as indicated in Note 15 to the Financial Statements.

Capital Expenditure

The total capital expenditure incurred on the acquisition of Property, Plant and Equipment of the Bank and the Group during the year is given on the next page, details of which are given in the Notes 29, 30 and 32 to the Financial Statements. Capital expenditure approved and contracted for after the year ended 31st December 2013 is also given in Note 46 to the Financial Statements.

Report of the Board of Directors of Seylan Bank PLC on the State of Affairs of the Company for the Year 2013

Property, Plant & Equipment, Leasehold Rights and Intangible Assets

The details of the Property, Plant and Equipment are given in Notes 29, 30 and 32 to the Financial Statements.

Acquisition of Property, Plant & Equipment, Leasehold Rights and Intangible Assets

| BANK | | GROUP | |
|----------------|----------|----------------|----------|
| 2013 | 2012 | 2013 | 2012 |
| Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| 657,040 | 393,845 | 672,102 | 397,749 |

Freehold Properties

The net book value of freehold properties owned by the Bank and the Group as at the end of the financial year are given below:

| BANK | | GROUP | |
|------------------|-----------|------------------|-----------|
| 2013 | 2012 | 2013 | 2012 |
| Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| 1,764,594 | 1,458,136 | 3,330,733 | 2,092,265 |

All freehold land and buildings of the Bank were valued by professionally qualified independent valuers/panel of Chartered Valuers/Licensed Surveyors in 2013 and brought into the Financial Statements. Details of freehold properties owned by the Bank are given in Note 29.5 to the Financial Statements.

Donations

During the year, the Bank made donations amounting to Rs. 221,000/- (Donations made in 2012 amounted to Rs. 1,653,000/-).

Recommendation of Ordinary Dividend and Solvency Certification

The Directors have recommended the payment of a First and Final Ordinary Dividend of Rs. 2.25 per share to the ordinary voting and ordinary non-voting shareholders for the year ended 31st December 2013, payable on

9th April 2014 subject to the approval of the shareholders at the Annual General Meeting of the Bank. The Bank paid a First and Final Ordinary Dividend of Rs. 2.00 per share for the year 2012 on 9th April 2013 which consisted of Rs. 1.00 per share in cash and Rs. 1.00 per share in the form of a scrip issue (allotment of new shares).

The Directors are satisfied that the Bank would meet the solvency test in terms of the provisions of the Companies Act No. 07 of 2007 immediately after the proposed dividend. Board has obtained a Certificate of Solvency from the External Auditors, pursuant to providing the Statements of Solvency in respect of the proposed dividend payment.

Reserves

Total reserves (including Statutory Reserve Fund) as at the end of the financial year, are as follows:

| BANK | | GROUP | |
|-------------------|------------|-------------------|------------|
| 2013 | 2012 | 2013 | 2012 |
| Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| | (Restated) | | (Restated) |
| 11,231,894 | 8,626,385 | 12,129,861 | 9,163,799 |

Stated Capital

The stated capital of the Bank increased from Rs. 10,225,452,609/- to Rs. 10,529,724,017/- consequent to the issue of scrip dividend (allotment of new shares) on 28th March 2013.

The shareholding of the Bank is given in the table below:

| | 2013 | 2012 |
|----------------------------|--------------------|-------------|
| Ordinary Voting Shares | 175,977,401 | 173,333,333 |
| Ordinary Non-Voting Shares | 168,983,009 | 164,746,666 |

Shareholdings

As at 31st December 2013, the number of registered shareholders of the Bank included 9,889 ordinary voting shareholders and 8,866 ordinary non-voting shareholders. The public holding as at 31st December 2013 as per the Rules of the Colombo Stock Exchange is as follows:

| | Shareholders | Shares | % |
|----------------------------|--------------|-------------|-------|
| Ordinary Voting Shares | 9,882 | 108,308,812 | 61.55 |
| Ordinary Non-Voting Shares | 8,863 | 111,380,510 | 65.91 |

An analysis of the distribution of shareholdings and lists of twenty largest ordinary voting and ordinary non-voting shareholders of the Bank are provided on pages 313 to 315 of this Annual Report.

Debt Capital

As at 31st December 2013, the Bank had issued debentures (both quoted and unquoted) to the value of Rs. 3,095,565,000/- (2012 - Rs. 1,168,115,000/-).

Particulars of the quoted debentures as at 31st December 2013 are given on page 316 of this Annual Report.

Redemption of Debentures

Unlisted (Private Placement) Debentures

725,500 unsecured subordinated redeemable five-year debentures of Rs. 100/- each amounting to Rs. 72,550,000/- issued under a Private Placement of Debentures in 2008 matured and were redeemed during the year.

Report of the Board of Directors of Seylan Bank PLC on the State of Affairs of the Company for the Year 2013

Debenture Issue 2013-2018

The Bank proceeded with a public (listed) issue of 10,000,000 unsecured subordinated redeemable five-year debentures (the Debentures) of the par value of Rs. 100/- each aggregating to the value of Rs. 1,000,000,000/- with an option to issue a further 10,000,000 of the said debentures in the event of an oversubscription. The Issue was oversubscribed and 20,000,000 debentures of Rs. 100/- each were allotted to the successful investors on 22nd February 2013. Details of these debentures are given on page 316.

Investors' Information

Information including earnings, profitability, dividend, net assets and market value per share is given under Financial Highlights of this Annual Report. Information pertaining to share prices and debenture prices is given in this Annual Report on pages 315 and 316.

Equitable Treatment of Shareholders

The Bank has at all times ensured the equitable treatment of its shareholders.

Directorate

Changes in Directorate during 2013

| Name of Director | Appointments | Resignations |
|------------------------|--|--------------------|
| Mr. P.M.M. Pieris, PC | | 15th January 2013 |
| Mr. N.M. Jayamanne, PC | as Chairman of the Bank with effect from 17th January 2013 | |
| Mr. I.C. Nanayakkara | as Deputy Chairman with effect from 17th January 2013 | |
| Mr. P. Kudabalage | | 29th March 2013 |
| Mr. P.L.P. Withana | | 19th June 2013 |
| Mr. A.L. Devasurendra | | 1st August 2013 |
| Mr. W.D.K. Jayawardena | 1st August 2013 | |
| Mr. P.L.S.K. Perera | 23rd September 2013 | |
| Ms. M.C. Pietersz | 23rd September 2013 | |
| Mr. H.I. Balapatabendi | 27th November 2013 | |
| Mr. A.M.M. De Alwis | | 20th December 2013 |

Names of the Directors who held office as at 31st December 2013 are given below:

| Name of Director | Status as at 31st December 2013 |
|------------------------------|------------------------------------|
| Mr. N.M. Jayamanne PC | Independent Non-Executive/Chairman |
| Mr. I.C. Nanayakkara | Non-Executive/Deputy Chairman |
| Mr. R. Nadarajah | Executive |
| Rear Admiral B.A.J.G. Peiris | Independent Non-Executive |
| Mr. S.P.S. Ranatunga | Independent Non-Executive |
| Mr. W.D.K. Jayawardena | Non-Executive |
| Mr. P.L.S.K. Perera | Independent Non-Executive |
| Ms. M.C. Pietersz | Independent Non-Executive |
| Mr. H.I. Balapatabendi | Non-Executive |

The profiles of the Board of Directors are given on pages 79 to 83 of this Annual Report.

All Non-Executive Directors have submitted signed declarations confirming their independent/non-independent status in compliance with Rules 7.10.2 and 7.10.4 of the Colombo Stock Exchange Rules of Corporate Governance.

Signed Affidavits and Declarations in terms of Section 42 of the Banking Act (as amended) have also been submitted by the Directors confirming their 'fit and proper' status to hold/continue in office as Directors of the Bank.

Recommendations for Re-Election of Directors

In terms of Article 82 of the Articles of Association, Rear Admiral B.A.J.G. Peiris retires by rotation at the Annual General Meeting of the Bank and offers himself for re-election pursuant to the Board Nomination Committee and the Board of Directors evaluating and recommending his re-election as a Director.

In terms of Article 89 of the Articles of Association, Mr. W.D.K. Jayawardena, Mr. P.L.S.K. Perera, Ms. M.C. Pietersz and Mr. H.I. Balapatabendi retire by rotation at the Annual General Meeting of the Bank and offer themselves for re-election pursuant to the Board Nomination Committee and the Board of Directors evaluating and recommending their re-election as Directors.

Meetings of the Board of Directors

Twelve regular monthly meetings and three special meetings were held during the year. The special meetings were held to consider and decide on important and urgent issues. A schedule of Directors' attendance at Board Meetings and at Board Sub-committee Meetings is appended to the Corporate Governance Report on pages 113 to 115.

Report of the Board of Directors of Seylan Bank PLC on the State of Affairs of the Company for the Year 2013

Board Sub-Committees

The following Board Sub-committees were functional as at 31st December 2013.

Board Audit Committee

Members:

Ms. M.C. Pietersz (*Chairperson*)
Mr. N.M. Jayamanne PC
Mr. S.P.S. Ranatunga
Mr. P.L.S.K. Perera
Mr. H.I. Balapatabendi

Board Integrated Risk Management Committee

Members:

Mr. S.P.S. Ranatunga (*Chairman*)
Ms. M.C. Pietersz
Mr. P.L.S.K. Perera
Mr. W.D.K. Jayawardena

Board HR & Remuneration Committee

Members:

Mr. N.M. Jayamanne PC (*Chairman*)
Rear Admiral B.A.J.G. Peiris
Mr. S.P.S. Ranatunga
Mr. I.C. Nanayakkara
Ms. M.C. Pietersz

Board Nomination Committee

Members:

Rear Admiral B.A.J.G. Peiris (*Chairman*)
Mr. N.M. Jayamanne PC
Mr. S.P.S. Ranatunga
Mr. I.C. Nanayakkara

Board Credit Committee

Members:

Mr. I.C. Nanayakkara (*Chairman*)
Mr. R. Nadarajah
Rear Admiral B.A.J.G. Peiris
Mr. P.L.S.K. Perera

Board Sustainability Committee

Members:

Mr. I.C. Nanayakkara (*Chairman*)
Mr. R. Nadarajah
Mr. S.P.S. Ranatunga
Rear Admiral B.A.J.G. Peiris
Mr. H.I. Balapatabendi

Board Marketing & Product Development Committee

Members:

M. S.P.S. Ranatunga (*Chairman*)
Mr. N.M. Jayamanne PC
Mr. R. Nadarajah

The Members of the aforementioned Board Sub-Committees have presented their respective self-assessment/evaluation reports to the Board and the Board of Directors have concurred and expressed their satisfaction of each of the Committees' activities and performance during 2013.

Reports of these Board Sub-Committees are published on pages 116 to 136 of this Annual Report.

Directors - Seylan Developments PLC

The Board of Directors of the Subsidiary, Seylan Developments PLC as at 31st December 2013 comprised six Non-Executive Directors, namely, Messrs R. Nadarajah (*Chairman*), S. Palihawadana (*Deputy Chairman*), P. Saravanapavan, Dr. P.M. Gunasekera, K.P. Ariyaratne and R.J. Jayasekara. Mr. P. Saravanapavan and Dr. P.M. Gunasekera are Independent Non-Executive Directors.

Directors' Interest Register

The Directors have declared their interests in contracts to the Board of Directors from time to time in accordance with Section 192 (2) of the Companies Act No. 07 of 2007 and had refrained from voting on matters in which they were materially interested. The declarations of disclosures (if any) are reported to the Board at the meeting that ensue such declarations. All such disclosures made have been duly recorded in the Directors' Interest Register.

Transactions arising out of the disclosures made are given in the Note 49.1 to the Audited Financial Statements. A list of directorships held by the Directors and their substantial shareholdings including public listed (quoted) companies as at 31st December 2013 is provided in the annexure to this Report.

Report of the Board of Directors of Seylan Bank PLC on the State of Affairs of the Company for the Year 2013

Directors' Interest in Shares and Debentures of the Bank

Directors' holdings in shares and debentures of the Bank as at 31st December 2013 are given below:

| Name of Director | 31.12.2013 | 31.12.2012 | Shares/Debentures |
|--|------------|------------|---|
| Mr. N.M. Jayamanne PC | 5,583 | 5,500 | Ordinary Voting Shares |
| | 50,000 | Nil | Debentures 2013-2018 - Annual Interest |
| | 50,000 | Nil | Debentures 2013-2018-Semi-Annual Interest |
| Mr. I.C. Nanayakkara | Nil | Nil | |
| Mr. R. Nadarajah | 13,600 | 13,333 | Ordinary Voting Shares |
| | 10,000 | Nil | Debentures 2013-2018 - Annual Interest |
| | 5,000 | Nil | Debentures 2013-2018 - Semi-Annual Interest |
| | 25,000 | Nil | Debentures 2013-2018 - Monthly Interest |
| Rear Admiral B.A.J.G. Peiris | Nil | Nil | |
| Mr. S.P.S. Ranatunga | Nil | Nil | |
| Mr. W.D.K. Jayawardena | Nil | N/A | |
| Ms. M.C. Pietersz | Nil | N/A | |
| Mr. P.L.S.K. Perera | Nil | N/A | |
| Mr. H.I. Balapatabendi | Nil | N/A | |
| Percentage Shareholding of Directors: | | | |
| Ordinary Voting Shares | 0.011% | 0.024% | |
| Ordinary Non-Voting Shares | Nil | Nil | |

No change occurred in the Directors' interest in shares and debentures after 31st December 2013 and before the date of this Report of the Board of Directors.

Directors' Remuneration

Details of Directors' emoluments paid during the year in respect of the Bank and the Group for the year ended 31st December 2013 are given in Note 13 to the Financial Statements in this Annual Report in terms of the Section 168 (1) (f) of the Companies Act No. 07 of 2007.

Insurance and Indemnity

Pursuant to a decision taken by the Board (as authorised by the Articles of Association of the Bank), the Bank obtained a Directors and Officers liability insurance cover in respect of the year 2012/13.

Corporate Governance

The Board of Directors has pledged their commitment towards maintaining an effective corporate governance framework and practices within the Bank to enhance business prosperity and corporate accountability. The Bank has established systems and procedures to ensure that they are adequately and practically adopted and followed.

The extent of compliance with the Directions, Rules and Best Practice Guidelines are described in the Corporate Governance Report appearing on pages 87 to 132.

The External Certification of the Bank's compliance with the Central Bank Code of Corporate Governance performed in line with agreed upon procedures set out in Sri Lanka Related Services Practice Statement (SLRSPS 4750) was provided by the Bank's External Auditors, Messrs KPMG, Chartered Accountants.

Risk Management and System of Internal Controls

Risk Management

The Board has ensured the implementation of a sound risk management framework. The Board Integrated Risk Management Committee reviews on a regular basis the risk exposure of the Bank. The Report of the Board Integrated Risk Management Committee is given on pages 127 to 132 of this Annual Report whilst a detailed Risk Management Report of the Bank is given on pages 137 to 167.

System of Internal Control

The Board of Directors has put in place a system of internal controls in order to ensure that the Bank accomplishes its goal and objectives, the reliability and integrity of its financial information and that it complies with rules and regulations affecting the operations of the Bank. The Board from time

Report of the Board of Directors of Seylan Bank PLC on the State of Affairs of the Company for the Year 2013

to time through the Board Audit Committee reviews the adequacy and integrity of the internal control system.

The Board of Directors has promoted a sound internal control framework within the Bank with a sound control environment, robust risk assessment mechanism, periodic monitoring and review of internal controls and an effective information and communication system.

The Directors' Statement on internal control appearing on pages 184 and 185 of this Annual Report provides an overview of the Bank's effort in ensuring and maintaining the effectiveness of its internal control system. The Board received independent assurance report from the External Auditors, Messrs KPMG on the Bank's internal control mechanism and the said report is published on page 183 of this Annual Report.

Compliance with Laws and Regulations

The Bank has not engaged in any activities contravening any laws and regulations currently in force. Key Management Personnel designated in the Bank for ensuring compliance with various laws and regulations confirm compliance which is reported to the Board on a monthly basis by the Compliance Officer.

Outstanding Litigation

In the opinion of the Directors and External Legal Counsels retained by the Bank, pending litigations against the Bank disclosed in Note 45 to the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

Environmental Protection

The Bank has not engaged in any activity that is harmful or hazardous to the environment. Measures taken by the Bank on environmental protection are detailed in the Integrated Management Report published on pages 68 to 70.

Statutory Payments

The Directors are satisfied that to the best of their knowledge and belief, all statutory payments due to the Government and to the employees of the Bank and its subsidiary have been made.

Post-Balance Sheet Events

No events have occurred after the Balance Sheet date which would require adjustments to or disclosure in the accounts, other than those given in Note 47 to the Financial Statements.

Human Resources

Board of Directors collectively believes the significance of the employees as the worthy resource and core driving force of the Bank. We also realise that harnessing the true potential of human resource is through enriching and enhancing knowledge and skills on a continuous basis.

The Bank therefore continues to implement human resource strategies led by top management with a modern approach compatible with global business environment as professional dynamism is seen imperative in reaching our corporate objectives.

The Bank has placed importance on upgrading the quality of its human resources to meet the challenges of growing competition while maintaining industrial harmony.

Employees' Share Owning Scheme

Six employee-share owning trust companies have been established in 1995 and in 1999/2000 which have acquired shares of the Bank from time to time at the market prices prevailing at that time. The details of the facilities granted by the Bank to these companies for the purchase of such shares are provided in Note 49.1 to the Financial Statements.

Going Concern

The Directors are satisfied that having considered the financial position, operating conditions, regulatory and other factors and such other matters required to be addressed in the Corporate Governance Code, that the Bank has adequate resources to continue its operations in the foreseeable future. The Financial Statements of the Bank have accordingly been prepared on a going concern basis.

Auditors

The Bank's Auditors during the period under review were Messrs KPMG, Chartered Accountants. Audit Fees and Consolidated Audit Fees payable/paid are as follows:

| | 2013 Rs. '000 | 2012 Rs. '000 |
|--|------------------|------------------|
| Audit Fees | | |
| Audit Service Fees for the Year under Review | 9,073 | 7,440 |
| Audit-Related Fees | 4,051 | 2,405 |
| Non-Audit Fees | 232 | 575 |
| Consolidated Audit Fees | | |
| Audit Service Fees | 9,902 | 8,230 |
| Audit-Related Fees | 4,134 | 2,555 |
| Non-Audit Fees | 232 | 575 |

Report of the Board of Directors of Seylan Bank PLC on the State of Affairs of the Company for the Year 2013

Based on the declaration made by Messrs KPMG and as far as the Directors are aware, the Auditors do not have any relationship with or interest in the Company or its subsidiary other than the provision of audit and non-audit and related services as listed above.

The retiring Auditors, Messrs KPMG have expressed their willingness to continue in office and a resolution to reappoint them as Auditors and authorising the Directors to fix their remuneration will be proposed at the Annual General Meeting.

Independence of the Auditors

Based on an assessment carried out by the Board Audit Sub-Committee upon adoption of a policy for the engagement of Auditors, the Board is of the opinion that the External Auditors, Messrs KPMG can be deemed to be independent for all intents and purposes considering the following factors:

- No partner from the Firm is on the Board of Seylan Bank or on the Board of any subsidiary Company.
- The audit and non-audit fees are negotiated and are not above industry norms.
- The firm had the necessary skills to competently carry out the non-audit related assignments entrusted to them.

- The Auditors do not receive fees from other assignments except as stated above.
- Partner and Audit-team rotation was complied with in 2009.
- Messrs KPMG is a firm of high repute and it complies with their own international guidelines.

Notice of Meeting

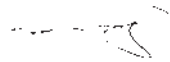
Notice of Meeting relating to the Twenty-Seventh Annual General Meeting of the Bank scheduled to be held on 31st March 2014 at 10.00 a.m. at the Kings Court of Cinnamon Lakeside, No. 115, Sir Chittampalam A Gardiner Mawatha, Colombo 02 is circulated to the shareholders with this Annual Report.

For and on behalf of the

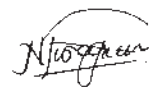
Board of Directors of Seylan Bank PLC



Nihal Jayamanne PC
Chairman



R. Nadarajah
Executive Director



(Mrs.) N.N. Najumudeen
Company Secretary

26th February 2014
Colombo

Annexure to the Report of the Board on the State of Affairs of the Company

Directors Interest Register and Directors' Interest in Transactions as at 31st December 2013

The Bank carries out transactions in the ordinary course of business at commercial rates with entities in which a Director of the Bank is the Chairman or a Director of such entities.

The entities in which the Directors of the Bank hold directorships and their substantial shareholdings in other entities are disclosed below.

The transaction of the Bank with the Directors and with these entities (if any) are disclosed in the Notes 48 and 49.1 to the Financial Statements.

Directorship/Officer/Trustee in Other Entities

Mr. N.M. Jayamanne, PC (Chairman/Independent Director)

| Entity | Position Held | Substantial Shareholding % (if any) |
|---|------------------------|-------------------------------------|
| Advisory Commission on Company Law | Chairman | - |
| Law College Foundation | Chairman | - |
| Law Commission of Sri Lanka | Chairman | - |
| SriLankan Airlines Limited | Non-Executive Director | - |
| SriLankan Catering (Pvt) Limited | Non-Executive Director | - |
| Advisory Council of Jurists of the Asia Pacific Forum for the Advancement of Human Rights | Member | - |
| Board of Trustees of the Judicial Infrastructure Maintenance Trust | Member | - |
| Seylan Bank Employees' Gratuity Trust Fund | Trustee | - |

Mr. I.C. Nanayakkara (Deputy Chairman/Non-Executive Director)

| Entity | Position Held | Substantial Shareholding % (if any) |
|---|--------------------|-------------------------------------|
| Commercial Leasing and Finance PLC** | Chairman | - |
| Brown & Company PLC** | Executive Chairman | - |
| Browns Investments PLC** | Executive Chairman | - |
| Lanka ORIX Leasing Company PLC**/** | Deputy Chairman | 12.60% |
| Lanka ORIX Finance PLC** | Director | - |
| Agstar Fertilizers PLC** | Director | - |
| LOLC Micro Credit Limited | Chairman | - |
| PRASAC Micro Finance Institute | Director | - |
| Sierra Constructions Limited | Director | - |
| BRAC Lanka Finance PLC (Former Name: Nanda Investments & Finance PLC)** | Director | - |
| LOLC Myanmar Microfinance Co. Limited | Director | - |
| Colombo Land Exchange | Shareholder | 25.00% |
| Medford Investments (Pvt) Limited | Shareholder | 25.00% |
| Taprobane Holdings Limited | Shareholder | 35.66% |

**Listed Public Companies

***Lanka ORIX Leasing Company PLC is the 100% holding company of LOLC Investments Limited which held 9.55% of the voting capital of the Bank.

Annexure to the Report of the Board on the State of Affairs of the Company

Mr. R. Nadarajah (Executive Director)

| Entity | Position Held | Substantial Shareholding % (if any) |
|--|---------------|--|
| Seylan Developments PLC** | Chairman | - |
| The Finance Co. PLC** | Director | - |
| Seyfest (Pvt) Limited* | Chairman | - |
| Seybest (Pvt) Limited* | Chairman | - |
| Seyshop (Pvt) Limited* | Chairman | - |
| Sesot (Pvt) Limited* | Chairman | - |
| Sotse (Pvt) Limited* | Chairman | - |
| Esots (Pvt) Limited* | Chairman | - |
| Seylan Bank Employees' Gratuity Trust Fund | Trustee | - |

*Employee Share Ownership Trust Companies

**Listed Public Companies

Rear Admiral B.A.J.G. Peiris (Independent Director)

| Entity | Position Held | Substantial Shareholding % (if any) |
|--|---------------|--|
| Seylan Bank Employees' Gratuity Trust Fund | Trustee | - |

Mr. S.P.S. Ranatunga (Independent Director)

| Entity | Position Held | Substantial Shareholding % (if any) |
|---|-----------------------|--|
| CIC Holdings PLC** | Managing Director/CEO | - |
| Akzo Nobel Paints Lanka (Pvt) Limited | Director | - |
| Chemanex PLC** | Director | - |
| CIC Agribusiness (Pvt) Limited | Director | - |
| CIC Bio Security Breeder Farms Limited | Director | - |
| CIC Feeds (Pvt) Limited | Director | - |
| CIC Poultry Farms Limited | Director | - |
| CIC Vetcare (Pvt) Limited | Director | - |
| CISCO Speciality Packaging (Pvt) Limited | Director | - |
| Kelani Valley Canneries Limited | Director | - |
| CIC Mahaweli Livestock & Dairies Limited | Director | - |
| Link Natural Products (Pvt) Limited | Director | - |
| CIC Seeds (Pvt) Limited | Director | - |
| CIC Agri Produce Export (Pvt) Limited | Director | - |
| CIC Environmental Management Liquid (Pvt) Limited | Director | - |
| Crop Management Services (Pvt) Limited | Director | - |
| CIC Lifesciences Limited | Director | - |
| CIC Dairies (Pvt) Limited | Director | - |
| Rahimafrooz CIC Agro Limited, Bangladesh | Director | - |

** Listed Public Companies

Annexure to the Report of the Board on the State of Affairs of the Company

Mr. W.D.K. Jayawardena (Non-Executive Director)

| Entity | Position Held | Substantial Shareholding % (if any) |
|---|-----------------------|--|
| Lanka ORIX Finance PLC** | Director | - |
| Lanka ORIX Leasing Co. PLC** | Managing Director/CEO | - |
| LOLC General Insurance Limited | Director | - |
| LOLC Insurance Company Limited | Director | - |
| LOLC Life Insurance Limited | Director | - |
| LOLC Micro Credit Limited | Director | - |
| LOLC Securities Limited | Director | - |
| Speed Italia (Pvt) Limited | Director | - |
| United Dendro Energy (Pvt) Limited | Director | - |
| Commercial Leasing & Finance PLC** | Director | - |
| Palm Garden Hotels PLC** | Director | - |
| Riverina Resort (Pvt) Limited | Director | - |
| Eden Hotel Lanka PLC** | Director | - |
| Brown & Co. PLC** | Director | - |
| Browns Investments PLC** | Director | - |
| BRAC Lanka Finance PLC (Former Name: Nanda Investments & Finance PLC)** | Director | - |

** Listed Public Companies

Mr. P.L.S. Kumar Perera (Independent Director)

| Entity | Position Held | Substantial Shareholding % (if any) |
|------------------------|---------------|--|
| Tiruchelvam Associates | Consultant | - |
| Expolanka Holdings PLC | Consultant | - |

Ms. M.C. Pietersz (Independent Director)

| Entity | Position Held | Substantial Shareholding % (if any) |
|--|---------------------------------------|--|
| Finlays Colombo PLC** | Finance Director | - |
| Finlay Rentokil Ceylon (Pvt) Limited | Executive Director | - |
| Finlay Teas (Pvt) Limited | Executive Director | - |
| Finlay Properties (Pvt) Limited | Executive Director | - |
| Finlay Cold Storage (Pvt) Limited | Executive Director | - |
| Finlays Linehaul Express (Pvt) Limited | Executive Director | - |
| Finlay Insurance Brokers (Pvt) Limited | Executive Director | - |
| Bogala Graphite Lanka PLC** | Independent Non-Executive Director | - |

** Listed Public Companies

Mr. H.I. Balapatabendi (Non-Executive Director)

| Entity | Position Held | Substantial Shareholding % (if any) |
|---|---------------|--|
| Sri Lanka Insurance Corporation Limited | Director | - |
| ZRI Corporate Consultants (Pvt) Limited | Director | - |

Sustainability Assurance Report



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(Chartered Accountants)
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Internet : www.lk.kpmg.com

Independent Assurance Report to Seylan Bank PLC

Introduction

We were engaged by the Board of Directors of Seylan Bank PLC to provide assurance on the following elements of the Sustainability Reporting in the Integrated Annual Report for the year ended December 31, 2013 of Seylan Bank PLC ('the Report').

- Reasonable assurance on the data on financial performance, as reported on pages 6 to 7 of this Report.
- Limited assurance on the Performance Indicators specified on pages 74 to 76 and other information presented on pages 20 to 73 of this Report.

Managements' Responsibility and the Criteria Applied

Management is responsible for the preparation and presentation of the Report in accordance with the GRI Sustainability Reporting Guidelines as described in the Report, and the information and assertions contained within it; for determining the Seylan Bank PLC objectives in respect of sustainable development performance and reporting, including the identification of stakeholders and material issues; and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived.

Our Responsibilities and Compliance with SLSAE 3000

Our responsibility is to carry out a reasonable and limited assurance engagement and to express a conclusion based on the work performed. We conducted our engagement in accordance with Sri Lankan Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the Institute of Chartered Accountants of Sri Lanka.

That Standard requires that we comply with applicable ethical requirements, including independence requirements, and plan and perform the engagement to obtain reasonable and limited assurance about whether the Report is free from material misstatement.

Summary of Work Performed

Financial Data

A reasonable assurance engagement on financial performance reported on pages 6 and 7 of the Report involves verification that they were properly derived from Audited Financial Statements of the Bank for the year ended December 31, 2013.

Key Performance Indicators

A limited assurance engagement on a sustainability report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the sustainability report, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included:

- Inquiries of management to gain an understanding of Seylan Bank PLC processes for determining the material issues for Seylan Bank PLC key stakeholder groups.
- Interviews with senior management and relevant staff at group level and selected business unit level concerning sustainability strategy and policies for material issues, and the implementation of these across the business.
- Interviews with relevant staff at corporate and business unit level responsible for providing the information in the Report.
- Inquiries about the design and implementation of the systems and methods used to collect and process the information reported, including the aggregation of data into information as presented in the Report.
- Comparing the information presented in the Report to corresponding information in the relevant underlying sources to determine

whether all the relevant information contained in such underlying sources has been included in the Report.

- Reading the information presented in the Report to determine whether it is in line with our overall knowledge of, and experience with, the sustainability performance of Seylan Bank PLC.

The extent of evidence gathering procedures performed in a limited assurance engagement is less than that for a reasonable assurance engagement, and therefore a lower level of assurance is provided.

Our Conclusion

Based on the procedures performed, as described above, we conclude that

- The data on financial performance, as reported on pages 6 and 7 of the Report 2013 are properly derived from the financial statements of the Bank for the year ended 31st December 2013.
- Nothing has come to our attention that causes us to believe that the Performance Indicators on pages 74 to 76 and other information presented on pages 20 to 73 of the Report are not fairly presented, in all material respects, in accordance with the GRI Sustainability Reporting Guidelines.

Our assurance report is made solely to Seylan Bank in accordance with the terms of our engagement. Our work has been undertaken so that we might state to Seylan Bank those matters we have been engaged to state in this assurance report and for no other purpose. We do not accept or assume responsibility to anyone other than Seylan Bank for our work, for this assurance report, or for the conclusions we have reached.

CHARTERED ACCOUNTANTS

26 February 2014

Colombo

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne ACA

P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne ACA
R.M.D.B. Rajapakse ACA

C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo ACA

Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

Auditors' Report on Internal Control



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To the Board of Directors of Seylan Bank PLC

We were engaged by the Board of Directors of Seylan Bank PLC ('Bank') to provide assurance on the Directors' Statement on Internal Control ('Statement') included in the annual report for the year ended 31 December 2013 as set out in pages 184 to 185 in this Annual Report.

Management's Responsibility for the Statement on Internal Control

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

Scope of the Engagement in Compliance with SLSAE 3050

Our responsibility is to issue a report to the board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of Work Performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared

by or for directors and appropriately reflects the process the directors have adopted in reviewing the system of internal control for the Bank.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

- (a) Enquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the Directors in the Annual Report.
- (b) Reviewed the documentation prepared by the Directors to support their Statement made.
- (c) Related the Statement made by the Directors to our knowledge of the bank obtained during the audit of the Financial Statements.
- (d) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
- (e) Attended meetings of the audit committee at which the annual report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.
- (f) Considered whether the Director's Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
- (g) Obtained written representations from Directors on matters material to the Statement on Internal Control where

other sufficient appropriate audit evidence cannot reasonably be expected to exist.

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

Our conclusion

In assessing the internal control system, all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Bank were collated and in turn checked by the internal audit department for suitability of design and effectiveness on an ongoing basis.

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

CHARTERED ACCOUNTANTS
26 February 2014
Colombo

Directors' Statement on Internal Control

Introduction

The system of internal control is a critical component of Seylan Bank PLC's ('Bank') management and a foundation for safe and sound operations. A sound internal control system is established with the intention of ensuring that the goals and objectives of the Bank will be met, will achieve long-term profitability targets and maintain reliable financial and managerial reporting, while ensuring compliance with laws and regulations as well as internal policies and procedures.

The internal control process comprises the following main elements:

- (a) Management oversight and control culture.
- (b) Risk recognition and assessment.
- (c) Control activities and segregation of duties.
- (d) Information and communication.
- (e) Monitoring activities and correcting deficiencies.

The internal control mechanism is an ongoing process for identifying, evaluating and managing significant risks faced by the Bank and ensuring that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with the relevant accounting principles and regulatory requirements.

Responsibility

The Board of Directors ('Board') is responsible for the adequacy and effectiveness of the Bank's system of internal controls. However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of the

Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

Framework for Managing Significant Risks

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to the business environment and regulatory guidelines. The process is regularly reviewed by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka (ICASL). The Board has assessed the internal control system taking into account principles for the assessment of internal control system as given in that guidance. As required by the Direction No. 11 of 2007, Section 3 (8) (ii) (b) under the Banking Act, the Board of Directors presents this Report.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks. The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes and is in accordance with relevant accounting principles and regulatory requirements.

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

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

- The Board Committees established by the Board, assist the Board in ensuring the effectiveness of the Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Division of the Bank verifies compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational basis and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Division, the External Auditors, regulatory authorities and management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal

Directors' Statement on Internal Control

audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled at the Board Meeting of the Bank on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on pages 116 to 120.

- Other Board Committees that have been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations include the Integrated Risk Management Committee, Human Resource & Remuneration Committee, the Nomination Committee, the Credit Committee, the Sustainability Committee, and the Marketing & Product Development Committee.
- Operational committees have also been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Asset and Liability Management Committee (ALCO), the Executive Credit Risk Management Committee, the Executive Market and Operational Risk Management Committee, the Executive Crisis Management Committee, the Business Continuity Steering Committee, the Senior Management Committee, the Performance Review Committee and the Information Technology Steering Committee.
- Policies and procedures to ensure compliance with internal controls and the relevant laws and regulations are set out in operations manuals, guidelines and the directives issued by the Bank which are updated from time to time.

- Further, based on the ICASL format under Sri Lanka Standard on Assurance Engagements 3050, all the said controls were documented including the IT general controls and the branch level application controls.
- Modifications to systems and processes have been initiated in order to automate SLFRS/LKAS based calculations. The project is expected to be completed in 2014.
- In assessing the internal control system over financial reporting, the management of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis.
- The comments made by the External Auditors in connection with the internal control system in the financial year ended 31st December 2012 were taken into consideration and appropriate measures were taken to incorporate them. Improvements in controls and control monitoring in relation to assessing impairment of loans and receivables and related party advances will be focused during the ensuing year.
- This Report and assessment does not include the subsidiary of the Bank.

Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes

has been done in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) and regulatory requirements of the Central Bank of Sri Lanka.

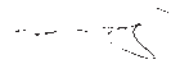
Review of the Statement by External Auditors

The External Auditors have reviewed the above Directors' Statement on Internal Control of the Bank for the year ended 31st December 2013 and reported to the Board that nothing has come to their attention that causes them to believe that the above statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system over financial reporting of the Bank. Their report to the Board is disclosed on page 183 to this Annual Report.

By Order of the Board of Directors of
SEYLAN BANK PLC



Nihal Jayamanne
Chairman



R. Nadarajah
Executive Director



Coralie Pietersz
Chairperson-Board Audit Committee

26th February 2014

Statement of Directors' Responsibility for Financial Reporting

Statement of Responsibility

The Statement of Responsibility of the Directors of Seylan Bank PLC ('Bank') in relation to the Financial Statements of the Bank and the Consolidated Financial Statements of the Group is set out in this Report in terms of the provisions of the Companies Act No. 07 of 2007 (the Act).

The Directors of the Bank ensure that the Bank maintains proper books of account of all its transactions so as to -

- i. enable the financial position of the Company to be determined with reasonable accuracy at any time;
- ii. enable the preparation of Financial Statements of the Company in accordance with the Act; and
- iii. enable the Financial Statements of the Company to be readily and properly audited.

Confirmation of Directors' Responsibility

The Directors of Seylan Bank PLC confirm that to the best of their knowledge -

- the Financial Statements prepared and published on pages 189 to 306 of this Annual Report in terms of Sections 150 (1), 151 (1), 152 (1) and 153 (1) of the Companies Act, give a true and fair view of the state of affairs of the Bank and the Group and the profit or loss for the year ended 31st December 2013;
- the Financial Statements for the year ended 31st December 2013 presented in this Annual Report are consistent with the underlying books of account of the Bank and are in conformity with the Sri Lanka Accounting Standards (SLFRS/LKAS), Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act No. 30 of 1988 (as amended), Directions and Guidelines of the Central Bank of Sri Lanka, the Listing Rules of the Colombo Stock Exchange, and the Code of Best Practice on Corporate Governance (2008) issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL);
- in preparing the Financial Statements for the year ended 31st December 2013 appropriate accounting policies have been selected and applied on a consistent basis with material

departures if any disclosed in the Financial Statements together with the rationale for same;

- proper books of account have been maintained and have also taken reasonable steps to ensure the accuracy and reliability of accounting records.

The Directors further Confirm that -

- The financial reporting system is also reviewed by the Board through the management accounts submitted monthly at Board meetings. The Bank's Interim and Audited Financial Statements are also reviewed by the Board Audit Committee and the Board prior to their release.
- The Financial Statements of the Bank and the Group have been certified by the Bank's Chief Financial Officer and the Chief Executive Officer, the persons responsible for their preparation and signed by two Directors of the Bank on 26th February 2014.

External Auditors' Reviews and Opinions

The Bank's Auditors, Messrs KPMG carry out reviews and sample checks on the effectiveness of the systems of internal control, as they consider appropriate and necessary in providing their opinion on the Financial Statements. Messrs KPMG have examined the Financial Statements made available together with all other financial records, minutes of meetings of the Board and the Board Sub-committees and related information and have expressed their opinion which appears on page 188 of this Annual Report.

Internal Control Mechanism Over Financial Reporting

The Board is also responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the Bank's assets and ensure continuity of operations. To this end, the Board has identified principal risks and implemented a system to continually assess such risks and established an appropriate control environment for ensuring proper monitoring of effectiveness of internal controls and correction of deficiencies.

The Board's statement on the effectiveness of Bank's internal control mechanism over financial reporting, prepared in accordance with the Guidelines issued by The Institute

of Chartered Accountants of Sri Lanka (ICASL) and in compliance with Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007 (as amended) is published on pages 184 and 185 and Bank's Independent Auditors Report on our assessment of Bank's internal controls over financial reporting is published on page 183 of this Annual Report.

Solvency

The Board of Directors confirm that they have authorised the distribution of the proposed dividend after having satisfied that the Bank would meet the solvency test in terms of the provisions of the Companies Act No. 07 of 2007 immediately after the dividend payment. The Board has obtained a statement of solvency from the External Auditors in relation to the proposed dividend payment.

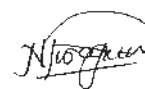
The Directors confirm that to the best of their knowledge and belief, all statutory payments due and payable to all statutory and regulatory authorities as at the Balance Sheet date, have been paid by the Bank and its subsidiaries or where relevant provided for.

Going Concern

The Directors further confirm that having considered the financial position, operating conditions, regulatory and other factors and such other matters required to be addressed in the Corporate Governance Code, the Bank and the Subsidiary, Seylan Developments PLC have adequate resources to continue the operations of the Bank and the Group in the foreseeable future. The Financial Statements of the Bank and the Group have accordingly been prepared on a going concern basis.

The Directors are of the view that they have discharged their obligations as set out in this statement.

By Order of the Board of Directors of
SEYLAN BANK PLC



(Mrs.) N.N. Najumudeen
Company Secretary

26th February 2014
Colombo

Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The Financial Statements of Seylan Bank and Group are prepared in compliance with the requirements of the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by The Institute of Chartered Accountants of Sri Lanka, the requirements of the Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto, the Listing Rules of the Colombo Stock Exchange and the Code of and the Code of Best Practice on Corporate Governance (2008) issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

Accounting Standards Framework

The Sri Lanka Accounting Standards (SLFRS/LKAS) issued by The Institute of Chartered Accountants of Sri Lanka which are in line with the International Financial Reporting Standards, became effective from 1st January 2012, Seylan Bank has adopted these standards successfully and Consolidated Financial Statements have been prepared accordingly.

The Board of Directors and Management of the Bank accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to the Financial Statements were made on a prudent and reasonable basis, in order that the Financial Statements reflect in

true and fair manner, the form and substance of transactions and reasonably present the Company's state of affairs. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal controls and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our Internal Auditors have conducted regular audits to provide reasonable assurance that the established policies and procedures of the Bank were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements of the Bank and Group were audited by Messrs KPMG, Chartered Accountants, and their report is on page 188 of this Annual Report. The Audit Committee of the Bank meets periodically with the Internal Auditors and the External Auditors to review the manner in which these Auditors are performing their responsibilities and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

The Audit Committee pre-approves the audit and non audit services provided by Messrs KPMG in order to ensure that the provision of such services does not impair Messrs KPMG independence.

It is also declared and confirmed that the Bank has complied with and ensured compliance by the Auditors with the guidelines for the audit of listed companies where mandatory compliance is required. It is further confirmed that all the other guidelines have been complied with.

We confirm that the Bank and its subsidiary have complied with all applicable laws and regulations and guidelines and there are no material litigations against the Group other than those disclosed in Note 45 of the Financial Statements in this Annual Report.



Kapila Ariyaratne
General Manager/Chief Executive Officer



Ramesh Jayasekara
Chief Financial Officer

26th February 2014
Colombo

Independent Auditors' Report



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
+94 - 11 254 1249
+94 - 11 230 7345
Internet : www.lk.kpmg.com

TO THE SHAREHOLDERS OF SEYLAN BANK PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Seylan Bank PLC (the "Company"), and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statements of financial position as at 31 December 2013, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 189 to 306 of the Annual Report.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

Opinion - Company

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 December 2013, and the financial statements give a true and fair view of the financial position of the Company as

at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Opinion - Group

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries dealt with thereby as at 31 December 2013 and of its financial performance and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Sections 153(2) to 153(7) of the Companies Act No. 07 of 2007 and present the information required by the Banking Act, No 30 of 1988.

CHARTERED ACCOUNTANTS
26 February 2014
Colombo

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne ACA

P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne ACA
R.M.D.B. Rajapakse ACA

C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo ACA

Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

Income Statement

| For the Year ended 31st December | Note | BANK | | | GROUP | | |
|--|------|-------------------|------------------------------|-------------|-------------------|------------------------------|-------------|
| | | 2013 Rs. '000 | 2012 Rs. '000 Restated | Change % | 2013 Rs. '000 | 2012 Rs. '000 Restated | Change % |
| Income | 6 | 28,090,978 | 23,725,992 | 18.40 | 28,146,292 | 23,791,280 | 18.31 |
| Interest Income | | 24,969,576 | 21,134,057 | 18.15 | 24,976,485 | 21,134,559 | 18.18 |
| Less: Interest Expenses | | 15,139,734 | 12,119,615 | 24.92 | 15,115,430 | 12,100,997 | 24.91 |
| Net Interest Income | 7 | 9,829,842 | 9,014,442 | 9.05 | 9,861,055 | 9,033,562 | 9.16 |
| Fee and Commission Income | | 2,208,628 | 1,760,335 | 25.47 | 2,208,342 | 1,760,103 | 25.47 |
| Less: Fee and Commission Expenses | | 81,294 | 65,645 | 23.84 | 87,931 | 71,425 | 23.11 |
| Net Fee and Commission Income | 8 | 2,127,334 | 1,694,690 | 25.53 | 2,120,411 | 1,688,678 | 25.57 |
| Net Interest, Fee and Commission Income | | 11,957,176 | 10,709,132 | 11.65 | 11,981,466 | 10,722,240 | 11.74 |
| Net Trading Income | 9 | 695,545 | 333,591 | 108.50 | 695,696 | 330,591 | 110.44 |
| Net Gain on Financial Investments | 10 | 190,268 | 5,773 | 3,195.83 | 190,268 | 5,773 | 3,195.83 |
| Other Operating Income (Net) | 11 | 26,961 | 492,236 | (94.52) | 75,501 | 560,254 | (86.52) |
| Total Operating Income | | 12,869,950 | 11,540,732 | 11.52 | 12,942,931 | 11,618,858 | 11.40 |
| Net Impairment Loss | 12 | 1,361,169 | 573,675 | 137.27 | 1,362,117 | 573,675 | 137.44 |
| Net Operating Income | | 11,508,781 | 10,967,057 | 4.94 | 11,580,814 | 11,045,183 | 4.85 |
| Less: Operating Expenses | 13 | | | | | | |
| Personnel Expenses | 14 | 3,675,299 | 3,244,854 | 13.27 | 3,698,538 | 3,273,232 | 12.99 |
| Premises, Equipment & Establishment Expenses | | 1,746,833 | 1,796,215 | (2.75) | 1,693,953 | 1,765,853 | (4.07) |
| Other Expenses | | 1,883,974 | 2,050,274 | (8.11) | 1,943,192 | 2,094,890 | (7.24) |
| Operating Expenses | | 7,306,106 | 7,091,343 | 3.03 | 7,335,683 | 7,133,975 | 2.83 |
| Operating Profit before Value Added Tax | | 4,202,675 | 3,875,714 | 8.44 | 4,245,131 | 3,911,208 | 8.54 |
| Value Added Tax on Financial Services | | 748,640 | 676,356 | 10.69 | 748,640 | 676,356 | 10.69 |
| Operating Profit after Value Added Tax | | 3,454,035 | 3,199,358 | 7.96 | 3,496,491 | 3,234,852 | 8.09 |
| Income Tax Expense | 15 | 1,138,496 | 1,135,160 | 0.29 | 1,144,446 | 1,144,202 | 0.02 |
| Profit for the Year | | 2,315,539 | 2,064,198 | 12.18 | 2,352,045 | 2,090,650 | 12.50 |
| Profit Attributable to: | | | | | | | |
| Equity Holders of the Bank | | 2,315,539 | 2,064,198 | 12.18 | 2,326,148 | 2,074,584 | 12.13 |
| Non-Controlling Interests | | | | | 25,897 | 16,066 | 61.19 |
| Profit for the Year | | 2,315,539 | 2,064,198 | 12.18 | 2,352,045 | 2,090,650 | 12.50 |
| Basic/Diluted Earnings per Share (Rs.) | 16 | 6.74 | 6.11 | 10.31 | 6.78 | 6.14 | 10.42 |
| Dividend per Share (Rs.) - Gross | 47 | 2.25 | 2.00 | 12.50 | 2.25 | 2.00 | 12.50 |
| - Net | | 2.03 | 1.80 | 12.78 | 2.03 | 1.80 | 12.78 |

Notes on pages 199 to 306 form an integral part of these Financial Statements.

Statement of Comprehensive Income

| For the Year ended 31st December | Note | BANK | | | GROUP | | |
|---|--------|------------------|------------------------------|-------------|------------------|------------------------------|-------------|
| | | 2013 Rs. '000 | 2012 Rs. '000 Restated | Change % | 2013 Rs. '000 | 2012 Rs. '000 Restated | Change % |
| Profit for the Year | | 2,315,539 | 2,064,198 | 12.18 | 2,352,045 | 2,090,650 | 12.50 |
| Other Comprehensive Income, Net of Income Tax | | | | | | | |
| Revaluation of Property, Plant & Equipment | 43.2 | 150,606 | 48,051 | 213.43 | 1,078,365 | 48,051 | 2,144.21 |
| Deferred Tax on Revaluation | 43.2 | (9,172) | - | - | (269,622) | - | - |
| Actuarial Gain on Defined Benefit Obligations | 40.1.8 | 5,240 | 68,384 | (92.34) | 4,667 | 72,220 | (93.54) |
| Net Change of Financial Assets Measured at Fair Value through Other Comprehensive Income: | | | | | | | |
| Net Change in Fair Value on Available-for-Sale Financial Assets | 43.4 | 881,357 | (249,905) | 452.68 | 881,357 | (249,905) | 452.68 |
| Net Amount Transferred to Profit or Loss on Available-for-Sale Financial Assets | 43.4 | (114,701) | (5,773) | 1,886.85 | (114,701) | (5,773) | 1,886.85 |
| Other Comprehensive Income for the Year, Net of Tax | | 913,330 | (139,243) | 755.93 | 1,580,066 | (135,407) | 1,266.90 |
| Total Comprehensive Income for the Year | | 3,228,869 | 1,924,955 | 67.74 | 3,932,111 | 1,955,243 | 101.11 |
| Total Comprehensive Income Attributable to: | | | | | | | |
| Equity Holders of the Bank | | 3,228,869 | 1,924,955 | 67.74 | 3,585,047 | 1,937,329 | 85.05 |
| Non-Controlling Interests | | | | | 347,064 | 17,914 | 1,837.39 |
| Total Comprehensive Income for the Year | | 3,228,869 | 1,924,955 | 67.74 | 3,932,111 | 1,955,243 | 101.11 |

Notes on pages 199 to 306 form an integral part of these Financial Statements.

Statement of Financial Position

| As at 31st December | Note | BANK | | | | GROUP | | | |
|--|------|--------------------|------------------------------|--------------|------------------------------|--------------------|------------------------------|--------------|------------------------------|
| | | 2013 Rs. '000 | 2012 Rs. '000 Restated | Change % | 2011 Rs. '000 Restated | 2013 Rs. '000 | 2012 Rs. '000 Restated | Change % | 2011 Rs. '000 Restated |
| Assets | | | | | | | | | |
| Cash and Cash Equivalents | 19 | 5,180,195 | 6,554,381 | (20.97) | 4,550,203 | 5,180,226 | 6,554,482 | (20.97) | 4,550,764 |
| Balances with Central Bank of Sri Lanka | 20 | 7,505,185 | 8,028,661 | (6.52) | 7,070,728 | 7,505,185 | 8,028,661 | (6.52) | 7,070,728 |
| Placements with Banks and Finance Companies | 21 | 970,203 | - | - | - | 970,203 | - | - | - |
| Derivative Financial Instruments | 22 | 287,210 | 51,281 | 460.07 | 74,746 | 287,210 | 51,281 | 460.07 | 74,746 |
| Other Financial Assets Held for Trading | 23 | 11,183,843 | 2,460,272 | 354.58 | 5,243,565 | 11,191,770 | 2,468,151 | 353.45 | 5,244,443 |
| Securities Purchased under Resale Agreements | | 5,729,904 | 173,441 | 3,203.66 | 3,313,690 | 5,729,904 | 173,441 | 3,203.66 | 3,313,690 |
| Customer Loans and Receivables | 24 | 136,552,857 | 124,728,371 | 9.48 | 106,390,440 | 136,552,857 | 124,728,371 | 9.48 | 106,390,440 |
| Financial Investments - Available-for-Sale | 25 | 14,001,964 | 11,358,103 | 23.28 | 11,886,589 | 14,001,964 | 11,358,103 | 23.28 | 11,886,589 |
| Financial Investments - Held-to-Maturity | 26 | 24,050,862 | 19,822,966 | 21.33 | 17,665,169 | 24,130,160 | 19,822,966 | 21.73 | 17,665,169 |
| Investment in Subsidiary | 27 | 800,624 | 793,254 | 0.93 | 793,254 | - | - | - | - |
| Group Balances Receivable | 28 | 15,000 | 60,687 | (75.28) | 15,688 | - | - | - | - |
| Property, Plant & Equipment | 29 | 2,887,204 | 2,391,536 | 20.73 | 2,371,254 | 4,460,001 | 3,041,903 | 46.62 | 3,047,966 |
| Leasehold Rights | 30 | 48,286 | 39,596 | 21.95 | 39,909 | 618,847 | 617,567 | 0.21 | 625,290 |
| Investment Properties | 31 | 114,429 | 237,629 | (51.85) | 237,629 | 1,043,942 | 1,203,380 | (13.25) | 1,226,546 |
| Intangible Assets | 32 | 141,134 | 202,354 | (30.25) | 404,299 | 141,134 | 202,354 | (30.25) | 404,299 |
| Current Taxation Assets | | - | - | - | - | 992 | 1,258 | (21.14) | - |
| Deferred Taxation Assets | 33 | 170,590 | 253,171 | (32.62) | 510,086 | 135,951 | 481,588 | (71.77) | 741,668 |
| Other Assets | 34 | 5,521,369 | 6,505,973 | (15.13) | 5,376,624 | 5,559,102 | 6,563,140 | (15.30) | 5,409,505 |
| Total Assets | | 215,160,859 | 183,661,676 | 17.15 | 165,943,873 | 217,509,448 | 185,296,646 | 17.38 | 167,651,843 |
| Liabilities | | | | | | | | | |
| Due to Banks | 35 | 11,544,206 | 6,137,803 | 88.08 | 7,310,651 | 11,544,206 | 6,137,803 | 88.08 | 7,310,651 |
| Derivative Financial Instruments | 22 | 382,815 | 278,826 | 37.30 | 67,506 | 382,815 | 278,826 | 37.30 | 67,506 |
| Customer Deposits | 36 | 167,371,384 | 146,727,199 | 14.07 | 123,981,100 | 167,371,384 | 146,727,199 | 14.07 | 123,981,100 |
| Securities Sold under Repurchase Agreements | | 4,573,955 | 3,674,840 | 24.47 | 9,410,283 | 4,573,955 | 3,674,840 | 24.47 | 9,410,283 |
| Other Borrowings | 37 | 12,738 | 9,790 | 30.11 | 7,018 | 12,738 | 9,790 | 30.11 | 7,018 |
| Group Balances Payable | 38 | 195,126 | 216,723 | (9.97) | 99,841 | - | - | - | - |
| Debentures | 39 | 3,243,299 | 1,211,659 | 167.67 | 2,785,264 | 3,243,299 | 1,211,659 | 167.67 | 2,785,264 |
| Current Tax Liabilities | | 1,090,584 | 683,040 | 59.67 | 216,996 | 1,090,584 | 683,040 | 59.67 | 210,880 |
| Other Liabilities | 40 | 4,985,134 | 5,869,959 | (15.07) | 4,762,626 | 5,093,256 | 5,962,234 | (14.57) | 4,839,528 |
| Total Liabilities | | 193,399,241 | 164,809,839 | 17.35 | 148,641,285 | 193,312,237 | 164,685,391 | 17.38 | 148,612,230 |
| Equity | | | | | | | | | |
| Stated Capital | 41 | 10,529,724 | 10,225,452 | 2.98 | 10,259,353 | 10,529,724 | 10,225,452 | 2.98 | 10,259,353 |
| Statutory Reserve Fund | 42 | 841,964 | 726,187 | 15.94 | 619,095 | 841,964 | 726,187 | 15.94 | 619,095 |
| Retained Earnings | | 7,209,580 | 6,138,249 | 17.45 | 5,007,999 | 7,147,589 | 6,061,571 | 17.92 | 4,919,714 |
| Other Reserves | 43 | 3,180,350 | 1,761,949 | 80.50 | 1,416,141 | 4,140,308 | 2,376,041 | 74.25 | 2,030,233 |
| Total Equity Attributable to Equity Holders of the Bank | | 21,761,618 | 18,851,837 | 15.43 | 17,302,588 | 22,659,585 | 19,389,251 | 16.87 | 17,828,395 |
| Non-Controlling Interest | | - | - | - | - | 1,537,626 | 1,222,004 | 25.83 | 1,211,218 |
| Total Equity | | 21,761,618 | 18,851,837 | 15.43 | 17,302,588 | 24,197,211 | 20,611,255 | 17.40 | 19,039,613 |
| Total Liabilities & Equity | | 215,160,859 | 183,661,676 | 17.15 | 165,943,873 | 217,509,448 | 185,296,646 | 17.38 | 167,651,843 |
| Commitments & Contingencies | 44 | 35,473,070 | 31,286,844 | 13.38 | 36,247,216 | 35,561,711 | 31,352,643 | 13.42 | 36,325,435 |
| Net Assets Value per Share (Rs.) | | 63.08 | 55.76 | 13.13 | 51.08 | 65.69 | 57.35 | 14.54 | 52.63 |

Notes on pages 199 to 306 form an integral part of these Financial Statements.

The Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.



Ramesh Jayasekara
Chief Financial Officer

Approved and signed for and on behalf of the Board.

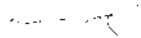


Nihal Jayamanne PC
Chairman

26th February 2014
Colombo



Kapila Ariyaratne
General Manager/Chief Executive Officer



R. Nadarajah
Executive Director

Statement of Changes in Equity

For the Year ended 31st December
Bank

| | Note | Stated Capital | | Preference Shares |
|--|----------------------|------------------------|----------------------------|-------------------|
| | | Ordinary Shares-Voting | Ordinary Shares-Non-Voting | |
| | | Rs. '000 | Rs. '000 | Rs. '000 |
| (1) Balance as at 1st January 2012 | | 6,806,722 | 3,418,730 | 33,901 |
| Total Comprehensive Income for the Year | | | | |
| Profit/(Loss) for the Year | | - | - | - |
| Other Comprehensive Income (net of tax) | | - | - | - |
| (2) Total Comprehensive Income for the Year | | - | - | - |
| Transactions with Equity Holders, Recognised Directly in Equity | | | | |
| Redemption of Preference Shares*** | | - | - | (33,901) |
| Dividends to Equity Holders | 17 | - | - | - |
| Transfers from/to Retained Profits | 42, 43.2, 43.5, 43.6 | - | - | - |
| (3) Total Transactions with Equity Holders | | - | - | (33,901) |
| Balance as at 31st December 2012 (1+2+3) | | 6,806,722 | 3,418,730 | - |
| (1) Balance as at 1st January 2013 | | 6,806,722 | 3,418,730 | - |
| Total Comprehensive Income for the Year | | | | |
| Profit/(Loss) for the Year | | - | - | - |
| Other Comprehensive Income (net of tax) | | - | - | - |
| (2) Total Comprehensive Income for the Year | | - | - | - |
| Transactions with Equity Holders, Recognised Directly in Equity | | | | |
| Cash/Scrip Dividends to Equity Holders | 17 | 156,000 | 148,272 | - |
| Transfers from/to Retained Profits | 42, 43.2, 43.5, 43.6 | - | - | - |
| (3) Total Transactions with Equity Holders | | 156,000 | 148,272 | - |
| Balance as at 31st December 2013 (1+2+3) | | 6,962,722 | 3,567,002 | - |

* Statutory Reserve Fund represents the statutory requirement in terms of the Section 20 (1) and (2) of the Banking Act No. 30 of 1988 (5% of net profit after tax).

** According to the circular Ref. No. 08/24/002/0005/003 issued by the Central Bank of Sri Lanka, Primary Dealer Unit is required to appropriate 25% of the profit after tax for the year towards the Special Risk Reserve. However, Licensed Commercial Banks appointed as Primary Dealers were exempted from this requirement of maintaining such Special Reserve as per Direction No. 08/11/011/0019/001 dated 18th March 2013.

*** As provided in Section 64 (1) of the Companies Act No. 07 of 2007, the Bank redeemed its Preference Shares (which Article 6 of the Company enables to effect such purchases) with the approval of the Board of Directors.

**** Please refer Note 53.

Notes on pages 199 to 306 form an integral part of these Financial Statements.

Statement of Changes in Equity

| Statutory Reserve Fund * **** | Retained Earnings **** | Reserves | | | | Total |
|----------------------------------|------------------------|-------------------------|---------------------|----------------------------|------------------|-------------------|
| | | Special Risk Reserve ** | Revaluation Reserve | Available-for-Sale Reserve | Other Reserves | |
| Rs. '000 Restated | Rs. '000 Restated | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| 619,095 | 5,007,999 | 98,741 | 461,998 | 130,608 | 724,794 | 17,302,588 |
| - | 2,064,198 | - | - | - | - | 2,064,198 |
| - | 68,384 | - | 48,051 | (255,678) | - | (139,243) |
| - | 2,132,582 | - | 48,051 | (255,678) | - | 1,924,955 |
| - | (8,474) | - | - | - | - | (42,375) |
| - | (338,080) | - | - | - | - | (338,080) |
| 107,092 | (655,778) | 14,181 | - | - | 539,254 | 4,749 |
| 107,092 | (1,002,332) | 14,181 | - | - | 539,254 | (375,706) |
| 726,187 | 6,138,249 | 112,922 | 510,049 | (125,070) | 1,264,048 | 18,851,837 |
| 726,187 | 6,138,249 | 112,922 | 510,049 | (125,070) | 1,264,048 | 18,851,837 |
| - | 2,315,539 | - | - | - | - | 2,315,539 |
| - | 5,240 | - | 141,434 | 766,656 | - | 913,330 |
| - | 2,320,779 | - | 141,434 | 766,656 | - | 3,228,869 |
| - | (676,160) | - | - | - | - | (371,888) |
| 115,777 | (573,288) | (112,922) | - | - | 623,233 | 52,800 |
| 115,777 | (1,249,448) | (112,922) | - | - | 623,233 | (319,088) |
| 841,964 | 7,209,580 | - | 651,483 | 641,586 | 1,887,281 | 21,761,618 |

Statement of Changes in Equity

For the Year ended 31st December
Group

| | Note | Stated Capital | | |
|--|----------------------|-------------------------------|-----------------------------------|----------------------|
| | | Ordinary Shares- Voting | Ordinary Shares- Non-Voting | Preference Shares |
| | | Rs. '000 | Rs. '000 | Rs. '000 |
| (1) Balance as at 1st January 2012 | | 6,806,722 | 3,418,730 | 33,901 |
| Total Comprehensive Income for the Year | | | | |
| Profit/(Loss) for the Year | | - | - | - |
| Other Comprehensive Income (net of tax) | | - | - | - |
| (2) Total Comprehensive Income for the Year | | - | - | - |
| Transactions with Equity Holders, Recognised Directly in Equity | | | | |
| Redemption of Preference Shares*** | | - | - | (33,901) |
| Dividends | 17 | - | - | - |
| Transfers from/to Retained Profits | 42, 43.2, 43.5, 43.6 | - | - | - |
| (3) Total Transactions with Equity Holders | | - | - | (33,901) |
| Balance as at 31st December 2012 (1+2+3) | | 6,806,722 | 3,418,730 | - |
| (1) Balance as at 1st January 2013 | | 6,806,722 | 3,418,730 | - |
| Total Comprehensive Income for the Year | | | | |
| Profit/(Loss) for the Year | | - | - | - |
| Other Comprehensive Income (net of tax) | | - | - | - |
| (2) Total Comprehensive Income for the Year | | - | - | - |
| Transactions with Equity Holders, Recognised Directly in Equity | | | | |
| Cash/Scrip Dividends | 17 | 156,000 | 148,272 | - |
| Transfers from/to Retained Profits | 42, 43.2, 43.5, 43.6 | - | - | - |
| Changes in Ownership Interests in Subsidiaries | | | | |
| Acquisition of Non-Controlling Interest without change in control | | - | - | - |
| (3) Total Transactions with Equity Holders | | 156,000 | 148,272 | - |
| Balance as at 31st December 2013 (1+2+3) | | 6,962,722 | 3,567,002 | - |

* Statutory Reserve Fund represents the statutory requirement in terms of the Section 20 (1) and (2) of the Banking Act No. 30 of 1988 (5% of net profit after tax).

** According to the circular Ref. No. 08/24/002/0005/003 issued by the Central Bank of Sri Lanka, Primary Dealer Unit is required to appropriate 25% of the profit after tax for the year towards the Special Risk Reserve. However, Licensed Commercial Banks appointed as Primary Dealers were exempted from this requirement of maintaining such Special Reserve as per Direction No. 08/11/011/0019/001 dated 18th March 2013.

*** As provided in Section 64 (1) of the Companies Act No. 07 of 2007, the Bank redeemed its Preference Shares (which Article 6 of the Company enables to effect such purchases) with the approval of the Board of Directors.

**** Please refer Note 53.

Notes on pages 199 to 306 form an integral part of these Financial Statements.

