



the  
name  
says  
it all!





# Over half a century of service to the people of Sri Lanka, somethings have not changed...

People's Bank has remained...the people's bank. Our founding reason for being, prevails unchanged to this day... to serve the people we were set up to serve. Of course we've grown over the years; our reach and product portfolio have widened; our prosperity too has grown in tandem with that of our customers.

*Yet in name and style we remain...**People's Bank.***

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## About the Bank

People's Bank was set up in 1961 to mobilise rural savings and channel it towards the process of development. It was established to provide banking services to population groups that had previously been excluded from the financial services industry. Thus over fifty years we have used financial products to catalyse development in rural and urban areas and to provide support to an economy in transition.

The Bank commenced business in a very different economic environment. The country had received independence a mere 13 years previously and many parts of the financial services industry were at an early stage of development. There was an emphasis on state-led economic growth and state-owned enterprises were seen as the driver of the economy.

Today we function in a very different environment. The country's per capita GDP has crossed the US\$ 2,500 threshold and the state and private sector work together to drive development. We are looking at doubling the per capita GDP over the next five years and joining the ranks of emerging economies of the world.

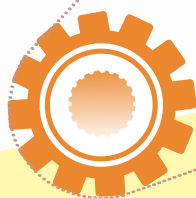
A state-of-the-art financial services industry is crucial if the country is to sustain its present growth rates. The current moment calls for innovation, proactive engagement with new market segments and calculated risks. People's Bank is today ready to play this new role. It has a pool of highly-motivated employees, a sound risk management strategy, a customer base in excess of 14 Mn, 728 branches and service centres, 420 ATMs and an asset base of Rs. 873 Bn. We are constantly strengthening our product portfolio and enhancing customer service. Our pre-tax profit of Rs. 15.2 Bn and post-tax profit of Rs. 10.9 Bn in 2012 coupled with a low non-performing loan ratio of 2.8% make us well placed to support Sri Lanka's growth drive in the years to come.

# Our Vision

To be the Bank of the aspiring People of Sri Lanka: Empowering People to become value creating, competitive and self-reliant.



# Our Mission



## For our Customers

To take pride in providing an excellent service in the most caring, responsive and professional manner.


## For our Owners

To generate benefits for the national economy whilst being independent and commercially viable.






# Our Values



## For our Employees

To create opportunities for our employees to benefit from their high performance by becoming value creating, skilled, self-confident and professional individuals who are also team players.



## For our Society

To support empowerment and sustainable development by contributing to the upliftment of education, culture and environment island-wide.

- We recognise that the primary reason for our existence is to create value for people of the nation.
- In all our activities we exercise our duty with utmost care in the interest of our depositors.
- We promote long-term ethical relationships with our customers through true and fair dealing.
- We put our customers at the centre of everything, by minimising bureaucracy, demanding hands on management, quick decision making and implementation.
- We empower staff and require them to be accountable.
- We demand the highest standards of personal integrity at all levels, putting the Bank's interest ahead of individuals.
- We create an environment of mutual respect and trust where employees can demonstrate their performance and achieve their full potential.
- We develop our business by encouraging high performing teams that recognise and support the skills, commitment and links to the community of every employee.
- We are committed to comply with the spirit and letter of all laws and regulations, adhering to the highest standards of Corporate Governance, transparency, disclosure and ethical conduct.
- We conduct ourselves as good citizens promoting the environment and sustainable development.



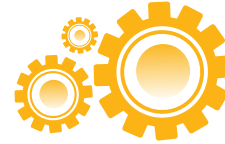
## Operational Highlights



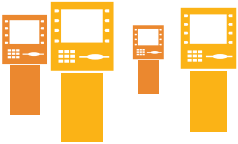
More than 50 years in banking services.



Customer accounts over 14 Mn.



Entire branch network is now online and interconnected.



ATM locations increased to 420 covering almost all parts of the island.



Rs. 12.3 Bn paid in taxes, dividends and levies to the Government of Sri Lanka.



Bank ratings were upgraded - Fitch Rating AA+ and RAM Ratings AAA.



Profit after tax reached Rs. 10.9 Bn.



Number of banking outlets increased to 347 and service centres increased to 381, expanding the total branch network to 728, the largest in Sri Lanka.

# Financial Highlights

|                                      | 2012    | 2011    | %     |
|--------------------------------------|---------|---------|-------|
| <b>Bottom Line Performance</b>       |         |         |       |
| Profit after Taxation (Rs. Mn)       | 10,894  | 10,446  | 4.3   |
| Capital and Reserves (Rs. Mn)        | 29,205  | 23,089  | 26.5  |
| <b>Productivity</b>                  |         |         |       |
| Net Revenue (Rs. Mn)                 | 43,310  | 36,431  | 18.9  |
| Cost/Income Ratio (%)                | 55.8    | 56.1    | -     |
| Head Count (Permanent)               | 7,823   | 8,249   | (5.2) |
| Profit per Employee (Rs. '000)       | 1,393   | 1,266   | 10.0  |
| <b>Year End Data</b>                 |         |         |       |
| Gross Loans and Receivables (Rs. Mn) | 660,624 | 508,235 | 30.0  |
| Deposits (Rs. Mn)                    | 683,951 | 550,226 | 24.3  |
| Total Assets (Rs. Mn)                | 873,107 | 662,077 | 31.9  |
| <b>Key Performance Indicators</b>    |         |         |       |
| Return on Assets - Before Tax (%)    | 2.0     | 2.6     | -     |
| Return on Equity (%)                 | 41.7    | 49.2    | -     |
| Capital Adequacy Ratio (%)           | 14.0    | 14.8    | -     |
| Non-Funded Income/Net Income (%)     | 21.7    | 16.8    | -     |

## Chairman's Message



On behalf of the Board of Directors, I am pleased to present to you the Annual Report and Accounts for the year ended 31st December 2012, which endorse the success story of the Bank over the last 51 years. This success story manifests the Bank's sustainable operations in creating social values for the people of the nation.

The financial services sector is a key support driver in the country's development and this was well-evidenced when in total assets, the banking sector accounted for Rs. 5,210 Bn. By the end of 2012, the banking sector amassed a total of 2,193 bank branches, 4,103 other banking outlets and 2,331 ATMs.

## THE ECONOMY AND THE BANKING SECTOR

Globally the banking industry emerged from global crises and more localised challenges in 2012 and slowly moving through different stages of response. The US and Europe continue to be the primary forces behind structural changes to the banking industry; authorities in Asia and Japan seem unlikely to opt for major reforms. The Sri Lanka economy too encountered heightened global and domestic challenges in 2012. Globally, the European sovereign debt crisis, fiscal cliff in the US and persistently high petroleum prices challenged the economic development whereas the excessive credit demand and high imports and inclement weather conditions affected locally.

Amidst these adverse conditions, Sri Lanka's economic growth prospects have improved following the end of the civil war and subsequent move in the Government's focus toward boosting the economy and diversifying sources of growth. The economy is expected to record a GDP growth of around 6.5% in 2012 which is an admirable accomplishment viewed against the backdrop of a turbulent world economy as well as many external and domestic challenges that were experienced in the early part of the year.

The financial services sector is a key support driver in the country's development and this was well-evidenced when in total assets, the banking sector accounted for Rs. 5,210 Bn. By the end of 2012,

# Encapsulating our ethos of being the People's Bank, we carried out our mandate of providing banking facilities to the needs of both corporations as well as individuals including providing microfinance facilities to the rural communities.

the banking sector amassed a total of 2,193 bank branches, 4,103 other banking outlets and 2,331 ATMs. The Central Bank of Sri Lanka (CBSL), playing a proactive role in ensuring this accessibility concept, added continuous supervision and guidance to its speedy approval process for new outlets, while rationalising approval procedures,

safety mechanisms and reviewing current classifications of banking outlets. It is also pertinent to note that the Capital Adequacy Ratio was maintained well above the minimum level of 10% with the Basel II standards being implemented and monitored. Under Pillar 2 of Basel II, the Consultation Paper on the implementation



The Bank has fared well in its overall performance, posting a Profit after Tax of Rs. 10.9 Bn which is an increase of 4% over last year, while the Group itself recorded a Profit after Tax of Rs. 11.9 Bn in 2012

of ICAAP (Internal Capacity Adequacy Assessment Process) and Supervisory Review Process (SRP) was also issued.

Several significant factors impacted on migrant remittances which saw quite a meteoric rise of up to US\$ 6 Bn, an increase of 16.8% and shown at 10% of GDP. There were strategic promotional initiatives,

which included those by People's Bank, to encourage Sri Lankan expatriates to open NRFC accounts which were fully supported by an impressive expansion of the global network and presence. This was an initiative mooted by various Sri Lankan commercial banks, primarily in the Middle East, Australia, France, Canada and Singapore. Web-based products including our very own People's eRemittance also

added significantly to the increase. There was an increase of 9.9% in departures for foreign employment in the first half of 2012 and an increase of 33% in the professional category of migrant workers.

Encapsulating our ethos of being the People's Bank, we carried out our mandate of providing banking facilities to the needs of both corporations as well as individuals including providing microfinance facilities to the rural communities. The People's Bank has been an important catalyst of implementing Mahinda Chinthanaya and accordingly, our policies were in parallel to the path to the country's progress, ensuring that it remains truly a 'People's Bank'.

## FINANCIAL POSITION

I am very pleased to report that the Bank has fared well in its overall performance, posting a Profit after Tax of Rs. 10.9 Bn which is an increase of 4% over last year, while the Group itself recorded a Profit after Tax of Rs. 11.9 Bn in 2012. This upward pattern continued to be the norm in turnover as well for the Bank and the Group, wherein a growth of 39% and 38% was seen in the figures of the Bank and the Group, which is Rs. 94.8 Bn and Rs. 110 Bn respectively. Net operating income increased by 10% to stand at Rs. 39.4 Bn at year end, while our capital and reserves increased this year to Rs. 29.2 Bn. It is also notable that the dividends and taxes paid to the Treasury of Rs. 12.3 Bn is our contribution to national development projects, vital for the progress of the country.



People's Bank has been consistent as seen in the rankings given by Fitch Ratings Lanka of AA+ (stable) and the fact that we have continued to record healthy earnings each year, for the last two years.

The impressive performance displayed by People's Bank is well-grounded in the fact that it remains true to its founding philosophy, of truly being a people's Bank. The fact that we concentrate heavily on increasing our penetration so that we are accessible to all parts of the country, that our products encompass citizens from the cradle to their twilight years, that we remain partners in economic development whether by assisting micro and small and medium entrepreneurs or mega corporations, ensuring that we invest astutely and proactively, so that the returns on investment will always be above par all point to one fact-our success.

These are some of the reasons that the Bank continues to remain ahead of competition, despite operating in volatile and challenging environments, especially given the high interest regime seen in 2012 and the intense competition prevalent within the sector.

### ACKNOWLEDGEMENTS

The awards we have been conferred with have been numerous; for six years consecutively, we have been presented the title of being the most popular bank in Sri Lanka at the SLIM-Nielsen People's Awards, which evidences that our recipe for being a true partner with the nation is recognised. From a sustainable performance perspective too, People's Bank has been consistent as seen in the rankings given by Fitch Ratings Lanka of AA+ (stable) and the fact that we have continued to record healthy earnings each year, for the last two years.

### FUTURE OUTLOOK

We are well-positioned to carry out our 2009-2016 Strategic Plan and to make headway creating sustainable value to all the stakeholders of the Bank. During the year, the construction sector posted an impressive growth, expanding 17.9% in the aforementioned period, supported by sustained rebuilding and capacity building. With the Government's focus on accelerated infrastructure development,

there are considerable opportunities for the sector to grow, in addition to the focused development in the ports, aviation, leisure, maritime and energy sectors all presenting myriad opportunities for growth.

The impressive performance displayed by People's Bank is well-grounded in the fact that it remains true to its founding philosophy, of truly being a people's Bank.

In addition, 2016 will surely be the forerunner of change for many key sectors including the banking sector. The CBSL is projecting total assets to stand at Rs. 9,334 Bn within this sector, while deposits are earmarked to reach Rs. 6,500 Bn and loans and advances to be notched at Rs. 6,000 Bn by 2016. Private sector credit is estimated to reach Rs. 4,143 Bn. The equity market too should take on added vibrancy as there is concerted effort to introduce wider investment opportunities and broader investment groups. The Corporate Bond

Market will reach Rs. 1,000 Bn in 2016, propelled by long-term funds and a growing corporate sector. We are well-gearred to reap the benefits of this economic boost of the country.

With the North and the East seeing burgeoning development, the Bank has enhanced its role in these two areas as well, identifying the immense potential that exists. From a strong entrepreneurial culture, to agricultural prowess, the North and the East have always connoted energy and vibrancy. We intend channelling that energy and vibrancy into productive sustainability, which we believe this will fuel the country's economic development even further. We strive to continue our true commitment of truly being a People's Bank by uplifting the financial stability of the nation in every nook.

## APPRECIATION

None of this would have been possible without the commitment and dedication of the management team of the Bank headed by the CEO/GM and I convey my heartfelt appreciation for the management team in their relentless efforts in execution of the 2009-2016 Strategic Plan of the Bank. Also, we are an integral partner of the Government's ten-year vision and to play a meaningful role, it is our duty to ensure that all necessary imperatives are established and implemented. To map out this path to

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progress, we engage in communication processes with numerous stakeholders including our customers and valued business partners, who are extremely committed to being partners in this process. Accordingly, I wish to convey my sincere thanks to our customers, valued business partners and the communities around us, for the constant feedback, dialogue and discussion you engage with us to ensure that we remain true to our fundamentals.

Also, I take this opportunity to express my deepest condolence over the untimely demise of the Bank's former Chairman Mr. W. Karunajeewa whose visionary thinking and stewardship led the Bank to its present success.

Operating in speedily transforming environments can be challenging and I remain most grateful to the Governor and officials of the Central Bank of Sri Lanka, the Secretary to the Treasury and the Board of Directors, for the guidance and leadership you have extended ensuring that governance, ethics, transparency and accountability are always a high priority.

I am positive that the committed support of all the stakeholders of the Bank, which is the basis of all our plans will be forthcoming as we face the challenges of the future.



**Gamini Senarath**  
*Chairman*

27th March 2013

# Chief Executive Officer/General Manager's Review



The landscape that we worked in during 2012 was considerably challenging; the expected recovery of the global economic slowdown was slower than anticipated and this did have its permeating impacts on the larger external environment.

With this in mind and observing the impact of this slow recovery, coupled with rising oil prices, ramifications of the continuing fall out of the Arab Spring, unabated extremes in natural disasters, the Eurozone dealing with its continuous battles, bail outs and even bankruptcies of some countries and the Asian region, which was tipped to be the new economic superpower also having to contend with all these problems, Sri Lanka also prudently re-looked at her projected growth targets. This was brought down to under 7% and saw the country achieve a GDP of 6.5% by end 2012, well above the world average and certainly aligned to the rest of the region.

The country's KPIs continued to perform on target but certain adjustments had to be made to ensure sustainability of the country's fiscal environment, which in retrospect, was the backdrop that People's Bank operated in.

I am very pleased to report therefore that the Bank, despite the challenges mentioned above in addition to challenges experienced in the interest and exchange rate regimes, once again achieved a milestone. As has been the norm in the past, we have been consistent with our profit curve moving upwards, continually bettering the previous year's figures albeit profit before tax this year was marginally below Financial Year 2011 owing to the salary adjustments made to permanent staff members via the new collective agreement 2012-14. Notwithstanding the Bank's profit after

taxation recorded a modest growth of 4.3% over previous year which amounted to Rs. 10.9 Bn owing to a lower tax chance.

I must commend my team, spearheaded by a very competent management team whose motivation and dynamism to ensure that we meet and in some areas exceed our targets, has surely been the core of this success. The prudent management strategy, aligned to the Strategic Plan of 2009-2016 which is the current management blueprint we are following and the pragmatic transformations we executed aligned to the emerging trends we observed, added to our success story.

## OUR FINANCIAL PERFORMANCE

While I mentioned the modest profit after tax above, there are a number of other financial highlights which should be noted. Fuller details are available in our Statement of Accounts.

Being a Bank that has always partnered the State in its development agenda, we know that in these current times, when an accelerated development programme is being pursued, we have an even more important role to play. While we continue to develop and innovate our product and service portfolio, we are also aware that the taxes and dividends we pay to the Government, which is our largest shareholder, goes directly to fund the much needed infrastructure and development projects that form the backbone of the national vision. This year, we contributed Rs. 12.3 Bn to Government of Sri Lanka and out of which Rs. 4.5 Bn was dividends.

# Being a Bank that has always partnered the State in its development agenda, we know that in these current times, when an accelerated development programme is being pursued, we have an even more important role to play

Our total assets increased by 31.9% to Rs. 873.1 Bn this year, above Rs. 662.1 Bn posted last year. The initiatives we employed to encourage savings saw our deposits increase significantly to Rs. 684 Bn, which is a 24.3% increase from last year. The NPL ratio meanwhile stands at 2.8%, a real low for the Bank.

## OUR ACCOMPLISHMENTS

The operating environment was challenging, but People's Bank's ethos of always being able to overcome challenges has been the panacea to this. The environment was intensely competitive; the financial sector's product and service portfolios expanded immensely with every niche market being explored, fiscal decisions, albeit for long-term sustainability, did not make it easy to grow some business areas and the vagaries of the weather struck some of our more



vulnerable customers in the micro and SME sectors. However, our name says it all: we are the 'People's Bank' and that is our ethos. Hence, challenges can be overcome if analysed and worked on astutely and that is what bore fruition this year.

Methods used to ensure that our targets are met included product development and innovation as well as value addition to our product portfolio. We concentrated heavily on reaching out to demographic areas that were not or less bankable, we concentrated on further inculcating the savings habit among the student population, we began extensively promoting our 'cradle to twilight years' concept in our product portfolio so our customers know that we will always be with them and we made ourselves accessible, not only through branch expansion, but through mobile banking initiatives, infusing technology for SMS and Internet banking and networking our branches.

Deposit mobilisation was a major focus area of business, as not only are we given the responsibility as a State Bank to encourage a savings culture among the people but also, to direct those funds to be used in the larger scope of national development. We were most successful in growing our deposit portfolio to Rs. 684 Bn this year, which is an increase of 24.3%. Encouraging savings during the *Vanitha Wasana* Month based on the International Women's Day initiative that includes a prize draw, promoting the very popular *Jaya Sri* Rewards Savings programme to gather momentum and at Independence Day celebrations, encouraging parents to save for their new born children were some of the campaigns undertaken. We also gave encouragement

to our migrant workers, issuing a specially designed pre-generated People's International VISA Card in collaboration with the Ministry of Foreign Employment.

One of our most impressive achievements during the year was the launch of SME Business Centres, aligned to the *Mahinda Chinthana Idiri Dakma* programme, aiming to add impetus to the small and medium business sectors. We opened four such state-of-the-art business centres in Anuradhapura, Kurunegala, Matara and Kandy, equipped with all facilities and manned by trained staff who will aid and assist this segment of our customer to develop their business and add value to the economy. We intend opening SME Business Centres in all districts in the island.

**We have always walked the talk, turned vision into action and made communities sustainable**

A key ingredient to the success of the Bank is accessibility. While technology plays a major role in ensuring that we are continually accessible, we also believe that penetration and visibility is an imperative. Adding to our branch network, therefore was an accomplishment, although we did slow

down our expansion plan, due to the before-mentioned macro constraints six branches were added and upgraded in strategic locations, adding to the SME Service Centres, ATMs, Mobile Banking Centres and Technology Driven Internet and SMS Banking, which now increases our touch points to an impressive number, affirming our status of being the People's Bank.

Information technology forms the axis upon which the Bank functions. With the continuous focus on automation, we added 40 ATMs bringing the total to 420, possess 728 total customer service points due to the implementation of the Centralised Online Branch Network, can accept cheques until 5.30 p.m. daily. We also successfully rolled out the Treasury Management System, brought in 200 POS machines to be TLE (Terminal Line Encryption) compliant and implemented an Automated Mini Call Centre at our Card Centre.

The emphasis on enhancing our advances is aligned to the heart of what we want to be - the People's Bank. We believe that by supporting the people to sustainably develop and thereby uplift their lifestyles while contributing towards the country's economy, will help Sri Lanka meet her ambitious goals. Our retail advances portfolio grew considerably this year due to this focus. It must be remembered that this performance was achieved in an environment where a credit ceiling prevailed, prompting us to pursue alternative and innovative channels to grow our loan book. In tandem, loan recoveries too were undertaken aggressively, but with an undertone that the Bank must remain one with the people and therefore be supportive.

Despite a challenging marketplace, the Bank's Treasury also contributed significantly to our good performance. Foreign exchange income grew by 76.0% due to a very competent team having perceived the trends and worked on those to our advantage. We strengthened our reputation as a market maker in the US\$/LKR currency pair in the spot and forward markets, while substantial revenue was garnered through debt trading via capital gains and interest earnings.

The Treasury continued to gain accolades as the Primary Dealer Unit having the highest trading volumes on the Bloomberg's FIQ trading platform launched this year and the Investment Banking Unit was selected as Co-Manager, together with Bank of America Merrill Lynch, Barclays Capital, Citibank and HSBC for the Government of Sri Lanka's very successful US\$ 1 Bn sovereign bond issue.

## DEVELOPING THE RURAL ECONOMY

We have been concentrating on the newly blooming economies prevalent in the Northern and Eastern Provinces, working on initiatives with those communities to bring them into the development arena. We went live in the Northern Peninsula which served to strengthen operations and drive regional business expansion. Aligned to the Government's Ten-Year Development Plan, the Bank's focus on developing the micro and SME sectors was entrenched further in these two geographic areas, giving impetus to entrepreneurs and specifically farmers in

both dairy and agricultural produce. In addition, the focus on the rural economy remained most pervasive, aligned with the Government's vision of uplifting the micro and SME sectors to become the backbone of the economy, with the Bank providing an impressive number of financing opportunities via microfinancing and development loans.

Deposit mobilisation was a major focus area of business, as not only are we given the responsibility as a State Bank to encourage a savings culture among the people but also, to direct those funds to be used in the larger scope of national development

The loans aligned to the Awakening North, Awakening East, Provincial Development, Smallholder Plantation Entrepreneurship Development Programmes and Post-Tsunami Coastline Rehabilitation and Resource Management have been highly successful in not only uplifting the regional economies, but also in optimising resource utilisation in those regions, generating employment and alleviating poverty.

For the latter, we also introduced the Poverty Alleviation Microfinance Project Loan Scheme and the related Revolving Fund Loan Scheme, extended to community groups and targeted primarily towards women on the concept of social mobilisation for economic empowerment.

The *Vanitha Navodya* Loan Scheme which is primarily for women affected by natural disasters has been instrumental in empowering a large number of displaced widows. The New People's Fast Loan Scheme and *Saubhagya* Loan Scheme adds fillip to launch new industries and ameliorate existing industries, while the *Viskam Loan* Scheme facilitates innovations in the agro industry, developing the small and medium scale farmer.

Another unique initiative in our endeavours of regional development is that 245 villages based in community groups were brought under the microfinance village programmes, in order to spur entrepreneurship and self-development. Self-employment projects are encouraged through rehabilitation loans, coconut-related industries gaining assistance through the *Kapruka Nipeyum Diriya* Loan Scheme and in supporting farmers to gain fair market prices and relief from drought.

## EMPOWERING OUR TEAM

It has certainly been a year that has tested our team's prowess and a test that has seen them succeed and the results we posted this year are tangible proof. I do believe that the transformational culture we infused some years ago, coupled with change management has been a key driver in the fruition of milestones, achievements and objectives. That training and development philosophy coupled with a knowledge gaining culture that permeates the entirety of the Bank continues. This year too, our HR Department spearheaded strategic training and development programmes

that used the expertise of both internal and external personnel, adding value in identified competencies to ensure that the competitive edge we possess with our team, will be further honed.

## GIVING TO OUR COMMUNITIES

A corporate steward is one who believes in walking the talk. We have always walked the talk, turned vision into action and made communities sustainable. Our very ethos is one of corporate social responsibility,

where from our products and services and even the very strategies we infuse, are conceptualised, constructed and implemented for long-term sustainability of our stakeholders.

As is emblematic of our overarching philosophy of being a true partner to the people, throughout 2012 we continued assisting in numerous projects and initiatives mooted by various community segments. From paying our respects to the founder of People's Bank Hon. T.B. Illangarathna, to partnering Asia's largest cultural pageant the Esala Perahera which assuredly highlights Sri Lanka's extraordinary cultural heritage and in similar vein to sponsoring various arts and cultural events; we invested in the development of sports including netball where the Bank was a significant partner at the 8th Asia Cup Netball Championship and also cycling, fuelling the building of a strong and well-rounded nation; we empowered women through various women-oriented projects and fostered tolerance and unity in our multi-religious country by partnering numerous religious events that celebrate the various religions being practiced in Sri Lanka.

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## MOVING AHEAD AMID CHALLENGES

The credit ceiling is no longer applicable for 2013 and that gives the Bank opportunity to grow our credit portfolio at manageable levels. We plan to consolidate our branch network and various touch points albeit will be focused expanding on SME, Microfinance and the Retail Sector.



However, we observe the volatile milieu in the exchange rate and interest rate areas being a challenge to achieving our strategic objectives, which have been clearly detailed in the Strategic Plan for 2009 to 2016. Having been a Bank that has a history spanning over five decades of which, most have been challenging, we are consistently infusing pragmatic intents and initiatives that support our Strategic Plan. Among these is the need to increase our non-funded income avenues to support our future plans.

Our compliance strategies remain aligned to the directives of the Central Bank of Sri Lanka and other regulatory authorities, including being on par with the new Accounting Standards which came into effect in 2012. All these ensure better governance and compliance within the financial services sector.

From a fiscal perspective, the country is surely setting the right tone for the banking industry and the corporate sector to flourish. This is seen in corporate taxation being further reduced to 28% and Financial VAT to 12%, while we see the abolition of the Debit Tax as a definite positive for the furtherance of the business sector. There's also a concerted effort to harness private sector investment and to moot Public-Private Partnerships in infrastructure and development projects across the country, with special emphasis on the North and the East, all of which give the country the added buoyancy to meet its vision of becoming South Asia's Economic Hub by 2015.

**From a fiscal perspective, the country is surely setting the right tone for the banking industry and the corporate sector to flourish**

## APPRECIATIONS

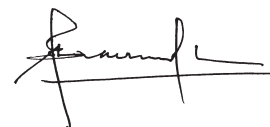
We look forward to 2013 being a year of further achievement and one that is conducive to accelerated growth. To do this, I rely on the advice and guidance extended to me by the late Chairman and Board of Directors, which I received in abundance during 2012. In this regard, I would like to place on record our late Chairman Mr. W. Karunajeewa's untiring efforts which helped transform the Bank to where it is today. Helping a bank with over 10,500 strong team, spread across strategic locations in the country requires great vision, strategy and leadership. In addition, to have achieved the results we have this year, amid the volatility and challenges is surely a result of that vision, strategy and leadership.

My thanks go out to all our employees for the dynamism and commitment they have demonstrated.

I also thank the Secretary to the Treasury, officials of the Ministry of Finance, Governor of Central Bank of Sri Lanka, Officials of the Central Bank, the Monetary and Regulatory Boards, Auditor General and his staff for their guidance and support extended towards People's Bank.

I'm also grateful to our customers and valued business partners, who continue to place their confidence in us, being unwaveringly loyal and supportive in our endeavours. We draw immense strength from the communities we work in as it is these stakeholders who rely on us to forge paths for them to travel, knowing that our plans are always chartered for long-term sustainability.

It suffices to proclaim that we will always remain the People's Bank - working with the people, for the people and by the people, where our vision, goals and objectives will be aligned to the country's vision and thereby, be the key driver in giving the nation the imperative trusses to grow.