Statement of Changes in Equity

| Statutory Reserve Fund **** Rs. '000 Restated | Retained Earnings ***** Rs. '000 Restated | Reserves | | | | Total Rs. '000 | Non-Controlling Interest Rs. '000 | Total Equity Rs. '000 |
|---|---|--|---------------------------------|--|----------------------------|-------------------|--------------------------------------|--------------------------|
| | | Special Risk Reserve ** Rs. '000 | Revaluation Reserve Rs. '000 | Available-for-Sale Reserve Rs. '000 | Other Reserves Rs. '000 | | | |
| 619,095 | 4,919,714 | 98,741 | 820,877 | 130,608 | 980,007 | 17,828,395 | 1,211,218 | 19,039,613 |
| - | 2,074,584 | - | - | - | - | 2,074,584 | 16,066 | 2,090,650 |
| - | 70,372 | - | 48,051 | (255,678) | - | (137,255) | 1,848 | (135,407) |
| - | 2,144,956 | - | 48,051 | (255,678) | - | 1,937,329 | 17,914 | 1,955,243 |
| - | (8,474) | - | - | - | - | (42,375) | - | (42,375) |
| - | (338,847) | - | - | - | - | (338,847) | (7,128) | (345,975) |
| 107,092 | (655,778) | 14,181 | - | - | 539,254 | 4,749 | - | 4,749 |
| 107,092 | (1,003,099) | 14,181 | - | - | 539,254 | (376,473) | (7,128) | (383,601) |
| 726,187 | 6,061,571 | 112,922 | 868,928 | (125,070) | 1,519,261 | 19,389,251 | 1,222,004 | 20,611,255 |
| 726,187 | 6,061,571 | 112,922 | 868,928 | (125,070) | 1,519,261 | 19,389,251 | 1,222,004 | 20,611,255 |
| - | 2,326,148 | - | - | - | - | 2,326,148 | 25,897 | 2,352,045 |
| - | 4,943 | - | 487,300 | 766,656 | - | 1,258,899 | 321,167 | 1,580,066 |
| - | 2,331,091 | - | 487,300 | 766,656 | - | 3,585,047 | 347,064 | 3,932,111 |
| - | (678,078) | - | - | - | - | (373,806) | (17,819) | (391,625) |
| 115,777 | (573,267) | (112,922) | - | - | 623,233 | 52,821 | 19 | 52,840 |
| - | 6,272 | - | - | - | - | 6,272 | (13,642) | (7,370) |
| 115,777 | (1,245,073) | (112,922) | - | - | 623,233 | (314,713) | (31,442) | (346,155) |
| 841,964 | 7,147,589 | - | 1,356,228 | 641,586 | 2,142,494 | 22,659,585 | 1,537,626 | 24,197,211 |

Cash Flow Statement

| For the Year ended 31st December | BANK | | GROUP | |
|---|---------------------|--------------------|---------------------|--------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 |
| Cash Flows from Operating Activities | | | | |
| Interest Receipts | 23,619,589 | 19,863,245 | 23,626,498 | 19,863,565 |
| Fees and Commission Receipts | 2,208,628 | 1,760,335 | 2,208,342 | 1,760,103 |
| Interest Payments | (14,339,219) | (11,653,406) | (14,314,915) | (11,634,788) |
| Trading Income | 603,629 | 363,917 | 603,780 | 363,917 |
| Receipts from Other Operating Activities | 53,765 | 102,706 | 117,184 | 177,626 |
| Cash Payments to Employees and Suppliers | (7,365,018) | (6,449,714) | (7,340,832) | (6,416,398) |
| Cash Payments to Other Operating Activities | (81,294) | (65,645) | (87,931) | (71,425) |
| Operating Profit before Changes in Operating Assets & Liabilities [Note (a)] | 4,700,080 | 3,921,438 | 4,812,126 | 4,042,600 |
| (Increase)/Decrease in Operating Assets: | | | | |
| Loans and Receivables (Advanced to)/Repaid by Customers | (12,006,741) | (18,686,095) | (12,006,741) | (18,757,278) |
| Deposits Held for Regulatory or Monetary Control Purposes | 523,476 | (957,933) | 523,476 | (957,933) |
| Increase/(Decrease) in Operating Liabilities: | | | | |
| Deposits from/(Withdrawals by) Customers | 18,960,309 | 21,058,174 | 18,960,309 | 21,058,174 |
| Negotiable Certificates of Deposit | 883,361 | 1,174,162 | 883,361 | 1,174,162 |
| Cash (Used in)/Generated from Operations | 13,060,485 | 6,509,746 | 13,172,531 | 6,559,725 |
| Income Tax Paid | (170,856) | (64,986) | (170,856) | (64,986) |
| Contribution Paid into Employees Retirement Benefit Plan/Employees | (86,753) | (105,744) | (86,753) | (105,847) |
| Net Cash (Used in)/Generated from Operating Activities | 12,802,876 | 6,339,016 | 12,914,922 | 6,388,892 |
| Cash Flows from Investing Activities | | | | |
| Investment in Subsidiary Company | (7,370) | - | - | - |
| Dividend Income | 40,954 | 22,724 | 23,699 | 15,822 |
| Net Proceeds from Sale, Maturity and Purchase of Financial Investments of Government of Sri Lanka Treasury Bills/Bonds Maturing after 03 Months | (10,412,778) | 1,938,924 | (10,492,124) | 1,938,924 |
| Reverse Repurchase Agreements Maturing after 03 Months | (31) | (413) | (31) | (413) |
| Net Proceeds from Sale, Maturity and Purchase of Financial Investments of Shares & Debentures | (1,445,456) | (99,514) | (1,445,456) | (109,515) |
| Purchase of Property, Plant & Equipment, Leasehold Rights & Intangible Assets | (657,040) | (393,845) | (672,102) | (397,749) |
| Proceeds from Sale of Property, Plant & Equipment, Leasehold Rights & Intangible Assets | 143,100 | 81,419 | 143,280 | 81,419 |
| Proceeds from Sale of Investment Properties | - | - | 29,275 | 3,000 |
| Improvements to Investment Properties | - | - | - | (32) |
| Net Cash (Used in)/Generated from Investing Activities | (12,338,621) | 1,549,295 | (12,413,459) | 1,531,456 |
| Cash Flows from Financing Activities | | | | |
| Increase/(Decrease) in Debentures | 2,031,640 | (1,573,605) | 2,031,640 | (1,573,605) |
| Redemption of Preference Shares | - | (42,376) | - | (42,376) |
| Securities Sold under Repurchase Agreements | 899,115 | (5,735,443) | 899,115 | (5,735,443) |
| Increase/(Decrease) in Other Borrowings | 5,891,934 | (118,874) | 5,872,010 | (143,469) |
| Dividends Paid - Ordinary Shares | (368,853) | (335,134) | (386,207) | (343,036) |
| Dividends Paid - Preference Shares | (35) | - | (35) | - |
| Net Cash (Used in)/Generated from Financing Activities | 8,453,801 | (7,805,432) | 8,416,523 | (7,837,929) |
| Net Increase/(Decrease) in Cash & Cash Equivalents | 8,918,056 | 82,879 | 8,917,986 | 82,419 |
| Cash & Cash Equivalents at beginning of the Year | 9,481,018 | 9,398,139 | 9,481,119 | 9,398,700 |
| Cash & Cash Equivalents at end of the Period | 18,399,074 | 9,481,018 | 18,399,105 | 9,481,119 |
| Reconciliation of Cash & Cash Equivalents | | | | |
| Cash & Cash Equivalents - Notes 19 and 21 | 6,150,398 | 6,554,381 | 6,150,429 | 6,554,482 |
| Government of Sri Lanka Treasury Bills/Bonds Maturing within 03 Months | 6,519,216 | 2,753,609 | 6,519,216 | 2,753,609 |
| Securities Purchased under Resale Agreements Maturing within 03 Months | 5,729,460 | 173,028 | 5,729,460 | 173,028 |
| | 18,399,074 | 9,481,018 | 18,399,105 | 9,481,119 |

Cash Flow Statement

Note (a) Reconciliation of Operating Profit

For the Year ended 31st December

| | BANK | | GROUP | |
|---|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 |
| Profit from Operations before Taxation | 3,454,035 | 3,199,358 | 3,496,491 | 3,234,852 |
| Fair Value Adjustment on Interest Income | (933,276) | (1,037,402) | (933,276) | (1,037,584) |
| Fair Value Adjustment on Interest Expenses | 800,515 | 466,209 | 800,515 | 466,239 |
| Fair Value Adjustment on Derivative Instruments | 4,435 | 236,990 | 4,435 | 236,990 |
| Straightlining of Operating Leases | (12,610) | (14,852) | (12,610) | (14,852) |
| (Gain)/Loss on Foreign Currency Translation | 140,680 | (317,113) | 140,680 | (317,113) |
| Amortisation of Prepaid Staff Cost | 177,585 | 98,982 | 177,814 | 99,071 |
| Dividend Income | (40,954) | (22,724) | (23,699) | (15,822) |
| (Profit)/Loss on Sale of Investment Securities | 35,159 | - | 35,159 | - |
| (Profit)/Loss from Sale of Property, Plant & Equipment | (72,922) | (49,693) | (73,017) | (49,693) |
| (Profit)/Loss from Sale of Investment Properties | - | - | (2,281) | - |
| Depreciation of Freehold Property, Plant & Equipment | 432,074 | 404,655 | 452,420 | 434,904 |
| Depreciation of Leasehold Property, Plant & Equipment | 3,357 | 313 | 10,767 | 7,723 |
| Depreciation of Investment Properties | - | - | 8,296 | 20,198 |
| Amortisation of Intangible Assets | 104,391 | 142,938 | 104,391 | 142,938 |
| Impairment for Loans & Other Losses | 1,355,096 | 419,691 | 1,355,096 | 419,691 |
| Accrual for VAT on Financial Services | 228,961 | 26,615 | 228,961 | 29,586 |
| Accrual for Employee Retirement Benefit Liability | 66,711 | 73,726 | 62,445 | 74,186 |
| Impairment Loss on Investments | 75,567 | 153,984 | 75,567 | 153,984 |
| Repayment on Redemption of Preference Shares | - | 8,475 | - | 8,475 |
| (Gain)/Loss on Marked to Market Valuation on Quoted Equities | (39,078) | (112,085) | (39,078) | (112,085) |
| (Gain)/Loss on Marked to Market Valuation on Government of Sri Lanka Treasury Bills/Bonds | (92,432) | (94,579) | (92,432) | (94,579) |
| Notional Tax Credit on Government Securities | (416,711) | (233,410) | (416,711) | (233,410) |
| Accrual for Leave Encashment | 17,819 | (5,791) | 17,819 | (5,791) |
| Accrual for Other Expenses | (328,560) | 582,924 | (320,140) | 600,465 |
| Impairment on Investment Properties | - | - | 14,276 | - |
| Net Gain on Financial Investments - Government Securities & Equities | (190,268) | (5,773) | (190,268) | (5,773) |
| Impairment Loss on Property, Plant & Equipment | (69,494) | - | (69,494) | - |
| | 4,700,080 | 3,921,438 | 4,812,126 | 4,042,600 |

Notes on pages 199 to 306 form an integral part of these Financial Statements.

Change in Operating Assets and Liabilities [Increase/(Decrease)]

| | BANK | | GROUP | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 |
| Change in Assets | | | | |
| Operating Assets | | | | |
| Loans & Receivables | 12,006,741 | 18,686,095 | 12,006,741 | 18,757,278 |
| Balances with Central Bank | (523,476) | 957,933 | (523,476) | 957,933 |
| Investing Assets | | | | |
| Government Securities Maturing after 03 Months | 10,412,778 | (1,938,924) | 10,492,124 | (1,938,924) |
| Securities Purchased under Resale Agreements Maturing after 03 Months | 31 | 413 | 31 | 413 |
| Investments in Equities & Debentures (Net of Disposal) | 1,445,456 | 99,514 | 1,445,456 | 109,515 |
| Other Assets | (748,675) | 1,105,884 | (768,109) | 1,130,170 |
| Total | 22,592,855 | 18,910,915 | 22,652,767 | 19,016,385 |
| Change in Liabilities | | | | |
| Operating Liabilities | | | | |
| Deposits & Certificates of Deposit | 19,843,670 | 22,232,336 | 19,843,670 | 22,232,336 |
| Financing Liabilities | | | | |
| Debentures | 2,031,640 | (1,573,605) | 2,031,640 | (1,573,605) |
| Securities Sold under Repurchase Agreements | 899,115 | (5,735,443) | 899,115 | (5,735,443) |
| Borrowings | 5,409,351 | (1,170,076) | 5,409,351 | (1,170,076) |
| Other Liabilities | (780,836) | 1,318,653 | (764,989) | 1,334,026 |
| Total | 27,402,940 | 15,071,865 | 27,418,787 | 15,087,238 |

Notes on pages 199 to 306 form an integral part of these Financial Statements.

Notes to the Financial Statements

1. Reporting Entity

Seylan Bank PLC ('Bank') is a public quoted company incorporated on 28th August 1987 and domiciled in Sri Lanka. The registered office of the Bank is situated at No. 90, Galle Road, Colombo 03. The Financial Statements of the Bank as at and for the year ended 31st December 2013 comprise the Bank and its Subsidiary (together referred as the 'Group'). The shares of the Bank have a primary listing on the Colombo Stock Exchange.

The staff strength of the Bank as at 31st December 2013 is 3,049 (2012 - 3,061).

1.1 Principal Activities

The principal activities of the Bank are banking and related activities such as accepting deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, travel-related services, corporate and retail credit, project financing, lease financing, rural credit, issuing of local and international credit cards, Tele Banking facilities, Internet Banking, dealing in Government Securities, etc.

The Subsidiary, Seylan Developments PLC, is in the business of development, administration and maintenance of property.

2. Presentation of Financial Statements

2.1 Statement of Compliance

The Statement of Financial Position, Income Statement, Statement of Other Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSS/LKAS) as issued by The Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of the Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 and amendments thereto.

2.2 Approval of Financial Statements by Directors

The Financial Statements were authorised for issue by the Board of Directors on 26th February 2014.

2.3 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following;

- Derivative financial instruments are measured at fair value.
- Financial instruments designated at fair value through profit and loss are measured at fair value.
- Available-for-sale financial assets are measured at fair value.
- Land and buildings are measured at cost at the time of acquisition and subsequently at revalued amounts less accumulated depreciation and impairment losses.
- Liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.

2.4 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees, which is the Bank's functional currency. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise.

Financial Statements of the Bank and Subsidiary are measured using the functional currency. There was no change in the Group's

presentation and functional currency during the year under review.

2.5 Use of Estimates and Judgements

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standards (SLFRSS/LKAS) requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements are described in the following notes:

- Note 24.3 - Identification and Measurement of impaired Loans & Receivables
- Notes 23, 25 & 26 - Recognition and Measurement of Financial Instruments
- Note 40.1 - Measurement of Defined Benefit Plan
- Note 31 - Investment Property
- Note 33 - Deferred Taxation

3. Materiality and Aggregation

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

Notes to the Financial Statements

4. Significant Accounting Policies/Disclosures

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements unless otherwise indicated.

The accounting policies have been applied consistently by Group entities.

4.1 Changes in Accounting Policy

Defined Benefit Plans

The Bank adopted LKAS 19 'Employee Benefits' (2013) with effect from 1st January 2013 as part of its mandatory application and changed its basis for determining the income or expense related to defined benefit plan.

As a result of the change, the Bank now determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) at the beginning of the annual period. The net interest on the net defined benefit liability (asset) comprises:

- Interest cost on the defined benefit obligation; and
- Interest income on plan assets.

Previously, the Group determined interest income on plan assets based on their long-term rate of expected return.

The Impact of change in accounting policy is fully described in Note 53.1.

4.2 Basis of Consolidation

4.2.1 Subsidiaries

Subsidiaries are entities, that are controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential

voting rights presently exercisable are taken into account. The Financial Statements of Subsidiaries are included in the Consolidated Financial Statements from the date that control effectively commences until the date that control effectively ceases.

The accounting policies of Subsidiaries have been changed when necessary to align them with the policies adopted by the Group. The Group Financial Statements comprise a consolidation of the Financial Statements of the Bank and its Subsidiary incorporated in Sri Lanka, Seylan Developments PLC (52.37%). The Subsidiary, Seylan Developments PLC, is in the business of development, administration and maintenance of property.

The total profit/loss of the Subsidiary is included in the Consolidated Income Statement, and the proportion of the profit or loss after taxation applicable to outside shareholders is shown under the heading 'Non-Controlling Interest'. All assets and liabilities of the Bank and its Subsidiary is included in the Group Financial Position. The interest of the outside shareholders in the net assets of the Group is stated separately in the Consolidated Statement of Financial Position within Equity under the heading 'Non-Controlling Interest'.

There are no significant restrictions on the ability of the Subsidiary to transfer funds to the Bank in the form of cash dividends or repayment of loans and receivables.

4.2.2 Loss of Control

Upon the loss of control, the Group derecognises the assets and liabilities of the Subsidiary, any non-controlling interests and the other components of equity related to the Subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous Subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted

for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments.

4.2.3 Transactions Eliminated on Consolidation

Intra-group balances, and income and expenses arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted invitees are eliminated to the extent of the Group's interest in the invitee against the investment. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

4.2.4 Employee Share Option Schemes and Share Trusts

The Trusts are treated as external entities, due to legal cases instituted and the uncertainties relating to the formation of the Trusts and beneficial ownership, it was decided to account for these Trusts as non-controlled entities. Due to the matters under dispute the Bank is unable to determine the payment plan. The legal status of the case is disclosed in Note 45 to the Financial Statements. The impact of such treatment is not material to the Consolidated Financial Statements.

4.2.5 Non-Uniform Accounting Policies

The impact of non-uniform accounting policies adopted by the Subsidiary has been adjusted in the consolidated accounts and disclosed in Note 52.

4.3 Foreign Currency

4.3.1 Foreign Currency Translations

Transactions in foreign currencies are translated to Sri Lankan Rupees at the middle rate of exchange ruling at the dates of the transactions.

Notes to the Financial Statements

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Sri Lankan Rupees at the middle rate of exchange ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Sri Lankan Rupees at the exchange rates ruling at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

4.3.2 Foreign Operations

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognised in other comprehensive income in the translation.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal.

Assets and Liabilities and Basis of Valuation

4.4 Statutory Deposit with Central Bank

The Monetary Law Act requires that all Commercial Banks operating in Sri Lanka maintain reserves against all deposit liabilities denominated in Sri Lankan Rupees.

4.5 Financial Assets and Financial Liabilities

4.5.1 Recognition and Initial Measurement

The Group initially recognises loans and receivables, deposits and debt securities issued on the date at which they are originated.

Changes in fair value in financial assets/liabilities held at fair value through profit and loss are recognised in the Income Statement while any changes in fair value for available-for-sale financial assets is recognised in the Statement of Other Comprehensive Income.

A financial assets or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

4.5.2 Classification

Financial Assets

At inception a financial asset is classified in one of the following categories:

- Loans and receivables;
- Held-to-maturity;
- Available-for-sale; or
- At fair value through profit or loss and within the category as:
 - held for trading; or
 - designated at fair value through profit or loss.

Financial Liabilities

The Group initially recognises all financial liabilities on the date that they are originated and classifies its financial liabilities as measured at amortised cost or fair value through profit or loss (either as held for trading or designated at fair value through profit or loss).

Financial Assets and Financial Liabilities at Fair Value through Profit or Loss

A financial asset or a financial liability is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets and financial liabilities are designated as fair value through profit or loss when;

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

The Group has not designated any financial asset/liability upon initial recognition at fair value through profit or loss as at the reporting date.

Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred. Financial assets and financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Notes to the Financial Statements

Loans and receivables to customers include:

- Those classified as loans and receivables;
- Finance lease receivables.

Loans and receivables classified as loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and receivables.

Held-to-Maturity Financial Assets

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which were not designated as fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a

significant effect on the financial asset's fair value;

- Sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

Available-for-Sale Financial Assets

Available-for-sale investments are non-derivative investments that were designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity. Any permanent decline in value of shares will be charged to Income Statement.

Financial Liabilities Measured at Amortised Cost

Financial liabilities not classified as fair value through profit or loss is recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method. Deposit liabilities including Savings deposits, Current deposits, Fixed/Time deposits, Call deposits, Certificates of deposits and debentures are classified as financial liabilities measured at amortised cost.

4.5.3 Amortised Cost Measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

4.5.4 Fair Value Measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. Valuation

Notes to the Financial Statements

techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e., without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a

valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third party market participant would take them into account in pricing a transaction.

Reclassifications

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurement categories are not permitted following initial recognition.

Held for trading non-derivative financial assets are transferred out of the held at fair value through profit or loss category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification

and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets are transferred out of the available-for-sale category to the loan and receivables category where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets are reclassified to the available-for-sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in shareholders' equity prior to the date of reclassification is amortised to the Income Statement over the remaining life of the financial asset, using the effective interest method.

4.5.5 Derecognition

The Group derecognises financial asset when the contractual rights to the cash flows from the financial asset expires, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the Consolidated Statement of Financial Position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated

Notes to the Financial Statements

to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised on its Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

4.5.6 Offsetting

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs/LKAS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

4.5.7 Identification and Measurement of Impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s),

and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as

to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. Impairment to available-for-sale portfolio would mean a significant (over 50% loss in value) and a prolonged (more than 9 consecutive months of market price reduction) loss in market value. In such an instance the OCI loss would be immediately transferred to the Income Statement.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Notes to the Financial Statements

The Group writes off certain loans and receivables and investment securities when they are determined to be uncollectible.

4.6 Securities Purchased Under Resale Agreements (Repo)

These are loans collateralised by the purchase of Treasury Bills and/or Guaranteed Commercial Papers from the counterparty to whom the loans are granted. The sale by the counterparty is subject to a commitment by the Bank to sell back the underlying debt securities to the borrower at a predetermined price.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

4.7 Cash and Cash Equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central Banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

4.8 Derivatives Held for Risk Management Purposes

Derivatives are categorised as trading unless they are designated as hedging instruments. Bank has not designated any derivatives as hedging instruments and has not followed hedge accounting as at the reporting date.

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are

recognised immediately in profit or loss as a component of net income from other financial instruments at fair value through profit or loss.

All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains or losses recognised in profit and loss. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

4.9 Non-Current Assets Held-for-Sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held-for-sale. Immediately before classification as held-for-sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

4.10 Intangible Assets

4.10.1 (a) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets if any.

Subsequent Measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

4.10.1 (b) Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

4.10.2 Subsequent Expenditure

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

4.10.3 Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is as follows:

| | Useful Life (Years) |
|---------------------------------------|---------------------|
| Seylan Bank PLC (Banking Software) | 6 |
| Seylan Developments PLC | 5 |

Notes to the Financial Statements

4.11 Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes.

Investment property is recognised if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured.

An investment property is measured initially at its cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure. The cost of a self-constructed investment property is its cost at the date when the construction or development is completed. The Bank applies the cost model for investment properties in accordance with LKAS 40 - 'Investment Property'. Accordingly, land classified as investment properties are stated at cost and buildings classified as investment properties are stated at cost, less any accumulated depreciation and any accumulated impairment losses. Fair values of these properties are disclosed in Note 31 to the Financial Statements. Seylan Developments PLC, the Subsidiary of the Bank, applies the fair value model in accordance with the above Standard. Accordingly, investment properties are stated at fair value and an external independent valuation company having an appropriate recognised professional qualification values the portfolio every three-year period. Any gain or loss arising from a change in fair value is recognised in profit or loss. Adjustment for non-uniform accounting policy is reported in Note 52.

When an item of Property, Plant & Equipment is transferred to investment property following a change in its use, any

differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value are recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognised in profit or loss immediately.

If an investment property becomes owner-occupied, it is reclassified as Property, Plant & Equipment and its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

When the Company begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured, based on fair value model, and is not reclassified as Property, Plant & Equipment during the redevelopment.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Company holds it to earn rentals or for capital appreciation or both.

Any such property interest under an operating lease classified as an investment property is carried at fair value. Lease payments are accounted for as described in Accounting Policy 4.22 below.

4.11.1 Derecognition

Investment properties are derecognised when disposed of, or permanently withdrawn from use because no future economic benefits are expected. Transfers are made to and from investment properties only when there is a change in use.

4.11.2 Investment Property Leased within the Group

Any property leased out to Parent or Subsidiary is considered as owner-occupied

from the perspective of the group and adjustments are made for consolidation purposes and changes are disclosed in Note 52 to the Financial Statements.

4.12 Property, Plant & Equipment

Property, plant & equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period.

4.12.1 Recognition and Measurement

Items of Property and Equipment are measured at cost or revaluation, less accumulated depreciation and accumulated impairment losses except for land. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of Property or Equipment have different useful lives, they are accounted for as separate items (Major components) of Property and Equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognised net within other income in profit or loss.

4.12.2 Cost Model

The Bank applies cost model to Property, Plant & Equipment except for land and buildings and records at cost of purchase or

Notes to the Financial Statements

construction together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

4.12.3 Revaluation Model

The Bank applies the revaluation model for the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Land and buildings of the Bank are revalued every five years on a roll over basis to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in Other Comprehensive Income and accumulated in equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Statement of Income. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Statement of Income or debited in the Other Comprehensive Income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

Reclassification to Investment Property

When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is

recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in revaluation reserve in equity. Any loss is recognised immediately in profit or loss.

4.12.4 Subsequent Costs

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

4.12.5 Derecognition

The carrying amount of an item of Property, Plant & Equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of Property, Plant & Equipment is included in Statement of Income when the item is derecognised.

4.12.6 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

Depreciation is provided on a straight line basis over the estimated life of the class of asset from the date of purchase up to the date of disposal.

| | Life Period (Years) | Rate (%) |
|--|---------------------------|-------------|
| Freehold Buildings | 40 | 2.5 |
| Motor Vehicles | 5 | 20 |
| Computer Equipment | 6 | 16.67 |
| Office Equipment, Furniture & Fittings | 3-10 | 33 1/3-10 |
| Freehold Buildings on Leased Hold Lands | Remaining lease period | |

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted appropriately.

Seylan Developments PLC

Property, Plant & Equipment are recorded at cost of purchase or valuation together with any incidental expenses thereon. The assets are stated at cost or valuation less accumulated depreciation which is provided for on the basis specified below.

Depreciation of common types of assets within the Group is in line with the Group policy disclosed above. Freehold land is not depreciated. Leasehold land and buildings are depreciated over the remaining unexpired lease period. The depreciation of other assets that are unique to Seylan Developments PLC is provided on the straight-line method at varying rates per annum based on their useful lives as follows:

| | Useful Life (years) | Depreciation Rate (%) |
|----------------------|------------------------|--------------------------|
| Furniture & Fittings | 10 | 10 |
| Equipment | 05 | 20 |
| Motor Cars | 05 | 20 |
| Motorcycles | 04 | 25 |
| Tools | 03 | 33.3 |
| Apartment Assets | 05 | 20 |
| Leasehold Equipment | 05 | 20 |

4.12.7 Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation.

Notes to the Financial Statements

4.12.8 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard (LKAS) 23 - 'Borrowing Costs'. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed.

Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the Sri Lanka Accounting Standard (LKAS) 17 - 'Leases'.

Other leases are operating leases and are not recognised in the Group's Statement of Financial Position.

4.13 Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or Cash-Generating Unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to Groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.14 Inventory

Inventory mainly consists of stationery and gold. Bank's policy for the accounting of inventory is as follows:

Stationery: At weighted average cost method

Gold Stock: Market value at the year-end

4.15 Liabilities and Provisions

Deposits, Debt Securities Issued and Subordinated Liabilities

Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ('Repo'), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's Financial Statements.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group chooses to carry the liabilities at fair value through profit or loss.

The Group carries some deposits, debt securities and subordinated liabilities at fair value, with fair value changes recognised immediately in profit or loss.

4.15.1 Dividends Payable

Provision for final dividends is recognised at the time the dividend is recommended and declared by the Board of Directors and is approved by the shareholders. Interim dividends payable is recognised when the

Notes to the Financial Statements

Board approves such dividend in accordance with the Companies Act No. 07 of 2007.

4.16 Employee Retirement Benefits

4.16.1 Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank operates an approved Gratuity Fund to facilitate the payments for permanent staff of the Bank.

The Bank's net obligation in respect of defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on Government Bonds that have maturity dates approximating to the terms of the Bank's obligations. The calculation is performed by a qualified actuary using the projected unit credit method - Sri Lanka Accounting Standard (LKAS 19) - 'Employee Benefits'.

Actuarial gains and losses occur when the actual Plan experience differs from the assumed. The Bank recognises the total actuarial gains and losses that arise in calculating the Bank's obligation in respect of the Plan in Other Comprehensive Income during the period in which it occurs.

When the calculations above result in a benefit to the Bank, the recognised asset is limited to the net total of any cumulative unrecognised actuarial losses and past service costs and the present value of any economic benefits available in the form of any refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any

minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Bank if it is realisable during the life of the plan or on settlement of the plan liabilities.

Monthly provision is made by the Bank for the Gratuity Fund, based on a percentage of the basic salary of employees. The percentage of contributions is determined by the same actuary and retirement benefits are provided to all permanent staff. The Bank carries out an actuarial valuation of the Gratuity Fund in December each year to ascertain the full liability of the Fund. The valuation method used by the actuary to value the Fund is the 'Projected Unit Credit Method', the method recommended by LKAS 19. The demographic assumptions underlying the valuation are retirement age (55 years), early withdrawals from service and retirement on medical grounds, death before and after retirement, etc.

However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

Changes to Gratuity Policy

Board of Directors of the Bank at its meeting held on 24th March 2009 decided to change the previous policy of gratuity payments of paying one month's salary (last drawn) to resigned staff members who have completed ten years of service in the Bank with effect from 5th March 2009.

The policy of paying half a month salary (last drawn) to resigned staff members who have completed five years of service in the Bank remains unchanged.

Based on the Sri Lanka Accounting Standard (LKAS) 19 - 'Employee Benefits' the Subsidiary have adopted the Actuarial Valuation Method. Accordingly, provisions have been made based on the above method.

The gratuity liabilities are externally funded through plan assets of the Gratuity Trust Fund.

Other Long-Term Employee Benefits - (Termination Benefit - Leave Encashment)

The Bank's net obligation in respect of long-term employee benefits other than gratuity funds is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on Government Bonds that have maturity dates approximating to the terms of the Bank's obligations. The calculation is performed using the projected unit credit method.

Any actuarial gains and losses are recognised in profit or loss in the period in which they arise. The Bank's liability towards the portion of the accumulated leave which is expected to be utilised beyond one year from the end of the reporting period is treated as other long-term employee benefits.

Termination Benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Notes to the Financial Statements

Short-Term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

4.16.2 Defined Contribution Plans

A defined contribution plan is a post employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to defined contribution plans are recognised as expense in the Statement of Income as and when they are due.

4.16.2 (a) Employees' Provident Fund

The Bank and employees contribute 12% and 8% respectively on the salary of each employee to the approved Private Provident Fund while the Subsidiary entities and their employees contribute the same percentages to the Employees' Provident Fund.

4.16.2 (b) Employees' Trust Fund

The Bank contributes 3% of the salary of each employee to the Employees' Trust Fund. The total amount recognised as an expense to the Bank for contribution to ETF is disclosed in the Notes to Financial Statements. (Refer Note 14)

4.17 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle

the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

4.18 Financial Guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

4.19 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. The Bank's share of any contingencies and capital commitments of a Subsidiary, for which the Bank is also liable severally or otherwise are also included with appropriate disclosures.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

Income Statement

4.20 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the Income Statement include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income/expense;

Notes to the Financial Statements

- Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Fair value changes on other derivatives held for risk management purposes, and all other financial assets and liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the Income statement.

Interest income on available-for-sale investment securities calculated on an effective interest basis is also included in interest income.

4.21 Fee and Commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received. Fee and commission expenses are recognised on a cash basis.

Net Trading Income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

Dividend Income

Dividend income is recognised in the Statement of Income on an accrual basis when the Bank's right to receive the dividend is established.

Usually this is the ex-dividend date for equity securities. Dividends are presented in net trading income or net income from other financial instruments at fair value through profit or loss based on the underlying classification of the equity investment. Dividends on equity instruments designated as at fair value through other comprehensive income are presented in other revenue in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is presented in other comprehensive income. Further, dividends on available-for-sale equity securities were also presented in other revenue.

Accounting for Finance Lease Income

Assets leased to customers who transfer substantially all the risks and rewards associated with ownership other than the legal title are classified as finance leases. Amounts receivable under finance leases are included under 'Lease Rental Receivable'. Leasing balances are stated in the Statement of Financial Position after deduction of initial rentals received.

The excess of aggregate rentals receivable over the cost of the leased assets constitutes the total unearned income. The unearned income is taken into revenue over the term of the lease, commencing from the month in which the lease is executed in proportion to the remaining receivable balance of the lease.

Profit/Loss from Sale of Property, Plant & Equipment

Profit/loss from sale of property, plant & equipment is recognised in the period in which the sale occurs and is classified as other income.

Profit/Loss from Sale of Investment Properties

Any gains or losses on retirement or disposal of investment properties are recognised in the month of retirement or disposal.

Rental Income

Rental income is recognised on an accrual basis.

4.22 Lease Payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

4.23 Income Tax Expense

Income tax expense comprises of current and deferred tax. Income tax expense is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

4.23.1 Current Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of previous years.

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4.23.2 Deferred Tax

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in Subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- Temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each Reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Details of the deferred tax assets and liabilities as at the reporting date are given in Note 33.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis.

4.23.3 Withholding Tax on Dividends

Dividend distributed out of taxable profit of the Subsidiary attracts a 10% deduction at source and is not available for set off against the tax liability of the Bank. Thus, the withholding tax deducted at source is added to the tax expense of the Subsidiary in the Consolidated Financial Statements as a consolidation adjustment.

Withholding tax that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

4.23.4 Value Added Tax on Financial Services

The value base for Value Added Tax for the Bank is the adjusted accounting profit before tax and emoluments of employees. The adjustment to the accounting profit before tax is for economic depreciation computed on prescribed rates instead of the rates adopted in the Financial Statements.

4.23.5 Economic Service Charges (ESC)

As per the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from 1st April 2004. Currently, the ESC is payable at 0.25% on 'Exempt Turnover' and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward set-off against the income tax payable in the five subsequent years.

4.23.6 Crop Insurance Levy

Section 14 of the Finance Act No. 12 of 2013 impose a crop insurance levy on institutions under the preview of -

- Banking Act No. 30 of 1988
- Finance Companies Act No. 78 of 1988

- Regulation of Insurance Industry Act No. 43 of 2000

Accordingly, Bank is required to pay 1% of the profit after tax for a year of assessment to the National Insurance Trust Fund with effect from 1st April 2013.

4.24 Earnings Per Share

The Group presents Basic and Diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees (if any).

4.25 Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

The Group comprises the following major business segments - Banking, Consumer Financing (Leasing), Treasury and Property/ Investments.

4.26 Cash Flow Statement

The Cash Flow Statement has been prepared using the 'Direct Method' of preparing Cash Flows in accordance with the LKAS 7 - 'Statement of Cash Flows'.

For the purpose of the Cash Flow Statement, cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central Bank and highly liquid financial assets with

Notes to the Financial Statements

original maturities of less than three months, which are subject to insignificant risk of changes in their value, and are used by the Bank in the management of its short-term commitments.

Regulatory Provisions

4.27 Deposit Insurance Scheme

In terms of the Banking Act Direction No. 5 of 2010 'Insurance of Deposit Liabilities' issued on 27th September 2010 and subsequent amendments there to all Licensed Commercial Banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No. 1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1st October 2010. Deposits to be insured include demand, time and savings deposit liabilities and exclude the following:

- Deposit liabilities to member institutions;
- Deposit liabilities to the Government of Sri Lanka;
- Deposit liabilities to Directors, Key Management Personnel and other related parties as defined in Banking Act Direction No. 11 of 2007 on Corporate Governance of Licensed Commercial Banks;
- Deposit liabilities held as collateral against any accommodation granted;
- Deposit liabilities falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act funds of which have been transferred to Central Bank of Sri Lanka.

Banks are required to pay a premium of 0.10% on eligible deposit liabilities if the Bank maintains a capital adequacy ratio of 14% or above as at the end of the immediately preceding financial year or a premium of 0.125% on eligible deposit

liabilities for all other Licensed Commercial Banks calculated on the total amount of eligible deposits as at the end of the quarter within a period of 15 days from the end of the quarter.

4.28 Investment Fund Account

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

As and when taxes are paid after 1st January 2011 Licensed Commercial Banks are required to transfer the following funds to the Investment Fund Account and build a permanent fund in the Bank:

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

Licensed Commercial Banks shall utilise the funds in the Investment Fund Account in the following manner:

- Invest in long-term Government Securities and/or Bonds with maturities not less than seven years.
- Lend on Maturities not less than five years at interest rates not exceeding 5-year Treasury Bond rates plus 2%.
- Lend only for the following purposes:
 - I. Long-term loans for cultivation of plantation crops/agriculture crops including fruits, vegetables, cocoa and spices and for livestock and fisheries.
 - II. Factory/mills modernisation/ establishment/expansion.

- III. Small and medium enterprises: Loans up to Rs. 200 Mn. to enterprises with annual turnover less than Rs. 600 Mn.
- IV. Information technology-related activities and business process outsourcing.
- V. Infrastructure development.
- VI. Education - vocational training and tertiary education.
- VII. Housing up to Rs. 2 Mn. per customer for construction of a house for residential purposes.
- VIII. Housing development: construction of low cost houses for residential purpose.
- IX. Construction of hotels and for related purposes.
- X. Investment in/purchase of sustainable energy sources including solar power up to Rs. 10 Mn.
- XI. Women entrepreneurship venture capital projects up to Rs. 10 Mn.
- XII. Restructuring of loans extended for the above purposes.

4.29 Reserves

4.29.1 Statutory Reserve Fund

The Statutory Reserve Fund is maintained as required in terms of the Section 20 (1) and (2) of the Banking Act No. 30 of 1988. Accordingly, the Bank should transfer a sum equivalent not less than 5% out of net profit after taxation but before any dividend is declared to the Statutory Reserve Fund until the Statutory Reserve Fund is equal to 50% of the paid-up capital.

4.29.2 Capital Reserve

This reserve has been created in 1991 and the Debenture Redemption Reserve Fund was transferred to Capital Reserve in 2004.

Notes to the Financial Statements

4.29.3 Revaluation Reserve

This reserve has been created on revaluation of Land and Building of the Bank.

4.29.4 General Reserve

This has been created in 1995.

4.29.5 Investment Fund Reserve

As per the Value Added Tax (Amendment) ACT No. 09 of 2011 and Inland Revenue (Amendment) ACT No. 22 of 2011, Bank transfers 8% on Value Addition attributable to Financial Services and 5% of taxable profits, from retained profits to Investment Fund Reserve with effect from 1st January 2011.

4.29.6 Available-for-Sale Reserve

This has been created on 2012 to account the fair value changes on account of Available-for-Sale Securities.

4.30 Events Occurring after the Reporting Date

Events after the reporting date are those events, favourable and unfavourable, that occur between the reporting date and the date the Financial Statements are authorised for issue.

All material and important events which occur after the reporting date have been considered and disclosed in Note 47 or adjusted as applicable.

Comparative Information

The comparative information is reclassified wherever necessary to conform with the current year's presentation in order to provide a better presentation. The details of restatements are disclosed in Note 53 to the Financial Statements.

New Accounting Standards Issued but not Effective as at reporting date

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1st January 2014/2015.

Accordingly, these Standards have not been applied in preparing these Financial Statements.

SLFRS 9 - Financial Instruments: Classification and Measurement

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

The effective date for SLFRS 9 is yet to be announced by The Institute of Chartered Accountants of Sri Lanka.

SLFRS 10 - Consolidated Financial Statements

The objective of this SLFRS is to establish principles for the presentation and preparation of Consolidated Financial Statements when an entity controls one or more other entities.

SLFRS 10 will become effective from 1st January 2014 for the Group with early adoption permitted. This SLFRS will supersede the requirements relating to Consolidated Financial Statements in LKAS 27 'Consolidated and Separate Financial Statements'.

SLFRS 11 - Joint Arrangements

SLFRS 11 will become effective from 1st January 2014 for the Group with early adoption permitted.

SLFRS 12 - Disclosure of Interests in Other Entities

SLFRS 12 will become effective from 1st January 2014 for the Group with early adoption permitted.

SLFRS 13 - Fair Value Measurement

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

SLFRS 13 will be effective for financial periods beginning on or after 1st January 2014.

The extent of the impact of the above Standards to the Financial Statements has not been determined as at 31st December 2013. None of these are expected to have a significant effect on the Consolidated Financial Statements of the Group.

5. Financial Risk Management

5.1 Introduction and Overview

The Bank has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board discharges its governance responsibility through the Board Integrated Risk Management Committee and the Audit Committee. Board Integrated Risk Management Committee consists of non-executive members who report regularly

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to the Board of Directors on their activities. There are several executive management Sub-committees such as Executive Market and Operational Committee, Asset and Liability Committee (ALCO), Executive Credit Management Committee and IT Steering Committee, which focus on specialised risk areas that support the Board Integrated Risk Management Committee.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank and Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures. The Audit Committee is assisted in these functions by internal audit. Internal audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

5.1.1 Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and receivables to customers and other banks, and investment debt securities. For risk management

reporting purposes the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading assets is managed independently and information thereon is disclosed below. The market risk in respect of changes in value in trading assets arising from changes in market credit spreads applied to debt securities and derivatives included in trading assets is managed as a component of market risk, further details are provided in market risk section.

Management of Credit Risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Bank Credit Committee. Bank Credit Risk Monitoring Unit reporting to Credit Committee through the Chief Risk Officer is responsible for management of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Heads of Credit, Board Credit Committee or the Board of Directors as appropriate.

- Reviewing and assessing credit risk. Heads of Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and receivables), and by issuer. Refer Concentration of Risk in the Risk Report.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Heads of Credit who may require appropriate corrective action to be taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.
- Regular audits of business units and Bank Credit processes are undertaken by internal audit.

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Exposure to Credit Risk

The table below set out information about credit quality of financial assets and allowance for impairment held by the Bank against those assets:

| Carrying Amount | Loans and Receivables to Customers | Investment Debt Securities AFS & HTM |
|--|--|---|
| | 2013 Rs. '000 | 2013 Rs. '000 |
| Assets at Amortised Cost | | |
| Individually Impaired: | | |
| Grade 3: Impaired | 1,347,346 | |
| Grade 4: Impaired | 1,058,388 | |
| Grade 5: Impaired | 644,174 | |
| Grade 6: Impaired | 849,377 | |
| Gross Amount (a) | 3,899,285 | |
| Allowance for Impairment (b) | 2,999,778 | |
| Carrying Amount (a)-(b) | 899,507 | |
| Collectively Impaired: | | |
| Grade 3: Impaired | 6,833,964 | |
| Grade 4: Impaired | 1,510,057 | |
| Grade 5: Impaired | 910,470 | |
| Grade 6: Impaired | 5,077,641 | |
| Gross Amount (c) | 14,332,132 | |
| Allowance For Impairment (d) | 4,615,049 | |
| Carrying Amount (c) - (d) | 9,717,083 | |
| Past Due But Not Impaired: | | |
| Grade 1-2: Watch List | 29,165,147 | |
| Carrying Amount (e) | 29,165,147 | |
| Past Due But Not Impaired Comprises: | | |
| 30-60 Days | 28,564,845 | |
| 60-90 Days | 600,302 | |
| Carrying Amount | 29,165,147 | |
| Neither Past Due nor Impaired: | | |
| Grade 0: | 96,771,120 | |
| Carrying Amount (f) | 96,771,120 | |
| Loans and Receivables (Gross) (a+c+e+f) | 144,167,684 | |
| Less-Allowance For Impairment (b) + (d) | 7,614,827 | |
| Available-for-Sale Investment Securities | | |
| Quoted and Unquoted Equities/Debentures | | 722,584 |
| Gross Amount | | 722,584 |
| Fair Value Gain | | (250,051) |
| Carrying Amount (i) | | 972,635 |
| Treasury Bills and Bonds | | 12,407,810 |
| Gross Amount | | 12,407,810 |
| Fair Value Gain | | (621,519) |
| Carrying Amount (ii) | | 13,029,329 |
| Unquoted Equities - (Prime Grameen Micro Finance Limited) | | 2,332,000 |
| Gross Amount | | 2,332,000 |
| Allowance for Impairment | | 2,332,000 |
| Carrying Amount (iii) | | - |
| Carrying Amount - Available-for-Sale Investment Securities (i+ii+iii) (g) | | 14,001,964 |
| Held-to-Maturity Investment Securities (h) | | 24,050,862 |
| Total Carrying Amount (a-b+c-d+e+f) and (g+h) | 136,552,857 | 38,052,826 |

Impaired Loans and Investment Debt Securities

Individually impaired loans and securities are loans and receivables and investment debt securities HTM and AFS (other than those carried at fair value through profit or loss) for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan/investment security agreement(s). These loans are graded 3 to 6 in the Bank's internal credit risk grading system. Loans and receivables and investment debt securities carried at fair value through profit or loss are not assessed for impairment but are subject to the same internal grading system.

Past Due but Not Impaired Loans and Investment Debt Securities

Past due but not impaired loans and investment debt securities, other than those carried at fair value through profit or loss, are those for which contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

Allowances for Impairment

The Bank establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan and investment debt security portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and, for assets measured at amortised cost, a collective loan loss allowance established for banks of homogeneous assets as well as for individually significant exposures that were subject to individual assessment for

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impairment but not found to be individually impaired. Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

Set out below are analysis of the gross and net (of allowances for impairment) amounts of individually significant and collectively impaired loans.

Allowance For Impairment

Loans and Receivables

| | Individually Impaired Rs. '000 | Collectively Impaired Rs. '000 | Total Rs. '000 |
|--------------------------------|--------------------------------------|--------------------------------------|-------------------|
| Gross Amount | 3,899,285 | 14,332,132 | 18,231,417 |
| Less: Allowance for Impairment | 2,999,778 | 4,615,049 | 7,614,827 |
| Carrying Amount | 899,507 | 9,717,083 | 10,616,590 |

Write-Off Policy

The Bank writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when Bank Credit determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

The Bank holds collateral against loans and receivables to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually

assessed as impaired. Collateral generally is not held over loans and receivables to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31st December 2013 (2012: No collateral held).

An estimate made at the time of borrowing of the fair value of collateral and other security enhancements held against

loans and receivables to customers and banks is given below and the value of collateral has been restricted to the value of the loans outstanding balances.

Loans and receivables are covered by the following collateral types. Where collateral values exceed the loan balance, collateral values have been restricted to the value of the loan outstanding balances.

| | Rs. '000 |
|---|--------------------|
| Documentary Bills (Excluding Export Bills Purchased at Current Exchange Rate) | 191,451 |
| Government Securities | 140,018 |
| Stocks, Bonds, Debentures, Sundries including Life Policies | 1,464,232 |
| Fixed, Savings, Other Deposits and Pawning | 39,097,879 |
| Stock in Trade | 3,675,619 |
| Immovable Property, Plant & Machinery | 67,231,108 |
| Personal Guarantees and Promissory Notes | 3,108,308 |
| Trust Receipts | 3,255,197 |
| Leasing Hire Purchase Agreements and Motor Vehicles | 11,029,938 |
| Other Securities | 3,899,378 |
| | 133,093,128 |
| On Clean Basis | 11,074,556 |
| Total | 144,167,684 |

Notes to the Financial Statements

Fair value of Financial Instruments Carried at Amortised Cost

The table below shows a comparison of the carrying amounts, as reported on the Statement of Financial Position, and fair values of financial assets and liabilities carried at amortised cost.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The estimated fair values are based on relevant information.

There are various limitations inherent in this fair value disclosure particularly where prices may not represent the underlying value due to dislocation in the market. Not all of the Bank's financial instruments can be exchanged in an active trading market. The Bank obtains the fair values for investment securities from quoted market prices where available. Where securities are unlisted and quoted market prices are not available, the Bank obtains the fair value by means of discounted cash flows and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk and liquidity.

Given below is the methodologies and assumptions used in fair value estimates.

Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents, approximate their fair value as those are short-term in nature and are receivable on demand.

Securities Purchased Under Resale Agreements

These are short-term reverse repurchase contracts which will be matured within twelve months from the reporting date and thus the carrying amounts of such contracts approximate to their fair values.

Loans and Receivables

Approximately 76% of the total portfolio of loans and receivables to customers have a remaining contractual maturity of less than one year.

The fair value of loans and receivables with a maturity of more than one year is the present value of future cash flows expected to be received from such loans and

receivables calculated based on interest rates at the reporting date for similar types of loans and receivables. Such loans include both fixed and floating rate loans. Majority of the floating rate loans can be re priced while for fixed rate loans, the loan contract allows the Bank to change the contracted rate if there is a material difference between the contracted rate and the market interest rate.

The Bank calculated the fair value of the housing loan portfolio and leasing advances with a fixed interest rate and that will have a maturity of more than 12 months from the reporting date. Fair value of such loans as at 31st December 2013 was Rs. 8,511 Mn. and Rs. 8,467 Mn. as against its carrying value which amounted to Rs. 8,682 Mn. and Rs. 8,690 Mn. respectively.

Held-to-Maturity Financial Assets

Held-to-maturity investment are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which were not designated as fair value through profit or loss or as available-for-sale.

However for the disclosure purpose the Bank has calculated the fair value of such assets based on price formula applicable to such instruments at the reporting date. For the debentures held under HTM portfolio, fair value has been calculated using the market rate applicable for each instrument based on the remaining maturity period.

Sri Lanka Development Bonds are variable rate instruments issued by the Government where repricing happens semi annually. Thus the carrying value of these bonds approximate to their fair value as at the reporting date.

| | 31.12.2013 | |
|--|----------------------------|------------------------|
| | Carrying Value Rs. '000 | Fair Value Rs. '000 |
| Financial Assets | | |
| Cash and Cash Equivalents | 5,180,195 | 5,180,195 |
| Securities Purchased under Resale Agreements | 5,729,904 | 5,729,904 |
| Customer Loans and Receivables | 136,552,857 | 136,160,409 |
| Financial Investments - Held-to-Maturity | 24,050,862 | 24,146,592 |
| Investments in Subsidiary | 800,624 | 697,440 |
| Financial Liabilities | | |
| Due to Banks | 11,544,206 | 11,544,206 |
| Customer Deposits | 167,371,384 | 167,371,384 |
| Securities Sold under Repurchase Agreements | 4,573,955 | 4,573,955 |
| Debentures | 3,243,299 | 3,371,807 |

Notes to the Financial Statements

Liabilities

Due to Banks

Approximately 94% of the amounts due to other banks as at the reporting date have a remaining contractual maturity of less than one year. Majority of the balance amount comprised of floating rate instruments. Therefore fair value of amounts due to banks approximate to the carrying value as at the reporting date.

Deposits

More than 90% of the customer deposits are either repayable on demand or have a remaining contractual maturity of less than one year. Customer deposits with a contractual maturity of more than one year are subject to pre-mature upliftment. Amounts paid to customers in the event of pre-mature upliftment would not be materially different to its carrying value as at date. Therefore fair value of customer deposits approximates to their carrying value as at the reporting date.

Securities Sold Under Repurchase Agreements

Securities sold under repurchase agreements have a remaining contractual maturity of less than twelve months. Accordingly, carrying value of these borrowings would not be materially different to their fair values as at the reporting date.

Debentures

Subordinated term debts include fixed and variable rate debentures.

Carrying value of the variable rate debentures approximate to their fair values as at the reporting date.

In respect of fixed rate subordinated debentures, fair value has been determined by discounting the future cash flows by the interest rates prevailing as at the reporting date for similar instruments. Accordingly the fixed rate debentures had a fair value of Rs. 3,372 Mn. as at 31st December 2013 as against its carrying value which amounted to Rs. 3,243 Mn.

Collateral Held and Other Credit Enhancement and the Financial Effect

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The table below sets out principal types of collateral and their approximate collateral percentages that are held against different types of financial assets.

| Type of Credit Exposure | Principal Type of Collateral Held-for-Secured Lending | Percentage of Exposure that is Subject to an Arrangement that Requires Collateralisation 2013 |
|---|---|---|
| Derivative Financial Instruments | Cash | 100% |
| Loans and Receivables to Banks | | |
| Securities Purchased under Resale Agreements | Marketable Securities | 100% |
| Placements with Banks and Finance Companies | None | - |
| Loans and Receivables to Retail Customers | | |
| Mortgage Lending | Residential Property | 100% |
| Credit Cards | None | - |
| Loans and Receivables to Corporate Customers | | |
| Finance Leases | Property and Equipment | 100% |
| Other Lending to Corporate Customers | Commercial Property, Floating Charges over Corporate Assets | 92% |
| Reverse Sale and Repurchase Agreements | Marketable Securities | 100% |

Details of financial and non-financial assets obtained by the Bank during the year by taking possession of collateral held as security (foreclosed) against loans and receivables as well as calls made on credit enhancements and held at the year ended 31st December 2013 is shown below:

| | Loans & Receivables Rs. '000 | Forced Sale Value of Foreclosed Collateral Rs. '000 |
|---|---------------------------------|--|
| Balance as at 1st January 2013 | 1,549,147 | 1,989,269 |
| Additions during the Year | 201,678 | 276,500 |
| Disposal During the Year | (330,696) | (407,850) |
| Changes in the Fair Value | - | (27,200) |
| Write Down Against Available Provisions | (473,161) | - |
| Balance as at 31st December 2013 | 946,968 | 1,830,719 |

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank generally does not use the non-cash collateral for its own operations.

Notes to the Financial Statements

Concentrations of Credit Risk

The Bank monitors concentrations of credit risk by sector and by geographic location.

An analysis of concentrations of credit risk of loans and receivables at the reporting date is shown below:

| Industry Sector | 2013 Rs. '000 | 2012 Rs. '000 |
|---------------------------------|--------------------|--------------------|
| Agriculture and Fishing | 9,700,856 | 8,228,873 |
| Manufacturing | 17,591,107 | 14,095,052 |
| Tourism | 2,935,262 | 2,998,320 |
| Transport | 9,745,576 | 4,015,801 |
| Construction | 23,565,578 | 22,750,169 |
| Traders | 31,133,378 | 20,543,369 |
| New Economy | 685,835 | 1,225,554 |
| Financial and Business Services | 10,807,814 | 14,108,986 |
| Infrastructure | 1,473,710 | 828,295 |
| Other Services | 8,509,410 | 4,528,757 |
| Other* | 28,019,158 | 39,650,514 |
| Total | 144,167,684 | 132,973,690 |

* The pawning portfolio which is considered under 'others' includes part of agricultural lending.

Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of Liquidity Risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Bank Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Bank Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and receivables to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business units and subsidiary are met through short-term loans from Bank and Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Bank relies on deposits from customers and banks, and issued debt securities and subordinated liabilities as its primary sources of funding. While the Bank's debt securities and subordinated liabilities

| Concentration by Location | Loans and Receivables to Customers | |
|---------------------------|------------------------------------|--------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 |
| Province | | |
| Central | 7,190,336 | 6,420,270 |
| Eastern | 5,487,378 | 4,943,937 |
| North | 4,442,267 | 6,407,632 |
| North Central | 2,960,403 | 3,022,724 |
| North West | 5,232,250 | 4,167,054 |
| Sabaragamuwa | 7,147,060 | 6,823,359 |
| Southern | 5,295,026 | 4,343,735 |
| Uva | 1,632,647 | 1,642,222 |
| Western | 104,780,317 | 95,202,757 |
| | 144,167,684 | 132,973,690 |

Concentration by location for loans and receivables is measured based on the location of the branch entity holding the asset, which has a high correlation with the location of the borrower.

The table below shows the carrying amounts of the Bank's exposures to other financial instruments.

| | 2013 Rs. '000 | 2012 Rs. '000 |
|--|------------------|------------------|
| Financial Assets Held for Trading | 11,183,843 | 2,460,272 |
| Derivatives | 287,210 | 51,281 |
| Investment Securities: | | |
| Financial Investments - Available-for-Sale | 14,001,964 | 11,358,103 |
| Financial Investments - Held-to-Maturity | 24,050,862 | 19,822,966 |

Notes to the Financial Statements

have maturities of five years, deposits from customers and banks generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

Exposure to Liquidity Risk

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to deposits from customers and other liabilities. For this purpose liquid assets are considered as including cash and cash equivalents and investment for which there is an active and liquid market. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the, Central Bank of Sri Lanka. Details of the reported bank ratio of net liquid assets to the liabilities from customers at the reporting date and during the year were as follows:

| | 2013 | | 2012 | |
|----------------------|-------|--------|-------|--------|
| | DBU % | FCBU % | DBU % | FCBU % |
| At 31st December | 26.74 | 25.93 | 21.51 | 23.06 |
| Average for the Year | 25.28 | 23.53 | 21.12 | 24.42 |
| Maximum for the Year | 27.02 | 26.20 | 22.09 | 25.41 |
| Minimum for the Year | 22.80 | 20.68 | 20.37 | 23.06 |

Maturity analysis for the financial liabilities is shown below with their undiscounted impact over the future periods to explain the contractual liability.

Financial Liabilities - 2013

| | Less Than 3 Months Rs. '000 | 3 Months to 1 Year Rs. '000 | 1-5 Years Rs. '000 | More Than 5 Years Rs. '000 | Total Rs. '000 |
|---|-----------------------------------|-----------------------------------|-----------------------|----------------------------------|-------------------|
| Non-Derivative Liabilities | | | | | |
| Trading Liabilities | | | | | |
| Deposits from Banks/Borrowing | 10,024,633 | 2,588,797 | 508,838 | 405,420 | 13,527,688 |
| Deposits from Customers and Finance Companies | 77,642,115 | 82,948,974 | 11,908,074 | 7,123,573 | 179,622,736 |
| Debentures | 796,180 | - | 3,144,601 | - | 3,940,781 |
| Securities Sold Under Repurchase Agreement | 4,196,154 | 515,423 | - | - | 4,711,577 |

Financial Liabilities - 2012

| | Less Than 3 Months Rs. '000 | 3 Months to 1 Year Rs. '000 | 1-5 Years Rs. '000 | More Than 5 Years Rs. '000 | Total Rs. '000 |
|---|-----------------------------------|-----------------------------------|-----------------------|----------------------------------|-------------------|
| Non-Derivative Liabilities | | | | | |
| Trading Liabilities | | | | | |
| Deposits from Banks/Borrowings | 5,498,289 | - | 136,093 | 799,042 | 6,433,424 |
| Deposits from Customers and Finance Companies | 70,185,512 | 70,590,327 | 8,552,412 | 5,742,009 | 155,070,260 |
| Debentures | - | 87,423 | 1,372,626 | - | 1,460,049 |
| Securities Sold Under Repurchase Agreement | 3,432,763 | 653,659 | - | - | 4,086,422 |

Notes to the Financial Statements

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements.

Liquidity Reserve

The table below sets out the components of Bank's liquid assets that are held for the liquidity purpose.

| | Carrying Amount 2013 Rs. '000 | Fair Value 2013 Rs. '000 |
|------------------------------------|--|--------------------------------|
| Cash & Short-Term Funds | 6,150,398 | 6,150,398 |
| Balances with Central Bank | 7,505,185 | 7,505,185 |
| Reverse Repos | 5,729,904 | 5,729,904 |
| Treasury Bills/Bonds Net of Repo's | 40,850,987 | 40,872,949 |
| Bills Purchased | 1,156,189 | 1,156,189 |
| Total Liquidity Reserve | 61,392,663 | 61,414,625 |

Please refer our assumptions on page 218 for estimation of fair values.

The table below sets out the availability of financial assets held by the Bank on the basis of being encumbered or unencumbered as of 31.12.2013 and 31.12.2012.

| | 2013 | | | |
|---------------------------|--------------------------|----------|--------------|-------------|
| | Encumbered | | Unencumbered | |
| | Pledged as Collateral | Other | Other | Total |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Cash and Cash Equivalents | - | - | 5,180,195 | 5,180,195 |
| Placements with Banks | - | - | 970,203 | 970,203 |
| Trading Assets | - | - | 11,183,843 | 11,183,843 |
| Loans and Receivables | - | - | 136,552,857 | 136,552,857 |
| Investment Securities | 4,573,955 | - | 33,478,871 | 38,052,826 |
| Other Assets | - | - | 23,220,935 | 23,220,935 |
| Total Assets | 4,573,955 | - | 210,586,904 | 215,160,859 |

| | 2012 | | | |
|---------------------------|--------------------------|----------|--------------|-------------|
| | Encumbered | | Unencumbered | |
| | Pledged as Collateral | Other | Other | Total |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Cash and Cash Equivalents | - | - | 6,554,381 | 6,554,381 |
| Placements with Banks | - | - | - | - |
| Trading Assets | - | - | 2,460,272 | 2,460,272 |
| Loans and Receivables | - | - | 124,728,371 | 124,728,371 |
| Investment Securities | 3,674,840 | - | 27,506,229 | 31,181,069 |
| Other Assets | - | - | 18,737,583 | 18,737,583 |
| Total Assets | 3,674,840 | - | 179,986,836 | 183,661,676 |

Notes to the Financial Statements

Market Risks

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

| | 2013 | | |
|--|-----------------------------|--------------------------------|------------------------------------|
| | Carrying Amount Rs. '000 | Trading Portfolios Rs. '000 | Non-Trading Portfolios Rs. '000 |
| Assets Subject to Market Risk | | | |
| Trading Assets | 11,183,843 | 11,183,843 | - |
| Derivative Financial Instruments | 287,210 | - | 287,210 |
| Loans and Receivables to Banks | 970,203 | - | 970,203 |
| Loans and Receivables to Customers | 136,552,857 | - | 136,552,857 |
| Financial Investments - Available-for-Sale | 14,001,964 | - | 14,001,964 |
| Securities Purchased under Resale Agreements | 5,729,904 | - | 5,729,904 |
| | 168,725,981 | 11,183,843 | 157,542,138 |
| Liabilities Subject to Market Risk | | | |
| Derivative Financial Instruments | 382,815 | - | 382,815 |
| Deposits | 167,371,384 | - | 167,371,384 |
| Debentures | 3,243,299 | - | 3,243,299 |
| Borrowings | 11,556,944 | - | 11,556,944 |
| Securities Sold under Resale Agreements | 4,573,955 | - | 4,573,955 |
| | 187,128,397 | - | 187,128,397 |

| | 2012 | | |
|--|-----------------------------|--------------------------------|------------------------------------|
| | Carrying Amount Rs. '000 | Trading Portfolios Rs. '000 | Non-Trading Portfolios Rs. '000 |
| Assets Subject to Market Risk | | | |
| Trading Assets | 2,460,272 | 2,460,272 | - |
| Derivative Financial Instruments | 51,281 | - | 51,281 |
| Loans and Receivables to Banks | - | - | - |
| Loans and Receivables to Customers | 124,728,371 | - | 124,728,371 |
| Financial Investments - Available-for-Sale | 11,358,103 | - | 11,358,103 |
| Securities Purchased under Resale Agreements | 173,441 | - | 173,441 |
| | 138,771,468 | 2,460,272 | 136,311,196 |
| Liabilities Subject to Market Risk | | | |
| Derivative Financial Instruments | 278,826 | - | 278,826 |
| Deposits | 146,727,199 | - | 146,727,199 |
| Debentures | 1,211,659 | - | 1,211,659 |
| Borrowings | 6,147,593 | - | 6,147,593 |
| Securities Sold under Resale Agreements | 3,674,840 | - | 3,674,840 |
| | 158,040,117 | - | 158,040,117 |

Notes to the Financial Statements

Management of Market Risks

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the Bank's Treasury Department, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in ALCO. The Bank's Market Risk Management Unit under the Chief Risk Officer is responsible for the development of detailed risk management policies which is overseen by the Executive Market and Operation Risk Management Committee (EMORC), (subject to review and approval by ALCO) and for the day-to-day review of their implementation. The Bank employs a range of tools to monitor and limit market risk exposures.

Value at Risk (VaR)

VaR is a statistical method of measuring potential loss due to market risk based upon a common confidence interval and time horizon. The Bank implemented the VaR risk management system during the year 2013 and calculates VaR daily using a 95% confidence level, for a one-day holding period for its trading portfolios and Foreign Exchange Exposure (NOP). The Bank calculates general market risk VaR using historical simulation based on 250 days of market data. All material risk factors are captured in VaR and the historical market rates and prices are calculated with reference to foreign exchange rates, interest rates, equity prices and the associated volatilities. While ALCO reviews the VaR results monthly the BIRMC reviews VaR results quarterly and is viewed in the context of its limitations:

- The use of historical data as a substitute for estimating future events may not take in all potential events, particularly those which are extreme in nature;
- The use of a one-day holding period assumes that all exposures can be liquidated or hedged in one day, which may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;
- The use of a 95 % confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

A summary of the VaR position of the Banks trading portfolios and NOP at 31st December 2013 is as follows:

| <i>As at 31st December</i> | 2013 |
|----------------------------|-----------------|
| | Rs. '000 |
| Foreign Currency Risk | 643 |
| Interest Rate Risk | 3,735 |
| Equity Price Risk | 3,067 |
| Overall | 7,445 |

Exposure to Interest Rate Risk - Non-Trading Portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by the Treasury in its day-to-day monitoring activities.

Notes to the Financial Statements

A summary of the Banks total assets and liabilities as at 31st December 2013, based on the remaining period at the Balance Sheet Date to the respective contractual Cash Flow/Maturity dates together with the maturity gap is given below:

| Maturity Gaps | Carrying Amount Rs. '000 | Less than 3 Months Rs. '000 | 3-12 Months Rs. '000 | 1-5 Years Rs. '000 | More than 5 Years Rs. '000 |
|--|-----------------------------|-----------------------------------|-------------------------|-----------------------|----------------------------------|
| 31st December 2013 | | | | | |
| Interest Earning Assets | | | | | |
| Placements with Banks | 970,203 | 970,203 | - | - | - |
| Loans and Receivables to Customers | 136,552,857 | 66,826,611 | 35,509,283 | 28,915,409 | 5,301,554 |
| Investments | 48,374,173 | 6,998,213 | 10,654,831 | 29,508,861 | 1,212,268 |
| Securities Purchased under Resale Agreements | 5,729,904 | 5,729,460 | 444 | - | - |
| Non-Interest Earning Assets | 23,533,722 | 16,390,196 | 45,649 | 148,844 | 6,949,033 |
| Total Assets | 215,160,859 | 96,914,683 | 46,210,207 | 58,573,114 | 13,462,855 |
| Interest Bearing Liabilities | | | | | |
| Deposits from Customers | 155,898,870 | 65,715,942 | 75,967,556 | 9,334,541 | 4,880,831 |
| Borrowings | 11,556,944 | 8,509,384 | 2,370,910 | 398,870 | 277,780 |
| Securities Sold under Repurchase Agreements | 4,573,955 | 4,101,913 | 472,042 | - | - |
| Debt Securities Issued | 3,243,299 | 778,299 | - | 2,465,000 | - |
| Group Balances Payable | 185,264 | 25,264 | 110,000 | 50,000 | - |
| Non-Interest Bearing Liabilities | 39,702,527 | 17,718,588 | 222,321 | - | 21,761,618 |
| Total Assets | 215,160,859 | 96,849,390 | 79,142,829 | 12,248,411 | 26,920,229 |
| Gaps | - | 65,293 | (32,932,622) | 46,324,703 | (13,457,374) |
| 31st December 2012 | | | | | |
| Interest Earning Assets | | | | | |
| Placements with Banks | - | - | - | - | - |
| Loans and Receivables to Customers | 124,728,371 | 62,994,532 | 28,423,257 | 26,853,293 | 6,457,289 |
| Investments | 32,741,435 | 2,894,907 | 2,924,195 | 23,202,131 | 3,720,202 |
| Securities Purchased under Resale Agreements | 173,441 | 173,028 | 413 | - | - |
| Non-Interest Earning Assets | 26,018,429 | 19,436,963 | 41,717 | 136,024 | 6,403,725 |
| Total Assets | 183,661,676 | 85,499,430 | 31,389,582 | 50,191,448 | 16,581,216 |
| Interest Bearing Liabilities | | | | | |
| Deposits from Customers | 135,220,869 | 57,403,619 | 65,507,705 | 7,638,559 | 4,670,986 |
| Borrowings | 6,147,593 | 5,315,652 | - | 369,806 | 462,135 |
| Securities Sold under Repurchase Agreements | 3,674,840 | 3,087,017 | 587,823 | - | - |
| Debt Securities Issued | 1,211,659 | - | 72,550 | 1,139,109 | - |
| Group Balances Payable | 187,272 | 58,322 | 128,950 | - | - |
| Non-Interest Bearing Liabilities | 37,219,443 | 18,137,822 | 229,784 | - | 18,851,837 |
| Total Assets | 183,661,676 | 84,002,432 | 66,526,812 | 9,147,474 | 23,984,958 |
| Gaps | - | 1,496,998 | (35,137,230) | 41,043,974 | (7,403,742) |

Notes to the Financial Statements

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's interest sensitive assets and liabilities to various standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) and a 50 bp parallel fall or rise in all yield curves. An analysis of the Banks' sensitivity to an increase or decrease in market interest rates, assuming non-asymmetrical movement in yield curves and a constant financial position, is as follows:

| | 100 bp Parallel Increase Rs. Mn. | 100 bp Parallel Decrease Rs. Mn. | 50 bp Increase after 1 Year Rs. Mn. | 50 bp Decrease after 1 Year Rs. Mn. |
|---|--|--|---|---|
| Sensitivity of Projected Net Interest Income 2014 | | | | |
| As at 31st December 2013 | -51.12 | 51.12 | -25.56 | 25.56 |
| As at 31st December 2012 | -50.8 | 50.8 | -25.4 | 25.4 |
| Sensitivity of Reported Equity to Interest Rate Movements 2013 | | | | |
| As at 31st December 2013 | -11.98 | 11.98 | -5.99 | 5.99 |
| As at 31st December 2012 | -10.10 | 10.10 | -5.05 | 5.05 |

Interest rate movements affect reported equity in the following ways:

- Retained earnings arising from increases or decreases in net interest income and the fair value changes reported in profit or loss;
- Hedging reserves arising from increases or decreases in fair values of hedging instruments designated in qualifying cash flow hedge relationships; and
- Prior to 1st January 2013 fair value reserves arising from increases or decreases in fair values of available-for-sale financial instruments reported directly in Other Comprehensive Income.

Overall non-trading interest rate risk positions are managed by the Bank's Treasury Department, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities.

Exposure to Other Market Risks

Equity Price Risk

Equity price risk is subject to regular monitoring by the Bank's Market Risk Management Unit, but is not currently significant in relation to the overall results and financial position of the Bank.

A sensitivity analysis of the share trading portfolio is shown below at shock level of 10%, 15% and 20%.

Notes to the Financial Statements

| 2013 | | | 2012 | | |
|--------------------------|------------------------|--------------------------|--------------------------|------------------------|--------------------------|
| Equity Trading Portfolio | | | Equity Trading Portfolio | | |
| | Investment Rs. '000 | Market Value Rs. '000 | | Investment Rs. '000 | Market Value Rs. '000 |
| | 172,499 | 93,901 | | 278,454 | 160,778 |

| At Shock Levels of | Impact on Income Statement due to Fall in Market Value | | At Shock Levels of | Impact on Income Statement due to Fall in Market Value | | Effect on Portfolio |
|-----------------------|---|------------------------|-----------------------|---|------------------------|------------------------|
| | | Effect on Portfolio | | | Effect on Portfolio | |
| 10.00% | 9,390 | 84,512 | 10.00% | 16,078 | 144,701 | |
| 15.00% | 14,085 | 79,817 | 15.00% | 24,117 | 136,662 | |
| 20.00% | 18,780 | 75,122 | 20.00% | 32,156 | 128,623 | |

Foreign Currency Transactions

The foreign currency trading risk is managed through the Net Open Position (NOP) which is regulated through a limit of USD 6.0 Mn. imposed by the Central Bank of Sri Lanka (CBSL). CBSL manages the overall systemic risk by regulating banks through NOP limits.

The Bank having a strategic view of the exchange rate movement has maintained a net short position in most instances. Given below are foreign currency exposures and their rupee equivalents in the major currencies, in which the Bank trades in:

| | In original FCY | | Functional Currency of Bank | |
|-------------------------------|-----------------|--------------|-----------------------------|--------------|
| | 2013 '000 | 2012 '000 | 2013 '000 | 2012 '000 |
| Net Foreign Currency Exposure | | | | |
| Pounds Sterling | 3 | 5 | 646 | 1,076 |
| US Dollar | -1,526 | -3,076 | -199,319 | -391,498 |
| Euro | 4 | 17 | 668 | 2,990 |

Foreign Exchange Risk

A sensitivity analysis of the foreign currency Net Open Position (NOP) was carried out applying shock level increase of 1.5%, 2.5% and 3.5% levels on the current exchange rate and the impact on the USD equivalent NOP and the impact on Income Statement.

| NOP as on 31st December 2013 | | | | NOP as on 31st December 2012 | | | |
|------------------------------|------------------------|----------|---------|------------------------------|------------------------|----------|---------|
| | USD Equivalent '000 | Rs. '000 | FX Rate | | USD Equivalent '000 | Rs. '000 | FX Rate |
| NOP | -1,526 | -199,319 | 130.65 | NOP | -3,076 | -391,498 | 127.25 |

| At Shock Levels of | FX Rate After Shock | Effect on Income Statement | | At Shock Levels of | FX Rate After Shock | Effect on Income Statement | |
|-----------------------|------------------------|----------------------------------|--------|-----------------------|------------------------|----------------------------------|---------|
| | | | | | | | |
| 1.50% | 132.61 | -202,363 | -3,044 | 1.50% | 129.16 | -397,296 | -5,798 |
| 2.50% | 133.92 | -204,363 | -5,044 | 2.50% | 130.43 | -401,203 | -9,705 |
| 3.50% | 135.22 | -206,346 | -7,027 | 3.50% | 131.70 | -405,109 | -13,611 |

Notes to the Financial Statements

Operational Risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions; or
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;

- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee.

Capital Management

Capital Adequacy is a measure of a commercial bank's ability to withstand the associated risks of its business. Regulators find it necessary that every bank holds adequate capital to absorb unexpected losses as a going concern, while they price their products and services to take care of expected risks. Capital Adequacy Ratio (CAR) is measured under Basel II and takes into account the Credit, Market and Operations risks. Keeping with the international standards of Basel Committee on Banking Regulations and Supervisory

Practices, Sri Lanka has been following Basel II CAR calculation from January 2008 after conducting parallel calculations in 2007.

Available Capital

Basel I and Basel II accords recognise three capital elements, namely Tier I, II and Tier III capital. Tier I capital includes paid up ordinary share capital, paid up non-cumulative, non redeemable preference shares, share premium, statutory reserve fund, published retained earnings, general and other reserves less goodwill.

Tier II capital includes 50% of asset revaluation reserves (created by revaluation carried out in every seven years) general provision for advances, hybrid debt/equity instruments and approved subordinated term debts. Tier II capital cannot exceed Tier I capital and subordinated debt cannot exceed 50% of the Tier I capital.

Tier III capital will consist only of short-term debt instrument and will be used for calculation of market risk only. Tier III is subject to a maximum of 250% of Tier I capital after meeting the credit and operational risk.

Equity investments in unconsolidated banking and financial subsidiaries and investments in capital of other banks/ financial associates are deducted from capital in arriving at the capital base. The Bank is required to maintain a minimum total risk weighted capital ratio of 10% in respect of Domestic Banking Unit (DBU) and Foreign Currency Banking Unit (FCBU) operations.

Notes to the Financial Statements

Capital Base has been adjusted Based on SLFRS/LKAS

Capital Adequacy Details 31st December

| | BANK | | GROUP | |
|----------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2013 Rs. Mn. | 2012 Rs. Mn. | 2013 Rs. Mn. | 2012 Rs. Mn. |
| Total Tier I Capital | 19,405 | 17,352 | 20,359 | 18,072 |
| Total Tier I & II Capital | 20,963 | 17,364 | 21,873 | 18,079 |
| Total Risk-weighted Assets | 133,118 | 120,824 | 135,597 | 122,898 |
| Off-Balance Sheet Exposure | 7,201 | 5,631 | 7,267 | 5,697 |
| Capital Adequacy Ratios | | | | |
| Tier I (%) | 14.58 | 14.36 | 15.01 | 14.70 |
| Tier I & II (%) | 15.75 | 14.37 | 16.13 | 14.71 |

Use of Estimates and Judgements

Management discusses with the Bank Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and their application, and assumptions made relating to major estimation uncertainties.

Key Sources of Estimation Uncertainty

Allowances for Credit Losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy Note 4.5.7.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying

collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and receivables and investment securities measured at amortised cost (prior to 1st January 2012 also held-to-maturity investment securities) with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired financial assets, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current

economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Determining Fair Values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy Note 4.5.4. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also Valuation of financial instruments below:

- Level 1 – Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs).

Notes to the Financial Statements

The table below analyses the Held for Trading and Available-for Sale financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

| | 2013 | | | |
|--|---------------------|---------------------|---------------------|-------------------|
| | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 |
| Trading and AFS Assets | | | | |
| Financial Assets Held for Trading | 11,183,843 | | | 11,183,843 |
| Derivative Financial Instruments | 287,210 | | | 287,210 |
| Financial Investments - Available-for-Sale | 13,896,395 | | 105,569 | 14,001,964 |
| Trading Liabilities | | | | |
| Derivative Financial Instruments | 382,815 | | | 382,815 |

| | 2012 | | | |
|--|---------------------|---------------------|---------------------|-------------------|
| | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 |
| Trading and AFS Assets | | | | |
| Financial Assets Held for Trading | 2,460,272 | | | 2,460,272 |
| Derivative Financial Instruments | 51,281 | | | 51,281 |
| Financial Investments - Available-for-Sale | 11,266,850 | | 91,253 | 11,358,103 |
| Trading Liabilities | | | | |
| Derivative Financial Instruments | 278,826 | | | 278,826 |

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

| | 2013 Rs. '000 | 2012 Rs. '000 |
|--|------------------|------------------|
| Financial Investments - Available-for-Sale (Level 3) | | |
| Balance as at 1st January | 91,253 | 75,581 |
| Total Gain in Other Comprehensive Income | 14,316 | 15,672 |
| Balance as at 31st December | 105,569 | 91,253 |

Notes to the Financial Statements

| | BANK | | GROUP | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 |
| 6. Income | | | | |
| Interest Income (Note 7) | 24,969,576 | 21,134,057 | 24,976,485 | 21,134,559 |
| Fee and Commission Income (Note 8.1) | 2,208,628 | 1,760,335 | 2,208,342 | 1,760,103 |
| Net Trading Income (Note 9) | 695,545 | 333,591 | 695,696 | 330,591 |
| Net Gain on Financial Investments (Note 10) | 190,268 | 5,773 | 190,268 | 5,773 |
| Other Operating Income - Net (Note 11) | 26,961 | 492,236 | 75,501 | 560,254 |
| Total Income | 28,090,978 | 23,725,992 | 28,146,292 | 23,791,280 |

7. Net Interest Income**Interest Income**

| | BANK | GROUP | | |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 |
| Placements with Banks | 48,018 | 57,333 | 48,081 | 57,333 |
| Customer Loans and Receivables* | 20,178,173 | 17,987,264 | 20,177,786 | 17,987,264 |
| Sri Lanka Government Securities** | 4,471,012 | 2,937,815 | 4,471,128 | 2,937,969 |
| Debentures - Available-for-Sale | 21,661 | - | 21,661 | - |
| Debentures - Held-to-Maturity | 250,712 | 151,645 | 257,200 | 151,645 |
| Other | - | - | 629 | 348 |
| Total Interest Income | 24,969,576 | 21,134,057 | 24,976,485 | 21,134,559 |

* Interest Income on Customer Loans and Receivables include interest accrued on impaired loans of Rs. 567,586,662/- in 2013 (Rs. 420,133,483/- for 2012).

** Includes Interest Income from Government Securities of Trading, Available-for-Sale and Held-to-Maturity portfolios.

According to Section 137 of the Inland Revenue Act No. 10 of 2006, any person who derives income from secondary market transactions in Government Securities is entitled to a notional tax credit in relation to the tax payable by such person. Notional tax credit would be determined by grossing up the income from the secondary market transactions to an amount equal to 1/9 of same and credit to be afforded for a like sum. Accordingly, Bank has accounted for Rs. 416,710,544/- as notional tax credit for the year 2013 (Rs. 233,409,749/- for 2012).

| | BANK | | GROUP | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 |
| Interest Expenses | | | | |
| Due to Banks and Other Borrowings | 757,664 | 847,666 | 757,938 | 847,899 |
| Customer Deposits | 13,480,695 | 10,335,304 | 13,463,916 | 10,317,850 |
| Securities Sold under Repurchase Agreements | 439,807 | 569,804 | 438,633 | 568,407 |
| Debentures | 461,568 | 366,841 | 454,943 | 366,841 |
| Total Interest Expenses | 15,139,734 | 12,119,615 | 15,115,430 | 12,100,997 |
| Net Interest Income | 9,829,842 | 9,014,442 | 9,861,055 | 9,033,562 |
| 7.1 Net Interest Income from Sri Lanka Government Securities | | | | |
| Interest Income | 4,471,012 | 2,937,815 | 4,471,128 | 2,937,969 |
| (Less): Interest Expenses | 439,807 | 569,804 | 438,633 | 568,407 |
| Net Interest Income from Sri Lanka Government Securities | 4,031,205 | 2,368,011 | 4,032,495 | 2,369,562 |

Notes to the Financial Statements

8. Net Fee and Commission Income

8.1 Fee and Commission Income

| | BANK | | GROUP | |
|--|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 |
| Fee Income | 837,465 | 738,018 | 837,179 | 737,786 |
| Commission Income | 1,371,163 | 1,022,317 | 1,371,163 | 1,022,317 |
| Total Fee and Commission Income | 2,208,628 | 1,760,335 | 2,208,342 | 1,760,103 |
| Comprising | | | | |
| Loans | 329,217 | 181,299 | 329,217 | 181,299 |
| Cards | 482,013 | 419,327 | 482,013 | 419,327 |
| Trade and Remittances | 487,151 | 433,959 | 487,151 | 433,959 |
| Deposits | 182,955 | 126,757 | 182,669 | 126,525 |
| Guarantees | 190,120 | 170,158 | 190,120 | 170,158 |
| Other Financial Services | 537,172 | 428,835 | 537,172 | 428,835 |
| Total Fee and Commission Income | 2,208,628 | 1,760,335 | 2,208,342 | 1,760,103 |

8.2 Fee and Commission Expenses

| | | | | |
|--|------------------|------------------|------------------|------------------|
| Commission Expenses | 81,294 | 65,645 | 87,931 | 71,425 |
| Total Fee and Commission Expenses | 81,294 | 65,645 | 87,931 | 71,425 |
| Comprising | | | | |
| Brokerage Fees | 24,268 | 14,410 | 30,905 | 20,190 |
| Cards | 17,089 | 12,624 | 17,089 | 12,624 |
| Other Financial Services | 39,937 | 38,611 | 39,937 | 38,611 |
| Total Fee and Commission Expenses | 81,294 | 65,645 | 87,931 | 71,425 |
| Total Net Fee and Commission Income | 2,127,334 | 1,694,690 | 2,120,411 | 1,688,678 |

9. Net Trading Income

| | | | | |
|---|----------------|----------------|----------------|----------------|
| Foreign Exchange | 486,290 | 487,393 | 486,290 | 487,393 |
| Derivative Financial Instruments | 130,404 | (236,990) | 130,404 | (236,990) |
| Other Financial Assets Held for Trading | 78,851 | 83,188 | 79,002 | 80,188 |
| Total Net Trading Income | 695,545 | 333,591 | 695,696 | 330,591 |

10. Net Gain on Financial Investments

| | | | | |
|--|----------------|--------------|----------------|--------------|
| Available-for-Sale | | | | |
| Equities | 19,370 | - | 19,370 | - |
| Government Securities | 170,898 | 5,773 | 170,898 | 5,773 |
| Total Net Gain on Financial Investments | 190,268 | 5,773 | 190,268 | 5,773 |

Notes to the Financial Statements

| | BANK | | GROUP | |
|--|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 |
| 11. Other Operating Income - Net | | | | |
| Dividend Income | | | | |
| Trading Equities | 3,515 | 3,862 | 3,515 | 3,862 |
| Available-for-Sale Investment - Quoted | 10,338 | 10,088 | 10,338 | 10,088 |
| Available-for-Sale Investment - Unquoted | 9,846 | 1,872 | 9,846 | 1,872 |
| Investment in Subsidiary | 17,255 | 6,902 | - | - |
| Profit/(Loss) on Sale of Property, Plant & Equipment | 72,922 | 49,693 | 73,017 | 49,693 |
| Profit/(Loss) on Sale of Investment Properties | - | - | 2,281 | - |
| Gain/(Loss) on Revaluation of Foreign Exchange | (140,680) | 317,113 | (140,680) | 317,113 |
| Recovery of Loans Written Off | 53,765 | 102,706 | 53,765 | 102,706 |
| Others | - | - | 63,419 | 74,920 |
| Total Other Operating Income - Net | 26,961 | 492,236 | 75,501 | 560,254 |

12. Net Impairment Loss

| | | | | |
|--|------------------|----------------|------------------|----------------|
| Loans and Receivables (Note 12.1) | 1,355,096 | 419,691 | 1,355,096 | 419,691 |
| Financial Investments (Note 12.2) | 75,567 | 153,984 | 75,567 | 153,984 |
| Investment Properties | - | - | 948 | - |
| Property, Plant & Equipment (Net Reversal) | (69,494) | - | (69,494) | - |
| Total Net Impairment Loss | 1,361,169 | 573,675 | 1,362,117 | 573,675 |

12.1 Loans and Receivables

| | | | | |
|---|------------------|----------------|------------------|----------------|
| Net Impairment Loss - Individual (Note 24.3.1) | 1,305,790 | 574,671 | 1,305,790 | 574,671 |
| Net Impairment Loss - Collective (Note 24.3.2) | (92,572) | (162,769) | (92,572) | (162,769) |
| Loans Written-Off* | 141,878 | 7,789 | 141,878 | 7,789 |
| Total Net Impairment Loss on Loans & Receivables | 1,355,096 | 419,691 | 1,355,096 | 419,691 |

* Includes Pawning auction Losses amounting to Rs. 125,143,612/-.

| | BANK | | GROUP | |
|---|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 |
| 12.2 Financial Investments | | | | |
| Available-for-Sale Investment Securities (Note 12.2.1) | 75,567 | 153,984 | 75,567 | 153,984 |
| Total Net Impairment Loss on Financial Investments | 75,567 | 153,984 | 75,567 | 153,984 |

12.2.1 Available-for-Sale Investment Securities

| | | | | |
|--|---------------|----------------|---------------|----------------|
| Equities | | | | |
| Quoted | 75,567 | 153,984 | 75,567 | 153,984 |
| Total Net Impairment Loss on Available-for-Sale Investment Securities | 75,567 | 153,984 | 75,567 | 153,984 |

Notes to the Financial Statements

| | BANK | | GROUP | |
|---|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 |
| 13. Operating Expenses | | | | |
| Operating Expenses include the following: | | | | |
| Directors' Emoluments | 8,362 | 8,275 | 9,052 | 9,570 |
| Auditors' Remunerations | | | | |
| Audit Fees and Expenses | 9,073 | 7,440 | 9,902 | 8,230 |
| Audit-Related Fee and Expenses | 4,051 | 2,405 | 4,134 | 2,555 |
| Non-Audit Services | 232 | 575 | 232 | 575 |
| Depreciation - Freehold Property, Plant & Equipment (Note 29) | 432,074 | 404,655 | 452,420 | 434,904 |
| Depreciation - Leasehold Rights (Note 30) | 3,357 | 313 | 10,767 | 7,723 |
| Depreciation - Investment Properties (Note 31) | - | - | 8,296 | 20,198 |
| Amortisation of Intangible Assets (Note 32) | 104,391 | 142,938 | 104,391 | 142,938 |
| Donations | 221 | 1,653 | 700 | 1,803 |
| Legal Expenses | 77,750 | 78,353 | 79,165 | 78,353 |
| Sri Lanka Deposit Insurance Fund Contribution | 134,169 | 118,261 | 134,169 | 118,261 |
| Operating Lease Expenses | 366,336 | 380,547 | 366,336 | 380,547 |
| Crop Insurance Levy | 23,155 | - | 23,155 | - |

14. Personnel Expenses

Personnel Expenses include the following:

| | | | | |
|---|------------------|------------------|------------------|------------------|
| Salaries and Wages | 2,008,903 | 1,841,979 | 2,024,336 | 1,855,378 |
| Contribution to Employees' Provident Fund | 241,171 | 220,888 | 243,023 | 222,535 |
| Contribution to Employees' Trust Fund | 60,293 | 55,222 | 60,756 | 55,624 |
| Provision for Defined Benefit Obligations (Note 40.1.7) | 66,711 | 73,726 | 62,445 | 74,186 |
| Amortisation of Prepaid Staff Cost | 177,585 | 98,982 | 177,814 | 99,071 |
| Other | 1,120,636 | 954,057 | 1,130,164 | 966,438 |
| Total Personnel Expenses | 3,675,299 | 3,244,854 | 3,698,538 | 3,273,232 |

15. Income Tax Expense

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

15.1 Current Tax Expense

| | | | | |
|---|------------------|------------------|------------------|------------------|
| - Income Tax on Current Year's Profits (Note 15.2) | 1,043,087 | 848,245 | 1,047,796 | 854,122 |
| - Under/(Over) Provision in Respect of Previous Years | 22,000 | 30,000 | 20,635 | 30,000 |
| - Transfer to/(from) Deferred Taxation (Note 33) | 73,409 | 256,915 | 76,015 | 260,080 |
| Total Income Tax Expense | 1,138,496 | 1,135,160 | 1,144,446 | 1,144,202 |

- Current tax on profits has been computed at the rate of 28% on the taxable income arising from banking activities.
- The Group companies have computed taxation based on the rates applicable for such companies.

Notes to the Financial Statements

| | BANK | | GROUP | |
|---|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 |
| 15.2 Reconciliation of the Accounting Profit to Income Tax Expense | | | | |
| Profit Before Tax | 3,454,035 | 3,199,358 | 3,496,491 | 3,234,852 |
| Less: Profit/(Loss) from Leasing Activities | 305,469 | 206,069 | 305,469 | 206,069 |
| Profit from Banking Activities | 3,148,566 | 2,993,289 | 3,191,022 | 3,028,783 |
| Add: Disallowable Expenses | 1,597,499 | 1,815,710 | 1,679,875 | 1,901,657 |
| Less: Allowable Expenses | 770,634 | 1,342,475 | 850,684 | 1,418,858 |
| Exempt/Allowable Income | 250,121 | 437,077 | 286,439 | 468,846 |
| Add: Tax Losses from Subsidiary | - | - | - | - |
| Business Income | 3,725,310 | 3,029,447 | 3,733,774 | 3,042,736 |
| Income from Other Sources | - | - | 18,132 | 19,005 |
| Business Income from Banking Activities | 3,725,310 | 3,029,447 | 3,751,906 | 3,061,741 |
| Business Income/(Loss) from Leasing Activities | (34,824) | 19,128 | (34,824) | 19,128 |
| Total Statutory Income | 3,725,310 | 3,048,575 | 3,751,906 | 3,080,869 |
| Less: Tax Loss Set-Off (Note 15.3) | - | 19,128 | 9,308 | 30,432 |
| Assessable Income | 3,725,310 | 3,029,447 | 3,742,598 | 3,050,437 |
| Qualifying Payments | - | - | 470 | - |
| Taxable Income | 3,725,310 | 3,029,447 | 3,742,128 | 3,050,437 |
| Income Tax on Current Year's Profit | 1,043,087 | 848,245 | 1,047,796 | 854,122 |
| Under/(Over) Provision in Respect of Previous Years | 22,000 | 30,000 | 20,635 | 30,000 |
| Transfer to/(from) Deferred Taxation (Note 15.5) | 73,409 | 256,915 | 76,015 | 260,080 |
| Total Income Tax Expense | 1,138,496 | 1,135,160 | 1,144,446 | 1,144,202 |
| Effective Tax Rate (Note 15.4) | 33% | 35% | 33% | 35% |
| Effective Tax Rate (Excluding Deferred Tax) | 31% | 28% | 31% | 27% |

| | 2013 % |
|--|-----------|
| Income Tax Rates on | |
| a. Domestic Operations of the Bank | 28 |
| b. Foreign Currency Banking Unit of the Bank | 28 |
| 1. On-Shore Operations | 28 |
| 2. Off-Shore Operations | 28 |
| c. Seylan Developments PLC | 28 |

Notes to the Financial Statements

| | BANK | | | | GROUP | | | |
|--|----------------------------|-------------------------|----------------------------|-------------------------|----------------------------|-------------------------|----------------------------|-------------------------|
| | 2013 | | 2012 | | 2013 | | 2012 | |
| | Taxable Income Rs. '000 | Tax Expense Rs. '000 | Taxable Income Rs. '000 | Tax Expense Rs. '000 | Taxable Income Rs. '000 | Tax Expense Rs. '000 | Taxable Income Rs. '000 | Tax Expense Rs. '000 |
| Bank - Domestic Banking Unit and On-Shore Profits - 28% | 3,723,871 | 1,042,684 | 3,022,860 | 846,401 | 3,740,689 | 1,047,393 | 3,043,850 | 852,278 |
| Off-Shore Profits - 28% | 1,439 | 403 | 6,587 | 1,844 | 1,439 | 403 | 6,587 | 1,844 |
| | 3,725,310 | 1,043,087 | 3,029,447 | 848,245 | 3,742,128 | 1,047,796 | 3,050,437 | 854,122 |

Up to 2010 Domestic Banking Operations and On-Shore Profits of FCBU was taxed at the rate of 35% and Off-Shore Profits of FCBU was taxed at the rate of 20%. From 2011 onwards all Banking Operations are taxed at the rate of 28% and Social Responsibility Levy was abolished.

15.3 Tax Losses Brought Forward

| | BANK | | GROUP | |
|--|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 |
| Tax Losses Brought Forward | 534,392 | 553,520 | 1,350,771 | 1,381,203 |
| Add: Tax Losses Incurred during the Year | 34,824 | - | 34,824 | - |
| Less: Tax Losses Utilised during the Year | - | 19,128 | 9,308 | 30,432 |
| Unutilised Tax Losses Carried Forward | 569,216 | 534,392 | 1,376,287 | 1,350,771 |

15.4 Reconciliation of Effective Tax Rate

| | BANK | | | | GROUP | | | |
|--|-----------|------------------|-----------|-----------|-----------|------------------|-----------|-----------|
| | 2013 | | 2012 | | 2013 | | 2012 | |
| | % | Rs. | % | Rs. | % | Rs. | % | Rs. |
| Profit before Income Tax | | 3,454,035 | | 3,199,358 | | 3,496,491 | | 3,234,852 |
| Less: Profit/(Loss) from Leasing Business | | 305,469 | | 206,069 | | 305,469 | | 206,069 |
| Profit from Banking Activities | | 3,148,566 | | 2,993,289 | | 3,191,022 | | 3,028,783 |
| Income Tax using Domestic Tax Rate | 26 | 881,599 | 26 | 838,121 | 26 | 893,487 | 26 | 848,059 |
| Disallowable Expenses | 13 | 447,300 | 16 | 508,399 | 13 | 470,365 | 16 | 532,464 |
| Allowable Expenses | (7) | (215,778) | (12) | (375,893) | (7) | (238,192) | (12) | (397,280) |
| Exempt Income | (2) | (70,034) | (4) | (122,382) | (2) | (80,203) | (4) | (131,277) |
| Income from Other Sources | - | - | - | - | - | 5,077 | - | 5,321 |
| Business Income from Leasing Activities | - | - | - | 5,356 | - | - | - | 5,356 |
| Tax Losses Set-Off | - | - | - | (5,356) | - | (2,606) | - | (8,521) |
| Qualifying Payments | - | - | - | - | - | (132) | - | - |
| Under/(Over) Provision in respect of Previous Years | 1 | 22,000 | 1 | 30,000 | 1 | 20,635 | 1 | 30,000 |
| Other Temporary Differences | 2 | 73,409 | 8 | 256,915 | 2 | 76,015 | 8 | 260,080 |
| Total Income Tax Expense (Note 15.2) | 33 | 1,138,496 | 35 | 1,135,160 | 33 | 1,144,446 | 35 | 1,144,202 |

Notes to the Financial Statements

15.5 Deferred Tax Expense/(Income)

| | BANK | | GROUP | |
|--|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 |
| Deferred Tax - Liabilities | | | | |
| Property, Plant & Equipment | (15,613) | (48,042) | (15,613) | (48,042) |
| Lease Rentals | 98,024 | 22,185 | 98,024 | 22,185 |
| Mark to Market Gain | (26,482) | 26,482 | (26,482) | 26,482 |
| | 55,929 | 625 | 55,929 | 625 |
| Deferred Tax - Assets | | | | |
| Leave Encashment Provision | (4,990) | 1,622 | (4,990) | 1,622 |
| Defined Benefit Obligation | - | - | - | - |
| Collective & Individually Significant Impairment | 39,636 | 266,531 | 39,636 | 266,531 |
| Other Provisions | (26,874) | (17,219) | (26,874) | (17,219) |
| Tax Losses C/F | (9,750) | 5,356 | (7,144) | 8,521 |
| Impact on Devaluation of Property | 19,458 | - | 19,458 | - |
| | 17,480 | 256,290 | 20,086 | 259,455 |
| Transferred to/(from) Income Statement | 73,409 | 256,915 | 76,015 | 260,080 |

16. Basic/Diluted Earnings Per Share

Basic Earnings Per Share has been calculated by dividing Profit after tax attributable to Equity Holders of the Bank by the weighted average number of Ordinary Shares in issue (Both Voting and Non-Voting) during the year ended 31st December 2013 & 2012.

Diluted Earnings per Share and the Basic Earnings per Share is the same due to non-availability of potentially dilutive Ordinary Shares.

| | BANK | | GROUP | |
|---|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 |
| Total Profit after Tax Attributable to Equity Holders of the Bank | 2,315,539 | 2,064,198 | 2,326,148 | 2,074,584 |
| Weighted Average Number of Ordinary Shares - Bank | 343,339 | 338,080 | 343,339 | 338,080 |
| Basic/Diluted Earnings Per Share (Rs.) | 6.74 | 6.11 | 6.78 | 6.14 |

17. Dividends

| | BANK | | GROUP | |
|---------------------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 |
| Ordinary Share Dividends | | | | |
| Net Dividends | | | | |
| Cash Dividends | 306,544 | 305,863 | 306,544 | 305,863 |
| Scrip Dividends | 304,272 | - | 304,272 | - |
| Tax Deducted at Source | 65,344 | 32,217 | 65,344 | 32,217 |
| Gross Dividend (Note 47) | 676,160 | 338,080 | 676,160 | 338,080 |

Notes to the Financial Statements

18. Measurement of Assets & Liabilities

18.1 Bank

| | 2013 | | | | | |
|--|------------------------------------|------------------------------------|---|--------------------------------------|--------------------|--------------------|
| | Held-for-Trading (HFT) Rs. '000 | Held-to-Maturity (HTM) Rs. '000 | Loans and Receivables (L&R) Rs. '000 | Available-for-Sale (AFS) Rs. '000 | Others Rs. '000 | Total Rs. '000 |
| Assets | | | | | | |
| Cash and Cash Equivalents | - | - | 5,180,195 | - | - | 5,180,195 |
| Balances with Central Bank of Sri Lanka | - | - | 7,505,185 | - | - | 7,505,185 |
| Placements with Banks and Finance Companies | - | - | 970,203 | - | - | 970,203 |
| Derivative Financial Instruments | 287,210 | - | - | - | - | 287,210 |
| Other Financial Assets Held for Trading | 11,183,843 | - | - | - | - | 11,183,843 |
| Securities Purchased under Resale Agreements | - | - | 5,729,904 | - | - | 5,729,904 |
| Customer Loans and Receivables | - | - | 136,552,857 | - | - | 136,552,857 |
| Financial Investments - Available-for-Sale | - | - | - | 14,001,964 | - | 14,001,964 |
| Financial Investments - Held-to-Maturity | - | 24,050,862 | - | - | - | 24,050,862 |
| Investment in Subsidiary | - | 800,624 | - | - | - | 800,624 |
| Total Financial Assets | 11,471,053 | 24,851,486 | 155,938,344 | 14,001,964 | - | 206,262,847 |
| Group Balances Receivable | - | - | - | - | 15,000 | 15,000 |
| Property, Plant & Equipment | - | - | - | - | 2,887,204 | 2,887,204 |
| Leasehold Rights | - | - | - | - | 48,286 | 48,286 |
| Investment Properties | - | - | - | - | 114,429 | 114,429 |
| Intangible Assets | - | - | - | - | 141,134 | 141,134 |
| Deferred Taxation Assets | - | - | - | - | 170,590 | 170,590 |
| Other Assets | - | - | - | - | 5,521,369 | 5,521,369 |
| Total Non-Financial Assets | - | - | - | - | 8,898,012 | 8,898,012 |
| Total Assets | 11,471,053 | 24,851,486 | 155,938,344 | 14,001,964 | 8,898,012 | 215,160,859 |

| | 2013 | | | |
|---|------------------------------------|----------------------------|--------------------|--------------------|
| | Held-for-Trading (HFT) Rs. '000 | Amortised Cost Rs. '000 | Others Rs. '000 | Total Rs. '000 |
| Liabilities | | | | |
| Due to Banks | - | 11,544,206 | - | 11,544,206 |
| Derivative Financial Instruments | 382,815 | - | - | 382,815 |
| Customer Deposits | - | 167,371,384 | - | 167,371,384 |
| Securities Sold under Repurchase Agreements | - | 4,573,955 | - | 4,573,955 |
| Other Borrowings | - | 12,738 | - | 12,738 |
| Debentures | - | 3,243,299 | - | 3,243,299 |
| Total Financial Liabilities | 382,815 | 186,745,582 | - | 187,128,397 |
| Group Balances Payable | - | - | 195,126 | 195,126 |
| Current Tax Liabilities | - | - | 1,090,584 | 1,090,584 |
| Other Liabilities | - | - | 4,985,134 | 4,985,134 |
| Total Non-Financial Liabilities | - | - | 6,270,844 | 6,270,844 |
| Total Liabilities | 382,815 | 186,745,582 | 6,270,844 | 193,399,241 |
| Equity | - | - | 21,761,618 | 21,761,618 |
| Total Equity and Liabilities | 382,815 | 186,745,582 | 28,032,462 | 215,160,859 |

Notes to the Financial Statements

| 2012 | | | | | |
|------------------------|------------------------|-----------------------------|--------------------------|-----------|-------------|
| Held-for-Trading (HFT) | Held-to-Maturity (HTM) | Loans and Receivables (L&R) | Available-for-Sale (AFS) | Others | Total |
| Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| - | - | 6,554,381 | - | - | 6,554,381 |
| - | - | 8,028,661 | - | - | 8,028,661 |
| - | - | - | - | - | - |
| 51,281 | - | - | - | - | 51,281 |
| 2,460,272 | - | - | - | - | 2,460,272 |
| - | - | 173,441 | - | - | 173,441 |
| - | - | 124,728,371 | - | - | 124,728,371 |
| - | - | - | 11,358,103 | - | 11,358,103 |
| - | 19,822,966 | - | - | - | 19,822,966 |
| - | 793,254 | - | - | - | 793,254 |
| 2,511,553 | 20,616,220 | 139,484,854 | 11,358,103 | - | 173,970,730 |
| - | - | - | - | 60,687 | 60,687 |
| - | - | - | - | 2,391,536 | 2,391,536 |
| - | - | - | - | 39,596 | 39,596 |
| - | - | - | - | 237,629 | 237,629 |
| - | - | - | - | 202,354 | 202,354 |
| - | - | - | - | 253,171 | 253,171 |
| - | - | - | - | 6,505,973 | 6,505,973 |
| - | - | - | - | 9,690,946 | 9,690,946 |
| 2,511,553 | 20,616,220 | 139,484,854 | 11,358,103 | 9,690,946 | 183,661,676 |

| 2012 | | | | | |
|------|------------------------|----------------|------------|-------------|----------|
| | Held-for-Trading (HFT) | Amortised Cost | Others | Total | |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| | - | 6,137,803 | - | 6,137,803 | |
| | 278,826 | - | - | 278,826 | |
| | - | 146,727,199 | - | 146,727,199 | |
| | - | 3,674,840 | - | 3,674,840 | |
| | - | 9,790 | - | 9,790 | |
| | - | 1,211,659 | - | 1,211,659 | |
| | 278,826 | 157,761,291 | - | 158,040,117 | |
| | - | - | 216,723 | 216,723 | |
| | - | - | 683,040 | 683,040 | |
| | - | - | 5,869,959 | 5,869,959 | |
| | - | - | 6,769,722 | 6,769,722 | |
| | 278,826 | 157,761,291 | 6,769,722 | 164,809,839 | |
| | - | - | 18,851,837 | 18,851,837 | |
| | 278,826 | 157,761,291 | 25,621,559 | 183,661,676 | |

Notes to the Financial Statements

18.2 Group

| | 2013 | | | | | |
|--|------------------------|------------------------|-----------------------------|--------------------------|-------------------|--------------------|
| | Held-for-Trading (HFT) | Held-to-Maturity (HTM) | Loans and Receivables (L&R) | Available-for-Sale (AFS) | Others | Total |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Assets | | | | | | |
| Cash and Cash Equivalents | - | - | 5,180,226 | - | - | 5,180,226 |
| Balances with Central Bank of Sri Lanka | - | - | 7,505,185 | - | - | 7,505,185 |
| Placements with Banks and Finance Companies | - | - | 970,203 | - | - | 970,203 |
| Derivative Financial Instruments | 287,210 | - | - | - | - | 287,210 |
| Other Financial Assets Held for Trading | 11,191,770 | - | - | - | - | 11,191,770 |
| Securities Purchased under Resale Agreements | - | - | 5,729,904 | - | - | 5,729,904 |
| Customer Loans and Receivables | - | - | 136,552,857 | - | - | 136,552,857 |
| Financial Investments - Available-for-Sale | - | - | - | 14,001,964 | - | 14,001,964 |
| Financial Investments - Held-to-Maturity | - | 24,130,160 | - | - | - | 24,130,160 |
| Total Financial Assets | 11,478,980 | 24,130,160 | 155,938,375 | 14,001,964 | - | 205,549,479 |
| Property, Plant & Equipment | - | - | - | - | 4,460,001 | 4,460,001 |
| Leasehold Rights | - | - | - | - | 618,847 | 618,847 |
| Investment Properties | - | - | - | - | 1,043,942 | 1,043,942 |
| Intangible Assets | - | - | - | - | 141,134 | 141,134 |
| Current Taxation Assets | - | - | - | - | 992 | 992 |
| Deferred Taxation Assets | - | - | - | - | 135,951 | 135,951 |
| Other Assets | - | - | - | - | 5,559,102 | 5,559,102 |
| Total Non-Financial Assets | - | - | - | - | 11,959,969 | 11,959,969 |
| Total Assets | 11,478,980 | 24,130,160 | 155,938,375 | 14,001,964 | 11,959,969 | 217,509,448 |

| | 2013 | | | |
|---|------------------------|--------------------|-------------------|--------------------|
| | Held-for-Trading (HFT) | Amortised Cost | Others | Total |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Liabilities | | | | |
| Due to Banks | - | 11,544,206 | - | 11,544,206 |
| Derivative Financial Instruments | 382,815 | - | - | 382,815 |
| Customer Deposits | - | 167,371,384 | - | 167,371,384 |
| Securities Sold under Repurchase Agreements | - | 4,573,955 | - | 4,573,955 |
| Other Borrowings | - | 12,738 | - | 12,738 |
| Debentures | - | 3,243,299 | - | 3,243,299 |
| Total Financial Liabilities | 382,815 | 186,745,582 | - | 187,128,397 |
| Current Tax Liabilities | - | - | 1,090,584 | 1,090,584 |
| Other Liabilities | - | - | 5,093,256 | 5,093,256 |
| Total Non-Financial Liabilities | - | - | 6,183,840 | 6,183,840 |
| Total Liabilities | 382,815 | 186,745,582 | 6,183,840 | 193,312,237 |
| Equity | - | - | 24,197,211 | 24,197,211 |
| Total Equity and Liabilities | 382,815 | 186,745,582 | 30,381,051 | 217,509,448 |

Notes to the Financial Statements

| 2012 | | | | | |
|------------------------|------------------------|-----------------------------|--------------------------|------------|-------------|
| Held-for-Trading (HFT) | Held-to-Maturity (HTM) | Loans and Receivables (L&R) | Available-for-Sale (AFS) | Others | Total |
| Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| - | - | 6,554,482 | - | - | 6,554,482 |
| - | - | 8,028,661 | - | - | 8,028,661 |
| - | - | - | - | - | - |
| 51,281 | - | - | - | - | 51,281 |
| 2,468,151 | - | - | - | - | 2,468,151 |
| - | - | 173,441 | - | - | 173,441 |
| - | - | 124,728,371 | - | - | 124,728,371 |
| - | - | - | 11,358,103 | - | 11,358,103 |
| - | 19,822,966 | - | - | - | 19,822,966 |
| 2,519,432 | 19,822,966 | 139,484,955 | 11,358,103 | - | 173,185,456 |
| - | - | - | - | 3,041,903 | 3,041,903 |
| - | - | - | - | 617,567 | 617,567 |
| - | - | - | - | 1,203,380 | 1,203,380 |
| - | - | - | - | 202,354 | 202,354 |
| - | - | - | - | 1,258 | 1,258 |
| - | - | - | - | 481,588 | 481,588 |
| - | - | - | - | 6,563,140 | 6,563,140 |
| - | - | - | - | 12,111,190 | 12,111,190 |
| 2,519,432 | 19,822,966 | 139,484,955 | 11,358,103 | 12,111,190 | 185,296,646 |

| 2012 | | | | |
|------------------------|----------------|------------|-------------|--|
| Held-for-Trading (HFT) | Amortised Cost | Others | Total | |
| Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | |
| - | 6,137,803 | - | 6,137,803 | |
| 278,826 | - | - | 278,826 | |
| - | 146,727,199 | - | 146,727,199 | |
| - | 3,674,840 | - | 3,674,840 | |
| - | 9,790 | - | 9,790 | |
| - | 1,211,659 | - | 1,211,659 | |
| 278,826 | 157,761,291 | - | 158,040,117 | |
| - | - | 683,040 | 683,040 | |
| - | - | 5,962,234 | 5,962,234 | |
| - | - | 6,645,274 | 6,645,274 | |
| 278,826 | 157,761,291 | 6,645,274 | 164,685,391 | |
| - | - | 20,611,255 | 20,611,255 | |
| 278,826 | 157,761,291 | 27,256,529 | 185,296,646 | |

Notes to the Financial Statements

| | BANK | | | GROUP | | |
|--------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 19. Cash and Cash Equivalents | | | | | | |
| Cash in Hand - Local Currency | 4,486,231 | 5,437,217 | 4,056,410 | 4,486,262 | 5,437,250 | 4,056,445 |
| Cash in Hand - Foreign Currency | 138,918 | 140,142 | 53,390 | 138,918 | 140,142 | 53,390 |
| Cash at Bank | - | - | - | - | 68 | 526 |
| Balances with Local Banks | 38,016 | 8,608 | - | 38,016 | 8,608 | - |
| Balances with Foreign Banks | 517,030 | 968,414 | 440,403 | 517,030 | 968,414 | 440,403 |
| | 5,180,195 | 6,554,381 | 4,550,203 | 5,180,226 | 6,554,482 | 4,550,764 |

20. Balances with Central Bank of Sri Lanka

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 6% of the Rupee Deposit Liabilities. The rate was decreased from 8% to 6% with effect from 1st of July 2013.

| | BANK/GROUP | | |
|--|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| Average Deposit Liabilities for 2 nd Half of November 2013 (for years 2012 and 2011 - last week of December) | 143,661,767 | 130,180,207 | 111,143,742 |
| Statutory Reserve Requirement | 8,619,706 | 10,414,417 | 8,891,499 |
| Less: Average Sri Lanka Currency Notes and Coins Held Over and Above 2% of Average Deposit Liabilities, But Not Exceeding 4% | 1,301,231 | 1,727,097 | 1,619,951 |
| Total Reserve Required to be held with Central Bank | 7,318,475 | 8,687,320 | 7,271,548 |
| Average Balance held by the Bank for the 2nd Half of December 2013 (for Years 2012 and 2011 - Last Week of December) | 7,318,605 | 8,687,320 | 7,271,584 |
| Statutory Balances with Central Bank as at 31st December | 7,505,185 | 8,028,661 | 7,070,728 |
| Non-Statutory Balances with Central Bank | - | - | - |
| Balances with Central Bank of Sri Lanka | 7,505,185 | 8,028,661 | 7,070,728 |

| | BANK | | | GROUP | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 21. Placements with Banks and Finance Companies | | | | | | |
| Term Deposits with Banks | 970,203 | - | - | 970,203 | - | - |
| Term Deposits with Finance Companies | - | - | - | 5,943 | 5,943 | 5,943 |
| Impairment Provision | - | - | - | (5,943) | (5,943) | (5,943) |
| | 970,203 | - | - | 970,203 | - | - |

22. Derivative Financial Instruments**22.1 Derivative Assets****Foreign Currency Derivatives**

| | | | | | | |
|------------------------------------|----------------|---------------|---------------|----------------|---------------|---------------|
| Forward Foreign Exchange Contracts | 287,210 | 51,281 | 74,746 | 287,210 | 51,281 | 74,746 |
| | 287,210 | 51,281 | 74,746 | 287,210 | 51,281 | 74,746 |

22.2 Derivative Liabilities**Foreign Currency Derivatives**

| | | | | | | |
|------------------------------------|----------------|----------------|---------------|----------------|----------------|---------------|
| Forward Foreign Exchange Contracts | 382,815 | 278,826 | 67,506 | 382,815 | 278,826 | 67,506 |
| | 382,815 | 278,826 | 67,506 | 382,815 | 278,826 | 67,506 |

The Bank uses derivatives not designated in a qualifying hedge relationship such as forward contracts to manage its exposure to foreign currency.

Notes to the Financial Statements

| | 2013 | | 2012 | | 2011 | |
|--|-------------------|--------------------------|------------------|--------------------------|------------------|--------------------------|
| | Cost Rs. '000 | Market Value Rs. '000 | Cost Rs. '000 | Market Value Rs. '000 | Cost Rs. '000 | Market Value Rs. '000 |
| 23. Other Financial Assets Held for Trading | | | | | | |
| Seylan Bank PLC (Note 23.1) | 11,159,600 | 11,183,843 | 2,565,860 | 2,460,272 | 5,555,817 | 5,243,565 |
| Seylan Developments PLC (Note 23.2) | 10,180 | 7,927 | 10,268 | 7,879 | 268 | 878 |
| Total Other Financial Assets Held for Trading - Group | 11,169,780 | 11,191,770 | 2,576,128 | 2,468,151 | 5,556,085 | 5,244,443 |
| 23.1 Seylan Bank PLC | | | | | | |
| Quoted Equities (Note 23.1.1) | 172,499 | 93,901 | 278,454 | 160,778 | 998,905 | 769,144 |
| Government of Sri Lanka Treasury Bills (Note 23.1.2) | 5,020,919 | 5,060,949 | 1,696,931 | 1,700,262 | 1,821,976 | 1,812,274 |
| Government of Sri Lanka Treasury Bonds (Note 23.1.3) | 5,966,182 | 6,028,993 | 590,475 | 599,232 | 2,734,936 | 2,662,147 |
| Total Other Financial Assets Held for Trading - Bank | 11,159,600 | 11,183,843 | 2,565,860 | 2,460,272 | 5,555,817 | 5,243,565 |

| | 2013 | | | | 2012 | | | 2011 | | |
|--------------------------------------|--------------------------------|------------------|-----------------------|-----------------------------|--------------------------------|------------------|-----------------------------|--------------------------------|------------------|-----------------------------|
| | No. of Ordinary Equities | Cost Rs. '000 | % of Total Cost | Market Value Rs. '000 | No. of Ordinary Equities | Cost Rs. '000 | Market Value Rs. '000 | No. of Ordinary Equities | Cost Rs. '000 | Market Value Rs. '000 |
| 23.1.1 Quoted Equities - Bank | | | | | | | | | | |
| Hotels and Travel | | | | | | | | | | |
| Galadari Hotels Lanka PLC | 457,654 | 15,504 | | 5,171 | 1,125,500 | 38,129 | 16,320 | 1,208,000 | 40,924 | 35,636 |
| Eden Hotel Lanka PLC | - | - | | - | - | - | - | 100,000 | 6,645 | 3,800 |
| John Keells Hotels PLC | - | - | | - | - | - | - | 7,500,000 | 146,153 | 100,500 |
| The Lighthouse Hotel PLC | - | - | | - | - | - | - | 308,000 | 19,435 | 16,478 |
| The Fortress Resorts PLC | - | - | | - | 80,000 | 2,499 | 1,312 | 200,000 | 6,247 | 4,600 |
| Hotel Services (Ceylon) PLC | 1,279,659 | 37,948 | | 16,891 | 1,800,000 | 53,378 | 30,780 | 2,350,000 | 69,689 | 48,175 |
| | | 53,452 | 30.99 | 22,062 | | 94,006 | 48,412 | | 289,093 | 209,189 |
| Banks, Finance and Insurance | | | | | | | | | | |
| Commercial Bank of Ceylon PLC | 198,265 | 24,427 | | 24,010 | 206,579 | 25,878 | 21,278 | 596,000 | 75,984 | 59,600 |
| People's Leasing Company PLC | - | - | | - | - | - | - | 610,800 | 10,994 | 9,712 |
| Nations Trust Bank PLC | - | - | | - | - | - | - | 7,200 | 413 | 410 |
| Nation Lanka Finance PLC | - | - | | - | - | - | - | 600,000 | 17,396 | 9,480 |
| Janashakthi Insurance Company PLC | 102,380 | 2,003 | | 1,300 | 470,000 | 9,197 | 4,982 | 1,000,000 | 19,568 | 15,200 |
| Merchant Bank of Sri Lanka PLC | - | - | | - | 70,000 | 3,057 | 1,379 | 100,000 | 4,367 | 4,000 |
| SMB Leasing PLC - Non-Voting | - | - | | - | - | - | - | 50,871,565 | 45,784 | 35,610 |
| Singer Finance (Lanka) PLC | - | - | | - | - | - | - | 100,000 | 4,910 | 2,700 |
| | | 26,430 | 15.32 | 25,310 | | 38,132 | 27,639 | | 179,416 | 136,712 |
| Diversified Holdings | | | | | | | | | | |
| CT Holdings PLC | - | - | | - | 4,999 | 1,115 | 620 | 191,200 | 42,640 | 34,225 |
| Aitken Spence PLC | 19,491 | 2,427 | | 2,015 | - | - | - | 250,000 | 45,159 | 31,250 |
| Richard Pieris & Company PLC | - | - | | - | - | - | - | 7,000,000 | 82,584 | 63,000 |
| Browns Investments PLC | 1,171,500 | 5,858 | | 2,812 | 1,171,500 | 5,858 | 4,686 | 1,171,500 | 5,858 | 4,920 |
| Sunshine Holdings PLC | - | - | | - | - | - | - | 53,500 | 2,675 | 1,552 |
| Vallibel One PLC | - | - | | - | - | - | - | 13,200 | 330 | 315 |
| Softlogic Holdings PLC | - | - | | - | 200,000 | 5,800 | 2,140 | 236,000 | 6,844 | 4,272 |
| Hemas Holdings PLC | - | - | | - | 230,000 | 10,438 | 6,210 | 300,000 | 13,615 | 10,020 |
| | | 8,285 | 4.80 | 4,827 | | 23,211 | 13,656 | | 199,705 | 149,554 |

Notes to the Financial Statements

| | 2013 | | | | 2012 | | | 2011 | | |
|---|--------------------------|----------|-----------------|--------------|--------------------------|-----------|--------------|--------------------------|-----------|--------------|
| | No. of Ordinary Equities | Cost | % of Total Cost | Market Value | No. of Ordinary Equities | Cost | Market Value | No. of Ordinary Equities | Cost | Market Value |
| | | Rs. '000 | | Rs. '000 | | Rs. '000 | Rs. '000 | | Rs. '000 | Rs. '000 |
| Investment Trusts | | | | | | | | | | |
| Renuka Holdings PLC | - | - | - | - | 35,000 | 2,115 | 1,246 | 69,600 | 4,206 | 3,793 |
| Land & Property | | | | | | | | | | |
| Overseas Reality (Ceylon) PLC | - | - | - | - | - | - | - | 312,500 | 5,380 | 4,406 |
| Manufacturing | | | | | | | | | | |
| Swiss Tek (Ceylon) PLC | - | - | - | - | - | - | - | 10,019 | 217 | 190 |
| Textured Jersey Lanka PLC | - | - | - | - | - | - | - | 328,400 | 4,926 | 3,350 |
| Blue Diamonds Jewellery Worldwide PLC | - | - | - | - | 643 | 2 | 3 | 643 | 2 | 5 |
| Hayleys MGT Knitting Mills PLC | 20,000 | 792 | | 222 | 130,000 | 5,147 | 1,508 | 168,500 | 6,671 | 4,802 |
| Sierra Cables PLC | 5,893,300 | 27,376 | | 10,608 | 7,910,000 | 36,744 | 18,984 | 9,087,600 | 42,214 | 39,077 |
| Royal Ceramics Lanka PLC | 125,000 | 20,125 | | 10,750 | 125,000 | 20,125 | 12,375 | 125,000 | 20,125 | 17,500 |
| | | 48,293 | 28.00 | 21,580 | | 62,018 | 32,870 | | 74,155 | 64,924 |
| Healthcare | | | | | | | | | | |
| Nawaloka Hospitals PLC | 1,885,000 | 8,089 | 4.69 | 5,655 | 3,399,999 | 14,590 | 10,200 | 4,000,000 | 17,165 | 15,600 |
| Chemicals & Pharmaceuticals | | | | | | | | | | |
| Haycarb PLC | - | - | - | - | - | - | - | 10,000 | 1,911 | 1,550 |
| Telecommunication | | | | | | | | | | |
| Sri Lanka Telecom PLC | - | - | - | - | 60,000 | 2,873 | 2,640 | 115,000 | 5,507 | 5,566 |
| Dialog Axiata PLC | - | - | - | - | - | - | - | 17,459,100 | 167,752 | 137,927 |
| | | - | - | - | | 2,873 | 2,640 | | 173,259 | 143,493 |
| Power and Energy | | | | | | | | | | |
| Vallibel Power Erathna PLC | 1,918,434 | 20,135 | | 11,127 | 2,460,299 | 25,822 | 15,990 | 2,760,000 | 28,968 | 21,803 |
| Hemas Power PLC | 182,499 | 7,815 | | 3,340 | 250,000 | 10,707 | 5,575 | 250,000 | 10,707 | 6,750 |
| Laufgs Gas PLC | - | - | | - | 100,000 | 4,980 | 2,550 | 300,000 | 14,940 | 11,370 |
| | | 27,950 | 16.20 | 14,467 | | 41,509 | 24,115 | | 54,615 | 39,923 |
| Total Held for Trading Quoted Equities - Bank | | 172,499 | 100.00 | 93,901 | | 278,454 | 160,778 | | 998,905 | 769,144 |
| Marked to Market Valuation Gain/(Loss) from Quoted Equities | | (78,598) | | | | (117,676) | | | (229,761) | |

23.1.2 Government of Sri Lanka Treasury Bills - Bank

| | Face Value Rs. '000 | Year of Maturity | 2013 | | 2012 | | 2011 | |
|--|------------------------|---------------------|-----------|--------------|-----------|--------------|-----------|--------------|
| | | | Cost | Market Value | Cost | Market Value | Cost | Market Value |
| | | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Total Held for Trading Government of Sri Lanka Treasury Bills - Bank | 5,303,296 | 2014 | 5,020,919 | 5,060,949 | 1,696,931 | 1,700,262 | 1,821,976 | 1,812,274 |
| Marked to Market Valuation Gain/(Loss) from Treasury Bills* | | | 40,030 | | 3,331 | | (9,702) | |

Notes to the Financial Statements

23.1.3 Government of Sri Lanka Treasury Bonds - Bank

| Face Value Rs. '000 | Year of Maturity | 2013 | | 2012 | | 2011 | |
|--|---------------------|-------------------|--------------------------|------------------|--------------------------|------------------|--------------------------|
| | | Cost Rs. '000 | Market Value Rs. '000 | Cost Rs. '000 | Market Value Rs. '000 | Cost Rs. '000 | Market Value Rs. '000 |
| 3,181,164 | 2014 | 3,288,489 | 3,297,801 | | | | |
| 50,000 | 2015 | 53,200 | 53,483 | | | | |
| 68,300 | 2016 | 65,217 | 67,050 | | | | |
| 2,600,000 | 2018 | 2,461,129 | 2,510,845 | | | | |
| 80,000 | 2021 | 77,188 | 77,304 | | | | |
| 25,000 | 2028 | 20,959 | 22,510 | | | | |
| Total Held for Trading Government of Sri Lanka Treasury Bonds - Bank | | 5,966,182 | 6,028,993 | 590,475 | 599,232 | 2,734,936 | 2,662,147 |
| Marked to Market Valuation Gain/(Loss) from Treasury Bonds* | | 62,811 | | 8,757 | | (72,789) | |
| Total Other Financial Assets Held for Trading - Bank (Note Nos. 23.1.1, 23.1.2, 23.1.3) | | 11,159,600 | 11,183,843 | 2,565,860 | 2,460,272 | 5,555,817 | 5,243,565 |

* Marked to Market Valuation Gain/(Loss) from Treasury Bills and Bonds is included in Net Trading Income (Note 9).

Other Financial Assets Held for Trading Held by Subsidiaries

23.2 Seylan Developments PLC

23.2.1 Quoted Equities

| | 2013 | | | 2012 | | | 2011 | | |
|--|------------------------|------------------|--------------------------|------------------------|------------------|--------------------------|------------------------|------------------|--------------------------|
| | No. of Ordinary Shares | Cost Rs. '000 | Market Value Rs. '000 | No. of Ordinary Shares | Cost Rs. '000 | Market Value Rs. '000 | No. of Ordinary Shares | Cost Rs. '000 | Market Value Rs. '000 |
| Nation Lanka Finance PLC | - | - | - | 8,288 | 80 | 81 | 8,288 | 80 | 132 |
| CT Land Developments PLC | - | - | - | 100 | 1 | 3 | 100 | 1 | 3 |
| City Housing & Real Estate PLC | 250 | 2 | 3 | 250 | 2 | 4 | 250 | 2 | 4 |
| The Colombo Fort Land & Building Co. PLC | - | - | - | 100 | 1 | 4 | 100 | 1 | 4 |
| Overseas Realty Ceylon PLC | - | - | - | 100 | - | 1 | 100 | - | 1 |
| Kelsey Developments PLC | - | - | - | 100 | 1 | 1 | 100 | 1 | 2 |
| Property Development PLC | - | - | - | 100 | 2 | 5 | 100 | 2 | 5 |
| Colombo Land & Development Company PLC | 1,250 | 1 | 49 | 1,250 | - | 44 | 1,250 | - | 69 |
| East West Properties PLC | - | - | - | 200 | 1 | 3 | 200 | 1 | 5 |
| Equity One PLC | - | - | - | 100 | 1 | 3 | 100 | 1 | 5 |
| On'ally Holdings PLC | - | - | - | 100 | 1 | 6 | 100 | 1 | 9 |
| York Arcade Holdings PLC | - | - | - | 100 | - | 2 | 100 | - | 2 |
| Blue Diamonds Jewellery Worldwide PLC | 78,600 | 177 | 275 | 78,600 | 178 | 322 | 78,600 | 178 | 637 |
| Commercial Leasing & Finance Company PLC | 2,000,000 | 10,000 | 7,600 | 2,000,000 | 10,000 | 7,400 | - | - | - |
| Total Held for Trading Quoted Equities - Subsidiaries | | 10,180 | 7,927 | | 10,268 | 7,879 | | 268 | 878 |
| Marked to Market Valuation Gain/(Loss) from Quoted Equities | | (2,253) | | | (2,389) | | | 610 | |
| Total Other Financial Assets Held for Trading- Subsidiaries (Note 23.2.1) | | 10,180 | 7,927 | | 10,268 | 7,879 | | 268 | 878 |

Notes to the Financial Statements

| | BANK | | | GROUP | | |
|--|--------------------|------------------|------------------|--------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 24. Loans and Receivables | | | | | | |
| Gross Loans and Receivables (Note 24.1) | 144,167,684 | 132,973,690 | 116,584,610 | 144,167,684 | 132,973,690 | 116,584,610 |
| Less: Impairment Allowance for Loans and Receivables | | | | | | |
| Individual Impairment (Note 24.3.1) | (2,999,778) | (3,537,698) | (3,609,953) | (2,999,778) | (3,537,698) | (3,609,953) |
| Collective Impairment (Note 24.3.2) | (4,615,049) | (4,707,621) | (6,584,217) | (4,615,049) | (4,707,621) | (6,584,217) |
| Total Impairment Allowance for Loans and Receivables | (7,614,827) | (8,245,319) | (10,194,170) | (7,614,827) | (8,245,319) | (10,194,170) |
| Total Loans and Receivables - Net | 136,552,857 | 124,728,371 | 106,390,440 | 136,552,857 | 124,728,371 | 106,390,440 |

24.1 Analysis of Gross Loans and Receivables

24.1.1 Analysis of Rupee Gross Loans and Receivables by Product

| | | | | | | |
|--|--------------------|-------------|-------------|--------------------|-------------|-------------|
| Export Bills | 18,638 | 64,977 | 32,613 | 18,638 | 64,977 | 32,613 |
| Import Bills | 127,889 | 263,045 | 79,233 | 127,889 | 263,045 | 79,233 |
| Local Bills | 169,123 | 307,656 | 73,895 | 169,123 | 307,656 | 73,895 |
| Lease Rentals Receivable (Note 24.2) | 8,690,012 | 8,298,180 | 7,648,043 | 8,690,012 | 8,298,180 | 7,648,043 |
| Overdrafts | 38,964,190 | 31,879,768 | 26,407,028 | 38,964,190 | 31,879,768 | 26,407,028 |
| Trust Receipt Loans/Revolving Import Loans (RIL) | 9,812,635 | 8,449,617 | 8,063,263 | 9,812,635 | 8,449,617 | 8,063,263 |
| Staff Loans | 3,882,440 | 3,360,235 | 3,212,908 | 3,882,440 | 3,360,235 | 3,212,908 |
| Housing Loans | 8,682,549 | 9,054,892 | 8,755,604 | 8,682,549 | 9,054,892 | 8,755,604 |
| Pawning Receivables | 14,370,126 | 17,477,083 | 12,466,465 | 14,370,126 | 17,477,083 | 12,466,465 |
| Refinance Loans | 584,504 | 548,619 | 745,065 | 584,504 | 548,619 | 745,065 |
| Credit Cards | 2,551,355 | 2,196,981 | 1,909,433 | 2,551,355 | 2,196,981 | 1,909,433 |
| Other Loans | 47,800,886 | 43,817,460 | 40,787,831 | 47,800,886 | 43,817,460 | 40,787,831 |
| Rupee Gross Loans and Receivables | 135,654,347 | 125,718,513 | 110,181,381 | 135,654,347 | 125,718,513 | 110,181,381 |

24.1.2 Analysis of Foreign Currency Gross Loans and Receivables by Product

| | | | | | | |
|---|--------------------|-------------|-------------|--------------------|-------------|-------------|
| Export Bills | 702,052 | 533,746 | 565,354 | 702,052 | 533,746 | 565,354 |
| Import Bills | 66,702 | 194,233 | 179,005 | 66,702 | 194,233 | 179,005 |
| Local Bills | 71,785 | 60,341 | 70,812 | 71,785 | 60,341 | 70,812 |
| Overdrafts | 481,513 | 935,978 | 540,633 | 481,513 | 935,978 | 540,633 |
| Trust Receipt Loans/Revolving Import Loans (RIL) | 406,991 | 184,537 | 240,142 | 406,991 | 184,537 | 240,142 |
| Other Loans | 6,784,294 | 5,346,342 | 4,807,283 | 6,784,294 | 5,346,342 | 4,807,283 |
| Foreign Currency Gross Loans & Receivables | 8,513,337 | 7,255,177 | 6,403,229 | 8,513,337 | 7,255,177 | 6,403,229 |
| Total Gross Loans & Receivables | 144,167,684 | 132,973,690 | 116,584,610 | 144,167,684 | 132,973,690 | 116,584,610 |

Notes to the Financial Statements

| | BANK | | | GROUP | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 24.1.3 Analysis of Gross Loans and Receivables by Currency | | | | | | |
| Sri Lankan Rupee | 135,654,347 | 125,718,513 | 110,181,381 | 135,654,347 | 125,718,513 | 110,181,381 |
| United States Dollar | 8,469,221 | 7,165,648 | 6,222,299 | 8,469,221 | 7,165,648 | 6,222,299 |
| Great Britain Pound | 32,081 | 33,818 | 42,621 | 32,081 | 33,818 | 42,621 |
| Japanese Yen | 9,457 | 7,440 | 44,278 | 9,457 | 7,440 | 44,278 |
| Euro | 674 | 45,481 | 94,004 | 674 | 45,481 | 94,004 |
| Australian Dollar | 22 | - | 27 | 22 | - | 27 |
| Canadian Dollar | - | 384 | - | - | 384 | - |
| Hong Kong Dollar | - | 2,406 | - | - | 2,406 | - |
| Swiss Franc | 1,882 | - | - | 1,882 | - | - |
| Gross Loans and Receivables | 144,167,684 | 132,973,690 | 116,584,610 | 144,167,684 | 132,973,690 | 116,584,610 |

24.1.4 Analysis of Gross Loans and Receivables by Industry-wise

| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Agriculture and Fishing | 9,700,856 | 8,228,873 | 6,794,244 | 9,700,856 | 8,228,873 | 6,794,244 |
| Manufacturing | 17,591,107 | 14,095,052 | 12,751,899 | 17,591,107 | 14,095,052 | 12,751,899 |
| Tourism | 2,935,262 | 2,998,320 | 2,141,579 | 2,935,262 | 2,998,320 | 2,141,579 |
| Transport | 9,745,576 | 4,015,801 | 2,157,568 | 9,745,576 | 4,015,801 | 2,157,568 |
| Construction | 23,565,578 | 22,750,169 | 21,979,547 | 23,565,578 | 22,750,169 | 21,979,547 |
| Trading | 31,133,378 | 20,543,369 | 19,543,693 | 31,133,378 | 20,543,369 | 19,543,693 |
| New Economy | 685,835 | 1,225,554 | 966,488 | 685,835 | 1,225,554 | 966,488 |
| Financial and Business Services | 10,807,814 | 14,108,986 | 13,922,139 | 10,807,814 | 14,108,986 | 13,922,139 |
| Infrastructure | 1,473,710 | 828,295 | 556,637 | 1,473,710 | 828,295 | 556,637 |
| Other Services | 8,509,410 | 4,528,757 | 12,469,486 | 8,509,410 | 4,528,757 | 12,469,486 |
| Credit cards | 2,551,355 | 2,196,981 | 1,909,433 | 2,551,355 | 2,196,981 | 1,909,433 |
| Pawning | 14,370,126 | 17,477,083 | 12,466,465 | 14,370,126 | 17,477,083 | 12,466,465 |
| Other | 11,097,677 | 19,976,450 | 8,925,432 | 11,097,677 | 19,976,450 | 8,925,432 |
| Gross Loans and Receivables | 144,167,684 | 132,973,690 | 116,584,610 | 144,167,684 | 132,973,690 | 116,584,610 |

Sector-wise analysis of credit portfolio given above, reflects the exposure to credit risk in the various sectors of the economy.