**N. Vasantha Kumar**  
*Chief Executive Officer/  
General Manager*

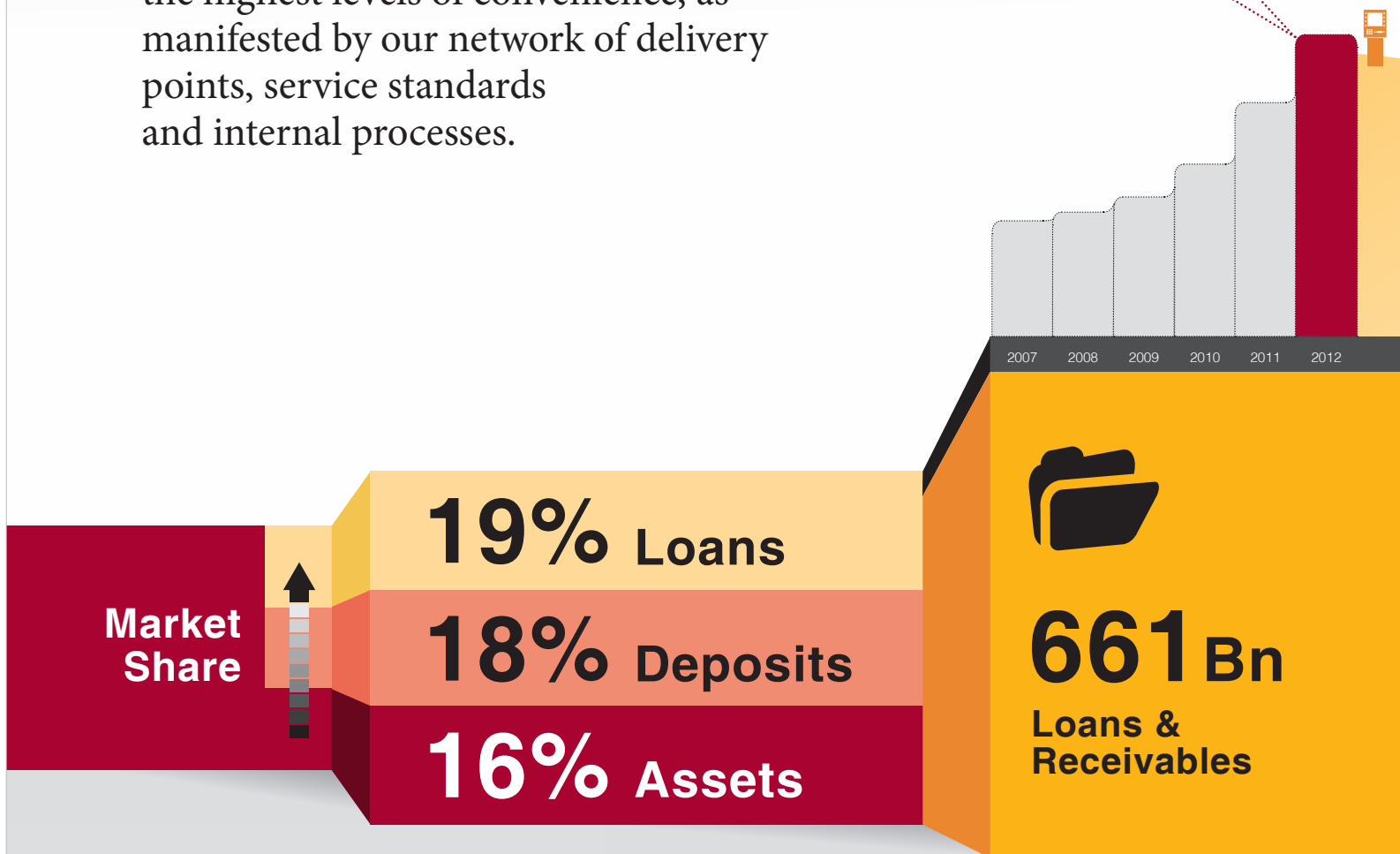
27th March 2013



## CUSTOMERS

As the 'People's Bank' we live to provide a customer friendly service with the highest levels of convenience, as manifested by our network of delivery points, service standards and internal processes.

Loans and Receivables grew by 30% over 2011, while 5-year CAGR was 21%.



## Our ATM Network...

We're growing rapidly, with 40 new points added this year...and we're found everywhere across the country!

**420**  
ATMs



**14.3Mn**

No. of Customer  
Accounts



**684Rs.Bn**

Value of  
Deposits



**728**

Branches  
and Service  
Centres

# Board of Directors



**Mr. Gamini S. Senarath**

*Chairman*

Mr. Gamini S. Senarath assumed duties as Chairman of People's Bank on 14th February 2013. He is also the Chairman of People's Leasing & Finance PLC, People's Leasing Fleet Management Ltd., People's Leasing Property Development Ltd., People's Leasing Havelock Properties Ltd. and People's Microfinance Ltd.

Mr. Senarath is a reputed officer in the Sri Lanka Administrative Service and currently functions as the Chief of Staff to H.E. the President, in addition he is the Chairman of State-owned Litro Gas Lanka Ltd., Litro Gas Terminal Lanka (Private) Ltd. and Sri Lanka Insurance Resorts and Spa (Private) Ltd. and the former Chairman of Sri Lanka Insurance Corporation Ltd.

He holds a Postgraduate Diploma in Computer Science from the University of Colombo and a B.Com (Special) degree from the University of Kelaniya.

Mr. Senarath has functioned as an Assistant Government Agent, Assistant Controller and Deputy Controller of the Department of Immigration & Emigration and also served in the capacity of Secretary to the Ministry of Transport & Civil Aviation and as the Commissioner General of Motor Traffic.



**Mr. W. Karunajeewa**

*Chairman up to January 2013*

Late Mr. W. Karunajeewa was Chairman of the People's Bank Group from May 2007 till his untimely demise in January 2013. He was also Chairman of People's Leasing Company PLC, People's Finance PLC, People's Leasing Fleet Management Ltd., People's Leasing Property Development Ltd. and People's Insurance Ltd.

Prior to this, he served as Chairman and working Director at Employees' Trust Fund (ETF) Board and Ceylon Fisheries Corporation.

An Honorary Fellowship was awarded to him by the Institute of Bankers of Sri Lanka (IBSL) in recognition of the contribution, commitment and outstanding services rendered to the Sri Lanka Banking Industry.

He was a senior and reputed Attorney-at-Law and held a B.Com. Degree from the University of Ceylon.



**Dr. D.J.D. Jayakody**

*Director*

Dr. D.J.D. Jayakody was appointed to the Directorate of People's Bank in 2007. He is also on the Board of People's Leasing Company PLC and People's Finance PLC. He is a Management Consultant.

Obtained Ph.D. in Management from International University of America (UK). Graduated in B.Sc., Public Administration and MBA from PIM of Sri Jayewardenepura University. A Fellow Member of IPFDA, Member of the Institute of Management of Sri Lanka and Member of Institute of Internal Auditors. Functioned as an Accountant, Chief Internal Auditor, Deputy General Manager and Additional General Manager. Was a Senior Lecturer in the Faculty of Business Studies and Finance at Wayamba University and a Visiting Lecturer in University of Colombo for Faculties of Management & Finance and Graduate Studies. Member of NLDB Board of Directors and a Member of National Labour Advisory Council, Ministry of Labour. Served as a Reserve Assistant Superintendent of Police.



**Mr. Jehan P. Amaratunga**

*Director*

Mr. Jehan Amaratunga is a Member of The Institute of Chartered Accountants of Sri Lanka and Fellow Chartered Management Accountant. He was awarded First in Order of Merit Prize at the final level examination of The Institute of Chartered Accountants of Sri Lanka.

Mr. Amaratunga currently serves as the Executive Deputy Chairman of MTD Walkers PLC Sri Lanka, which is a leading infrastructure development company that is listed on the Main Board of the Colombo Stock Exchange. He is presently the Chairman of People's Insurance PLC and a Director at People's Merchant Bank PLC.

He has over 25 years of extensive experience in Finance and Management and has been a Consultant and Director to a large number of corporations and private entities. Amongst his many achievements was the presentation of a paper titled "Value for Money Accounting" at the National Conference of The Institute of Chartered Accountants of Sri Lanka. He was also a Member of the Governing Council of The Institute of Chartered Accountants of Sri Lanka.



**Mr. Ajith Panditharatne**

*Director*

Mr. Panditharatne was appointed to the Directorate and to its Associate People's Merchant Finance PLC as the Chairman in June, 2010. He is the Executive Director of Sri Lanka Export Development Board and Consultant/Director (Special Projects) of Globe/Monta Group of Companies. He had served on the directorates of National Paper Corporation as Working Director and subsequently as the Chairman during the year 2001, Working Director - Lanka Cement Ltd. from January 2002 to April 2004 and Chairman - Paranthan Chemicals Corporation from October 2003 to April 2004. His experience in serving directorates counts over 10 years.

He is also the Chairman of the People's Merchant Finance Co. Ltd., which is a subsidiary of the People's Merchant PLC and a Director of the People's Leasing Property Development Ltd., which is a subsidiary of People's Leasing Company PLC.



**Ms. Lakshmi K. Sangakkara**

*Director*

Ms. L.K. Sangakkara was appointed to the Board of Directors of People's Bank in May 2010. She is also the current Chairperson of People's Travels (Pvt) Ltd., a subsidiary of People's Bank, and serves as a Board Member of People's Leasing Fleet Management Ltd. and Sri Lankan Airlines.

She is an Attorney-at-Law.

Ms. Sangakkara served in the Directors Board of Sellers Sportswear Garments, Ronbro International Garments, and Sun Island Village Holiday Resort. Ms. Sangakkara has a vast amount of experience, around 31 years in the fields of Law, Management, Marketing, Hospitality and Apparels.



**Ms. Dharma N. Gammampila**

*Director*

Ms. Dharma N. Gammampila was appointed to the Board of Directors of People's Bank in May 2010 as a Non-Executive Director. She is also a member of the Board of People's Insurance Ltd.

Ms. Gammampila is an Attorney-at-Law and Notary Public and a registered Company Secretary of Sri Lanka and a Solicitor of England and Wales. She counts over 35 years experience in England and Sri Lanka. She held the position of Company Secretary of Forbes and Walker Ltd. and was Director - Legal and HR of the subsidiary companies of the Forbes and Walker Group for a period of thirteen years. Whilst, currently serving as Director in private Companies involved in plantations, travel, tourism and hospitality. Ms. Gammampila is actively involved in the practice of Corporate Law, Employment Law and Conveyancing.



**Ms. Visakha Amarasekera**

*Director*

Ms. Amarasekera was appointed to the Directorate of People's Bank in June 2010 as the representative of the Treasury, Ministry of Finance & Planning.

She holds a MA in Development Economics (2007) from Vanderbilt University, U.S.A., B.Sc. (Hons.) in Economics and Management (ISE) (2002). She is a passed finalist of the Chartered Institute of Management Accountants (1999) UK and a Member of the Institute of Public Finance Development Accountancy (Sri Lanka).

She is at present attached to the Department of Public Enterprises as a Deputy Director and she also represents the Treasury on the Boards of several State-Owned Enterprises.



**Mr. Priyantha Mayadunne**

*Director*

Mr. Priyantha Mayadunne holds a Bachelor's Degree in B.Sc. (Business Administration), offered by the University of Sri Jaywardenepura and a Master of Public Administration Degree, attained from the Postgraduate Institute of Management of University of Sri Jaywardenepura. He is an Attorney-at-Law and has obtained his Bachelor of Law Degree (LLB) offered by the Open University of Sri Lanka and holds a Diploma in Professional Diplomacy and World Affairs, obtained from the Bandaranaike International Diplomatic Training Institute.

As a SLAS Officer he has gathered experience in Regional Administration as well as in Departmental and Ministerial Level Administration. He has also served in statutory institutions on secondment basis. Mr. Mayadunne has been involved in improving productivity and quality assurance in the Public Sector.



**Mr. Pawara Dassanayake**

*Director*

Mr. Pawara Daasanayake was appointed to the Directorate of the People's Bank on 21 February 2011.

He is an eminent entrepreneur who counts more than 15 years experience in the field of business. Mr. Dassanayake is also the Chairman of Building Material Corporation Ltd.





# Corporate Management



**Mr. N. Vasantha Kumar**

*Chief Executive Officer/  
General Manager*

Mr. N. Vasantha Kumar holds a Master's Degree in Business Administration and counts over 32 years of experience in Treasury Management. He joined the People's Bank in March 2001, prior to which he served as Treasurer at ANZ Grindlays Bank, Colombo for many years.

He took over as the Chief Executive Officer/General Manager of People's Bank on 22nd February 2011.

He is a Director of People's Leasing Company PLC, People's Insurance Ltd., People's Travels (Pvt) Ltd., Credit Information Bureau and National Payment Council. He is a Member of the Governing Board in the Institute of Bankers of Sri Lanka. He is currently the Chairman of Lanka Financial Services Bureau, Financial Ombudsman Sri Lanka (Guarantee) Ltd. and Sri Lanka Banker's Association (Guarantee) Ltd.

He is a past president of the Association of Primary Dealers and of the Sri Lanka Forex Association.



**Mr. Ahamed Sabry Ibrahim**

*Senior Deputy General Manager -  
Risk Management*

Mr. Ibrahim has over 29 years of banking experience both locally and internationally, primarily in the areas of Corporate Banking, Treasury Management and Risk Management. He holds an Honours Degree (B.Sc.) from the University of Colombo and is a Fellow of the Chartered Institute of Bankers - UK (FCIB).



**Mr. Deepal Abeysekera**

*Head of Marketing, Public Affairs &  
Corporate Social Responsibility*

Head of Marketing and Public Affairs of People's Bank is better known for his capabilities in brand building and strategic business development.

He has been responsible for setting up sales, marketing and strategic business development operations in financial sector organisations and has successfully lead corporate brands to the top positions in their respective industries in brand value.

He is a Chartered Marketer and a Fellow of the Chartered Institute of Marketing - UK, a member of the Chartered Management Institute (CMI)-UK and a Member of the Institute of Certified Management Accountants (CMA).

He also holds an MBA from the University of Southern Queensland - Australia. He is currently the President of the Board of Management of The Management Club (TMC) and a Council Member of the Association of Professional Bankers, and Country Advisory Council Member - Global Marketing Network - UK.



**Mr. Yohan A. Soza**

*Head of Finance*

Mr. Soza Joined the Bank as Head of Finance in May 2007.

He is a Member of The Institute of Chartered Accountants of Sri Lanka and holds an MBA from the University of Southern Queensland - Australia. He is experienced in the disciplines of Finance, Management Information, Strategic Planning and Equity Research. He received his professional training at Ernst & Young before joining LOLC Group and previous to People's Bank served AMBA Research Lanka (Pvt) Ltd.





### Ms. Chandani Werapitiya

*Deputy General Manager -  
Corporate Banking*

Ms. Chandani Werapitiya is in charge of the Corporate Credit in the entire Bank including Offshore Banking Unit.

She holds a B.Sc. in Business Administration (Hons.) with a Second Class Upper and M.Sc. (Management) from the University of Sri Jaywardenepura and has professional banking qualification AIB - Sri Lanka.

She joined the Bank in June 1987 as a Management Trainee and counts nearly 25 years of experience in the fields of Customer Services, SME/ Project Lending, Branch Operations, Corporate and International Banking and Credit Management.

She currently heads the Corporate Banking of the Bank.



### Mr. K.B. Rajapakse

*Deputy General Manager -  
Domestic Credit*

Mr. Rajapakse is in charge of the Domestic Credit Department. He joined as a Management Trainee and counts 25 years of experience in the People's Bank.

He holds a 2nd Class Honours Degree (B.Sc.) in Public Administration, Fellow of the Institute of Bankers of Sri Lanka, Attorney-at-Law of Sri Lanka and Diploma from the Institute of Credit Management of Sri Lanka.

He has gained wide experience in various management level capacities in the Bank and at present serves as the Head of Domestic Credit and Credit Card functions of the Bank.

Mr. Rajapakse serves as a Director of Institute of Bankers of Sri Lanka and an Alternate Director of the Credit Information Bureau of Sri Lanka.



### Mr. S.A.R.S. Samaraweera

*Deputy General Manager -  
Human Resources*

Mr. Samaraweera is the Head of Human Resources. He joined the Bank as a Management Trainee and possesses over 25 years of experience in the Banking service. During this period he has served in the areas of Branch Banking, Corporate Banking, Development Banking and Credit Recoveries.

He holds a B.Sc. Second Class Upper Degree in Management from the University of Sri Jaywardenepura and also he is an Associate Member of the Institute of Bankers of Sri Lanka.

His overseas and local exposure includes Management Development, Small & Medium Entrepreneur Management, Rehabilitation of ailing projects and Strategic Human Resources Management.



### Mr. T.A. Ariyapala

*Deputy General Manager -  
Development, Co-operative & SME*

Mr. Ariyapala has been functioning as in charge of Development, Co-operative & SME Banking since 2010.

He holds a B.Sc in Business Administration Graduate and Degree in Bachelor of Laws. He is an Attorney-at-Law and a Fellow Member of the Institute of Bankers of Sri Lanka (FIBSL). He is also an Associate Member of the Institute of Accounting Technicians of Sri Lanka (MAAT).

His career experience is over 34 years in the Bank.

He has received extensive local and overseas training and gathered experience in Co-operative, Project Lending, Microfinance, Human Resource Management and Branch Business/Banking.

He has been responsible for rejuvenating SME Banking & Development Lending in People's Bank.

He is also a member of the Board of Directors of Regional Development Bank (RDB).



**Mr. Rohan Pathirage**

*Deputy General Manager/  
Secretary to the Board of Directors*

Mr. Pathirage was appointed as Secretary to the Board of Directors in August 2010. He holds a Law Degree (LL.B.) from the University of Colombo, Postgraduate Diploma in Banking and Master of Management in Banking from Massey University, New Zealand. He is an Attorney-at-Law.

He is also the Company Secretary of People's Leasing & Finance PLC, People's Fleet Management Ltd., People's Property Development Ltd., People's Insurance Ltd. and People's Travel's (Pvt) Ltd.

He has over 17 years of experience in the Bank.



**Ms. Srima Arsacularatne**

*Deputy General Manager -  
Compliance*

Ms. Arsacularatne joined the Bank's service at Grade II level as a Finance Officer and counts over 27 years of service in the Bank.

She has been an Associate Member of the Chartered Institute of Management Accountants - UK for the past 31 years. She is a Chartered Global Management Accountant, a Fellow Member of the Institute of Certified Management Accountants - Sri Lanka and a Licentiate of The Institute of Chartered Accountants of Sri Lanka. She is an Attorney-at-Law and also holds a Bachelor of Laws Degree from the Open University of Sri Lanka.

She has gained wide experience in the fields of Management /Financial Accounting, Management Information, Logistics and Administration. Prior to joining the Bank she had her career training at Ceylon Ceramics Corporation and served three State Institutions as Accountant.



**Ms. G.P.R. Jayasinghe**

*Deputy General Manager -  
Retail Banking*

Ms. Renuka Jayasinghe joined the Bank in 1987 as a Management Trainee and counts over 25 years of experience in the field of banking.

During her career, she has covered the Branch Banking area at the levels of Branch Manager, Zonal Senior Manager, Regional Manager and the Assistant General Manager (Banking Support Services). Since 2011, she has been working as the Deputy General Manager (Retail Banking).

She holds a First Class Honours Degree in B.Com from the University of Sri Jayewardenepura and has a professional banking qualification AIB - Sri Lanka. She is a life member of Association of Professional Bankers of Sri Lanka and Institute of Bankers of Sri Lanka.

During her banking career, she has participated in various exposure programmes both local and overseas.



**Mr. Clive Fonseka**

*Head of Treasury &  
Investment Banking*

Mr. Fonseka is a member of the Institute of Bankers of Sri Lanka and holds a Master's Degree in Business Administration from Postgraduate Institute of Management of University of Sri Jayewardenepura. Furthermore he has received a Distinction for the ACI Dealing Certificate and counts nearly 20 years experience in Treasury Management.

He joined People's Bank in 2002, prior to which he served at American Express Bank and Standard Chartered Bank.



**Mr. M.A. Bonniface Silva**

*Deputy General Manager  
Operations*

Mr. Silva joined the Bank in 1987 as a Management Trainee and counts over 25 years of service at People's Bank.

His career experience of over 25 years, covers the areas of Branch Business Banking at the levels of Branch Manager, Regional Manager, Zonal Assistant General Manager and presently in charge of the branch network of People's Bank.

He served in charge of over 150 branches, which were categorised under 08 regions with higher volumes of business until he was chosen to steer the entire branch network of the Bank.

He holds a degree (B.A.) from the University of Peradeniya and has a professional banking qualification AIB - Sri Lanka and also he is an associate member of the Institute of Bankers of Sri Lanka.

During the period, he has gained extensive local and overseas training and exposure in Branch Business/Banking.



**Mr. B.M. Premanath**

*Deputy General Manager -  
Banking Support Services*

Mr. B.M. Premanath counts over 25 years of service at People's Bank. He joined the Bank in 1987 as a Management Trainee and has served the Bank as Manager in several Branches, as Assistant Regional Manager in Matale Regional Head Office, as Regional Manager in Polonnaruwa Regional Head Office and as Assistant General Manager in the Central Zone. He was promoted as Deputy General Manager (Banking Support Services) on 15th June 2012.

He holds a 2nd Upper Degree in B.Com from the University of Colombo and AIB-Intermediate, Sri Lanka.

During his banking career, he has participated in various exposure programmes both local and foreign.



**Ms. N.S. Thilakarathne**

*Chief Internal Auditor*

Ms. Nandanie Thilakarathne was appointed as the Chief Internal Auditor since 15th June 2012.

She is an Associate Member of The Institute of Chartered Accountants of Sri Lanka and holds a Second Class Honours Degree (B.Sc.Mgt.) in Business Administration from The University of Sri Jayewardenepura. She is an Associate Member of the Institute of Bankers of Sri Lanka. She holds a Diploma in Information Systems Security Control and Audit conducted by The Institute of Chartered Accountants of Sri Lanka with the technical collaboration of the Institute of Chartered Accountants of India.

She joined the Bank in March 1990 as an Assistant Finance Officer and counts nearly 23 years of experience in the field of Project Lending and Auditing.



**Mr. Jayantha Newunhella**

*Deputy General Manager -  
International Banking*

Mr. Newunhella has had varied exposure in the Bank and in addition, had stints in several countries relating to business and career development. At present, he is in-charge of the Trade Services, Financial Institution Division, Overseas Customer Services, and the Treasury Back Office of the Bank.

He holds a B.Sc. (Management) degree and an MBA from Postgraduate Institute of Management (PIM) of the University of Sri Jayewardenepura. He is also a Fellow of Institute of Bankers of Sri Lanka (FIBSL).

Mr. Newunhella is presently the President of the Trade Finance Association of Bankers of Sri Lanka. He also serves as a panel lecturer of several institutions on International Trade and Human Resources.



**Ms. G. Ekanayake**

*Chief Law Officer*

Ms. Gnana Ekanayake is an Attorney-at-Law and also holds a LLB Degree from the University of Colombo.

She holds a LLM Degree from University of Wales, two Diplomas in International Trade Law, Banking and Insurance and Solicitors Final United Kingdom.

She commenced her career as a professional assistant at Messrs Wijesinghe and Jayasekera and De Silva & Gurusinghe, Law firms. She joined Sri Lanka Sugar Corporation as a Legal Officer.

Subsequently, she joined the People's Bank in 1985 and worked in Galle, Matara, Colombo Outer Regions, and Corporate Banking Division and presently attached to the Head Office.

Her experience covers the areas of Banking Law, Credit, Recoveries, Corporate Law, Labour Law and Commercial Agreements.



**Mr. Sobitha Weerasekera**

*Acting Head of Information Technology*

Mr. Sobitha Weerasekera joined People's Bank in 2007 and was appointed as Acting Head of Information Technology in September 2010.

Mr. Weerasekera has 25 years of experience in the Banking Sector. Apart from his vast exposure on banking ICT area he holds an MBA from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura, M.Sc. in Information Management from Sri Lanka Institute of Information Technology, FBCS, MACS and Professional Banking (ACBF).

Mr. Weerasekera represents People's Bank in various Technical Evaluation Committees (TEC) which includes National Payment Council of CBSL, Common ATM Switch TEC, and Banking Technical Advisory Committee and as Vice-Chairman of SWIFT user Group.



**Mr. G.B.R.P. Gunawardana**

*Acting Deputy General Manager - Credit Control/Risk*

Mr. Rasitha Gunawardana counts over 25 years of service in the People's Bank. He joined the Bank as a Senior Finance Officer in 1987.

His exposure in the Bank covered areas of Finance, Performance Management, Corporate and Commercial Credit, Treasury Operations and IT Project Implementations.

Prior to joining the People's Bank, he had gained experience in both the private and the public sectors, in industries covering Travel and Hotels, Plantations Management and Construction.

He is an Associate Member of the Chartered Institute of Management Accountants, UK. He holds a distinction level pass for ACI Treasury Operations Certificate.



**Mr. Lionel Galagedera**

*Acting Deputy General Manager - Recoveries*

Mr. Lionel Galagedera is in charge of Credit Recoveries Division of the Bank. He joined the Bank as a Management Trainee and counts over 25 years of service at the Bank. His variety of experience covers the areas of Retail Banking, Trade Finance, Lending, Credit Administration and Recoveries.

He holds a B. Com (Special) Degree from University of Sri Jayewardenepura and (LLB) Degree from Open University of Sri Lanka. He is also an associate member of the Institute of Bankers of Sri Lanka and an Attorney-at-law.





# Executive Management



**Mr. S. Wanniarachchi**

*Assistant General Manager - Off-shore Banking*



**Ms. S. Prathapasinghe**

*Assistant General Manager - Credit*



**Ms. S.W.A.D.S. Kalyani**

*Assistant General Manager - Finance & Management Accounting*



**Mr. H.C. Fernando**

*Assistant General Manager - Marketing & Product Development*



**Mr. W.K.S.B. Nandana**

*Deputy Chief Law Officer - Recoveries*



**Mr. A.W. Wipulaguna**

*Deputy Chief Law Officer - HR & Operations*



**Mr. E.A.D.J. Priyashantha**

*Deputy Chief Internal Auditor*



**Ms. P.R. Madurawala**

*Assistant General Manager - Credit Control*



**Ms. N.C. Mudalige**

*Assistant General Manager - Branch Operations*



**Ms. V.K. Narangoda**

*Assistant General Manager - Credit Unit I - Corporate Banking Division*



**Ms. A.S. Liyanarachchi**

*Assistant General Manager - Credit Unit III - Corporate Banking Division*



**Mr. S.J. Karunaratne**

*Assistant General Manager - Banking Support Services*

**Mr. M.D.P. Kularatne**

*Assistant General Manager -  
Recoveries - Branches*

**Ms. D.Y.S. Mendis**

*Assistant General Manager -  
Operations*

**Ms. K.N. Senaratne**

*Assistant General Manager -  
Asset Products*

**Mr. A.N. Liyanapathirana**

*Assistant General Manager -  
Co-operative & Development*

**Mr. L.L. Ranasinghe**

*Assistant General Manager -  
Liability Products*

**Mr. P.R.S. Jayatissa**

*Assistant General Manager -  
Human Resources - Administration*

**Ms. P.S.J. Kurukulasooriya**

*Assistant General Manager -  
Human Resources Development*

**Mr. R.M.A.K. Bandara**

*Assistant General Manager  
Operations*

**Ms. G.M.R.P. Wijeratne**

*Deputy Head of Primary Dealer  
Unit - Treasury*

**Mr. A.K. Arthur**

*Acting Assistant General Manager -  
Treasury Back Office*

**Mr. L. Withana**

*Acting Assistant General Manager -  
Investigation and Inquiries*

## Zonal Management



**Mr. R.M.S.B. Ratnayaka**

*Zonal Assistant General Manager -  
Central Zone*



**Mr. R. Ranathunga**

*Zonal Assistant General Manager -  
Western Zone I*



**Mr. W.M.S. Weerakoon**

*Zonal Assistant General Manager -  
North Central Zone*



**Mr. T.D. De Z. Gunawardena**

*Zonal Assistant General Manager -  
Western Zone II*



**Mr. N.G. Dissanayake**

*Zonal Assistant General Manager -  
Wayamba Zone*



## Business Review

We are a state-owned bank that has infused a progressive proactive stance into our operations but has continued to maintain an overarching philosophy of social inclusivity as the platform for national growth

We are a nation that has surely astounded critics and enthusiasts alike. Sri Lanka has, despite the world being on a downward spiral, continued to move upwards, improving on global comparative indices, gaining middle income country status and being well positioned to achieving her vision of becoming South Asia's Economic Hub by 2015. We are focused on ensuring that all fundamentals are in place to maintain a strong and secure country. Being the bank for the people, by the people has unequivocally been an imperative rudiment in this progress. We are a state-owned bank that has infused a progressive proactive stance into our operations but has continued to maintain an overarching philosophy of social inclusivity as the platform for national growth. Undoubtedly therefore, the name

'People's Bank' denotes the quintessence of what we stand for, what we believe in and what we aspire to be.

Being the people's bank, we know that we are tasked with immense responsibility; a responsibility and an obligation that focuses on our priority - the nation. And it is this responsibility to the nation that we continue to use as our founding principle in everything we do. The business review seen in the next few pages, details each of our initiatives, developments and inclusive approaches, all of which are conceptualised, designed, developed and expanded to reflect our true personality - that of being a name that the people of Sri Lanka rely on, are confident about and will always remain loyal to.

### PERSONAL BANKING

The broad and diverse product portfolio that truly encompasses every demography, whether in age, location, knowledge levels or socio-economic perspectives, coupled with unparalleled service excellence has been the competitive edge that the Bank has continued to develop in its over five decades of existence. Remaining true to the ethos of being a bank with the people for the people, our personal banking product portfolio has a rich coterie of products that is renowned to partner a person from the cradle to their twilight years, whether in rural or urban surrounds, or hailing from various social strata, aligned to their needs and aspirations.

Our portfolio ranges from credit cards to personal loans, saving deposits to fixed term deposits and young savers' accounts to pension plans, supported ably with customer services that has over the decades become a hallmark of the Bank. Our focus has been on developing long-term relationships with our clients and on being proactive in meeting their different needs.

Our astute investment in technology over the years enables us to offer our customers technology savvy products for easy, efficient, accessible, penetrative and hassle free banking anytime anywhere. These include Internet banking, Palm Top banking, Visa debit cards, Mobile banking and SMS banking. Last year, the Bank partnered with the Foreign Employment Bureau to issue a 'Migrant Debit Card', which has proved to be a boon to expatriate workers.

## Our Products

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### *Isuru Udana*

Aimed at new-born infants, the *Isuru Udana* savings account can be opened with a nominal Rs. 100/-, offering interest rates above the norm and exciting gifts. The '*Isuru Udana*' gift certificates are also unique and can be used to open a new account or credit an existing one. Once the account holder reaches the age of five, the account automatically converts to a '*Sisu Udana*' account.