Pawning includes agriculture sector lending.

| | BANK | | | GROUP | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 24.2 Lease Rentals Receivable | | | | | | |
| Lease Rentals Receivable Within One Year (Note 24.2.1) | 3,591,858 | 2,999,821 | 2,427,659 | 3,591,858 | 2,999,821 | 2,427,659 |
| Lease Rentals Receivable Later Than One Year and Not Later Than Five Years (Note 24.2.2) | 5,093,868 | 5,297,433 | 5,217,715 | 5,093,868 | 5,297,433 | 5,217,715 |
| Lease Rentals Receivable Later Than Five Years (Note 24.2.3) | 4,286 | 926 | 2,669 | 4,286 | 926 | 2,669 |
| | 8,690,012 | 8,298,180 | 7,648,043 | 8,690,012 | 8,298,180 | 7,648,043 |

Notes to the Financial Statements

| | BANK | | | GROUP | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 24.2.1 Lease Rentals Receivable Within One Year | | | | | | |
| From the Balance Sheet Date | 4,804,637 | 4,125,957 | 3,389,335 | 4,804,637 | 4,125,957 | 3,389,335 |
| Less: Unearned Income | (1,212,779) | (1,126,136) | (961,676) | (1,212,779) | (1,126,136) | (961,676) |
| | 3,591,858 | 2,999,821 | 2,427,659 | 3,591,858 | 2,999,821 | 2,427,659 |

24.2.2 Lease Rentals Receivable Later than One Year and Not Later than Five Years

| | | | | | | |
|------------------------------------|-----------|-----------|-------------|-----------|-----------|-------------|
| From the Balance Sheet Date (a) | 6,089,597 | 6,285,524 | 6,224,174 | 6,089,597 | 6,285,524 | 6,224,174 |
| Less: Unearned Income | (995,729) | (988,091) | (1,006,459) | (995,729) | (988,091) | (1,006,459) |
| | 5,093,868 | 5,297,433 | 5,217,715 | 5,093,868 | 5,297,433 | 5,217,715 |
| a. Lease Rentals Receivable | 6,174,412 | 6,375,598 | 6,310,096 | 6,174,412 | 6,375,598 | 6,310,096 |
| Less: Deposit of Rentals | (84,815) | (90,074) | (85,922) | (84,815) | (90,074) | (85,922) |
| | 6,089,597 | 6,285,524 | 6,224,174 | 6,089,597 | 6,285,524 | 6,224,174 |

24.2.3 Lease Rentals Receivable Later than Five Years

| | | | | | | |
|-----------------------------|---------|------|-------|---------|------|-------|
| From the Balance Sheet Date | 5,393 | 980 | 2,808 | 5,393 | 980 | 2,808 |
| Less: Unearned Income | (1,107) | (54) | (139) | (1,107) | (54) | (139) |
| | 4,286 | 926 | 2,669 | 4,286 | 926 | 2,669 |

24.3 Movement in Impairment Allowance on Loans and Receivables

| | BANK | | GROUP | |
|---|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 |
| 24.3.1 Allowance for Individual Impairment | | | | |
| Balance as at 1st January | 3,537,698 | 3,609,953 | 3,537,698 | 3,609,953 |
| Net Impairment during the Year | 1,305,790 | 574,671 | 1,305,790 | 574,671 |
| Reversal for Write-off | (1,276,124) | (1,940,620) | (1,276,124) | (1,940,620) |
| Interest Accrued on Impaired Loans & Receivables | (567,586) | (420,133) | (567,586) | (420,133) |
| Transfer from Allowance for Collective Impairment | - | 1,713,827 | - | 1,713,827 |
| Balance as at 31st December | 2,999,778 | 3,537,698 | 2,999,778 | 3,537,698 |
| 24.3.2 Allowance for Collective Impairment | | | | |
| Balance as at 1st January | 4,707,621 | 6,584,217 | 4,707,621 | 6,584,217 |
| Net Impairment during the Year | (92,572) | (162,769) | (92,572) | (162,769) |
| Transfer to Allowance for Individual Impairment | - | (1,713,827) | - | (1,713,827) |
| Balance as at 31st December | 4,615,049 | 4,707,621 | 4,615,049 | 4,707,621 |

Notes to the Financial Statements

| | BANK | | GROUP | |
|--|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 |
| 24.3.3 Movement in Impairment Allowance for Loans and Receivables | | | | |
| Balance as at 1st January | 8,245,319 | 10,194,170 | 8,245,319 | 10,194,170 |
| Net Impairment during the Year | 1,213,218 | 411,902 | 1,213,218 | 411,902 |
| Reversal for Write-off | (1,276,124) | (1,940,620) | (1,276,124) | (1,940,620) |
| Interest Accrued on Impaired Loans & Receivables | (567,586) | (420,133) | (567,586) | (420,133) |
| Balance as at 31st December | 7,614,827 | 8,245,319 | 7,614,827 | 8,245,319 |

| | 2013 | | 2012 | | 2011 | |
|---|-------------------|--------------------------|-------------------|--------------------------|-------------------|--------------------------|
| | Cost Rs. '000 | Market Value Rs. '000 | Cost Rs. '000 | Market Value Rs. '000 | Cost Rs. '000 | Market Value Rs. '000 |
| 25. Financial Investments - Available-for-Sale | | | | | | |
| Seylan Bank PLC (Note 25.1) | 15,462,394 | 14,001,964 | 13,969,382 | 11,358,103 | 12,755,980 | 11,886,589 |
| Seylan Developments PLC (Note 25.2) | 56,329 | - | 56,329 | - | 56,329 | - |
| Total Financial Investments - Available-for-Sale - Group | 15,518,723 | 14,001,964 | 14,025,711 | 11,358,103 | 12,812,309 | 11,886,589 |

25.1 Seylan Bank PLC

25.1.1 Financial Investments - Available-for-Sale - Bank

| | | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Quoted Equities (Note 25.1.1.1) | 511,748 | 663,026 | 592,918 | 647,875 | 196,429 | 326,945 |
| Unquoted Equities (Note 25.1.1.2) | 2,354,540 | 105,569 | 2,354,540 | 91,253 | 1,022,540 | 75,581 |
| Government of Sri Lanka Treasury Bills (Note 25.1.1.3) | 2,294,519 | 2,458,132 | 818,318 | 791,958 | - | - |
| Government of Sri Lanka Treasury Bonds (Note 25.1.1.4) | 9,721,341 | 10,172,506 | 10,203,606 | 9,827,017 | 11,537,011 | 11,484,063 |
| Sri Lanka Development Bonds (Note 25.1.1.5) | 391,950 | 398,691 | - | - | - | - |
| Quoted Debentures (Note 25.1.1.6) | 188,296 | 204,040 | - | - | - | - |
| Total Financial Investments - Available-for-Sale - Bank | 15,462,394 | 14,001,964 | 13,969,382 | 11,358,103 | 12,755,980 | 11,886,589 |

25.1.1.1 Quoted Equities - Bank

| | 2013 | | | 2012 | | | 2011 | | |
|--|--------------------------|------------------|--------------------------|--------------------------|------------------|--------------------------|--------------------------|------------------|--------------------------|
| | No. of Ordinary Equities | Cost Rs. '000 | Market Value Rs. '000 | No. of Ordinary Equities | Cost Rs. '000 | Market Value Rs. '000 | No. of Ordinary Equities | Cost Rs. '000 | Market Value Rs. '000 |
| Visa Inc. | 13,328 | 61,422 | 387,753 | 13,328 | 61,422 | 257,078 | 13,328 | 61,422 | 140,331 |
| The Finance Company PLC | 4,607,760 | 135,007 | 46,541 | 4,607,760 | 135,007 | 87,086 | 4,607,760 | 135,007 | 186,614 |
| Dialog Axiata PLC | 12,459,100 | 119,710 | 112,132 | 17,459,100 | 167,752 | 144,911 | - | - | - |
| Richard Pieris & Company PLC | 7,000,000 | 82,584 | 44,100 | 7,000,000 | 82,584 | 55,300 | - | - | - |
| John Keells Hotels PLC | 5,800,000 | 113,025 | 72,500 | 7,500,000 | 146,153 | 103,500 | - | - | - |
| Total Available-for-Sale Quoted Equities - Bank | | 511,748 | 663,026 | | 592,918 | 647,875 | | 196,429 | 326,945 |

Notes to the Financial Statements

25.1.1.2 Unquoted Equities - Bank

| | 2013 | | | 2012 | | | 2011 | | |
|--|--------------------------|------------------|----------------|--------------------------|------------------|---------------|--------------------------|------------------|---------------|
| | No. of Ordinary Equities | Cost | Market Value | No. of Ordinary Equities | Cost | Market Value | No. of Ordinary Equities | Cost | Market Value |
| | | Rs. '000 | Rs. '000 | | Rs. '000 | Rs. '000 | | Rs. '000 | Rs. '000 |
| Credit Information Bureau of Sri Lanka* | 2,900 | 290 | 17,047 | 2,900 | 290 | 13,274 | 2,900 | 290 | 9,598 |
| Transnational Lanka Records Solutions (Pvt) Limited* | 1,000,000 | 10,000 | 24,871 | 1,000,000 | 10,000 | 24,834 | 1,000,000 | 10,000 | 19,078 |
| LankaClear (Pvt) Limited* | 1,000,000 | 10,000 | 61,409 | 1,000,000 | 10,000 | 50,215 | 1,000,000 | 10,000 | 43,593 |
| Lanka Financial Services Bureau Limited* | 225,000 | 2,250 | 2,242 | 225,000 | 2,250 | 2,930 | 225,000 | 2,250 | 3,312 |
| Prime Grameen Micro Finance Limited** | 233,200,000 | 2,332,000 | -*** | 233,200,000 | 2,332,000 | -*** | 100,000,000 | 1,000,000 | -*** |
| Total Available-for-Sale Unquoted Equities - Bank | | 2,354,540 | 105,569 | | 2,354,540 | 91,253 | | 1,022,540 | 75,581 |

* Market value is based on Net Assets per Share Basis as per the Audited Financial Statements of these Companies as at following dates:

Credit Information Bureau of Sri Lanka - 31st December 2012
 Transnational Lanka Records Solutions (Pvt) Limited - 30th June 2013
 LankaClear (Pvt) Limited - 31st March 2013
 Lanka Financial Services Bureau Limited - 31st March 2013

** The Bank restructured its loan portfolio to Grameen Micro Credit Company Limited (Rs. 2.725 Bn.) by obtaining approval from the Monetary Board and converted Rs. 1 Bn. of the outstanding loan to 15% Cumulative/Redeemable/Convertible/Preference Shares. Further, Bank has converted the balance of Rs. 1.725 Bn. to Secured Debentures at an interest rate of Treasury Bills + 10% per annum which will mature from 2012 to 2019.

However, with effect from 25th June 2012, the Central Bank of Sri Lanka has directed to convert the investments in Grameen Micro Credit Company Limited to Rs. 665 Mn. Debentures which are secured against the mortgaged properties (redeemable from 2020 to 2040) and the balance Rs. 2,060 Mn. together with interest due amounting to Rs. 272 Mn. to 233,200,000 Non-voting Shares of Rs. 10/- each amounting to Rs. 2,332,000,000/-

*** Unquoted Shares have been fully provided due to permanent decline in value of shares.

25.1.1.3 Government of Sri Lanka Treasury Bills - Bank

| Face Value Rs. '000 | Year of Maturity | 2013 | | 2012 | | 2011 | |
|--|---------------------|------------------|--------------------------|------------------|--------------------------|------------------|--------------------------|
| | | Cost Rs. '000 | Market Value Rs. '000 | Cost Rs. '000 | Market Value Rs. '000 | Cost Rs. '000 | Market Value Rs. '000 |
| 2,532,099 | 2014 | 2,294,519 | 2,458,132 | | | | |
| Total Available-for-Sale Government of Sri Lanka Treasury Bills | | 2,294,519 | 2,458,132 | 818,318 | 791,958 | - | - |

25.1.1.4 Government of Sri Lanka Treasury Bonds - Bank

| Face Value Rs. '000 | Year of Maturity | 2013 | | 2012 | | 2011 | |
|--|---------------------|------------------|--------------------------|------------------|--------------------------|------------------|--------------------------|
| | | Cost Rs. '000 | Market Value Rs. '000 | Cost Rs. '000 | Market Value Rs. '000 | Cost Rs. '000 | Market Value Rs. '000 |
| 2,593,115 | 2014 | 2,589,239 | 2,504,099 | | | | |
| 2,364,000 | 2015 | 2,389,525 | 2,485,589 | | | | |
| 189,830 | 2016 | 176,666 | 183,355 | | | | |
| 50,000 | 2017 | 46,491 | 50,122 | | | | |
| 4,825,000 | 2018 | 4,519,420 | 4,949,341 | | | | |
| Total Available-for-Sale Government of Sri Lanka Treasury Bonds | | 9,721,341 | 10,172,506 | 10,203,606 | 9,827,017 | 11,537,011 | 11,484,063 |

Notes to the Financial Statements

25.1.1.5 Sri Lanka Development Bonds - Bank

| Face Value USD '000 | Year of Maturity | Cost USD '000 | Market Value USD '000 | 2013 | | 2012 | | 2011 | |
|---|---------------------|------------------|--------------------------|------------------|--------------------------|------------------|--------------------------|------------------|--------------------------|
| | | | | Cost Rs. '000 | Market Value Rs. '000 | Cost Rs. '000 | Market Value Rs. '000 | Cost Rs. '000 | Market Value Rs. '000 |
| 3,000 | 2016 | 3,000 | 3,052 | 391,950 | 398,691 | | | | |
| Total Available-for-Sale Sri Lanka Development Bonds | | | | 391,950 | 398,691 | - | - | - | - |

25.1.1.6 Quoted Debentures - Bank

| | 2013 | | 2012 | | 2011 | |
|---|-------------------|--------------------------|------------------|--------------------------|------------------|--------------------------|
| | Cost Rs. '000 | Market Value Rs. '000 | Cost Rs. '000 | Market Value Rs. '000 | Cost Rs. '000 | Market Value Rs. '000 |
| Peoples Leasing Company Limited (1,864,531 Debentures of Rs. 100/-each) | 188,296 | 204,040 | - | - | - | - |
| Total Available-for-Sale Quoted Debentures | 188,296 | 204,040 | - | - | - | - |
| Total Financial Investments - Available-for-Sale - Bank (Note Nos. 25.1.1.1, 25.1.1.2, 25.1.1.3, 25.1.1.4, 25.1.1.5, 25.1.1.6) | 15,462,394 | 14,001,964 | 13,969,382 | 11,358,103 | 12,755,980 | 11,886,589 |

Financial Investments - Available-for-Sale Held by Subsidiaries

25.2 Seylan Developments PLC

25.2.1 Financial Investments - Available-for-Sale

| 25.2.1.1 Unquoted Equities | 2013 | | | 2012 | | | 2011 | | |
|--|--------------------------------|---------------|-----------------|--------------------------------|---------------|-----------------|--------------------------------|---------------|-----------------|
| | No. of Ordinary Equities | Cost | Market Value | No. of Ordinary Equities | Cost | Market Value | No. of Ordinary Equities | Cost | Market Value |
| | | Rs. '000 | Rs. '000 | | Rs. '000 | Rs. '000 | | Rs. '000 | Rs. '000 |
| Ceylinco Venture Capital Investment Limited | 95,000 | 950 | - | 95,000 | 950 | - | 95,000 | 950 | - |
| Ceylinco Sports Complex | 220,000 | 2,200 | - | 220,000 | 2,200 | - | 220,000 | 2,200 | - |
| Ceycom Global Communication Limited | 40,500 | 405 | - | 40,500 | 405 | - | 40,500 | 405 | - |
| Asian Finance Company Limited | 75,000 | 750 | - | 75,000 | 750 | - | 75,000 | 750 | - |
| MBSL Savings Bank Limited | 25,000 | 250 | - | 25,000 | 250 | - | 25,000 | 250 | - |
| Ceylinco International Property Developers (Pvt) Limited | 50,000 | 500 | - | 50,000 | 500 | - | 50,000 | 500 | - |
| Ceyenergy Electronic Company (Pvt) Limited | 15,000 | 150 | - | 15,000 | 150 | - | 15,000 | 150 | - |
| Certis Lanka Home Nursing & Swift Care (Pvt) Limited | 75,000 | 750 | - | 75,000 | 750 | - | 75,000 | 750 | - |
| Independent Financial News & Views (Pvt) Limited | 4,900 | 49 | - | 4,900 | 49 | - | 4,900 | 49 | - |
| Ceylinco International Realty (Pvt) Limited | 200,000 | 2,000 | - | 200,000 | 2,000 | - | 200,000 | 2,000 | - |
| e.Ceylinco.Com (Pvt) Limited | 60,000 | 600 | - | 60,000 | 600 | - | 60,000 | 600 | - |
| International Consultancy & Corporate Services (Pvt) Limited | 5,000 | 50 | - | 5,000 | 50 | - | 5,000 | 50 | - |
| Ceylinco PLC Technology (Pvt) Limited | 177,500 | 1,775 | - | 177,500 | 1,775 | - | 177,500 | 1,775 | - |
| Standard Credit Lanka Limited | 4,000,000 | 40,000 | - | 4,000,000 | 40,000 | - | 4,000,000 | 40,000 | - |
| The Sitar (Pvt) Limited | 60,000 | 600 | - | 60,000 | 600 | - | 60,000 | 600 | - |
| Ceylinco Seraka Investments Limited | 510,000 | 5,100 | - | 510,000 | 5,100 | - | 510,000 | 5,100 | - |
| Ceylinco Cisco Ranaviru Services (Pvt) Limited | 10,000 | 100 | - | 10,000 | 100 | - | 10,000 | 100 | - |
| Certis Lanka Secure Logistics (Pvt) Limited | 10,000 | 100 | - | 10,000 | 100 | - | 10,000 | 100 | - |
| Total Available-for-Sale Unquoted Equities - Subsidiaries | | 56,329 | -* | | 56,329 | -* | | 56,329 | -* |
| Total Financial Investments - Available-for-Sale - Subsidiaries | | 56,329 | - | | 56,329 | - | | 56,329 | - |

*Unquoted Shares have been fully provided due to permanent diminution in value of shares.

Notes to the Financial Statements

25.3 Movement in Impairment during the Year

| | BANK | | | GROUP | | |
|---------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| Balance as at 1st January | 2,485,984 | 1,000,000 | 1,000,000 | 2,542,313 | 1,056,329 | 1,056,329 |
| Impairment made during the year | 75,567 | 153,984 | - | 75,567 | 153,984 | - |
| Transfer of Existing Provision | - | 1,332,000 | - | - | 1,332,000 | - |
| Balance as at 31st December | 2,561,551 | 2,485,984 | 1,000,000 | 2,617,880 | 2,542,313 | 1,056,329 |

| | 2013 Cost Rs. '000 | 2012 Cost Rs. '000 | 2011 Cost Rs. '000 |
|---|--------------------------|--------------------------|--------------------------|
| 26. Financial Investments - Held-to-Maturity | | | |
| Seylan Bank PLC (Note 26.1) | 24,050,862 | 19,822,966 | 17,665,169 |
| Seylan Developments PLC (Note 26.2) | 79,298 | - | - |
| Total Financial Investments - Held-to-Maturity - Group | 24,130,160 | 19,822,966 | 17,665,169 |

26.1 Seylan Bank PLC

26.1.1 Held-to-Maturity Investment Securities - Bank

| | | | |
|--|-------------------|-------------------|-------------------|
| Government of Sri Lanka Treasury Bills (Note 26.1.1.1) | 620,856 | 364,760 | - |
| Government of Sri Lanka Treasury Bonds (Note 26.1.1.2) | 15,681,431 | 14,574,580 | 13,684,134 |
| Sri Lanka Development Bonds (Note 26.1.1.3) | 5,003,384 | 3,097,684 | 2,538,205 |
| Other Bonds (Note 26.1.1.4) | 252,380 | 252,396 | 252,359 |
| Quoted Debentures (Note 26.1.1.5) | 999,583 | 18,974 | 18,978 |
| Unquoted Debentures (Note 26.1.1.6) | 1,493,228 | 1,514,572 | 1,171,493 |
| Total Financial Investments - Held-to-Maturity - Bank | 24,050,862 | 19,822,966 | 17,665,169 |

26.1.1.1 Government of Sri Lanka Treasury Bills - Bank

| | Face Value Rs. '000 | Year of Maturity | 2013 Cost Rs. '000 | 2012 Cost Rs. '000 | 2011 Cost Rs. '000 |
|---|------------------------|---------------------|--------------------------|--------------------------|--------------------------|
| | 683,500 | 2014 | 620,856 | | |
| Total Held-to-Maturity Government of Sri Lanka Treasury Bills - Bank | | | 620,856 | 364,760 | - |

26.1.1.2 Government of Sri Lanka Treasury Bonds - Bank

| | Face Value Rs. '000 | Year of Maturity | 2013 Cost Rs. '000 | 2012 Cost Rs. '000 | 2011 Cost Rs. '000 |
|---|------------------------|---------------------|--------------------------|--------------------------|--------------------------|
| | 1,400,000 | 2014 | 1,371,287 | | |
| | 7,170,000 | 2015 | 7,458,540 | | |
| | 3,200,000 | 2016 | 3,082,305 | | |
| | 50,000 | 2017 | 40,193 | | |
| | 2,600,000 | 2018 | 2,516,838 | | |
| | 100,000 | 2019 | 84,634 | | |
| | 392,700 | 2020 | 315,375 | | |
| | 379,000 | 2021 | 389,009 | | |
| | 290,000 | 2022 | 251,456 | | |
| | 205,000 | 2028 | 171,794 | | |
| Total Held-to-Maturity Government of Sri Lanka Treasury Bonds - Bank | | | 15,681,431 | 14,574,580 | 13,684,134 |

Notes to the Financial Statements

26.1.1.3 Sri Lanka Development Bonds - Bank

| | Face Value USD '000 | Year of Maturity | Cost USD '000 | 2013 Cost Rs. '000 | 2012 Cost Rs. '000 | 2011 Cost Rs. '000 |
|--|------------------------|---------------------|------------------|--------------------------|--------------------------|--------------------------|
| | 10,000 | 2014 | 9,111 | | | |
| | 8,000 | 2015 | 8,103 | | | |
| | 20,000 | 2016 | 21,082 | | | |
| Total Held-to-Maturity Sri Lanka Development Bonds - Bank | | | 38,296 | 5,003,384 | 3,097,684 | 2,538,205 |

26.1.1.4 Other Bonds - Bank

| | Face Value Rs. '000 | Year of Maturity | 2013 Cost Rs. '000 | 2012 Cost Rs. '000 | 2011 Cost Rs. '000 |
|--|------------------------|---------------------|--------------------------|--------------------------|--------------------------|
| CWE Bond | 250,000 | 2016 | 252,380 | 252,396 | 252,359 |
| Total Held-to-Maturity Other Bonds - Bank | | | 252,380 | 252,396 | 252,359 |

26.1.1.5 Quoted Debentures - Bank

| | 2013 Cost Rs. '000 | 2012 Cost Rs. '000 | 2011 Cost Rs. '000 |
|---|--------------------------|--------------------------|--------------------------|
| SMB Leasing PLC (187,240 Debentures of Rs. 100/- each) | 18,974 | 18,974 | 18,978 |
| Hayleys PLC (119,200 Debentures of Rs. 1,000/- each) | 123,481 | - | - |
| Softlogic Finance PLC (250,000 Debentures of Rs. 100/- each) | 25,340 | - | - |
| Alliance Finance Company PLC (1,000,000 Debentures of Rs. 100/- each) | 103,949 | - | - |
| HDFC Bank of Sri Lanka (655,800 Debentures of Rs. 100/- each) | 67,273 | - | - |
| LB Finance PLC (445,200 Debentures of Rs. 100/- each) | 45,049 | - | - |
| Central Finance Company PLC (481,100 Debentures of Rs. 100/- each) | 48,438 | - | - |
| Merchant Bank of Sri Lanka (3,768,400 Debentures of Rs. 100/- each) | 378,989 | - | - |
| Abans Limited (1,441,400 Debentures of Rs. 100/- each) | 144,586 | - | - |
| Senkadagala Finance PLC (417,038 Debentures of Rs. 100/- each) | 43,504 | - | - |
| Total Held-to-Maturity Quoted Debentures - Bank | 999,583 | 18,974 | 18,978 |

26.1.1.6 Unquoted Debentures - Bank

| | | | |
|--|-------------------|------------|-------------|
| Peoples Leasing Company Limited (500,000 Debentures of Rs. 100/-each) | 51,539 | 51,948 | 51,323 |
| Urban Development Authority (4,357,400 Debentures of Rs. 100/-each) | 447,296 | 447,263 | 447,295 |
| Bank of Ceylon (500,000 Debentures of Rs. 100/-each) | 50,362 | 50,361 | 50,362 |
| Senkadagala Finance PLC (240,000 Debentures of Rs. 1,000/-each) | 272,432 | 300,000 | - |
| Prime Grameen Micro Finance Limited | 671,599 | 665,000 | 1,730,738 |
| Less: Impairment Provision | - | - | (1,108,225) |
| Total Held-to-Maturity Unquoted Debentures - Bank | 1,493,228 | 1,514,572 | 1,171,493 |
| Total Financial Investments - Held-to-Maturity - Bank (Note Nos. 26.1.1.1, 26.1.1.2, 26.1.1.3, 26.1.1.4, 26.1.1.5, 26.1.1.6) | 24,050,862 | 19,822,966 | 17,665,169 |

Notes to the Financial Statements

Financial Investments - Held-to-Maturity Held by Subsidiaries

26.2 Seylan Developments PLC

26.2.1 Held-to-Maturity Investment Securities

26.2.1.1 Quoted Debentures

| | 2013 Cost Rs. '000 | 2012 Cost Rs. '000 | 2011 Cost Rs. '000 |
|--|--------------------------|--------------------------|--------------------------|
| People's Leasing & Finance PLC (500,000 Debentures of Rs. 100/-each) | 54,159 | - | - |
| Merchant Bank of Sri Lanka (250,000 Debentures of Rs. 100/-each) | 25,139 | - | - |
| Total Held-to-Maturity Quoted Debentures - Subsidiaries | 79,298 | - | - |
| Total Financial Investments - Held-to-Maturity-Subsidiaries | 79,298 | - | - |

27. Investment in Subsidiary

| Principal Activity | Number of Holding Equities as at 31.12.2013 | Holding % | Cost as at | | Market Value as at | | Number of Holding Equities as at 31.12.2011 | Holding % | Cost as at | | Market Value as at | | |
|--|---|------------|-------------------------|-------------------------|--------------------|-------------------------|---|-----------|-------------------------|-------------------------|--------------------|-------------------------|---------|
| | | | 31.12.2013 Rs. '000' | 31.12.2013 Rs. '000' | 31.12.2012 | 31.12.2012 Rs. '000' | | | 31.12.2011 Rs. '000' | 31.12.2011 Rs. '000' | 31.12.2011 | 31.12.2011 Rs. '000' | |
| Held-to-Maturity Quoted - Ordinary Shares | | | | | | | | | | | | | |
| Seylan Developments PLC | Property Development/Management | 77,493,339 | 52.37 | 800,624 | 697,440 | 76,688,880 | 51.83 | 793,254 | 697,869 | 76,688,880 | 51.83 | 793,254 | 943,273 |
| | | | | 800,624 | | | | 793,254 | 697,869 | | | 793,254 | 943,273 |

| Name of Company | BANK | | | GROUP | | |
|-------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| Seylan Developments PLC | 15,000 | 60,687 | 15,688 | - | - | - |
| | 15,000 | 60,687 | 15,688 | - | - | - |

28. Group Balances Receivable

Name of Company

| | | | | | | |
|-------------------------|--------|--------|--------|---|---|---|
| Seylan Developments PLC | 15,000 | 60,687 | 15,688 | - | - | - |
| | 15,000 | 60,687 | 15,688 | - | - | - |

Notes to the Financial Statements

29. Property, Plant & Equipment

29.1 Bank

| | Freehold Land Rs. '000 | Freehold Building Rs. '000 | Computer Equipment Rs. '000 | Machinery/ Equipment Rs. '000 | Furniture/ Fittings Rs. '000 | Motor Vehicles Rs. '000 | Leased Assets Rs. '000 | Capital Work- in-Progress Rs. '000 | Total Rs. '000 |
|---|------------------------------|----------------------------------|-----------------------------------|-------------------------------------|------------------------------------|-------------------------------|------------------------------|--|-------------------|
| Cost/Valuation | | | | | | | | | |
| Balance as at 1st January 2012 | 621,591 | 843,626 | 2,871,841 | 1,304,997 | 1,106,363 | 308,802 | 55,523 | 7,643 | 7,120,386 |
| Additions and Improvements | - | - | 94,129 | 108,264 | 155,172 | 3,799 | - | 737 | 362,101 |
| Surplus/(Impairment) on Revaluation | 52,800 | - | - | - | - | - | - | - | 52,800 |
| Disposals | (8,504) | (1,496) | (55,270) | (80,371) | (46,411) | (137,065) | (128) | (456) | (329,701) |
| Transfers from/(to) Intangible Assets/Other Transfers | - | - | 88,317 | 6,945 | 3,159 | - | - | (7,187) | 91,234 |
| As at 31st December 2012 | 665,887 | 842,130 | 2,999,017 | 1,339,835 | 1,218,283 | 175,536 | 55,395 | 737 | 7,296,820 |
| Balance as at 1st January 2013 | 665,887 | 842,130 | 2,999,017 | 1,339,835 | 1,218,283 | 175,536 | 55,395 | 737 | 7,296,820 |
| Additions and Improvements | - | - | 235,219 | 81,433 | 255,946 | 39,758 | - | 1,061 | 613,417 |
| Surplus/(Impairment) on Revaluation | 112,807 | 84,369 | - | - | - | - | - | - | 197,176 |
| Disposals | (52,800) | - | (45,366) | (43,063) | (83,211) | (41,599) | (630) | (1,719) | (268,388) |
| Transfers from/(to) Leasehold Rights/Investment Properties | 102,648 | 9,553 | (394) | 882 | (257) | - | (231) | - | 112,201 |
| As at 31st December 2013 | 828,542 | 936,052 | 3,188,476 | 1,379,087 | 1,390,761 | 173,695 | 54,534 | 79 | 7,951,226 |

Accumulated Depreciation

| | | | | | | | | | |
|---|----------|---------------|------------------|------------------|----------------|----------------|---------------|----------|------------------|
| Balance as at 1st January 2012 | - | 24,895 | 2,485,564 | 1,066,677 | 873,669 | 242,804 | 55,523 | - | 4,749,132 |
| Charge for the Year | - | 25,082 | 194,126 | 81,904 | 79,173 | 24,370 | - | - | 404,655 |
| Revaluation Adjustment on Accumulated Depreciation | - | - | - | - | - | - | - | - | - |
| Disposals | - | (96) | (53,631) | (78,678) | (39,897) | (125,545) | (128) | - | (297,975) |
| Transfers from/(to) Intangible Assets/Other Transfers | - | - | 47,518 | 1,958 | (4) | - | - | - | 49,472 |
| As at 31st December 2012 | - | 49,881 | 2,673,577 | 1,071,861 | 912,941 | 141,629 | 55,395 | - | 4,905,284 |
| Balance as at 1st January 2013 | - | 49,881 | 2,673,577 | 1,071,861 | 912,941 | 141,629 | 55,395 | - | 4,905,284 |
| Charge for the Year | - | 24,793 | 197,925 | 84,447 | 109,147 | 15,762 | - | - | 432,074 |
| Revaluation Adjustment on Accumulated Depreciation | - | (75,722) | - | - | - | - | - | - | (75,722) |
| Disposals | - | - | (45,366) | (42,877) | (79,112) | (30,225) | (630) | - | (198,210) |
| Transfers from/(to) Leasehold Rights/Investment Properties | - | 1,048 | (1,583) | (7,805) | 9,167 | - | (231) | - | 596 |
| As at 31st December 2013 | - | - | 2,824,553 | 1,105,626 | 952,143 | 127,166 | 54,534 | - | 5,064,022 |

Carrying Amount

| | | | | | | | | | |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|---------------|----------|-----------|------------------|
| As at 31st December 2011 | 621,591 | 818,731 | 386,277 | 238,320 | 232,694 | 65,998 | - | 7,643 | 2,371,254 |
| As at 31st December 2012 | 665,887 | 792,249 | 325,440 | 267,974 | 305,342 | 33,907 | - | 737 | 2,391,536 |
| As at 31st December 2013 | 828,542 | 936,052 | 363,923 | 273,461 | 438,618 | 46,529 | - | 79 | 2,887,204 |

The Bank does not have component assets which require separate depreciation.

Notes to the Financial Statements

29.2 Group

| | Freehold Land Rs. '000 | Freehold Building Rs. '000 | Computer Equipment Rs. '000 | Machinery/ Equipment Rs. '000 | Furniture/ Fittings Rs. '000 | Motor Vehicles Rs. '000 | Leased Assets Rs. '000 | Capital Work-in-Progress Rs. '000 | Total Rs. '000 |
|--|---------------------------|-------------------------------|--------------------------------|-------------------------------------|------------------------------------|----------------------------|---------------------------|--------------------------------------|-------------------|
| Cost/Valuation | | | | | | | | | |
| Balance as at 1st January 2012 | 621,591 | 1,548,139 | 2,875,770 | 1,363,434 | 1,108,791 | 308,802 | 56,054 | 7,643 | 7,890,224 |
| Additions and Improvements | - | - | 94,329 | 108,264 | 158,876 | 3,799 | - | 737 | 366,005 |
| Surplus/(Impairment) on Revaluation | 52,800 | - | - | - | - | - | - | - | 52,800 |
| Disposals | (8,504) | (1,496) | (55,270) | (80,371) | (46,411) | (137,065) | (128) | (456) | (329,701) |
| Transfers from/(to) Intangible Assets/Other Transfers | - | - | 88,317 | 6,945 | 3,159 | - | - | (7,187) | 91,234 |
| As at 31st December 2012 | 665,887 | 1,546,643 | 3,003,146 | 1,398,272 | 1,224,415 | 175,536 | 55,926 | 737 | 8,070,562 |
| Balance as at 1st January 2013 | 665,887 | 1,546,643 | 3,003,146 | 1,398,272 | 1,224,415 | 175,536 | 55,926 | 737 | 8,070,562 |
| Additions and Improvements | - | 12,502 | 235,512 | 81,800 | 257,846 | 39,758 | - | 1,061 | 628,479 |
| Surplus/(Impairment) on Revaluation | 112,807 | 933,493 | - | - | - | - | - | - | 1,046,300 |
| Disposals | (52,800) | - | (45,488) | (47,327) | (83,215) | (41,599) | (1,035) | (1,719) | (273,183) |
| Transfers from/(to) Leasehold Rights/Investment Properties and Other Transfers | 102,648 | 9,553 | (394) | 882 | (257) | - | (231) | - | 112,201 |
| As at 31st December 2013 | 828,542 | 2,502,191 | 3,192,776 | 1,433,627 | 1,398,789 | 173,695 | 54,660 | 79 | 9,584,359 |
| Accumulated Depreciation | | | | | | | | | |
| Balance as at 1st January 2012 | - | 77,666 | 2,489,066 | 1,102,521 | 874,147 | 242,804 | 56,054 | - | 4,842,258 |
| Charge for the Year | - | 42,695 | 194,235 | 94,105 | 79,499 | 24,370 | - | - | 434,904 |
| Revaluation Adjustment on Accumulated Depreciation | - | - | - | - | - | - | - | - | - |
| Disposals | - | (96) | (53,631) | (78,678) | (39,897) | (125,545) | (128) | - | (297,975) |
| Transfers from/(to) Intangible Assets/Other Transfers | - | - | 47,518 | 1,958 | (4) | - | - | - | 49,472 |
| As at 31st December 2012 | - | 120,265 | 2,677,188 | 1,119,906 | 913,745 | 141,629 | 55,926 | - | 5,028,659 |
| Balance as at 1st January 2013 | - | 120,265 | 2,677,188 | 1,119,906 | 913,745 | 141,629 | 55,926 | - | 5,028,659 |
| Charge for the Year | - | 33,084 | 198,084 | 95,868 | 109,622 | 15,762 | - | - | 452,420 |
| Revaluation Adjustment on Accumulated Depreciation | - | (154,397) | - | - | - | - | - | - | (154,397) |
| Disposals | - | - | (45,407) | (47,141) | (79,112) | (30,225) | (1,035) | - | (202,920) |
| Transfers from/(to) Leasehold Rights/Investment Properties and Other Transfers | - | 1,048 | (1,583) | (7,805) | 9,167 | - | (231) | - | 596 |
| As at 31st December 2013 | - | - | 2,828,282 | 1,160,828 | 953,422 | 127,166 | 54,660 | - | 5,124,358 |
| Carrying Amount | | | | | | | | | |
| As at 31st December 2011 | 621,591 | 1,470,473 | 386,704 | 260,913 | 234,644 | 65,998 | - | 7,643 | 3,047,966 |
| As at 31st December 2012 | 665,887 | 1,426,378 | 325,958 | 278,366 | 310,670 | 33,907 | - | 737 | 3,041,903 |
| As at 31st December 2013 | 828,542 | 2,502,191 | 364,494 | 272,799 | 445,367 | 46,529 | - | 79 | 4,460,001 |

The Bank and Subsidiary do not have component assets which require separate depreciation.

Investment property rented to Seylan Bank PLC by its Subsidiary Seylan Developments PLC is classified as Property, Plant & Equipment under the Group Financial Statements.

Notes to the Financial Statements

29.3 Fully-Depreciated Assets

The initial cost of fully-depreciated Property, Plant & Equipment and Intangible Assets (Software and Software Related) as at 31st December which are still in use as at Balance Sheet date:

| | BANK | | GROUP | |
|----------------------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 |
| Computer Equipment | 2,047,863 | 1,681,426 | 2,048,625 | 1,681,426 |
| Software and Software Related | 1,440,198 | 1,080,490 | 1,440,198 | 1,080,490 |
| Office Machines and Equipment | 881,875 | 801,287 | 881,875 | 805,551 |
| Fixtures, Fittings and Furniture | 775,556 | 707,716 | 775,556 | 707,716 |
| Motor Vehicles | 96,572 | 100,452 | 96,572 | 100,452 |
| Leased Assets | 54,534 | 55,395 | 54,660 | 55,926 |
| | 5,296,598 | 4,426,766 | 5,297,486 | 4,431,561 |

The Bank is currently in the process of replacing the fully-depreciated assets and therefore estimation of useful economic life is not reassessed due to replacement.

29.4 Temporarily Idle Plant & Equipment

No assets have been identified as temporarily idle plant & equipment as at 31st December 2013, 31st December 2012 and 31st December 2011.

29.5 Freehold/Leasehold Land and Buildings - Bank

The Bank has revalued its Land and Buildings and the valuations were made on the basis of Market values for existing use. Such valuations were carried by an independent valuer.

The book values of the property were adjusted to the revalued amount and the resultant surplus was credited to the revaluation reserve.

| Address | Extent | Revalued Amount | Revalued Amount | Total Revalued Amount as at 31.12.2013 Rs. '000 | Date of Valuation |
|---|----------|--|---|--|----------------------|
| | | - Land as at 31.12.2013 Rs. '000 | - Buildings as at 31.12.2013 Rs. '000 | | |
| A. Freehold | | | | | |
| Mt. Lavinia | | | | | |
| 198, Galle Road, Ratmalana | 36.30P | 81,674 | 23,325 | 104,999 | 23.12.2013 |
| Badulla | | | | | |
| 10, Cocowatte Road, Badulla | 1R 5.50P | 81,200 | 18,800 | 100,000 | 20.11.2013 |
| Kochchikade | | | | | |
| 66, Chilaw Road, Kochchikade | 8.0P | 9,750 | 13,950 | 23,700 | 31.12.2013 |
| Avissawella | | | | | |
| 71, Ratnapura Road, Avissawella | 18.92P | 28,900 | 12,100 | 41,000 | 02.01.2014 |
| Grandpass | | | | | |
| 401, Prince of Wales Avenue, Colombo 14 | 1R 6.0P | 57,500 | 16,000 | 73,500 | 16.12.2013 |
| Bandarawela | | | | | |
| Badulla Road, Bandarawela | 27.01P | 32,939 | 21,061 | 54,000 | 05.02.2014 |
| Sarikkamulla | | | | | |
| 97, Old Galle Road, Sarikkamulla | 11.56 P | 7,468 | 5,532 | 13,000 | 31.12.2013 |
| Tissamaharama | | | | | |
| 547, Debarawewa, Tissamaharama | 1R 1.50P | 9,338 | 8,162 | 17,500 | 16.01.2014 |

Notes to the Financial Statements

| Address | Extent | Revalued Amount - Land as at 31.12.2013 Rs. '000 | Revalued Amount - Buildings as at 31.12.2013 Rs. '000 | Total Revalued Amount as at 31.12.2013 Rs. '000 | Date of Valuation |
|---|-----------------------|---|--|--|----------------------|
| Raddolugama | | | | | |
| 171, National Housing Scheme, Raddolugama | 12.08P | 5,440 | 10,870 | 16,310 | 23.11.2013 |
| Nuwara-Eliya | | | | | |
| 61, Haddon Hill Road, Nuwara-Eliya | 1R 36P | 53,200 | 17,800 | 71,000 | 31.12.2013 |
| Maradagahamula | | | | | |
| 150, Divulapitiya Road, Maradagahamula | 35.0P | 8,025 | 6,975 | 15,000 | 30.12.2013 |
| Anuradhapura | | | | | |
| 23-A1, Anuradhapura | 1R 3.65P | 19,643 | 357 | 20,000 | 29.12.2013 |
| Embilipitiya | | | | | |
| 73, New Town Road, Embilipitiya | 22.1P | 12,155 | 28,845 | 41,000 | 11.11.2013 |
| Nugegoda | | | | | |
| 211, High Level Road, Nugegoda | 14.0P | 51,000 | 31,000 | 82,000 | 10.12.2013 |
| Ratnapura | | | | | |
| 6, Goods Shed Road, Ratnapura | 6.13P | 11,650 | 8,350 | 20,000 | 09.01.2014 |
| Embilipitiya | | | | | |
| Pettigala Road, Balangoda | 3R 22.04P | 30,100 | 1,500 | 31,600 | 07.01.2014 |
| Siri Nivasa | | | | | |
| No. 2, Deal Place, Colombo 3 | 19.0P | 122,200 | 10,560 | 132,760 | 31.12.2013 |
| Gampola | | | | | |
| 44, Kandy Road, Gampola | 13.5P | 30,375 | 12,125 | 42,500 | 07.11.2013 |
| Koggala | | | | | |
| 9, Export Processing Zone, Koggala | 20P | - | 8,500 | 8,500 | 26.01.2014 |
| Negombo | | | | | |
| 115, Rajapaksa Broadway, Negombo | 29.15P | 60,950 | 17,800 | 78,750 | 31.12.2013 |
| Kandana | | | | | |
| 99, Station Road, Kandana | 1A 1R 9.84P | 115,035 | 12,440 | 127,475 | 08.01.2014 |
| Head Office | | | | | |
| 90, Galle Road, Colombo 3 | 37,416 Square Feet | - | 650,000 | 650,000 | 31.12.2013 |
| Total Freehold Land & Buildings - Bank | | 828,542 | 936,052 | 1,764,594 | |
| Seylan Towers - East Tower | | - | 1,566,139 | 1,566,139 | 31.12.2013 |
| Total Freehold Buildings - Seylan Developments PLC | | - | 1,566,139 | 1,566,139 | |
| Total Freehold Land and Buildings - Group | | 828,542 | 2,502,191 | 3,330,733 | |

Notes to the Financial Statements

| Address | Extent | Cost - Land as at 31.12.2013 Rs. '000 | Cost - Buildings as at 31.12.2013 Rs. '000 | Accumulated Depreciation - Land Rs. '000 | Accumulated Depreciation - Buildings Rs. '000 | Net Book Value as at 31.12.2013 Rs. '000 |
|---|---------|---|--|---|--|---|
| B. Leasehold Properties | | | | | | |
| Nuwara-Eliya | | | | | | |
| 48 & 48/1, Park Road, Nuwara-Eliya | 20.28 P | 22,603 | 19,580 | 2,189 | 1,631 | 38,363 |
| Hingurakgoda | | | | | | |
| 13 & 14, Airport Road, Hingurakgoda | 15.84P | 4,356 | 8,544 | 1,005 | 1,972 | 9,923 |
| Total Leasehold Land and Buildings - Bank | | 26,959 | 28,124 | 3,194 | 3,603 | 48,286 |
| Seylan Tower Land - East Tower | | | | | | |
| 90, Galle Road, Colombo 3 | | 640,549 | - | - | 69,988 | 570,561 |
| Total Leasehold Land - Seylan Developments PLC | | 640,549 | - | - | 69,988 | 570,561 |
| Total Leasehold Land and Buildings - Group | | 667,508 | 28,124 | 3,194 | 73,591 | 618,847 |
| Total Land and Buildings - Group | | 1,496,050 | 2,530,315 | 3,194 | 73,591 | 3,949,580 |

| | Cost/Valuation Rs. '000 | Depreciation Rs. '000 | Market Value/ Net Book Value Rs. '000 |
|---|----------------------------|--------------------------|---|
| 29.6 Summary of Freehold/Leasehold Properties | | | |
| Freehold Land | 828,542 | - | 828,542 |
| Freehold Building | 936,052 | - | 936,052 |
| Total Free Land and Buildings | 1,764,594 | - | 1,764,594 |
| Leasehold Land | 26,959 | 3,194 | 23,765 |
| Leasehold Building | 28,124 | 3,603 | 24,521 |
| Total Leasehold Land and Buildings | 55,083 | 6,797 | 48,286 |
| Total Land and Buildings - Bank | 1,819,677 | 6,797 | 1,812,880 |
| Freehold Building - Seylan Developments PLC | 1,566,139 | - | 1,566,139 |
| Leasehold Land - Seylan Developments PLC | 640,549 | 69,988 | 570,561 |
| Total Land Buildings - Seylan Developments PLC | 2,206,688 | 69,988 | 2,136,700 |
| Total Land and Buildings - Group | 4,026,365 | 76,785 | 3,949,580 |

Notes to the Financial Statements

29.7 Revaluation - Land and Buildings

The Bank's entire Land and Buildings were revalued in the year 2013. Valuation was made on the basis of open market value and the revaluation surplus or deficit was transferred to the Revaluation Reserve/Income Statements respectively.

If Land and Buildings were stated at historical cost, the amounts would have been as follows:

| | BANK | | | | | |
|---------------------------------|------------------|-----------------------|-------------------|------------------|-----------------------|-------------------|
| | 2013 | | | 2012 | | |
| | Land Rs. '000 | Buildings Rs. '000 | Total Rs. '000 | Land Rs. '000 | Buildings Rs. '000 | Total Rs. '000 |
| Properties Revalued | | | | | | |
| Cost | | | | | | |
| Freehold | 415,028 | 951,879 | 1,366,907 | 426,632 | 960,464 | 1,387,096 |
| Leasehold | - | - | - | - | 43,545 | 43,545 |
| Accumulated Depreciation | | | | | | |
| Freehold | - | (216,280) | (216,280) | - | (191,811) | (191,811) |
| Leasehold | - | - | - | - | (5,870) | (5,870) |
| Carrying Value | 415,028 | 735,599 | 1,150,627 | 426,632 | 806,328 | 1,232,960 |
| Properties Not Revalued | | | | | | |
| Cost | | | | | | |
| Freehold | - | - | - | - | - | - |
| Leasehold | 25,703 | 52,535 | 78,238 | 22,603 | 1,901 | 24,504 |
| Accumulated Depreciation | | | | | | |
| Freehold | - | - | - | - | - | - |
| Leasehold | (4,148) | (8,201) | (12,349) | (1,916) | (1,485) | (3,401) |
| Carrying Value | 21,555 | 44,334 | 65,889 | 20,687 | 416 | 21,103 |
| Total Carrying Value | 436,583 | 779,933 | 1,216,516 | 447,319 | 806,744 | 1,254,063 |

Revaluation surplus/loss that arose during the year is reflected in the Notes 29, 43.2 and Statement of Comprehensive Income.

| | BANK | | GROUP | |
|--|---------------|----------|----------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| 30. Leasehold Rights | | | | |
| Cost/Valuation | | | | |
| Balance as at 1st January | 44,084 | 44,084 | 684,633 | 684,633 |
| Transfer from/(to) Property, Plant & Equipment | 10,999 | - | 10,999 | - |
| As at 31st December | 55,083 | 44,084 | 695,632 | 684,633 |
| Accumulated Depreciation | | | | |
| Balance as at 1st January | 4,488 | 4,175 | 67,066 | 59,343 |
| Charge for the Year | 3,357 | 313 | 10,767 | 7,723 |
| Transfer from/(to) Property, Plant & Equipment | (1,048) | - | (1,048) | - |
| As at 31st December | 6,797 | 4,488 | 76,785 | 67,066 |
| Carrying Amount | | | | |
| As at 31st December 2011 | 39,909 | | 625,290 | |
| As at 31st December 2012 | 39,596 | | 617,567 | |
| As at 31st December 2013 | 48,286 | | 618,847 | |

Notes to the Financial Statements

Bank - Leasehold property consists of the Property situated at Park Road, Nuwara-Eliya acquired in the year 2001, and the property situated at Airport Road, Hingurakgoda acquired in 2010.

Seylan Developments PLC entered into a 99-year Operating Lease with the view to set up/conduct and operate a business for the construction of an office and apartment complex in year 1992.

31. Investment Properties

| | BANK | | | GROUP | | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| Cost | | | | | | |
| Balance as at 1st January | 253,748 | 253,748 | 520,812 | 1,614,091 | 1,617,059 | 1,958,880 |
| Add: Additions during the year | - | - | - | - | 32 | 1,134 |
| Transfers/Set-offs | - | - | - | - | - | (75,891) |
| Less: Disposals during the year | - | - | (267,064) | (40,322) | (3,000) | (267,064) |
| Transferred to Property, Plant & Equipment * | (139,319) | - | - | (139,319) | - | - |
| Cost as at 31st December (Notes 31.2 & 31.3) | 114,429 | 253,748 | 253,748 | 1,434,450 | 1,614,091 | 1,617,059 |
| Less - Provision for Impairment (Note 31.1) | - | (16,119) | (16,119) | (213,080) | (241,579) | (241,579) |
| Cost Less Impairment as at 31st December | 114,429 | 237,629 | 237,629 | 1,221,370 | 1,372,512 | 1,375,480 |
| Accumulated Depreciation | | | | | | |
| Balance as at 1st January | - | - | - | 169,132 | 148,934 | 128,736 |
| Charge for the year | - | - | - | 8,296 | 20,198 | 20,198 |
| Balance as at 31st December | - | - | - | 177,428 | 169,132 | 148,934 |
| Carrying Value as at 31st December | 114,429 | 237,629 | 237,629 | 1,043,942 | 1,203,380 | 1,226,546 |

31.1 Provision for Impairment - Investment Properties

| | BANK | | | GROUP | | |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| Balance as at 1st January | 16,119 | 16,119 | 32,099 | 241,579 | 241,579 | 166,894 |
| Impairment made during the year | - | - | 16,119 | 948 | - | 106,784 |
| Reversal during the year | - | - | (32,099) | (13,328) | - | (32,099) |
| Other Movements* | (16,119) | - | - | (16,119) | - | - |
| Balance as at 31st December | - | 16,119 | 16,119 | 213,080 | 241,579 | 241,579 |

* The property at Kandana was transferred to Property, Plant & Equipment during the year as the Bank commenced using it as one of the Bank's store facilities.

Bank has accounted its Investment Properties at cost and revalued these properties periodically on a systematic basis for disclosure purposes.

Notes to the Financial Statements

31.2 Investment Properties (Bank) - 2013

| Address | BANK | | | |
|-----------------------|--------------|-------------------|------------------|--------------------------|
| | Extent | Date of Valuation | Cost Rs. '000 | Market Value Rs. '000 |
| Kahapola, Piliyandala | 20A 1R 39.5P | 08/01/2014 | 114,429 | 140,000 |
| | | | 114,429 | |

The property located at Kahapola, Piliyandala is valued by Mr. J.M.J. Fernando, professionally qualified valuer and the factors considered for the valuation are,

- Close proximity to Piliyandala town and University of Moratuwa
- Easy access to Galle Road

31.3 Investment Properties (Group) - 2013

| Address | GROUP | | | |
|--|---------------|-------------------|------------------|--------------------------|
| | Extent | Date of Valuation | Cost Rs. '000 | Market Value Rs. '000 |
| Kahapola, Piliyandala | 20A 1R 39.5P | 08/01/2014 | 114,429 | 140,000 |
| Seylan Towers - West Tower* 90, Galle Road, Colombo 3 | 111,191 Sq.Ft | 27/01/2014 | 1,023,999 | 1,499,910 |
| 257, Union Place, Colombo 2** | 0A 1R 12.27P | 06/01/2014 | 204,535 | 315,000 |
| Moratuwa Lake Villas, St. Peter's Road, Moratuwa*** | 0A 1R 24.50 P | 03/02/2014 | 21,136 | 13,202 |
| Ja-Ela Commercial Complex**** | | | 70,351 | - |
| | | | 1,434,450 | |

* The rent income from the Seylan Towers - West Tower for the year 2013 is Rs. 72.6 Mn. (2012 - Rs. 72.7 Mn.).

* The Seylan Towers (West Tower) was valued by Sunil Fernando & Associates (Pvt) Limited, incorporated valuer and having recent experience in the location and category of the investment property being valued. He has used Investment Basis of Valuation and Depreciated Replacement Value Basis Method in valuation, assuming, as the subject property is of two mix uses, commercial and residential, a prudent investor is expected to make his bid to purchase on two different yields based on two different risks attached to the commercial and residential uses of the property.

The above valuation has used market rental based on current market rental of comparable commercial property and has been adjusted to take cognisance of location of a Central Business District and peripherals. Further rentals of two similar nature residential apartment buildings have been taken as comparable residential market rents. All risk rates for residential and commercial segment of the subject property have been taken at 4% and 5.75% respectively.

** The Property at No. 257, Union Place was valued by Mr. G.J. Sumanasena, incorporated valuer and having recent experience in the location and category of the investment property being valued. He has used the Open Market Method in valuation.

The Open Market value is intended to mean the best price at which an interest in a property might reasonably be expected to be sold in the Private Treaty as at the date of valuation, assuming,

- The property is prime and most suitable for high rise development
- Located in a prime commercial area

The property at Union Place is presently occupied by Ceylinco Packaging (Pvt) Limited and the Company has initiated legal action for the eviction. Therefore, this is considered as an encumbered property for this valuation.

*** The Property at Moratuwa was valued by Mr. D.N.D. Baranage, professionally qualified valuer and the assumptions of the valuation are,

- It's a well-established residential area
- Along New Galle Road there is a commercial development
- Being in close proximity to Moratuwa, enjoying easy accessibility to Colombo City

**** Full provision for impairment has been made.

Notes to the Financial Statements

| | BANK | | GROUP | |
|--|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 |
| 32. Intangible Assets | | | | |
| Software and Software Related | | | | |
| Cost | | | | |
| Balance as at 1st January | 1,884,074 | 1,993,003 | 1,884,074 | 1,993,003 |
| Additions for the Year | 43,623 | 31,744 | 43,623 | 31,744 |
| Transfer from/(to) Property, Plant & Equipment | - | (140,222) | - | (140,222) |
| Write-Offs During the Year | (16,077) | (451) | (16,077) | (451) |
| As at 31st December | 1,911,620 | 1,884,074 | 1,911,620 | 1,884,074 |
| Accumulated Amortisation | | | | |
| Balance as at 1st January | 1,681,720 | 1,588,704 | 1,681,720 | 1,588,704 |
| Amortisation for the Year | 104,391 | 142,938 | 104,391 | 142,938 |
| Transfer from/(to) Property, Plant & Equipment | 452 | (49,471) | 452 | (49,471) |
| Write-Offs During the Year | (16,077) | (451) | (16,077) | (451) |
| As at 31st December | 1,770,486 | 1,681,720 | 1,770,486 | 1,681,720 |
| Carrying Amount | | | | |
| As at 31st December 2011 | 404,299 | | 404,299 | |
| As at 31st December 2012 | 202,354 | | 202,354 | |
| As at 31st December 2013 | 141,134 | | 141,134 | |

| | BANK | | | GROUP | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 33. Deferred Taxation | | | | | | |
| Balance Brought Forward | 253,171 | 510,086 | 415,802 | 481,588 | 741,668 | 633,594 |
| (Charge)/Reversal for the Year (Note 15.1) | (73,409) | (256,915) | 92,409 | (76,015) | (260,080) | 106,368 |
| Transfer to/(from) Revaluation Reserve (Note 43.2) | (9,172) | - | 1,875 | (269,622) | - | 1,706 |
| Balance Carried Forward (Notes 33.1 & 33.2) | 170,590 | 253,171 | 510,086 | 135,951 | 481,588 | 741,668 |

Notes to the Financial Statements

33.1 Analysis of Deferred Tax Assets and Liabilities

| | BANK | | | | | |
|--|----------------------------------|-----------------|----------------------------------|-----------------|----------------------------------|------------------|
| | 2013 | | 2012 | | 2011 | |
| | Temporary Difference Rs. '000 | Tax Rs. '000 | Temporary Difference Rs. '000 | Tax Rs. '000 | Temporary Difference Rs. '000 | Tax Rs. '000 |
| Deferred Tax - Liabilities | | | | | | |
| Property, Plant & Equipment | 769,094 | 215,346 | 824,854 | 230,959 | 996,434 | 279,001 |
| Lease Rentals | 1,532,319 | 429,049 | 1,182,233 | 331,025 | 1,103,000 | 308,840 |
| Revaluation Gain B/F | 59,539 | 16,671 | 26,783 | 7,499 | 26,783 | 7,499 |
| Mark to Market Gain | - | - | 94,579 | 26,482 | - | - |
| | 2,360,952 | 661,066 | 2,128,449 | 595,965 | 2,126,217 | 595,340 |
| Deferred Tax - Assets | | | | | | |
| Leave Encashment Provision | 218,467 | 61,171 | 200,648 | 56,181 | 206,439 | 57,803 |
| Defined Benefit Obligation* | - | - | - | - | - | - |
| Collective and Individually Significant Impairment | 1,963,470 | 549,771 | 2,105,026 | 589,407 | 3,056,923 | 855,938 |
| Other Provisions | 157,476 | 44,093 | 61,496 | 17,219 | - | - |
| Tax Losses C/F | 569,216 | 159,380 | 534,392 | 149,630 | 553,520 | 154,986 |
| Impact on Devaluation of Property | 61,575 | 17,241 | 131,069 | 36,699 | 131,069 | 36,699 |
| | 2,970,204 | 831,656 | 3,032,631 | 849,136 | 3,947,951 | 1,105,426 |
| Net Deferred Tax Assets/(Liabilities) (Note 33.1.1) | 609,252 | 170,590 | 904,182 | 253,171 | 1,821,734 | 510,086 |

33.1.1 Movement in Temporary Differences

| | BANK | | | | | | | | | | | |
|--|---------------------------------------|--|------------------------------------|---|---------------------------------------|--|------------------------------------|---|---------------------------------------|--|------------------------------------|---|
| | 2013 | | | | 2012 | | | | 2011 | | | |
| | Balance as at 1st January Rs. '000 | Recognised in Profit or Loss Rs. '000 | Recognised in Reserves Rs. '000 | Balance as at 31st December Rs. '000 | Balance as at 1st January Rs. '000 | Recognised in Profit or Loss Rs. '000 | Recognised in Reserves Rs. '000 | Balance as at 31st December Rs. '000 | Balance as at 1st January Rs. '000 | Recognised in Profit or Loss Rs. '000 | Recognised in Reserves Rs. '000 | Balance as at 31st December Rs. '000 |
| Deferred Tax - Liabilities | | | | | | | | | | | | |
| Property, Plant & Equipment | 824,854 | (55,760) | - | 769,094 | 996,434 | (171,580) | - | 824,854 | 1,030,744 | (34,310) | - | 996,434 |
| Lease Rentals | 1,182,233 | 350,086 | - | 1,532,319 | 1,103,000 | 79,233 | - | 1,182,233 | 590,651 | 512,349 | - | 1,103,000 |
| Revaluation Gain B/F | 26,783 | - | 32,756 | 59,539 | 26,783 | - | - | 26,783 | 26,783 | - | - | 26,783 |
| Mark to Market Gain | 94,579 | (94,579) | - | - | - | 94,579 | - | 94,579 | - | - | - | - |
| | 2,128,449 | 199,747 | 32,756 | 2,360,952 | 2,126,217 | 2,232 | - | 2,128,449 | 1,648,178 | 478,039 | - | 2,126,217 |
| Deferred Tax - Assets | | | | | | | | | | | | |
| Leave Encashment Provision | 200,648 | 17,819 | - | 218,467 | 206,439 | (5,791) | - | 200,648 | 191,728 | 14,711 | - | 206,439 |
| Defined Benefit Obligation* | - | - | - | - | - | - | - | - | 888 | (888) | - | - |
| Collective and Individually Significant Impairment | 2,105,026 | (141,556) | - | 1,963,470 | 3,056,923 | (951,897) | - | 2,105,026 | 2,512,498 | 544,425 | - | 3,056,923 |
| Other Provisions | 61,496 | 95,980 | - | 157,476 | - | 61,496 | - | 61,496 | - | - | - | - |
| Tax Losses C/F | 534,392 | 34,824 | - | 569,216 | 553,520 | (19,128) | - | 534,392 | - | 553,520 | - | 553,520 |
| Impact on Devaluation of Property | 131,069 | (69,494) | - | 61,575 | 131,069 | - | - | 131,069 | 131,069 | - | - | 131,069 |
| | 3,032,631 | (62,427) | - | 2,970,204 | 3,947,951 | (915,320) | - | 3,032,631 | 2,836,183 | 1,111,768 | - | 3,947,951 |
| Net Deferred Tax Assets/(Liabilities) | 904,182 | (262,174) | (32,756) | 609,252 | 1,821,734 | (917,552) | - | 904,182 | 1,188,005 | 633,729 | - | 1,821,734 |

Notes to the Financial Statements

33.2 Analysis of Deferred Tax Assets and Liabilities

| | GROUP | | | | | |
|--|----------------------------------|------------------|----------------------------------|------------------|----------------------------------|------------------|
| | 2013 | | 2012 | | 2011 | |
| | Temporary Difference Rs. '000 | Tax Rs. '000 | Temporary Difference Rs. '000 | Tax Rs. '000 | Temporary Difference Rs. '000 | Tax Rs. '000 |
| Deferred Tax - Liabilities | | | | | | |
| Property, Plant & Equipment | 769,094 | 215,346 | 824,854 | 230,959 | 996,434 | 279,001 |
| Lease Rentals | 1,532,319 | 429,049 | 1,182,233 | 331,025 | 1,103,000 | 308,840 |
| Revaluation Gain B/F | 990,318 | 277,290 | 27,386 | 7,668 | 27,386 | 7,668 |
| Mark to Market Gain | - | - | 94,579 | 26,482 | - | - |
| | 3,291,731 | 921,685 | 2,129,052 | 596,134 | 2,126,820 | 595,509 |
| Deferred Tax - Assets | | | | | | |
| Leave Encashment Provision | 218,467 | 61,171 | 200,648 | 56,181 | 206,439 | 57,803 |
| Defined Benefit Obligation* | - | - | - | - | - | - |
| Collective and Individually Significant Impairment | 1,963,470 | 549,771 | 2,105,026 | 589,407 | 3,056,923 | 855,938 |
| Other Provisions | 157,476 | 44,093 | 61,496 | 17,219 | - | - |
| Tax Losses C/F | 1,376,287 | 385,360 | 1,350,771 | 378,216 | 1,381,203 | 386,737 |
| Impact on Devaluation of Property | 61,575 | 17,241 | 131,069 | 36,699 | 131,069 | 36,699 |
| | 3,777,275 | 1,057,636 | 3,849,010 | 1,077,722 | 4,775,634 | 1,337,177 |
| Net Deferred Tax Assets/(Liabilities) (Note 33.2.1) | 485,544 | 135,951 | 1,719,958 | 481,588 | 2,648,814 | 741,668 |

33.2.1 Movement in Temporary Differences

| | GROUP | | | | | | | | | | | |
|--|---------------------------------------|--|------------------------------------|---|---------------------------------------|--|------------------------------------|---|---------------------------------------|--|------------------------------------|---|
| | 2013 | | | | 2012 | | | | 2011 | | | |
| | Balance as at 1st January Rs. '000 | Recognised in Profit or Loss Rs. '000 | Recognised in Reserves Rs. '000 | Balance as at 31st December Rs. '000 | Balance as at 1st January Rs. '000 | Recognised in Profit or Loss Rs. '000 | Recognised in Reserves Rs. '000 | Balance as at 31st December Rs. '000 | Balance as at 1st January Rs. '000 | Recognised in Profit or Loss Rs. '000 | Recognised in Reserves Rs. '000 | Balance as at 31st December Rs. '000 |
| Deferred Tax - Liabilities | | | | | | | | | | | | |
| Property, Plant & Equipment | 824,854 | (55,760) | - | 769,094 | 996,434 | (171,580) | - | 824,854 | 1,030,744 | (34,310) | - | 996,434 |
| Lease Rentals | 1,182,233 | 350,086 | - | 1,532,319 | 1,103,000 | 79,233 | - | 1,182,233 | 590,651 | 512,349 | - | 1,103,000 |
| Revaluation Gain B/F | 27,386 | - | 962,932 | 990,318 | 27,386 | - | - | 27,386 | 26,783 | - | 603 | 27,386 |
| Mark to Market Gain | 94,579 | (94,579) | - | - | - | 94,579 | - | 94,579 | - | - | - | - |
| | 2,129,052 | 199,747 | 962,932 | 3,291,731 | 2,126,820 | 2,232 | - | 2,129,052 | 1,648,178 | 478,039 | 603 | 2,126,820 |
| Deferred Tax - Assets | | | | | | | | | | | | |
| Leave Encashment Provision | 200,648 | 17,819 | - | 218,467 | 206,439 | (5,791) | - | 200,648 | 191,728 | 14,711 | - | 206,439 |
| Defined Benefit Obligation* | - | - | - | - | - | - | - | - | 888 | (888) | - | - |
| Collective and Individually Significant Impairment | 2,105,026 | (141,556) | - | 1,963,470 | 3,056,923 | (951,897) | - | 2,105,026 | 2,512,498 | 544,425 | - | 3,056,923 |
| Other Provisions | 61,496 | 95,980 | - | 157,476 | - | 61,496 | - | 61,496 | - | - | - | - |
| Tax Losses C/F | 1,350,771 | 25,516 | - | 1,376,287 | 1,381,203 | (30,432) | - | 1,350,771 | 777,827 | 603,376 | - | 1,381,203 |
| Impact on Devaluation of Property | 131,069 | (69,494) | - | 61,575 | 131,069 | - | - | 131,069 | 131,069 | - | - | 131,069 |
| | 3,849,010 | (71,735) | - | 3,777,275 | 4,775,634 | (926,624) | - | 3,849,010 | 3,614,010 | 1,161,624 | - | 4,775,634 |
| Net Deferred Tax Assets/(Liabilities) | 1,719,958 | (271,482) | (962,932) | 485,544 | 2,648,814 | (928,856) | - | 1,719,958 | 1,965,832 | 683,585 | (603) | 2,648,814 |

*Defined Benefit Obligation (Gratuity Provision).

The Bank has a separate Gratuity Trust Fund which was approved by the Commissioner General of Inland Revenue. As per the approval, Bank could transfer Gratuity provision of 62.5% of the last month's salary of the year and deduct it from the tax computation. Therefore, no temporary differences arise on the gratuity obligation.

Notes to the Financial Statements

| | BANK | | | GROUP | | |
|--------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 34. Other Assets | | | | | | |
| Deposits and Prepayments | 893,549 | 801,868 | 943,416 | 897,592 | 805,582 | 959,618 |
| Clearing House Balance | 1,402,368 | 2,081,285 | 1,382,436 | 1,402,613 | 2,081,285 | 1,365,168 |
| Inventories | 98,395 | 397,677 | 290,997 | 98,395 | 397,677 | 290,997 |
| Sundry Debtors | 151,458 | 223,954 | 168,872 | 151,458 | 223,954 | 168,872 |
| Other Receivables | 32,825 | 336,930 | 336,728 | 32,825 | 336,930 | 336,728 |
| Due from Trust Companies | 124,742 | 124,503 | 124,396 | 124,742 | 124,503 | 124,396 |
| Prepaid Staff Cost | 2,430,494 | 2,216,651 | 1,837,657 | 2,430,494 | 2,217,204 | 1,837,657 |
| Others | 387,538 | 323,105 | 292,122 | 420,983 | 376,005 | 326,069 |
| | 5,521,369 | 6,505,973 | 5,376,624 | 5,559,102 | 6,563,140 | 5,409,505 |

35. Due to Banks

| | | | | | | |
|-------------------------------|-------------------|------------------|------------------|-------------------|------------------|------------------|
| Call Money Borrowings | 10,542,249 | 4,706,762 | 5,841,246 | 10,542,249 | 4,706,762 | 5,841,246 |
| Refinance Borrowings | 651,921 | 828,179 | 921,337 | 651,921 | 828,179 | 921,337 |
| Borrowings from Local Banks | 203,369 | 87,368 | - | 203,369 | 87,368 | - |
| Borrowings from Foreign Banks | 146,667 | 515,494 | 548,068 | 146,667 | 515,494 | 548,068 |
| | 11,544,206 | 6,137,803 | 7,310,651 | 11,544,206 | 6,137,803 | 7,310,651 |

36. Customer Deposits

| | | | | | | |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Total Customer Deposits | 167,371,384 | 146,727,199 | 123,981,100 | 167,371,384 | 146,727,199 | 123,981,100 |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|

36.1 Analysis of Customer Deposits**36.1.1 By Product****Local Currency**

| | | | | | | |
|-------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Demand Deposits | 10,727,342 | 10,564,816 | 9,764,010 | 10,727,342 | 10,564,816 | 9,764,010 |
| Savings Deposits | 38,991,037 | 35,373,731 | 35,637,751 | 38,991,037 | 35,373,731 | 35,637,751 |
| Time Deposits | 99,858,932 | 84,434,792 | 65,522,397 | 99,858,932 | 84,434,792 | 65,522,397 |
| Certificates of Deposit | 6,074,541 | 5,191,180 | 4,017,018 | 6,074,541 | 5,191,180 | 4,017,018 |
| | 155,651,852 | 135,564,519 | 114,941,176 | 155,651,852 | 135,564,519 | 114,941,176 |

Foreign Currency

| | | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Demand Deposits | 745,172 | 941,514 | 876,339 | 745,172 | 941,514 | 876,339 |
| Savings Deposits | 4,587,352 | 3,673,909 | 2,982,168 | 4,587,352 | 3,673,909 | 2,982,168 |
| Time Deposits | 6,387,008 | 6,547,257 | 5,181,417 | 6,387,008 | 6,547,257 | 5,181,417 |
| | 11,719,532 | 11,162,680 | 9,039,924 | 11,719,532 | 11,162,680 | 9,039,924 |
| Total Customer Deposits by Product | 167,371,384 | 146,727,199 | 123,981,100 | 167,371,384 | 146,727,199 | 123,981,100 |

Notes to the Financial Statements

| | BANK | | | GROUP | | |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 36.1.2 By Currency | | | | | | |
| Sri Lankan Rupee | 155,651,852 | 135,564,519 | 114,941,176 | 155,651,852 | 135,564,519 | 114,941,176 |
| United States Dollar | 8,855,251 | 8,499,299 | 6,506,703 | 8,855,251 | 8,499,299 | 6,506,703 |
| Great Britain Pound | 1,201,900 | 1,123,918 | 948,769 | 1,201,900 | 1,123,918 | 948,769 |
| Japanese Yen | 31,571 | 28,639 | 24,789 | 31,571 | 28,639 | 24,789 |
| Euro | 692,923 | 728,231 | 934,223 | 692,923 | 728,231 | 934,223 |
| Swiss Franc | 26,238 | 21,445 | 19,385 | 26,238 | 21,445 | 19,385 |
| Australian Dollar | 793,802 | 666,808 | 530,371 | 793,802 | 666,808 | 530,371 |
| Canadian Dollar | 102,797 | 75,682 | 57,737 | 102,797 | 75,682 | 57,737 |
| Singapore Dollar | 11,650 | 17,439 | 17,639 | 11,650 | 17,439 | 17,639 |
| New Zealand Dollar | 2,743 | 927 | 63 | 2,743 | 927 | 63 |
| Swedish Kroner | 134 | 53 | 37 | 134 | 53 | 37 |
| Danish Kroner | 523 | 239 | 208 | 523 | 239 | 208 |
| Total Customer Deposits by Currency | 167,371,384 | 146,727,199 | 123,981,100 | 167,371,384 | 146,727,199 | 123,981,100 |
| 36.1.3 By Customer Category | | | | | | |
| Banks | 1,290,106 | 11,072 | 237,816 | 1,290,106 | 11,072 | 237,816 |
| Finance Companies | 715,969 | 1,264,436 | 1,558,269 | 715,969 | 1,264,436 | 1,558,269 |
| Other Customers | 165,365,309 | 145,451,691 | 122,185,015 | 165,365,309 | 145,451,691 | 122,185,015 |
| | 167,371,384 | 146,727,199 | 123,981,100 | 167,371,384 | 146,727,199 | 123,981,100 |
| 36.1.4 By Maturity | | | | | | |
| Due within One Year | 153,156,012 | 134,417,653 | 112,476,332 | 153,156,012 | 134,417,653 | 112,476,332 |
| Due after One Year | 14,215,372 | 12,309,546 | 11,504,768 | 14,215,372 | 12,309,546 | 11,504,768 |
| | 167,371,384 | 146,727,199 | 123,981,100 | 167,371,384 | 146,727,199 | 123,981,100 |
| 37. Other Borrowings | | | | | | |
| Refinance Borrowings - Other Institutions | 12,738 | 9,790 | 7,018 | 12,738 | 9,790 | 7,018 |
| | 12,738 | 9,790 | 7,018 | 12,738 | 9,790 | 7,018 |
| 38. Group Balances Payable | | | | | | |
| Seylan Developments PLC | 195,126 | 216,723 | 99,841 | - | - | - |
| | 195,126 | 216,723 | 99,841 | - | - | - |

Notes to the Financial Statements

39. Debentures

| Year of Issue | Year of Redemption | Private/Public Issue | Fixed Rate Annually % | Fixed Rate Semi-Annually % | Fixed Rate Quarterly % | Fixed Rate Monthly % | Fixed Rate at Maturity % | Floating Rate Annually % | Floating Rate Quarterly % | BANK | GROUP |
|---------------|--------------------|----------------------|-----------------------|----------------------------|------------------------|----------------------|--------------------------|--------------------------|---------------------------|--|--|
| | | | | | | | | | | Amount Outstanding as at 31.12.2013 Rs. '000 | Amount Outstanding as at 31.12.2013 Rs. '000 |
| 2008 | 2013 | Public Issue | 21.50 | - | - | 20.50 | - | 14.80 | 11.11 | 630,565 | 630,565 |
| 2010 | 2015 | Private Issue | - | - | 11.00 | - | - | - | 11.85 | 478,364 | 478,364 |
| 2013 | 2018 | Public Issue | 15.50 | 15.00 | - | 14.50 | - | - | - | 2,134,370 | 2,134,370 |
| | | | | | | | | | | 3,243,299 | 3,243,299 |

Debenture Category

| | | | | | | | | | | BANK | | |
|------------------------------|--------------------------------|----------------------------|-------------------------|--|-------------------------|---------------------------------|---------------------------------|---------------------------------|--|------|--|--|
| | Colombo Stock Exchange Listing | Interest Payable Frequency | Allotment Date/Period | | Maturity Date/Period | Value as at 31.12.2013 Rs. '000 | Value as at 31.12.2012 Rs. '000 | Value as at 31.12.2011 Rs. '000 | | | | |
| Fixed Rate Debentures | | | | | | | | | | | | |
| 2006/2012 - 18.50% p.a.* | Not listed | At Maturity | 27.11.2006 - 29.12.2006 | | 26.11.2012 - 28.12.2012 | - | - | 136,433 | | | | |
| 2007/2012 - 16.75% p.a. | Listed | Annually | 30.05.2007 | | 29.05.2012 | - | - | 469,532 | | | | |
| 2007/2012 - 15.75% p.a. | Listed | Monthly | 30.05.2007 | | 29.05.2012 | - | - | 291,620 | | | | |
| 2007/2012 - 18.00% p.a. | Listed | Annually | 10.12.2007 | | 09.12.2012 | - | - | 301,369 | | | | |
| 2007/2012 - 17.00% p.a. | Listed | Monthly | 10.12.2007 | | 09.12.2012 | - | - | 208,955 | | | | |
| 2007/2012 - 19.50% p.a. | Not listed | Annually | 27.09.2007 | | 26.09.2012 | - | - | 100,000 | | | | |
| 2008/2013 - 20.00% p.a. | Not listed | Annually | 12.09.2008 - 31.10.2008 | | 11.09.2013 - 30.10.2013 | - | 23,800 | 23,800 | | | | |
| 2008/2013 - 18.50% p.a. | Not listed | Monthly | 22.09.2008 - 31.10.2008 | | 21.09.2013 - 30.10.2013 | - | 18,800 | 18,800 | | | | |
| 2008/2013 - 21.50% p.a. | Listed | Annually | 12.01.2009 | | 11.01.2014 | 231,610 | 232,403 | 232,406 | | | | |
| 2008/2013 - 20.50% p.a. | Listed | Monthly | 12.01.2009 | | 11.01.2014 | 395,445 | 395,740 | 395,740 | | | | |
| 2008/2013 - 22.50% p.a. | Not listed | At Maturity | 01.09.2008 - 31.10.2008 | | 31.08.2013 - 30.10.2013 | - | 57,973 | 51,292 | | | | |
| 2010/2015 - 11.00% p.a. | Not listed | Quarterly | 07.12.2010 - 29.12.2010 | | 06.12.2015 - 28.12.2015 | 258,364 | 259,433 | 245,000 | | | | |
| 2013/2018 - 15.50% p.a. | Listed | Annually | 14.02.2013 - 22.02.2013 | | 21.02.2018 | 1,235,912 | - | - | | | | |
| 2013/2018 - 15.00% p.a. | Listed | Semi-Annually | 14.02.2013 - 22.02.2013 | | 21.02.2018 | 832,126 | - | - | | | | |
| 2013/2018 - 14.50% p.a. | Listed | Monthly | 14.02.2013 - 22.02.2013 | | 21.02.2018 | 66,332 | - | - | | | | |
| | | | | | | 3,019,789 | 988,149 | 2,474,947 | | | | |

* Zero coupon debenture offered at a discount on par value with the investment doubled at maturity of the debentures which will be six years from the date of allotment (investment is doubled after the exclusion of the withholding tax element of 10%. Therefore the investor receives double the amount invested after payment of withholding tax).

Notes to the Financial Statements

| | Colombo Stock Exchange Listing | Interest Payable Frequency | BANK | | Maturity Date/Period | Value as at 31.12.2013 Rs. '000 | Value as at 31.12.2012 Rs. '000 | Value as at 31.12.2011 Rs. '000 |
|---------------------------------|--------------------------------|----------------------------|-------------------------|-------------------------|----------------------|------------------------------------|------------------------------------|------------------------------------|
| | | | Allotment Date/Period | | | | | |
| Floating Rate Debentures | | | | | | | | |
| 2007/2012 - Note 01 | Listed | Annually | 30.05.2007 | | 29.05.2012 | - | - | 32,717 |
| 2007/2012 - Note 02 | Listed | Annually | 10.12.2007 | | 09.12.2012 | - | - | 10,755 |
| 2007/2012 - Note 03 | Listed | Quarterly | 10.12.2007 | | 09.12.2012 | - | - | 43,335 |
| 2008/2013 - Note 04 | Listed | Annually | 12.01.2009 | | 11.01.2014 | 120 | 120 | 120 |
| 2008/2013 - Note 05 | Listed | Quarterly | 12.01.2009 | | 11.01.2014 | 3,390 | 3,390 | 3,390 |
| 2010/2015 - Note 06 | Not listed | Quarterly | 07.12.2010 - 29.12.2010 | 06.12.2015 - 28.12.2015 | | 220,000 | 220,000 | 220,000 |
| | | | | | | 223,510 | 223,510 | 310,317 |
| Total Debentures | | | | | | 3,243,299 | 1,211,659 | 2,785,264 |

Note

- Two percentage points (2%) above the simple average of the one year weighted average Treasury Bill Rate (after tax on interest) at the primary auctions during the month of March each year applicable for the succeeding year until redemption with a floor of 14% p.a. and a cap of 19% p.a. payable annually.
- One (1) year net Treasury Bill rate plus 2½% payable annually on par value (simple average of the one year weighted average Treasury Bill rate during the month immediately preceding the commencement of the respective years).
- 3 months net Treasury Bill rate plus 2½% payable quarterly on par value (simple average of the 3 months weighted average Treasury Bill rate during the month immediately preceding the commencement of the respective quarters).
- One (1) year net Treasury Bill rate plus 2½% payable annually on par value (simple average of the one year weighted average Treasury Bill rate during the month preceding the commencement of the respective years).
- 3 months net Treasury Bill rate plus 2½% payable quarterly on par value (simple average of the 3 months weighted average Treasury Bill rate during the month preceding the commencement of the respective quarters).
- AWPLR (Five-year floating rate) - ('AWPLR' means the simple average of the Average Weighted Prime Lending Rate published by the Central Bank of Sri Lanka for the 12-week period immediately preceding each Interest Determination Date).

| | BANK | | | GROUP | | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 40. Other Liabilities | | | | | | |
| Accrued Expenses | 710,734 | 1,039,294 | 456,370 | 757,426 | 1,077,566 | 477,101 |
| Margin Accounts | 661,667 | 540,530 | 734,230 | 661,667 | 540,530 | 734,230 |
| Deposit Funding Accounts | 1,390,378 | 2,041,631 | 1,383,296 | 1,390,378 | 2,032,467 | 1,383,296 |
| Dividend Payable | 16,159 | 13,159 | 23,535 | 21,526 | 19,144 | 29,528 |
| Provision for Defined Benefit Obligations (Net) - (Note 40.1) | 3,854 | 29,136 | 129,538 | (3,441) | 25,534 | 129,312 |
| Sundry Creditors | 409,234 | 540,388 | 303,386 | 409,234 | 540,388 | 303,386 |
| Value Added Tax and Other Statutory Payables | 407,483 | 213,992 | 103,840 | 407,483 | 213,992 | 103,840 |
| Cheques & Drafts Payable | 572,687 | 604,429 | 567,459 | 572,687 | 604,429 | 567,459 |
| Leave Encashment Provision - (Note 40.2) | 218,467 | 200,648 | 206,439 | 218,467 | 200,648 | 206,439 |
| Others | 594,471 | 646,752 | 854,533 | 657,829 | 707,536 | 904,937 |
| | 4,985,134 | 5,869,959 | 4,762,626 | 5,093,256 | 5,962,234 | 4,839,528 |

Notes to the Financial Statements

40.1 Defined Benefit Obligations

The Bank pays half a month's salary (last drawn) for each completed year of service as gratuity for employees who have worked for more than 5 years at the time of retirement/resignation.

| | BANK | | | GROUP | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 40.1.1 The Amount Recognised in the Balance Sheet | | | | | | |
| Present Value of Defined Benefit Obligations (Note 40.1.3) | 939,724 | 858,227 | 834,075 | 944,003 | 865,682 | 844,177 |
| Fair Value of Plan Assets (Note 40.1.4) | (935,870) | (829,091) | (704,537) | (947,444) | (840,148) | (714,865) |
| Provision for Defined Benefit Obligations | 3,854 | 29,136 | 129,538 | (3,441) | 25,534 | 129,312 |

40.1.2 Plan Assets Consist the Following

| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Balance with Banks | 15,526 | 15,699 | 40,378 | 22,592 | 22,107 | 46,369 |
| Investment in Treasury Bills and Bonds | 920,344 | 813,392 | 664,159 | 924,852 | 818,041 | 668,496 |
| | 935,870 | 829,091 | 704,537 | 947,444 | 840,148 | 714,865 |

Plan Assets are held by an approved external gratuity fund.

40.1.3 Movement in the Present Value of Defined Benefit Obligations (PV DBO)

| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Liability for Defined Benefit Obligations as at 1st January | 858,227 | 834,075 | 708,494 | 865,682 | 844,177 | 717,843 |
| Current Service Cost | 63,798 | 60,773 | 62,551 | 64,172 | 61,410 | 63,512 |
| Interest Cost | 85,823 | 83,408 | 74,392 | 86,569 | 84,417 | 75,142 |
| Actuarial (Gains)/Losses on PV DBO | (7,340) | (65,119) | 188,232 | (6,786) | (69,246) | 190,511 |
| Payments Made (Including Benefits Paid by the Plan) | (60,784) | (54,910) | (199,594) | (61,354) | (55,076) | (202,831) |
| Past Service Cost - Non-Vested Benefits | - | - | - | (89) | - | - |
| Past Service Cost - Vested Benefits | - | - | - | (4,191) | - | - |
| Liability for Defined Benefit Obligations as at 31st December | 939,724 | 858,227 | 834,075 | 944,003 | 865,682 | 844,177 |

40.1.4 Movement in Plan Assets

| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| Fair Value of Plan Assets as at 1st January | 829,091 | 704,537 | 713,180 | 840,148 | 714,865 | 726,847 |
| Expected Return on Plan Assets | 82,910 | 70,455 | 74,884 | 84,016 | 71,641 | 75,946 |
| Contribution Paid into Plan | 86,753 | 105,744 | 84,650 | 86,753 | 105,744 | 84,650 |
| Benefits Paid by the Plan | (60,784) | (54,910) | (199,594) | (61,354) | (55,076) | (202,831) |
| Actuarial Gain/(Loss) on Plan Assets | (2,100) | 3,265 | 31,417 | (2,119) | 2,974 | 30,253 |
| Fair Value of Plan Assets at 31st December | 935,870 | 829,091 | 704,537 | 947,444 | 840,148 | 714,865 |

Notes to the Financial Statements

| | BANK | | | GROUP | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 40.1.5 Unrecognised Actuarial (Gain) or Loss | | | | | | |
| Balance as at 1st January | - | - | (43,368) | - | - | (43,368) |
| Actuarial (Gain)/Loss for year - Obligation | (7,340) | (65,119) | (188,232) | (6,786) | (69,246) | (190,511) |
| Actuarial (Gain)/Loss for year - Plan Assets | 2,100 | (3,265) | 31,417 | 2,119 | (2,974) | 30,253 |
| Actuarial Gain/(Loss) Recognised in Other Comprehensive Income | 5,240 | 68,384 | 200,183 | 4,667 | 72,220 | 203,626 |
| Balance as at 31st December | - | - | - | - | - | - |

**40.1.6 Unrecognised Past Service Cost
Non-Vested Benefits**

| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| Balance as at 1st January | - | - | 3,545 | - | - | 3,545 |
| Amount Recognised in the Income Statement | - | - | (3,545) | - | - | (3,545) |
| Balance as at 31st December | - | - | - | - | - | - |

40.1.7 Amount Recognised in the Income Statement

| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Current Service Cost | 63,798 | 60,773 | 62,551 | 64,172 | 61,410 | 63,512 |
| Interest Cost | 85,823 | 83,408 | 74,392 | 86,569 | 84,417 | 75,142 |
| Expected Return on Plan Assets | (82,910) | (70,455) | (74,884) | (84,016) | (71,641) | (75,946) |
| Past Service Cost/(Gain) - Non-Vested Benefits | - | - | (3,545) | (89) | - | (3,545) |
| Past Service Cost - Vested Benefits | - | - | - | (4,191) | - | - |
| Actuarial (Gain)/Loss Recognised Immediately | - | - | - | - | - | 3,443 |
| Balance as at 31st December (Note 14) | 66,711 | 73,726 | 58,514 | 62,445 | 74,186 | 62,606 |

**40.1.8 Amount Recognised in the
Other Comprehensive Income**

| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Actuarial (Gain)/Loss Recognised in the year | (5,240) | (68,384) | (200,183) | (4,667) | (72,220) | (203,626) |
| Balance as at 31st December | (5,240) | (68,384) | 200,183 | (4,667) | (72,220) | (203,626) |

| | BANK | | |
|--|--|---|---|
| | 2013 | 2012 | 2011 |
| 40.1.9 Actuarial Assumptions - Bank | | | |
| Retirement Age | 55 years | 55 years | 55 years |
| Discount Rate | 10% | 10% | 10% |
| Salary Increment | 8% (including 3% increment), and thereafter 12% (including 3% increment) 3%, 3%, 12% per annum. Next increment due on 1st January 2014 | 11%, 8%, (including 3% increment) and thereafter 12%, (including 3% increment) 3%, 3% per annum. Next increment due on 1st January 2013 | 3%, 15%, (including 5% increment) and thereafter 5%, 5%, 15% (including 5% increment) per annum. Next increment due on 1st January 2012 |

Notes to the Financial Statements

40.1.10 Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Income Statement and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the Income Statement and employment benefit obligation for the year.

Seylan Bank PLC

| | | 2013 | |
|--------------------------------------|--|---|--|
| Increase/(Decrease) in Discount Rate | Increase/(Decrease) in Salary Increment Rate | Sensitivity Effect on Income Statement Increase/(Reduction) in Results for the Year Rs. '000 | Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability Rs. '000 |
| 1% | ** | (54,369) | (54,369) |
| (1%) | ** | 60,676 | 60,676 |
| * | 1% | 66,512 | 66,512 |
| * | (1%) | (60,346) | (60,346) |

* Discount Rate is fixed at 10%

** Salary Increment Rates 8%, 12%, 3%, 3% and 12%

Seylan Developments PLC

| | | 2013 | |
|--------------------------------------|--|---|--|
| Increase/(Decrease) in Discount Rate | Increase/(Decrease) in Salary Increment Rate | Sensitivity Effect on Income Statement Increase/(Reduction) in Results for the Year Rs. '000 | Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability Rs. '000 |
| 1% | ** | (297) | (297) |
| (1%) | ** | 333 | 333 |
| * | 1% | 366 | 366 |
| * | (1%) | (330) | (330) |

* Discount Rate is fixed at 10%

** Salary Increment Rate 5%

| | BANK | | | GROUP | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 40.2 Leave Encashment Provision | | | | | | |
| Balance as at 1st January | 200,648 | 206,439 | 191,728 | 200,648 | 206,439 | 191,728 |
| Amount Charged/(Reversed) to Income Statement during the Year | 17,819 | (5,791) | 14,711 | 17,819 | (5,791) | 14,711 |
| Balance as at 31st December | 218,467 | 200,648 | 206,439 | 218,467 | 200,648 | 206,439 |

| | BANK | | |
|-------------------------------------|--|---|---|
| | 2013 | 2012 | 2011 |
| 40.2.1 Actuarial Assumptions | | | |
| Retirement Age | 55 years | 55 years | 55 years |
| Discount Rate | 10.00% | 10.00% | 10.00% |
| Salary Increment | 8% (including 3% increment), and thereafter 12% (including 3% increment) 3%, 3%, 12% per annum. Next increment due on 1st January 2014 | 11%, 8%, (including 3% increment) and thereafter 12%, (including 3% increment) 3%, 3% per annum. Next increment due on 1st January 2013 | 3%, 15%, (including 5% increment) and thereafter 5%, 5%, 15% (including 5% increment) per annum. Next increment due on 1st January 2012 |

Notes to the Financial Statements

| | BANK | | | GROUP | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 41. Stated Capital | | | | | | |
| Ordinary Shares - Voting (Note 41.1) | 6,962,722 | 6,806,722 | 6,806,722 | 6,962,722 | 6,806,722 | 6,806,722 |
| Ordinary Shares - Non-Voting (Note 41.2) | 3,567,002 | 3,418,730 | 3,418,730 | 3,567,002 | 3,418,730 | 3,418,730 |
| Preference Shares - Redeemable, Non-Cumulative, Non-Convertible and Non-Voting (Note 41.3) | - | - | 33,901 | - | - | 33,901 |
| | 10,529,724 | 10,225,452 | 10,259,353 | 10,529,724 | 10,225,452 | 10,259,353 |
| 41.1 Ordinary Shares - Voting | | | | | | |
| Balance as at 1st January | 6,806,722 | 6,806,722 | 3,556,722 | 6,806,722 | 6,806,722 | 3,556,722 |
| Issued during the Year - 43,333,333 Ordinary Shares of Rs. 75/- each | - | - | 3,250,000 | - | - | 3,250,000 |
| Issued during the Year - 2,644,068 Ordinary Shares of Rs. 59/- each | 156,000 | - | - | 156,000 | - | - |
| 175,977,401 Ordinary Shares - Voting (33,560,000 shares of Rs. 10/- each, 4,000,000 shares of Rs. 25/- each, 92,440,000 shares of Rs. 35/- each, 2,644,068 shares of Rs. 59/- each, 43,333,333 shares of Rs. 75/- each and net of issue expenses Rs. 114,277,753/-) | 6,962,722 | 6,806,722 | 6,806,722 | 6,962,722 | 6,806,722 | 6,806,722 |
| 41.2 Ordinary Shares - Non-Voting | | | | | | |
| Balance as at 1st January | 3,418,730 | 3,418,730 | 1,977,197 | 3,418,730 | 3,418,730 | 1,977,197 |
| Issued during the Year - 41,186,666 Ordinary Shares of Rs. 35/- each | - | - | 1,441,533 | - | - | 1,441,533 |
| Issued during the Year - 4,236,343 Ordinary Shares of Rs. 35/- each | 148,272 | - | - | 148,272 | - | - |
| 168,983,009 Ordinary Shares - Non-Voting (83,560,000 shares of Rs. 12.50 each, 40,000,000 shares of Rs. 25/- each, 45,423,009 shares of Rs. 35/- each and net of issue expenses Rs. 67,302,925/-) | 3,567,002 | 3,418,730 | 3,418,730 | 3,567,002 | 3,418,730 | 3,418,730 |
| 41.3 Preference Shares | | | | | | |
| Balance as at 1st January - 3,390,100 Preference Shares of Rs. 10/- each | - | 33,901 | 33,901 | - | 33,901 | 33,901 |
| Redemptions during the Year | - | (33,901) | - | - | (33,901) | - |
| 3,390,100 Preference Shares | - | - | 33,901 | - | - | 33,901 |

Stated Capital increased by Rs. 304,272,017 on 28th March 2013, with the scrip dividend for 2012.

Notes to the Financial Statements

| | BANK | | | GROUP | | |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 42. Statutory Reserve Fund | | | | | | |
| Balance as at 1st January | 726,187 | 619,095 | 569,295 | 726,187 | 619,095 | 569,295 |
| Add: Transferred during the Year** | 115,777 | 107,092 | 49,800 | 115,777 | 107,092 | 49,800 |
| Balance as at 31st December | 841,964 | 726,187 | 619,095 | 841,964 | 726,187 | 619,095 |

** 5% of Net Profit after Tax.

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

| | BANK | | | GROUP | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 43. Other Reserves | | | | | | |
| Capital Reserve (Note 43.1) | 418,021 | 418,021 | 418,021 | 673,234 | 673,234 | 673,234 |
| Revaluation Reserve (Note 43.2) | 651,483 | 510,049 | 461,998 | 1,356,228 | 868,928 | 820,877 |
| General Reserve (Note 43.3) | 33,787 | 33,787 | 33,787 | 33,787 | 33,787 | 33,787 |
| Available for Sale Reserve (Note 43.4) | 641,586 | (125,070) | 130,608 | 641,586 | (125,070) | 130,608 |
| Special Risk Reserve (Note 43.5) | - | 112,922 | 98,741 | - | 112,922 | 98,741 |
| Investment Fund Reserve (Note 43.6) | 1,435,473 | 812,240 | 272,986 | 1,435,473 | 812,240 | 272,986 |
| | 3,180,350 | 1,761,949 | 1,416,141 | 4,140,308 | 2,376,041 | 2,030,233 |

43.1 Movement in Capital Reserve

| | BANK | BANK | BANK | GROUP | GROUP | GROUP |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| Balance as at 1st January | 418,021 | 418,021 | 418,021 | 673,234 | 673,234 | 418,021 |
| Add: Transferred from Capital Redemption Reserve Fund | - | - | - | - | - | 255,213 |
| Balance as at 31st December | 418,021 | 418,021 | 418,021 | 673,234 | 673,234 | 673,234 |

Bank - Consists of the Debenture Redemption Reserve Fund of Rs. 400 Mn. transferred to Capital Reserve in 2004. Debenture Redemption Reserve Fund was created for the redemption of five year Debentures amounting to Rs. 400 Mn. issued in November 1999. Balance consisting of Rs. 18 Mn. was transferred to Capital Reserve in 1991.

Seylan Developments PLC - Capital Redemption Reserve Fund which was created at the time of redeeming the Preference Shares of Seylan Developments PLC (Transferred to Capital Reserve in year 2011).

Notes to the Financial Statements

| | BANK | | | GROUP | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 43.2 Movement in Revaluation Reserve | | | | | | |
| Balance as at 1st January | 510,049 | 461,998 | 460,123 | 868,928 | 820,877 | 818,777 |
| Transferred to/(from) Revaluation Reserve | 150,606 | 48,051 | - | 1,078,365 | 48,051 | 603 |
| Transferred to Non-Controlling Interest | - | - | - | (321,443) | - | (209) |
| Transferred from/(to) Deferred Tax (Note 33) | (9,172) | - | 1,875 | (269,622) | - | 1,706 |
| Balance as at 31st December | 651,483 | 510,049 | 461,998 | 1,356,228 | 868,928 | 820,877 |

In addition to the Bank's Revaluation Reserve, Group includes the surplus on revaluation of fixed assets of Seylan Developments PLC.

| | BANK | | | GROUP | | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 43.3 Movement in General Reserve | | | | | | |
| Balance as at 1st January | 33,787 | 33,787 | 33,787 | 33,787 | 33,787 | 33,787 |
| Balance as at 31st December | 33,787 | 33,787 | 33,787 | 33,787 | 33,787 | 33,787 |

Consist of Rs. 25 Mn. transferred in 1995 to General Reserve, Rs. 2.7 Mn. transferred from Bad Debts Reserve and Rs. 6 Mn. transferred from Contingency Reserve in 2002 to General Reserve.

| | BANK | | | GROUP | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 43.4 Available-for-Sale Reserve | | | | | | |
| Balance as at 1st January | (125,070) | 130,608 | 476,755 | (125,070) | 130,608 | 476,755 |
| Add: Transferred during the Year | 881,357 | (249,905) | (345,734) | 881,357 | (249,905) | (345,734) |
| Less: Transferred to Income Statement | (114,701) | (5,773) | (413) | (114,701) | (5,773) | (413) |
| Balance as at 31st December | 641,586 | (125,070) | 130,608 | 641,586 | (125,070) | 130,608 |

43.5 Movement in Special Risk Reserve

| | BANK | | | GROUP | | |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| Balance as at 1st January | 112,922 | 98,741 | 79,769 | 112,922 | 98,741 | 79,769 |
| Add: Transferred during the Year | - | 14,181 | 18,972 | - | 14,181 | 18,972 |
| Less: Transferred to Retained Profits | (112,922) | - | - | (112,922) | - | - |
| Balance as at 31st December | - | 112,922 | 98,741 | - | 112,922 | 98,741 |

According to the Circular Ref. No. 08/24/002/0005/003 issued by the Central Bank of Sri Lanka, Primary Dealer Unit is required to appropriate 25% of the profit after tax for the year towards the Special Risk Reserve. However, Licensed Commercial Banks appointed as Primary Dealers were exempted from this requirement of maintaining such Special Reserve as per Direction No. 08/11/011/0019/001 dated 18th March 2013.

Notes to the Financial Statements

| | BANK | | | GROUP | | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 43.6 Movement in Investment Fund Reserve | | | | | | |
| Balance as at 1st January | 812,240 | 272,986 | - | 812,240 | 272,986 | - |
| Add: Transferred during the Year | 623,233 | 539,254 | 272,986 | 623,233 | 539,254 | 272,986 |
| Balance as at 31st December | 1,435,473 | 812,240 | 272,986 | 1,435,473 | 812,240 | 272,986 |

As per the Value Added Tax (Amendment) Act No. 09 of 2011 and Inland Revenue (Amendment) Act No. 22 of 2011, Bank transfers 8% on Value Addition attributable to Financial Services and 5% of Taxable Profits, from retained profits to Investment Fund Reserve with effect from 1st January 2011.

| Transfers to the Investment Fund Reserve | Rs. '000 |
|---|------------------|
| 8% on the Value Addition Attributable to Financial Services | 1,161,489 |
| 5% of Taxable Profits | 273,984 |
| | 1,435,473 |

Utilisation of Investment Fund Reserve

Long-Term Government Securities Maturity Period over 7 years

| | Maturity Value (Rs.) | Date of Maturity | Rate of Interest |
|---------------|----------------------|------------------|------------------|
| Treasury Bond | 200,000,000 | 01/08/2020 | 6.20% |
| Treasury Bond | 150,000,000 | 15/08/2018 | 7.50% |
| Treasury Bond | 290,000,000 | 01/01/2022 | 8.00% |
| Treasury Bond | 100,000,000 | 05/01/2019 | 8.50% |
| Treasury Bond | 45,100,000 | 06/01/2020 | 8.00% |
| Treasury Bond | 205,000,000 | 01/07/2028 | 9.00% |
| Treasury Bond | 379,000,000 | 01/05/2021 | 9.00% |
| | 1,369,100,000 | | |

Short-Term Government Securities

| | | | |
|----------------|-------------|------------|-------|
| Treasury Bills | 131,500,000 | 03/01/2014 | 8.75% |
| | 131,500,000 | | |

Qualifying Loans

| Purpose | No. of Loans Granted | Amount Outstanding (Rs.) | Tenure of the Loan | Rate of Interest |
|--|----------------------|--------------------------|--------------------|-------------------------|
| Construction of Hotels and for Related Purpose | 1 | 49,449,745 | 7 years | 5 year T Bond rate + 2% |
| | | 49,449,745 | | |
| | | 1,550,049,745 | | |

Notes to the Financial Statements

44. Commitments and 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.

| | BANK | | | GROUP | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| 44.1 Commitments | | | | | | |
| Undrawn Credit Lines | 14,171,411 | 12,503,531 | 14,675,341 | 14,171,411 | 12,503,531 | 14,675,341 |
| Capital Commitments (Note 46.1) | 114,104 | 156,564 | 23,985 | 135,745 | 156,564 | 35,204 |
| | 14,285,515 | 12,660,095 | 14,699,326 | 14,307,156 | 12,660,095 | 14,710,545 |
| 44.2 Contingencies | | | | | | |
| Acceptances | 6,345,014 | 5,042,406 | 4,440,085 | 6,345,014 | 5,042,406 | 4,440,085 |
| Stand by Letters of Credit | 338,385 | 317,530 | 359,770 | 338,385 | 317,530 | 359,770 |
| Guarantees | 10,056,560 | 8,933,509 | 7,629,741 | 10,123,560 | 8,999,308 | 7,696,741 |
| Documentary Credit | 3,679,196 | 2,944,880 | 6,039,245 | 3,679,196 | 2,944,880 | 6,039,245 |
| Bills for Collection | 944,948 | 1,663,355 | 3,152,133 | 944,948 | 1,663,355 | 3,152,133 |
| Indemnities | - | 9,500 | - | - | 9,500 | - |
| Forward Exchange Contracts (Net) | (176,548) | (284,431) | (73,084) | (176,548) | (284,431) | (73,084) |
| | 21,187,555 | 18,626,749 | 21,547,890 | 21,254,555 | 18,692,548 | 21,614,890 |
| Total Commitments & Contingencies | 35,473,070 | 31,286,844 | 36,247,216 | 35,561,711 | 31,352,643 | 36,325,435 |

Bank's guarantee outstanding as at 31st December 2013 and 31st December 2012 includes a guarantee issued to its subsidiary amounting Rs. 1,200,589/-.

45. Cases Against the Bank

In the normal course of business, the Bank is involved in various types of litigation with borrowers or others who have asserted or threatened claims/counter claims against the Bank, including the following:

45.1 Civil Cases

1. CHC 157/2001 (1) - [SC (CHC) APP 01/10]

Plaintiff filed action against Seylan Bank for dishonouring a Guarantee issued by former BCCI Bank after Seylan Bank took over the local operations of BCCI. Judgement delivered in favour of the plaintiff. Seylan Bank has appealed. (Guarantee value USD 72,730.23 and USD 56,732.25)

2. HC CIVIL 137/99 (1) - (SC CHC 20/2007)

Plaintiffs filed action to invalidate the appropriation of dividends paid by liquidator of BCCI. Judgement delivered in favour of the Bank. Plaintiffs have appealed against judgement to Supreme Court.

3. DC Colombo 15958/M - (WP/HCCA/249/2004 F)

Action filed claiming Rs. 200,000/- as damages for wrongfully claiming a Guarantee. Judgement delivered in favour of the plaintiff and Bank has filed an appeal against the judgement.

4. CHC 14/98 (1) - [SC (APP) CHC 26B /2005 & SC (APP) CHC 26A/2005]

Action filed claiming damages of Rs. 111 Mn. for dishonouring cheques and a letter of credit. Judgement delivered against the Bank only for Rs. 2.5 Mn. Both the plaintiff and the Bank filed appeals against the said Judgement and appeals not listed yet.

5. DC Ratnapura 23391/MR & HC (Civil) 159/06

Two actions filed claiming wrongful takeover of property under Parate Auction by Bank claiming Rs. 23,761,000/-.

Notes to the Financial Statements

6. DC Colombo DSP 114/10 (SC/HCCA/LA/283/12)

Plaintiff obtained an Interim Injunction preventing the Bank from proceeding with Parate Auction stating that he has not obtained any facility from the Bank. Interim Injunction granted. Bank appealed and judgement was not in favour of the Bank. Special Leave to Appeal was filed and this was in Bank's favour and matter transferred to Civil Appellate Courts.

7. CHC 243/2002 and CHC 320/2002

Actions filed against the Bank and others seeking a declaration that the defendants are not entitled to vote/sell/alienate/transfer shares (held as security for the facility of the Company) without the consent of the plaintiff Company.

8. CHC 744/2010/MR - (SC APPEAL 52/2012)

Plaintiff filed action claiming damages of Rs. 10 Mn. alleging negligence of Bank due to credit card not being activated and unable to make payment.

9. DC Kandy 36780/MR

Plaintiff filed action against the Bank regarding the fraudulent withdrawals from her savings accounts by a third party.

10. DC Colombo 367/DMR - CHC 559/10/MR

Damages for Rs. 5 Mn. claimed by the Plaintiff by filing case No. DC COL 00367/DMR/09 stating Bank has wrongfully refused to issue Dollars for travel purpose.

11. DC Colombo DMR/1605/11

Action filed by the plaintiff on the basis of being the land lord of the former Savings and Travel Branch premises of Seylan Bank claiming Rs. 2.5 Mn. for loss of revenue and Rs. 1,814,871/- as damages for delay in vacating the premises and Rs. 75,000/- as costs.

12. DC Colombo DMR 09088/10 - CHC 377/12 MR

Plaintiff filed action for negligence against a cheque fraud claiming Rs. 5 Mn. as damages.

13. DC Ampara 356/Damages

The Plaintiff who is an ex-staff member of the Bank and who was involved in a fraud at Ampara branch filed the case claiming damages of Rs. 50 Mn. for wrongful termination from work, wrongful custody and remand, defamation and pain of mind.

14. CHC 157/2007/MR

Action filed against the Bank as the collecting Bank on collection of a forged cheque for unjust enrichment claiming Rs. 9.5 Mn. Judgement delivered in favour of Plaintiff. Bank has appealed to the Supreme Court against the order.

15. DC COLOMBO 17/99/CO - SC (APP) 85A/2009

Action filed by Hatton National Bank to nullify the Mortgage Bond executed in favour of Seylan Bank on a mortgaged property that has now been acquired by the Government under the provisions of Revival of Underperforming Enterprises or Underutilised Assets Act No. 43 of 2011.

16. CA (Writ) 387/12

Action filed by the exporter of a consignment of goods against the customs and the Bank for seizure and auction of the consignment seeking an order to release the auction proceeds. (Seylan Bank too filed CA Writ 380/12 to prevent the customs from utilising the auction proceeds.) There is no claim against the Bank.

17. HC (Civil) Case No. 321/12 /MR

Action filed to nullify several Mortgage Bonds executed in favour of the Bank and claim for damages of Rs. 100 Mn. for non-release of Mortgage Bonds of some of the apartments owned by the Plaintiff.

Notes to the Financial Statements

18. DC Mount Lavinia Case No. 4246/03/M

Action filed claiming damages for Rs. 2.0 Mn. alleging wrongful seizure of goods in execution of a writ by Seylan Bank.

19. DC Kurunegala 7945/L

Action filed by a third party who purchased an acquired property sold by the Bank, claiming damages of Rs. 200,000/- per month from March 2013 until final determination of the action alleging that an erroneous entry has been made in Land Registry records.

20. DC Kuliapitiya 1450/SPL (NWP/HCCA42/LA/CA Application 65/2013 SC/HCCS/LA548/12)

The Bank proceeded with Parate auction. Thereafter the previous owner of the property settled the outstandings. Thereafter Borrower has filed action for contempt charges against the Bank as the previous owner and borrower have a dispute over the property.

Cases filed by the Bank (Cross Claims made against the Bank)

21. CHC 638/09/MR (DC Colombo 6033/SPL)

Case was filed against a former Director and an enjoining order obtained preventing him from using confidential information gathered by him (During his tenure as a Director of the Bank). Trial based on claim in reconvention.

22. DC Ratnapura 12734/M

Bank has filed this case in DC Ratnapura to recover the dues, there is a cross claim of Rs. 2,500,000/- made by the client.

45.2 Labour Tribunal Cases

1. The following Appeals filed by the Bank against the awards delivered in the Labour Tribunal on the Cases filed by the ex-employees.

HC Case Nos.

HCAIT 95/2012, HCAIT 96/2012, HCAIT 97/2012, HCAIT 98/2012, HCAIT 99/2012, HCAIT 100/2012, HCAIT 101/2012, HCAIT 102/2012, HCAIT 103/2012, HCAIT 104/2012, HCAIT 105/2012, HCAIT 106/2012, HCAIT 107/2010, HCAIT 108/2012, HCAIT 109/2012, HCAIT 110/2012, HCAIT 111/2010, HCAIT 112/2012, HCAIT 113/2012, HCAIT 114/2012, HCAIT 115/2012, HCAIT 116/2012, HCAIT 119/2012, HCAIT 120/2012, HCAIT 121/2012, HCAIT 122/2012, HCAIT 43/2012, HCAIT 44/2012, HCAIT 55/2012, HCAIT 56/2012

LT Case Nos.

LT 1/32/2010, LT 1/34/2010, LT 1/35/2010, LT 1/36/2010, LT 1/37/2010, LT 1/38/2010, LT 1/40/2010, LT 1/41/2010, LT 1/42/2010, LT 1/43/2010, LT 1/44/2010, LT 13/79/2010, LT 13/80/2010, LT 13/81/2010, LT 13/82/2010, LT/08/505/10

2. Court of Appeal Cases Related to Ex-employees

CA Writ 891/2009, CA Writ 286/2013, CA Writ 451/2013, CA Writ 452/2013

3. Labour Tribunal Cases - Complaints Pending at Labour Department

LT2/3647/2013, LT/1/57/2013, LT1/63/2013

4. Complaints Pending at Labour Department

TEU/A/53/2013, CE/D2/3/314, CE/D10/3/55/2012

Notes to the Financial Statements

5. Against Share Owning Trust Companies

There have been 6 cases DTR 003/2010, DTR 004/2010, DTR 006/2010, DTR 007/2010, DTR 008/2010 and DTR 009/2010 filed by former employees of Seylan Bank PLC against the Bank, share owning trust companies Sotse (Private) Limited, Seyshop (Private) Limited, Seyfest (Private) Limited, Esots (Private) Limited, Seybest (Private) Limited and Sesot (Private) Limited of the Bank and other defendants in the District Court of Colombo. The cases relate to the respective trust properties owned by these trust companies. Interim Injunctions were issued against the trustees of the respective trust companies restraining them from receiving the proceeds of the sale of the respective trust properties and restraining the trustees from selling their shares of Seylan Bank PLC. The Bank has appealed against the order granting the Interim Injunctions and filed leave to appeal application Nos. WP/HCCA/COL17/2012 to WP/HCCA/COL 19/2012 and WP/HCCA/COL47/2012 to WP/HCCA/COL 49/2012 before the Colombo Civil Appeal High Court. The Bank has filed answer in reply to the claims and all pre-trial steps have been completed. Six appeals WP/HCCA/COL 17/2012, 18/2012, 19/2012, 47/2012, 48/2012 and 49/2012 have been filed by the trust companies and the Bank against Interim Injunctions granted in District Court of Colombo cases DTR 003/2010 to DTR 009/2010 restraining the trustees of the respective trust companies from selling their shares of Seylan Bank PLC and the Bank from receiving any such sale proceeds.

Based on the available information and current status of the above cases, the Bank is not in a position to quantify the potential financial impact if any, as at the Balance Sheet date. However, we are of the opinion that the outcome of any action will not have a material effect on the financial position of the Bank.

45.3 Tax Assessments against the Bank

1. Assessment no VATFS/BFSU/2009/130 for VAT on Financial Services for 2007, Tax Appeals Commission confirmed the determination issued by the Commissioner General of Inland Revenue with an additional liability of Rs. 118,733,184/-. Bank stated a case in the Court of Appeal against the Commissioner General of Inland Revenue.
2. Assessment No. VATFS/BFSU/2010/263 for VAT on Financial Services for 2008, Commissioner General of Inland Revenue issued the determination with an additional liability of Rs. 74,057,097/-. Bank lodged an appeal in the Tax Appeals Commission and waits for the determination.
3. Assessment No. VATFS/BFSU/2012/328 for VAT on Financial Services for 2009, Commissioner General of Inland Revenue issued the determination with an additional liability of Rs. 302,182,585/-. Bank lodged an appeal in the Tax Appeals Commission on 4th December 2013.
4. Assessment No. 6129284 for income tax for 2007, Tax Appeals Commission confirmed the determination issued by the Commissioner General of Inland Revenue with an additional liability of Rs. 102,497,210/- on interest income from Sri Lanka Development Bonds. Bank stated a case in the Court of Appeal against the Commissioner General of Inland Revenue.
5. Assessment No. ITA 12301100082 for Income Tax for 2009, with an additional assessed payment of Rs. 15,874,829/- and a penalty of Rs. 7,937,415/-. Bank lodged an Appeal on 24th December 2012 and the same was acknowledged by the Inland Revenue holding over the disputed tax in full until the appeal is determined.
6. Assessment Nos 7019256, 7019257, 7019258 for Value Added Tax for 2009, exclusively for non-disclosure of exempt income in the respective VAT Returns.
7. Assessment No. ITA 13291100133 V1 for Income Tax 2010, with an additional payment of Rs. 229,877,554/-. Bank lodged an Appeal on 23rd December 2013.

The Bank is of the view that the above assessments will not have any material impact on the Financial Statements.

Notes to the Financial Statements

46. Capital Commitments

Capital expenditure approved by the Board of Directors for which provision has not been made in these accounts amounted to approximately:

| | BANK | | | GROUP | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2013 Rs. Mn. | 2012 Rs. Mn. | 2011 Rs. Mn. | 2013 Rs. Mn. | 2012 Rs. Mn. | 2011 Rs. Mn. |
| 46.1 Approved and Contracted for | 114.104 | 156.564 | 23.985 | 135.745 | 156.564 | 35.204 |
| 46.2 Approved but not Contracted for | - | - | 3.555 | 0.135 | 2.617 | 3.555 |

47. Events after the Reporting Period

- Proposed Final Dividend

The Board of Directors of the Bank recommended that a final dividend of Rs. 2.25 per share on both voting and non-voting shares of the Bank, be paid by way of cash dividend for the financial year ended 31st December 2013. (2012- Two rupees per share, paid by way of One rupee cash dividend and One rupee scrip dividend)

Further this dividend is to be approved at the Annual General Meeting to be held on 31st March 2014. This proposed final dividend has not been recognised as a liability as at 31st December 2013. Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 10% has been imposed on dividends declared. Final dividend proposed for the year 2013 amounts to Rs. 776,160,922/50

Compliance with Sections 56 and 57 of Companies Act No. 07 of 2007 - As required by Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Bank satisfied the Solvency Test in accordance with the Section 57, prior to recommending the final dividend. A statement of solvency completed and duly signed by the Directors on 26th February 2014 has been audited by Messrs KPMG.

- 6,305,650 unsecured subordinated redeemable debentures of Rs. 100/- each amounting to Rs. 630,565,000/- issued on 12th January 2009 by way of a public issue of debentures matured on 10th January 2014 and redemptions carried out.
- No Circumstances have arisen since the reporting date which would require adjustments to or disclosure in the Financial Statements other than above.

48. Related Party Transactions

48.1 According to Sri Lanka Accounting Standard LKAS 24 - 'Related Party Disclosures', Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly, including any Director (whether Executive or otherwise) of that entity. Accordingly, the Board of Directors, General Manager/Chief Executive Officer (GM/CEO), Key Employees of the Bank holding Directorships in subsidiary companies and their close family members have been classified as Key Management Personnel (KMP) of the Bank. Close family members are defined as spouse or dependent. Dependent is defined as any one who depends on the respective Director for more than 50% of his/her financial needs. As the Bank is the Ultimate Parent of its subsidiary mentioned in Note 49 and the Board of Directors of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group, the Directors of the Bank and their immediate family members have been identified as the KMP of the Group.

Therefore, employees of the Seylan Bank who are only Directors of the subsidiary have also been classified as KMP of the subsidiary only.

Notes to the Financial Statements

48.2 Transactions with Key Management Personnel (KMP) for Credit Facilities

| Facilities | 2013 | | Security | 2012 | | |
|---------------------|------------------------------|------------------------|----------|------------------------------------|------------------------|-------|
| | Limit Rs. Mn. | Outstanding Rs. Mn. | | Limit Rs. Mn. | Outstanding Rs. Mn. | |
| Mr. K.P. Ariyaratne | Housing Loan | 6.000 | 4.700 | Mortgage Over Property | 6.000 | 5,360 |
| | Overdraft | 0.500 | 0.500 | Lien Over Fixed Deposit | - | - |
| Mr. S. Palihawadana | Housing Loan | 3.800 | 0.160 | Mortgage Over Property | 6.000 | 0.800 |
| | Vehicle Loan | 6.500 | 2.860 | Mortgage Over Vehicle/Lien over FD | 6.500 | 4.900 |
| | Overdraft | NIL | - | | 0.015 | NIL |
| | Employee Provident Fund Loan | NIL | - | | 4.398 | 3.900 |
| Mr. R.J. Jayasekara | Vehicle Loan | 6.500 | 4.520 | Mortgage Over Vehicle | 6.500 | 5.674 |
| | Housing Loan | 6.000 | 5.700 | Mortgage Over Property | - | - |

48.3 Deposits by Key Management Personnel (KMP)

| | | 2013 Rs. Mn. | 2012 Rs. Mn. |
|---|-------|-----------------|-----------------|
| Mr. N.M. Jayamanne PC/Mrs. R.C. Jayamanne | Total | 20.551 | 2.420 |
| Mr. R. Nadarajah | Total | 0.092 | 8.759 |
| Mrs. U. Nadarajah | Total | 3.067 | 2.693 |
| Mr. R. Nadarajah/Mrs. U. Nadarajah | Total | 7.104 | - |
| Rear Admiral B.A.J.G. Peiris | Total | 11.228 | - |
| Mrs. K.L.G. Jayanthi | Total | 0.166 | 0.147 |
| Mrs. R.N.A. De Silva | Total | 0.171 | 0.161 |
| Mrs. R.R.K. Ranathunge | Total | 0.088 | 0.067 |
| Mr. K.P. Ariyaratne | Total | 6.658 | 4.719 |
| Mr. R.D. Ariyaratne | Total | 0.177 | 0.079 |
| Mr. S. Palihawadana | Total | 9.287 | 11.946 |
| Mrs. R.S. Palihawadana | Total | 2,875 | - |
| Miss. B.C. Palihawadana | Total | 0.114 | - |
| Miss. D.V. Palihawadana | Total | 0.003 | - |
| Mr. R.J. Jayasekara | Total | 3.067 | 12.409 |
| Mr. R.J. Jayasekara/Mrs. E.J. Jayasekara | Total | 4.441 | 2.609 |

48.4 Other Instruments by Key Management Personnel (KMP)

| | | 2013 Rs. Mn. | 2012 Rs. Mn. |
|---|---------------|-----------------|-----------------|
| Mr. N.M. Jayamanne PC/Mrs. R.C. Jayamanne | Debentures | 10.000 | - |
| Mr. R. Nadarajah/Mrs. U. Nadarajah | Debentures | 4.000 | - |
| Mr. R. Nadarajah | Repo | 0.403 | - |
| Mr. K.P. Ariyaratne | Treasury Bill | 0.600 | - |
| | Treasury Bond | 0.500 | - |
| | Repo | - | 0.500 |
| Mr. S. Palihawadana | Debentures | 4.000 | - |
| | Reverse Repo | 3.705 | - |
| | Treasury Bill | 5.000 | 2.825 |
| | Treasury Bond | 9.400 | - |
| | Debentures | 5.000 | 1.000 |
| | Repo | NIL | 0.101 |
| Mrs. R.S. Palihawadana | Treasury Bill | NIL | 1.420 |

Notes to the Financial Statements

48.5 Accommodation Granted to KMP for Credit Cards

| Name of Key Management Personnel | 2013 | | 2012 |
|----------------------------------|-------------------------------|-------------------------|-------------------------|
| | Credit Card Limit Rs. '000 | Outstanding Rs. '000 | Outstanding Rs. '000 |
| Mr. N.M. Jayamanne PC | 500 | Supplementary | NIL |
| Mrs. R.C. Jayamanne | 500 | 250 | 2 |
| Mr. I.C. Nanayakkara | 500 | NIL | NIL |
| Mr. R. Nadarajah | 500 | 9 | 2 |
| Rear Admiral B.A.J.G. Peiris | 500 | NIL | 1 |
| Mr. S.P.S. Ranatunga | 500 | NIL | NIL |
| Mr. K.P. Ariyaratne | 500 | 15 | (46) Credit Balance |
| Mr. R.D. Ariyaratne | 500 | Supplementary | NIL |
| Miss. A.S. Ariyaratne | 25 | Supplementary | NIL |
| Mr. S. Palihawadana | 500 | 89 | 120 |
| Miss. B.C. Palihawadana | 500 | Supplementary | NIL |
| Mr. R.J. Jayasekara | 500 | 51 | 57 |
| Mrs. E.J. Jayasekara | 500 | Supplementary | NIL |

48.6 Compensation to Key Management Personnel (KMP)

| | 2013 Rs. Mn. | 2012 Rs. Mn. |
|--|-----------------|-----------------|
| Directors Remuneration - Executive Director(s) | 8.362 | 8.275 |
| Directors Fees - Non-Executive Directors | 14.282 | 15.504 |
| Other Benefits to Non-Executive Directors | 1.657 | 1.668 |
| Ex Gratia Payment to retired director* | - | 15.000 |
| Remuneration to Key Management Personnel | 39.219 | 38.330 |
| Post- Employment Benefits | 4.645 | 10.450 |

* Ex gratia payment made to Mr. E. Narangoda in lieu of services to the Bank.

In addition to their salaries, Bank also provides non-cash benefits to the Executive Director(s)/Officers and contributes to a post-employment defined benefit plan on their behalf. Executive Directors emoluments are disclosed in Note 13 to the Financial Statements.

48.7 All the other interest of each Director, direct or indirect in financial and other arrangements are disclosed under Note 49, Other Related Party Transactions

Notes to the Financial Statements

49. Other Related Party Transactions

49.1 The Bank had the following financial dealings during the year 2013 with companies which are considered, related parties and unless otherwise stated, transactions were carried out in the ordinary course of business at commercial rates with companies mentioned below. The parties given below are considered related parties mainly due to significant influence arising as a result of common directorships and through shareholdings. These companies, names of the Directors and the nature of transactions entered into are listed below:

| Party/Parties Accommodated | Name of Director/Key Managerial Personnel Relationship | Deposit | Rs. Mn. |
|---|--|---------------------|-----------|
| (a) Direct Subsidiaries of the Bank | | | |
| Seylan Developments PLC | Mr. R. Nadarajah - <i>Chairman</i> | Demand Deposit | 9.169 |
| | Mr. S. Paliawadana - <i>Deputy Chairman</i> | Fixed Deposit | 110.000 |
| | Mr. K.P. Ariyaratne - <i>Director</i> | | 119.169 |
| | Mr. R.J. Jayasekara - <i>Director</i> | | |
| | Mr. M.K. Muthukumar - (<i>Resigned w.e.f. 28.02.2013</i>) | | |
| | | Debenture 50.00 Mn. | |
| | | Repo 10.00 Mn. | |
| 2012 Comparatives | | | 203.229 |
| (b) Share Trust Companies and Funds Set up under the Bank | | | |
| <i>**Following Directors/Key Employees of the Bank are also Trustees/Directors of the Trust Companies and Funds set up under the Bank</i> | | | |
| Seylan Bank Employees' Gratuity Trust Fund | Mr. N.M. Jayamanne, PC - <i>Trustee</i> | Demand Deposit | 15.392 |
| | Mr. R. Nadarajah - <i>Trustee</i> | | 15.392 |
| | Rear Admiral B.A.J.G. Peiris - <i>Trustee</i> | | |
| | Mr. S.P.S. Ranatunga - <i>Trustee</i> | | |
| | Mr. K.P. Ariyaratne - <i>Trustee</i> | | |
| | Mr. S. De Silva - <i>Trustee</i> | | |
| | Mr. S.J. Jebaratnam - <i>Trustee</i> | | |
| | Mr. T. Nanayakkara - <i>Trustee</i> | | |
| | Mr. R.J. Jayasekara - <i>Trustee</i> | | |
| | Mr. M.K. Muthukumar - <i>Trustee (Resigned w.e.f. 28.02.2013)</i> | | |
| | Mrs. K.G. Hatch - <i>Trustee (Appointed w.e.f. 29.05.2013)</i> | | |
| 2012 Comparatives | | | 15.566 |
| Seylan Bank Employees' Provident Fund | Mr. K.P. Ariyaratne - <i>Trustee</i> | Savings Account | 2,529.090 |
| | Mr. Sarath Kumarasiri - <i>Trustee</i> | | 2,529.090 |
| | Ms. Rohini Weerakkody - <i>Trustee</i> | | |
| | Mr. Wasantha Senanayake - <i>Trustee/Secretary (Appointed w.e.f. 21.06.2013)</i> | | |
| | Mr. G. Widanapathirana - <i>Secretary (Resigned w.e.f. 21.06.2013)</i> | | |
| | Mr. Mangala Karunaratne - <i>Trustee</i> | | |
| | Mr. Philip Ramanayake - <i>Trustee</i> | | |
| | Mr. Kolitha Wickramasinghe - <i>Trustee (Appointed w.e.f. 01.11.2013)</i> | | |
| | Mr. Asanga Nanayakkara - <i>Trustee (Resigned w.e.f. 01.11.2013)</i> | | |
| 2012 Comparatives | | | 2,347.565 |

Notes to the Financial Statements

| Nature of Accommodation | Aggregate Amount of Accommodation | | | | Accommodation Outstanding (Funded) as a percentage of Regulatory Capital | Services Obtained/Other Transactions | | | |
|-----------------------------|-----------------------------------|---------|--------------|--|--|--------------------------------------|---------------------------|----------------------|--|
| | Outstanding as at 31.12.2013 | | | | | Nature of Service | Amount Payable/Receivable | Amount Paid/Received | |
| | Limit | Funded | Non-Funded | Cumulative Impairment Provision for the Year | | | | | |
| | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | | Rs. Mn. | Rs. Mn. | | |
| Expenses | | | | | | | | | |
| Guarantee (Commission 2.0%) | 1.201 | | 1.201 | | Rent Payable/Paid | 0.695 | 110.671 | | |
| Overdraft | 20.000 | | | | Work order Paid | - | 1.306 | | |
| | <u>21.201</u> | | <u>1.201</u> | | Interest Payable/Paid | 15.263 | 9.315 | | |
| | | | | | Management Fee Paid | - | 3.500 | | |
| | | | | | | <u>15.958</u> | <u>124.792</u> | | |
| | | | | | Net Dividend Received | - | 17.255 | | |
| | | | | | Fee Income | - | 0.286 | | |
| | | | | | Interest Receivable/Received | - | 0.387 | | |
| | | | | | | - | 17.928 | | |
| | | | | | Rent Deposit* | | 15.000 | | |
| | 1.201 | | 1.201 | | Net | (13.494) | (99.364) | | |

Investment in Treasury Bond amounting to face value Rs. 893.576 Mn.