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### *Sisu Udana*

For account holders between 6 to 18 years of age, this account can be opened with a nominal Rs. 100/-. Exciting gifts, special cash awards and rewards for young achievers in the Year Five Scholarship and Ordinary Level Examinations add to the attractions. At 18, the account holder will have the '*Sisu Udana*' account automatically converted to a YES account.

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### *Yes*

'Yes' is specifically designed for young people stepping out into the real world. Opened with a deposit of Rs. 2,000/-, the account offers free standing orders, credit card facilities, leasing facilities as well as loan facilities for housing, vehicle purchases and higher education. The account incorporates a 1% bonus interest when the balance exceeds Rs. 25,000/-.

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### *Swarna Pradeepa*

This is the gold pawning product aimed at meeting urgent cash requirements and has very competitive interest rates.

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### Aswenna

'Harvest', as the name denotes is a product aimed specifically for farmers who work on seasonal incomes and can be opened with an initial deposit of Rs. 1,000/-. Entitled to a bonus interest rate of 1% once the balance exceeds Rs. 10,000/-, these account holders are also granted concessionary interest rates and agricultural loans.



### The People's Bank Gift Voucher

Available in denominations of Rs. 500/- and Rs. 1,000/-, People's Bank Gift Vouchers can be deposited into any account at any branch and is valid for six months from the date of issue.



### Vanitha Vasana

Celebrating the myriad roles played by women in the country, the *Vanitha Vasana* account gives interest rates above the norm and can be opened with an initial deposit of Rs. 500/-. It has the added advantage of loan facilities being granted for small entrepreneurship ventures, purchase of property or housing and higher education.



### Parinatha

The '*Parinatha*' account, which can be opened with Rs. 500/- and offers attractive interest rates, is customised for senior citizens and encompasses a range of attractive benefits including a pilgrimage to India for 25 selected customers.



*Janajaya*

For those with a steady monthly income, this account, which can be opened with a minimum deposit of Rs. 2,000/- offers special loan and leasing facilities, concessionary rates for overseas travel and attractive interest rates.



*Jaya Nivasa*

The '*Jaya Nivasa*' housing loan helps you build your dream home with convenience, providing flexible loan facilities with competitive interest rates to suit your individual needs. Loans can be obtained to purchase land, build a house or to add an extension or renovate a house. The loan schemes grant a six month grace period, with loans offered up to 75% of the value of the property etc.



*Ethera Isura*

The '*Ethera Isura*' NRFC account secures higher interest for your foreign earnings, and is also the fastest way to receive money from abroad through the islandwide network of 728 branches and service centres of People's Bank.



*Doodaru  
Ethera Isura*

Specially-designed for children whose parents/guardians are employed in foreign countries, the *Doo Daru Ethera Isura* Minor Accounts come with an extra 1% added to the prevailing interest rates for NRFC/RFC Accounts. The savings account can be opened with a minimum deposit of US\$ 25 or equivalent in any designated foreign currency, while a fixed deposit can be opened with a minimum balance of US\$ 1,000 or equivalent in any designated foreign currency.



*SMS Banking*

Checking balances, transaction histories, ordering chequebooks and transferring funds are just a few value additions brought in by our SMS banking service.



*People's Net*

Infusing the rudiments of Internet banking, the ease of managing several accounts and effecting a variety of banking transactions makes banking anytime anywhere a true possibility with People's Net.



*Mobile Banking*

The very versatile mobile phone adds amazing conveniences to the 24x7 banking environment. Over 13 million customers now use mobile banking to pay utility bills and make third party transactions as well.



*People's Visa  
International  
Debit Card*

Adding myriad conveniences with the added confidence of secure financial services, this Debit Card can be used at over 30 million merchant outlets and a network of 1.5 million ATMs globally.

## Card Business

A pioneer in the local payment card industry, for nearly two decades, we have been very proactive in facilitating both card issuances and acquisitions. We continue to implement industry sustainable strategies to facilitate the convenience of consumer spending and just this year, imprinted our footprint in the local card industry even more forcefully, to notch a total card base of 750,000, a figure destined to grow aggressively over the coming years. Currently, the Bank is converting its large proprietary card base to Visa Debit Cards for more value addition to customers.

The broad and diverse product portfolio that truly encompasses every demography, coupled with unparalleled service excellence has been the competitive edge that the Bank has continued to develop in its over five decades of existence

Under the current portfolio, the Bank offers Visa Classic and Gold Credit Cards encompassing a wide customer range and premium benchmarked product features at affordable prices. In tandem, our range of cards are meant for all income groups as a significant trait in our market penetration is the fact that we have the lowest rates and tariff structures among credit card issuers in the country. Another advantage is that our cards are issued within a single business day on an applicant's request, devoid of any additional charges and the People's Visa International Debit Cards and pre-generated debit cards can be conveniently obtained over the counter of any People's Bank branch.

These cards provide access to over 24 Mn Visa accredited merchants globally and worldwide Visa ATM network of 1.96 Mn for cash withdrawals. In Sri Lanka, over 2,800 Visa ATMs and 18,000 Visa merchant outlets accept People's Credit and Debit Cards.

The Bank has experienced modest growth within its merchant network accredited for Visa credit and debit cards. There is a concerted effort to grow this network by facilitating aspiring merchants in Sri Lanka to acquire the Visa credit and debit card accreditation at mutually beneficial rates. The Bank's expansive ATM network is also linked to Visa Interchange, providing an inclusive service to all Visa cardholders.

Risk exposure in the card business was also managed successfully given the fact that the industry in general faces substantial losses to fraud. Our prudent initiatives resulted in a minimising of losses and impact to the Bank and cardholders.

## OVERSEAS CUSTOMER SERVICES

This is the axis upon which our remittance business and foreign currency deposits revolve and hence, we continue to emphasise on our service levels, which has in turn, infused a remarkable impact on the profitability and growth of the business portfolio.

### Remittances

The Bank has continued the extraordinary momentum showcased over the last few years, with the volume of inward remittances showing a remarkable increase of 34.4%, over 2011. The increase is attributable to the value additions infused over the year, which included an enhancement of technology, innovative marketing strategies and constant product enhancements.

### Foreign Currency Deposits

Riding on the success achieved from our foreign currency product, *Ethera Isura* NRFC *Vasana* - 2012 NRFC promotional campaign and insurance scheme continued, enhancing further awareness of our NRFC products among the Sri Lankan diaspora and notching an increase in our foreign currency savings deposit base.

### Worldwide Partners and Representatives

We continued to deploy more team members who are skilled and experienced in strategic locations abroad, primarily in the Middle East region. There are also moves to establish

new correspondent arrangements with international banks and foreign exchange companies, which will further extend and expand the Bank's overseas network, while strengthening relationships with our worldwide partners.

### Western Union

By utilising pioneering technologies and marketing strategies, we entrench our philosophy of customer service excellence continually. This is amply observed in the relationship we have nurtured with the expansive Western Union payments and payment location network, accented further with our highly penetrative branch network for further accessibility and efficiency, permeating both rural and urban areas. This has resulted in tremendous volume growth in the Western Union payment portfolio compared to last year.

## DOMESTIC CREDIT

### Going the Extra Mile for Sustainable Growth

Moving ahead to meet our strategic vision while contributing to the Bank's profitability and focusing on strengthening the balance sheet, our highly diversified credit portfolio is one which displays quality advances, extended to various sectors including agriculture, manufacturing, services and other non-traditional sectors. This has enabled us to maintain a low non-performing loan ratio, well below the industry standards and to reduce the credit risk exposure of the Bank.

During the year, we implemented new loan schemes and amended existing schemes to suit transforming customer requirements and the business environment, targeting not only profitability but also social development, which is an obligation we take very seriously as a State Bank. We are tasked with fulfilling Government aspirations for the betterment of society and the implementation of the housing loan scheme on concessionary terms for Government employees, in collaboration with the National Housing Development Authority (NHDA), as well as a vehicle loan scheme for media personnel and those involved in the culture and arts, we have taken this dynamic further.

The necessity of providing trade financing facilities to assist exporters, as well as for the importation of raw materials and machinery is a strong kinetic to enhancing our fee-based income. We have extended continuous training to our branch network which has added the apt knowledge and guidance to improve service levels which also includes the structuring of trade finance facilities aligned to customer requirements. Other indirect facilities including Letters of Guarantee have assisted in enhancing our fee-based income given the development observed in growth industries such as construction.

There have been challenges over the year however, including increasing interest rates in the financial markets and intensely high competition. This resulted in price sensitive customers facing difficult decisions although, given our emphasis on ensuring that our relationships with stakeholders are

continually nurtured, the Bank was able to assuage any negativities that may have arisen.

We are in the process of upgrading the Loan Creation and Maintenance Process aligned to gaining more timely information through the Management Information System, which will assuredly give us more clarity, accuracy and speed in our decision-making.

**The volume of inward remittances showed a remarkable increase of 34.4%, over 2011**

In our bid to further ingratiate a knowledge-gaining culture into the entirety of the Bank, Senior Credit Officers and related teams continually attend training and development programmes conducted by external experts, including those from the Central Bank of Sri Lanka. This has facilitated our efforts in achieving our strategic objective of increasing the Loan Portfolio by granting of quality advances, while in tandem, strengthening the Bank's assets with minimised risk over a well-diversified portfolio.



## CORPORATE BANKING

With our axiom of being a Bank that truly encompasses every customer segment in the country, as a state-owned commercial bank we have always provided a plethora of wide ranging products and services designed exclusively for both corporate and commercially viable Government entities. From blue chips to multi nationals and large and medium private sector entities, Corporate Banking contributes substantially to the Bank's profitability, while maintaining an equitable distribution of its funding. However, in the current context of the Government's accelerated development plan, the Bank emphasises partnering large private sector clientele engaged in economic development activities encompassing infrastructure projects, exports, import substitution industries and the leisure sector, which are aligned to the *Mahinda Chinthana* Economic Development Plan.

This year, Corporate Banking contributed Rs. 1.2 Bn towards the Bank's profitability. This excludes 80% of the total non-funded income with FOREX income. The total lending portfolio of Rs. 178 Bn in addition to the non-funded portfolio generates nearly 80% of the total income off a Rs. 124 Bn portfolio.

Corporate banking packages include project lending, syndications and custodial services, namely trade finance, international banking activities and advisory services. The Corporate Banking Unit has posted substantial growth this year attributed primarily through mega state-driven

infrastructure projects. Approximately Rs. 22 Bn was invested in infrastructure, road development and water projects. The Bank funded nearly 25% Government sector business activities including national development projects.

We are most honoured to be the exclusive banker for the Kolonna-Balangoda and Greater Dambulla water projects, which are projects implemented with Belgian and Indian financial support respectively and the development of the Anuradhapura-Trincomalee, Narammala-Giriulla, Katuwana-Alupothdeniya and Ibbagamuwa-Kumbukgate main roads for which we are the exclusive funding partner.

The Corporate Banking Unit is also the only contributor towards Government fertilizer subsidy schemes, providing financial assistance to the two Government-owned fertilizer entities. Being the second largest contributor towards the country's petroleum requirements providing 50% funding and the only financial provider to the state-owned shipping lines and railways, our role as a partner in national development is further entrenched. We have financed nearly 8% of our total loan portfolio for funding and other financial activities, being the exclusive banker for the Sri Lanka Air Force, the Ceylon Electricity Board and a major contributor for power sector including extending funding for wind, mini-hydro power projects and bio mass projects. Rs. 10 Bn has been contributed annually towards the importation of coal and will be supported in future years. The health and pharmaceutical industries too gain much fillip as we remain the second largest lender to these sectors.

## Offshore Unit (OBU)

Contributing primarily towards industrial development, especially in the provision of loans focusing on project lending and working capital financing for BOI projects, our interventions include encouraging joint foreign collaborations for those clients who are undergoing restructuring and imparting advisory services to turn-around projects and businesses.

The OBU has contributed US\$ 11.2 Mn towards the Bank's profits this year.

With the country focusing on key industry sectors to drive the economy in the medium term, the focus now lies primarily on the leisure, renewable energy and infrastructure development sectors. However, the national concept of social inclusivity is also a focus and we encourage small and medium scale exporters as well as any initiatives that would develop the rural economy through our branch network to eventually develop these entrepreneurs into the corporate clients of tomorrow.

## DEVELOPMENT AND MICROFINANCE BANKING

Achieving significant milestones in this milieu of business in an year that proved to be extremely impressive, the strategies implemented in development financing despite intense competition, gave us the impetus to be crucial contributors to the Government's development agenda.

## Regional Development

The loan schemes, Awakening North, Awakening East, Provincial Development, Smallholder Plantation Entrepreneurship Development Programmes and Post-Tsunami Coastline Rehabilitation and Resource Management were implemented and targeted towards the relevant geographic areas. Loans on relaxed securities and concessionary rates of interest were granted and was certainly a facet to its success. The Bank also contributed towards maximising the utilisation of regional resources, minimising rural unemployment and alleviating rural poverty, which was implemented by prioritising the provinces that faced the most economic challenges.

## Poverty Alleviation

The Poverty Alleviation Microfinance Project Loan Scheme and the related Revolving Fund Loan Scheme implemented during 2012, disbursed loans for income-generating activities on *inter se* guarantees. The facilities were expanded to community groups and targeted primarily towards women, infusing the ideals of social mobilisation and extending non-financial services, while formulating mature knowledgeable groups that can further their economic empowerment.

## Women Empowerment

The *Vanitha Navodya* Loan Scheme extended the concept of women's empowerment, primarily for women affected by natural disasters, with the aim of alleviating poverty in female headed households. It is significant that the Bank was instrumental in uplifting a large number

of displaced young widows through this loan scheme enabling them to sustainably develop themselves and their young families.

## Industry Promotion

Financial facilities were provided through the loan schemes New People's Fast Loan Scheme and *Saubhagya* Loan Scheme to start up new industries and ameliorate already existing industries. This has buoyed the creation of micro, small and medium scale entrepreneurs, while effecting improvements to existing projects, making them sustainable. This also prompted the achievement of rural economic goals while being a harbinger of realising macro economic goals due to the growth of industries, generating employment and thus reducing unemployment and ensuring an indiscriminate distribution of income at regional level.

## Value Addition and Innovations for Agro Industries

The *Viskam* Loan Scheme extended facilities towards innovations in the agro industry innovations and the establishment of Dairy Resource Centres. The specific objective of this scheme is to develop the small and medium scale farmer, instilling entrepreneurship spirit and thereby, improving the value adding dimension in agro-based industries.

## Microfinance Village Programmes

245 villages were availed this facility in 2012 based on community-based groups, developing inherent skills and talents prevalent in the village, sparking entrepreneurship teams and self-development initiatives.

The Bank contributed towards maximising the utilisation of regional resources, minimising rural unemployment and alleviating rural poverty, which was implemented by prioritising the provinces that faced the most economic challenges

*Kapruka Nipeyum Diriya* Loan Scheme Implemented in collaboration with the Coconut Development Authority from May 2012, this facility is aimed at developing coconut-related industries to enter foreign markets. The scheme also includes an interest rebate feature.

## Rehabilitation Loans

Intending to moot self-employment projects, the financial facility is aimed at uplifting livelihoods of those successfully trained

after completing rehabilitation and social mobilisation conducted by the Rehabilitation Authority. The facilities are at highly concessionary rates and has been a boon to young men and women intent on launching innovative income-generating activities. The loans have been largely extended to areas coming under the purview of branches in the North and the East.

#### Facilities to Farmers for Collection of Paddy Stocks

This facility is extended to farmers to ensure that their farmer's stocks of paddy are sold at market prices, obtaining a fair and just price for his labour. This also ensures that sufficient stocks of paddy will be available throughout the year and not cause shortages.

**Foreign exchange income grew by 76% over the previous year as the market volatility and the changes in forward premiums were read accurately by our knowledgeable dealers**

#### Providing Relief to Farmers Afflicted by Drought

The Bank provided imperative relief to farmers whose cultivations were damaged due to the drought in 2012, deferring payments until yields are harvested in the next season.

#### Promoting Carbonic Fertilizer Production

Financial sponsorship is being extended to farmers who actively engage in using carbonic fertilizer in paddy cultivation, adding organic more eco-friendly initiatives into Sri Lanka's agricultural practices.

#### Broader Scope for the *Divi Neguma* Programme

The *Divi Neguma* Programme saw a wider depth and breadth of its scope this year with the establishment of new industries as well as animal husbandry and soft industry projects including home gardening development. This has assuredly been one of the most penetrative and pragmatic initiatives under the Government's *Divi Neguma* Scheme, seeing a tangible impact on improving the standards of living in agricultural based development in rural and semi-urban areas.

#### Co-operative Sector

The Co-operative Movement gained added impetus this year with much emphasis being focused on developing this vital sector of commerce. Long-term and short-term financial facilities on concessionary rates of interest were extended to co-operatives under the Co-op City Project banner to create further awareness and better service facilities for consumer. This is further augmented with funding being extended for training team members employed in co-operatives.

The Bank was also a sponsor of the International Co-operative Convention and International Co-operative Day, which served in enhancing brand image and stature.

In developing the co-operative movement further, grants were extended to modernise Co-operative Rural Banks, adding a renaissance to the movement and infusing dynamics for more efficient customer service.

#### SME Banking

The SME sector has continually been positioned as one of the most important growth sectors in an emerging economy, an engine of growth that has in successive budget proposals been identified as such. Aligned to national needs, the Bank has developed a strategic mechanism through eventually establishing 24 dedicated SME Centres across the country, spearheaded by a co-ordinating unit at the Head office. These SME Centres extend not only financial solutions for value adding enterprises, but also non-financial services for financially non-inclusive entrepreneurs. Given the prevalent milieu of high cost borrowing, concessionary loans schemes using refinancing arrangements and Bank's own funds are being disbursed. Credit Appraisal Officers and officials involved in SME business are especially trained on various disciplines continuously locally as well internationally.

We are currently analysing our entire SME strategy, working on repositioning the Bank's SME division as "The most trusted financial service provider to small and medium scale enterprises in Sri Lanka, providing friendly, cost effective, and valuable financial solutions." The envisaged outcome is to develop a value driven sustainable SME Credit culture.

## TREASURY

Performing in an extremely challenging milieu particularly with the global instability experienced and the volatile market conditions experienced during the year, the Treasury Unit's performance during 2012 was highlighted by significant gains from foreign exchange trading. Foreign exchange income grew by 76% over the previous year as the market volatility and the changes in forward premiums were read accurately by our knowledgeable dealers.

Based on positive trade volumes due to credit growth, the Treasury further strengthened our position as a market maker in US\$/LKR currency pair in both spot and forward markets. This enabled pricing advantages to be translated to acquire customer positions by providing competitive rates to importers and exporters, thus attracting significant business volumes.

Substantial revenue was gained through our debt trading business via capital gains and interest earnings. As the interest rate structure in the market changed during the year due to the stable inflation rate, the trading Treasury Bills and Bonds portfolio generated significant capital gains. An accurate reading of the market augmented by entrance into the market at the correct time using the expertise and experience of the Treasury staff contributed to the significant income generated. Selective strategies were employed to gain optimal results on LKR yield curve shifts.

Our Primary Dealer Unit gained kudos as having the highest trading volumes on the Bloomberg's FIQ trading platform launched in July 2012.

The Investment Banking Unit (IBU) consolidated its debt structuring activities and raised Rs. 8 Bn in 2012, via securitisations and commercial papers which yielded a significant fee income to the Bank. The IBU has gained a significant market share in this space and has concluded transactions for a considerable number of corporate debt issuers and corporate investors. Furthermore, the IBU was selected to act as Co-Manager along with four leading international investment banks namely Bank of America Merrill Lynch, Barclays Capital, Citibank and HSBC in the Government of Sri Lanka's US\$ 1 Bn sovereign bond issue in July 2012. This issue is touted as Sri Lanka's best ever sovereign bond issue to date due to the attractive rate, number of investors and the unprecedented over-subscription. The IBU received approval to construct a debt securities portfolio, which has helped gain a significant interest income and capital gains by way of trading.

The Treasury played an important role in sourcing adequate funds to enable the Bank to continue its growth plans, as deposit mobilisation alone was insufficient. The Bank continued to raise local and foreign funds through financial institutions at very competitive rates which benefited overall profitability.

The implementation of the state-of-the-art Integrated Treasury System was implemented, further enhancing our prowess in providing customised solutions to our clients and improve our service delivery.

Our astute investment in technology over the years enables us to offer our customers technology savvy products for easy, efficient, accessible, penetrative and hassle free banking anytime anywhere

## INFORMATION TECHNOLOGY

Continuing the concept of implementing the Centralised Online Branch network, the Bank upgraded six Service Centres to become fully-operational branches and opened fifteen Service Centres in strategic locations. With these new additions, total customer service points are at 728.

To facilitate continuous demand, the Bank added nearly forty ATMs to encompass a total of 420 in the ATM network, while also being in the process of evaluating a state-of-the-art multifunctional Card Management System with ATM Switching. We opted to join the pilot phase of the Common ATM Switch which is scheduled to go live in early 2013.

Adding value to People's International VISA card, the Bank issued a specially designed pre-generated card specifically for migrant workers in collaboration with the Ministry of Foreign Employment. NRFC customers too can withdraw or purchase goods and services with a Debit card at any local or international ATM or VISA merchant outlet.

Another remarkable achievement implemented this year was that any branch can now accept cheque deposits until 5.30 p.m. enabling all cheques deposited being realised on the next business day using the Sri Lanka Interbank Payment System (SLIPS). This also facilitates multiple batch processes, another value addition introduced by us.

The migration to SWIFT Alliance Release 07 was successfully implemented in March 2012, highly-facilitated by the comprehensive training our team gained from the SWIFT User Group of Sri Lanka. With the success of the parallel run prior to this, we successfully rolled over the Treasury Management System in February, now fully-integrated with the Bank's Core Banking System (SIBS).

The development and implementation of an Automated Mini Call Centre at our Card Centre is another achievement that should extend laurels to the inhouse IT Team. The Card Management System with an ATM switch, Internet Banking System for Corporate customers and the Dataware House & Business Intelligence System are other critical projects launched during the year, due for full implementation in 2013.

In compliance with Central Bank of Sri Lanka (CBSL) requirements, 200 POS machines

are now TLE (Terminal Line Encryption) compliant, while the balance will be integrated completely by March 2013.

By 2013, corporate clients will be given a value-added service facilitating EPF payments online on a project worked jointly with the Central Bank and EPF Department. This online payment facility will also be extended to payment of customs duties online, on a joint project mooted with Sri Lanka Customs. We also selected our Anti-Money Laundering Vendor and this AMS system is due to be deployed in 2013 as well.

## RESEARCH

Research-oriented innovations and gathering of information are significant contributors towards the sustainable growth of the banking industry. The systematic flow of updated information provides immense support in product development and innovation and also in improving the quality and standards of existing products and services. This naturally permeates to enhance multi-dimensional growth.

By delivering accurate, timely and industry specific research output and other vital information to the Board, Corporate Management and other internal stakeholders of the Bank, the Research Department is a strong trust in business progress. Output of the research conducted by the department by way of sector and industry analysis, market studies, customer surveys, competitor analysis etc. mainly on industries and other sub-sections of the economy, businesses, banking products, branch

network, customer service and competitors are disseminated to the management of the Bank via research reports, study papers, position papers, management brief and other relevant documentation.

## Economic Review

One of the most important and effective tools in forwarding development-oriented research based scientific findings, innovations and experience both locally and internationally is through The Economic Review (ER) - a leading, development oriented, semi-academic, socioeconomic journal. This has been published by the Research Department continuously since 1975, during a period of more than 3½ decades and stands firm as the Bank's contribution towards Research and Development (R & D) in Sri Lanka, as well as being Corporate Social Responsibility (CSR) project, permeating sustainable knowledge.

The ER includes expert columns, interviews, book reviews and a student's page, authored by relevant experts detailing various national and international social and development issues and challenged deemed of timely importance. Each issue of the journal contains a comprehensive analysis positioned as a special report on a contemporary theme. Six issues were published during the year on the themes, Budget 2012, Growth with Equity, Exchange Rate, Science and Technology, Corporate Governance and Female Participation in Economy.



## MARKETING & PROMOTIONS

### 'Vanitha Vasana Month'

To encourage the habit of saving among the women of Sri Lanka and further strengthen their financial capacity, People's Bank names the period between 8th March and 8th April as 'Vanitha Vasana Month' aligned to commemorate International Women's Day. All *Vanitha Vasana* Accounts gain a doubling of savings during this period and as an added bonus, savings receipts in various denominations have been introduced. These receipts will be subjected to a special draw and the winning receipt receives the receipted amount in prize money. The account also has a higher interest rate than the market rate and the accumulated interest is automatically transferred to the account. During the *Vanitha Vasana* Month, account holders will also be entitled to enter the *Jaya Sri* Draw with very attractive prizes drawn monthly and annually.

### New Gifts Scheme for *Ethera Isura* NRFC Account Holders

Monthly and year end special prize draws were held for '*Ethera Isura*' NRFC savings accounts having a minimum balance of US\$ 250 or equivalent amount in any foreign currency. While the prize money included a first prize of Rs. 1 Mn, a special feature included is that each US\$ 250 or equivalent amount maintained during the period, gained additional winning chances.

### *Jaya Sri* 2012

One of the oldest and most rewarding savings rewards programmes offering the highest number of prizes; *Jaya Sri* has now

gained immense stature in being a vital conduit in inculcating the savings habit among people. The draw allows all adult savings account holders with a minimum balance of Rs. 10,000/- to enter and gain attractive prizes monthly and at the annual grand draw. Multiple denominations in the savings accounts will also mean multiple chances of winning. The prizes range from cars to tractors, televisions and mixer grinders monthly, while the Annual Grand Draw has a brand New Honda Civic on offer.

### Celebrating 64 Years of Independence with the Future of the Nation

In commemorating this milestone anniversary for the country, People's Bank's annual independence day programme 'The Birth of Freedom' this year, began with a presentation of an *Isuru Udana* Gift Certificate and a gift pack to every baby born between the 1st and 7th of February 2012. Initiated six years ago with the objective of enabling parents to envision their children's goals, while making them proud citizens of Sri Lanka, a special feature is that members of the Bank's team presented the gifts to the new born babies at the hospitals. The ceremonial presentation this year was held at Castle Street Maternity Hospital in Colombo.

### Branch Openings

Launch of Tangalle Branch  
People's Bank and People's Leasing Company opened a new four-storied complex to house operations of the Tangalle Branch. Ceremonially inaugurated by the President, the two entities were commended by the President for being visionary, benefiting not only the town but the entire

area. He enthused that at this important juncture when the country's culture is highlighted, People's Bank is surely working towards the benefit of the people and stated that the Bank has an integral part to play in shaping the country's economy, holding an important position in the workforce of this country. The branch offers convenient banking facilities integrating the latest technology including a 24-hour ATM facility and an array of leasing services, coupled with the Bank's inherent unparalleled customer service.

### Relocation of Dematagoda Branch

In an effort to prompt better customer service and accessibility, the Dematagoda Branch was relocated, aligned to the 51st Anniversary Celebrations. Infusing the latest technology, the branch will have all banking services including 24/7 PET facilities.

### Pioneering SME Business Centres

Firmly aligned to the tenets of the *Mahinda Chinthana Idiri Dakma* and aimed to strengthen small and medium scale business sectors by offering loan facilities for agricultural-based products, livestock, apparel, fisheries, tourism, construction and other driving sectors, People's Bank opened three SME Business Centres with the first being in Anuradhapura, followed by Kurunegala, Matara and Kandy. The highly-modernised centres have comprehensive libraries equipped with Internet access as well as auditoriums and are spearheaded by efficient, friendly and trained expert staff available for consultation. Eventually, SME Business Centres will be located in all 24 districts.



## EMPLOYEES

Revenue  
per Permanent  
Employee (Rs. '000)

**12,115**

Total No. of  
Employees

**10,685**

**27%**

Outsourced  
Employees and  
University  
Selectees

**73%**

Permanent  
Employees

Profit  
After Tax  
per Permanent  
Employee (Rs. '000)

**1,393**





**Our name truly says it all.** People are key. Our people are an invaluable link between Bank and stakeholder and are responsible for the strong bonds the Bank has established with them. It's why we look after our people really well - from an enabling work environment to competitive remuneration, wide ranging career development and more.



**142,068**  
Training Hours

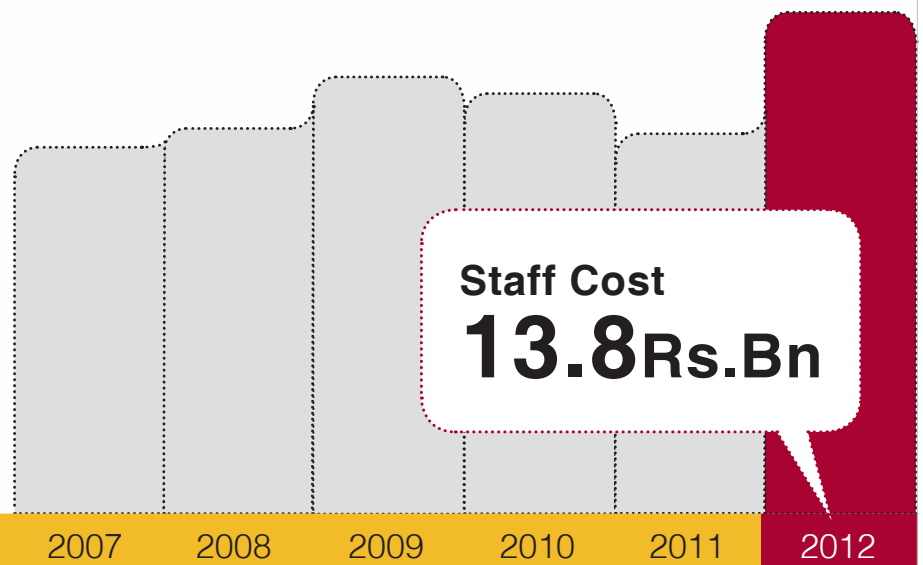


**Training Programmes**

**693**

Consist of:

- Management Development Programmes
- Induction Programmes
- Overseas Training, Among Others



**Staff Cost**  
**13.8Rs.Bn**



**95%**

**of Permanent Employees are Covered by the Collective Agreement**

# Financial Review

The sound financial foundation, the consistent performance and the visionary outlook constructed on the fundamentals of ethics, accountability, stability and transparency is the strong reputation we have built for ourselves in our journey of over five decades. Our name, People's Bank says it all as it is this name that remains emblematic of our promise to the people and our nation. The Financial Review which you see in the next few pages, details our performance, the culture of compliance which we stringently adhere to and most of all our commitment to accountability, best practices and transparency that fully epitomises the responsibility we have to present a true and clear picture of our financials to our stakeholders.