Annual contribution to Gratuity Trust Fund amounting to Rs. 86.752 Mn.

| | | |
|--|---------------|---------------|
| | Interest Paid | 71.299 |
| | | <u>71.299</u> |
| | | |
| | | |
| | | |
| | Net | (75.370) |

Investment in Seylan Bank PLC Debenture amounted to Rs. 400.000 Mn.

Investment in Treasury Bond amounting to face value Rs. 1,686.436 Mn.

Investment in Treasury Bill amounting to face value Rs. 50.000 Mn.

| | Interest Payable/Paid | |
|--|-----------------------|-----------------------|
| | Treasury Bonds | 41.692 152.484 |
| | Treasury Bills | - 7.925 |
| | Debenture | 33.567 28.440 |
| | | <u>75.259 188.849</u> |
| | | |
| | | |
| | Net | (69.314) (151.009) |

Notes to the Financial Statements

| Party/Parties Accommodated | Name of Director/Key Managerial Personnel Relationship | Deposit | Rs. Mn. |
|----------------------------|---|----------------|---------|
| Sesot (Pvt) Limited | Mr. R. Nadarajah - <i>Chairman</i> | Demand Deposit | 7.389 |
| | Mr. K.P. Ariyaratne - <i>Director</i> | | 7.389 |
| | Mr. S.J. Jebaratnam - <i>Director</i> | | |
| | Mrs. K.G. Hatch - <i>Director (Appointed w.e.f. 17.05.2013)</i> | | |
| | Mrs. V.A. Paranagama - <i>(Resigned w.e.f. 17.05.2013)</i> | | |
| 2012 Comparatives | | | 5.539 |
| Seyfest (Pvt) Limited | Mr. R. Nadarajah - <i>Chairman</i> | Demand Deposit | 8.355 |
| | Mr. K.P. Ariyaratne - <i>Director</i> | | 8.355 |
| | Mr. S.J. Jebaratnam - <i>Director</i> | | |
| | Mrs. K.G. Hatch - <i>Director (Appointed w.e.f. 17.05.2013)</i> | | |
| | Mrs. V.A. Paranagama - <i>(Resigned w.e.f. 17.05.2013)</i> | | |
| 2012 Comparatives | | | 6.008 |
| Sotse (Pvt) Limited | Mr. R. Nadarajah - <i>Chairman</i> | | |
| | Mr. K.P. Ariyaratne - <i>Director</i> | | |
| | Mr. S.J. Jebaratnam - <i>Director</i> | | |
| | Mrs. K.G. Hatch - <i>Director (Appointed w.e.f. 17.05.2013)</i> | | |
| | Mrs. V.A. Paranagama - <i>(Resigned w.e.f. 17.05.2013)</i> | | |
| 2012 Comparatives | | | |
| Seyshop (Pvt) Limited | Mr. R. Nadarajah - <i>Chairman</i> | | |
| | Mr. K.P. Ariyaratne - <i>Director</i> | | |
| | Mr. S.J. Jebaratnam - <i>Director</i> | | |
| | Mrs. K.G. Hatch - <i>Director (Appointed w.e.f. 17.05.2013)</i> | | |
| | Mrs. V.A. Paranagama - <i>(Resigned w.e.f. 17.05.2013)</i> | | |
| 2012 Comparatives | | | |
| Seybest (Pvt) Limited | Mr. R. Nadarajah - <i>Chairman</i> | | |
| | Mr. K.P. Ariyaratne - <i>Director</i> | | |
| | Mr. S.J. Jebaratnam - <i>Director</i> | | |
| | Mrs. K.G. Hatch - <i>Director (Appointed w.e.f. 17.05.2013)</i> | | |
| | Mrs. V.A. Paranagama - <i>(Resigned w.e.f. 17.05.2013)</i> | | |
| 2012 Comparatives | | | |
| Esots (Pvt) Limited | Mr. R. Nadarajah - <i>Chairman</i> | | |
| | Mr. K.P. Ariyaratne - <i>Director</i> | | |
| | Mr. S.J. Jebaratnam - <i>Director</i> | | |
| | Mrs. K.G. Hatch - <i>Director (Appointed w.e.f. 17.05.2013)</i> | | |
| | Mrs. V.A. Paranagama - <i>(Resigned w.e.f. 17.05.2013)</i> | | |
| 2012 Comparatives | | | |

Notes to the Financial Statements

| Nature of Accommodation | Aggregate Amount of Accommodation | | | | Services Obtained/Other Transactions | | | |
|---|-----------------------------------|---------|------------|--|--|---------------------------------------|---------------------------|----------------------|
| | Outstanding as at 31.12.2013 | | | | Accommodation Outstanding (Funded) as a percentage of Regulatory Capital | Nature of Service | Amount Payable/Receivable | Amount Paid/Received |
| | Limit | Funded | Non-Funded | Cumulative Impairment Provision for the Year | | | | |
| | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | | Rs. Mn. | Rs. Mn. | |
| No. of Voting Shares - 2,279,042 | | | | | | Net Dividend Paid | | 2.035 |
| Rs. 51.854 Mn. Payable to Seylan Bank PLC | | | | | | | | 2.035 |
| | | | | | | Scrip Dividend 34,242 Voting Shares | | |
| | | | | | | Net | | (2.031) |
| Rs. 23.000 Mn. Payable to Seylan Bank PLC | | | | | | Net Dividend Paid | | 2.695 |
| No. of Voting Shares - 3,017,940 | | | | | | | | 2.695 |
| | | | | | | Scrip Dividend 45,344 Voting Shares | | |
| | | | | | | Net | | (2.689) |
| Term Loan | 38.550 | 28.506 | | | | | | |
| | 38.550 | 28.506 | | 0.052 | 0.147 | Net Dividend Paid | | 0.873 |
| | | | | | | | | 0.873 |
| No. of Voting Shares - 977,010 | | | | | | Loan Agreement Forms for Rs. 38.8 Mn. | | |
| Rs. 8.084 Mn. Payable to Seylan Bank PLC | | | | | | Interest Rate - 10.00% | | |
| | | | | | | Interest Receivable/Received | 6.707 | 0.586 |
| | | | | | | | 6.707 | 0.586 |
| | | | | | | Scrip Dividend 14,679 Voting Shares | | |
| | 38.550 | 28.678 | | | 0.165 | Net | 4.549 | 1.918 |
| Term Loan | 54.375 | 29.661 | | | | Net Dividend Paid | | 1.933 |
| | 54.375 | 29.661 | | 0.151 | 0.153 | | | 1.933 |
| No. of Voting Shares - 2,165,435 | | | | | | Loan Agreement Form for Rs. 55.1 Mn. | | |
| Rs. 14.267 Mn. Payable to Seylan Bank PLC | | | | | | Interest Rate 10.00% | | |
| | | | | | | Interest Receivable/Received | 3.099 | 1.856 |
| | | | | | | Scrip Dividend 32,535 Voting Shares | 3.099 | 1.856 |
| | 54.375 | 29.661 | | | 0.171 | Net | 2.105 | 0.942 |
| Term Loan | 54.510 | 29.107 | | | | Net Dividend Paid | | 1.934 |
| | 54.510 | 29.107 | | 0.148 | 0.150 | | | 1.934 |
| No. of Voting Shares - 2,165,435 | | | | | | Loan Agreement Form for Rs. 55.1 Mn. | | |
| Rs. 14.270 Mn. Payable to Seylan Bank PLC | | | | | | Interest Rate - 10.00% | | |
| | | | | | | Interest Receivable/Received | 2.971 | 1.856 |
| | | | | | | | 2.971 | 1.856 |
| | | | | | | Scrip Dividend 32,535 Voting Shares | | |
| | 54.510 | 29.107 | | | 0.168 | Net | 2.029 | 0.893 |
| Term Loan | 53.860 | 29.641 | | | | Net Dividend Paid | | 1.918 |
| | 53.860 | 29.641 | | 0.151 | 0.153 | | | 1.918 |
| No. of Voting Shares - 2,148,132 | | | | | | Loan Agreement Form for Rs. 54.6 Mn | | |
| Rs. 13.267 Mn. Payable to Seylan Bank PLC | | | | | | Interest Rate - 10.00% | | |
| | | | | | | Interest Receivable/Received | 3.072 | 1.840 |
| | | | | | | | 3.072 | 1.840 |
| | | | | | | Scrip Dividend 32,275 Voting Shares | | |
| | 53.860 | 29.641 | | | 0.171 | Net | 2.066 | 0.964 |

Notes to the Financial Statements

| Party/Parties Accommodated | Name of Director/Key Managerial Personnel Relationship | Deposit | Rs. Mn. |
|---|---|----------------------------|----------------|
| (c) State Institutions | | | |
| Sri Lanka Insurance Corporation Limited | Mr. H.I. Balapatabendi - <i>Director (Appointed w.e.f. 27.11.2013)</i> | Fixed Deposit | 318.482 |
| | Mr. A.M.M. De Alwis - <i>Managing Director/CEO (Resigned w.e.f. 20.12.2013)</i> | Demand Deposit | 1.549 |
| | | | <u>320.031</u> |
| | Mr. P. Kudabalage - <i>Executive Director (Resigned w.e.f. 29.03.2013)</i> | | |
| | | Treasury Bills Rs. 100 Mn. | |
| | | Treasury Bonds Rs. 500 Mn. | |
| 2012 Comparatives | | | 1,431.929 |
| (d) Common Directorship Entities | | | |
| Finlay Rentokil Ceylon (Pvt) Limited | Ms. Miriam Coralie Pietersz - <i>Executive Director (Appointed w.e.f. 23.09.2013)</i> | | |
| | | | |
| 2012 Comparatives | | | |
| LOLC Insurance Company Limited | Mr. W.D.K. Jayawardene - <i>Director (Appointed w.e.f. 01.08.2013)</i> | Demand Deposit | 0.738 |
| | | | <u>0.738</u> |
| | | | |
| 2012 Comparatives | | | |
| Ceylon Chamber of Commerce | Mr. S.P.S. Ranatunga - <i>Vice-Chairman</i> | | |
| 2012 Comparatives | | | |
| Brown & Company PLC | Mr. I.C. Nanayakkara - <i>Executive Chairman</i> | Demand Deposit | 2.936 |
| | Mr. A. L. Devasurendra - <i>Deputy Chairman (Resigned w.e.f. 01.08.2013)</i> | | <u>2.936</u> |
| 2012 Comparatives | | | 2.427 |

Notes to the Financial Statements

| Nature of Accommodation | Aggregate Amount of Accommodation | | | | | Services Obtained/Other Transactions | | |
|---|-----------------------------------|---------|------------|--|--|---|---------------------------|----------------------|
| | Outstanding as at 31.12.2013 | | | | | Nature of Service | Amount Payable/Receivable | Amount Paid/Received |
| | Limit | Funded | Non-Funded | Cumulative Impairment Provision for the Year | Accommodation Outstanding (Funded) as a percentage of Regulatory Capital | | | |
| Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | | Rs. Mn. | Rs. Mn. | |
| | | | | | | Commission Received | | 2.059 |
| | | | | | | | | <u>2.059</u> |
| | | | | | | Interest Payable/Paid | 8.674 | 116.579 |
| | | | | | | Net Dividend Paid | | 23.892 |
| | | | | | | Insurance premium Paid | | 50.089 |
| 4,495,200 No. of Debentures of Rs. 100/- each | | | | | | | 8.674 | 190.560 |
| No. of Ordinary Voting Shares - 26,396,608 (15.00%) | | | | | | | | |
| No. of Ordinary (Non-Voting) Shares - 359,000 | | | | | | Scrip Dividend 396,609 Voting Shares | | |
| | | | | | | Scrip Dividend 9,000 Non-Voting Shares | | |
| | | | | | | Net | (21.030) | (258.418) |
| | | | | | | Pest Control | | 0.882 |
| | | | | | | Sanitact Services | | 0.048 |
| | | | | | | | | <u>0.930</u> |
| | | | | | | Commission Received | | 3.620 |
| | | | | | | | | <u>3.620</u> |
| | | | | | | Insurance | | |
| | | | | | | Bankers Indemnity, Business Premises, | | |
| | | | | | | Computer, Public Liability | | 32.136 |
| | | | | | | | | <u>32.136</u> |
| | | | | | | Sponsorship | | 0.540 |
| | | | | | | | | <u>0.540</u> |
| | | | | | | Net | | (0.066) |
| | | | | | | Air Fulfiller | | 0.048 |
| No. of Ordinary Voting Shares - 24,416,750 (13.87%) | | | | | | Repairs Office Vehicles | | 0.096 |
| | | | | | | Repairs to Office Machines & Equipments | | 1.400 |
| | | | | | | Photo Copying Charges | | 0.652 |
| | | | | | | Net Dividend Paid | | 21.807 |
| | | | | | | | | <u>24.003</u> |
| | | | | | | Scrip Dividend 366,862 Voting Shares | | |
| | | | | | | Net | | (33.687) |

Notes to the Financial Statements

| Party/Parties Accommodated | Name of Director/Key Managerial Personnel Relationship | Deposit | Rs. Mn. |
|----------------------------|---|----------------|---------|
| | | | <hr/> |
| CIC Lifesciences Limited | Mr. S.P.S. Ranatunga - Director | Fixed Deposit | 8.404 |
| | | | <hr/> |
| | | | 8.404 |
| | | | <hr/> |
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| | | | <hr/> |
| | | | <hr/> |
| 2012 Comparatives | | | <hr/> |
| The Finance Co. PLC | Mr. R. Nadarajah - Director | Call Deposit | 1.500 |
| | Mr. A.L. Devasurendra - Director (Resigned w.e.f. 01.08.2013) | Demand Deposit | 6.851 |
| | | | <hr/> |
| | | | 8.351 |
| | | | <hr/> |
| | | Repo | 64.666 |
| | | | <hr/> |
| 2012 Comparatives | | | <hr/> |
| | | | 23.546 |
| Agstar Fertilizers PLC | Mr. I.C. Nanayakkara - Director | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| 2012 Comparatives | | | |

Notes to the Financial Statements

| Nature of Accommodation | Aggregate Amount of Accommodation | | | | Services Obtained/Other Transactions | | | |
|--|-----------------------------------|---------|------------|--|--|--------------------------------------|---------------------------|----------------------|
| | Outstanding as at 31.12.2013 | | | | Accommodation Outstanding (Funded) as a percentage of Regulatory Capital | Nature of Service | Amount Payable/Receivable | Amount Paid/Received |
| | Limit | Funded | Non-Funded | Cumulative Impairment Provision for the Year | | | | |
| | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | | Rs. Mn. | Rs. Mn. | |
| Overdraft (Interest Rate 17.00%) | 15,000 | 15,211 | | | | Interest Receivable/Received | 5,647 | 5,214 |
| Term Loan (Interest Rate 17.00%) | 40,000 | 40,000 | | | | | 5,647 | 5,214 |
| Letter of Credit Usance (Commission 0.3% per Quarter) | 200,000 | 10,331 | | 1,732 | | | | |
| Short-Term Loan (Interest Rate - 17.00%) | (100,000)* | 54,340 | | | | Interest Payable/Paid | 0,122 | 0,449 |
| Export Bills Purchased (Interest Rate - 17.00%) | (25,000)* | - | | | | | 0,122 | 0,449 |
| Temporary Guarantee (Commission - 2.50%) | 15,000 | - | 8,136 | | | | | |
| Guarantee/Margin (Commission - 2.50%) | | | 0,386 | | | | | |
| | 270,000 | 119,882 | 8,522 | | 0,618 | | | |
| Letter of Awareness from CIC Holdings PLC for Rs. 115.0 Mn. | | | | | | | | |
| Cash build up of Rs. 500,000/- p.m. (P.B. - Rs. 3,576 Mn.) | | | | | | | | |
| Fixed Deposit of Rs. 8.4 Mn. | | | | | | | | |
| Lodgment of Domestic Letter of Credit from State Pharmaceutical Corporation | | | | | | | | |
| Mortgage over Machinery for Rs. 21.0 Mn. | | | | | | | | |
| | 242,750 | 78,935 | 71,121 | | 0,455 | Net | 0,841 | 8,334 |
| Overdraft (Interest Rate 16.00%) | 115,000 | 10,017 | | | | Interest Receivable/Received | 1,004 | 19,303 |
| Short-Term Loan (Interest Rate 16.00%) | 200,000 | 200,000 | | | | Internet Payment Gateway Commission | - | 0,104 |
| Term Loan (Interest Rate 17.00%) | 29,750 | 5,348 | | | | | 1,004 | 19,407 |
| Term Loan (Interest Rate 17.00%) | 69,600 | 18,937 | | | | | | |
| Piyasa Loan (Interest Rate 17.00%) | 42,500 | 8,219 | | | | Interest Payable/Paid | 0,090 | 0,984 |
| | 456,850 | 242,521 | | | | Net Dividend Paid | - | 0,015 |
| Mortgage Bond Rs. 367.45 Mn. (FSV - Rs. 462.3 Mn. MV - Rs. 528.9 Mn.) | | | | | 1,250 | | 0,090 | 0,999 |
| No. of Ordinary Non-Voting Shares - 16,616 | | | | | | Scrip Dividend 416 Non-Voting Shares | | |
| | 423,065 | 285,341 | | | 1,643 | Net | (0,047) | 18,553 |
| Temporary Over Draft (Interest Rate - 24.00%) | - | 4,177 | | | | | | |
| Letter of Credit-Sight (Commission 0.3% per Quarter) | 500,000 | | | | | Interest Receivable/Received | | 18,896 |
| Letter of Credit-Usance (Commission 0.3% per Quarter) | (500,000)* | | 12,818 | | | | | 18,896 |
| Revolving Import Loan (Interest Rate - 17.00%) | (500,000)* | 291,629 | | | | | | |
| | 500,000 | 295,806 | 12,818 | | 1,524 | | | |
| Concurrent <i>Pari passu</i> Mortgage Bond for Rs. 500.0 Mn over stocks & book debts | | | | | | | | |
| | | | | | | | | |
| | 500,000 | 215,866 | 234,941 | | 1,243 | Net | | 0,215 |

Notes to the Financial Statements

| Party/Parties Accommodated | Name of Director/Key Managerial Personnel Relationship | Deposit | |
|-----------------------------------|--|---------------------------------|-----------------|
| | | | Rs. Mn. |
| Eden Hotel Lanka PLC | Mr. W.D.K. Jayawardene - <i>Director (Appointed w.e.f. 01.08.2013)</i> | | |
| 2012 Comparatives | | | |
| Lanka ORIX Finance PLC | Mr. I.C. Nanayakkara - <i>Director</i> Mr. W.D.K. Jayawardene - <i>Director (Appointed w.e.f. 01.08.2013)</i> | | |
| 2012 Comparatives | | | |
| | | | 0.316 |
| Medford Investments (Pvt) Limited | Mr. I. C. Nanayakkara - <i>Shareholder (25%)</i> | Demand Deposit | 1.021 |
| | | | <u>1.021</u> |
| 2012 Comparatives | | | |
| | | | 1.021 |
| Sierra Constructions Limited | Mr. I.C. Nanayakkara - <i>Director</i> Mr. A.L. Devasurendra - <i>Director (Resigned w.e.f. 01.08.2013)</i> | Fixed Deposit Demand Deposit | 55.993 1.336 |
| | | | <u>57.329</u> |
| 2012 Comparatives | | | |
| | | | 64.021 |
| Taprobane Holdings PLC | Mr. I. C. Nanayakkara - <i>Shareholder (35.66%)</i> Mr. A.L. Devasurendra - <i>Deputy Chairman (Resigned w.e.f. 01.08.2013)</i> | Demand Deposit | 0.047 |
| | | | <u>0.047</u> |
| | | Debenture | 200.000 |
| | | Treasury Bond | 700.000 |
| | | Reverse Repo | 495.000 |
| 2012 Comparatives | | | |
| | | | 0.180 |

Notes to the Financial Statements

| Nature of Accommodation | Aggregate Amount of Accommodation | | | | Accommodation Outstanding (Funded) as a percentage of Regulatory Capital | Services Obtained/Other Transactions | | |
|---|-----------------------------------|----------------------|------------|--|--|--------------------------------------|---------------------------|----------------------|
| | Outstanding as at 31.12.2013 | | | | | Nature of Service | Amount Payable/Receivable | Amount Paid/Received |
| | Limit | Funded | Non-Funded | Cumulative Impairment Provision for the Year | | | | |
| | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | | Rs. Mn. | Rs. Mn. | |
| Term Loan (Interest Rate - 13.6%) | 1,500.000 | 1,500.000 | | | | Interest Receivable/Received | 16.767 | |
| | 1,500.000 | 1,500.000 | | | 7.730 | | 16.767 | |
| Mortgage Bond for Rs. 1,500 Mn. Over Property at Beruwala (FSV - Rs. 2.5 Bn., MV - Rs. 2.6 Bn.) | | | | | | | | |
| Overdraft (Interest Rate - 13.5%) | 150.000 | 77.373 | | | | Interest Receivable/Received | 6.647 | 85.429 |
| Treasury Loans (Interest Rate - 13.5%) | 135.000 | 135.000 | | | | | 6.647 | 85.429 |
| Short-Term Loan (Interest Rate - 13.5%) | 600.000 | 600.000 | | | | | | |
| Short-Term Loan (Interest Rate - 13.5%) | 370.000 | 370.000 | | | | | | |
| Revolving Lease (Interest Rate - 13.5%) | 180.000 | - | | | | | | |
| | 1,435.000 | 1,182.373 | | | 6.093 | | | |
| Mortgage of Rs. 885.00 Mn. over lease receivable Over lease portfolio of Rs. 1.77 Bn. 2.4 Mn. No. of HDFC Shares held in cus. a/c 0.945 Mn. No. of Laugfs Shares held in cus. a/c 2.0 Mn. No. of Hayleys Shares held in cus. a/c Absolute Ownership over motor vehicles | | | | | | | | |
| | | Reverse Repo 350 Mn. | | | | | | |
| | 1,815.000 | 1,625.616 | | | 9.362 | Net | | 179.036 |
| Overdraft (Interest Rate - 15.5%) | 500.000 | 519.341 | | | | Interest Receivable/Received | | 91.880 |
| Letter of Credit Sight (Commission 0.3 % per Quarter) | 50.000 | | | | | | | 91.880 |
| Revolving Import Loan/Letter of Credit Usance (Interest Rate -15.5%) | (50.000)* | | | | | Interest Paid/Payable | 5.630 | 0.136 |
| Bank Guarantee (Commission - 2.00%) | 300.000 | | 134.913 | | | | 5.630 | 0.136 |
| Local Bills Purchased (Interest Rate -15.5%) | 150.000 | 105.250 | | | | | | |
| Temporary OverDraft (Interest Rate -15.5%) | | 5.693 | | | | | | |
| | 1,000.000 | 630.284 | 134.913 | | 3.248 | | | |
| Lien over rupee fixed deposits for Rs. 52.86 Mn. Mortgage over Stocks for Rs. 50.0 Mn. Assignment over contract funds Assignment over bills to be discounted Joint and Several Guarantee of the Directors for Rs. 465.0 Mn. Corporate guarantee from Sierra Holdings for Rs. 500.0 Mn., 50 million number of shares of Agstar Fertilizer held in a custodian account. (only for OD of Rs. 500.0 Mn.) | | | | | | | | |
| | | * Within Which | | | | | | |
| | 1,000.000 | 514.113 | 229.260 | | 2.961 | Net | (0.210) | 69.411 |
| Overdraft (Interest Rate - 13.25%) | 5.500 | | | | | Interest Receivable/Received | 0.103 | 8.271 |
| | 5.500 | | | | | | 0.103 | 8.271 |
| 101.0 million number of Lanka Century Investments PLC Shares held in slash. a/c. | | | | | | | | |
| | 200.00 | 165.102 | | | 0.951 | Net | | 30.741 |

Notes to the Financial Statements

| Party/Parties Accommodated | Name of Director/Key Managerial Personnel Relationship | Deposit | Rs. Mn. |
|-----------------------------------|---|---|---------|
| Lanka ORIX Leasing Company PLC | Mr. I.C. Nanayakkara - <i>Deputy Chairman/Shareholder (12.60%)</i> | Demand Deposit | 0.794 |
| | Mr. W.D.K. Jayawardene - <i>Managing Director/CEO (Appointed w.e.f. 01.08.2013)</i> | Foreign Currency Deposit (USD 509,255.55) | 65.693 |
| | | | 66.487 |
| | | | |
| 2012 Comparatives | | | 63.534 |
| LOLC Investments Limited | 100% Owned Subsidiary of Lanka ORIX Leasing Company PLC | | |
| 2012 Comparatives | | | |
| Sri Lankan Catering (Pvt) Limited | Mr. N.M. Jayamanne PC - <i>Director</i> | Demand Deposit | 0.475 |
| | | Fixed Deposit | 7.121 |
| | | | 7.596 |
| 2012 Comparatives | | | 7.032 |
| CIC Agri Business (Pvt) Limited | Mr. S.P.S. Ranatunga - <i>Director</i> | Demand Deposit | 0.010 |
| | | | 0.010 |
| | | | |
| 2012 Comparatives | | | 0.010 |
| LOLC Micro Credit Limited | Mr. I.C. Nanayakkara - <i>Chairman</i> | Demand Deposit | 0.779 |
| | Mr. W.D.K. Jayawardene - <i>Director (Appointed w.e.f. 01.08.2013)</i> | | 0.779 |
| | | | |
| 2012 Comparatives | | | 6.472 |
| Browns Investments PLC | Mr. I.C. Nanayakkara - <i>Executive Chairman</i> | Demand Deposit | 0.092 |
| | Mr. W.D.K. Jayawardene - <i>Director (Appointed w.e.f. 01.08.2013)</i> | | 0.092 |
| | | Repo | 2.361 |
| 2012 Comparatives | | | |
| Colombo Land Exchange | Mr. I.C. Nanayakkara - <i>Shareholder (25%)</i> | Demand Deposit | 9.724 |
| | | | 9.724 |
| 2012 Comparatives | | | |
| Commercial Leasing & Finance PLC | Mr. I.C. Nanayakkara - <i>Chairman</i> | Demand Deposit | 6.336 |
| | Mr. W.D.K. Jayawardene - <i>Director (Appointed w.e.f. 01.08.2013)</i> | | 6.336 |
| 2012 Comparatives | | | 2.105 |

Notes to the Financial Statements

| Nature of Accommodation | Aggregate Amount of Accommodation | | | | Accommodation Outstanding (Funded) as a percentage of Regulatory Capital | Services Obtained/Other Transactions | | |
|--|-----------------------------------|---------|------------|--|--|--|---------------------------|----------------------|
| | Outstanding as at 31.12.2013 | | | | | Nature of Service | Amount Payable/Receivable | Amount Paid/Received |
| | Limit | Funded | Non-Funded | Cumulative Impairment Provision for the Year | | | | |
| | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | | Rs. Mn. | Rs. Mn. | |
| Short-Term Loan (Interest Rate - 11%) | 59.100 | 59.100 | | | | Interest Receivable/Received | 0.303 | 6.670 |
| | 59.100 | 59.100 | | | | | 0.303 | 6.670 |
| | | | | | | Interest Payable/Paid | 0.269 | 2.385 |
| | | | | | | Net Dividend Paid | - | 46.539 |
| | | | | | 0.305 | | 0.269 | 48.924 |
| Foreign Currency Deposit worth USD 509,255.55 (Rs. 65.693 Mn.) | | | | | | Scrip Dividend 01 Voting Shares | | |
| No. of Non-Voting Shares - 57,474,003 | | | | | | Scrip Dividend 1,319,824 Non-Voting Shares | | |
| No. of Ordinary Voting Shares - 89 | | | | | | | | |
| | 52.000 | 52.000 | | | 0.299 | Net | | (31.201) |
| No. of Ordinary Voting Shares 16,808,502 (9.55%) | | | | | | Net Dividend Paid | | 15.012 |
| | | | | | | | | 15.012 |
| | | | | | | Scrip Dividend 252,548 Voting Shares | | |
| | | | | | | Net | | (16.556) |
| Guarantee (Commission - 1%) | 5.364 | | 5.364 | | | Interest Paid/Payable | 0.015 | 0.720 |
| | 5.364 | | 5.364 | | | | 0.015 | 0.720 |
| | | | | | | Guarantee Commission Received | | 0.060 |
| | | | | | | | | 0.060 |
| | 5.340 | | 5.340 | | | Net | | (0.856) |
| Overdraft (Interest Rate - 12%) | 100.000 | 0.138 | | | | | | |
| Letter of Credit - Usance (Commission - 0.1% per Quarter) | 1,100.000 | | 400.433 | | | Interest Receivable/Received | 1.778 | 95.410 |
| Short-Term Loan (Interest Rate - 9.25%) | (600.000)* | 600.000 | | | | | 1.778 | 95.410 |
| | 1,200.000 | 600.138 | 400.433 | | 3.093 | | | |
| Negative Pledge Over Stocks, Debtors and Other Receivables | * within which | | | | | | | |
| | 1,200.000 | 827.425 | 19.455 | | 4.765 | Net | | 89.010 |
| | | | | | | | | |
| | | | | | | Net Dividend Paid | | 10.606 |
| | | | | | | | | 10.606 |
| No. of Ordinary (Non-Voting) Shares - 11,998,208 | | | | | | Scrip Dividend 300,790 Non-Voting Shares | | |
| | | | | | | | | |
| | | | | | | Net Dividend Paid | | 0.066 |
| No. of Ordinary (Non-Voting) Shares - 74,261 | | | | | | | | 0.066 |
| | | | | | | Scrip Dividend 1,861 Non-Voting Shares | | |
| | | | | | | Net | | (0.072) |

Notes to the Financial Statements

| Party/Parties Accommodated | Name of Director/Key Managerial Personnel Relationship | Deposit | Rs. Mn. |
|--|--|----------------|---------|
| Crop Management Services (Pvt) Limited | Mr. S.P.S. Ranatunga - Director | Demand Deposit | 0.025 |
| | | | 0.025 |
| 2012 Comparatives | | | 0.025 |
| LOLC Securities Limited | Mr. W.D.K. Jayawardene - Director (Appointed w.e.f. 01.08.2013) | Demand Deposit | 0.029 |
| | | | 0.029 |
| 2012 Comparatives | | | |
| CIC Feeds (Pvt) Limited | Mr. S.P.S. Ranatunga - Director | Demand Deposit | 3.250 |
| | | | 3.250 |
| 2012 Comparatives | | | 12.081 |
| CIC Poultry Farms Limited | Mr. S.P.S. Ranatunga - Director | Demand Deposit | 2.642 |
| | | | 2.642 |
| 2012 Comparatives | | | 4.500 |
| CIC Seeds (Pvt) Limited | Mr. S.P.S. Ranatunga - Director | Demand Deposit | 0.297 |
| | | | 0.297 |
| 2012 Comparatives | | | 2.932 |
| CIC Dairies (Pvt) Limited | Mr. S.P.S. Ranatunga - Director | Demand Deposit | 13.132 |
| | | | 13.132 |
| 2012 Comparatives | | | 1.256 |
| Akzo Nobel Paints Lanka (Pvt) Limited | Mr. S.P.S. Ranatunga - Director | Demand Deposit | 1.307 |
| | | | 1.307 |
| 2012 Comparatives | | | 0.010 |
| Bogala Graphite Lanka PLC | Ms. Miriam Coralie Pietersz - Executive Director (Appointed w.e.f. 23.09.2013) | Demand Deposit | 0.041 |
| | | | 0.041 |
| 2012 Comparatives | | | |
| Finlay Insurance Brokers (Pvt) Limited | Ms. Miriam Coralie Pietersz - Executive Director (Appointed w.e.f. 23.09.2013) | | |
| 2012 Comparatives | | | |

Regulatory capital used for this calculation is the Bank's Tier 1 capital as at 31.12.2013.

Group Accommodation as a Percentage of Regulatory Capital

| | 2013 % | 2012 % |
|------------|-----------|-----------|
| LOLC Group | 15.652 | 9.661 |
| CIC Group | 3.711 | 5.220 |

Notes to the Financial Statements

49.2 Transactions with the Government of Sri Lanka/Entities Controlled, Jointly Controlled or Significantly Influenced by the Government of Sri Lanka

The Government of Sri Lanka indirectly holds more than 30% of the voting rights of the Bank as at 31st December 2013 through Sri Lanka Insurance Corporation Limited, Employees' Provident Fund, Bank of Ceylon, Employees' Trust Fund and thus has significant influence over the financial and operating policies of the Bank.

Bank has considered the Government of Sri Lanka and other entities which are controlled, jointly controlled or significantly influenced by the Government of Sri Lanka (Government-Related Entities) as Related Parties according to LKAS 24 - 'Related Party Disclosures'.

During the year ended 31st December 2013, the Bank has carried out transactions with the Government of Sri Lanka and other Government-Related Entities in the ordinary course of its business, the details of material transactions are given below:

Percentage of voting shares holding by State Institutions in Seylan Bank PLC is 32.46% as at 31st December 2013 and the break up is given below:

| | No. of Voting Shares | % | Value (Rs. Mn.) |
|---|----------------------|--------|-----------------|
| Sri Lanka Insurance Corporation Limited | 26,396,608 | 15.000 | 1,044.408 |
| Bank of Ceylon | 13,198,305 | 7.500 | 522.204 |
| Employees' Provident Fund | 17,525,425 | 9.959 | 693.411 |
| Employees' Trust Fund | 1 | 0.000 | 0.000 |
| Total Holdings by State Institutions | 57,120,339 | 32.459 | 2,260.023 |
| Total Ordinary Voting Shares | 175,977,401 | | 6,962.722 |

Percentage of Non-Voting share Holding by State Institutions in Seylan Bank PLC is 12.29% as at 31st December 2013 and the break up is given below:

| | No. of Shares-Non-Voting | % | Value (Rs. Mn.) |
|---|--------------------------|--------|-----------------|
| Sri Lanka Insurance Corporation Limited | 359,000 | 0.212 | 7.578 |
| National Savings Bank | 1,535,151 | 0.908 | 32.405 |
| Employees' Provident Fund | 16,896,029 | 9.999 | 356.652 |
| Employees' Trust Fund | 1,985,355 | 1.175 | 41.908 |
| Total Holdings by State Institutions | 20,775,535 | 12.294 | 438.543 |
| Total Ordinary Non-Voting Shares | 168,983,009 | | 3,567.002 |

| Name of the Government Entity | Relationship with the Bank | Nature of the Transactions | Amount (Rs. '000) |
|-------------------------------|----------------------------|---|-------------------|
| Central Bank of Sri Lanka | Government-Related Entity | Treasury Bills (Notes 23.1, 25.1.1, 26.1.1) | 8,139,937 |
| | | Treasury Bonds including Sri Lanka Development Bonds (Notes 23.1, 25.1.1, 26.1.1) | 37,285,005 |
| | | Interest Income (Note 7) | 4,471,012 |
| | | Annual Licence Fees | 15,000 |

Notes to the Financial Statements

50. Maturity Analysis

Bank

50.1 An analysis of the total assets employed as at 31st December 2013, based on the remaining period at the Balance Sheet date to the respective contractual cash flows/maturity dates is given below:

| | Up to 3 Months Rs. '000 | 3 to 12 Months Rs. '000 | 1 to 3 Years Rs. '000 | 3 to 5 Years Rs. '000 | More Than 5 Years Rs. '000 | Total as at 31.12.2013 Rs. '000 |
|---|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------------|
| Interest Earning Assets | | | | | | |
| Bills of Exchange | 1,147,378 | 8,811 | - | - | - | 1,156,189 |
| Loans & Receivables Other than Lease Rentals Receivable* | 64,473,425 | 33,114,422 | 17,173,357 | 6,648,184 | 5,297,268 | 126,706,656 |
| Lease Rentals Receivable* | 1,205,808 | 2,386,050 | 4,210,869 | 882,999 | 4,286 | 8,690,012 |
| Placements with Banks and Finance Companies | 970,203 | - | - | - | - | 970,203 |
| Government of Sri Lanka Treasury Bills/Bonds | 6,519,216 | 10,434,831 | 17,395,255 | 10,115,752 | 1,212,268 | 45,677,322 |
| Investments in Debentures | 478,997 | 220,000 | 1,175,096 | 822,758 | - | 2,696,851 |
| Securities Purchased under Resale Agreements | 5,729,460 | 444 | - | - | - | 5,729,904 |
| | 80,524,487 | 46,164,558 | 39,954,577 | 18,469,693 | 6,513,822 | 191,627,137 |
| Non-Interest Earning Assets | | | | | | |
| Cash In Hand | 4,625,149 | - | - | - | - | 4,625,149 |
| Statutory Deposit with CBSL | 7,505,185 | - | - | - | - | 7,505,185 |
| Balances with Banks | 555,046 | - | - | - | - | 555,046 |
| Investments in Equities | 93,901 | - | - | - | 1,569,219 | 1,663,120 |
| Investment Properties | - | - | - | - | 114,429 | 114,429 |
| Group Balances Receivable | 15,000 | - | - | - | - | 15,000 |
| Property, Plant & Equipment/Lease Hold Rights/ Intangible Assets | - | - | - | - | 3,076,624 | 3,076,624 |
| Deferred Taxation Assets | 170,590 | - | - | - | - | 170,590 |
| Derivative Financial Instruments | 287,210 | - | - | - | - | 287,210 |
| Other Assets | 3,138,115 | 45,649 | 41,826 | 107,018 | 2,188,761 | 5,521,369 |
| | 16,390,196 | 45,649 | 41,826 | 107,018 | 6,949,033 | 23,533,722 |
| Total Assets | 96,914,683 | 46,210,207 | 39,996,403 | 18,576,711 | 13,462,855 | 215,160,859 |

* Loans & Receivables and Lease Rentals Receivable are reported net of impairment.

Notes to the Financial Statements

50.2 An analysis of the total Liabilities and Equity as at 31st December 2013, based on the remaining period at the Balance Sheet date to the respective contractual cash flows/maturity dates is given below:

| | Up to 3 Months Rs. '000 | 3 to 12 Months Rs. '000 | 1 to 3 Years Rs. '000 | 3 to 5 Years Rs. '000 | More Than 5 Years Rs. '000 | Total as at 31.12.2013 Rs. '000 |
|--|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------------|
| Interest Bearing Liabilities | | | | | | |
| Deposits from Customers other than Demand Deposits | 65,715,942 | 75,967,556 | 5,545,010 | 3,789,531 | 4,880,831 | 155,898,870 |
| Securities Sold under Repurchase Agreements | 4,101,913 | 472,042 | - | - | - | 4,573,955 |
| Borrowings | 8,509,384 | 2,370,910 | 140,380 | 258,490 | 277,780 | 11,556,944 |
| Debentures | 778,299 | - | 465,000 | 2,000,000 | - | 3,243,299 |
| Group Balances Payable | 25,264 | 110,000 | - | 50,000 | - | 185,264 |
| | 79,130,802 | 78,920,508 | 6,150,390 | 6,098,021 | 5,158,611 | 175,458,332 |
| Non-Interest Bearing Liabilities | | | | | | |
| Demand Deposits | 11,472,514 | - | - | - | - | 11,472,514 |
| Other Liabilities | 4,746,654 | 222,321 | - | - | - | 4,968,975 |
| Derivative Financial Instruments | 382,815 | - | - | - | - | 382,815 |
| Current Tax Liabilities | 1,090,584 | - | - | - | - | 1,090,584 |
| Dividend Payable | 16,159 | - | - | - | - | 16,159 |
| Group Balances Payable | 9,862 | - | - | - | - | 9,862 |
| Equity | - | - | - | - | 21,761,618 | 21,761,618 |
| | 17,718,588 | 222,321 | - | - | 21,761,618 | 39,702,527 |
| Total Liabilities and Equity | 96,849,390 | 79,142,829 | 6,150,390 | 6,098,021 | 26,920,229 | 215,160,859 |

Notes to the Financial Statements

Group

50.3 An analysis of the total assets employed as at 31st December 2013, based on the remaining period at the Balance Sheet date to the respective contractual cash flows/maturity dates is given below:

| | Up to 3 Months Rs. '000 | 3 to 12 Months Rs. '000 | 1 to 3 Years Rs. '000 | 3 to 5 Years Rs. '000 | More Than 5 Years Rs. '000 | Total as at 31.12.2013 Rs. '000 |
|--|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------------|
| Interest Earning Assets | | | | | | |
| Bills of Exchange | 1,147,378 | 8,811 | - | - | - | 1,156,189 |
| Loans & Receivables Other than Lease Rentals Receivable* | 64,473,425 | 33,114,422 | 17,173,357 | 6,648,184 | 5,297,268 | 126,706,656 |
| Lease Rentals Receivable* | 1,205,808 | 2,386,050 | 4,210,869 | 882,999 | 4,286 | 8,690,012 |
| Placements with Banks and Finance Companies | 970,203 | - | - | - | - | 970,203 |
| Government of Sri Lanka Treasury Bills/Bonds | 6,519,216 | 10,434,831 | 17,395,255 | 10,115,752 | 1,212,268 | 45,677,322 |
| Investments in Debentures | 478,997 | 220,000 | 1,175,096 | 902,056 | - | 2,776,149 |
| Securities Purchased under Resale Agreements | 5,729,460 | 444 | - | - | - | 5,729,904 |
| | 80,524,487 | 46,164,558 | 39,954,577 | 18,548,991 | 6,513,822 | 191,706,435 |
| Non-Interest Earning Assets | | | | | | |
| Cash in Hand | 4,625,180 | - | - | - | - | 4,625,180 |
| Statutory Deposit with CBSL | 7,505,185 | - | - | - | - | 7,505,185 |
| Balances with Banks | 555,046 | - | - | - | - | 555,046 |
| Investments in Equities | 93,901 | - | - | - | 776,522 | 870,423 |
| Investment Properties | - | - | - | - | 1,043,942 | 1,043,942 |
| Property, Plant & Equipment/Leasehold Rights/ Intangible Assets | - | - | - | - | 5,219,982 | 5,219,982 |
| Deferred Taxation Assets | 135,951 | - | - | - | - | 135,951 |
| Derivative Financial Instruments | 287,210 | - | - | - | - | 287,210 |
| Other Assets | 3,176,840 | 45,649 | 41,826 | 107,018 | 2,188,761 | 5,560,094 |
| | 16,379,313 | 45,649 | 41,826 | 107,018 | 9,229,207 | 25,803,013 |
| Total Assets | 96,903,800 | 46,210,207 | 39,996,403 | 18,656,009 | 15,743,029 | 217,509,448 |

* Loans & Receivables and Lease Rentals Receivable are reported net of impairment.

Notes to the Financial Statements

50.4 An analysis of the total Liabilities and Equity as at 31st December 2013, based on the remaining period at the Balance Sheet date to the respective contractual cash flows/maturity dates is given below:

| | Up to 3 Months Rs. '000 | 3 to 12 Months Rs. '000 | 1 to 3 Years Rs. '000 | 3 to 5 Years Rs. '000 | More Than 5 Years Rs. '000 | Total as at 31.12.2013 Rs. '000 |
|--|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------------|
| Interest Bearing Liabilities | | | | | | |
| Deposits from Customers other than Demand Deposits | 65,715,942 | 75,967,556 | 5,545,010 | 3,789,531 | 4,880,831 | 155,898,870 |
| Securities Sold Under Repurchase Agreements | 4,101,913 | 472,042 | - | - | - | 4,573,955 |
| Borrowings | 8,509,384 | 2,370,910 | 140,380 | 258,490 | 277,780 | 11,556,944 |
| Debentures | 778,299 | - | 465,000 | 2,000,000 | - | 3,243,299 |
| | 79,105,538 | 78,810,508 | 6,150,390 | 6,048,021 | 5,158,611 | 175,273,068 |
| Non-Interest Bearing Liabilities | | | | | | |
| Demand Deposits | 11,472,514 | - | - | - | - | 11,472,514 |
| Other Liabilities | 4,856,704 | 215,026 | - | - | - | 5,071,730 |
| Derivative Financial Instruments | 382,815 | - | - | - | - | 382,815 |
| Current Tax Liabilities | 1,090,584 | - | - | - | - | 1,090,584 |
| Dividend Payable | 21,526 | - | - | - | - | 21,526 |
| Equity | - | - | - | - | 22,659,585 | 22,659,585 |
| Non-Controlling Interest | - | - | - | - | 1,537,626 | 1,537,626 |
| | 17,824,143 | 215,026 | - | - | 24,197,211 | 42,236,380 |
| Total Liabilities and Equity | 96,929,681 | 79,025,534 | 6,150,390 | 6,048,021 | 29,355,822 | 217,509,448 |

51. Segment Reporting

Segment information is presented in respect of the Group's business segments. The primary format, business segments are based on the Group's management and internal reporting structure.

Business Segments

The Group comprises the following main business segments:

Banking: Loans and Advances (including Leases and Bills), Margin trading, Insurance, Deposits and other transactions and balances with corporate and retail customers.

Treasury: Undertakes the Group's funding and centralised risk management activities through borrowings, issue of debt securities, use of derivatives for risk management purpose and investing in liquid assets such as short-term placements, corporate debt securities and Government debt securities.

Property/Investment: The property investment income, expenses, assets and liabilities.

Notes to the Financial Statements

| | Banking | | Treasury | | Property/Investments | | Unallocated/Eliminations | | Total | |
|--|--------------------|--------------------|-------------------|-------------------|----------------------|------------------|--------------------------|-------------------|--------------------|--------------------|
| | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 | 2013 Rs. '000 | 2012 Rs. '000 |
| Interest Income | 20,425,213 | 18,477,842 | 4,230,355 | 2,439,543 | 31,874 | 19,262 | 289,043 | 197,912 | 24,976,485 | 21,134,559 |
| Interest Expense | 14,129,917 | 11,025,038 | 1,009,610 | 1,094,350 | 661 | 233 | (24,758) | (18,624) | 15,115,430 | 12,100,997 |
| Net Interest Income | 6,295,296 | 7,452,804 | 3,220,745 | 1,345,193 | 31,213 | 19,029 | 313,801 | 216,536 | 9,861,055 | 9,033,562 |
| Fee and Commission Income | 2,203,672 | 1,757,259 | (1,111) | (1,932) | - | - | 5,781 | 4,776 | 2,208,342 | 1,760,103 |
| Fee and Commission Expenses | 49,833 | 47,492 | 31,461 | 18,153 | 6,637 | 5,780 | - | - | 87,931 | 71,425 |
| Net Fee and Commission Income | 2,153,839 | 1,709,767 | (32,572) | (20,085) | (6,637) | (5,780) | 5,781 | 4,776 | 2,120,411 | 1,688,678 |
| Net Interest, Fee and Commission Income | 8,449,135 | 9,162,571 | 3,188,173 | 1,325,108 | 24,576 | 13,249 | 319,582 | 221,312 | 11,981,466 | 10,722,240 |
| Net Trading Income | 250,435 | 171,751 | 415,108 | 449,349 | 151 | 9,297 | 30,002 | (299,806) | 695,696 | 330,591 |
| Net Gain on Financial Investments | | | 190,268 | 5,773 | | | | | 190,268 | 5,773 |
| Other Operating Income (Net) | (48,117) | 153,161 | 17,558 | (146,133) | 48,540 | 163,441 | 57,520 | 389,785 | 75,501 | 560,254 |
| Inter-Segment Revenue | 891,592 | (82,867) | (2,278,087) | (1,366,654) | - | - | 1,386,495 | 1,449,521 | - | - |
| Total Operating Income | 9,543,045 | 9,404,616 | 1,533,020 | 267,443 | 73,267 | 185,987 | 1,793,599 | 1,760,812 | 12,942,931 | 11,618,858 |
| Depreciation and Amortisation Charge for the Year | 181,699 | 126,197 | 1,189 | 1,732 | 634 | 1,288 | 392,352 | 476,546 | 575,874 | 605,763 |
| Impairment Losses for the Year | 1,283,283 | 265,707 | 75,567 | 153,984 | 948 | | 2,319 | 153,984 | 1,362,117 | 573,675 |
| Operating Expenses and VAT | 5,777,729 | 5,837,978 | 50,156 | (24,143) | 29,229 | 69,603 | 1,651,335 | 1,321,130 | 7,508,449 | 7,204,568 |
| Reportable Segment Profit Before Income Tax | 2,300,334 | 3,174,734 | 1,406,108 | 135,870 | 42,456 | 115,096 | (252,407) | (190,848) | 3,496,491 | 3,234,852 |
| Income Tax Expense | | | | | | | | | 1,144,446 | 1,144,202 |
| Profit for the Year | | | | | | | | | 2,352,045 | 2,090,650 |
| Profit Attributable to: | | | | | | | | | | |
| Equity Holders of the Bank | | | | | | | | | 2,326,148 | 2,074,584 |
| Non-Controlling Interests | | | | | | | | | 25,897 | 16,066 |
| Profit for the Year | | | | | | | | | 2,352,045 | 2,090,650 |
| Other Comprehensive Income, Net of Income Tax | 5,240 | 68,384 | 766,656 | (255,678) | - | - | 808,170 | 51,887 | 1,580,066 | (135,407) |
| OTHER INFORMATION | | | | | | | | | | |
| Reportable Segment Assets | 126,111,636 | 116,595,152 | 63,274,979 | 44,317,252 | 4,810,302 | 4,955,446 | 30,284,160 | 26,206,241 | 224,481,077 | 192,074,091 |
| Segment Accumulated Amortisation | (3,533,895) | (3,062,457) | (54,695) | (52,953) | (2,026) | (6,104) | (3,381,013) | (3,655,931) | (6,971,629) | (6,777,445) |
| Total Assets | 122,577,741 | 113,532,695 | 63,220,284 | 44,264,299 | 4,808,276 | 4,949,342 | 26,903,147 | 22,550,310 | 217,509,448 | 185,296,646 |
| Reportable Segment Liabilities and Equity | 166,263,889 | 142,155,210 | 11,959,088 | 8,374,128 | 4,808,276 | 697,706 | 34,478,195 | 34,069,602 | 217,509,448 | 185,296,646 |
| Total Liabilities and Equity | 166,263,889 | 142,155,210 | 11,959,088 | 8,374,128 | 4,808,276 | 697,706 | 34,478,195 | 34,069,602 | 217,509,448 | 185,296,646 |
| Cash Flows from Operating Activities | 11,291,052 | 5,892,683 | 1,407,297 | 137,602 | 52,435 | 140,006 | 164,138 | 218,601 | 12,914,922 | 6,388,892 |
| Cash Flows from Investing Activities | 112,285 | 5,688 | (11,818,192) | 1,860,840 | (24,720) | (107,201) | (682,832) | (227,871) | (12,413,459) | 1,531,456 |
| Cash Flows from Financing Activities | - | - | 8,822,689 | (7,427,922) | (36,991) | (14,796) | (369,175) | (395,211) | 8,416,523 | (7,837,929) |
| Capital Expenditure | (407,006) | (335,221) | (881) | (1,999) | (15,063) | (1,337) | (249,152) | (59,192) | (672,102) | (397,749) |

SLFRS 8 requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters (the 'management approach').

Such operating segments are identified on the basis of internal reports that the entity's Board of Directors reviews regularly in allocating resources and in assessing their performance.

Bank reviewed the existing reporting segments and concluded that no material change is required.

Notes to the Financial Statements

52. Non-Uniform Accounting Policies

The impact of non-uniform accounting policies adopted by Subsidiary company has been adjusted in the Consolidated Financial Statements as set out below:

Adjustment due to Different Accounting Policies of the Parent and the Group Entity Seylan Developments PLC (SD)

Seylan Bank PLC accounted investment properties at cost, whereas Seylan Developments PLC accounts investment properties at fair value.

Seylan Towers (East Towers) owned by Seylan Developments PLC is rented out to Seylan Bank PLC and is occupied by the Bank.

Therefore, the land & building does not qualify as investment property in the Consolidated Accounts.

The land is treated as Leasehold Rights and the building as a property in the Consolidated Financial Statements and have been depreciated accordingly (LKAS 40).

| | Rs. '000s | Group Impact Rs. '000s | Non-Controlling Interest Impact Rs. '000s |
|---|-----------------|---------------------------|---|
| Adjustments to Revaluation Gain/(Loss) on Investment Properties and its Deferred Tax Impact | | | |
| Reversal of Revaluation Loss recognised in the Statement of Comprehensive Income by SD in 2013 | 176,072 | 91,258 | 84,814 |
| Reversal of Deferred Tax recognised in the Statement of Comprehensive Income by SD in 2013 | (101,752) | (52,738) | (49,014) |
| Gain on Revaluation of East Tower in 2013 adjusted to Revaluation Reserves in Consolidated Financial Statements | 927,799 | 480,878 | 446,921 |
| Deferred Tax on Revaluation Gain of East Tower in 2013 recognised in Consolidated Financial Statements | (259,784) | (134,646) | (125,138) |
| Impairment Cost on Moratuwa Property of SD adjusted in Consolidated Financial Statements | (948) | (491) | (457) |
| | 741,387 | 384,261 | 357,126 |
| Charging of Depreciation | | | |
| Charges Depreciation Adjusted to Consolidated Statement of Comprehensive Income for 2013 | (35,419) | (18,358) | (17,061) |
| | (35,419) | (18,358) | (17,061) |

Notes to the Financial Statements

53. Comparative Information

The following comparative figures have been restated in the 2013 Financial Statements due to the adoption of LKAS 19 (Revised) - 'Employee Benefits' to maintain comparability of Financial Statements in order to provide a better presentation as required by LKAS 8 - 'Accounting Policies, Changes in Accounting Estimates and Errors'.

53.1 Defined Benefit Obligations

Bank

| | Note | For 2012 | | | For 2011 | | |
|---|--------|-------------------------------------|---------------------------------|------------------------|-------------------------------------|---------------------------------|------------------------|
| | | As Disclosed in 2012 Rs. '000 | Restated in 2013 Rs. '000 | Adjustment Rs. '000 | As Disclosed in 2012 Rs. '000 | Restated in 2013 Rs. '000 | Adjustment Rs. '000 |
| Other Liabilities | 40 | | | | | | |
| Provision for Defined Benefit Obligations | | (77,039) | 29,136 | 106,175 | (60,092) | 129,538 | 189,630 |
| Personnel Expenses | 14 | | | | | | |
| Provision for Defined Benefit Obligations | | 88,797 | 73,726 | 15,071 | | | |
| Other Comprehensive Income | | | | | | | |
| Actuarial Gain on Defined Benefit Obligations | 40.1.8 | - | 68,384 | 68,384 | | | |
| Impact to Total Comprehensive Income | | | | 83,455 | | | |
| Group | | | | | | | |
| Other Liabilities | 40 | | | | | | |
| Provision for Defined Benefit Obligations | | (80,641) | 25,534 | 106,175 | (60,318) | 129,312 | 189,630 |
| Personnel Expenses | 14 | | | | | | |
| Provision for Defined Benefit Obligations | | 85,421 | 74,186 | 11,235 | | | |
| Other Comprehensive Income | | | | | | | |
| Actuarial Gain on Defined Benefit Obligations | 40.1.8 | - | 72,220 | 72,220 | | | |
| Impact to Total Comprehensive Income | | | | 83,455 | | | |

53.2 Reconciliation of Total Comprehensive Income for the Year 2012

| | Bank Rs. '000 | Group Rs. '000 |
|---|------------------|-------------------|
| As per the Annual Report Published for 2012 | 1,846,249 | 1,876,537 |
| Impact on Adoption of LKAS 19 (Revised) - Employee Benefits | 83,455 | 83,455 |
| Reversal of Revaluation Reserve on Property* | (4,749) | (4,749) |
| As per the Annual Report Published for 2013 | 1,924,955 | 1,955,243 |

* Reversal of Revaluation Reserve for property disposed in 2012 recognised through Other Comprehensive Income.

Notes to the Financial Statements

53.3 Reconciliation of Retained Profits at the end of Year

| | BANK | | GROUP | |
|--|------------------|------------------|------------------|------------------|
| | 2012 Rs. '000 | 2011 Rs. '000 | 2012 Rs. '000 | 2011 Rs. '000 |
| As per the Annual Report Published for 2012 | 6,245,706 | 5,198,157 | 6,170,268 | 5,109,557 |
| Provision for Defined Benefit Obligations - 2011 | (189,630) | (189,630) | (189,630) | (189,630) |
| Provision for Defined Benefit Obligations - 2012 | 83,455 | - | 83,455 | - |
| Transferred to Statutory Reserve Fund | (1,282) | (528) | (1,282) | (528) |
| Reclassification impact of Trading Portfolio * | - | - | (1,240) | 315 |
| As per the Annual Report Published for 2013 | 6,138,249 | 5,007,999 | 6,061,571 | 4,919,714 |

* Reclassification impact of Other Financial Assets Held for Trading recognised through Other Comprehensive Income in 2012 & 2011.