## GLOBAL ECONOMY 2012

The global economy has yet to emerge from the fall out of 2008/09. Global growth, which dropped to almost 3% in 2012 and lower than the long-term pattern, continued. Output growth too slowed considerably during 2012, especially reflected in developed countries.

The problems stalking the global economy are multiple and interconnected. The most pressing challenges, seen specifically in developed countries, are the continued jobs crises (unemployment remains high, at nearly 9%) and the declining prospects

for economic growth. This deceleration is envisaged to continue as unlike in 2010 and 2011, emerging markets did not pick up the slack in 2012.

## SRI LANKAN ECONOMY 2012

Inflation continued to remain at single digit level for the 47th consecutive month in December 2012, decreasing to 9.2% in December 2012 YoY from 9.5% in the previous month. However, inflation rate on an annual average basis increased to 7.6% in December 2012 from 7.2% in November 2012.

With exchange control regulations relaxed significantly in the recent past, there were advantages that were reflected in most key industries. The main economic sectors of the country are tourism, tea export, apparel, textile, rice production and other agricultural products. In addition to these economic sectors, overseas employment is a noteworthy foreign exchange contributor. It is also pertinent to note that 90% of expatriate Sri Lankans reside in the Middle East.

Fitch Ratings affirmed Sri Lanka's foreign and local currency Issuer Default Ratings (IDR) at BB-, keeping both ratings at a stable outlook. The country ceiling has also been affirmed at BB- and the short-term foreign currency IDR at a B rating.

## WAY FORWARD 2013

The Central Bank of Sri Lanka's (CBSL) policy direction for 2013 and for the medium term is designed to particularly ensure a smooth transition into the post-US\$ 4,000 per capita era. In preparing its policy stance for 2013, CBSL projections for key macroeconomic variables are as follows:

- Real GDP to grow by 7.5%
- Inflation to stabilise at mid-single digit levels
- Trade deficit to improve from 15.1% of GDP to 14.4% of GDP
- Current account deficit to improve from 5.5% of GDP to 4.7% of GDP
- Reserve adequacy of imports to remain around four months
- The overall budget deficit to reduce to 5.8% of GDP
- Continuous improvement in productivity levels

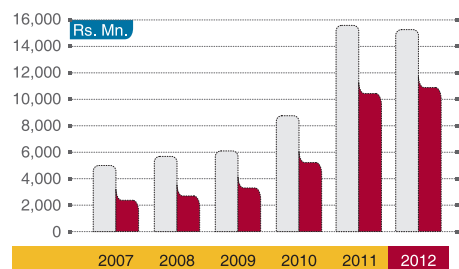
Having observed the challenges emanating from the global economy and the expectations of the Sri Lankan economy, in addition to the diktat for adoption of the new Sri Lankan Accounting Standards (SLFRS and LKAS) brought in this year, we are most pleased to record the Bank's performance as detailed below:

## FINANCIAL PERFORMANCE

### Profitability

The Bank closed the year 2012 with a pre-tax profit of Rs. 15.2 Bn and post-tax profit of Rs. 10.9 Bn, very similar to those results recorded in the comparative period last year. This is reflective of the adverse market conditions due to significant movements in foreign exchange rates, rising market interest rates and ceiling on the credit growth imposed by the Central Bank of Sri Lanka.

The pre and post-tax profits for 2012 and 2011 are shown below:



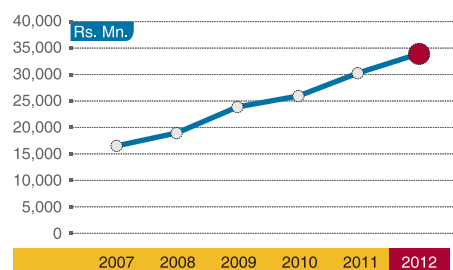
Profit before Taxation  
Profit after Taxation

### Profitability

|                        | 2007  | 2008  | 2009  | 2010  | 2011   | 2012   |
|------------------------|-------|-------|-------|-------|--------|--------|
| Profit before Taxation | 5,002 | 5,664 | 6,076 | 8,771 | 15,600 | 15,249 |
| Profit after Taxation  | 2,374 | 2,705 | 3,320 | 5,206 | 10,446 | 10,894 |

### Net Interest Income

The Bank's total income (interest and other) for the year was Rs. 94.8 Bn, showcasing a growth of 38.8% as a result of the high interest rates environment that prevailed in 2012. Net interest income increased by Rs. 3.6 Bn, which is 11.9% over the previous year. The main growth contributors were loans and receivables and pricing.



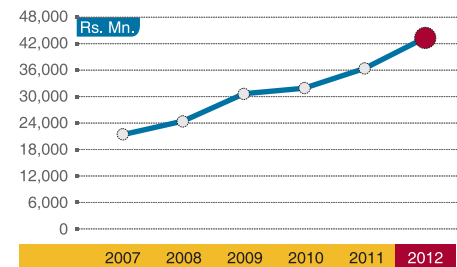
### Net Interest Income

| Year                | 2007   | 2008   | 2009   | 2010   | 2011   | 2012   |
|---------------------|--------|--------|--------|--------|--------|--------|
| Net Interest Income | 16,532 | 18,962 | 23,927 | 25,898 | 30,318 | 33,918 |

### Operating Income

Operating income increased by Rs. 6.9 Bn, reflected in 18.9% over the previous year. Net operating income, which includes net interest income, fees, commission, trading income and adjustment for impairment for loans and other losses increased by 9.5% at Bank and 8.6% at Group levels over 2011. Net trading income encompassing foreign exchange income and trading from equities increased 124.7%, which is a significant incline over last year. This was

primarily driven by forex gains amounting to Rs. 918 Mn. Other operating income increased by Rs. 1.3 Bn from the results of 2011.

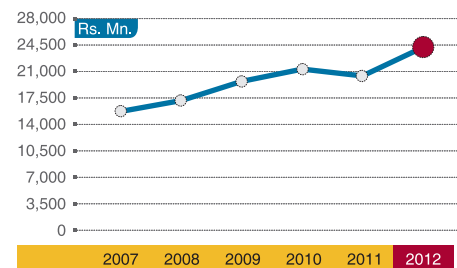


### Total Operating Income

| Year                   | 2007   | 2008   | 2009   | 2010   | 2011   | 2012   |
|------------------------|--------|--------|--------|--------|--------|--------|
| Total Operating Income | 21,442 | 24,456 | 30,635 | 31,897 | 36,431 | 43,310 |

### Operating Expenses

Operating expenses showed an incline of 18.4%, which is Rs. 3.8 Bn higher than last year. This was mainly due to increased personal costs by Rs. 3.3 Bn, driven by salary amendments made to permanent staff members as per the 2012-14 Collective Agreement.

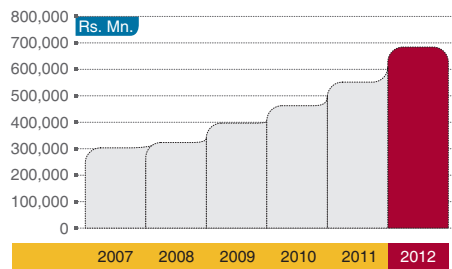


### Operating Expenses

| Year               | 2007   | 2008   | 2009   | 2010   | 2011   | 2012   |
|--------------------|--------|--------|--------|--------|--------|--------|
| Operating Expenses | 15,735 | 17,159 | 19,719 | 21,305 | 20,421 | 24,186 |

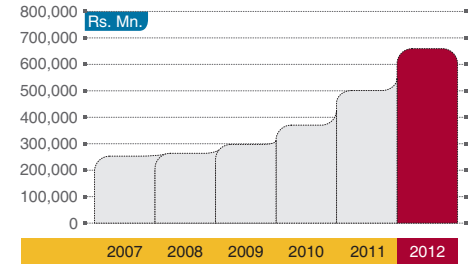
## IMPAIRMENT FOR LOANS AND OTHER LOSSES

Impairment provision increased by Rs. 3.5 Bn compared to the previous year. This provision includes provision of individually-assessed loans, as well as collectively-assessed loans, aligned to the Sri Lanka Accounting Standards adopted for the first time by the Bank.



**Total Deposits**

| 2007    | 2008    | 2009    | 2010    | 2011    | 2012    |
|---------|---------|---------|---------|---------|---------|
| 300,956 | 324,489 | 396,158 | 462,140 | 550,226 | 683,951 |



**Loans & Receivables**

| 2007    | 2008    | 2009    | 2010    | 2011    | 2012    |
|---------|---------|---------|---------|---------|---------|
| 253,370 | 263,462 | 299,077 | 371,804 | 508,235 | 660,624 |

## TAXATION

Financial VAT on profit remained at similar levels to last year, posted at Rs. 2.5 Bn in 2012 and Rs. 2.4 Bn in 2011. The impact on taxes has been assessed based on the currently applicable tax laws and regulations, as the new tax guidelines remain pending.

## DEPOSITS

The Bank's deposit base stood at Rs. 684 Bn when compared to Rs. 550.2 Bn in 2011, reflecting a growth of 24.3%. The main contribution for this growth has come from fixed deposits, which inclined by Rs. 119 Mn compared to 2011. Overall low cost deposits were 40% of total deposits.

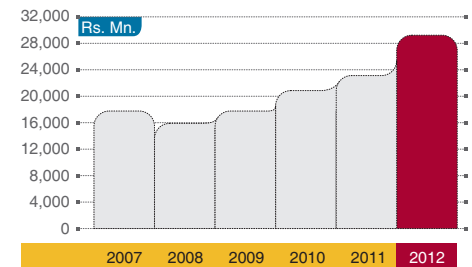
## LOANS AND RECEIVABLES

Gross loans and receivables grew by 30% from Rs. 508.2 Bn as at 31st December 2011 to Rs. 660.6 Bn as at 31st December 2012. The sectors contributing to this paradigm were the agriculture and fishing, construction, trading and manufacturing sectors.

The increased over the CBSL directed 18% growth ceiling is due to growth in foreign currency loans and to a few state owned enterprises.

## CAPITAL AND RESERVES

At end 2012, capital and reserves together with retained earnings stood at Rs. 29.2 Bn compared to Rs. 23.1 Bn in year 2011.



**Capital and Reserves**

| 2007   | 2008   | 2009   | 2010   | 2011   | 2012   |
|--------|--------|--------|--------|--------|--------|
| 17,780 | 15,880 | 17,800 | 20,838 | 23,089 | 29,205 |

## KEY PERFORMANCE INDICATORS

The Bank's NPL ratio was 2.8% in 2012 when compared to 3.4% in 2011, due to the significant growth in loans and receivables and marginal increase in non-performing advances. (Based on previous SLASs)

The cost to income ratio decreased slightly to 55.8% in 2012, which was 56.1% in 2011. This is primarily due to the Bank's continued focus on prudent cost management initiatives for variable overheads.

Return on assets (before tax) of 2.6% in 2011 decreased to 2.0% in 2012 due to material increase observed in assets during the latter part of the year. Capital adequacy ratio was recorded 14.0% in 2012.

*(Refer KPI Analysis on pages 108 to 113 for a detailed review)*

**Note:** The results reported above for 2011 and 2012 have been extracted from the Audited Financial Statements of the Bank prepared based on new Sri Lanka Accounting Standards (SLFRS and LKAS) that came into effect from 1st January 2012. The results reported for 2008-2010 have been extracted from the Audited Financial Statements of the Bank prepared based on previous Sri Lanka Accounting Standards (SLAS) that were in force up to 31st December 2011. The Bank has duly restated its Financial Statements for 2011 in accordance with SLFRS and LKAS.

## PERFORMANCE OF SUBSIDIARIES AND ASSOCIATES

### People's Travels

We have delivered another year of record profit growth against a backdrop of challenges where volatility in fuel and currency prices had considerable negative impact. In addition, a number of geographical events and political crises around the world exacerbated the impacts as well. We are pleased to have achieved 60% increase in the profit underlying operating profit for the full year, detailed at 8.66 Mn (2010/11: 5.43 Mn). Profit after taxation climbed to Rs. 7.72 Mn, from Rs. 3.98 Mn, a notable growth of 94% over 2010/11. We also recorded a noteworthy performance in our income, recording Rs. 27.11 Mn. The performance growth has taken place in Leisure Tours, Air Ticket Sales and on special commissions made on Air Tickets.

### Air Ticket Sales

During the year, we gained Rs. 14.28 Mn pre-tax profit in Air Ticket Sales from Corporate and Individual sales, which is a 58% increase compared to last year. Overall, our results for the year demonstrate a strong team equipped with the knowledge and capability to read the market and respond accordingly. We have actively managed capacity and successfully navigated our way through a period of upheaval, targeting further growth in the coming year.

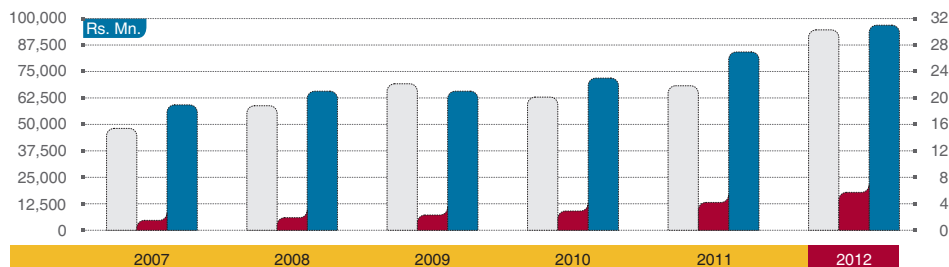
### Dambadiva Tours

Our primary source of income over the years, we saw a dip in income generated this year in our Dambadiva Tours however, due to increases in airfares, hotel rates and currency fluctuations. We continue holding market leadership in operating Luxury Dambadiva Tours and successfully conducting 18 tours for 514 passengers for the financial year 2011/12, generating a pre-tax profit of Rs. 5.98 Mn. The main reason for the popularity of our Dambadiva Tours is the dedication and commitment we display in our uncompromising service levels.

### Leisure Travel

The mainstream holiday market, our traditional stronghold has seen a resurgence in a tough economic environment. We have continued to modify our product offering in line with consumer preferences to include more differentiated and exclusive products as well as flexibility of duration. Our all inclusive holidays have proved particularly popular as travellers seek more financial certainty of their total holiday spend. The guided package holiday remains an important part of leisure travel.

Performance wise, we recorded the highest ever income of 4.27 Mn in this year, operating four groups to China, three tours to Singapore/Malaysia, three to Bangkok and two to Myanmar for 422 customers. Vietnam has been added as our newest destination, while we continue to look for other destinations to offer greater choice to our customers with unique differentiated products. We believe that Europe, Australia and UK hold much potential, as they are popular destinations for Sri Lankans.



| Segmental Revenue    |        |        |        |        |        |        |  |
|----------------------|--------|--------|--------|--------|--------|--------|--|
|                      | 2007   | 2008   | 2009   | 2010   | 2011   | 2012   |  |
| Banking (Left Axis)  | 47,984 | 58,948 | 69,050 | 62,818 | 68,298 | 94,777 |  |
| Leasing (Left Axis)  | 4,624  | 6,063  | 7,265  | 9,094  | 13,356 | 17,882 |  |
| Travels (Right Axis) | 19     | 21     | 21     | 23     | 27     | 31     |  |

## People's Leasing & Finance PLC

A Subsidiary of People's Bank, People's Leasing & Finance PLC is the largest leasing company in Sri Lanka and has retained market leadership for a decade. Incorporated on 22nd August 1995 as a private limited liability company and a fully-owned subsidiary of People's Bank, it was converted to a public limited liability company in 2000, donning a new corporate identity. PLC is currently the market leader in the industry now commanding over 20% of market share. Due to one of the most successful IPOs in Sri Lanka, the second largest with a listing of 1,560,000,060 ordinary shares on the main board of Colombo Stock Exchange, the name of the Company changed from People's Leasing Company Ltd. to People's Leasing Company PLC. Pursuant to the receipt of the Finance Business License under the Finance Business Act No. 42 of 2011 from the Monetary Board of the Central Bank of Sri Lanka, the corporate identity was transformed from People's Leasing Company PLC to People's Leasing & Finance PLC.

Commencing commercial operations with only Rs. 10 Mn capital and three employees, People's Leasing & Finance PLC today is seen spearheading their principal activities of providing finance leases, hire purchases, term loans and deposits. People's Leasing & Finance PLC also operates as a margin provider under license received from the Securities Exchange Commission of Sri Lanka.

In a short span of time, People's Leasing & Finance PLC has ambitiously founded six Subsidiaries; namely People's Finance PLC, People's Insurance Ltd., People's Leasing and Fleet Management Ltd., People's Leasing Property Development Ltd., People's Leasing Havelock Properties Ltd. and People's Microfinance Ltd., diversifying operations across the spheres of insurance, finance, microfinance, property development and fleet management services. People's Leasing & Finance PLC holds 90.45% stake in People's Finance PLC, while all others are fully-owned subsidiaries of the Company.

## Financial Performance

Aligned to global trends and the directives of the financial reporting governing body in Sri Lanka which is The Institute of Chartered Accountants of Sri Lanka, People's Leasing & Finance PLC adopted the International Financial Reporting Standards (IFRS) by complying with the Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKAS). Accordingly, the comparatives of the calendar year 2011 have been restated in agreement with the new IFRS standards.

According to the IFRS adjusted financial reports, People's Leasing & Finance PLC has posted an interest income of Rs. 14.1 Bn for the year 2012, depicting an increase of 27% over the previous year. Net interest income rose to Rs. 6.1 Bn in 2012 against Rs. 5.4 Bn in the previous year. The Company thus, recorded a satisfactory profit before tax and profit after tax of Rs. 3.8 Bn and Rs. 2.6 Bn respectively for the year ending December 2012.

The diversified People's Leasing Group saw its interest income rise to Rs. 16.6 Bn in 2012 from the previous year recorded interest income of Rs. 12.5 Bn.

With the key macroeconomic drivers of the leasing industry taking an unfavourable turn from the beginning of the calendar year of 2012, the Company achieved its grantings limit to an approximate of Rs. 32.1 Bn. However, the downward revision of policy rates and the expiration of the credit ceiling at the end of 2012, sees the leasing industry ready for better times. There is also no doubt that the Company can reap benefits from changed policy measures. The Company's interest-bearing assets which accounts for



91% of the total assets, increased to Rs. 72.0 Bn as at 31st December 2012 from Rs. 70 Bn in the previous year. Total assets of the Group increased by 2.9% to Rs. 96.3 Bn in 2012 from Rs. 93.6 in 2011.

The Company's non-performing ratio as at 31st December 2012 stands at 1.17%, a ratio well below the industry average which hovered around 5% as per the recent Annual Report of the Central Bank of Sri Lanka.

Creating value for shareholders, the Company paid the final dividend of Rs. 0.50 per share amounting to Rs. 780 Mn for the financial year 2011/12. An interim dividend of Rs. 0.75/- per share amounting to Rs. 1.2 Bn for the financial year 2012/13 was paid in December 2012, increasing shareholder wealth even more. The Parent, People's Bank was entitled to a sum of Rs. 1.5 Bn from the total dividend of Rs. 2.0 Bn paid during the calendar year.

People's Leasing & Finance PLC remains an excellent investment preference for its Parent, with People's Bank holding 1.2 Bn shares and claiming an investment value of Rs. 15.5 Bn. This depicts an increase of Rs. 15 Bn against its cost of investment of Rs. 500 Mn as at 31st December 2012.

## Review of Subsidiaries (Subsidiaries of People's Leasing & Finance PLC)

### People's Finance PLC

The asset mix of People's Finance broadly comprises leasing (43%), Hire Purchase (30%) and Other Loans and Advances (13%) which amounted to Rs. 13 Bn, while total assets amounted to Rs. 15 Bn by 31st December 2012.

During the course of the year, People's Finance ratings were upgraded twice by Fitch Ratings Lanka to A-(Ika) from BBB+ (Ika) in February 2012 and A (Ika) from A-(Ika) stable outlook in July 2012.

The Company declared and paid an interim dividend of Rs. 2.50/- per share on 29th June 2012 for the financial year 2012/13.

### People's Insurance Ltd.

People's Insurance Ltd., a fully-owned subsidiary incorporated in 2009, has steadily grown to rank at fifth position in the country's general insurance sector, in terms of Gross Written Premium Income. In 2011, it was ranked sixth. People's Insurance Ltd. currently facilitates the clientele of the People's Leasing Group for general insurance.

### People's Microfinance Ltd.

People's Microfinance Ltd. was established with the prime objective of permeating People's Leasing Financial Services to low income communities in Sri Lanka. This Company operates through the 23 PLC branches around the country and posted a profit of Rs. 12.06 Mn for the year ended 31st December 2012.

### People's Leasing Property Development Ltd.

People's Leasing Property Development Ltd. successfully completed the construction of the adjacent utility building of the PLC Head Office during the course of year. This building comprising the call centre, cafeteria and a fitness centre has contributed significantly to adding value to employee welfare. Additionally, Phase I of the Vavuniya project and the Tangalle project were also completed during the year, with the

Piliyandala, Wilgamuwa and Anamaduwa projects envisaged for completion within the next year.

### People's Leasing Fleet Management Ltd.

The Company is engaged in providing operating leases, vehicle hire facilities, vehicle service and valuations with plans to establish a vehicle sales unit as well.

### People's Leasing Havelock Properties Ltd.

People's Leasing Havelock Properties Ltd., incorporated in 2010 had as its primary goal, the construction of an office complex. The Company is awaiting the approval for the building plan to commence operations.

## Awards and Accolades

People's Leasing competently retained the esteemed Gold Award for the fifth consecutive year as the Best Annual Report in the Leasing Sector at the Annual Report Awards 2012 organised by The Institute of Chartered Accountants of Sri Lanka. Following the footprint of its Parent PLC, People's Finance PLC won the Gold Award in the Finance Sector, reaching greater heights from the previously conferred silver and Bronze Awards. People's Finance PLC also claimed the Bronze Award in the overall Management Commentary Category, marking a first in the Company's history.

The Company Annual Report also won two Platinum Awards in the Finance Industry category at the Global Communications Competition organised by the League of American Communication Professionals (LACP). This was a definite international acclamation considering that the Company gained this accolade from nearly 1,500



entries from around the world. The Annual Report was also ranked fifth among the top 100 Annual Reports in the World.

People's Leasing was recognised by the Ceylon Chamber of Commerce as one of the Ten Best Corporate Citizens in the country and also adjudged the Second Runner-up in the Less Than Rs. 15 Bn Revenue Category.

Further, the Company won the Award for Excellence in Performance Management Practices which is one of the six awards presented for Best Performance by the National Chamber of Commerce of Sri Lanka. The Company was also the Joint Winner in the Non-Banking and Financial Sector.

During the year, Fitch Ratings Lanka upgraded the National Long-Term Rating for People's Leasing & Finance PLC to AA-(lka) from A+ (lka), reaffirming the stable outlook. The Company also attained the rare distinction of being the only non-banking financial institution in Sri Lanka to secure two international ratings. While Standard & Poors assigned an international rating equal to the Sovereign ('B+/B'), Fitch Ratings International assigned PLC a rating one notch below the sovereign (B+) rating, both definite achievements.

### People's Merchant Finance PLC

People's Merchant Finance PLC (PMF), is an associate of People's Bank. People's Bank along with its Subsidiary, People's Leasing Company and collectively holds 39.2% stake in PMF, which gained its Finance Company license by the Central Bank of Sri Lanka in April 2012. The Company is also licensed by

the Securities and Exchange Commission of Sri Lanka as a margin trading provider. Presently, it holds a BB+ (stable) by Fitch Ratings and provides a range of financial services including Leasing, Hire Purchase, Trade Finance, Corporate Finance, Real Estate, Margin Lending and Gold Loans through its corporate office and a network of eleven branches.

On gaining its license as a finance company, PMF introduced fixed deposits and savings accounts to mobilise funds to support operations. Having also obtained CBSL approval to engage in foreign currency transactions, PMF introduced Special Foreign Investment Deposits Accounts (SFIDA) to attract expatriate and foreign investors. A new organisational structure was also established to optimise potential and herald astute management of new business lines, manned by experienced professionals to meet the envisaged expanded business volumes.

Interest income increased by 5% to Rs. 548 Mn in year 2012 from Rs. 523 Mn in 2011. Other income reduced to Rs. 40 Mn in year 2012 from Rs. 166 Mn in the previous year. Other income in the previous year was high due to profit generated through the disposal of the subsidiary finance company amounting to Rs. 137.4 Mn. Due to this, net income also reduced to Rs. 232 Mn from Rs. 326 Mn in the previous year. As a result of increased interest rates prevailing during the year, margins on old facilities decreased as the Company was reliant on short-term borrowings for funding. During 2012, PMF made additional provisions for long outstanding non-performing loans which

resulted in a total provision of Rs. 132 Mn for the year. In view of this, the PMF posted a loss of Rs. 196 Mn against a profit of Rs. 111 Mn in the previous year.

Group assets increased by 36% to Rs. 4.3 Bn at end 2012 from Rs. 3.2 Bn at end 2011. Finance leases, margin trading and pawning advances increased during the year. The deposit base of the Company reached Rs. 2.3 Bn by end year, since gaining finance company status.

People's Merchant Finance PLC gained a Commendation Certificate of Compliance in the Financial Institution category for the 14th occasion for its Annual Report of 2011/12 at the Annual Report Awards conducted by The Institute of Chartered Accountants of Sri Lanka.

# Sustainability Supplement

People's Bank instills sustainable ethos into transforming mindset, integrating values, ethics, transparency and accountability into the way we do business so that it truly benefits our stakeholders

## GROWING THE NATION

Sri Lanka has begun a journey, a journey that charts the future for a nation in a quest for ambitious goals. These goals are achievable and construct the unshakeable foundation for growing the nation. The nation's vision is based on inclusive growth and this perfectly aligns with our objective of having all our stakeholders contribute their optimum in growing our nation.

For People's Bank, being a bank with the people, for the people, by the people surely makes for a perfect formula in ensuring that our growth goals are met, new progressive paradigms are etched and the country gears itself to be benchmarked as a leader in this region. We believe strongly that a bottom up approach to inclusive growth is the ideal balance in creating a sustainable nation that has its fundamentals in place; where SMEs are the driving force of the economy; where infrastructure is aligned to create the apt environment for investment; where

communities unite to become key drivers of sustainable development and where we, the People's Bank, instills our sustainable ethos into this transforming mindset, integrating values, ethics, transparency and accountability into the way we do business so that it benefits our stakeholders to truly be the Bank that partners the people to grow a nation poised for extraordinary achievements.

## WHO WE ARE

We at People's Bank are committed to our Vision; to be the Bank of the aspiring people of Sri Lanka; to empower people to become value creating, competitive and self-reliant. It is this ethos that forms the matrix upon which we believe our nation can be 'grown'.

People's Bank is a Licensed Commercial Bank, inaugurated under the Banking Act No. 30 of 1988; incorporated as a Commercial Bank by the People's Bank Act No. 29 of 1961. Presently, the Government of Sri Lanka holds 92% of the Bank's ownership, while the remaining 8% is held by Co-operative Societies.

At People's Bank, the nation's people are at our core. We cover a wide range of the country. Moreover, being essentially a bank for the people, we cover a wide range of social segments, sectors and markets such as:

- Agriculture and Fishing
- Manufacturing
- Tourism
- Transport
- Construction
- Trade

Our expansive service portfolio includes:

- Financial and Business Services
- Infrastructure
- Other Services
- Credit Card
- Pawning

Each of these services are a part of our Main Divisions: Retail Banking, Card Business, Corporate Banking, Treasury Management, Overseas Customer Services, Financial Institutions (Corresponding Banking), Development Banking of which Microfinance, SME Banking and Development Finance and Co-operative Banking are components of and Domestic Credit.

Apart from our banking services, we are also involved in other areas which, we believe, assist the growth of our nation, aligned to our goal of being a partner to society, spanning every demography and geographic locale.

### Subsidiaries

- People's Leasing & Finance PLC
- People's Travels (Pvt) Ltd.

### Associates

- People's Merchant Finance PLC

### Sub-Subsidiaries (Subsidiaries of People's Leasing & Finance PLC)

- People's Leasing Fleet Management Ltd. (Subsidiaries of People's Leasing & Finance PLC)
- People's Leasing Property Development Ltd.
- People's Insurance Ltd.
- People's Finance PLC
- People's Microfinance Ltd.
- People's Leasing Havelock Properties Ltd.

### Our Products

All our products and services are curbed towards making people more economically sustainable and empowering them to grow, because we know that their growth is yoked to the progress of the country.

A detailed illustration of our brands is given in the Business Review.

### Our Reach

The Bank operates 347 branches island-wide, and employs over 10,600 employees. Apart from this we also operate another 381 Service Centres and 420 ATMs across the country. Through these points we serve a total of approximately 14 Mn customer base.

During the year under review, People's Bank opened upgraded a total number of six branches in the following locations:

- Rikillagaskada
- Bogawanthalawa
- Chettikulam
- Kotiyakumbura
- Kandy City Centre
- Poojapitiya

Another 40 ATMs and 16 Service Centres were opened this year in the following locations:

- Dodanduwa
- Medawela
- Kiran
- Rasnayakapura
- Welioya
- Katukurunda
- Kalubowila
- Court Premises Kandy
- Pallegama
- Kirankulam

- Tangalle Service Centre
- Badulla District Secretariat Complex
- Hambantota Administrative Complex S.C.
- Sri Lanka Customs Premises
- District Secretariat S.C. - Kandy
- North Central Provincial S.C.

## THE PRINCIPLES THAT DRIVE SUSTAINABILITY AT PEOPLE'S BANK

The growth of the nation is predominant in our daily workings at People's Bank. It is the foundation upon which our vision, mission and objectives are formulated. Thus, even ensuring the Bank's sustainability is established with this pre-eminent objective.

Our principles are therefore contrived to grow the nation, while bringing value to stakeholder groups, assessing possible risks and considering the impact of our choices on the environment and society.

- Our customers will be assured of the best quality products with the twofold benefits of assisting them whilst bolstering the country;
- Our people will know that since we will foster a culture of knowledge and empowerment to ensure their growth;
- Our business partners will rest assured that best practices shall be utilised and benchmarks created by us;
- Our environment will be protected to the best of our ability by minimising or rejecting whatever hazards we may unknowingly emit;
- Our community will be empowered as we endeavour to grow Sri Lanka from its grass root levels.

## ABOUT THIS REPORT

This, our inaugural Sustainability Report, is in keeping with the triple bottom line concept based on the current norms of corporate governance and sustainability demands. Our goal in publishing this information is to highlight achievements and show existing gaps, in our quest to become the best bank in the country.

The Report covers the period from 1st January 2012 to 31st December 2012 and indicates, wherever possible, qualitative and quantitative metrics that augment our claims. Our aim is to publish such information annually. Financial information is in Sri Lankan Rupees.

## REPORTING STANDARDS

We have made all possible attempts to produce this Report in keeping with prevalent standards in the corporate sphere, including those expected by regulatory and standard bodies, as well as the GRI Guidelines, thus indicating a more transparent process to our stakeholders. In this Report, we are aspiring towards meeting Level C of the GRI Guidelines and have marked our gradients accordingly on the grid found from pages 78 to 80 in this section of the Report.

The following operations of People's Bank have been excluded from the scope of this report, as these operations are insignificant to this evaluation. The operations of its subsidiaries, People's Leasing & Finance PLC and People's Travels

(Pvt) Ltd. and the operations of the Bank's associate, People's Merchant Finance PLC.

Should the operations of these excluded segments become material, necessary measures will be taken to include them in future Sustainability Reports.

To us at People's  
Bank, sustainability  
is an overarching  
tenet we want for  
our people

## FEEDBACK

Given the maiden state of this report, we are appreciative of feedback, as we are keen on this aspect of reporting. External feedback, from stakeholders, is a key communicative component to our strategy of continuous improvement. Comments and suggestions will be used constructively and applied wherever possible. We are of the opinion that feedback will support and fortify our position as we attempt to Grow the Nation. Moreover, it will also supplement a SWOT analysis enabling more effective engagement with stakeholders.

Clarifications or queries regarding this report may be directed to the following:

Management Information Department  
People's Bank  
No. 75, Sir Chittampalam A. Gardiner Mawatha,  
Colombo 02, Sri Lanka

## OUR SUSTAINABILITY PHILOSOPHY AND STRATEGY

Given that this is our inaugural venture into the field of Sustainability Reporting we are focused on aligning our philosophies and strategies on sustainability, with that of the Bank's vision and mission.

Sustainability is about delivering long-term value to all of our Stakeholders. To us at People's Bank, sustainability is an overarching tenet we want for our people. Our customers and the nation need not be mutually inclusive for us to be driven towards the growth of the country. Identifying the need to keep up with the global trend towards sustainable growth, we believe that it is possible for us to combine our goal of growing Sri Lanka together with that of sustainability; essentially it is based on the principle of wanting what's best for us and for our nation. These goals are mutually inclusive. Thus, we shall attempt to instill values and practices that will precipitate transparency and accountability in the way we do business - to buttress the growth of an exceptional nation.

Our philosophy is to seek to be both transparent and accountable in our new aspiration to be sustainable: to report on progress (or lack of it), secure verification and ensure that we have clear priorities when it comes to material activities - because we recognise that there are physical limits to the planet's resources. Although we are a Bank, we are committed to doing our part towards ensuring the protection of the environment. This role may not be of significance today, but we are confident that our strides will increase as we continue along this journey towards sustainability.

## WHY SUSTAINABILITY REPORTING NOW FOR PEOPLE'S BANK?

**N. Vasantha Kumar, General Manager responds to this question that comes to mind...**

As you've always known, our history points to this Bank being an integral part of the nation's development. This means that in our Fifty-one year history, we have guided and partnered the people of Sri Lanka to become strong contributors in the country's development agenda. What must also be remembered is that we, the People's Bank, has in our entire history, innovated, developed and presented a product and service portfolio that has always pointed towards achieving this goal; whether in being with individual customers from cradle, to student years to youth and later senior citizens, whether in being with the farmer in the field or the corporate executive in the metropolis or whether in being the adviser to the migrant workers whose hard earned dollars need to be invested astutely, whether in partnering corporates and conglomerates to optimise returns to shareholders or in playing a driving role in the nation's infrastructure projects to ensure that Sri Lanka meets its ambitious goals.

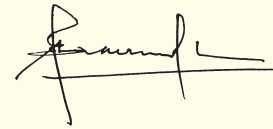
However, these actions alone are not enough. We have a responsibility to be transparent and accountable for our actions. We also need to know if what we are doing is right; if there are gaps that need to be bridged; if we are treating our stakeholders the way we should and if our plans for sustainable development on all fronts is actually giving the results it should. This is where a comprehensive process of

sustainability reporting becomes important and the reason that People's Bank decided to venture into this arena. Being a state bank, we are bounden in our responsibilities towards the nation and by reporting on our sustainability actions we show our stakeholders that we are serious about what we do. The reporting process certainly is one in which we showcase our positives, work on our negatives, hone our strengths, strengthen our weaknesses, identify the challenges and threats and grasp opportunities that arise.

In today's economic milieu, claims of fraud, bribery and corruption are abundant. As a bank, with the Government of Sri Lanka as our majority stakeholder, we aim to eschew allegations of this nature. Our policies towards such practices have always been firm and we have thus far retained a favourable image amongst our clients and within the banking community. It is in order to further boost this positive reputation that we have ventured into this reporting methodology to promote transparency, accountability and other best practices in all proceedings. Sustainability as a reporting concept may be new to us. However, having worked tirelessly over the years to sustain, promote and grow our nation we believe the underlying ideologies are congruent.

Throughout the years, People's Bank has had its roots firmly amongst the people of Sri Lanka. This is why we have consistently promoted a bottom up approach that we hope to continue in the years to come. This has been and will be at the forefront of all our activities. Yet, we have coupled this priority with another more global goal; to work towards safeguarding our environment for the future. We recognise that a growing

nation needs props to support itself - the Earth and our environment is no better foundation than that. Hence it is with great pleasure that we present this Report. Yes, our attempts may not be extraordinary in the larger scheme of things. Nonetheless, they are attempts for the better and changes for the better. We are confident that these improvements and those to come, will support the growth of Sri Lanka and her people.



**N. Vasantha Kumar**  
*Chief Executive Officer/General Manager*

22nd March 2013

## GOVERNANCE AND RISK MANAGEMENT

Governance and Risk Management practices, strategies and policies are detailed on pages 87 to 92 and 95 to 107 of this Annual Report.

### Risk Mitigation

While the Bank has a comprehensive risk management framework in place, we remain mindful constantly that a fraud may be perpetrated at any time in any one of the business units in the Bank. Hence, adequate checks and controls have been intruded to obviate incidences of such misdeeds. In-house audit officers affiliated to respective Regional Head Offices have been posted to every branch to oversee the proper implementation of these checks and controls by the Business Units and to take appropriate action where necessary. Probability of such risk related corruptions are minimized with periodic internal audits carried out in business units, branches and service centres.

### Going Beyond Compliance

As a state bank, we are obligated to ensure that compliance remains an overarching tenet in all our operations. Into this equation, also comes intolerance to bribery and corruption, money laundering and monitoring into areas where frauds may occur and unnecessary risk.

Any incident of corruption will be probed and investigated into by the Internal Audit Department as well as the Investigations

and Inquiries Department. While preliminary investigations are carried out first by the relevant RHOs/HO Departments, disciplinary actions are implemented under the provisions in the Code of Conduct of the Bank. Complaints are lodged also with the Criminal Investigation Department (CID) depending on the nature and gravity of an incident. The CID usually indicts the accused in a court of law in such instances, depending on their findings.

As a part of our  
commitment  
to ensure  
transparency, we  
have espoused  
strategic  
communicative  
methods to  
facilitate multi-  
faceted and  
unbiased dialogue,  
to build socially  
appropriate  
relationships

Given the very high standards we maintain in the compliance milieu, no fines or sanctions were imposed on the Bank during the year 2012 for non-compliance with prevailing Laws and Regulations. Further, there were no incidents of non-compliance with regulations and voluntary codes concerning marketing communications including advertising, promotion and sponsorship.

### Keeping Our Team Abreast of Compliance Requirements

Being very cognisant of ensuring that monitoring and control procedures must be updated in a continually evolving environment, the Internal Audit Department continues to conduct training programmes that would hone the skills and knowledge of the relevant team members who are responsible for maintaining absolute compliance. During 2012, 644 team members, including in-house audit officers participated in related training programmes.

The Compliance Department regularly conducts training sessions on money laundering and terrorist financing throughout the branch network in order to create awareness among the team, on the requirements of Prevention on Money Laundering Act, Financial Transaction Reporting Act and Convention on the Suppression on Terrorist Financing Act.





## SOCIETY

### Microfinance Villages

Our Microfinance Village scheme builds and supports entrepreneurs at village level, with financial support including acting as guarantor for them and providing training across a range of entrepreneurial pursuits.

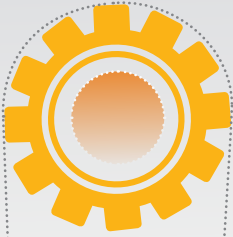
### Microfinance Villages

# 258



Our name can say it all only when we are truly with and for the people. Thus we serve people of all communities, localities and socioeconomic strata, with humble pride. We're particularly proud of our work at grass roots level...bringing the 'unbankable' into the banking system and empowering them to live with dignity and prosperity.





# 10 out of 14

Customer Accounts  
are from Outside  
Western Province

**12.3 Rs. Bn**  
Contribution to Government

2007

2008

2009

2010

2011

2012



# 68%

of Our Delivery  
Points are Outside  
Western Province



# 222

Rs. Mn

Granted to Agro  
Based Industries

During the year 2012, the Compliance Department conducted 16 training sessions for 1,317 (18%) employees of the Bank. Also, the Compliance Department addressed ten Managers' Conferences to create awareness on money laundering and terrorist financing among 191 Managers.

| Training Programme                                   | No. of Programmes | No. of Participants | Person Hours |
|--|-------------------|---------------------|--------------|
| Training on Money Laundering and Terrorist Financing | 16                | 1,317               | 5,268        |
| Managers' Conferences                                | 10                | 191                 | 573          |

## PRODUCT RESPONSIBILITY

Our goal is to posit People's Bank as the first choice bank of the people of Sri Lanka. Thereby, we will be in the forefront of the financial services sector, and be able to support the State's aspirations to promote a stable society and ensure a high quality of life to all Sri Lankans. To do this, we ensure that our products and services will always be conceptualised and constructed on a platform of ethical responsibility, where our customers and stakeholders will always be aware that our product and service portfolio is open and transparent with no hidden features that would be detrimental or disadvantageous to the stakeholder.

## STRATEGIC COMMUNICATION APPROACH

Our policy is to provide guidelines for staff and external agencies, with regard to engagement with media and related stakeholders. We define Strategic Communication as the orchestration and synchronisation of actions, images

and words to achieve a desired result. Thus we hope to accomplish Development Policy objectives vis-à-vis Strategic Communication intentions. Our approach clearly demarcates the policy regarding the release of material and information that will generate awareness, interest and inquiry.

## COMMUNICATION GOVERNANCE AND MEASUREMENT

People's Bank is committed to implement all forms of communication in compliance with the Customer Charter and Code of Conduct for Licensed Commercial Banks, to ensure that factual information is a core component of the standards of fair banking practices. Hence, all communication processes, themes, targets and engagement modes are derived from the Government's development policies and strategic vision.

Advertising methodologies will be aligned with the goals and priorities of the corporate brand, while deposit mobilisation initiatives will operate with a predetermined and pre-approved communication budget in order to maximise the value of communication investments.

## TRANSPARENT AND INTERACTIVE COMMUNICATION

As a part of our commitment to ensure transparency, we have espoused strategic communicative methods to facilitate multi-faceted and unbiased dialogue, to build socially appropriate relationships. All communication materials will be relevant and original to engage customers, taking into consideration the rapidly altering economic conditions.

### Communication with Shareholders

Given the status of the Government of Sri Lanka as a major shareholder of the Bank, we maintain a constant dialogue with the Ministry of Finance and Planning. Regular meetings are held and attended by members of the Regional Management of the Bank and representatives of Co-operative Societies. Furthermore, meetings of the General Body are also conducted regularly where the General Body meets in order to obtain opinions of shareholders and resolve matters pertaining to them.

### Communication with Employees

The 'bottoms up' approach is utilised in every aspect of the Bank, especially with relation to our employees who form one of the Bank's key components. A continuous dialogue is maintained with all members of Corporate Management, on various issues concerning the Bank's overall strategic direction, corporate plan and annual budget.

Corporate Management meets regularly with members of the Executive Management, Regional Managers and Branch Managers to brief them of targets and evaluate past performances; evaluations take place

together with members of the Board at the recurrent Managers' Conference. The Managers' Conference is elemental to the Bank, as it provides an open forum where participants may raise matters of interest and seek clarification. The Bank is also involved with its trade unions and regularly consults with them on matters of good governance.

## BRAND VALUE/ POSITIONING

In this aspect we want to be at the forefront of everyone's mind and be the first choice of the people; 'Top of Mind Brand' is our goal in positioning ourselves as a brand. We have proceeded to do so utilising creative and original approaches. Furthermore, we have taken steps to ensure that communication themes are aligned with our core values of strength, stability, trust, accessibility.

## STAKEHOLDER APPROACH

The stakeholder environment we have fostered at People's Bank is inclusive and does not seek to differentiate on any cultural, ethnic or religious basis. We want to engage with all segments of society and maintain the diversity of Sri Lankan culture. Moreover, we are aimed at engaging with civil society, community leaders, Government and area decision-makers who will become our partners in growth. We've adopted efficient and streamlined processes to give us the added boost, when it comes to dealing with obstacles and challenges - thereby allowing us to work in collaboration with our stakeholders to ensure advancement.

Given below is a table with our key stakeholders and the engagement processes we entered into in the last year:

| Type of Stakeholder                  | Method of Engagement  |
|--------------------------------------|---|
| Government                           | <ul style="list-style-type: none"> <li>• Forums and conferences</li> <li>• Meetings</li> <li>• Press releases</li> <li>• Annual Reports</li> <li>• Interim Financial Reports</li> <li>• Press conferences and Media Releases</li> <li>• Corporate Website</li> <li>• Meetings and Teleconferences</li> </ul>  |
| Regulators<br>(CBSL, MOF, CASL etc.) | <ul style="list-style-type: none"> <li>• Onsite Visits</li> <li>• Discussions and Meetings</li> <li>• Periodic Review Sessions</li> <li>• Compliance Department to co-ordinate with CBSL</li> <li>• Interim Financial Statements</li> </ul>   |
| Employees and Trade Unions           | <ul style="list-style-type: none"> <li>• Staff Meetings</li> <li>• Defined Benefit Plan</li> <li>• Mutually Agreed Performance</li> <li>• Internal Circulars</li> <li>• One to one meeting with Trade Unions</li> <li>• Employee Surveys</li> <li>• Performance Review Systems</li> <li>• Employee Training Workshops and Seminars</li> <li>• Email Bulletins</li> <li>• Special Events such as Quiz Contests, Staff Children's Party, Religious Activities etc.</li> </ul> |
| Customers                            | <ul style="list-style-type: none"> <li>• Branches and Service Centres</li> <li>• Annual Reports</li> <li>• Corporate Website</li> <li>• Written Communication and Response</li> <li>• Call Centre</li> <li>• Press Releases</li> <li>• Customer Meetings</li> <li>• Customer Satisfaction Surveys</li> </ul>  |

| Type of Stakeholder | Method of Engagement   |
|---------------------|--|
| Community           | <ul style="list-style-type: none"> <li>● CSR Initiatives</li> <li>● Corporate Website</li> <li>● Sponsorships</li> <li>● Scholarships</li> <li>● Public Events</li> <li>● Conferences</li> <li>● Branches</li> <li>● Media</li> <li>● Call Centre</li> </ul> |
| Media               | <ul style="list-style-type: none"> <li>● Press Releases</li> <li>● Annual Report</li> <li>● Press Conferences</li> <li>● Corporate Website</li> <li>● Interim Financial Statements</li> <li>● Media Get-together</li> </ul>                                  |
| Suppliers           | <ul style="list-style-type: none"> <li>● On-site Visits and Meetings</li> <li>● Public Notices in Print Media</li> </ul>   |

## ECONOMIC PERFORMANCE

Our economic performance is closely linked with the progress of the nation because we directly contribute to the Treasury and thereby Sri Lanka's development strategies and projects. Our customers are confident in the knowledge that their investments with us play a role in uplifting the nation.

For the year in focus, People's Bank generated gross income of 94.8 Bn, which was an increase of 38.8% over last year's gross income of 68.3 Bn. The benefits of our performance have greatly augmented Government growth, with a contribution of Rs. 4.5 Bn to the National Treasury.

**Our economic performance is closely linked with the progress of the nation**

The Value Added Statement and analysis of Sources and Utilisation of Income are given on pages 244 and 255 respectively.

## Significant Financial Assistance Received from the Government

The Government of Sri Lanka presently holds 92% of the Bank's ownership. Thus it has a vested interest in the Bank's progress and development. It comes as no surprise that significant financial reinforcement is provided to People's Bank from Government sources. In keeping with transparency principles of Sustainability Reporting, given below are the loans and amounts granted to the bank, during the period in review:

| Title                    | Name of the Scheme   | Terms and the Donor  | Sector Eligible   | No. of Loans Granted as at 31st Dec. 2012 | Cumulative Amount of Loans Outstanding as at 31st Dec. 2012<br>Rs. Mn |
|--------------------------|--|--|---|---|---|
| Interest Subsidy Schemes | Special Housing Loan Scheme for Government Servants  | Up to Rs. 500,000/- - 10.5%<br>Rs. 500,001/- - 1.0 Mn - 6.5%<br>Above Rs. 1.0 Mn - 3.5%<br>Interest Subsidy from the Government of Sri Lanka | Officers in the public service with five-year service and entitled to a pension and confirmed in the appointment.                     | 37,887                                    | 25,591.6  |
|                          | Housing Loan Scheme for the Employees of Universities under UGC  | Up to Rs. 1.0 Mn - 5.5%<br>Above Rs. 1.0 Mn-Rs. 2.0 Mn - 5.0%<br>Interest Subsidy from the Government of Sri Lanka                           | Employees of a university registered under the University Act No. 16 of 1978 with five-year service and confirmed in the appointment. | 130                                       | 149.9   |
|                          | Loan Scheme on a Concessionary Basis to Media Personnel to Purchase Motor Cycles, Computers, Cameras and Media Equipment | 9% interest Subsidy from the Government of Sri Lanka   | Media personnel recommended by Ministry of Mass Media and Information   | 152                                       | 8.8   |

## SME Development Schemes

| Title             | Name of the Scheme  | Terms and the Donor  | Sector Eligible  | No. of Loans Granted as at 31st Dec. 2012 | Cumulative Amount of Loans Outstanding as at 31st Dec. 2012<br>Rs. Mn |
|-------------------|---|--|--|---|---|
| Refinance Schemes | Small and Medium Enterprises Development Facility Project | Agency - World Bank<br>Maximum Loan Amount - 60 Mn<br>Borrowing Rate of Interest - Six Month's AWDR<br>Lending Rate of Interest - Six Month's AWDR + 2%<br>Maximum Tenure - 10 Years<br>Maximum Grace Period - 2 Years | Agriculture Projects<br>Any Industry or Service with a Value Addition<br>Constructions<br>Dairy and Related Products<br>Education<br>Fisheries Industry<br>Garment Industry<br>Health Services<br>Industries<br>Livestock<br>Ornamental Fish<br>Printing<br>Services<br>Tourism Industry | 31  | 264.1   |

The SME Development Unit and the Development and Microfinance Department are key divisions of People's Bank, as they are an integral component of our ethos in uplifting our community. As we believe that inclusive growth must be prompted from a bottom-up approach, these segments play an important role in fulfilling the Bank's role of inclusivity and growing the nation.

Close inspection of these tables will denote the sectors that benefit from our efforts and the loans granted by People's Bank to assist upward mobility and growth to these livelihoods.



## Development and Microfinance Department

| Name of the Loan Scheme   | Terms and the Donor  |         | Sectors Eligible   | No.    | Outstanding Balance<br>Rs. Mn |
|---|--|---------|--|--------|-------------------------------|
| <b>1. Interest Subsidy</b>  |  |         |  |        |                               |
| <i>Krusha Navodaya</i> Loan Scheme  | Central Bank of Sri Lanka                                      |         | Agriculture  | 8,108  | 17.3                          |
| Agro Livestock Development Loan Scheme (ALDL)   | Central Bank of Sri Lanka                                      | 6% & 2% | Livestock  | 3,872  | 220.7                         |
| Loan Scheme to Upraising Living Condition of the Socially - Integrated Trainees who Successfully Completed Rehabilitation Programme (REPPA) | Rehabilitation of Persons, Properties and Industries Authority | 8%      | Upgrade living condition of the socially integrated trainees who successfully completed rehabilitation programme | 479    | 76.5                          |
| NCRCS - Cultivation - 2012/13 <i>Maha</i>   | Central Bank of Sri Lanka                                      | 6%      | Agriculture  | 9,754  | 786.5                         |
| NCRCS - Cultivation - 2012 <i>Yala</i>  | Central Bank of Sri Lanka                                      | 6%      |  | 7,254  | 334.5                         |
| NCRCS - Cultivation - 2011/12 <i>Maha</i>   | Central Bank of Sri Lanka                                      | 6%      |  | 15,125 | 293.6                         |
| NCRCS - Cultivation - 2011 <i>Yala</i>  | Central Bank of Sri Lanka                                      | 6%      |  | 7,015  | 28.7                          |
| NCRCS - Cultivation - 2010/11 <i>Maha</i>   | Central Bank of Sri Lanka                                      | 6%      |  | 13,258 | 48.3                          |
| Sub Total   |  |         |  | 64,865 | 1,805.8                       |
| <b>2. Refinance</b>   |  |         |  |        |                               |
| The Awakening North (Revolving Fund)  | Central Bank of Sri Lanka                                      | 90%     | Agriculture & Economic Activities  | 787    | 117.9                         |
| The Awakening East (Revolving Fund)   | Central Bank of Sri Lanka                                      | 100%    | Agriculture & Economic Activities  | 1,109  | 149.6                         |
| The Awakening North Loan Scheme   | Central Bank of Sri Lanka                                      | 90%     | Agriculture & Economic Activities  | 5,787  | 223.0                         |
| The Awakening East Loan Scheme  | Central Bank of Sri Lanka                                      | 100%    | Agriculture & Economic Activities  | 3,521  | 174.3                         |
| Provincial Development Loan Scheme  | Central Bank of Sri Lanka                                      | 100%    | Agriculture & Economic Activities  | 3,120  | 739.3                         |
| <i>Viskara</i> Loan Scheme  | Central Bank of Sri Lanka                                      | 100%    | Agriculture & Livestock  | 184    | 372.2                         |
| Poverty Alleviation Microfinance Project Revolving Fund (PAMP RF)   | Central Bank of Sri Lanka                                      | 100%    | Small Industry & Agriculture   | 314    | 13.4                          |
| Poverty Alleviation Microfinance Project Loan Scheme (PAMP - 11)  | Central Bank of Sri Lanka                                      | 100%    | Small Industry & Agriculture   | 12,160 | 245.4                         |
| <i>Saubhagya</i> Loan Scheme  | Central Bank of Sri Lanka                                      | 100%    | Micro & Small Medium Entrepreneurs   | 1,549  | 298.3                         |
| Dry Zone Livelihood Support and Partnership Programme Loan Scheme ( <i>Bhagya</i> Loan Scheme)  | Central Bank of Sri Lanka                                      | 100%    | Agriculture & Microfinance Activities  | 1,062  | 28.8                          |

| Name of the Loan Scheme  | Terms and the Donor             |      | Sectors Eligible  | No.   | Outstanding Balance Rs. Mn |
|--|---------------------------------|------|---|-------|----------------------------|
| <i>Dasuna</i> Loan Scheme  | National Development Bank       | 100% | Agriculture & Microfinance Activities   | 82    | 12.8                       |
| Self-Employment Development Loan Scheme  | Central Bank of Sri Lanka       | 100% | Trained Youth who Passed out from Recognised Vocational Training Institutions for Establishment of their own Self-Employment Projects | 237   | 24.9                       |
| Post-Tsunami Coastal Rehabilitation and Resource Management Programme (PTCRRMP)                  | Central Bank of Sri Lanka       | 100% | Income-generating Activities of the communities Adversely Affected by Tsunami Disaster  | 670   | 35.3                       |
| SPEnDP Loan Scheme   | Central Bank of Sri Lanka       | 100% | Agriculture & Microfinance Activities   | 149   | 14.2                       |
| <i>Kapruka Ayojana</i> Loan Scheme   | Coconut Cultivation Department  | 100% | Coconut Cultivation & Development   | 1,074 | 38.8                       |
| Poverty Alleviation Microfinance Project (PAMP) Loan Scheme (N & E) and Revolving Fund           | Central Bank of Sri Lanka       | 100% | Small Industry & Agriculture  | 9,699 | 24.6                       |
| Poverty Alleviation Small Enterprise Development Credit Scheme (NDTF Loan Scheme)                | Central Bank of Sri Lanka       | 100% | Small Industry & Agriculture  | 2,041 | 6.8                        |
| Tea Development Loan Scheme  | Central Bank of Sri Lanka       | 87%  | Tea Cultivation   | 172   | 24.3                       |
| <i>Vidatha</i> Loan Scheme   | National Development Trust Fund | 100% | Persons who Trained from <i>VIDATHA</i> Centres for Establishment of their own Self-Employment Projects                               | 1,889 | 9.6                        |
| Sabaragamuwa Province Integrated Rural Development Project Revolving Fund Loan Scheme (SPIRDPRF) | Central Bank of Sri Lanka       | 100% | Uplift the Living Standards of People's In Sabaragamuwa Province  | 248   | 3.0                        |
| <i>Kapruka Nipayum Diriya</i> Loan Scheme  | Coconut Cultivation Department  |      | Coconut Cultivation & Development   | 25    | 13.6                       |
| Environmentally - Friendly Solution Revolving Fund Loan Scheme                                   | National Development Bank       | 100% | For any Environmental Friendly Solutions  | 1     | 0.4                        |
| Skills Development Loan Scheme   | Central Bank of Sri Lanka       | 100% | For Technical Purposes  | 84    | 2.4                        |

| Name of the Loan Scheme                        | Terms and the Donor       |      | Sectors Eligible      | No.            | Outstanding Balance<br>Rs. Mn |
|--|---------------------------|------|-----------------------|----------------|-------------------------------|
| Second Perennial Crop Development Loan Scheme  | Central Bank of Sri Lanka | 100% | Cultivation           | 219            | 1.3                           |
| <i>Jeewana Shakthi</i>                         | Central Bank of Sri Lanka | 100% | Microfinance Sections | 980            | 2.4                           |
| Tea Relief Package (Working Capital Loan)      | Central Bank of Sri Lanka | 100% | For Tea Cultivation   | 7              | 22.3                          |
| Construction Sector Development Project (CSDP) | Central Bank of Sri Lanka | 100% | For Constructions     | 16             | 44.5                          |
| Sub Total                                      |                           |      |                       | 47,186         | 2,642.9                       |
| 3. Any Other                                   | NIL                       |      |                       |                |                               |
| <b>Grand Total</b>                             |                           |      |                       | <b>112,051</b> | <b>4,449</b>                  |

## SOCIAL IMPACT

As our name denotes, people form the crux of our existence. Hence, from a social sustainability perspective, our actions and the impact our actions have on the people is not built on philanthropy but rather about building capacity of people and organisations. We have begun a process of instigating initiatives and projects, including those for our team, that would be stakeholder driven and integrate a social consciousness into these societal dimensions. We are keen that sustainability must be an inclusive and proactive process involving our related stakeholders. Our societal responsibilities encompass our team and the community around us and our commitment to them is a two-way process. We are emphatic on building a sustainable and empowered foundation for our stakeholders, which will fuel the growth of the nation.