53.4 Statutory Reserve Fund

Bank/Group

| | Note | For 2012 | | | For 2011 | | |
|------------------------|------|-------------------------------------|---------------------------------|------------------------|-------------------------------------|---------------------------------|------------------------|
| | | As Disclosed in 2012 Rs. '000 | Restated in 2013 Rs. '000 | Adjustment Rs. '000 | As Disclosed in 2012 Rs. '000 | Restated in 2013 Rs. '000 | Adjustment Rs. '000 |
| Statutory Reserve Fund | 42 | 724,905 | 726,187 | 1,282 | 618,567 | 619,095 | 528 |



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Statement of Financial Position in US Dollars - Page 312

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Notice of Annual General Meeting - Enclosed

Form of Proxy - Enclosed

Investor Feedback Form - Enclosed

Circular to Shareholders Enclosed

Ten Years at a Glance

Year Ended 31st December

| | 2013 | 2012 | 2011 | 2010* | 2009* |
|---|-------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | (Restated) Rs.'000 |
| Trading Results | | | | | |
| Gross Income | 28,090,978 | 23,725,992 | 18,824,460 | 20,032,477 | 23,154,529 |
| Profit before Taxation | 3,454,035 | 3,199,358 | 1,180,521 | 1,997,634 | 892,572 |
| Taxation | 1,138,496 | 1,135,160 | 505,089 | 768,653 | 349,271 |
| Profit after Taxation | 2,315,539 | 2,064,198 | 675,432 | 1,228,981 | 543,301 |
| Other Comprehensive Income, Net of Income Tax | 913,330 | (139,243) | (346,147) | | |
| Total Comprehensive Income | 3,228,869 | 1,924,955 | 329,285 | | |
| Dividends Proposed (Ordinary) | Rs. 2.25 Per Share | Rs. 2.00 Per Share | Rs. 1.00 Per Share | Rs. 1.00 Per Share | Rs. 0.50 Per Share |

As at 31st December

| | 2013 | 2012 | 2011 | 2010 | 2009* |
|---|--------------------|-------------|-------------|-------------|-----------------------|
| | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | (Restated) Rs.'000 |
| Financial Position | | | | | |
| Assets | | | | | |
| Cash & Short-Term Funds (Including Securities sold under Repurchase Agreements) | 10,910,099 | 6,727,822 | 7,863,893 | 5,965,190 | 7,635,665 |
| Statutory Deposit with Central Bank of Sri Lanka | 7,505,185 | 8,028,661 | 7,070,728 | 5,453,833 | 5,084,229 |
| Investments (Including Investment Properties) | 49,351,098 | 33,878,970 | 35,032,952 | 40,341,445 | 30,286,878 |
| Loans & Receivables, Placements with Banks and Finance Companies (Including Leases & Bills of Exchange) | 137,523,060 | 124,728,371 | 106,390,440 | 89,090,809 | 80,287,805 |
| | 205,289,442 | 173,363,824 | 156,358,013 | 140,851,277 | 123,294,577 |
| Investment in Subsidiary | 800,624 | 793,254 | 793,254 | 358,916 | 860,166 |
| Other Assets (Including Income Taxation) | 5,994,169 | 6,871,112 | 5,977,144 | 6,010,469 | 5,222,510 |
| Property, Plant & Equipment, Leasehold Rights and Intangible Assets | 3,076,624 | 2,633,486 | 2,815,462 | 3,010,495 | 3,387,117 |
| | 215,160,859 | 183,661,676 | 165,943,873 | 150,231,157 | 132,764,370 |
| Liabilities | | | | | |
| Deposits from Customers and Due to Banks | 178,915,590 | 152,865,002 | 131,291,751 | 112,879,627 | 104,815,899 |
| Borrowings and Debentures | 7,829,992 | 4,896,289 | 12,202,565 | 18,183,086 | 9,164,909 |
| Other Liabilities | 5,546,916 | 6,352,349 | 4,906,438 | 6,366,369 | 8,189,922 |
| Taxation | 1,090,584 | 683,040 | 216,996 | 40,580 | - |
| Dividends | 16,159 | 13,159 | 23,535 | 22,398 | 22,668 |
| | 193,399,241 | 164,809,839 | 148,641,285 | 137,492,060 | 122,193,398 |
| Equity | | | | | |
| Stated Capital | 10,529,724 | 10,225,452 | 10,259,353 | 5,567,820 | 5,567,820 |
| Reserve Fund | 841,964 | 726,187 | 619,095 | 569,295 | 506,919 |
| Reserves | 10,389,930 | 7,900,198 | 6,424,140 | 6,601,982 | 4,496,233 |
| | 21,761,618 | 18,851,837 | 17,302,588 | 12,739,097 | 10,570,972 |
| Total Liabilities & Equity | 215,160,859 | 183,661,676 | 165,943,873 | 150,231,157 | 132,764,370 |
| Commitments and Contingencies | 35,473,070 | 31,286,844 | 36,247,216 | 30,197,078 | 22,262,562 |

*Based on SLAS applicable prior to 1st January 2012.

| 2008* (Reclassified) Rs.'000 | 2007* (Reclassified) Rs.'000 | 2006* (Restated) Rs.'000 | 2005* Rs.'000 | 2004* (Restated) Rs.'000 |
|------------------------------------|------------------------------------|--------------------------------|------------------|--------------------------------|
| 25,246,209 | 21,079,885 | 17,183,481 | 13,090,715 | 10,072,376 |
| 155,241 | 1,439,069 | 1,606,882 | 1,061,033 | 478,291 |
| - | 515,880 | 718,814 | 373,200 | 69,648 |
| 155,241 | 923,189 | 888,068 | 687,833 | 408,643 |

| | | | | |
|---|-----------------------|-----------------------|-----|-----|
| - | Rs. 1.50 Per Share | Rs. 1.50 Per Share | 20% | 16% |
|---|-----------------------|-----------------------|-----|-----|

| 2008* (Reclassified) Rs.'000 | 2007* (Reclassified) Rs.'000 | 2006* (Restated) Rs.'000 | 2005* Rs.'000 | 2004* (Restated) Rs.'000 |
|------------------------------------|------------------------------------|--------------------------------|------------------|--------------------------------|
| 6,176,265 | 26,824,927 | 21,833,056 | 17,322,763 | 12,080,206 |
| 6,857,039 | 7,915,660 | 6,913,224 | 5,908,292 | 5,050,665 |
| 26,019,989 | 1,370,762 | 333,960 | 333,755 | 649,117 |
| 104,154,125 | 97,651,377 | 93,258,926 | 81,469,381 | 62,824,649 |
| 143,207,418 | 133,762,726 | 122,339,166 | 105,034,191 | 80,604,637 |
| 948,529 | 1,093,407 | 1,048,559 | 1,029,656 | 1,095,231 |
| 5,752,780 | 4,954,206 | 3,783,353 | 4,648,548 | 3,698,682 |
| 4,137,518 | 3,690,014 | 3,135,030 | 2,896,049 | 2,785,092 |
| 154,046,245 | 143,500,353 | 130,306,108 | 113,608,444 | 88,183,642 |

| | | | | |
|-------------|-------------|-------------|-------------|------------|
| 107,938,801 | 111,299,612 | 100,078,809 | 85,833,954 | 68,301,154 |
| 26,308,876 | 14,775,780 | 13,167,204 | 13,037,404 | 6,648,055 |
| 12,762,164 | 9,901,004 | 9,860,078 | 9,998,624 | 9,296,381 |
| - | 472,306 | 817,297 | 105,420 | (187,856) |
| 16,393 | 15,416 | 14,442 | 6,763 | 21,716 |
| 147,026,234 | 136,464,118 | 123,937,830 | 108,982,165 | 84,079,450 |

| | | | | |
|-------------|-------------|-------------|-------------|------------|
| 2,542,420 | 2,542,420 | 2,542,420 | 1,544,423 | 1,565,736 |
| 479,754 | 468,250 | 422,091 | 377,688 | 343,296 |
| 3,997,837 | 4,025,565 | 3,403,767 | 2,704,168 | 2,195,160 |
| 7,020,011 | 7,036,235 | 6,368,278 | 4,626,279 | 4,104,192 |
| 154,046,245 | 143,500,353 | 130,306,108 | 113,608,444 | 88,183,642 |
| 26,874,375 | 24,335,965 | 22,924,450 | 22,942,795 | 20,983,027 |

Summary of Performance Indicators

| | Measure | 2013 | 2012 | 2011 | 2010* | 2009* |
|---|----------|---------|---------|----------|---------|---------|
| Size | | | | | | |
| Assets Growth | % | 17.15 | 10.68 | 10.46 | 12.74 | (13.82) |
| Commitments & Contingencies/(Total Assets + Commitments & Contingencies) | % | 14.15 | 14.56 | 17.93 | 10.85 | 9.27 |
| Interest Earning Assets/Total Assets | % | 92.60 | 90.32 | 92.51 | 85.92 | 85.72 |
| Cash & Reserves/Total Assets | % | 5.90 | 7.94 | 7.00 | 6.78 | 7.36 |
| Risk-Weighted Assets Growth | % | 10.18 | 9.33 | 1.21 | 10.62 | (12.08) |
| Profitability | | | | | | |
| Return on Average Assets | % | 1.16 | 1.18 | 0.42 | 0.87 | 0.38 |
| Return on Average Equity | % | 11.40 | 11.42 | 4.43 | 10.88 | 6.20 |
| Profit for the Year/(Total Assets + Commitments & Contingencies) | % | 0.92 | 0.96 | 0.33 | 0.68 | 0.35 |
| Net Interest Margin (NII/Avg. Int. Earn. Assets) | % | 5.38 | 5.64 | 5.88 | 6.66 | 5.89 |
| Net Interest Income/Total Income | % | 34.99 | 37.99 | 45.74 | 40.27 | 31.16 |
| Cost to Income Ratio** | % | 62.59 | 67.31 | 82.02*** | 68.69 | 67.82 |
| Average Interest Yield | % | 13.68 | 13.23 | 11.58 | 13.69 | 16.90 |
| Average Interest Cost | % | 9.41 | 8.68 | 6.58 | 7.68 | 11.72 |
| Interest Rate Spread | % | 4.27 | 4.55 | 5.00 | 6.01 | 5.18 |
| Interest Yield on Average Customer Advances | % | 14.56 | 14.42 | 11.99 | 13.41 | 16.09 |
| Interest Cost on Average Customer Deposits | % | 8.58 | 7.64 | 5.82 | 6.76 | 10.44 |
| Spread on Customer Deposits & Advances | % | 5.98 | 6.78 | 6.17 | 6.65 | 5.65 |
| Dividend Payout**** | % | 33.52 | 32.76 | 50.85 | 20.92 | 24.28 |
| Growth Rate of Equity | % | 15.43 | 8.95 | 35.82 | 14.48 | 50.83 |
| Earnings per Share | LKR | 6.74 | 6.11 | 2.18 | 4.60 | 2.83 |
| Ordinary Dividends per Share | LKR | 2.25 | 2.00 | 1.00 | 1.00 | 0.50 |
| Asset Quality | | | | | | |
| Impairment Allowances for Loans and Receivables | LKR Mn. | 7,615 | 8,245 | 10,194 | | |
| Impairment Allowances/Loans and Receivables | % | 5.28 | 6.20 | 8.74 | | |
| Net Assets Value per Share | LKR | 63.08 | 55.76 | 51.08 | 47.58 | 41.56 |
| Capital Adequacy | | | | | | |
| Leverage on Shareholders' Funds | Times | 8.89 | 8.74 | 8.58 | 11.37 | 11.56 |
| Leverage on Capital Funds (Including Debentures) | Times | 7.60 | 8.15 | 7.25 | 8.30 | 7.97 |
| Percentage Earnings Retained | % | 66.48 | 67.24 | 49.15 | 79.08 | 75.52 |
| Equity/Deposits, Borrowings and Securities Sold Under Repurchase Agreements | % | 11.86 | 12.04 | 12.43 | 9.75 | 9.60 |
| Equity/Total Assets | % | 10.11 | 10.26 | 10.54 | 8.06 | 7.94 |
| Equity/Loans & Receivables | % | 15.09 | 14.18 | 15.00 | 13.26 | 13.12 |
| Liquidity & Funding | | | | | | |
| Loans & Receivables/Deposits, Borrowings and Securities Sold Under Repurchase Agreements | % | 78.56 | 84.94 | 82.86 | 73.53 | 73.15 |
| Deposits/Deposits, Borrowings, Debentures and Securities Sold under Repurchase Agreements | % | 89.63 | 93.01 | 86.40 | 86.05 | 91.96 |
| Liquid Assets/Total Assets | % | 30.82 | 25.89 | 29.61 | 31.66 | 31.63 |
| Liquid Assets/Deposits, Borrowings and Securities Sold under Repurchase Agreements | % | 36.14 | 30.37 | 34.92 | 38.31 | 38.26 |
| Net Lending or (Borrowings) in Call Money Market | LKR Mn. | (9,572) | (4,707) | (5,841) | (2,096) | (1,331) |
| Other Data | | | | | | |
| Number of Banking Centres | | 151 | 147 | 133 | 122 | 117 |
| Number of Staff Members | | 3,049 | 3,061 | 3,150 | 3,622 | 3,733 |
| Profits per Staff Member | LKR '000 | 759 | 674 | 211 | 339 | 146 |
| Number of Ordinary Shares - Voting | '000 | 175,977 | 173,333 | 173,333 | 130,000 | 130,000 |
| - Non-Voting | '000 | 168,983 | 164,747 | 164,747 | 123,560 | 123,560 |
| Share Prices as at 31st December - Voting | LKR | 64.20 | 56.00 | 67.60 | 97.80 | 37.00 |
| - Non-Voting | LKR | 31.00 | 35.10 | 30.80 | 49.00 | 16.00 |

Note:

Performance indicators are computed based on the balances adjusted for SLFRS/LKAS impacts.

* Based on SLAS applicable prior to 1st January 2012.

** Cost to Income Ratio 2013, 2012 & 2011 is calculated with fair value & impairment impacts due to the adoption of SLFRS/LKAS.

*** Cost to Income Ratio of 2011 calculated excluding VRS.

**** Dividends for the year 2013 are accounted for as per the Accounting Standards - LKAS 10.

Statement of Comprehensive Income in US Dollars

| For the Year ended 31st December | BANK | | | GROUP | | |
|---|-------------------|-------------------------------|-------------|-------------------|-------------------------------|-------------|
| | 2013 US\$ '000 | 2012 US\$ '000 Restated | Change % | 2013 US\$ '000 | 2012 US\$ '000 Restated | Change % |
| Income | 215,009 | 186,452 | 15.32 | 215,433 | 186,965 | 15.23 |
| Interest Income | 191,118 | 166,083 | 15.07 | 191,171 | 166,087 | 15.10 |
| Less: Interest Expenses | 115,880 | 95,243 | 21.67 | 115,694 | 95,096 | 21.66 |
| Net Interest Income | 75,238 | 70,840 | 6.21 | 75,477 | 70,991 | 6.32 |
| Fee and Commission Income | 16,905 | 13,834 | 22.20 | 16,903 | 13,832 | 22.20 |
| Less: Fee and Commission Expenses | 622 | 516 | 20.54 | 673 | 561 | 19.96 |
| Net Fee and Commission Income | 16,283 | 13,318 | 22.26 | 16,230 | 13,271 | 22.30 |
| Net Interest, Fee and Commission Income | 91,521 | 84,158 | 8.75 | 91,707 | 84,262 | 8.84 |
| Net Trading Income | 5,324 | 2,622 | 103.05 | 5,325 | 2,598 | 104.97 |
| Net Gain on Financial Investments | 1,456 | 45 | 3,135.56 | 1,456 | 45 | 3,135.56 |
| Other Operating Income (Net) | 206 | 3,868 | (94.67) | 578 | 4,403 | (86.87) |
| Total Operating Income | 98,507 | 90,693 | 8.62 | 99,066 | 91,308 | 8.50 |
| Net Impairment Loss | 10,418 | 4,508 | 131.10 | 10,426 | 4,508 | 131.28 |
| Net Operating Income | 88,089 | 86,185 | 2.21 | 88,640 | 86,800 | 2.12 |
| Less: Operating Expenses | | | | | | |
| Personnel Expenses | 28,131 | 25,500 | 10.32 | 28,309 | 25,723 | 10.05 |
| Premises, Equipment and Establishment Expenses | 13,370 | 14,116 | (5.28) | 12,966 | 13,877 | (6.56) |
| Other Expenses | 14,421 | 16,111 | (10.49) | 14,873 | 16,463 | (9.66) |
| Operating Expenses | 55,922 | 55,727 | 0.35 | 56,148 | 56,063 | 0.15 |
| Operating Profit before Value Added Tax | 32,167 | 30,458 | 5.61 | 32,492 | 30,737 | 5.71 |
| Value Added Tax on Financial Services | 5,730 | 5,315 | 7.81 | 5,730 | 5,315 | 7.81 |
| Operating Profit after Value Added Tax | 26,437 | 25,143 | 5.15 | 26,762 | 25,422 | 5.27 |
| Income Tax Expense | 8,714 | 8,921 | (2.32) | 8,760 | 8,992 | (2.58) |
| Profit for the Year | 17,723 | 16,222 | 9.25 | 18,002 | 16,430 | 9.57 |
| Profit Attributable to: | | | | | | |
| Equity Holders of the Bank | 17,723 | 16,222 | 9.25 | 17,804 | 16,304 | 9.20 |
| Non-Controlling Interests | - | - | - | 198 | 126 | 57.14 |
| Profit for the Year | 17,723 | 16,222 | 9.25 | 18,002 | 16,430 | 9.57 |
| Basic/Diluted Earnings per Share (US\$) | 0.05 | 0.05 | - | 0.05 | 0.05 | - |
| Other Comprehensive Income, Net of Income Tax | | | | | | |
| Revaluation of Property, Plant & Equipment | 1,153 | 378 | 205.03 | 8,254 | 378 | 2,083.60 |
| Deferred Tax on Revaluation | (70) | - | - | (2,064) | - | - |
| Actuarial Gain on Defined Benefit Obligations | 40 | 537 | (92.55) | 36 | 568 | (93.66) |
| Net Change of Financial Assets Measured at Fair Value through Other Comprehensive Income: | | | | | | |
| Net Change in Fair Value on Available-for-Sale Financial Assets | 6,746 | (1,964) | 443.48 | 6,746 | (1,964) | 443.48 |
| Net Amount Transferred to Profit or Loss on Available-for-Sale Financial Assets | (878) | (45) | 1,851.11 | (878) | (45) | 1,851.11 |
| Other Comprehensive Income for the Year, Net of Tax | 6,991 | (1,094) | 739.03 | 12,094 | (1,063) | 1,237.72 |
| Total Comprehensive Income for the Year | 24,714 | 15,128 | 63.37 | 30,096 | 15,367 | 95.85 |
| Total Comprehensive Income Attributable to: | | | | | | |
| Equity Holders of the Bank | 24,714 | 15,128 | 63.37 | 27,440 | 15,226 | 80.22 |
| Non-Controlling Interests | - | - | - | 2,656 | 141 | 1,783.69 |
| Total Comprehensive Income for the Year | 24,714 | 15,128 | 63.37 | 30,096 | 15,367 | 95.85 |

Exchange rate of US\$ 1 was Rs. 130.65 as at 31st December 2013 (Rs. 127.25 as at 31st December 2012).

The Income Statement given on this page is solely for the convenience of the Shareholders, Bankers, Investors, Customers and Other Users of Financial Statements and does not form a part of the Audited Financial Statements.

Statement of Financial Position in US Dollars

| As at 31st December | BANK | | | | GROUP | | | |
|--|-------------------|-------------------------------|--------------|-------------------------------|-------------------|-------------------------------|--------------|-------------------------------|
| | 2013 US\$ '000 | 2012 US\$ '000 Restated | Change % | 2011 US\$ '000 Restated | 2013 US\$ '000 | 2012 US\$ '000 Restated | Change % | 2011 US\$ '000 Restated |
| Assets | | | | | | | | |
| Cash and Cash Equivalents | 39,649 | 51,508 | (23.02) | 39,967 | 39,650 | 51,509 | (23.02) | 39,972 |
| Balances with Central Bank of Sri Lanka | 57,445 | 63,094 | (8.95) | 62,106 | 57,445 | 63,094 | (8.95) | 62,106 |
| Placements with Banks and Finance Companies | 7,426 | - | - | - | 7,426 | - | - | - |
| Derivative Financial Instruments | 2,198 | 403 | 445.41 | 657 | 2,198 | 403 | 445.41 | 657 |
| Other Financial Assets Held for Trading | 85,602 | 19,334 | 342.75 | 46,057 | 85,662 | 19,396 | 341.65 | 46,064 |
| Securities Purchased under Resale Agreements | 43,857 | 1,363 | 3,117.68 | 29,106 | 43,857 | 1,363 | 3,117.68 | 29,106 |
| Customer Loans and Receivables | 1,045,181 | 980,184 | 6.63 | 934,479 | 1,045,181 | 980,184 | 6.63 | 934,479 |
| Financial Investments - Available-for-Sale | 107,172 | 89,258 | 20.07 | 104,406 | 107,172 | 89,258 | 20.07 | 104,406 |
| Financial Investments - Held-to-Maturity | 184,086 | 155,780 | 18.17 | 155,162 | 184,693 | 155,780 | 18.56 | 155,162 |
| Investment in Subsidiary | 6,128 | 6,234 | (1.70) | 6,968 | - | - | - | - |
| Group Balances Receivable | 115 | 477 | (75.89) | 138 | - | - | - | - |
| Property, Plant & Equipment | 22,099 | 18,794 | 17.59 | 20,828 | 34,137 | 23,905 | 42.80 | 26,772 |
| Leasehold Rights | 370 | 311 | 18.97 | 351 | 4,737 | 4,853 | (2.39) | 5,492 |
| Investment Properties | 876 | 1,867 | (53.08) | 2,087 | 7,990 | 9,457 | (15.51) | 10,773 |
| Intangible Assets | 1,080 | 1,590 | (32.08) | 3,551 | 1,080 | 1,590 | (32.08) | 3,551 |
| Current Taxation Assets | - | - | - | - | 8 | 10 | (20.00) | - |
| Deferred Taxation Assets | 1,306 | 1,990 | (34.37) | 4,480 | 1,041 | 3,785 | (72.50) | 6,514 |
| Other Assets | 42,261 | 51,127 | (17.34) | 47,226 | 42,550 | 51,577 | (17.50) | 47,514 |
| Total Assets | 1,646,851 | 1,443,314 | 14.10 | 1,457,569 | 1,664,827 | 1,456,164 | 14.33 | 1,472,568 |
| Liabilities | | | | | | | | |
| Due to Banks | 88,360 | 48,234 | 83.19 | 64,213 | 88,360 | 48,234 | 83.19 | 64,213 |
| Derivative Financial Instruments | 2,930 | 2,191 | 33.73 | 593 | 2,930 | 2,191 | 33.73 | 593 |
| Customer Deposits | 1,281,067 | 1,153,062 | 11.10 | 1,088,986 | 1,281,067 | 1,153,062 | 11.10 | 1,088,986 |
| Securities Sold under Repurchase Agreements | 35,009 | 28,879 | 21.23 | 82,655 | 35,009 | 28,879 | 21.23 | 82,655 |
| Other Borrowings | 97 | 77 | 25.97 | 62 | 97 | 77 | 25.97 | 62 |
| Group Balances Payable | 1,494 | 1,703 | (12.27) | 877 | - | - | - | - |
| Debentures | 24,824 | 9,522 | 160.70 | 24,464 | 24,824 | 9,522 | 160.70 | 24,464 |
| Current Tax Liabilities | 8,347 | 5,368 | 55.50 | 1,906 | 8,347 | 5,368 | 55.50 | 1,852 |
| Other Liabilities | 38,159 | 46,130 | (17.28) | 41,835 | 38,987 | 46,857 | (16.80) | 42,508 |
| Total Liabilities | 1,480,287 | 1,295,166 | 14.29 | 1,305,591 | 1,479,621 | 1,294,190 | 14.33 | 1,305,333 |
| Equity | | | | | | | | |
| Stated Capital | 80,595 | 80,357 | 0.30 | 90,113 | 80,595 | 80,357 | 0.30 | 90,113 |
| Statutory Reserve Fund | 6,444 | 5,707 | 12.91 | 5,438 | 6,444 | 5,707 | 12.91 | 5,438 |
| Retained Earnings | 55,182 | 48,238 | 14.40 | 43,988 | 54,708 | 47,635 | 14.85 | 43,212 |
| Other Reserves | 24,343 | 13,846 | 75.81 | 12,439 | 31,690 | 18,672 | 69.72 | 17,833 |
| Total Equity Attributable to Equity Holders of the Bank | 166,564 | 148,148 | 12.43 | 151,978 | 173,437 | 152,371 | 13.83 | 156,596 |
| Non-Controlling Interest | - | - | - | - | 11,769 | 9,603 | 22.56 | 10,639 |
| Total Equity | 166,564 | 148,148 | 12.43 | 151,978 | 185,206 | 161,974 | 14.34 | 167,235 |
| Total Liabilities and Equity | 1,646,851 | 1,443,314 | 14.10 | 1,457,569 | 1,664,827 | 1,456,164 | 14.33 | 1,472,568 |
| Commitments and Contingencies | 271,512 | 245,869 | 10.43 | 318,377 | 272,191 | 246,386 | 10.47 | 319,064 |
| Net Assets Value per Share (US\$) | 0.48 | 0.44 | 9.09 | 0.45 | 0.50 | 0.45 | 11.11 | 0.46 |

Exchange rate of US\$ 1 was Rs. 130.65 as at 31.12.2013 (Rs. 127.25 as at 31.12.2012 and Rs. 113.85 as at 31.12.2011).

The Statement of Financial Position given on this page is solely for the convenience of the Shareholders, Bankers, Investors, Customers and Other Users of Financial Statements and does not form a part of the Audited Statements.

Investor Information

Twenty Largest Shareholders as at 31st December 2013

Ordinary Voting Shares

| | 2013 | | Comparative Holdings of the Top 20 Holders in 2012 | |
|---|--------------------|-------|---|-------|
| | No. of Shares | % | No. of Shares | % |
| 1. Sri Lanka Insurance Corporation Limited [includes Sri Lanka Insurance Corporation Limited (General Fund) - 17,597,739 and Sri Lanka Insurance Corporation Limited (Life Fund) - 8,798,869] | 26,396,608 | 15.00 | 25,999,999 | 15.00 |
| 2. Brown & Company PLC A/C No. 1 | 24,416,750 | 13.87 | 24,049,888 | 13.87 |
| 3. Employees' Provident Fund | 17,525,425 | 9.96 | 15,991,444 | 9.22 |
| 4. National Development Bank PLC/Dr. T. Senthilvel | 17,070,722 | 9.70 | 17,201,683 | 9.92 |
| 5. LOLC Investments Limited | 16,808,502 | 9.55 | 16,555,954 | 9.55 |
| 6. Bank of Ceylon No. 1 Account | 13,198,305 | 7.50 | 13,000,000 | 7.50 |
| 7. Waldock Mackenzie Limited/Mr. D.S.K. Amarasekera | 11,322,734 | 6.43 | 11,152,610 | 6.43 |
| 8. Capital Trust Credit (Private) Limited/W.U.N. Gamage | 7,954,017 | 4.52 | - | - |
| 9. Bentota Backwaters (Private) Limited | 4,377,253 | 2.49 | 3,308,565 | 1.91 |
| 10. Seyfest (Private) Limited | 3,017,940 | 1.71 | 2,972,596 | 1.71 |
| 11. Sesot (Private) Limited | 2,279,042 | 1.30 | 2,244,800 | 1.30 |
| 12. Seybest (Private) Limited | 2,165,435 | 1.23 | 2,132,900 | 1.23 |
| 13. Seyshop (Private) Limited | 2,165,435 | 1.23 | 2,132,900 | 1.23 |
| 14. Esots (Private) Limited | 2,148,132 | 1.22 | 2,115,857 | 1.22 |
| 15. Ceylinco Limited | 1,706,536 | 0.97 | 1,680,896 | 0.97 |
| 16. Mr. L.H.M.S. Lansakara | 1,074,290 | 0.61 | - | - |
| 17. Mr. K.R.B. Fernando | 1,015,254 | 0.58 | 1,000,000 | 0.58 |
| 18. Sotse (Private) Limited | 977,010 | 0.56 | 962,331 | 0.56 |
| 19. Dr. J.L.B. Kotelawala | 537,602 | 0.31 | 529,525 | 0.31 |
| 20. Mr. L.W. Abeywickrama | 484,783 | 0.28 | 477,500 | 0.28 |
| Total Shares held by the Top 20 Holders - 2013 | 156,641,775 | 89.01 | - | - |
| Balance Shares held by other 9,869 Ordinary Voting Shareholders - 2013 | 19,335,626 | 10.99 | - | - |
| Total Ordinary Voting Shares | 175,977,401 | | 173,333,333 | |
| Total Ordinary Voting Shareholders | 9,889 | | 10,480 | |

Investor Information

Ordinary Non-Voting Shares

| | 2013 | | Comparative Holdings of the Top 20 Holders in 2012 | |
|--|--------------------|-------|---|-------|
| | No. of Shares | % | No. of Shares | % |
| 1. Lanka Orix Leasing Company PLC | 57,474,003 | 34.01 | 46,864,489 | 28.44 |
| 2. Employees' Provident Fund | 16,896,029 | 10.00 | 16,399,359 | 9.95 |
| 3. Browns Investments PLC | 11,998,208 | 7.10 | 11,697,418 | 7.10 |
| 4. Pershing LLC S/A Averbach Grauson & Co. | 2,986,012 | 1.77 | 2,202,933 | 1.34 |
| 5. Associated Electrical Corporation Limited | 2,850,399 | 1.69 | 2,540,000 | 1.54 |
| 6. Mr. E. Thavagnanasooriyam & Mr. E. Thavagnanasundaram | 2,699,968 | 1.60 | 2,627,407 | 1.59 |
| 7. Employees' Trust Fund Board | 1,985,355 | 1.17 | 1,722,583 | 1.05 |
| 8. Merrill J. Fernando & Sons (Private) Limited | 1,877,057 | 1.11 | 1,830,000 | 1.11 |
| 9. Mr. N. Balasingam | 1,762,693 | 1.04 | 1,718,503 | 1.04 |
| 10. Commercial Bank of Ceylon PLC/Capital Trust Holdings (Private) Limited | 1,620,726 | 0.96 | - | - |
| 11. National Savings Bank | 1,535,151 | 0.91 | 1,496,666 | 0.91 |
| 12. Seylan Bank PLC/Pubudhu Saranga Wijayakumari Rupasinghe | 1,406,460 | 0.83 | 1,178,712 | 0.72 |
| 13. Mr. N. Ganarajah | 1,169,997 | 0.69 | 1,140,666 | 0.69 |
| 14. Dr. S. Yaddehige | 1,042,330 | 0.62 | 1,016,200 | 0.62 |
| 15. Mrs. L.E.M. Yaseen | 1,000,000 | 0.59 | 1,340,000 | 0.81 |
| 16. Waldock Mackenzie Limited/Mr. L.P. Hapangama | 923,142 | 0.55 | 900,000 | 0.55 |
| 17. Mr. E. Thavagnanasooriyam | 853,598 | 0.51 | 832,199 | 0.51 |
| 18. Mr. E. Thavagnanasundaram | 772,192 | 0.46 | 752,834 | 0.45 |
| 19. Mrs. P.S.W. Rupasinghe | 730,452 | 0.43 | 712,140 | 0.43 |
| 20. Miss S. Durga | 683,808 | 0.40 | 666,666 | 0.40 |
| Total Shares held by the Top 20 Holders | 112,267,580 | 66.44 | - | - |
| Balance Shares held by other 8,846 Ordinary Non-Voting Shareholders | 56,715,429 | 33.56 | - | - |
| Total Ordinary Non-Voting Shares | 168,983,009 | | 164,746,666 | |
| Total Ordinary Non-Voting Shareholders | 8,866 | | 9,614 | |

Investor Information

Shareholdings of Directors as at 31st December 2013

Directors' shareholdings as at 31st December 2013 are given on page 176 of the Annual Report of the Board of Directors.

Shareholding of the Chief Executive Officer

Mr. K.P. Ariyaratne

| As at 31st December 2013 | As at 31st December 2012 |
|------------------------------------|---|
| 21,117 Ordinary Voting Shares | 20,800 Ordinary Voting Shares |
| 118,367 Ordinary Non-Voting Shares | 37 Ordinary Voting Shares (joint holding) |
| | 115,400 Ordinary Non-Voting Shares |

Ordinary Shares (Quoted)

| | Voting (SEYB-N) | | Non-Voting (SEYB-X) | |
|-------------------------------------|--------------------|-------------|---------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| No. of Shares Issued | 175,977,401 | 173,333,333 | 168,983,009 | 164,746,666 |
| Dividend - Proposed (Rs. per Share) | | 2.00 | | 2.00 |
| Share Prices | | | | |
| Highest (Rs.) | 74.00 | 72.00 | 41.20 | 37.00 |
| Lowest (Rs.) | 55.00 | 49.00 | 29.20 | 21.20 |
| Last Traded (Rs.) | 64.20 | 56.00 | 31.00 | 35.10 |
| Percentage of Public Holding (%) | 61.55 | 61.53 | 65.91 | 71.48 |

Analysis of the Distribution of Shareholders as at 31st December 2013

| Range of Shareholding | Ordinary (Voting) Shares | | | Ordinary (Non-Voting) Shares | | |
|-----------------------|--------------------------|--------------------|--------------------------------|------------------------------|--------------------|--------------------------------|
| | No. of Shareholders | No. of Shares | Percentage of Shareholding (%) | No. of Shareholders | No. of Shares | Percentage of Shareholding (%) |
| 1 - 1,000 | 7,159 | 1,620,522 | 0.92 | 4,037 | 1,331,802 | 0.79 |
| 1,001 - 10,000 | 2,417 | 6,238,957 | 3.55 | 3,826 | 11,183,302 | 6.62 |
| 10,001 - 100,000 | 266 | 6,575,946 | 3.74 | 874 | 21,892,682 | 12.96 |
| 100,001 - 1,000,000 | 29 | 6,899,596 | 3.92 | 115 | 27,270,835 | 16.14 |
| 1,000,001 & Above | 18 | 154,642,380 | 87.88 | 14 | 107,304,388 | 63.50 |
| Total | 9,889 | 175,977,401 | 100.00 | 8,866 | 168,983,009 | 100.00 |

Resident/Non-Resident

| | | | | | | |
|--------------|-------|-------------|-------|-------|-------------|-------|
| Resident | 9,735 | 174,458,557 | 99.14 | 8,766 | 159,721,702 | 94.52 |
| Non-Resident | 154 | 1,518,844 | 0.86 | 100 | 9,261,307 | 5.48 |

Individuals/Institutions

| | | | | | | |
|------------------------|-------|-------------|-------|-------|-------------|-------|
| Individuals | 9,601 | 18,316,579 | 10.41 | 8,538 | 55,977,074 | 33.13 |
| Companies/Institutions | 288 | 157,660,822 | 89.59 | 328 | 113,005,935 | 66.87 |

Investor Information

Debentures 2008/2013

(Listed on CSE in January 2009)

| (SEYB D141, D142, D143 & D144) | Monthly Interest (20.50%) | | Annual Interest (21.50%) | | Floating Rate of Interest Payable Quarterly | | Floating Rate of Interest Payable Annually | |
|--------------------------------|---------------------------|-------|--------------------------|--------|---|------|--|------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| No. of Debentures Issued | 3,954,450 | | 2,316,100 | | 1,200 | | 33,900 | |
| Debenture Prices: | | | | | | | | |
| Highest (Rs.) | 100.00 | 99.35 | 100.00 | 100.00 | Not traded in | | Not traded in | |
| Lowest (Rs.) | 100.00 | 95.00 | 100.00 | 100.00 | 2012 and 2013 | | 2012 and 2013 | |
| Last Traded (Rs.) | 100.00 | 95.02 | 100.00 | 100.00 | | | | |

Debentures 2013/2018

(Listed on CSE in February 2013)

| (SEYB D180, D179, D178) | Monthly Interest (14.50%) | | Semi-Annual Interest (15.00%) | | Annual Interest (15.5%) | |
|--------------------------|---------------------------|------|-------------------------------|------|-------------------------|------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| No. of Debentures Issued | 660,700 | | 8,430,200 | | 10,909,100 | |
| Debenture Prices: | | | | | | |
| Highest (Rs.) | Not | N/A | Not | N/A | 106.00 | N/A |
| Lowest (Rs.) | traded | N/A | traded | N/A | 100.00 | N/A |
| Last Traded (Rs.) | in 2013 | N/A | in 2013 | N/A | 100.00 | N/A |

| | 2013 | 2012 |
|--|--------|--------|
| Debt/Equity Ratio | 0.15 | 0.06 |
| Interest Cover | 8.48 | 9.72 |
| Quick Asset Ratio | 0.81 | 0.78 |
| 2008/2013 Issue | | |
| Interest Yield as at Date of Last Trade | | |
| Annual Interest (14.10.2013)/(23.01.2012) | 21.50% | 21.50% |
| Monthly Interest (14.10.2013)/(04.07.2012) | 22.54% | 23.73% |
| Floating Quarterly Interest | * | * |
| Floating Annual Interest | * | * |
| Yield to Maturity of Trade Done on | | |
| Annual Interest (14.10.2013)/(23.01.2012) | 18.49% | 21.46% |
| Monthly Interest (14.10.2013)/(04.07.2012) | 20.50% | 24.51% |
| Floating Quarterly Interest | * | * |
| Floating Annual Interest | * | * |
| Interest Rate of Comparable Government Security | 8.33% | 12.77% |
| 2013/2018 Issue | | |
| Interest Yield as at Date of Last Trade | | |
| Annual Interest (14.10.2013) | 15.50% | |
| Semi Annual Interest | * | |
| Monthly Interest | * | |
| Yield to Maturity of Trade Done on | | |
| Annual Interest (14.10.2013) | 15.41% | |
| Semi Annual Interest | * | |
| Monthly Interest | * | |
| Interest Rate of Comparable Government Security | 10.55% | |

* No Trading During the Period

Branch Network

A

Akkaraipattu ●

Zakir City, Pothuvil Road,
Akkaraipattu
Branch : 067-2279781/
067-2279782
Fax : 067-2279783
E-mail : akp@seylan.lk

Akuressa ●

No. 119, Deniyaya Road,
Akuressa
Branch : 041-2284951/
041-2284952
Fax : 041-2284950
E-mail : aku@seylan.lk

Ambalangoda ●

No. 24A, Galle Road,
Ambalangoda
Branch : 091-2258010/
091-2258710
Manager: 091-2256154
Fax : 091-2258011
Email : amb@seylan.lk

Ambalantota ●

No. 154, Tissa Road,
Ambalantota
Branch : 047-2225482/
047-2225483
Fax : 047-2225484
E-mail : abt@seylan.lk

Ampara ●

No. 129, D.S. Senanayake
Street, Ampara
Branch : 063-2224897/
063-2224898
Manager: 063-2224899
Fax : 063-2224897/8
Email : amp@seylan.lk

Anuradhapura ●

No. 250, Maithreepala
Senanayaka Mawatha,
Anuradapura
Branch : 025-2224649/
025-2224547
Manager: 025-4580940
Fax : 025-2223116
Email : anp@seylan.lk

Aralaganwila ●

No. 14/82, Kolongas Junction,
Aralaganwila
Branch : 027-2257274
Fax : 027-2257273
Email : arl@seylan.lk

Attidiya ●

No. 214, Main Road, Attidiya,
Dehiwela
Branch : 011-272969/
011-2738453
Manager: 011-4203565
Fax : 011-2722967
Email : atd@seylan.lk

Avissawella ●

No. 71, Ratnapura Road,
Avisawella
Branch : 036-2222007/
036-2232265
Manager: 036-5673333
Fax : 036-2222009
Email : awl@seylan.lk

B

Badulla ●

No. 10, Cocowatta Road,
Badulla
Branch : 055-2222073/
055-2223414/
055-2223773
Manager: 055-4499524
Fax : 055-2222884
Email : bdl@seylan.lk

Baduraliya

No. 92, Ratnapura Road,
Baduraliya
Branch : 034-2246716
Fax : 034-2246733
Email : bdr@seylan.lk

Balangoda ●

No. 123, Barns Ratwatte
Mawatha, Balangoda
Branch : 045-2288577/
045-2288028
045-2287107
Manager: 045-2287007
Fax : 045-2287344
Email : bal@seylan.lk

Bandaragama ●

No. 17A, Horana Road,
Bandaragama
Branch : 038-2290706/
038-2290460
Manager: 038-4290263
Fax : 038-2291125
Email : bdg@seylan.lk

Bandarawela ●

No. 240, Badulla Road,
Bandarawela
Branch : 057-2223144
Manager: 057-2231085
Fax : 057-2222964
Email : bdw@seylan.lk

Battaramulla ●

No. 119A, Pannipitiya Road,
Battaramulla
Branch : 011-2876102/
011-2876103
Fax : 011-2876104
E-mail : bml@seylan.lk

Batticaloa ● ●

No. 06, Lloyds Avenue,
Batticaloa
Branch : 065-2224419/
065-2226395
Manager: 065-2224587
Fax : 065-2224353
Email : bcl@seylan.lk

Beliatta ●

No. 73, Tangalle Road,
Beliatta
Branch : 047-2243441/
047-2243619
Manager: 047-2251478
Fax : 047-2243461
Email : blt@seylan.lk

Beruwala ●

No. 82, Galle Road, Beruwala
Branch : 034-2279887
Fax : 034-2279888
Email : brw@seylan.lk

Bogawantalawa

No. 79, Main Street,
Bogawantalawa
Branch : 052-2267576/
052-2267578
Manager: 052-3538295
Fax : 052-2267578
Email : bgw@seylan.lk

Boralesgamuwa ●

No. 24, Kesbewa Road,
Boralesgamuwa
Branch : 011-2509824/
011-2517548/
011-2517549
Manager: 011-5525054
Fax : 011-2509526
Email : bor@seylan.lk

Borella ●

No. 1119, Maradana Road,
Borella
Branch : 011-2681191/
011-2678190/
011-2681192
Manager: 011-2678189
Fax : 011-2681194
Email : bla@seylan.lk

Bowatta ●

No. 476/2, Kurunegala Road,
Bowatta, Bingiriya
Branch : 032-2245771
Fax : 032-2245772
E-mail : bwt@seylan.lk

C

Chankanai ●

Mallakkam Junction, Main
Street, Chankanai
Branch : 021-3205965
Fax : 021-2250025
E-mail : ckn@seylan.lk

Chavakachcheri ●

No. 179, 181, 183 and 185,
Kandy Road, Chavakachcheri
Branch : 021-2270525/
021-2270526
Fax : 021-2270527
Email : cha@seylan.lk

Chenkalady ●

Main Street, Chenkalady
Branch : 065-3063525/
065-3063526
Fax : 065-2241511
Email : cnk@seylan.lk

Chilaw ●

No. 46, Kurunegala Road,
Chilaw
Branch : 032-222121/
032-4860550
Manager: 032-4860550
Fax : 032-2223279
Email : chw@seylan.lk

Colombo Fort Branch ●

No. 69, Janadhipathi Mawatha,
Colombo 01
Branch : 011-2445840/
011-2445841/
011-2445842
Manager: 011-4714655
Fax : 011-2447990
E-mail : csb@seylan.lk

Cinnamon Gardens ●

No. 4, Baptist Chapel Road,
Colombo 07
Branch : 011-2694966/
011-4718348
Manager: 011-2683726
Fax : 011-2683725/
Email : cgd@seylan.lk

● Indicates No. of ATMs

Branch Network

Colombo South ●

No. 30, Galle Road, Wellawatte,
Colombo 06
Branch : 011-2593405/
011-2593407
Manager: 011-4510030
Fax : 011-2593406
Email : cls@seylan.lk

D

Dambulla ●

No. 601, Anuradhapura Road,
Dambulla
Branch : 066-2283027/
066-2283367
Fax : 066-2283023
E-mail : dbl@seylan.lk

Dam Street ●

No. 203, Dam Street,
Colombo 11
Branch : 011-4718344/
011-4718345
Fax : 011-2347138
Email : dst@seylan.lk

Dehiattakandiya ●

No. 83/84, Main Street,
Dehiattakandiya
Branch : 027-2250034/
027-2250268-9
Manager: 027-2250267
Fax : 027-2250268
Email : dky@seylan.lk

Dehiwala ●

No. 166D, Galle Road,
Dehiwala
Branch : 011-2738843/
011-2726395/
011-4201756
Manager: 011-4201757
Fax : 011-2739128
Email : deh@seylan.lk

Dummalasuriya ●

No. 128, Main Street,
Dummalasuriya
Branch : 032-2242221/
032-2242223
Fax : 032-2242224
Email : dum@seylan.lk

E

Embilipitiya ●

New Town Road,
Embilipitiya
Branch : 047-2230340/
047-2230341
Manager: 047-4379635
Fax : 047-2230342
Email : emb@seylan.lk

Eppawala ●

114B, Thalawa Road, Eppawala
Branch : 025-2249923
Fax : 025-2249922
Email : epw@seylan.lk

F

Foreign Employment

Bureau (EBC) ●

No. 109, Main Street,
Battaramulla
Branch : 0113-301114
Email : ebc@seylan.lk

G

Galenbindunuwewa ●

Kahatagasdigiliya Road,
Galenbindunuwewa
Branch : 025-2258778
Fax : 025-2258777
Email : gln@seylan.lk

Galle ● ●

No. 34, 1st Cross Street,
Talbot Town, Galle
Branch : 091-2223514/
091-2234542/
091-2232242
Manager: 091-5454647
Fax : 091-2234642/
091-2223799
Email : gle@seylan.lk

Gampaha ●

No. 1J, Baudhdhaloka Mawatha,
Gampaha
Branch : 033-2226511/
033-2222618
Manager: 033-2230717
Fax : 033-2222934
Email : gam@seylan.lk

Gampola ●

No. 44, Kandy Road,
Gampola
Branch : 081-2352741/
081-2354742/
081-2354242
Manager: 081-4485435
Fax : 081-2352740
Email : gmp@seylan.lk

Ganemulla ●

No. 4/2, Kirindiwita Road,
Ganemulla
Branch : 033-2260738
Manager: 033-2260230
Fax : 033-2260737
Email : gnm@seylan.lk

Godagama ●

No. 157/A, High Level Road,
Godagama
Branch : 011-2895741/
011-2895742
Fax : 011-2895743
Email : gdm@seylan.lk

Gothatuwa ●

No. 31, Gothatuwa New Town,
Angoda
Branch : 011-2418883
Fax : 011-2567661
E-mail : ktw@seylan.lk

Grandpass ●

No. 401, Prince of Wales
Avenue,
Colombo 14
Branch : 011-2331726/
011-2331727/
011-4610175
Manager: 011-2451061
Fax : 011-2440117
Email : gnp@seylan.lk

H

Hambantota ●

No. 57A, Tissa Road,
Hambantota
Branch : 047-2220507
Manager: 047-2220518
Fax : 047-2220519
Email : hbt@seylan.lk

Hasalaka ●

No. 95/96, Co-operative
Building, Kandy Road,
Hasalaka
Branch : 055-2258324
Fax : 055-2258324
Email : hsk@seylan.lk

Hatton ●

No. 42, Dunbar Road,
Hatton
Branch : 051-2222347/
051-2222234
Manager: 051-2220518
Fax : 051-2222682
Email : htn@seylan.lk

Havelock Town ●

No. 164, 166, Havelock Road,
Colombo 05
Branch : 011-2596550/
011-4514649/
011-2554674
Manager: 011-2597497
Fax : 011-2597498
Email : hvl@seylan.lk

Hingurakgoda ●

No. 13, 14, Airport Road,
Hingurakgoda
Branch : 027-2246242
Manager: 027-2246087
Fax : 027-2246043
Email : hng@seylan.lk

Homagama ● ●

No. 94, High Level Road,
Homagama
Branch : 011-2894846/
011-2855065/
011-4442021
Manager: 011-4442022
Fax : 011-2855066
Email : hmg@seylan.lk

Horana ●

No. 160/1/1, Ratnapura
Road, Horana
Branch : 034-2261176/
034-2262963/
034-4285853
Manager: 034-2261018
Fax : 034-2263518
Email : hor@seylan.lk

I

Ingiriya

No. 23, Central Building,
Padukka Road, Ingiriya
Branch : 034-2269754
Fax : 034-2269900
Email : ing@seylan.lk

J

Ja-Ela ●

No. 165, 165/2 Colombo Road,
Ja-Ela
Branch : 011-2237421/
011-4030556
Manager: 011-5858171
Fax : 011-2237416
Email : jla@seylan.lk

Jaffna ●

No. 560-562, Hospital Road,
Jaffna
Branch : 021-2223047/
021-2223755
Manager: 021-2228224
Fax : 021-2223047/
021-2223755
Email : jfn@seylan.lk

● Indicates No. of ATMs

Branch Network

K

Kadawatha ●

No. 28B, Ganemulla Road,
Kadawatha
Branch : 011-2925594/
011-2925595/
011-2925914
Manager: 011-4816821
Fax : 011-2925596
Email : kdw@seylan.lk

Kaduruwela ●

No. 824A, Main Street,
Kaduruwela
Branch : 027-2225319/
027-2225320
Fax : 027-22235321
E-mail : kdr@seylan.lk

Kalavanchikudi ●

No. 225, Main Street,
Kalavanchikudi
Branch : 065-2251536
Fax : 065-2251535
Email : kwk@seylan.lk

Kalmunai ●

No. 159, Batticaloa Road,
Kalmunai
Branch : 067-2225842
Manager: 067-2225841
Fax : 067-2225843
Email : kmn@seylan.lk

Kalpitiya

No. 27, Main Street,
Kalpitiya
Branch : 032-2260012
Fax : 032-2260012
E-mail : klp@seylan.lk

Kalubowila ●

No. 32,
S. De S. Jayasinghe Mawatha,
Kalubowila, Dehiwala
Branch : 011-2822944/
011-2822945
Manager: 011-2822971
Fax : 011-2822870
Email : kal@seylan.lk

Kalutara ●

No. 338, Main Street,
Kalutara
Branch : 034-2225035/
034-2225036
Manager: 034-5081841
Fax : 034-2223033
Email : klt@seylan.lk

Kamburupitiya ●

No. 5, Akuressa Road,
Kamburupitiya
Branch : 041-2292555/
041-3401070
Fax : 041-2293555
Email : kmb@seylan.lk

Kandy ● ●

No. 65, Kings Street,
Kandy
Branch : 081-2232767/
081-2233833-4/
081-2233763
Manager: 081-2233484
Fax : 081-2232322/
081-2234805
Email : kdy@seylan.lk

Kantale ●

No. 189, Agrabodhi Mawatha,
Kantale
Branch : 026-2234478
Fax : 026-2234479
Email : kan@seylan.lk

Kataragama ●

No. 1, New Town, Kataragama
Branch : 047-5677165/
047-2236248
Fax : 047-2236247
Email : ktr@seylan.lk

Kattankudy ●

No. 230, Main Street,
Kattankudy
Branch : 065-2247456
Manager: 065-2246625
Fax : 065-2246696
Email : kky@seylan.lk

Katugastota ●

No. 444/C, Kandy Road,
Katugastota
Branch : 081-2212870
Fax : 081-2212871
Email : ktu@seylan.lk

Katunayake ● ●

No. 32, Dhammaloka Mawatha,
Averiyawatte, Katunayake
Branch : 011-2252566/
011-4831911
Manager: 011-2251462
Fax : 011-2252567
Email : knk@seylan.lk

Katuneriya ●

No. 99/1, Chilaw Road,
Katuneriya
Branch : 031-2255209/
031-2257765
Manager: 031-2257764
Fax : 031-2253149
Email : ktn@seylan.lk

Kegalle ●

No. 112, Colombo Road,
Kegalle
Branch : 035-2222007/
035-2223538
Manager: 035-2222100
Fax : 035-2222006
Email : keg@seylan.lk

Kekirawa ●

No. 6, Yakalla Road,
Kekirawa
Branch : 025-2264590-1
Manager: 025-2263215
Fax : 025-2264592
Email : kkw@seylan.lk

Kilinochchi ●

No. 77, 79, Kandy Road,
Kilinochchi
Branch : 021-2285310
Fax : 021-2285311
Email : kln@seylan.lk

Kiribathgoda ●

No. 173, Kandy Road,
Kiribathgoda
Branch : 011-2910581/
011-2912378/
011-2908113
Manager: 011-2936902
Fax : 011-2912379
Email : kbg@seylan.lk

Kirindiwela ●

No. 89, Gampaha Road,
Kirindiwela
Branch : 033-2269709/
033-4923886
Fax : 033-2269709
Email : krn@seylan.lk

Kirulapone ●

No. 280B, High Level Road,
Colombo 06
Branch : 011-2829054
Fax : 011-2768432
Email : krp@seylan.lk

Kochchikade ●

No. 66, Chilaw Road,
Kochchikade
Branch : 031-2277661
Manager: 031-2277580
Fax : 031-2277341
Email : kch@seylan.lk

Koggala ●

No. 9, Export Processing Zone,
Koggala, Habaraduwa
Branch : 091-2283389/
091-2283390
Fax : 091-2283390
Email : kgg@seylan.lk

Kollupitiya ●

No. 428, R.A. De Mel Mawatha,
Colombo 03
Branch : 011-2576911-3/
011-5665172/
011-2564080/4
Manager: 011-2576910
Fax : 011-2576914/
011-2577913
Email : kpy@seylan.lk

Kotagala ●

No. 190, Wootan Bazaar,
Kotagala
Branch : 051-2244062
Fax : 051-2244044
Email : ktg@seylan.lk

Kotahena ●

No. 310/2, George R. De Silva
Mawatha, Colombo 13
Branch : 011-2447041/
011-2337911
Fax : 011-2399660
Email : kth@seylan.lk

Kotiyakumbura

No. 5, Main Street,
Kotiyakumbura
Branch : 035-2289035
Fax : 035-2289067
Email : ktk@seylan.lk

Kottawa ●

No. 34, Nawasiri Building,
High Level Road, Kottawa
Branch : 011-2842681-3/
011-2846720
Manager: 011-4304784
Fax : 011-2851292
Email : kot@seylan.lk

Branch Network

Kuliyaipitiya •

No. 137, Hettipola Road,
Kuliyaipitiya
Branch : 037-2281450/
037-2281510
Manager: 037-4696450
Fax : 037-2281451
Email : kul@seylan.lk

Kurunegala ••

No. 54, Colombo Road,
Kurunegala
Branch : 037-2223581-2,
037-2224276
Fax : 037-2224277
Email : kgl@seylan.lk

M**Maharagama •**

No. 134B, High Level Road,
Maharagama
Branch : 011-2841997/
011-2850648
Manager: 011-2841999
Fax : 011-2850649
Email : mhg@seylan.lk

Mahiyanganaya •

No. 13, Kandy Road, South
Mahiyanganaya
Branch : 055-2258112/
055-2258113
Fax : 055-2258114
E-mail : mh@seylan.lk

Malabe •

No. 11, Athurugiriya Road,
Malabe
Branch : 011-2561415/
011-2560403/
011-4547400
Manager: 011-2560515
Fax : 011-2561414
Email : mlb@seylan.lk

Manampitiya •

9B, Main Street,
Manampitiya
Branch : 027-3279171
Fax : 027-2224455
Email : mnp@seylan.lk

Manipay •

No. 103, Jaffna Road, Manipay
Branch : 021-2255526
Fax : 021-2255527
Email : mpy@seylan.lk

Mannar •

No. 54, Main Street,
Word No. 5, Mannar
Branch : 023-2223241/
023-2223242
Fax : 023-2223243
Email : mnr@seylan.lk

Maradana •

No. 250, Sri Sangaraja Mawatha,
Colombo 10
Branch : 011-2473281/
011-2334185
Manager: 011-2473773
Fax : 011-2473280
Email : mdn@seylan.lk

Marandagahamulla •

No. 150, Divulapitiya Road,
Marandagahamulla
Branch : 031-2246377
Manager: 031-2246096
Fax : 031-2246378
Email : mdg@seylan.lk

Matale •

No. 166-168, Main Street,
Matale
Branch : 066-2232936/
066-2232934/
066-223241
Manager: 066-4460123
Fax : 066-2232935
Email : mtl@seylan.lk

Matara •

No. 45, Dharmapala Road,
Matara
Branch : 041-2221181/
041-2222393/
041-2227167
Manager: 041-2221182
Fax : 041-2223064
Email : mtb@seylan.lk

Mathugama •

No. 121, Agalawatta Road,
Mathugama
Branch : 034-2247544/
034-2247545
Manager: 034-4931350
Fax : 034-2247091
Email : mtg@seylan.lk

Mawanella •

No. 21, Court Road,
Mawanella
Branch : 035-2246007/
035-2247899
Manager: 035-2246988
Fax : 035-2246989
Email : mwn@seylan.lk

Mawathagama •

No. 69/A, Kurunegala Road,
Mawathagama
Branch : 037-2298666
Fax : 037-2296366
Email : mwg@seylan.lk

Medawachchiya •

Jaffna Road, Medawachchiya
Branch : 025-2245383
Fax : 025-2245383
E-mail : mdw@seylan.lk

Meegoda

Meegoda Economic Centre
Complex,
Old Road, Meegoda
Branch : 011-2830820
Manager: 011-2830817
Fax : 011-2830820
Email : meg@seylan.lk

Millennium •••

No. 90, Galle Road,
Colombo 03
Branch : 011-2456145
Manager: 011-2456135
Fax : 011-2452506
Email : mln@seylan.lk

Minuwangoda •

No. 40, Cargills Building,
Colombo Road, Minuwangoda
Branch : 011-2299004
Fax : 011-2299005
Email : mng@seylan.lk

Mirigama •

No. 70/1, Giriulla Road,
Mirigama
Branch : 033-2273001
Manager: 033-2273002
Fax : 033-2273000
Email : mrg@seylan.lk

Moneragala •

No. 94/3, New Bus Stand,
Moneragala
Branch : 055-2276212/
055-2276221
Fax : 055-2276164
E-mail : mgl@seylan.lk

Moratumulla •

No. 242, (330 & 330/1),
De Soysa Road, Moratumulla,
Moratuwa
Branch : 011-2652084
Fax : 011-2652085
E-mail : mtm@seylan.lk

Moratuwa •••

No. 433, Galle Road,
Rawathawatta, Moratuwa
Branch : 011-2656902-3/
011-2655555
Manager: 011-4011244
Fax : 011-2656901
Email : mor@seylan.lk

Mount Lavinia •

No. 198, Galle Road,
Ratmalana
Branch : 011-2731266/
011-2723272
Manager: 011-4213194
Fax : 011-2723271
Email : mlv@seylan.lk

Mullaitivu •

P.W.D. Road, Mullaitivu
Branch : 021-2290065-8
Fax : 021-2290067
Email : mtu@seylan.lk

N**Narammala •**

No. 150, Kurunegala Road,
Narammala
Branch : 037-2248764/
037-2248765
Fax : 037-2248745
E-mail : nml@seylan.lk

Nawala •

No. 48/A, Narahenpita Road,
Nawala
Branch : 011-2806727/
011-4547855
Manager: 011-2507329
Fax : 011-2805779
Email : nwl@seylan.lk

Nawalapitiya •

No. 2, Baily Road,
Nawalapitiya
Branch : 054-2222056-7
Manager: 054-2222018
Fax : 054-2223832
Email : nlp@seylan.lk

Negombo •••

No. 141, Rajapakse Broadway,
Negombo
Branch : 031-2224334/
031-2224302
Manager: 031-2233054
Fax : 031-2224335
Email : neg@seylan.lk

• Indicates No. of ATMs

Branch Network

Nelliaddy ●

No. 149, Point Pedro Road,
Nelliaddy
Branch : 021-3205962-3
Manager: 021-3205961
Fax : 021-2264966
Email : nel@seylan.lk

Nittambuwa ●

No. 195/1, Colombo Road,
Nittambuwa
Branch : 033-2295270-1
Manager: 033-2295272
Fax : 033-2296650
Email : nit@seylan.lk

Nochchiyagama ●

No. 411, Puttalam Road,
Nochchiyagama
Branch : 025-2257220
Fax : 025-2257220
E-mail : nch@seylan.lk

Nugegoda ●

No. 211, High Level Road,
Nugegoda
Branch : 011-2811180-1
Manager: 011-2809955
Fax : 011-2811182/
011-4300310
Email : nug@seylan.lk

Nuwara-Eliya ●

No. 48, Park Road,
Nuwara-Eliya
Branch : 052-2223026/
052-2223593
Manager: 052-2234338
Fax : 052-2223002
Email : nly@seylan.lk

O

Old Moor Street

No. 315-317, Old Moor Street,
Colombo 12
Branch : 011-2447537/
011-2447539
Manager: 011-2446046
Fax : 011-2331774
Email : oms@seylan.lk

P

Padaviya

'Vidushi Building',
Bandaranayaka Junction,
Padaviya
Branch : 025-2253016
Fax : 025-2253016
Email : pdv@seylan.lk

Pallekelle ●

BOI, Pallekelle
Branch : 081-2423958
Fax : 081-2324135
Email : plk@seylan.lk

Panadura ●●

No. 401, Galle Road, Panadura
Branch : 038-2299172/
038-2233173
Manager: 038-2238355
Fax : 038-2235304
Email : pnd@seylan.lk

Pelmadulla ●

No. 17, Galwatta Road,
Pelmadulla
Branch : 045-2275037
Manager: 045-2275625
Fax : 045-2275527
Email : pel@seylan.lk

Pettah ●

No. 96, Main Street,
Colombo 11
Branch : 011-2337823-5/
011-4718341/
011-4716455
Manager: 011-2441471
Fax : 011-2337826/
011-2384493
Email : pet@seylan.lk

Piliyandala ●

No. 7, Old Road, Piliyandala
Branch : 011-2604982-3
Fax : 011-2604983
E-mail : ply@seylan.lk

Pitakotte ●

No. 143A, Pagoda Road,
Pitakotte
Branch : 011-2827871/
011-2827872
Fax : 011-2827873
E-mail : pkt@seylan.lk

Polonnaruwa ●

Lake View Building,
Polonnaruwa
Branch : 027-2223168-9
Manager: 027-2224590
Fax : 027-2223168/9
Email : pol@seylan.lk

Pottuvil

Main Street, Pottuvil
Branch : 063-2248515
Fax : 063-2248516
Email : pvl@seylan.lk

Pussellawa ●

No. 429, Nuwara-Eliya Road,
Pussellawa
Branch : 081-2478131/
081-2478132
Fax : 081-2478135
Email : psw@seylan.lk

Puttalam ●

No. 56, Kangani Kulam Street,
Puttalam
Branch : 032-2265194/
032-2265580
Manager: 032-2266215
Fax : 032-2265469
Email : ptl@seylan.lk

R

Raddolugama ●

No. 171, National Housing
Scheme, Raddolugama
Branch : 011-2292778
Manager: 011-2292252
Fax : 011-2292372
Email : rdl@seylan.lk

Ranpokunagama

No. 1, Maduwegedara,
Nittambuwa
Branch : 033-2282241/
033-2282242
Fax : 033-2282241
Email : rpk@seylan.lk

Ratnapura ●

No. 6, Goodshed Road,
Ratnapura
Branch : 045-2225801-2/
045-2223730
Manager: 045-5671220
Fax : 045-2222111
Email : rnp@seylan.lk

Ruwanwella ●

No. 52, Main Street,
Ruwanwella
Branch : 036-2267445-6/
036-2268047
Manager: 036-2268623
Fax : 036-2267447
Email : rwn@seylan.lk

S

Sammanthurai ●

No. 113, Hijra Junction,
1st Street, Sammanthurai
Branch : 067-2261284
Fax : 067-2261285
Email : smt@seylan.lk

Sarikkamulla ●

No. 97, Galle Road,
Sarikkamulla, Panadura
Branch : 038-4282844-5
Manager: 038-2235265
Fax : 038-2233082
Email : skl@seylan.lk

Siyambalanduwa

Ampara Junction,
Siyambalanduwa
Branch : 055-3600039
Fax : 055-3600038
Email : syb@seylan.lk

Soysapura ●

No. 5, Angulana Junction,
Katudedda, Moratuwa
Branch : 011-2622756/
011-26239393
Manager: 011-5524673
Fax : 011-2612003
Email : sys@seylan.lk

T

Talawakelle ●

No. 10, Kotmale Road,
Talawakelle
Branch : 052-2258635/
052-2258638
Fax : 052-2258639
Email : tlk@seylan.lk

Tissamaharama ●

No. 169, Kachcheriyagama,
Hambantota Road,
Tissamaharama
Branch : 047-2237161/
047-2237459
Manager: 047-2237162
Fax : 047-2237163
Email : tsa@seylan.lk

Trincomalee ●

No. 289, Central Road,
Trincomalee
Branch : 026-2227701/
026-2227965
Manager: 026-2227704
Fax : 026-2227702
Email : tco@seylan.lk

U

Udappu

Division No. 06, Main Street,
Udappu
Branch : 032-2258830
Fax : 032-2258830
Email : udp@seylan.lk

Branch Network

V

Vavuniya ●

No. 45, 2nd Cross Street,
Vavuniya
Branch : 024-2222633-4
Manager: 024-2220077
Fax : 024-2222933
Email : vny@seylan.lk

Veyangoda ●

No. 95, Negombo Road,
Veyangoda
Branch : 033-2295050
Fax : 033-2295051
Email : vng@seylan.lk

W

Warakapola ●

No. 192, Main Street,
Warakapola
Branch : 035-2267628-9
Manager: 035-2267100
Fax : 035-2267123
Email : wkp@seylan.lk

Wattala ●●

No. 276, Negombo Road,
Wattala
Branch : 011-2981548/
011-2946266
Manager: 011-4814717
Fax : 011-2931603
Email : wtl@seylan.lk

Welimada ●

No. 107, Nuwara-Eliya Road,
Welimada
Branch : 057-2245617/
057-2245395/
057-2244628
Fax : 057-2245350
Email : wlm@seylan.lk

Weliveriya ●

No. 477/20/15, Edwin Estate,
Main Street, Weliveriya
Branch : 033-2255021/
033-2255291
Manager: 033-2257710
Fax : 033-2255355
Email : wlv@seylan.lk

Wijerama ●

No. 525, High Level
Road, Wijerama Junction,
Gangodawila, Nugegoda
Branch : 011-4301878
Manager: 011-2803154
Fax : 011-4301878
Email : wjr@seylan.lk

Y

Yakkala ●

No. 184, Kandy Road,
Yakkala
Branch : 033-2222492/
033-2226378/
033-2233526
Manager: 033-2227014
Fax : 033-2233527
Email : ykl@seylan.lk

Yatiantota ●

No. 51/1/2, Ginigathena
Road, Yatiantota
Branch : 036-2271480
Fax : 036-2271481
Email : ytn@seylan.lk

Off Site ATMs

1. Arpico City Centre, Kandy
2. Arugambay Travel and Tours, Pottuvil
3. Bloomfield Grounds, Colombo 07
4. EAM Maliban Garments (Pvt) Limited, Mahiyanganaya
5. K.D.U. Filling Station, Kuruwita
6. M.D.K. Hospital, Horana
7. Reality Plaza Building, Ja-Ela
8. Smart Shirt (Pvt) Limited, Katunayake
9. Welikada Plaza, Rajagiriya

● Indicates No. of ATMs

Geographical Analysis

Deposits and Loans & Receivables

As at 31st December 2013

| Province | No. of Branches | Deposits | | Loans & Receivables | |
|--|-----------------|-----------------|-------|---------------------|-------|
| | | Rs. Mn. | %** | Rs. Mn. | %** |
| Western | 65 | 116,004 | 69.3 | 104,781 | 72.6 |
| Southern | 11 | 8,514 | 5.1 | 5,295 | 3.7 |
| Uva | 7 | 2,861 | 1.7 | 1,633 | 1.1 |
| North-Central | 12 | 3,928 | 2.3 | 2,960 | 2.1 |
| North-Western | 12 | 7,359 | 4.4 | 5,232 | 3.6 |
| Eastern | 12 | 5,030 | 3.0 | 5,488 | 3.8 |
| Northern | 9 | 3,439 | 2.1 | 4,442 | 3.1 |
| Sabaragamuwa | 10 | 9,571 | 5.7 | 7,147 | 5.0 |
| Central | 13 | 10,665 | 6.4 | 7,190 | 5.0 |
| | 151 | 167,371 | 100.0 | 144,168 | 100.0 |
| Impairment Allowance for Loans & Receivables - Individual Impairment | | - | | (3,000) | |
| Impairment Allowance for Loans & Receivables - Collective Impairment | | - | | (4,615) | |
| Total | | 167,371* | | 136,553* | |

*Deposits and Loans & Receivables net of impairment (charge) or reversal.