## LABOUR PRACTICES AND DECENT WORK

### The Team that Drives Us

Our team at People's Bank is one which is focused on our vision and mission. Thereby, we are confident that they will embrace sustainability practices in their stride. Similarly, we are an employer dedicated to recruiting, developing and retaining only the best; our policies dictate that only the *crème de la crème* will allow the success of our national plan of growth. We therefore aim to create a consistent and empowered work environment, which motivates our people to ensure global best practices, standards and sustainability.

People's Bank has a total workforce of 10,685, of which we permanently employ 7,823, while 2,862 are outsourced employees and University Selectees. 95% of our permanent employees are covered by the collective bargaining agreement.

## HR Policies and Principles

- The Bank is an equal opportunity employer.
- The Bank adheres to the principles of the International Labour Organisation, Sri Lankan Labour regulations and other relevant bodies and labour practices.
- The Bank does not subscribe to, or promote discrimination or child labour.
- The Bank promotes meritocracy and equality.
- Bribery, corruption is loathed and eschewed.
- The Bank insists that third-party contractors must ensure adherence to our ethos and comply with labour regulations and good employee practices.

The following tables display the Bank's commitment to providing equal opportunities to each member, no matter where in the island he or she is located.

## Total Number of Employees as at 31st December 2012

|  | Present Strength |
|--|------------------|
| <b>Employees as at 31st December 2012</b>  | <b>7,449</b>     |
| <b>Contracted Employees</b>  |                  |
| <i>Corporate and Executive Management</i>  |                  |
| CEO/General Manager  | 1                |
| Corporate Management   | 5                |
|  | <b>6</b>         |
| <b>Other Contracted Employees</b>  |                  |
| Market Intelligence/MIS Assistant  | 1                |
| Assistant Engineer   | 3                |
| Assistant Law Officer  | 13               |
| Senior Court Assistant   | 1                |
| Court Clerk  | 14               |
| Audit Officer  | 1                |
| Media Assistant  | 1                |
| Typists  | 50               |
| Multi-Duty Assistants  | 37               |
| Electricians   | 9                |
| Plumbers   | 1                |
| Drivers  | 10               |
| Technical Assistant  | 3                |
| <b>Contracted Employees (Corporate, Executive and Others)</b>                                | <b>150</b>       |
| Management Trainees  | 210              |
| Customer Service Assistant (Contracted)  | 14               |
| <b>Total Number of Contracted Employees</b>  | <b>374</b>       |
| <b>Total Number of Employees (Excluding Outsourced) in the Bank as at 31st December 2012</b> | <b>7,823</b>     |
| University Selectees   | 904              |
| Outsourced Employees   | 1,958            |
| <b>Total Number of Employees in the Bank as at 31st December 2012</b>                        | <b>10,685</b>    |

## Staff Strength, Gender Analysis of Permanent Staff

| As at 31st December 2012    | Male         | Female       | Total        |
|-----------------------------|--------------|--------------|--------------|
| Corporate Management        | 12           | 5            | 17           |
| Executive Management        | 19           | 10           | 29           |
| Officers (3-III - Grade I)  | 1,565        | 1,640        | 3,205        |
| Staff Assistant Grade       | 1,191        | 2,078        | 3,269        |
| Other Categories            | 654          | 281          | 935          |
| Management Trainees         | 81           | 129          | 210          |
| Customer Service Assistants | 2            | 12           | 14           |
| Other Contracted Employees  | 45           | 99           | 144          |
| <b>Total</b>                | <b>3,569</b> | <b>4,254</b> | <b>7,823</b> |

## Staff Strength, Gender Analysis (3-I and Above)

| As at 31st December 2012                    | Male       | Female     | Total      |
|---|------------|------------|------------|
| Corporate Management (Permanent & Contract) | 12         | 5          | 17         |
| Executive Management (Permanent & Contract) | 19         | 10         | 29         |
| Chief Managers (Grade I)                    | 45         | 21         | 66         |
| Senior Managers (Grade II)                  | 83         | 61         | 144        |
| Managers (3-I)                              | 198        | 140        | 338        |
| <b>Total</b>                                | <b>357</b> | <b>237</b> | <b>594</b> |

## Recruitment

We strongly believe that our success has been due to the unity we espouse in our diversity. The team culture we have within the Bank is one of high achievement, tolerance, unity and entrepreneurial. The multicultural multi-dimensional team we espouse has been carefully selected on a planned vision which ensures that each will give more than their individual best. This, we believe is the blending factor to creating an environment that assures a high achieving culture that will gear itself to meet the challenges of the future, while each team member in turn, will achieve individual career aspirations.

In HR Management, our recruitment process conforms to Government guidelines where vacancies must be transparently publicised with the entire selection process being worked on similar transparent methods. Internally, the Bank has developed accurate systems in identification of internal and external talent that the organisation requires through our annual budgeting process and have an established robust selection process through cross-functional selection panels that probe into the diverse and multiple talents of candidates.

Once selected, all new recruits undergo relevant induction programmes, depending on each entry level, to ensure a smooth transition into the work environment.

## Benefits and Rewards

We espouse, without ambiguity that financial and non-financial recognition combined with fair and equitable remuneration is imperative to ensure a contented workforce. It must be noted that there are considerable rewards and benefits that accrue, especially given the fact that People's Bank remains under the diktats prevalent for the public sector, but infuse best practices that are prevalent in the private sector.

In keeping with our ethos of growth and progress, we are consistent in the benefits we offer our employees who also form an integral component of society. Permanent employees at People's Bank enjoy a wide range of benefits including the following facilities:

- Annual Bonus and Performance Incentive scheme
- Vehicle Facilities for Corporate Management and Transport Allowances for Executive Management
- Staff Quarters and Holiday Bungalows
- A Private Provident Fund
- Pension Scheme
- A Comprehensive Death Gratuity Scheme
- Personal Accident Insurance Cover
- A Comprehensive Medical Scheme
- Staff Loan Schemes (at Concessionary Interest Rates)
- Professional Association Subscription/ Honorarium Payments

## Pension Benefits

One of the significant advantages of being employed in the public sector is the assurance of a pension on retirement. As Sri Lanka does not have a comprehensive pension plan across the Board for the private sector, the public sector gains considerable merit for being able to provide for its aging population on retirement. People's Bank therefore has in its entire history, gained considerable advantages especially in recruitment and retention, as the Bank has continued to attract the best in the industry, assuring them of consistent remuneration benefits beyond their working years.

### Defined Benefit Pension Plan

#### *Pre - 1996 Pension Scheme*

Permanent staff members, who have joined the Bank prior to 1st January 1996, benefit from this defined pension plan; contributions are made to a separately-administered fund. The cost of providing benefits under this plan is derived using the projected benefit actuarial valuation method. Actuarial gains and losses are fully-recognised as income or expense in the respective financial year.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of plan assets, from which obligations are to be settled directly, less actuarial losses not yet recognised. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The latest actuarial valuation was carried out as of 1st January 2011 by Piyal S. Gunatilleke F.S.A. (USA), Member of the American Academy of Actuaries and Consulting Actuaries.

The principal financial assumptions used in the valuation as at 1st January 2011 are as follows:

|                                       |          |
|---------------------------------------|----------|
| Interest/Discount Rate                | 10% p.a. |
| Increase in Cost of Living Allowances | 5% p.a.  |
| Basic Salary Increase for all Grades  | 7% p.a.  |

Pensions are provided to retirees on the following conditions:

Staff are entitled to receive a pensions after ten years of service and upon reaching the retirement age of 55 years. The quantum of pension is dependent on the variables of length of service:

| Length of Service       | Quantum of Pension  |
|-------------------------|---|
| i. 10 to 20 Years       | 80% of last drawn salary  |
| ii. 21 to 29 Years      | 80% plus 1% for each additional year in excess of 20 years of last drawn salary |
| iii. 30 Years and Above | 90% of last drawn salary  |

Pension Funds are isolated from daily banking services and are subject to an annual audit by Independent External Auditors. The Board of Trustees reviews the statements and Auditor's Report. These documents are also submitted for review

of the Bank's disclosure, as the Bank is under obligation to ensure funding is made at optimal levels. Pensions are payable monthly, until the beneficiary's demise.

### Gratuity

Employees who joined the Bank on or after 1st January 1996 are eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983, or may opt for the proposed pension scheme, thereby forfeiting their right to gratuity.

Employees who are terminated, are eligible for terminal gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of one-half of Gross Salary applicable to the last month of the financial year in which employment is terminated, for each year of continuous service, for those who have served in excess of five years.

A monthly provision is made by the Bank towards such Gratuity Payment Liabilities and is reflected in the Bank's Balance Sheet up to 31st December 2007, after which a provision was made upon the gratuity formula. In 2008, the Bank obtained an actuary valuation on the gratuity liability, which was lower than the previous gratuity formula. Considering the Bank's low employee turnover, it is likely that we shall continue with the more prudent gratuity procedure.

People's Bank's subsidiaries and Associate Companies provide gratuity under the Payment of Gratuity Act No. 12 of 1983. Accordingly, provision for gratuity has been made for employees who have completed a year of service with any of these companies. These liabilities are not funded externally.



### Defined Contribution Plans

The Bank also administers a defined contribution plan. The contribution payable to this plan is in keeping with the services rendered to Bank by employees; these are recorded as expenses under 'Personnel Expenses'. Unpaid contributions are considered as liabilities, and are recorded as such.

**Our entire Training and Development process is built on creating a challenging environment that fosters development, instigating team members to be proactive in their own progress and in the Bank's one as well**

### Post-1996 Pension Plan

Permanent employees, who joined our ranks after 1st January 1996, should benefit from a new pension scheme that is approved by the

Ministry of Finance. The Bank, as a start-up for this new scheme, transferred Rs. 198 Mn of the Bank's gratuity fund. Furthermore, an additional Rs. 854 Mn has also been added to the fund; a total of Rs. 1.1 Bn was available in this fund as at 31st December 2012. The enthusiasm for this fund has been consistent, having received over 3,300 applications from the 4,187 employees who are eligible for this programme. This pension scheme should be in operation in 2013.

### Widows'/Widowers' and Orphans' Pension Plan (Pre-1996)

The Bank maintains a separate fund for future obligations, based on the advice of a qualified actuary. Pension payments are charged against the fund in respect of surviving widows/widowers and orphans.

The Bank contributes to the following schemes:

#### Employees' Provident Fund

Peoples Bank has consistently contributed towards this fund; 12% and 8% of each employee's monthly remuneration (excluding overtime) is presented to the Fund. The Bank's Provident Fund is approved under the Employees' Provident Fund Act, and is thus maintained internally.

#### Employees' Trust Fund

Each employee also contributes 3% of his/her remuneration, excluding overtime, to this Fund which is maintained by the Employees' Trust Fund Board.

### Post-Employment Medical Benefits

The Bank expends post-employment medical benefits as and when it arises, based

on the schemes approved by the Bank. A separate medical fund is maintained in order to meet abnormally high medical expenses in the future. Management discretion is used to utilise this Fund as and when required.

### Training and Development

Developing our people to conform, fit and excel in a globalised environment forms a firm fundamental in our Training and Development agenda. Our entire Training and Development process therefore is built on creating a challenging environment that fosters development, instigating team members to be proactive in their own progress and in the Bank's one as well. The Training and Development blueprint therefore is worked on using globally - practiced methodologies and suggestions and ideas from the team members are also included once received, if relevant.

|  |         |
|--|---------|
| Training Hours per Year                      | 142,068 |
| Number of Employees                          | 7,823   |
| Average Training Hours per Year per Employee | 18      |

### Minimum Notice Period with Regard to Operational Changes

There is no minimum notice period specified under the Collective Agreements with regard to anticipated operational changes.

All change management processes are implemented with the consultation of Employee Associations, which helps establish industrial peace and contributes to the transparency of the Bank.

## HOW WE WORK WITH OUR COMMUNITY

Social and economic inclusivity is the permeating ethos in our social sustainability foundation. While our products are constructed on the platform of ensuring sustainable empowerment, it is pertinent to mention that the very vision of People's Bank is one of social sustainability. Hence, our engagement with the community is assuredly focused on this aspect.

Identification of community projects generally begins at local level, where our branches identify and select projects aligned with our primary sustainability platforms: Preservation of Sri Lanka's Heritage, Developing Literacy, Empowering Women and Sports Development.

Once this is done and the Branch Manager's approval is obtained, if the project aligns itself to the guidelines of a localised project, the branch will begin implementing it. However, if the project is larger in stature, the proposal is submitted to the Marketing Manager and relevant cross functional team, who will discuss the project and its cruciality to meeting the sustainability objectives of the Bank. If approved, the author of the project is informed and close monitoring will be effected from the Centre throughout the implementation of the project, while an end-report is requested once the project is completed. This end-report will state the success of the project, the impact and the gaps if any encountered and serves as a learning tool for future activities.

### Preserving Sri Lanka's Cultural Heritage

As is customary, People's Bank took the lead in partnering the Sri Dalada Maligawa in its annual pageant, the Esala Maha Perahera which is considered Asia's largest cultural pageant. This pageant, which traverses the streets of the hill capital of Kandy with majestically caparisoned elephants, dancers representing all four main categories of dance prevalent in Sri Lanka and showcases the most prized possession from the Temple of the Tooth which is the relic of the Buddha's tooth, forms an integral facet in Sri Lanka's cultural calendar and preserves age-old traditions and legacies that have been handed down from the times of the Kandyan Kingdom.

Vesak, which commemorates the birth, death and enlightenment of Lord Buddha and is celebrated in Sri Lanka with great pageantry, was added to when People's Bank partnered the Dehiwala community at the Vesak celebrations. Similarly, in commemorating the day Buddhism was brought to Sri Lanka, Poson Poya, we were present at the very heart of Buddhism in Anuradhapura at the Bakthi Gee programme.

The habits of the rural villages of Sri Lanka are fast disappearing. There unique mores and customs if not highlighted and preserved, could disappear from everyday life. By partnering the Capital Maharaja Group in partnering *Sirasa Kadamandiya*, People's Bank hopes to create awareness among the people of Sri Lanka about the unique practices and traditions that prevail in rural village culture.

We are conscious of the multicultural multi-religious permeation prevalent in Sri Lanka and make every effort to create a unifying environment for all segments of the nation to live in united diversity. We celebrate and support all religious and cultural festivals, including Thai Pongal a Hindu festival celebrating the harvest, the Christmas season with the sponsorship of Christmas Carols, an annual event organised by the Christian Guild of People's Bank which was held for the 34th year consecutively and supported the pilgrims making their way to St. Anne's Church, Thalawila by constructing a Pilgrim's Rest. This six-house Rest has all amenities and was declared open by the Bishop of Chilaw, His Lordship Devsriitha Valence Mendis.

Jaffna culture was highlighted at the Art Festival which was organised by the branches in the Jaffna and Wannai regions at the Jaffna University premises which was most successful in creating awareness and appreciation of a culture and traditions that form an intrinsic part of Sri Lanka's make-up.

### Developing Literacy

People's Bank has always had a pulse on the younger generation, instilling not only values but also ensuring that education becomes the central axis to their well-being. The products developed and the value additions like the *Sisu Udana* Scholarships, school banking units and mobile units are all aimed at ensuring that students continue their education without disruption. Another value addition this year was the concert, *Sisu Udana Dayata Pipena Mal*, which showcased young students talent, held at the *Deyata Kirula* Exhibition in Anuradhapura.

## Empowering Women

Another area of focus that has remained ingrained in the DNA of People's Bank is the empowerment of women. Each year, the Bank gets very involved in International Women's Day Programmes, which compliment the various products available in its portfolio aimed specifically at uplifting women. This year's International Women's Day Programme was held at the Janakala Centre. In addition, we were in Kalutara at the *Soorya Mangalya 2012* to present prizes to the winners of the *Vanitha Vasana Nena Guna Piri Liya* Programme, felicitating those women who had won prizes in the special *Vanitha Vasana* Programme.

## Sports Development

Believing strongly that sports is a great unifier of nations, cultures and people, while honing team spirit, the Bank has always encouraged extracurricular activities among its team and assisted the nation's prowess at various sports. This year, the Bank invested funds to develop the sport of Netball, which also included the celebratory parade that marked the 8th Asia Cup Netball Championship held in Colombo. We presented a prize to the National Cycle Champion who won the *Jaya Sri Udana* Cycle Race which was conducted in collaboration with the Minuwangoda Municipal Council.

## OUR ENVIRONMENTAL COMMITMENT

As this is our initial Sustainability Report, many changes have not been made towards reducing our carbon footprint. Our fundamental priority, as mentioned

previously, is to focus on uplifting social empowerment and economical soundness. Thereby, the focal point of our sustainability practices have not been directed *vis-à-vis* environmental protection. However, there is no ignominy in admitting this, as, while we know that we must act responsibly towards our environment, it has not been a priority in our sustainability consciousness thus far.

In the process of sustainability reporting, this focus on the environment has gained focus and we are determined that from this point onwards, we will meet our goal of growing the nation in an ecologically sound way, where the triad of economic, social and environment will converge on a singular platform of sustainable development for the people of this planet.

Measures have been taken, small steps admittedly, to help protect the environment. We at Peoples Bank are energy conscious and have included energy saving methods across the board at almost all of our Branches and Service Centres. Amongst our modest practices for example, are the following initiatives which we have introduced:

- The reduction of cartridge purchases; previously, the Bank would call for tenders for such requirements through the Supplies Department. Now, we purchase originals, although at an increased cost but better for the environment in the longer term
- Requesting that electric bulbs be switched off
- Substituting energy saving CFL bulbs wherever possible
- Switching off air conditioners when at the end of a formal office day

- Using the Intranet and Email for both internal and external communication as much as possible
- Reducing paper wastage and usage by introducing IT systems and processes, especially for approvals, HR management, internal communication and reviews

This, we believe, are small fledgling steps we have taken but will be the markers in us taking greater strides towards a reduced carbon footprint.

## Compliance with Environmental Laws/Regulations

At People's Bank, we strive to maintain environmental standards; issues of non-compliance or environmental disregard have not ever been levied against us. Thereby, we have paid no monetary fines, or dues as a result of negligent environmental practices.

## GRI CONTENT INDEX

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## GRI APPLICATION LEVEL TABLE

| Report Application Level |   | C  | C+                        | B   | B+                        | A   | A+                        |
|--------------------------|---|--|---------------------------|---|---------------------------|---|---------------------------|
| Standard Disclosures     | Profile Disclosures   | Report on:<br>1.1<br>2.1-2.10<br>3.1-3.8, 3.10-3.12<br>4.1-4.4, 4.14-4.15  | Report Externally Assured | Report on all criteria listed for Level C plus:<br>1.2<br>3.9, 3.13<br>4.5-4.13, 4.16-4.17  | Report Externally Assured | Same as requirement for Level B   | Report Externally Assured |
|                          | Disclosures on Management Approach                                | Not Required   |                           | Management Approach Disclosures for each Indicator Category   |                           | Management Approach Disclosed for each Indicator Category   |                           |
|                          | Performance Indicators & Sector Supplement Performance Indicators | Report fully on a minimum of any 10 Performance Indicators, including at least one from each of: Social, Economic and Environmental.** |                           | Report fully on a minimum of any 20 Performance Indicators, at least one from each of: Economic, Environment, Human Rights, Labour, Society, Product Responsibility.*** |                           | Respond on each core and Sector Supplement* Indicator with due regard to the Materiality Principle by either: a) reporting on the indicator or b) explaining the reason for its omission. |                           |



# A Pictorial View of 2012



Opening of Tangalle Branch by H.E. The President



Dr. P.B. Jayasundera ceremonially unveiling the commemorative plaque of SME scale business centre in Kurunegala



The Bank opened its latest SME scale business centre in Kandy



Hon. Basil Rajapaksha ceremonially opened the Business centre in Anuradhapura



New hospital in Kottukachchy donated by the Christian Guild of the Bank: Director, Mr. D.J.D. Jayakody at the opening ceremony



New hospital in Kottukachchy donated by the Christian Guild of the Bank: An exterior shot of the building.



Title deed awarded to the winner of the third prize of *Sanwathsara Vasana* - a luxury house



Handing over the prize to *Jaya Sri* Winner in Kinniya.



Lucky winner of *Jaya Sri* draw receiving her prize from the Bank's officials at the Central Road Branch



'Birth of Freedom' in relation to Independence Day celebrations: The first gift voucher offered to a newly born baby by Directress, Ms. L. Sangakkara



'Birth of Freedom' in relation to Independence Day celebrations: CEO/GM handing over *Sisuru Udana* gift certificate together with a gift pack for the new born baby



'Birth of Freedom' in relation to Independence Day celebrations: Gifts offered to another baby born on 4th of February



*Sisuru Udana* Savings Unit at All Saints Girls School, Borella



*Sisuru Udana* 'Deyata Pipena Mal' Quiz Competition at 'Deyata Kirula 2012' in Anuradhapura: Celebration of winners, Ananda College 'by spell'



*Sisuru Udana* 'Deyata Pipena Mal' Quiz Competition at 'Deyata Kirula 2012' in Anuradhapura: Dance performance by students on *Jaya Sri* stage at the exhibition



'*Puravamu Vee Bissa*' - savings promotion organised to celebrate the World Thrift Day: Students enthusiastically participating in the event at Colombo Defence Services College



'*Puravamu Vee Bissa*' - savings promotion organised to celebrate the World Thrift Day: Students dressed as farmers to invest in the paddy store



'*Puravamu Vee Bissa*' - savings promotion organised to celebrate the World Thrift Day - students lined up to deposit money at the savings unit





Sisu Udana pass books issued to schoolgirls by the Dematagoda Branch



Moneragala Regional Manager and Branch Manager of Thanamalwila discussing with the farmers issues relating to marketing paddy cultivation



Poshon Bakthi Gee organised by the Bank at Anuradhapura



Alms giving on Poshon Day at Anuradhapura with the presence of former Chairman Late Mr. W. Karunajeewa



Bishop of Chilaw opening Thalawila Pilgrims' Rest which was built by People's Bank



Thai Pongal Festival celebrations at Kotahena Branch



Word Children's Day celebrations: Kids at Waduawela Nursery School overjoyed with the gifts received



Word Children's Day celebrations: Moneragala Regional Manager visited a school to celebrate the event



New Year Festival: A children's event at the first ever Bakmaha Ulella organised by the staff of Moneragala region



Word Children's Day celebrations: Serving kids with treats and gifts at Hemmathagama Branch



The former Chairman with the winning team at the Arts Festival organised by the Bank's Art Circle



A performance at People's Bank Art Festival in Jaffna



CEO/GM, Mr. N. Vasantha Kumar handing over certificate and gift to a student in Thalathuoya who had successfully passed the Grade 5 Scholarship Examination



The participants of *Dambadiva* pilgrimage, who were the winners of the lucky draw for *Parinatha* account holders



Religious ceremonies held at Bank Head Office on 1st January 2012



At a ceremony held at Grandpass Branch to Celebrate Ramazan Ifthar



# Compliance Report

The excellent reputation enjoyed by the Bank is a main pillar of the business success of the Bank. A sound reputation forms the basis for client confidence in the services offered by the Bank. This confidence goes hand in hand with confidence in the integrity and the specialised know how of Bank employees as well as in the high quality of our products. For this reason, key principles of compliance for the Bank are ensuring employee integrity and maintaining service and product quality. Compliance is primarily aimed at maintaining and continuously improving the reputation of the Bank. Ensuring the integrity of the Bank and that of its employees is accomplished by adhering to compliance relevant legislation. It is also achieved by conveying adequate knowledge of the compliance legislation to be adhered to as well as by monitoring the resultant compliance guidelines and principles.

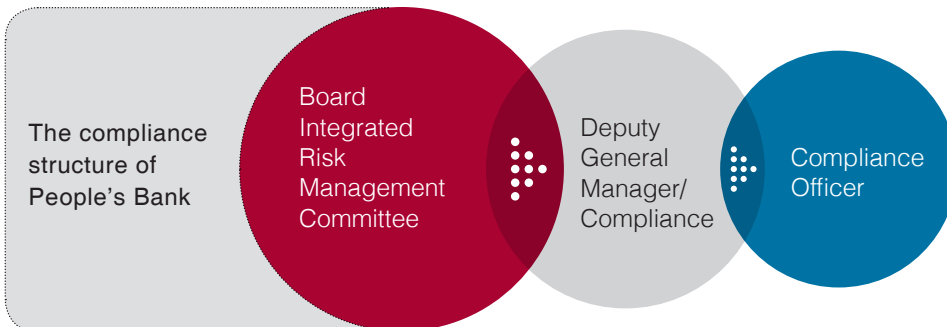
As overlooking or losing sight of the current law pertaining to the duties of the Bank is a very high possibility with frequent changes and revisions in laws and regulations, People's Bank has established the role of Compliance function within the Organisation with the following scope:

- Freedom to investigate and examine whether the Bank's business activities are conducted in accordance with the rules and regulations pertaining to the industry
- Independence of reporting to Board Integrated Risk Management Committee or to Board of Directors
- Ability to interpret regulations constructively so as to facilitate business but not to breach the spirit of such regulations or to endanger the Bank's reputation with its Regulator

As violation of Laws and Regulations bring about sanctions and impairs the good name and reputation of the Bank, the compliance function focuses on managing the risks arising from laws, regulations and standards which are specific to the financial services industry and which are issued by legislative and regular bodies relevant to the business of the Bank. The compliance function actively educates and supports the business in managing areas such as Anti-Money Laundering, conflict of interests, sales and trading conduct, customer interest and protection and preventing Terrorist Financing.

## THE DUTIES OF THE COMPLIANCE FUNCTION

- Ensure that the Banks Business activities are conducted in accordance with the laws and regulations pertaining to the industry.
- Ensure that all employees at Bank, follow accepted ethical standards in discharging their duties.
- Interpret the Laws and Regulations constructively so as to facilitate business but not to breach the spirit of such regulations or to endanger the reputation of the Bank.
- Protect the Banks tangible and intangible assets, the financial security of the business and most importantly the good reputation of the Bank.



- Provide regular updates to staff when there are changes in legislations/regulations pertaining to the banking business, and conduct training throughout the branch network so as to ensure compliance awareness at all times.
- Ensure that there is an effective Corporate Governance culture across all levels of the Bank.
- Align the Bank's corporate activities and behaviour to ensure that it operates in a safe and sound manner maintaining the trust and confidence of the public.
- Assessing the branches to ensure that the branch network is acting in compliance with the rules and regulations of the industry.
- Carrying out periodic process of confirmation of compliance from respective departments and bring to the notice of the Board of Directors any breaches identified in order to take rectifying measures.
- Submitting confirmation reports on compliance with CBSL Directives to the Bank Supervision Department.

identifying Money Laundering and Terrorist Financing as crimes which are punishable by fines or imprisonment.

People's Bank, being one of the biggest State Banks in the country with 345 Branches and 381 Service Centres, maintaining approximately 12 Mn customer accounts and processing thousands of transactions a day, could always be a target for would be money launderers. As such we have internally developed the following effective Anti-Money Laundering procedures to reduce the risk of the Bank being used in Money Laundering transactions:

- Monitor unusual large transactions and unusual patterns of transactions which have no economic or visible lawful purpose, receiving internal suspicious transactions report from staff, analyse and investigate same.
- Report promptly Suspicious Transactions to the Management and Financial Intelligence Unit (FIU).

In order to improve awareness on Money Laundering and Terrorist Financing and incorporate a good governance culture within the Bank, following steps have been taken within the Bank:

- Training programmes are conducted across the branch network on Anti-Money Laundering/Know Your Customer, Customer Due Diligence and Risk Categorisation.
- E-learning modules have been developed on Anti-Money Laundering/ Know Your Customer and Western Union Transactions.

- The Bank has put in place a Code of Best Practice in Corporate Governance, Anti-Money Laundering and Know Your Customer Policy, Code of Conduct, Compliance Policy and Customer Charter has been put in place.

People's Bank has fully complied with the compliance requirements of the country and has developed systems and procedures to give the fullest support needed to combating Money Laundering and Terrorist Financing. All applicable laws and regulations are strictly followed in this regard. As a State Bank, every step has been taken to extend support to regulatory authorities to ensure the stability of the financial system of Sri Lanka.

## COMBATING MONEY LAUNDERING AND TERRORIST FINANCING

Today, Money Laundering and Terrorist Financing has become a major issue world wide creating a huge threat to the Banking & Finance Industry. As a country Sri Lanka has enacted laws pertaining to Money Laundering and Terrorist Financing

# Corporate Governance

Good corporate governance is globally accepted as being fundamental to an organisation's competitiveness, growth and sustainability. There is a great attention on Boards of Directors to discharge their duties with high ethical values and accountability in their commitment to good governance practices. Strong business ethics, sound policies and procedures, effective and efficient monitoring systems are considered as ingredients of good corporate governance system.

Good corporate governance is essential to create trust and engagement between companies and their stakeholders, so contributing to the long-term success of the business. In this context corporate governance can be defined according to the Cadbury Report, 1995, 2.5 as 'the system by which companies are directed and controlled'.

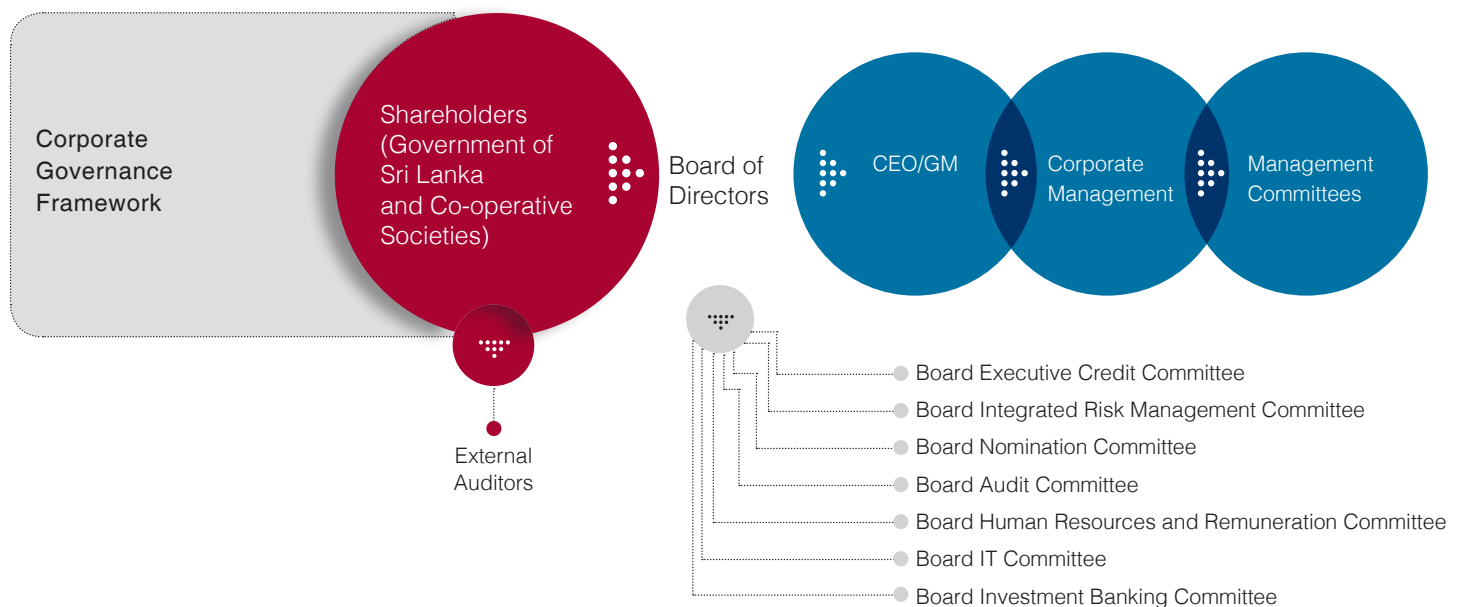
Corporate governance is the mechanism by which companies are rationalised, directed, controlled and monitored. Corporate governance co-ordinates different types of stakeholders such as shareholders, Directors, managers, employees, creditors, customers, global environment and the rest of the society to enhance corporate performance and well-being as a common goal. Major considerations of a system of corporate governance are -

- How successfully companies formulate the rational; the reason for existence and future direction.
- How effectively corporate decisions are made; guidelines and procedures.
- How well the Board on behalf of shareholders appraise managers' decision-making, and monitor the execution.
- How fruitfully the different stakeholders are facilitated to achieve the goals.

The concerns about corporate governance have developed rapidly during the past decades mainly due to credit crisis and the outcome has taken an important part in business as well as in the economy and society of Sri Lanka.

People's Bank over the past 51 years playing the role of good corporate citizen has taken steps voluntarily to adopt the corporate governance practices recommended by various regulatory bodies such as The Institute of Chartered Accountants of Sri Lanka, The Securities and Exchange Commission of Sri Lanka and The Central Bank of Sri Lanka.

It is the responsibility of the Board of Directors and Senior Management with the contribution of all the other stakeholders starting from employees to Bank customers to have good corporate governance in the Bank.





## Bank's Adherence with The Code of Best Practice on Corporate Governance Issued by The Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka.

| Subject           | Corporate Governance Principle  | Reference to the Code of Best Practice issued by ICASL and SEC | Level of Compliance   |
|-------------------|---|--|---|
| <b>A. General</b> |   |  |   |
| Chairman and CEO  | If Chairman and CEO is one and the same person, disclose the Name of the Chairman/CEO and Senior Independent Director appointed and justification of the decision to combine the positions.   | A.2.1 & A.5.6  | The posts of Chairman and CEO/ GM are held by two individuals.  |
| Board Balance     | <ul style="list-style-type: none"> <li>● Should identify the Independent Non-Executive Directors.</li> <li>● If a Non-Executive Director is identified as 'Independent', notwithstanding the existence of any of the following factors, the reason for such determination should be disclosed.</li> <li>● A Director is not considered independent if he/she- <ul style="list-style-type: none"> <li>○ Has been employed by the Company during the period of two years immediately preceding appointment as Director;</li> <li>○ Currently has/had during the period of two years immediately preceding appointment as Director, a Material Business Relationship with the Company, whether directly or indirectly;</li> <li>○ Has a close family member who is a Director, Chief Executive Director (and/or an equivalent position) in the Company;</li> <li>○ Has a significant shareholding in the Company;</li> <li>○ Has served on the Board of the Company continuously for a period exceeding nine years from the date of the first appointment;</li> <li>○ Is employed in another Company or Business - <ul style="list-style-type: none"> <li>■ In which a majority of the other Directors of the Company are employed or are Directors; or</li> <li>■ In which a majority of the other Directors of the Company have a Significant Shareholding or Material Business Relationship; or</li> <li>■ That has a Significant Shareholding in the Company or with which the Company has a Business Connection;</li> </ul> </li> </ul> </li> </ul> | A.5.5  | Under the People's Bank Act No. 29 of 1961, the Minister of Finance is empowered to appoint Board of Directors. All Directors appointed under the Act are in a Non-Executive capacity and are able to form an independent view since they are not part of the Management of the Bank. |

| Subject                        | Corporate Governance Principle  | Reference to the Code of Best Practice issued by ICASL and SEC | Level of Compliance  |
|--------------------------------|---|--|--|
|                                | <ul style="list-style-type: none"> <li>● Is a Director of another company -               <ul style="list-style-type: none"> <li>○ In which a majority of the other Director of the Company are employed or are Directors; or</li> <li>○ That has a Business Connection in the Company or Significant Shareholding;</li> </ul> </li> <li>● Has Material Business Relationship or a Significant Shareholding in another company or business-               <ul style="list-style-type: none"> <li>○ In which a majority of the other Directors of the Company are employed or are Directors; and/or</li> <li>○ That has a Business Connection with the Company or Significant Shareholding in the same.</li> </ul> </li> </ul> |  |  |
| Appointment of New Directors   | <p>When new Directors are appointed, the following details should be disclosed:</p> <ul style="list-style-type: none"> <li>● A brief resumé of each such Director;</li> <li>● The nature of his expertise in relevant functional areas;</li> <li>● The names of companies in which the Director holds directorships or memberships in Board committees; and</li> <li>● Whether such Director can be considered independent.</li> </ul>  | A.7.3  | Complied with.<br>The Directors are appointed as per the provisions under the People's Bank Act. |
| Nomination Committee           | The Chairman and members of the Nomination Committee should be identified.  | A.7.1  | Complied with.   |
| Appraisal of Board Performance | Should disclose how performance evaluation has been conducted.  | A.9.3  | The Board conducts appraisals to assess its performance and effectiveness as a whole annually.   |
| Board-Related Disclosures      | <p>The following details pertaining to each Director should be disclosed:</p> <ul style="list-style-type: none"> <li>● Name, qualification and brief profile;</li> <li>● The nature of his/her expertise in relevant functional areas;</li> <li>● Immediate family and/or material business relationships with other Directors of the Bank;</li> <li>● Names of other listed companies in Sri Lanka in which the Director concerned serves as a Director;</li> </ul>  | A.10.1   | Complied with.<br>The 2012 Annual Report contains comprehensive information in this regard.      |

| Subject                             | Corporate Governance Principle   | Reference to the Code of Best Practice issued by ICASL and SEC | Level of Compliance   |
|-------------------------------------|--|--|---|
|                                     | <ul style="list-style-type: none"> <li>Names of companies in which the Director concerned serves as a Director and/or the fact that he/she holds other directorships in the Group Companies;</li> <li>Number/percentage of Board meetings of the Bank attended during the year;</li> <li>Names of the Committees in which the Director serves as the Chairman or a member; and</li> <li>Number/percentage of committee meetings attended during the year.</li> </ul> |  |   |
| Disclosure of Remuneration          | <ul style="list-style-type: none"> <li>A Statement of Remuneration Policy and details of remuneration of the Board as a whole.</li> <li>Total salary of Executive Directors and total salary of Non-Executive Directors.</li> </ul>  | B.3  | The Ministry of Finance and Planning determines the allowance payable to Directors.   |
| Major Transactions                  | All Major Transactions entered into by the Bank should be disclosed.   | C.2  | Complied with.  |
| Audit Committee                     | <ul style="list-style-type: none"> <li>Names of the Members of the Audit Committee should be disclosed.</li> <li>Basis for determining the independence of Auditors.</li> </ul>  | D.3.4  | Names of members of the Audit Committee are given in the Directors' Report on page 117. The Auditor of the Bank is the Auditor General as enshrined in the Constitution of Sri Lanka. The independence of the Auditor General is ensured by the Constitution. Auditor General has appointed KPMG Auditors to carry out the Bank's external audit. |
| Code of Business Conduct and Ethics | <ul style="list-style-type: none"> <li>Should disclose whether the Bank has a Code of Business Conduct and Ethics for Directors and members of the Senior Management Team.</li> <li>Should also disclose an affirmative declaration that they have abided by such Code.</li> <li>The Chairman must certify that he/she is not aware of any violation of any of the provisions of this Code.</li> </ul>   | D.4.1 & D.4.2  | Complied with. Bank has Code of Ethics for Directors and a Code of Conduct for its Employees.   |

| Subject                                 | Corporate Governance Principle  | Reference to the Code of Best Practice issued by ICASL and SEC | Level of Compliance   |
|---|---|--|---|
| Going Concern                           | <ul style="list-style-type: none"> <li>Should report that the Bank is a going concern, with supporting assumptions and qualifications as necessary.</li> </ul>  | D.1.5  | The Bank is a going concern   |
| <b>B. Remuneration Committee Report</b> |   |  |   |
| Members of Remuneration Committee       | <ul style="list-style-type: none"> <li>The names of members of Remuneration Committee should be disclosed in the Remuneration Committee Report.</li> </ul>  | B.1.3  | Complied with. Names of members of the Remuneration Committee are disclosed in the Directors' Report on page 117 of this Annual Report. |
| <b>C. Directors' Report</b>             |   |  |   |
| Directors' Report                       | <p>Should contain the following declarations made by Directors:</p> <ul style="list-style-type: none"> <li>The Bank has not engaged in any activities, which contravenes laws and regulations;</li> <li>The Directors have declared all material interest in contracts involving the Bank and refrained from voting on matters in which they were materially interested;</li> <li>The Bank has made all endeavours to ensure the equitable treatment of shareholders;</li> <li>The business is a going concern with supporting assumptions or qualifications as necessary; and</li> <li>They have conducted a review of internal controls covering financial, operational and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and successful adherence herewith.</li> </ul> | D.1.2  | Complied with.  |
| <b>D. Financial Statements</b>          |   |  |   |
| Financial Statements                    | <ul style="list-style-type: none"> <li>The Board of Directors should include a Statement of Responsibility for the preparation and presentation of Financial Statements.</li> <li>Auditors should also have a statement about their reporting responsibility.</li> </ul>  | D.1.3  | Complied with.  |
| <b>E. Management Report</b>             |   |  |   |
| Management Report                       | <p>Should include a 'Management Discussion and Analysis Report' discussing at least the following issues:</p> <ul style="list-style-type: none"> <li>Industry structure and developments;</li> <li>Opportunities and threats;</li> <li>Risks and concerns;</li> <li>Internal control systems and their adequacy;</li> </ul>   | D.1.4  | Complied with.  |

| Subject                               | Corporate Governance Principle   | Reference to the Code of Best Practice issued by ICASL and SEC | Level of Compliance |
|---------------------------------------|--|--|---------------------|
|                                       | <ul style="list-style-type: none"> <li>• Social and environmental protection activities carried out by the Bank;</li> <li>• Financial performance;</li> <li>• Material developments in human resources/industrial relations; and</li> <li>• Prospects for the future.</li> </ul> |  |                     |
| <b>F. Corporate Governance Report</b> |  |  |                     |
| Corporate Governance Report           | Should disclose the manner and extent to which the Bank has complied with as per the principles and provisions of the Code.  | D.5.1  | Complied with.      |
| <b>G. Audit Committee Report</b>      |  |  |                     |
| Audit Committee Report                | Should set out the work carried out by the Committee.  | D.3.3  | Complied with.      |

### Bank's Adherence with the Corporate Governance Rules as Required by the Banking Act Direction No. 11 of 2007 Issued by the Central Bank of Sri Lanka

The factual findings report has been issued by the Auditor General on the level of compliance with the requirements of these Directions. The findings did not include any inconsistencies with Directions.

The Corporate Governance Certificate together with factual findings are given on pages 124 to 153.

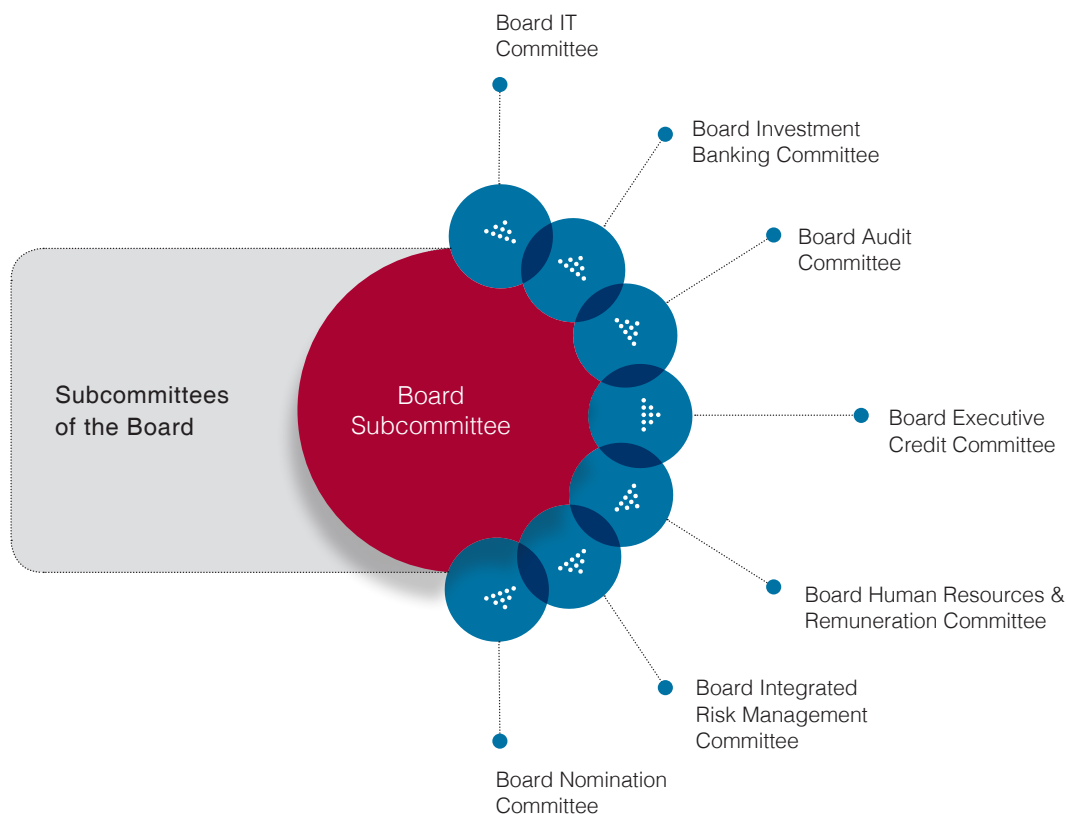
### Number of Board Meetings and Board Sub-Committee Meetings held during the year 2012

| Name of Committee                                     | No. of Meetings |
|---|-----------------|
| Board Meetings  | 18              |
| Board Audit Committee (BAC)                           | 10              |
| Board Executive Credit Committee (BECC)               | 24              |
| Board Human Resource & Remuneration Committee (BHRRC) | 11              |
| Board Integrated Risk Management Committee (BIRMC)    | 4               |
| Board Nomination Committee (BNC)                      | 1               |
| Board Investment Banking Committee (BIBC)             | 1               |
| Board IT Committee (BITC)                             | 7               |

### Attendance at Board Meetings and Board Subcommittee Meetings during the year 2012

| Name of the Director      | Board Meetings | BAC | BECC | BHRRC | BIRMC | BNC | BIBC | BITC |
|---------------------------|----------------|-----|------|-------|-------|-----|------|------|
| Mr. W. Karunajeewa        | 18             | N/M | 22   | 11    | N/M   | N/M | N/M  | N/M  |
| Dr. D.J.D. Jayakody       | 18             | N/M | 23   | 11    | 4     | 1   | 1    | 7    |
| Mr. Jehan P. Amaratunga   | 16             | 10  | N/M  | N/M   | 4     | 1   | 1    | 7    |
| Mr. Ajith Panditharatne   | 15             | N/M | N/M  | 10    | N/M   | 1   | N/M  | N/M  |
| Ms. Lakshmi K. Sangakkara | 17             | N/M | 22   | N/M   | N/M   | 1   | N/M  | N/M  |
| Ms. Dharma N. Gammampila  | 15             | 9   | N/M  | N/M   | 4     | 1   | N/M  | N/M  |
| Ms. Visakha Amarasekera   | 16             | 9   | N/M  | N/M   | 4     | 1   | 1    | N/M  |
| Mr. Priyantha Mayadunne   | 16             | N/M | N/M  | 10    | N/M   | 1   | N/M  | 7    |
| Mr. Pawara Dassanayake    | 17             | N/M | 19   | N/M   | N/M   | 1   | N/M  | N/M  |

\* N/M - Not a Member of the Board Subcommittee.





INVESTORS

**10.9** Rs. Bn  
Profit After Taxation

Return on  
Assets (Before Tax)

**2%**

Return on  
Equity

**41.7%**



*As a State-owned Bank*, we know that the decent returns we generate for our shareholder will find its way back into society - the Bank is proud to play a role in the development of Sri Lanka. Our name still says it all...for it's still all about people!



**2.8%**

**NPL Ratio**

**873**

**Rs. Bn**

**Total Assets**

2008

2009

2010

2011

2012

**Capital Adequacy Ratio**

**14.0%**

**Credit Rating Stable - by Fitch Ratings**

**AA+**

# Risk Management

## BACKGROUND AND THE UNDERLYING PRINCIPLES

People's Bank recognises that the provision of various financial facilities to customers and counterparties exposes the Bank to various types of risks, the management of which is crucial to the long-term viability of the Bank.

Some of the major risks recognised by the Bank are:

- i. Credit risk
- ii. Market risk
- iii. Concentration risk
- iv. Liquidity risk
- v. Operational risk
- vi. Interest rate risk
- vii. Legal risk

Most of the risks arising out of our principal activities of lending and borrowing are either mitigated, eliminated or transferred through carefully designed business practices or through product pricing and design.

Risks faced by the Bank are segmented into two different types:

- i. Risk that can be eliminated or transferred or avoided by appropriate business practices.
- ii. Risk that are absorbed and actively managed by the Bank.

## WE ELIMINATE, AVOID AND TRANSFER RISK BY:

- i. Defining and adhering to a strict risk appetite.
- ii. Standardisation of processes, contracts and procedures to prevent inefficient or incorrect financial decisions.
- iii. Construction of portfolios, with strict diversification targets in order to reduce undue risk concentrations.
- iv. Product pricing and design.

We use our own resources and expertise in managing embedded risks. We believe that proper management of such risk positions is an important aspect in earning a consistent and adequate return ensuring stability and growth.

## OUR RISK MANAGEMENT SYSTEM CONSISTS OF FOLLOWING SEQUENCE OF STEPS/ TECHNIQUES:

### A. Clear Policy Directives on:

- i. Risk underwriting standards (risk appetite)
- ii. Risk categorisation
- iii. Standard of review

### B. Establishment of Policies, Procedures, Guidelines and Strategies for Investment, Credit and Trading Activities

Policies and strategies are articulated in terms of commitment to particular type and areas of the market. Tolerable concentration levels and tolerable levels of assets - liability mismatching (exposure) are defined.

### C. Establishment of Risk Position Limits, Authority Levels and Rules

- i. Risk taking is restricted to permitted asset classes/or counterparties with predefined quality standards.
- ii. Setting limits on eligible assets and counterparty exposures. Risks that can be written by any one individual or committed is also restricted, by well-defined authority levels. This applies to Treasury traders as well as credit line officers.

## INITIATIVES DURING THE YEAR

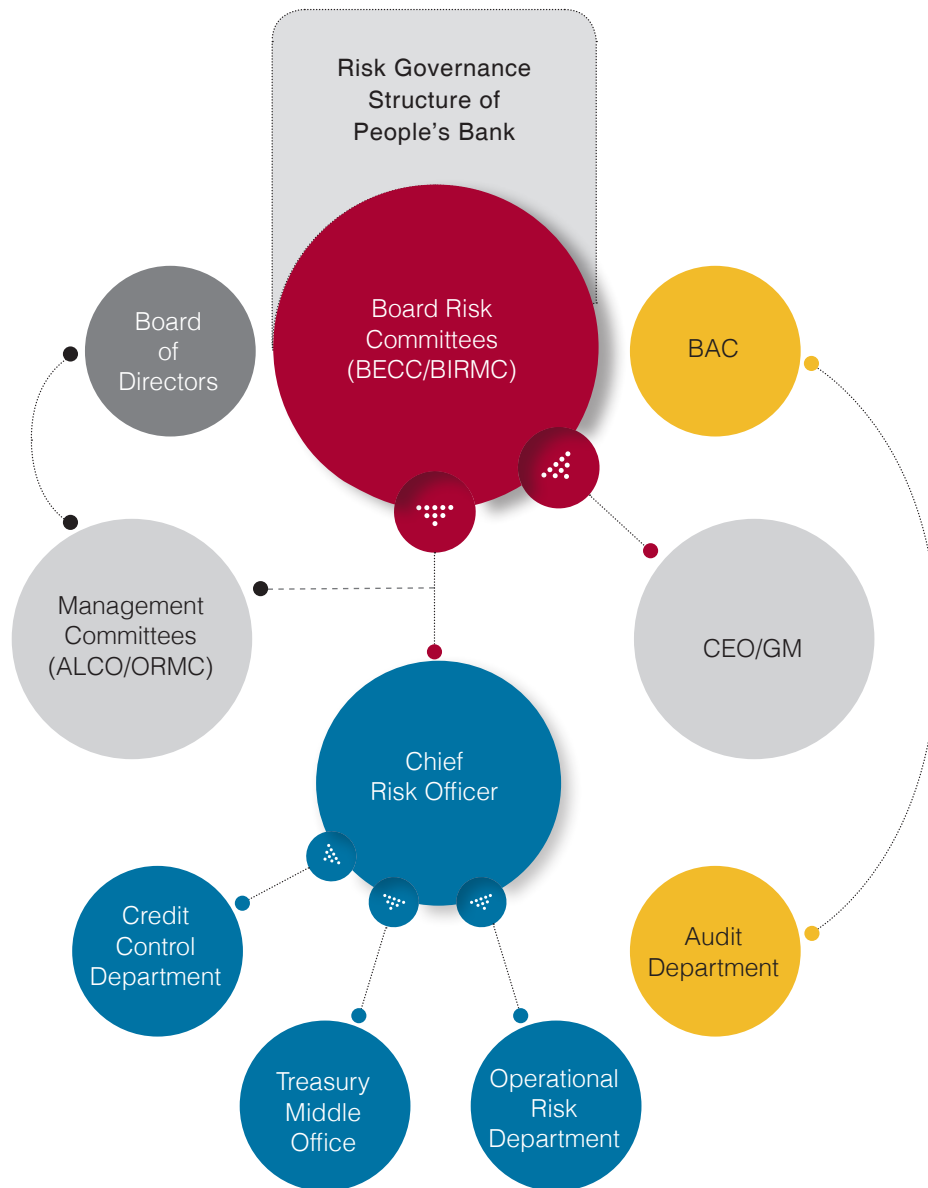
During the year under review we continued to consolidate and strengthen our risk management framework. New procedures and processes were introduced for measuring, monitoring and managing risks with a view to ensuring the establishment of a comprehensive internal capital adequacy assessment process as required under the Pillar 2 of the Basel II framework. Work processes relating to loss data collection were further strengthened. The B.O.D. expert also established an Executive Committee for management of operational risk.

During the current year, the Bank introduced new policies relating to industry concentrations and individual/group borrower concentration in the Loan Book.

Stop-Loss limits have been introduced on a number of traded products in order to further strengthen the controls over Treasury activities.

### INTEGRATED RISK MANAGEMENT AT PEOPLE'S BANK

We are primarily focused on the Bank's vulnerability to adverse impacts of multitude risk exposures on our capital resources and depositor funds. We have been working towards inculcating a strong risk management culture within the organisation, on a platform of a robust and proactive risk governance structure. Formulation of risk strategy and capital allocation process is an integral part of our strategic and business planning process.



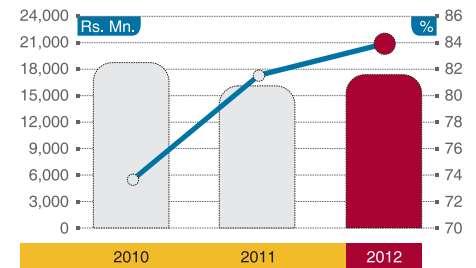
BECC - Board Executive Credit Committee  
 BIRMC - Board Integrated Risk Management Committee  
 BAC - Board Audit Committee  
 ALCO - Assets and Liabilities Committee  
 ORMC - Operational Risk Management Committee

## CREDIT RISK MANAGEMENT

We consider credit risk as the risk segment having the highest impact on our resource base. Credit risk is defined as the possibility that a borrower or counterparty will fail to meet its obligation according to contractual agreement. The Bank manages credit risk at individual exposure levels as well as at portfolio level.

The Bank's credit function operates based on well-defined credit risk strategies/policies set up by the Board of Directors. Written policies/procedures are in place covering following aspects:

- i. Definition of target markets, risk acceptance criteria, credit approval authority structure and relevant rules.
- ii. Credit origination and maintenance procedure.
- iii. Portfolio management guidelines, such as, maximum exposure limits for industries and individual borrowers.
- iv. Remedial/rehabilitation management guidelines.
- v. Credit review policy.
- vi. Watch listing of potentially risky borrowers, and monitoring of these borrowers.
- vii. Delegation of lending powers based on hierarchy in the credit line.
- viii. Credit extension is authorised by at least two or more credit officers including an officer from the Credit Risk Management Department, for exposures beyond a certain quantum.
- ix. Internal credit risk rating system, to assign a risk rating to every obligor.
- x. We have set up a loan review mechanism. A percentage of quarterly loan disbursements at Branch/Regional/Zonal authority levels is selected on a random basis and subjected to post grant reviews at regional as well as head office level to monitor and ensure quality of lending decisions, and also to ensure timely remedial action.
- xi. Random credit audits are carried out by our Internal Audit Department to measure level of adherence to set credit risk and operational risk standards, and determine adequacy of controls and identify areas for improvement.
- xii. Loan delinquencies are monitored on individual loans basis as well as on a portfolio basis. All delinquent loans are classified in accordance with CBSL guidelines. This process is fully automated ensuring strict adherence. We have managed to keep the NPL ratio below 3%.
- xiii. Loan loss provisioning is effected in accordance with the statutory requirements.
- xiv. The Bank has already adopted SLAS 37, and accordingly books impairments and recognises losses based on objective evidence of incurred losses.

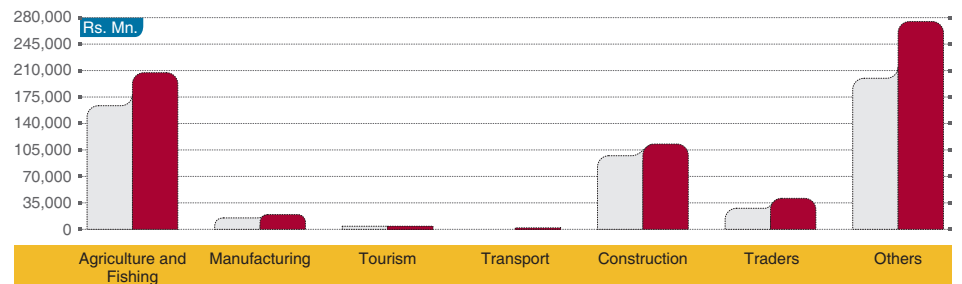


■ Non-Performing Loans  
—○— Provision Coverage Ratio

### NPL and Provision Coverage

### Concentration Risk in the Credit Portfolio

The Bank recently adopted a policy on exposure limits for industries and borrowers. Exposure limits have been imposed covering industry exposure and individual/group exposures (name concentrations). Such exposures are monitored by the Risk Management Division and reported to BIRMC periodically.



Loans and Advances - By Industry

■ 2011 ■ 2012

The Bank has a more stringent Single Borrower Exposure limit than the regulatory maximum. Aggregate exposure of the top 10 and top 20 customers are measured against the total portfolio of the Bank.