**Deposits and Loans & Receivables percentages are computed based on total before LFRS adjustments.

Commitments and Contingencies

As at 31st December 2013

| Province | No. of Branches | Acceptances | Stand by Letters of Credit | Guarantees | Documentary Credit | Bills for Collection | Forward Exchange Contracts (Net) | Total |
|--|-----------------|--------------|----------------------------|---------------|--------------------|----------------------|----------------------------------|---------------|
| | | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | Rs. Mn. | |
| Western | 65 | 5,958 | 338 | 6,682 | 3,179 | 825 | (177) | 16,805 |
| Southern | 11 | 62 | - | 560 | 123 | 9 | - | 754 |
| Uva | 7 | - | - | 175 | 4 | - | - | 179 |
| North-Central | 12 | 35 | - | 355 | - | 1 | - | 391 |
| North-Western | 12 | 103 | - | 601 | 160 | 44 | - | 908 |
| Eastern | 12 | - | - | 501 | 3 | 1 | - | 505 |
| Northern | 9 | - | - | 267 | - | - | - | 267 |
| Sabaragamuwa | 10 | 65 | - | 368 | 75 | 7 | - | 515 |
| Central | 13 | 122 | - | 548 | 135 | 58 | - | 863 |
| Contingencies | | 6,345 | 338 | 10,057 | 3,679 | 945 | (177) | 21,187 |
| Commitments | | | | | | | | |
| Undrawn Credit Lines and Capital Commitments | | | | | | | | 14,286 |
| Total | 151 | 6,345 | 338 | 10,057 | 3,679 | 945 | (177) | 35,473 |

GRI Content Index

| Index No. | Description | Status | Page No. |
|----------------------------------|---|--------|----------|
| 1. Strategy and Analysis | | | |
| 1.1 | Statement from the most senior decision-maker of the organisation | ✓ | 12 - 18 |
| 1.2 | Description of key impacts, risks and opportunities | ✓ | 25 |
| 2. Organisational Profile | | | |
| 2.1 | Name of the Organisation | ✓ | 5 |
| 2.2 | Primary brands, products and/or services | ✓ | 52 |
| 2.3 | Operational structure of the organisation, including main divisions, operating companies, subsidiaries and joint ventures | ✓ | 5 |
| 2.4 | Location and organisation headquarters | ✓ | 5 |
| 2.5 | Number of countries where the organisation operates and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report | ✓ | 33 |
| 2.6 | Nature of ownership and legal form | ✓ | 335 |
| 2.7 | Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries) | ✓ | 49 - 50 |
| 2.8 | Scale of the reporting organisation | ✓ | 5 |
| 2.9 | Significant changes during the reporting period regarding size, structure, or ownership | ✓ | 5 |
| 2.10 | Awards received during the period | ✓ | 44 - 45 |
| 3. Report Parameters | | | |
| 3.1 | Reporting period | ✓ | 5 |
| 3.2 | Date of most reason previous Report | ✓ | 5 |
| 3.3 | Reporting cycle | ✓ | 5 |
| 3.4 | Contact point for questions regarding the report or its contents | ✓ | 5 |
| Report Scope and Boundary | | | |
| 3.5 | Process for defining report content | ✓ | 5 |
| 3.6 | Boundary of the Report | ✓ | 5 |
| 3.7 | Any specific limitations on the scope or boundary of the Report | ✓ | 5 |
| 3.8 | Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can affect comparability from period to period and/or between organisations | ✓ | 5 |
| 3.9 | Data measurement techniques and the bases of calculations | ✓ | 5 |

GRI Content Index

| Index No. | Description | Status | Page No. |
|--|--|--------|-----------|
| 3.10 | Explanation of the effect of any restatement of information provided in earlier reports and the reasons for such restatement | ✓ | 4 |
| 3.11 | Significant changes from previous reporting in the scope, boundary or measurement methods applied in the report | ✓ | 4 |
| GRI Content Index | | | |
| 3.12 | Table identifying the location of the Standard Disclosures in the Report | ✓ | 324 - 329 |
| Assurance | | | |
| 3.13 | Policy and current practice with regard to seeking external assurance for the Report | ✓ | 182 |
| 4. Governance, Commitments and Engagement | | | |
| Governance | | | |
| 4.1 | Governance structure of the organisation | ✓ | 90 - 91 |
| 4.2 | Designators of the chair of the highest governance body | ✓ | 79 |
| 4.3 | The number and gender of members of the highest governance body that are independent and/or non-executive members | ✓ | 78 - 83 |
| 4.4 | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body | ✓ | 90 |
| 4.5 | Linkage between compensation for members of the highest governance body, senior managers and executives and the organisation's performance | ✓ | 122 - 123 |
| 4.6 | Process in place for the highest governing body to ensure conflicts of interest are avoided | ✓ | 105 |
| 4.7 | Process for determining the composition, qualifications and expertise of the members of the highest governance body and its committees including any consideration of gender and other indicators of diversity | ✓ | 124 - 125 |
| 4.8 | Internally developed statements of mission or values, codes of conducts and principles relevant to economic, environmental and social performance and the status of their implementation. | ✓ | 2 |
| 4.9 | Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental and social performance | ✓ | 184 - 185 |
| 4.10 | Processes for evaluating the highest governance body's own performance | ✓ | 124 - 125 |
| Commitments to External Initiatives | | | |
| 4.11 | Elaboration of precautionary approach | ✓ | 5 |
| 4.12 | Externally developed economic, environmental and social charters, principles and other initiatives | ✓ | 22 |
| 4.13 | Membership in industry/business associations | ✓ | 26 |
| 4.14 | List of stakeholder group engaged by the organisation | ✓ | 24 |
| 4.15 | Basis for identification and selection of stakeholders with whom to engage | ✓ | 23 |
| 4.16 | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group | ✓ | 23 |
| 4.17 | Key topics concerns raised through stakeholder engagement and the organisation's response | ✓ | 24 |

GRI Content Index

| Index No. | Description | Status | Page No. |
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| Environmental | | | |
| Materials | | | |
| EN1 | Materials used by weight or volume | ✓ | 75 |
| EN2 | Percentage of materials used that are recycled input materials | ✓ | 75 |
| Energy | | | |
| EN3 | Direct energy consumption by primary energy source | ✓ | 75 |
| EN4 | Indirect energy consumption by primary source | ✓ | 75 |
| EN5 | Energy saved due to conservation and efficiency improvements | ✓ | 75 |
| EN6 | Initiatives to provide energy-efficient or renewable energy-based products and services and reductions in energy requirements achieved | ✓ | 69 |
| EN7 | Initiatives to reduce indirect energy consumption and reductions achieved | ✓ | 69 |
| Water | | | |
| EN8 | Total water withdrawal by source | ✓ | 75 |
| EN9 | Water sources significantly affected by withdrawal of water | ✓ | 75 |
| EN10 | Percentage and total volume of water recycled and reused | ✓ | 75 |
| Biodiversity | | | |
| EN11 | Location and size of land owned, leased, managed in or adjacent to biodiversity in protected areas | ✓ | 70 |
| EN12 | Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas | ✓ | 70 |
| EN13 | Habitats protected or restored | ✗ | N/A |
| EN14 | Strategies, current action and future plans for managing impacts on biodiversity | ✓ | 70 |
| EN15 | Number of IUCN red list species and national conservation list species with habitats in areas affected by operations | ✗ | N/A |
| Emissions, Effluents and Waste | | | |
| EN16 | Total direct and indirect greenhouse gas emissions by weight | ✗ | N/A |
| EN17 | Other relevant indirect greenhouse gas emissions by weight | ✗ | N/A |
| EN18 | Initiatives to reduce greenhouse gas emissions and reductions achieved | ✗ | N/A |
| EN19 | Emissions of Ozone-depleting substances by weight | ✓ | 69 |
| EN20 | NO, SO, and other significant air emissions by type and weight | ✗ | N/A |
| EN21 | Total water discharge by quality and destination | ✓ | 75 |
| EN22 | Total weight of waste by type and disposal method | ✓ | 75 |
| EN23 | Total number of volume of significant spills | ✗ | N/A |
| EN24 | Weight of transported, imported, exported or treated waste deemed hazardous under the terms of Basel Convention Annex I, II and IV and percentage of transport waste shipped internationally. | ✗ | N/A |
| EN25 | Identity, size, protected status and biodiversity value of water bodies and related habits significantly affected by the reporting organisation's discharges of water and run off | ✗ | N/A |

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| Products and Services | | | |
| EN26 | Initiatives to mitigate environmental impact of products and services and extent of impact mitigation | ✓ | 51 |
| EN27 | Percentage of products sold and their packaging materials reclaimed | ✗ | N/A |
| Compliance | | | |
| EN28 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations | ✓ | 51 |
| Transport | | | |
| EN29 | Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations and transporting members of the workforce | ✓ | 75 |
| Overall | | | |
| EN30 | Total environmental protection expenditure and investments by type | ✓ | 75 |
| Human Rights | | | |
| Investment and Procurement Practices | | | |
| HR1 | Percentage and total number of significant investment agreements and contracts on human rights clauses/human rights screening | ✓ | 60 |
| HR2 | Percentage of significant suppliers, contractors and other business partners who have undergone human rights screening and actions taken | ✗ | N/A |
| HR3 | Total hours and percentage of employee training on policies and procedures concerning aspects of human rights relating to operations | ✓ | 63 |
| HR4 | Total number of incidents of discrimination actions taken | ✓ | 60 |
| Freedom of Association and Collective Bargaining | | | |
| HR5 | Violations/Found at Risk in operations, the right to exercise freedom of association and collective bargaining and favourable actions taken | ✓ | 60 |
| Child Labour | | | |
| HR6 | Measures taken to eliminate child labour | ✓ | 61 |
| Forced and Compulsory Labour | | | |
| HR7 | Measures taken to eliminate compulsory or forced labour | ✓ | 61 |
| Security Practices | | | |
| HR8 | Percentage of security personnel trained in organisation policies and procedures on human rights | ✗ | N/A |
| Indigenous Rights | | | |
| HR9 | Total number of violations of rights of indigenous people and actions taken | ✗ | N/A |

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| Assessment | | | |
| HR10 | Percentage and total number of operations subjected to human rights review and or impact assessments | ✓ | 61 |
| Remediation | | | |
| HR11 | Number of grievances related to human rights filed addressed and resolves through formal grievance mechanisms | ✓ | 61 |
| Labour Practices and Decent Work | | | |
| LA1 | Total workforce by employment type, employment contract and region broken down by gender | ✓ | 55 - 56 |
| LA2 | Total number and rate of employee hires and employee turnover by age group, gender and region | ✓ | 55 - 56 |
| LA3 | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operations | ✓ | 56 |
| LA15 | Return to work and retention rates after parental leave by gender | ✓ | 57 |
| Labour Management Relations | | | |
| LA4 | Percentage of employees covered by collective bargaining agreements | ✓ | 74 |
| LA5 | Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements | ✓ | 60 |
| Occupational Health and Safety | | | |
| LA6 | Percentage of total workforce represented in formal joint management worker health and safety committees that help monitor and advice on occupational health and safety programmes | ✓ | 61 |
| LA7 | Rate of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities by region and by gender | ✓ | 61 |
| LA8 | Education, training, counselling, prevention of diseases and risk-control programmes in place to assist workforce members, their families or community members regarding serious diseases | ✓ | 61 |
| LA9 | Health and safety topics covered in formal agreements with trade unions | ✓ | 61 |
| Training and Education | | | |
| LA10 | Average hours of training per year per employee by gender and employee category | ✓ | 63 |
| LA11 | Programmes for skills management and life-long learning that support the continued employability of employees and assist them in managing career endings | ✓ | 58 - 59 |
| LA12 | Percentage of employees receiving regular performance and career developments, reviews by gender | ✓ | 57 |
| Diversity and Equal Opportunity | | | |
| LA13 | Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group, membership and other indicators of diversity | ✓ | 60 - 61 |
| Equal Remuneration for Women and Men | | | |
| LA14 | Ratio of basic salary of women to men by employee category by significant locations of operation | ✓ | 56 |

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| Society | | | |
| Local Community | | | |
| S01 | Percentage of operations with implemented local community engagement, impact assessments and development programmes | ✓ | 63 |
| S09 | Operations with significant potential or actual negative impacts on local communities | ✓ | 64 |
| S010 | Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities | ✓ | 64 |
| Corruption | | | |
| S02 | Percentage and total number of business units analysed for risks related to corruption | ✓ | 64 |
| S03 | Percentage of employees trained in organisation's anti-corruption policies and procedures | ✓ | 63 |
| S04 | Actions taken in response to incidents of corruption | ✓ | 64 |
| Public Policy | | | |
| S05 | Public policy positions and participation in public policy development and lobbying | ✓ | 64 |
| S06 | Total value of financial and in-kind contributions to political parties, politicians and related institutions by country | ✓ | 64 |
| Anti-Competitive Behaviour | | | |
| S07 | Total of legal actions taken for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes | ✓ | 64 |
| Compliance | | | |
| S08 | Monitory value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations | ✓ | 64 |
| Products Responsibility | | | |
| Customer Health and Safety | | | |
| PR1 | Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services category subject to such procedures. | ✓ | 50 - 51 |
| PR2 | Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services | ✓ | 51 |
| PR3 | Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements | ✓ | 51 |
| PR4 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling | ✓ | 51 |
| PR5 | Practices related to customer satisfaction, including results of surveys measuring customer satisfaction | ✓ | 51 |
| Marketing Communications | | | |
| PR6 | Programmes for adherence to laws and voluntary codes related to marketing communications, including advertising, promotion and sponsorship | ✓ | 50 |
| PR7 | Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes | ✓ | 53 |

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| Customer Privacy | | | |
| PR8 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data | ✓ | 53 |
| Economic | | | |
| Economic Performance | | | |
| EC1 | Direct economic value generated and distributed | ✓ | 43 |
| EC2 | Financial Implications and other risks and opportunities for the organisation's activities due to climate change | ✓ | 44 |
| EC3 | Coverage of organisation's defined benefit plan obligations | ✓ | 57 |
| EC4 | Significant financial assistance received from Government | ✓ | 72 |
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| EC5 | Range of ratio of standards entry level wage by gender compared to local minimum wage at significant locations of operations | ✓ | 56 |
| EC6 | Policy, practices and promotion of spending on locally-based suppliers at significant locations of operation | ✓ | 65 |
| EC7 | Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation | ✓ | 56 |
| Indirect Economic Impacts | | | |
| EC8 | Development and impact of infrastructure investments and services provided primarily for public benefits through commercial, in-kind, or pro bono engagement | ✓ | 15 - 16 |
| EC9 | Understanding and describing significant indirect economic impacts, including the extent of impacts | ✓ | 62 - 63 |

No₂ - Nitrogen oxide

So₂ - Sulfur Dioxide

IUCN - International Union for Conservation of Nature

GHG - Green House Gas

✓ Compiled

✗ Not applicable

| | | C | C+ | B | B+ | A | A+ |
|-----------|---------------------|---|----|---|----|---|----|
| MANDATORY | SELF DECLARED | | | | ✓ | | |
| | THIRD PARTY CHECKED | | | | | | |
| OPTIONAL | GRI CHECKED | | | | | | |

Glossary

A

Acceptances

The signature on a Bill of Exchange indicates that the person on whom it is drawn accepts the conditions of the bill. In other words, a bill of exchange that has been accepted.

Accrual Basis

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

Associate Company

An associate is an entity in which the investor has significant influence and which is neither a subsidiary nor an interest in a joint venture.

B

Bills of Collection

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

BIS Surplus

The total Capital Adequacy in excess of the minimum stipulated by Basel International Standards and as modified to suit local requirements by the Central Bank of Sri Lanka.

C

Capital Adequacy

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlement (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

Capital Gain (Capital Profit)

The gain on the disposal of an asset calculated by deducting the cost of the asset from the proceeds received on its disposal.

Capital Reserves

Capital reserves consist of revaluation reserves arising from revaluation of properties owned by the Bank and Reserve Fund set aside for specific purposes defined under the Banking Act, No. 30 of 1988 and shall not be reduced or impaired without the approval of the Monetary Board.

Cash Equivalents

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

Commitments

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

Contingencies

A condition or situation, the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Corporate Governance

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

Correspondent Bank

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

Cost Income Ratio

Operating expenses as a percentage of net income.

Cost Method

A method of accounting whereby the investment is recorded at cost. The Income Statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee arising subsequent to the date of acquisition.

Cost-Push Inflation

A continuous increase in average price levels due to an increase in production costs.

Credit Ratings

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

Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the loans and advances to customers and other banks and investment debt securities.

D

Dealing Securities

These are marketable securities acquired and held with the intention to resale over a short period of time.

Deferred Tax

Sum set aside in the Financial Statements that may become payable/receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rules and accounting conventions.

Derivatives

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g., an interest rate), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

Dividend Cover

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by the current year's distributable profits.

Dividend Yield

Dividend earned per share as a percentage of its market value.

Documentary Letters of Credit (L/Cs)

Written undertakings by a bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

E

Earnings Per Share (EPS)

The profit attributable to each ordinary share in the Bank, based on the profit for the period after tax and after deducting minority interest and preference share dividends.

Economic Value Added (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

Effective Tax Rate

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

Equity Method

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

ESOP (Employee Share Ownership Plan)

A method of giving employees shares in the business for which they work.

F**Fair Value**

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

Finance Lease

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of whatever is being leased.

Foreign Exchange Income

The realised gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan Rupees on the Balance Sheet Date at prevailing rates which differ

from those rates in force at inception or on the previous Balance Sheet Date. Foreign exchange income also arises from trading in foreign currencies.

Forward Exchange Contract

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

G**General Provisions**

General provisions are established for loans and advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

Gross Dividend

The portion of profits distributed to the shareholders including the tax withheld.

Group

A group is a parent and all its subsidiaries.

Guarantees

A promise made by a third party (Guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfil the contractual obligations.

H**Hedging**

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (Interest rate, Foreign exchange rate, commodity prices, etc.).

HTM (Held-to-Maturity) Investments

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

I**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 Cover

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

Investment Securities

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

Interest Margin

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

Interest Rate SWAP

Arrangement whereby one party exchanges one set of interest payments for another.

Interest Spread

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

Interest in Suspense

Interest suspended on non-performing loans and advances.

Investment Properties

Investment property is property (land or a building - or part of a building - or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

J**Joint Control**

Joint control is the contractually agreed sharing of the control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Joint Venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

K**Key Management Personnel**

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

L**Letter of Credit (L/Cs)**

Written undertakings by a bank on behalf of its customer (typically an importer), authorising a third party (e.g., an exporter) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

Glossary

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange and Treasury Bills and Bonds.

Loan Losses and Provisions

Amounts set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

M

Market Capitalisation

The value of a company obtained by multiplying the number of issued shares by its market value as at a date.

Market Risks

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/ issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments.

Materiality

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

Minority Interest

The interest of individual shareholders, if more than 50% of which is owned by a holding company.

N

Net Asset Value Per Share

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

Net-Interest Income (NII)

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

Non-Performing Advances (NPA)

All loans are classified as non-performing when a payment is 90 days in arrears.

Non-Performing Advances Cover (NPA Cover)

Cumulative loan loss provision as a percentage of total non-performing advances (net of interest in suspense).

NPA Ratio

Total non-performing advances (net of interest in suspense) divided by total advances portfolio (net of interest in suspense).

O

Off-Balance Sheet Transactions

Transactions that are not recognised as assets or liabilities in the Balance Sheet, but which give rise to contingencies and commitments.

Open Credit Exposure Ratio

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

Operational Risk

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

P

Parent

A parent is an entity that has one or more subsidiaries.

Price-Earnings Ratio (P/E Ratio)

The current market price of the share is divided by the earnings per share of the Bank.

Provision for Bad and Doubtful Debts

A charge to Income Statement which is added to the allowance for loan losses. Specific provisions are established to reduce the book value of specific assets (primarily loans) to estimated realisable values.

Prudence

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

R

Related Parties

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

Return on Average Assets (ROA)

Net income expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

Return on Equity (ROE)

Net income, less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

Revenue Reserves

Reserves set aside for future distribution and investment.

Rights Issue

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

Risk Weighted Assets

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per Rupee among all types of assets. The risk inherent in Off-Balance Sheet instruments is also recognised, first by adjusting notional values to Balance Sheet (or credit) equivalents and then by applying appropriate risk weighting factors.

S**Securities Sold Under Repurchase Agreement (REPO)**

This relates to Treasury Bills and Bonds sold subject to a commitment to repurchase them at a predetermined price on a specified future date. securities purchased under resale agreement (reverse REPO). These are loans collateralised by the purchase of Treasury Bills and/or guaranteed commercial papers from the counterparty to which the loans are granted. The sale by the counterparty is subject to a commitment by the Bank to sell back the underlying debt securities to the borrower at a predetermined price on a specific future date.

Segmental Analysis

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

Shareholders' Funds

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

Single Borrower Limit

30% of total capital (Tier I and Tier II).

Statutory Reserve Fund

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Subsidiary Company

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

Substance Over Form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

SWAPS (Currency)

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

T**Tier I Capital (Core Capital)**

Core capital includes selected items of capital funds. Major core capital items are share capital, share premium, statutory reserve funds, retained profits, general reserves, surpluses/losses after tax arising from the sale of fixed and long-term investments.

Tier II Capital (Supplementary Capital)

Supplementary capital includes, approved revaluation reserves, general provisions, hybrid (debt/equity) capital items and approved subordinated term debts.

Total Capital

Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

V**Value Added**

Wealth created by providing banking and other 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.

Y**Yield to Maturity**

Discount rate at which the present value of future payments would equal the security's current price.

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සභාපතිතුමාගේ පණිවිඩය

ප්‍රිය කොටස්කිමියනි,

සෙලාන් බැංකුවේ 2013 දෙසැම්බර් 31 දිනෙන් අවසන් වූ මුදල් වර්ෂයට අදාළ වාර්ෂික වාර්තාව සහ මූල්‍ය ප්‍රකාශයන් ඔබට ඉදිරිපත් කිරීමට අවස්ථාව ලැබීම වරප්‍රසාදයක් හා සතුටක් ද වේ.

ඉතිහාසයේ පුරම වතාවට, ආර්ථික, සාමාජික මෙන් ම පාරිසරික කාර්ය සාධනයන් ද අන්තර්ගත කරමින්, අප බැංකුව විසින් අනුගත වූ වාර්ෂික වාර්තාවක් මෙවර ප්‍රකාශයට පත්කර ඇත. අප විසින් මෙවන් ප්‍රවේශයක් අනුගමනය කරනු ලැබුවේ, බැංකුවේ අනුගත වූ සිතුවම් පැතුම් පිළිබිඹු කරනු පිණිස සහ අපගේ මූල්‍යමය හා මූල්‍යමය නොවන කාර්ය සාධනයන් අතර පවත්නා සබඳතාවන් ඉස්මතුකරනු පිණිස ය.

කැපීපෙනෙන වසරක්

2013 අපට ඉතා භාරදුර වසරක් වූ අතර, අතිශය වැදගත් ජයග්‍රහණ රැසක් ම ලබාගත හැකි වූ වසරක් ද වූයේය. බැංකුවේ විසිපස් වන සංවර්ධනය අප සැමරූ අතර, එම විසිපස් වසරක ඉතිහාසය තුළ අප ඉපැයූ ඉහළ ම ලාභය මෙම වර්ෂය තුළ දී වාර්තා කරන්නට අපට හැකි විය. මෙම විශිෂ්ට මූල්‍ය ප්‍රතිඵල බැංකුවට උදාකර ගන්නට අප සතු සේවක මණ්ඩලයේ අප්‍රතිහත ධේර්යය සහ අපගේ ක්‍රමෝපායික සැලැස්ම දැඩි ලෙස අනුගමනය කරනු ලැබීම හේතු සාධක වූ බව මා ඉතා සතුටින් දන්වා සිටිමි.

බැංකුවේ සමාරම්භයේ පටන් ම අප, අපටම ආවේනික වූ සුභද පොද්ගලික බැංකුකරණ සංස්කෘතියක් මහජනශාටි ලබාදුන්නෙමු. එදා-මෙදා තුර, අභියෝග රැසක් ම උද්ගත වූ නමුත්, ඒ සෑම අවස්ථාවක දී ම ජයග්‍රාහී ලෙස හා ශක්තිමත්ව ද ඒවාට මුහුණ දීමට අපට හැකි විය, එම අභියෝගයන්ගෙන් අප ඉතා වැදගත් පාඩම් කිහිපයක් ම ඉගෙන ගත්ත ද, ඒවායින් අපගේ මූලික ස්වභාවය වෙනස්වූයේ නැත. ඒ වෙනුවට ශක්තිමත් හා ප්‍රබල බැංකුවක් ලෙස අපගේ ස්ථාවරය වඩ වඩාත් තහවුරු කර ගන්නට අපි සමත් වූයෙමු.

ආර්ථික ප්‍රතිරූපය

2013 වසරේ ආර්ථික පසුබිම දෙස ආපසු හැරී බලන කල්හි, පසුගිය කාලයේ දී මුල් පෙළේ ආර්ථිකයන් ශක්තිමත්වීමෙන්, ගෝලීය ආර්ථිකය ප්‍රකෘතිමත්වීම සෙමින් සිදුවන බව පෙනිණි. තවද සංවර්ධිත දේශයන්හි දිගුකාලීන ව ඵලදායකවන මූල්‍ය ප්‍රතිපත්ති තීරණයන්, හැකි එන වෙළෙඳපොළවල් ඔස්සේ අදාළ වර්ෂය තුළ දී දෝංකාරය දෙන්නට වූයේය.

එහෙත් ශ්‍රී ලංකාව, හැකි එන වෙළෙඳපොළවල් බොහොමයකට වඩා ඉහළ මට්ටමක ප්‍රශස්ත ආර්ථික වර්ධනයක් වාර්තා කරන්නට සමත් විය. ප්‍රධාන පෙළේ අංශයන් වන, කම්මාන්ත, සේවා සම්පාදන හා කෘෂිකාර්මික යන අංශ, පෙර වසරේ වර්ධන අනුපාතිකයන් ඉක්මවා ගියේය. උද්ධමනය අඩුණ්ඩ පස්වන වසරට ද තනි අංකිත මට්ටමක ම රැකී පැවතිණි.

2013 වසරේ දී බැංකු කම්මාන්තයට අභියෝගයන් එල්ල කළ ප්‍රධාන හේතුවූයේ ණය හා අදාළ වූ ඉහළ මට්ටමේ පිරිවැයන්, රන් මිල විශාල ලෙස මිල අඩුවීමත් ය. වසරේ මුල් භාගයේ දී, ණය වර්ධනය තරමක් අඩු වුව ද, දෙවන භාගය වන විට එහි ක්‍රමික වැඩිවීමක් දක්නට ලැබිණි. මෙයට හේතු වූයේ, ව්‍යවස්ථාපිත සංචිත අවශ්‍යතාවන්හි අඩුවීම සහ පොලී අනුපාතිකයන්හි ද ක්‍රමික අඩුවීම යි.

ප්‍රබල කාර්යසාධන වර්ෂයක්

2009 වර්ෂයේ දී දියත් කරන ලද අපගේ ක්‍රමෝපායික සැලැස්ම, මෙවකට කම්මාන්තය තුළ උද්ගතවෙමින් පැවති රටාවන්ට, ක්ෂේත්‍රයන්හි පාටුලත්වයට අනුගත වෙමින් හා ප්‍රතිසංවිධානය කරමින් ව්‍යාප්ත කරන ලදී. පැවති ගනුදෙනුකාර සහසබඳතා තව තවත් ස්ථාවර කිරීම, සේවාදායක සේවාවන් වර්ධනය කිරීම, ශාඛා ජාලය තව දුරටත් පුළුල් කිරීම සහ මානව සම්පත් මෙන් ම තාක්ෂණ ශිල්ප සංවර්ධනය කිරීම ද කෙරෙහි මෙහිදී අපගේ සුවිශේෂ අවධානය යොමු විය. නව වෙළෙඳපොළ ගවේශනයට හා නවමු නිමැවුම්වලට පූර්වතාව දීම තුළින් ද, වෙළෙඳපොළ තුළ උද්ගත වූ ප්‍රවණතාවන් වලින් උපරිම ප්‍රයෝජන ලබා ගැනීමට අපට හැකි විය.

අදාළ වසර තුළ, බැංකුවේ දූෂ්‍යමාන භාවය වඩාත් පුළුල් වූ හෙයින්, සන්නම අගය ද වඩාත් ඉහළට නැගිණි. 2013 වසරේ

සන්නම ප්‍රකාශනයන් පිළිබඳ ව, අපේල් මාසයේ දී දියත් කරන ලද LMD සඟරා කලාපය විසින් තෝරා ගත් සමස්ත ශ්‍රී ලංකාවේ ම ඉහළ ම මට්ටමේ සන්නම 20 අතරට අප ද ඇතුළත්වීම අප බැංකුව ලද මහත් ජයග්‍රහණයකි. මේ නිසා අප රට තුළ ක්‍රියාත්මක වන ප්‍රබල ම සන්නම හා මූල්‍ය ආයතන අතර අපගේ පවත්නා ස්ථාවරත්වය තව දුරටත් ශක්තිමත් වූයේය.

අපගේ 25 වන සංවත්සරය වෙනුවෙන්, 'සාමාන්‍ය බැංකුකරණයෙන් ඔබ්බට' යන නාමයෙන් බහු විධ ආයතනික වැඩ පිළිවෙළක් අප විසින් ආරම්භ කරන ලදී. එහි ප්‍රධාන සාධකයන් වන විශ්වාසය, නවමුකරණය, සේවාව හා කැපවීම යනාදියෙන් වඩාත් ශක්තිමත්වීම තුළින්, අපගේ බැංකුවේ ජීව ගුණය ද වර්ධනය වූයේය.

පසුගිය වර්ෂයේ දී, හව ශාඛා 4ක් විවෘත කිරීම ද, තවත් ශාඛා කිහිපයක් ම නවීකරණය හා ප්‍රතිස්ථානගත කිරීම ද අප විසින් සිදු කරන ලදී. දැන් අපගේ ශාඛා ජාලයෙන් 60%ක් ම පූර්ණ වශයෙන් නවීකරණය කරනු ලැබ ඇති බැව් මා ඔබට දන්වනුයේ සතුටිනි. අපගේ ආයතනික ප්‍රතිරූපය ඉහළ නංවා ලීමට මෙන් ම, අපගේ අනුග්‍රාහක හවතුන්ට වඩාත් සුභදැයිති සේවාවක් පිරිනැමීමට ද මෙම ක්‍රියාවන් උපයෝගී විය.

අදාළ වසර තුළ දී, කේන්ද්‍රීය විදේසුන් බැංකු පද්ධතිය වැඩි දියුණු කිරීම, සාර්ථක ව සමාජික කිරීමට අපට හැකි විය. බැංකු සේවා ක්‍රියාවලිය ඔස්සේ ඉහළ මට්ටමේ පිරිවැය ඵලදායකත්වයක් ඉදිරි වසර වල දී සාක්ෂාත් කර ගැනීමට හැකි වීම, එහි ප්‍රතිලාභයන් වශයෙන් දැකිය හැකි අතර, එම වැඩි දියුණු කිරීම් නිසා අපගේ ගනුදෙනුකාරහවතුන් වෙනුවෙන්, නිමැවුම් හා සේවා සම්පාදනයන් ද වර්ධනය කරලීම පහසු වූ බව සඳහන් කළ යුතුය.

දුරකථන පාරිභෝගික සේවා මධ්‍යස්ථානය බාහිර අංශ වෙත පැවරීම සිදු කළ, ශ්‍රී ලංකාවේ මුල් ම බැංකු අතර, අප ද එක් බැංකුවකි. මෙම පියවර ගැනීම නිසා අපගේ ගනුදෙනුකාර සම්බන්ධතා ප්‍රමිතිය වර්ධනය කර ගනිමින්, වඩා කාර්යක්ෂම සේවාවක් ඔවුන්ට ලබා දීමට අපට හැකි වනු ඇත.

තව ද, අදාළ වසර තුළ දී, නවමු හා කාර්යක්ෂම ප්‍රවර්ධන ක්‍රියාවලියන් තුළින්, උසස් හා ආකර්ෂණීය මට්ටමකට අපගේ

සභාපතිවරයාගේ පණිවිඩය

කාඩ්පත් මෙහෙයවුම් ක්‍රියාවලිය යොමු කරනු ලැබීම නිසා, බැංකු කාඩ්පත් වෙළෙඳ පොළ තුළ, අපගේ වෙළෙඳපොළ කොටස ඉහළ ගොඩාලීමට අපි සමත් වූයෙමු.

අවදානම් කළමනාකරණය අප බැංකුවේ ප්‍රධානතම ශක්තියක් වූ අතර, එය නිරන්තරයෙන් ම අපට අතිශයින් වැදගත් ක්ෂේත්‍රයක් වූයේය. අප විසින් හඳුනාගෙන ඇති පරිදි, ඕනෑ ම මූල්‍ය ආයතනයක සාර්ථකත්වය සඳහා අවදානම් කළමනාකරණ මූලධර්මයන් කෙරෙහි දැඩි අවධානයක් යොමු කිරීම අත්‍යවශ්‍ය ය. ඒ අනුව, අධ්‍යක්ෂ මණ්ඩලයේ හා සෙලාන් කණ්ඩායමේ පූර්ණ සහභාගිත්වය ඇති ව, අදාළ වර්ෂය තුළ දී, බැංකුවේ අවදානම පිළිබඳව පවත්නා සංස්කෘතිය වඩාත් ශක්තිමත් කරන ලදී. ඊට අනුගතවීම කෙරෙහි ද අධ්‍යක්ෂ මණ්ඩලය විසින් අවධාරණය කරනු ලැබීය. අප බැංකුවේ මූල්‍ය වාර්තාකරණ කාර්ය රාමුව වැඩි දියුණු කිරීමට ද අපි විශේෂ ප්‍රයත්නයක් දැරීමු. මේ සියලු උත්සාහයන් තුළින් අප කෙරෙහි ජනතා විශ්වාසය තවදුරටත් ශක්තිමත් වූ බව සඳහන් කරනුයේ සතුටිනි. 2013 පෙබරවාරියේ දී නිකුත්කරන ලද ශ්‍රී ලංකා රුපියල් බිලියන දෙකක අගය සහිත ණයකරයට, ආරම්භක දිනයේ දී ම අධිදායකත්වයක් ලැබීම මේ පිළිබඳව දිය හැකි කඳිම සාධකයකි.

විශිෂ්ට කාර්යසාධන ක්‍රියාවලියක්

අපගේ තරගකරුවන් අතරින් අප සුවිශේෂ ලෙස කැපී පෙනෙමින් ද, අභියෝගදායී ආර්ථික ප්‍රවණතාවන් අතර ස්ථාවරත්වයක් ස්ථාපනය කර ගනිමින් ද අප දැක්වූ ක්‍රමෝපායක අවධානයේ දැනට අප අත් දකින සාර්ථකත්වය, 2013 වසරේ අපගේ ප්‍රතිඵල වලින් පිළිබිඹු වෙයි.

පසුගිය වසරට එළඹෙද් දී, අප එතෙක් ලබා තිබූ විශිෂ්ටතම ලාභය, 2013 වසරේ දී ශ්‍රී ලංකා රුපියල් මිලියන 251කින් ඉක්මවා ගමින්, මෙකී මුදල් වර්ෂය තුළ බදු ගෙවූ පසු ලාභය, ශ්‍රී ලංකා රුපියල් මිලියන 2,316 ක් ලෙස වාර්තා කරන්නට අපට හැකි වූයේය.

මන්දගාමී ණය වර්ධනය ද, ආන්තික පොලී අනුපාතිකයන් කෙරෙහි සමස්ත බැංකු කාර්මාන්තය පුරා පැවති පුටල් පීඩනය ද හමුවේ, 2013 දෙසැම්බර් 31 දිනෙන් අවසාන වූ මාස 12 වෙනුවෙන්, අපගේ ශුද්ධ පොලී ආදායම රුපියල් මිලියන 9,014 සිට රුපියල් මිලියන 9,830

දක්වා වර්ධනය විය. වාණිජ මූල්‍යකරණය සහ ගාස්තු ආදායම පාදක නිමැවුම් හා සේවාවන් කෙරෙහි බැංකුවේ අවධානය වැඩි කරනු ලැබීමෙන්, ගාස්තු හා කොමිස් ආදායම රුපියල් මිලියන 1,695 සිට රුපියල් මිලියන 2,127 දක්වා ඉහළ යමින් 25.5%ක වර්ධනයක් පෙන්නුම් කළේය.

රන් මිල අඩුවෙමින් පැවතිණ ද, එමගින් උකස් සමූච්චය කෙරෙහි බලපෑම් සිදුවූව ද, එළදායක ප්‍රතිප්‍රාප්තික හා පුනරුත්ථාපන ප්‍රයත්නයන් මගින්, බැංකුවේ වත්කම් ප්‍රමිතීන් වැඩි දියුණු කර ගැනීමට අපි සමත් වූයෙමු. එහි ප්‍රතිඵලයක් වශයෙන්, (ශුද්ධ අවිනිශ්චිත පොලිය සහිත ව) අක්‍රීය අත්තිකාරම් ප්‍රමාණය, 2012 දෙසැම්බරයේ පැවති 12.99% සිට 2013 දෙසැම්බර් අවසාන වනවිට 10.58% දක්වා අඩු විය.

තව ද, අප බැංකුවේ සමස්ත ප්‍රාග්ධන ප්‍රමාණාත්මතාව, 2013 දෙසැම්බර් වන විට 16.27%ක් බවට පත්ව තිබීම, දේශීය බැංකු කාර්මාන්තයේ ඉහළ ම මට්ටමක් බව වාර්තා වෙයි.

අනාගතය

අපගේ පාරිභෝගිකයින්ට සේවා සැපයීමේ දී, උපරිම වටිනාකම ලබාදීම පිණිස අප දැක් වූ නිරන්තර කැපවීම නිසා, ගෙවී ගිය කාලය තුළ අපගේ වර්ධන ගම්‍යතාව අඛණ්ඩ ලෙස පවත්වා ගැනීමට අපට හැකි විය. මෙහෙත් සිට ඉදිරියට පියවර තැබීමේ දී වුව ද, නව නිමැවුම් නිර්මාණය හා වැඩි දියුණුව මගින් ද, අපගේ ශාඛා ජාලය ව්‍යාප්ත කිරීමෙන් හා තාක්ෂණික ශිල්පීය ප්‍රවර්ධනය තුළින් ද මෙම ධනාත්මක ප්‍රවණතාව දිගින් දිගට ම පවත්වා ගැනීම අපගේ ඒකායන අභිප්‍රාය වන්නේය. අප විවෘත කිරීමට අපේක්ෂා කරන මෙන් ම, අනාගතයේ දී උද්ගතවන්නාවූ ද වෙළෙඳපොළ අවස්ථාවන් අප විසින් ප්‍රයෝජනයට ගනු ලැබේ.

අවදානම් කළමනාකරණය, ආයතන පාලනය, අනුගතවීම හා මානව සම්පත් වර්ධනය ද ඉදිරි වසරේ දී අපගේ පූර්වතා ලබන ක්ෂේත්‍රයන් වන්නේය.

අප තුළ පවත්නා අවබෝධාත්මක සේවාවන්, නිමැවුම්, අතිශයින් ම ප්‍රවීණ කාර්ය මණ්ඩලය, සහ නවමු ප්‍රවේශයන් ද පාදක කර ගැනීම තුළින්, ඉදිරි වසරේදී ද අප ඉමහත් ජයග්‍රහණ දිනා ගන්නා බවට මා තුළ කිසිදු සැකයක් නැත. 2014 වසරේ දී,

නව සාර්ථකත්වයන් වාර්තා කරමින් හා අපගේ කොටස්කරුවන්, අනුග්‍රාහකයින්, සේවාදායකයින්, සහ අප හා සම්බන්ධ වන ප්‍රජාවන් ද තුළ පවත්නා අපේක්ෂාවන් ඉක්මවා ගමින්, ඔවුන්ට වඩා අගනා සේවාවන් ලබා දීමට හැකිවන බව මගේ ඒකාන්ත විශ්වාසය යි.

ඇගයීම

2014 නව වසර දෙසට අප සිත් සහන් යොමු කරන මෙම අවස්ථාවේ දී, ශ්‍රී ලංකා රුපියලට, ශ්‍රී ලංකා මහ බැංකුවේ අධිපතිතුමාට සහ මහ බැංකුවේ බැංකු අධිකෂණ දෙපාර්තමේන්තුවටත්, අප බැංකුවට මහ පෙත්වීම හා සහාය ලබා දීම වෙනුවෙන් ස්තූති කරනු කැමැත්තෙනම්, මගේ මාණ්ඩලික සහායකයින් විසින් උපරිම ලෙස පිරිනමන ලද සහාය හා සහයෝගිතාව වෙනුවෙන් මම කෘතඥ වෙමි. සෙලාන් කණ්ඩායමේ විශිෂ්ටතම ගෙනහැර පාමින්, තවත් අති සාර්ථක වසරක් හමාර කරන්නට හැකිවන සේ ප්‍රබෝධමත් නායකත්වයක් ලබා දීම වෙනුවෙන්, අපගේ සාමාන්‍යාධිකාරී/ප්‍රධාන විධායක නිලධාරී කපිල ආරියරත්න මහතාට මගේ විශේෂ ස්තූතිය හිමිවේ. සෙලාන් කණ්ඩායමේ බැරෑරුම් කාර්ය සාධනය, උද්යෝගය හා නිරන්තර කැපවීම වෙනුවෙන්, මම ඔවුන්ගේ සේවය ද මහත් සේ අගය කරමි. අඛණ්ඩ සහයෝගය හා පක්ෂපාතිත්වය ලබා දීම වෙනුවෙන්, අපගේ සියලුම පාරිභෝගිකයින්ට මගේ කෘතඥතාව පිරිනමමි. සෙලාන් බැංකුව නිසි මංපෙත් ඔස්සේ මෙහෙයවමින්, පෙරට යාමට අප තුළ පවත්නා හැකියාව පිළිබඳව, අපගේ කොටස්කරුවන් වන ඔබ තබා ඇති විශ්වාසය හා වගකීම, මම අති මහත් සේ අගය කරමි. අපගේ ඉදිරි ගමනේ දී, ඔබගේ හිමිකම්වල අගය වර්ධනය කිරීම සඳහා අපි දිගින් දිගට ම කැපවී සිටිමු.

අඛණ්ඩව ම ඔබ බැංකුවට පිරිනමන සහාය වෙනුවෙන් අපගේ ස්තූතිය පිළිගනු මැනවි.



ජනාධිපති නීතිඥ
නිහාල් ජයමාන්න
සභාපති

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தலைவரின் கடிதம்

அன்புக்குரிய பங்குதாரர்களே,

2013 டிசம்பர் 31 இல் முடிவடைந்த நிதியாண்டுக்கான செலான் வங்கியின் வருடாந்த அறிக்கை மற்றும் நிதிசார் கூற்றுக்கள் என்பவற்றை சமர்ப்பிப்பதில் மகிழ்ச்சியடைகின்றேன்.

இவ்வாண்டில் நாங்கள் வருடாந்த அறிக்கையை சமர்ப்பிப்பதில் ஒரு புத்தாக்க இயல்பிலான நடைமுறையை பின்பற்றியுள்ளோம். முதல் தடவையாக பொருளாதார, சமூக மற்றும் சுற்றுடல் செயலாற்றுகையை உள்ளடக்கும் விதத்திலான எமது வங்கியின் ஒருங்கிணைந்த ஆண்டறிக்கை ஒன்றை நாங்கள் வெளியிட்டுள்ளோம். வங்கியின் ஒருங்கிணைந்த சிந்தனையை பிரதிபலிக்கும் பொருட்டும், எமது நிதிசார் செயலாற்றுகை மற்றும் நிதி சாராத செயலாற்றுகை என்பவற்றுக்கிடையிலான பிணைப்புக்களை எடுத்துக் காட்டும் பொருட்டும் நாங்கள் இந்த அணுகுமுறையை பின்பற்றியுள்ளோம்.

சாதனைகள் மிகுந்த ஒரு வருடம்

2013 ஆம் வருடம் எம்மைப் பொறுத்த-வரையில் மிகுந்த முக்கியத்துவம் வாய்ந்த ஒரு வருடமாக இருந்து வந்ததுடன், மிக முக்கியமான சாதனைகளை நிகழ்த்திய ஒரு வருடமாகவும் இருந்து வந்துள்ளது. நாங்கள் 25 ஆண்டு கால எமது வெற்றிகரமான செயற்பாடுகளை இவ்வாண்டில் நிலைவு கூர்ந்ததுடன், எமது 25 வருட கால வரலாற்றில் இதுவரையில் இல்லாத ஆகக் கூடிய இலாபத்தையும் இவ்வாண்டில் பதிவு செய்துள்ளோம். எமது ஊழியர்களின் அர்ப்பணிப்புணர்வு மற்றும் கடும் உழைப்பு என்பனவும், உபாய ரீதியான திட்டத்தை கண்டிப்பான விதத்தில் முன்னெடுத்துச் சென்றமையும் எமது வங்கிக்கு சாதனை மட்டங்களிலான நிதிசார் பெறுபெறுகளை பெற்றுத் தந்துள்ளது.

எமது வங்கியின் ஸ்தாபிதம் தொடக்கம் வங்கித்தொழில் துறையில் தனித்துவமான ஒரு கலாசாரத்தை நாங்கள் கட்டியெழுப்பியிருந்தோம். அதற்கூடாக நாங்கள் எமது தேசத்தின் பிரஜைகளுக்கு தனிப்பட்ட முறையில் அதி சிறந்த சேவையொன்றை வழங்கி வந்துள்ளோம். கடந்த காலப் பரிவின போது, நாங்கள் பலவிதமான சவால்களை எதிர்நோக்கியிருந்த போதிலும், அவற்றை வெற்றிகரமான விதத்திலும், வலிமையான விதத்திலும் எதிர்கொண்டோம். அச்சவால்கள் எமக்கு மிக முக்கியமான படிப்பிணைகளை கற்றுத் தந்துள்ளன. ஆனால் அடிப்படையில் அவை எமது வங்கியின் இயல்பை மாற்றியமைக்கவில்லை. உண்மையிலேயே முழுமையான உறுதியான ஒரு வங்கி என்ற முறையில் அச்சவால்கள் எமது வங்கியின் ஸ்தானத்தை மீளவும் ஊர்ஜிதம் செய்துள்ளன.

பொருளாதார நிலை

2013 ஆம் ஆண்டில் நிலையான பொருளாதார குழுவை திருப்பிப் பார்க்கும் பொழுது, உலகளாவிய பொருளாதாரத்தின் மீட்சி

முன்னணிப் பொருளாதாரங்கள் இறுதியில் ஓர் உறுதிப்பாட்டை காட்டும் நிலையை நோக்கி மெதுவாக நகர்ந்து வந்திருப்பதை அவதானிக்க முடிகின்றது. வளர்ச்சியடைந்த நாடுகளின் நானயக் கொள்கை தீர்மானங்களின் முக்கியமான தாக்கங்கள் இவ்வருடத்தின் போது எழுச்சி கண்டு வரும் சந்தைகளில் எதிரொலித்தன.

முற்புறத்தில், இலங்கை, எழுச்சி கண்டு வரும் பெரும்பாலான சந்தைப் பொருளாதாரங்களிலும் பார்க்க உயரள-விலான, ஆரோக்கியமான பொருளாதார வளர்ச்சியொன்றை பதிவு செய்திருந்தது. கைத்தொழில், சேவைகள் மற்றும் விவசாயம் ஆகிய மூன்று பிரதான துறைகளும் முன்னைய வருடத்தின் வளர்ச்சி வீதங்களையும் தாண்டிச் சென்றிருந்தன. தொடர்ச்சியாக ஐந்தாவது ஆண்டிலும் பணவீக்கம் ஒற்றைப் புள்ளி வீதத்தில் நிலைத்திருந்தது.

2013 ஆம் ஆண்டில் வங்கித் தொழில்-துறைக்கு சவால் விடுத்த பிரதான பிரச்சினைகள் கடனூக்கான உயர் செலவு மற்றும் தங்க விலைகளில் ஏற்பட்ட கணிசமான அளவிலான வீழ்ச்சி என்பனவாகும். வருடத்தின் முதல் அரைப்பாகத்தில் கடன் வளர்ச்சி குறைவாக இருந்து வந்த போதிலும், இறுதியரைப் பாகத்தில் அதில் ஒரு படிப்படியான வளர்ச்சி அவதானிக்கப்பட்டது. நியதிபூர்வமான ஒதுக்கு விகிதத் தேவை குறைக்கப்பட்டமை மற்றும் வட்டி விகிதங்களில் படிப்படியாக ஏற்பட்ட வீழ்ச்சி என்பவற்றினாலேயே இந்த அதிகரிப்பு ஏற்பட்டிருந்தது.

திட்டங்கள் நிறைவேற்றப்பட்ட ஒரு வருடம்

வங்கித்தொழில் துறையிலும், பேரண்ட பொருளாதார குழுவிலும் எழுச்சி கண்டு வந்த மாற்றங்களுடன் அனுசரித்துச் செல்லும் விதத்தில் 2009 இல் துவக்கி வைக்கப்பட்ட எமது உபாய ரீதியான திட்டத்தை நாங்கள் மீண்டும் ஒருங்கிணைத்து, விரிவாக்கினோம். தற்போதைய வாடிக்கையாளர்கள் உறவுகளை எமலும் பலப்படுத்தல், வாடிக்கையாளர் சேவையை மேம்படுத்த்தல், கிளை வலையமைப்பை விரிவாக்குதல், மனித வள அபிவிருத்தி மற்றும் தொழில்நுட்ப அபிவிருத்தி ஆகியவை நாங்கள் முதன்மையாக கவனம் செலுத்தி வந்த துறைகளாக இருந்து வந்தன. புதிய சந்தைகளை கண்டறிதல், புத்தாக்க இயல்பிலான திட்டங்களை அறிமுகம் செய்து வைத்தல் ஆகிய துறைகளுக்கும் முன்னுரிமை வழங்கப்பட்டது. அது சந்தையில் எழுச்சி கண்டு வரும் போக்குகளிலிருந்து முழுமையாக பயனடைந்து கொள்வதற்கு எமக்கு உதவியது.

இவ்வருடத்தின் போது வங்கி உயரள-விலான பிரபலத்தை பெற்றுக் கொண்டதுடன், அதன் விளைவாக, வங்கியின் வணிகச் சின்னத்தின் மதிப்பு உயர்வடைந்தது. ஏப்ரல் மாதத்தில் துவக்கி வைக்கப்பட்ட LMD சஞ்சிகையின் விசேட வணிகச் சின்னங்களின் பதிப்பில், 2013 இன் இலங்கையின் அதி சிறந்த 20 வணிகச்

சின்னங்களில் ஒன்றாக எமது வங்கியும் வரிசைப்படுத்தப்பட்டிருந்தமை குறித்து மகிழ்ச்சியடைகின்றோம். இது நாட்டின் மிக வலுவான வணிகச் சின்னங்கள் மற்றும் நிதி நிறுவனங்களில் ஒன்று என்ற எமது ஸ்தானத்தை மீண்டும் நிலை நிறுத்துகின்றது.

எமது 25 ஆவது ஆண்டு நிறைவை நோக்கிய பயணத்தில் 'வங்கித் தொழிலுக்கும் அப்பால்' என்ற பல முனைகளிலான தொகுதி வங்கித் தொழில் பிரசாரத்தை நாங்கள் துவக்கி வைத்தோம். நம்பிக்கை, புத்தாக்கம், சேவை மற்றும் அர்ப்பணிப்புணர்வு என்பவற்றைக் கொண்ட நான்கு பிரதான கோட்பாடுகளிலிருந்து வலிமையைப் பெற்றுக் கொள்ளும் வங்கியின் உந்துதலுக்கு அது ஓர் உதாரணமாக இருந்து வந்தது.

வங்கியின் கிளை விரிவாக்கச் செயற்பாடுகள் தொடர்ந்து முன்னெடுக்கப்பட்டு வந்ததுடன், நான்கு புதிய கிளைகள் திறந்து வைக்கப்பட்டன, பல கிளைகள் புதுபிக்கப்பட்டு வேறு இடங்களுக்கு எடுத்துச் செல்லப்பட்டன. எமது கிளை வலையமைப்பில் சுமார் 60% இப்பொழுது முழுமையாக புதுபிக்கப்பட்டுள்ளது என்ற விடயத்தை மகிழ்ச்சியுடன் தெரிவித்துக் கொள்கின்றேன். இந்த முயற்சிகள் எமது வங்கியின் நற்பெயரை மேம்படுத்திக் கொள்வதற்கும், எமது வாடிக்கையாளர்களுக்கு நாங்கள் வழங்கி வரும் சேவையின் தரத்தை உயர்த்திக் கொள்வதற்கும் தேவையான உற்றலை எமக்கு வழங்கியிருந்தன.

நாங்கள் இவ்வருடத்தின் போது வெற்றிகரமான கணனி வழி தொழில்நுட்ப முறையொன்றை (Core Banking System) அமுல் செய்து, அதனை தரமுயர்த்திக் கொள்ளோம். செயல்-முறைகளில் மேற்கொள்ளப்பட்ட விருத்தி நிலைமைகளுக்கூடாக கணிசமான அளவிலான செலவுச் சிக்கனங்களை சாதித்துக் கொள்வதற்கு வகை செய்துள்ளோம். அடுத்து வரும் வருடங்களில் அச்செலவுக் குறைப்புக்களை எம்மால் அனுபவிக்க முடியும். இந்த தரமுயர்த்தல் எமது வாடிக்கையாளர்களுக்கான சிறந்த திட்டங்கள் மற்றும் உன்னதமான சேவை என்பவற்றை வழங்குவதற்கு வசதி செய்து கொடுக்கும்.

எமது அழைப்பு நிலையங்களுக்கு, வெளியிலிருந்து சேவைகளை பெற்றுக் கொண்ட இலங்கையின் முன்னணி வங்கிகளில் எமது வங்கியும் ஒன்றாகும். இந்த முன்முயற்சி எமது வாடிக்கையாளர் உறவின் தரத்தை விரும்பிச் செய்து கொள்வதற்கும், வாடிக்கையாளர்களுக்கு ஒரு சிறந்த சேவையை வழங்குவதற்கும் எமக்கு உதவியது.

புத்தாக்க இயல்பிலான, தாக்கத் திறன் கொண்ட மேம்பாட்டு நடவடிக்கைகளுக்கூடாக எமது அட்டை வர்த்தக செயற்பாடுகள் அதியுயர் மட்டங்களில் மேற்கொள்ளப்பட்டு வந்தன. இது இவ்வாண்டின் போது அட்டை வர்த்தகச்

தலைவரின் கடிதம்

சந்தையில் எமது பங்கினை அதிகரித்துக் கொள்வதற்கு எமக்கு உதவியது.

கடன் நட்டவச்ச முகாமைத்துவம் எமது வங்கியின் அடிப்படை வலிமைகளில் ஒன்றாக எப்பொழுதும் இருந்து வந்திருப்பதுடன், தொடர்ந்தும் அது ஒரு முக்கியமான துறையாக இருந்து வந்தது. கடன் நட்டவச்ச முகாமைத்துவத்தின் அடிப்படைக் கூறுகளின் மீது உறுதியான விதத்தில் கவனம் செலுத்துவது எந்தவொரு நிறுவனத்தினதும் வெற்றிக்கு நிர்ணயகரமான ஒரு காரணியாக இருந்து வருகின்றது என்ற விடயத்தை நாங்கள் இனங்கண்டுள்ளோம். எனவே, பணிப்பாளர் சபை மற்றும் செலான் வங்கி ஊழியர் அணி ஆகிய தரப்பினரின் முழுமையான பங்கேற்புடன் இவ்வருடத்தின் போது வங்கியின் கடன் நட்டவச்ச கலாசாரத்தை நாங்கள் மேலும் பலப்படுத்தினோம். இணங்கியொழும்கு செயற்பாட்டையும் பணிப்பாளர் சபை உயர் அளவில் வலியுறுத்தி வந்தது. எமது வங்கியின் நிதிசார்பு அறிக்கையில் சட்டகத்தை மேம்படுத்திக் கொள்வதற்கும் நாங்கள் விசேட முயற்சியொன்றை மேற்கொண்டோம். இந்த முயற்சிகள் எமது வங்கியின் மீதான பொது மக்களின் நம்பிக்கையை மேலும் வலுப்படுத்தின. 2013 பெப்ரவரி மாதத்தில் நாங்கள் மேற்கொண்ட 2 மில்லியன் இலங்கை ரூபா கடன் பத்திர வெளியீட்டுக்கு ஆரம்ப தினத்திலேயே மிகை அளவில் பங்களிப்புத் தொகைகள் செலுத்தப்பட்ட விடயம் இதற்கான ஒரு சாட்சியமாக உள்ளது.

குறிப்பிடத்தக்க அளவீலான செயலாற்றுகை

2013 ஆம் வருடத்திற்கான எமது பெறுபேறுகள் எமது உபாய ரீதியான கவன மையத்தின் தொடர்ச்சியான வெற்றியை பிரதிபலித்துக் காட்டுகின்றன. இது எமது போட்டியாளர்களிடமிருந்து எம்மை வேறுபடுத்திக் காட்டுவதுடன், சவால்கள் மிகுந்த பொருளாதார சூழலுக்கு மத்தியிலும் எமக்கு ஸ்திர நிலையை எடுத்து வருகின்றது.

நாங்கள் கடந்த ஆண்டின் 'இதுவரை கால மிகச் சிறந்த' இலாபமான 251 மில்லியன் இலங்கை ரூபா மட்டத்தை இவ்வருடத்தில் தாண்டிச் சென்றதுடன், 2013 நிதியாண்டுக்கான எமது இலாபம் 2,316 மில்லியன் இலங்கை ரூபாவாக இருந்து வந்தது.

கடனளிப்பில் ஏற்பட்டு வந்த மந்தமான வளர்ச்சி மற்றும் வட்டி இலாபங்கள் தொடர்பாக வங்கித்தொழில் துறை முழு-வதிலும் நிலவி வந்த அழுத்தம் என்பவற்றுக்கு மத்தியிலும் கூட, எமது தேறிய வட்டி வருமானம் 2013 டிசம்பர் 31 இல் முடிவடைந்த 12 மாதங்களின் போது ரூ. 9,014 மில்லியன்-லிருந்து ரூ. 9,830 மில்லியனாக அதிகரித்திருந்தது. கட்டணங்கள் மற்றும் தரகு வருமானம் 25.5% ஆக அதிகரித்து ரூ. 1,695 மில்லியன்-லிருந்து ரூ. 2,127 மில்லியனாக உயர்ந்திருந்தது.

வங்கி வர்த்தக நிதி மற்றும் கட்டண வருமானங்களை உருவாக்கும் திட்டங்கள் மற்றும் சேவைகள் என்பவற்றின் மீது கவனம் செலுத்தி வந்த நிலையிலேயே இந்த அதிகரிப்பு பதிவு செய்யப்பட்டிருந்தது.

தங்க விலைகளில் ஏற்பட்ட வீழ்ச்சி மற்றும் அது எமது அடகுத் தொழிலில் ஏற்படுத்திய தாக்கம் என்பவற்றுக்கு மத்தியிலும் கூட, நாங்கள் வங்கியின் சொத்துக்களின் தரத்தை வினைத்திறன் மிக்க அறவீடு மற்றும் புனருத்தாரண முயற்சிகள் என்பவற்றுக்கூடாக விருத்தி செய்து கொண்டிருள்ளோம். அதன் விளைவாக, 2012 டிசம்பரில் 12.99% ஆக இருந்து வந்த மொத்த செயற்பாடா சொத்துக்கள் (HIS சொத்துக்களை கழித்து) 2013 டிசம்பர் முடிவில் 10.58% ஆக குறைவடைந்திருந்தன.

மேலும், வங்கியின் ஓட்டுமொத்த மூலதன நிறைவு விகிதம் 2013 ஆம் ஆண்டின் முடிவில் 15.75% ஆக அதிகரித்திருந்தது. இது உள்நாட்டு வங்கித்தொழில் துறையில் நிலவி வரும் அதிபுயர்ந்த விகிதங்களில் ஒன்றாகும்.

எதிர்காலம்

வாடிக்கையாளர்களுடனான அனைத்து விதமான கொடுக்கல் வாங்கல்களின் போதும் அவர்களுக்கு அதி உயர் மட்டத்திலான பெறுமதியை வழங்க வேண்டும் என்ற விடயத்தில் நாங்கள் கொண்டிருக்கும் அர்ப்பணிப்புணர்வு கடந்த பல வருட காலமாக எமது வளர்ச்சி வேகத்தை தக்க வைத்துக் கொள்ளக் கூடிய ஆற்றலை எமக்குப் பெற்றுத் தந்துள்ளது. எமது முன்னோக்கிய பயணத்தில் புத்தாக்க இயல்பிலான திட்டங்களின் அறிமுகம் மற்றும் அவற்றின் விருத்தி நிலை எமது கிளை வலையமைப்பின் விரிவாக்கம் மற்றும் தர மேம்பாடு, தொழில்நுட்ப முன்னேற்றம் என்பவற்றுக்கூடாக இந்த சாதகமான போக்கை தொடர்ந்து முன்னெடுத்துச் செல்வதே எமது முழுமையான நோக்கமாகும். மேலும், நாங்கள் ஆரம்பிப்பதற்கு எதிர்-பார்க்கும் எழுச்சி கண்டு வரும் சந்தை வாய்ப்புக்களையும் நாங்கள் முழுமையாக பயன்படுத்திக் கொள்வோம்.

கடன் நட்டவச்ச முகாமைத்துவம், ஆளுகை, இணங்கியொழும்கள் மற்றும் மனித வள அபிவிருத்தி என்பன அடுத்து வரும் வருடத்தின் போது எமது முன்னுரிமைத் துறைகளாக இருந்து வரும்.

சேவை தொடர்பான எமது புரிந்துணர்வு, திட்டங்கள், உயர் திறன் மிக்க ஊழியர்கள் மற்றும் புதுமைப் புனைவிலான எமது அணுகுமுறை என்பவற்றின் காரணமாக அடுத்து வரும் வருடத்தில் நாங்கள் மிக முக்கியமான சாதனைகளை நிகழ்த்துவோம் என்பதில் எமக்கு எவ்வித சந்தேகமுமில்லை. 2014 ஆம் வருடம், நாங்கள் புதிய வெற்றிக் கதைகளை உருவாக்கும் ஒரு வருடமாகவும், எமது பங்குதாரர்கள், எமது

வாடிக்கையாளர்கள், ஊழியர்கள். மற்றும் நாங்கள் செயற்பட்டு வரும் சமூகங்கள் ஆகிய அனைத்து தரப்பினருக்கும் அவர்களுடைய எதிர்பார்ப்புகளுக்கு அப்பாற்பட்ட விதத்தில் பெறுமதியை வழங்கும் ஒரு வருடமாகவும் இருந்து வரும் என நான் உண்மையில் நம்புகின்றேன்.

நன்றி நவீலம்

2014 ஆம் ஆண்டில் எமக்கு கிடைக்க-விருக்கும் வாய்ப்புக்களை நாங்கள் எதிர்-நோக்கியிருக்கும் நிலையில், இலங்கை அரசாங்கத்திற்கும், இலங்கை மத்திய வங்கியின் ஆளுனர் அவர்களுக்கும், மத்திய வங்கியின் வங்கித்தொழில் மேற்பார்வை திணைக்களத்திற்கும் அவர்கள் எமக்கு வழங்கிய வழிகாட்டுதல் மற்றும் ஆதரவு என்பவற்றிற்கும் இங்கு எனது நன்றியை தெரிவித்துக் கொள்கின்றேன். பணிப்பாளர் சபையின் உறுப்பினர்களான எனது சகாக்கள் எனக்கு வழங்கிய தொடர்ந்த ஆதரவு மற்றும் ஒத்துழைப்பு என்பவற்றிற்கும் எனது நன்றி உரித்தாகட்டும். குறிப்பாக, பொது முகாமையாளர்; பிரதம நிறைவேற்று அதிகாரி திரு. கபில ஆரியர்தன் அவர்களுக்கு, அவர் வழங்கிய எழுச்சி மிக்க தலைமைத்துவத்திற்கு இங்கு நான் எனது நன்றியை தெரிவித்துக்கொள்ள வேண்டும். அந்த தலைமைத்துவம் தொடர்ந்தும் செலான் அணியினரின் அதிபுயர் செயலாற்றுகைக்கு வழிகோலுவதுடன், ஒரு வெற்றிகரமான ஆண்டை பூர்த்தி செய்து கொள்வதற்கும் இயல்பு-செய்துள்ளது. செலான் வங்கி ஊழியர் அணியினரின் கடும் உழைப்பு, ஆர்வம் மற்றும் அர்ப்பணிப்புணர்வுக்கும் எனது நன்றியை தெரிவித்துக் கொள்ள விரும்புகின்றேன். எமது வாடிக்கையாளர்கள் தொடர்ந்தும் எமக்கு அனுசரணை வழங்கி வந்திருப்பதுடன், அவர்கள் எம் மீது விசுவாசம் வைத்து செயற்பட்டு வந்திருக்கின்றார்கள். அதற்காக அவர்களுக்கும் எனது நன்றி உரித்தாகட்டும். எமது பங்குதாரர்கள் ஆகிய நீங்கள், செலான் வங்கியை வழிநடத்திச் செல்வதிலும், நெறிப்படுத்துவதிலும் நாங்கள் கொண்டிருக்கும் ஆற்றல்கள் மீது வைத்திருக்கும் நம்பிக்கையையும், விசுவாசத்தையும் நான் பெரிதும் மதிக்கின்றேன். எமது முன்னோக்கிய பயணத்தில் உங்கள் பங்கு நிதிக்கான பெறுமதியை அதிகரிப்பதில் நாங்கள் தொடர்ந்தும் எம்மை அர்ப்பணித்துக் கொள்வோம். வங்கிக்கு நீங்கள் வழங்கிய தொடர்ச்சியான ஆதரவுக்கு நன்றி.



நிறூல் ஜயமான்ன PC

தலைவர்

26 பெப்ரவரி 2014

Corporate Information

Name of Company

Seylan Bank PLC

Company Registration Number

PQ 9

Registered Office and Head Office

Seylan Towers,
No. 90, Galle Road, Colombo 03, Sri Lanka
Tel: (94)-(11)-2456000
Fax: (94)-(11)-2456456
Swift: SEYBLKX
Email: info@seylan.lk
Website: www.eseylan.com

Legal Form

A public limited liability company incorporated in Sri Lanka on 28th August 1987 under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007 on 30th May 2007. Commenced business operations as a licensed commercial bank regulated under the Banking Act No. 30 of 1988 (as amended) on 24th March 1988. Company was listed in the Colombo Stock Exchange in January 1989.

Colombo Stock Exchange Listing

The Ordinary Shares and the Unsecured Subordinated (Five-Year) Redeemable Debentures are listed on the Colombo Stock Exchange.

Accounting Year End

31st December

Credit Rating

The Bank has been assigned A- (Ika) National rating for implied long-term unsecured senior debt, by Fitch Ratings Lanka Limited.

Board of Directors

Mr. Nihal M. Jayamanne PC

*Chairman/Independent Director
(appointed as Chairman with effect from 17th January 2013)*

Mr. Ishara C. Nanayakkara

*Deputy Chairman/Non-Executive Director
(appointed as Deputy Chairman with effect from 17th January 2013)*

Mr. Ramanathan Nadarajah

Executive Director

Rear Admiral B. Ananda J.G. Peiris

Independent Director

Mr. Samantha P.S. Ranatunga

Independent Director

Mr. W.D.K. Jayawardena

*Non-Executive Director
(appointed on 1st August 2013)*

Mr. P.L.S.K. Perera

*Independent Director
(appointed on 23rd September 2013)*

Ms. M. Coralie Pietersz

*Independent Director
(appointed on 23rd September 2013)*

Mr. H.I. Balapatabendi

*Non-Executive Director
(appointed on 27th November 2013)*

Company Secretary

(Mrs.) N.N. Najumudeen

ACIS (UK), ACCS (SL)

General Manager/Chief Executive Officer

Mr. Kapila Ariyaratne

Auditors

Messrs KPMG
Chartered Accountants

Subsidiary

Seylan Developments PLC
(Company Registration No. PQ151)
Level 15, Seylan Towers
No. 90, Galle Road, Colombo 03, Sri Lanka

For any clarifications on this Report, please contact:

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Seylan Towers,
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Email: act@seylan.lk
Tel: (94)-(11)-2456366, (94)-(11)-2452612



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