Concentration risk for both individual customer and for industry segments are regularly monitored for exposures over Rs. 100 Mn, and the level of dispersion is measured by using the Herfindhal-Hirshman Index.

|                     |      |
|---------------------|------|
| Individual Customer | HHI  |
| With GOSL           | 0.25 |
| Without GOSL        | 0.08 |
| Industry Segment    | HHI  |
| With GOSL           | 0.28 |
| Without GOSL        | 0.12 |

If HHI < 0.15 - Low Concentration  
 If HHI 0.15 - 0.25 - Moderate Concentration  
 If HHI > 0.25 - High Concentration

The portfolio has a low level of concentration without GOSL exposures.

The high level of exposure to the GOSL is as a consequence of our role as a state bank, but is not an area of undue concern, given the various mitigants and credit enhancements that have been structured in.

### Portfolio Analysis

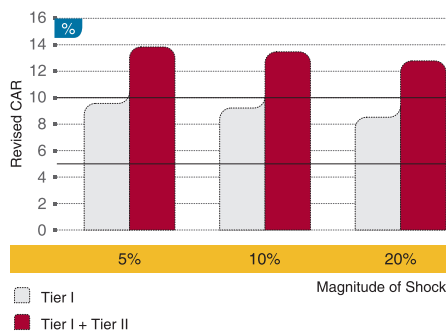
Portfolio analysis is carried out by the Risk Management Division in terms of -

- Product
- Sectors
- Business Lines
- Collateral
- Borrower Credit Risk Rating

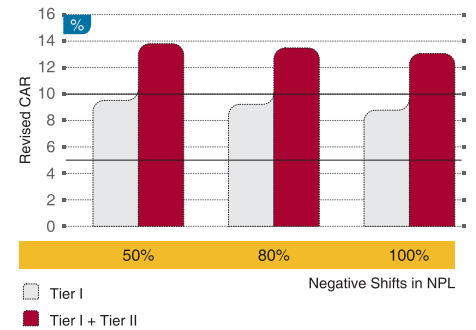
Impairment is strictly monitored in order to identify adverse trends in a timely manner.

### Stress Testing for Credit Risk

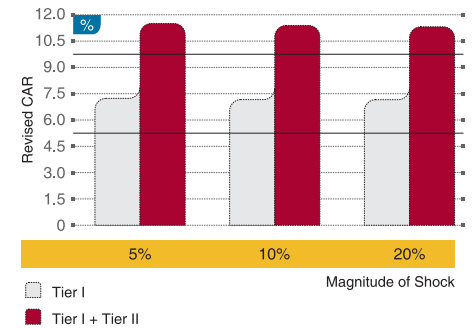
Stress testing is carried out at portfolio level on models developed internally by the Risk Management Division. The Effects of adverse trends/shifts in impairments of loan assets on the capital adequacy of the Bank is tested and results shown below:



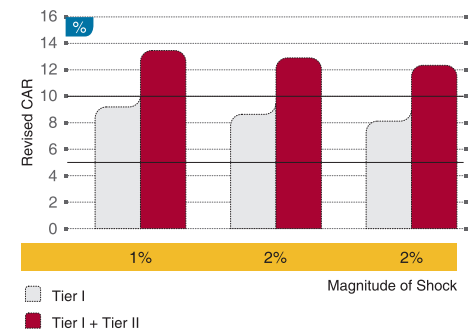
Effect of Increase in NPL's on CAR



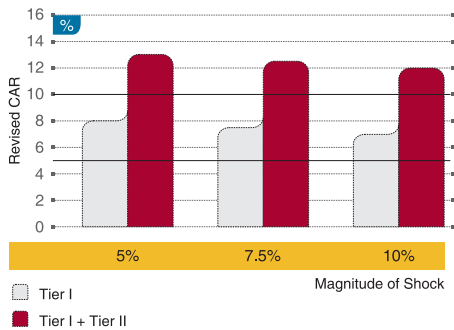
Effect of Negative Shifts in NPL Categories on CAR



Effect of Fall in FSV of Mortgaged Collateral on CAR



Effect of Increase in NPL's (Due to Transfer from Performance to Non-Performance) on CAR



Effect of Slippage to NPL of Top 10 Borrowers on CAR

## MARKET RISK MANAGEMENT

Market risk arises from adverse changes in interest rates, foreign exchange rates, equity prices and commodity prices. Exposure to such risk is present in both our trading book as well as the Banking Book.

A comprehensive set of policies and limits have been adopted in order to manage market risks. These policies/procedures encompass the statutory requirements whilst adhering to best practices.

The Asset and Liabilities Committee (ALCO) is responsible for the management of market risk. All material sources of market risks are identified and risk limits defined by the ALCO. Various market risk exposures are closely monitored by the Treasury Middle Office, and reported to Chief Risk Officer and ALCO, to initiate appropriate action. However, the front line responsibility for market risk management (Trading/ Investment Book) rests with the Treasury Trading Department Treasury Front Office, Middle Office and Back Office are clearly segregated into three different reporting lines with clear and well defined responsibilities.

### Foreign Exchange Risk Management

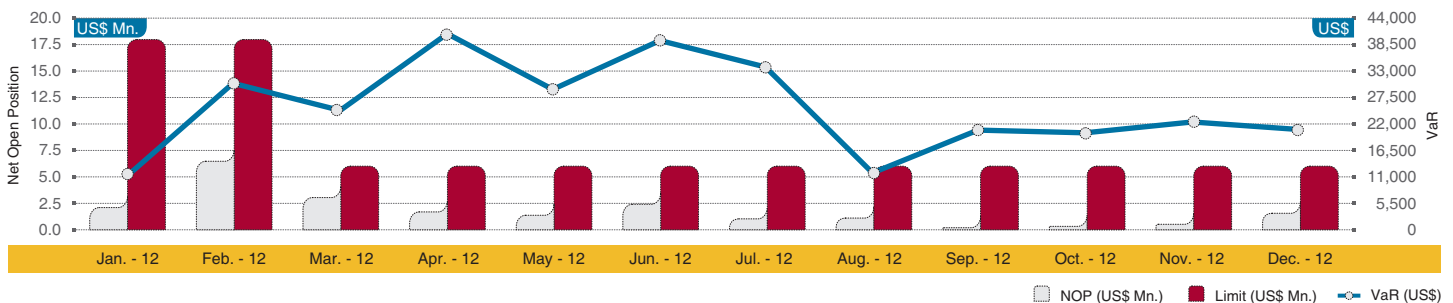
Foreign exchange risk is the risk that the Bank may incur losses as a result of adverse exchange rate movement during a period in which the Bank has an open position.

As a primary measure of risk mitigation, following limits are set on risk open positions:

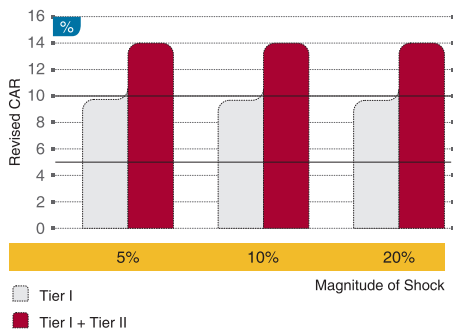
- i. Volume limits by currency/trader
- ii. Overall room limits both for intra-day and overnight net open positions
- iii. Stop loss limits by currency/and trader.

We also use following tools to measure and manage FX risk:

- i. Maturity Gap Analysis of Foreign Currency denominated assets and liabilities.
- ii. Daily Value at Risk measure (DVaR) at 99% confidence level. This method is employed to measure the maximum loss that could arise on a exposure position at a 99% level of confidence. Hence, its dependence on extensive usage of historical data on market risk factors.
- iii. To compliment the DVaR method, stress tests are carried out to measure impact of extreme exchange rate movements (5% to 15% movements) on capital adequacy ratio.



Month End FX NOP & Daily VaR During 2012



**Effect of adverse movements in Exchange Rates on CAR**

Even an adverse movement of Forex rates in the magnitude of 15% has negligible impact on the capital adequacy of the Bank.

Exchange risk has been well-managed and any adverse movement in exchange rate would have had no major impact on the capital adequacy of the Bank.

**Interest Rate Risk** is a critical component of market risk management. Any adverse change in interest rates can impact the net interest margins of the Bank. The Bank ensures that interest rate risk in both the trading book and the Banking book is quantified and monitored against set limits.

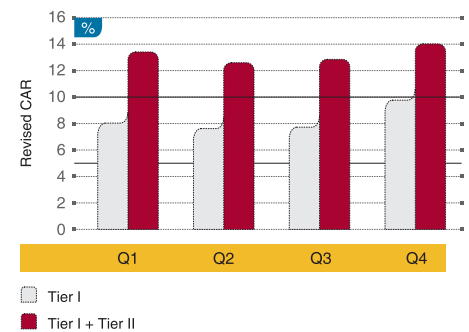
Adverse changes in the interest rates can impact the market value of fixed income securities held by the Bank for trading purposes. We have recently established a stop-loss limit on our trading portfolio. The portfolio is marked to market on a daily basis and monitored against the stop loss limits.

We use Daily VaR model at 99% confidence level to quantify the risk exposure of the trading portfolio. The Treasury Middle Office monitors on a daily basis the value at risk (potential loss) on our trading portfolio.

Re-pricing maturity gaps in the Balance Sheet is the major source of Interest rate risk in the Banking Book. This is quantified by using the re-pricing gap statement of assets and liabilities (maturity gap analysis).

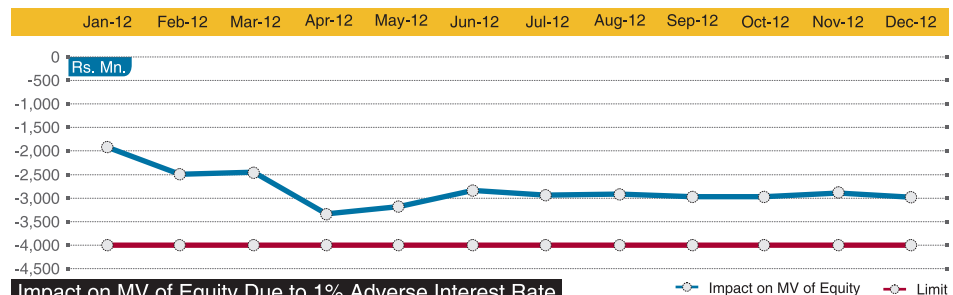
One significant challenge in analysing the re-pricing mismatch risk arises due to the quality of assumptions regarding the embedded options of certain products, such as housing loans, fixed rate loans, savings and fixed deposits. During the year, both the Behavioural Gap Analysis statements and Duration Gap Analysis were further refined through use of behavioural data.

**Stress Testing:** The Bank monitors the impact on the 'Market value of its equity' due to adverse changes in interest rates. This is measured by using the Duration Gap Analysis method and applying a 1% adverse interest rate shock to determine the effect on the capital of the Bank.



**Effect of 1% Interest Rate Increase on CAR**

Interest rate risk has been well-managed and any adverse movement in interest rates would have had no major impact on the capital adequacy of the Bank.



**Impact on MV of Equity Due to 1% Adverse Interest Rate Change using Duration Gap Analysis**



## Equity Risk

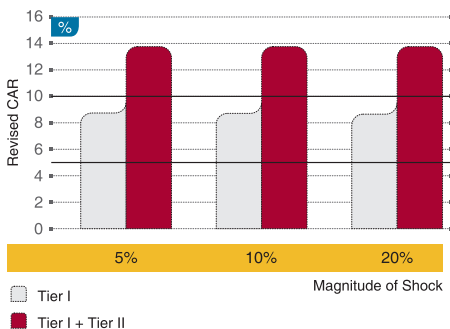
Bank continued to maintain a small and diverse portfolio of quoted equities for trading purposes.

Portfolio maintenance and trading activities were conducted within strict limits specifying:

- i. Overall exposure limits
- ii. Level of diversification of the portfolio
- iii. Strict investment qualification criteria
- iv. Loss limits on individual exposures

The portfolio is marked to market on a daily basis, and exposures against limits are monitored upon by the Treasury Middle Office.

## STRESS TEST FOR EQUITY PRICE MOVEMENT



Effect of Adverse Movements in Equity Prices on CAR

## Liquidity Risk

Liquidity risk arises mainly due to funding of long-term assets with short-term liabilities, which is unavoidable for the Bank in its primary role as a financial intermediary. In a normal market situation, this is managed through rollover of short-term liabilities.

Liquidity planning should ensure, at a minimum, the Bank's ability to fund its obligations even in extremely stressed situations of both internal and external origin.

Effective liquidity risk management is extremely important, considering the systemic impact a typical liquidity crisis in one bank can have on the entire banking network of the country.

The inevitable trade-off between liquidity and profitability is recognised by the Bank and incorporated in the Bank's liquidity risk management policies and guidelines.

It is clearly understood that the reputation of the Bank amongst the general public and in the financial markets has a significant impact on the Bank's ability to continue to attract funds at competitive prices. Any deterioration in our reputation would negatively impact the availability and cost of funds for meeting customer requirements.

It is also pertinent to note that a robust liquidity management strategy adds stability, enhancing the reputation of the Bank. This enhances the ability of the Bank to raise retail and wholesale funding at competitive rates.

Liquidity management is primarily, the responsibility of the Bank's ALCO. Treasury Division is responsible for day-to-day management of liquidity, with Treasury Middle Office being responsible for monitoring of liquidity.

Hence, our liquidity management strategy is primarily based on maintaining a portfolio of liquid assets and also maintaining a diversified portfolio of retail deposits attracted to the Bank through well thought out product introductions and effective relationship management of such sources. The widely dispersed branch network and the access to extensive retail customer base are vital ingredients in our liquidity strategy.

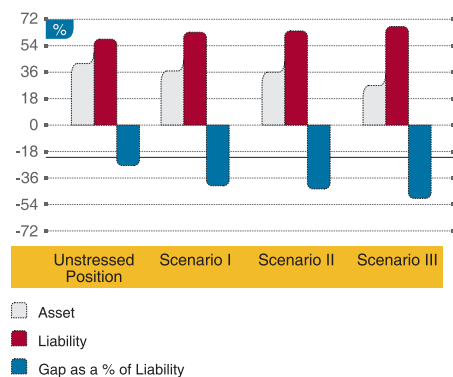
The Bank has also developed a comprehensive contingency funding plan, which is augmented by a number of committed credit lines from external sources of foreign and local origin.

## The Bank Uses Following Tools for the Liquidity Risk Monitoring and Management

- Cash flow maturity gap statements of Asset liabilities and monitoring same against set limits.
- Monitoring of liquidity indicators such as loans to customer deposits ratio, statutory liquid assets ratio, unutilised inter bank borrowing lines, and unutilised limits available to customers.
- Stress testing of liquidity positions for extreme scenarios such as a substantial, flight of hot money or a rating downgrade leading to high cost of liquidity etc.

| Liquidity Indicators                  | 2011 % | 2012 % | Guidelines % |
|---------------------------------------|--------|--------|--------------|
| Loan/Customer Deposits                | 92.4   | 96.6   | <83          |
| Unutilised Inter-bank Borrowing Lines | 48     | 44     | <100         |
| Medium-term Funding                   | 101    | 102    | >15          |
| Statutory Liquid Assets Ratio - DBU   | 21.5   | 21.8   | >20          |
| - FCBU                                | 24.0   | 21.8   | >20          |

**Stress Testing:**



**Effect of Hot Money/Retail Fund Withdrawals on 'Up to 1 Month' Time Band**

**Hot Money** - Funds with highest risk of withdrawal. Savings, demand deposits and time deposit account balances over Rs. 50 Mn were considered as hot money.

**Retail Funds** - Funds with less risk of withdrawals.

Scenario 1-5% hot money and 5% retail funds withdrawals.

Scenario 2-10% hot money and 5% retail funds withdrawals.

Scenario 3-10% hot money and 10% retail funds withdrawals.

**OPERATIONAL RISK MANAGEMENT**

Operational risk is inherent in all our business processes and activities. Its management and containment is very important considering the fact that we are one of the largest banks in Sri Lanka providing a full spectrum of banking facilities to a wide and varied clientele. We employ people, who acts as agents of the Bank, own and occupy property spread across the country and hold and are custodians of assets, including information belonging to ourselves and our customers.

Operational risk is a consequence of poor controls or lack of controls over processes used in the Bank's activities and external events whether deliberate, accidental or natural e.g. fire, robbery documentation error, incorrect accounting.

The Bank has formulated a well-defined operational risk management policy. The key objectives of this policy are to ensure:

- i. Bank's capital and earnings are protected from significant operational losses.
- ii. Well-defined clearly understood and uniform process for managing operational risk across the Bank.
- iii. Service delivery standards and our reputation are not compromised as a result of operational issues.

**Roles and Responsibilities**

The foundation of operational risk management framework is the definition by all functions of their roles and responsibilities so that, collectively they can assure that there is adequate segregation of duties, complete coverage of risks and clear accountability.



## Managing Operational Risk

Identification and assessment of operational risks is an essential part of operational risk management. A number of tools based on quantitative and qualitative methodologies are used for this purpose. The information gathered from these methods will be used for taking appropriate actions to mitigate risk, across the Bank.

We Currently Use the Following Tools:

- i. **Information on loss incidents:** A data base is being developed on losses and damages occurred in the past. Careful analysis of the data help us to identify and estimate risks that may occur in the future provided there is no significant change to the business and operating environment.
- ii. **Self-assessment:** Each Branch, Business Unit or operating Dept. assess the risk factors for each work process, on an annual basis. During this process, the adequacy of internal control systems, risk factors, documents computer systems and responsible personnel are evaluated and weak areas are highlighted for corrective action.
- iii. **Key risk indicators:** Risk indicators are a broad category of measures used to monitor the activities and status of the control environment of a particular business area for a given risk category, whilst the control assessment process occurs only periodically (annually) risk indicators are monitored more often (i.e. daily/weekly/monthly/quarterly).

**Risk assessment:** After operational risks have been identified as above, the Bank then assess the probability of an operational risk loss event occurring and also the maximum loss such an event could have on the Bank. At this point, a determination is made on the sufficiency of the operational controls and procedure to manage the risks and whether the cost of maintaining these controls is justified and can be reduced. The Bank then assesses the significance and severity of these against the overall risk appetite of the Bank.

**Risk Treatment**

Having determined the financial impact on the Bank arising from its operational risk exposures, the Bank will decide on the method to be used to reduce the severity of any risk event.

Following measures are taken:

**i. Insurance**

For those risks identified as having a low probability of occurrence, but where the financial impact is high, the Bank will insure itself against those risks to minimise any loss. Damage to the Banks assets, frauds, staff negligence are some of the risks covered by insurance.

**ii. Business continuity planning**

Every Branch/Business Unit has a Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) to minimise losses from major disruptions to operations, whether it is to our IT infrastructure or Branch premises. Alternative sites have been established to ensure unhindered business operations in the event of emergencies, such as natural disasters, IT hardware failures etc.

**iii. New products and services**

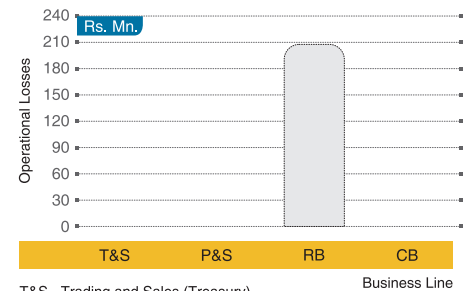
New products and services are critically examined before they are introduced. This provides assurance that all risks inherent in new products and services are clearly identified and mitigated to the extent possible; any residual risk should be within the Bank's risk tolerance levels.

**iv. Outsourcing**

Being aware of the risks associated with outsourcing activities, the Bank has established policy guidelines for managing risks associated with such activities.

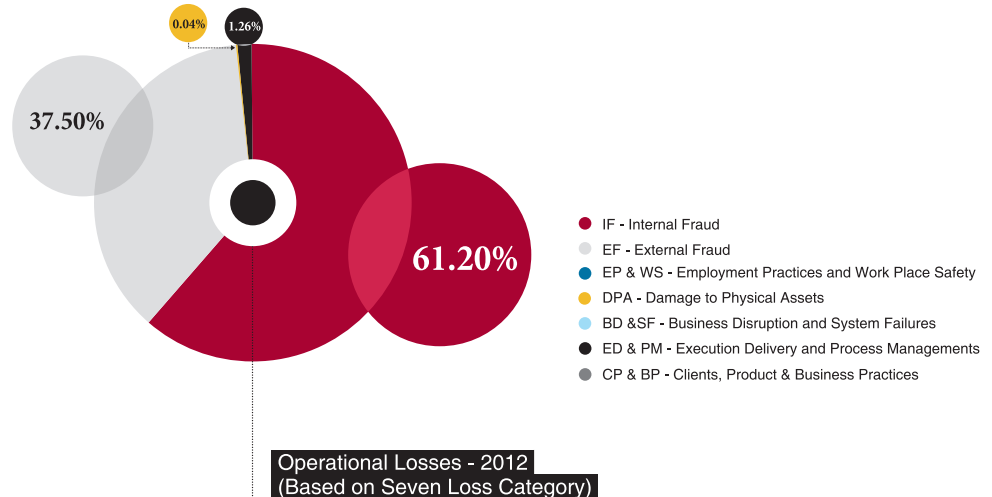
**v. Validation and regular independent review**

The Bank's operational risk management processes and assessment systems are subject to regular independent review and validation by the Internal Audit Department at least annually or more often. These audits cover all the operational units, as well as the activities of operational risk management function.

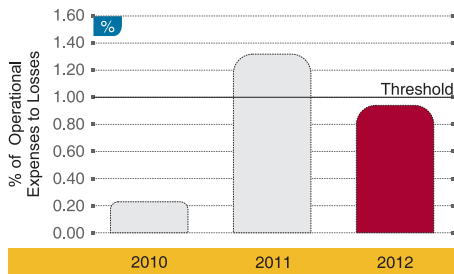


T&S - Trading and Sales (Treasury)  
 P&S - Payments and Settlements (Clg, RTGS, etc)  
 RB - Retail Banking  
 CB - Commercial Banking

**Operational Losses - 2012 (by Business Line)**



**Operational Losses - 2012 (Based on Seven Loss Category)**



**Operational Losses Vs Tolerance (2010-2012)**

Operational losses for the year as a percentage of operational expenses were 0.93%. This is below the internal set tolerance level of 1.0%

### Legal Risk

People's Bank has implemented policies procedures and guidelines in respect of management and control of legal risk as it engages in a large number of legally binding transactions and contracts with local and foreign customers, suppliers and service providers.

Legal risk covers contractual risk, legislative risk and litigation risk. Legal risk includes:

1. Failure to act appropriately or diligently in response to claims made against the Bank;
2. Inability to successfully defend a claim brought against the Bank;
3. Inability to take action to enforce the rights of the Bank through courts of law; or
4. Failure or inability to mitigate the likelihood that an adverse claim will be successfully made against the Bank.

Legal Department is responsible for managing and mitigating legal risk. This comprises the provision of legal advice and support in resisting claims and legal proceedings against the Bank, analysis of legal issues, drafting contracts and other legal documents, management of litigation, debt recoveries and other litigation against third parties. External consultants are used judiciously to complement our internal legal resources.

Since legal recognition for electronic documents was established in our judicial system, the Bank started E-Banking and Internet Banking facilities to its customers. As a consequence, cyber-crimes have become common in the Banking industry. The Bank has taken precautionary and security measures to mitigate these risks in the form of contractual agreements with third parties, increasing customer awareness and enhanced encryption standards.

Continuous training to personnel in the Legal Department to enhance and update awareness of changing legislation is another measure employed by the Bank to manage legal risk.

A project to install a centralised database to monitor the status of legal issues across the network was also begun in 2011. This project was completed in 2012, and will ensure a more speedy and effective monitoring and following up of litigation matters and documentation issues.

## CAPITAL MANAGEMENT- INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP):

### Migration Towards ICAAP

The Bank has made necessary preparation for the impending migration to ICAAP regime in 2013.

1. All significant risk types have been identified and risk quantification and Risk management methodologies have been finalised.
2. Workflow and processes for data gathering and analysis has been established.

The CBSL has issued directives, mandating banks to develop their own processes and resources for assessing their overall capital adequacy in relation to unique risk profiles of each bank and to formulate strategies for maintaining adequate capital levels.

Quantitative approach to calculation of capital adequacy based on most likely outcomes for measurement of risk is being further enhanced. We have developed new approaches to measure the resilience of the Bank to most extreme and unlikely events of internal origin and of market origin, with a view to use such output in formulation of capital and business planning strategy of the Bank.

### Capital Management

People's Bank and its subsidiaries are involved in a number of business activities which can be segmented into Banking and Finance, Insurance, Travel, and Property

Development. Each of these entities have their own Board of Directors, who monitors and review the risk profiles of individual companies which are again reviewed by the Board Integrated Risk Management Committee of the People's Bank, at least quarterly to ensure that they remain within set parameters.

Risk management and Capital Management processes are in place to ensure that all risk exposure are recognised, continuously monitored and evaluated.

As a part of the risk management process of the Bank, these risks are aggregated across the entire Group.

The objective of the capital management process is to ensure that all risk exposures are supported by adequate capital.

Capital adequacy is calculated in accordance with the guidelines issued by CBSL. People's Bank uses following methods to calculate risk-weighted assets for Pillar 1 risks -

- i. Credit Risk - Standardised approach
- ii. Operational Risk - Basic indicator approach
- iii. Market Risk - Standardised approach

Our Internal Capital Adequacy Assessment Process (ICAAP) take into account other risks that are not included under Pillar I.

These risks are -

- i. Liquidity Risk
- ii. Interest Rate Risks on Banking Book
- iii. Pawning

# Key Performance Indicators

## Key Performance Indicators (KPI)

Operating Income

Operating Costs

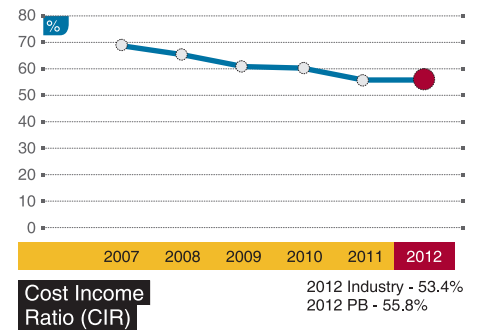
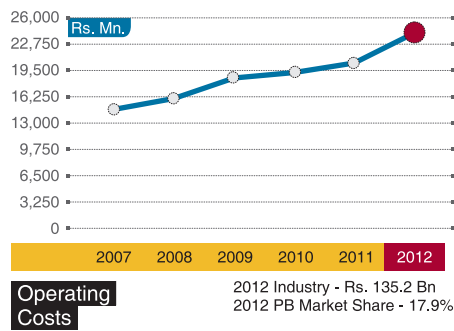
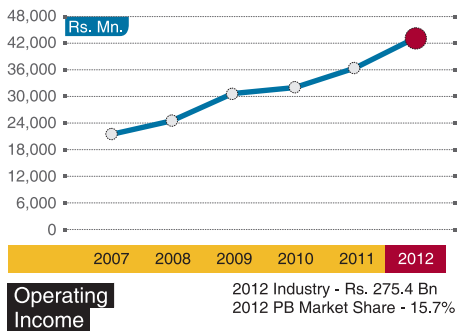
Cost Income Ratio

What does it Show? What we have accomplished and plan to achieve?

Net interest income and non-funded income.

Direct and indirect costs incurred to achieve operating profit.

Operating cost/operating income.



The Bank has recorded continuous growth in operating income with timely pricing adjustments, growth in loans and fee-based income.

The FY 2012 marked the 2012-14 collective agreement year, which resulted in salary adjustments made to all permanent staff members. All other variable overheads were managed with marginal growth over FY 2011.

Despite the previously noted salary hike in FY 2012, the Bank continued to reduce its CIR. This was aided by the growth in income as well.



Key Performance Indicators (KPI)

What does it Show? What we have accomplished and plan to achieve?

Gross Income

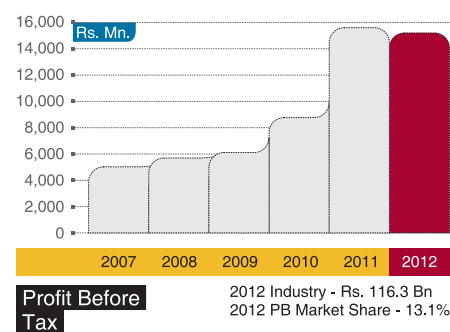
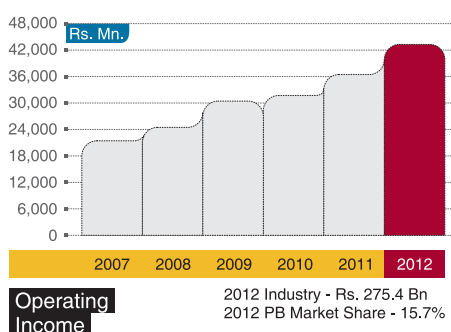
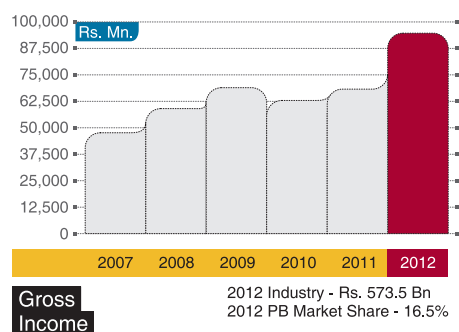
Total turnover or interest and fee-based income of the Bank.

Operating Income

Net interest income (Interest income less interest cost) and non-funded income.

Profit before Taxation (PBT)

Net income less overheads and provisions.



The Bank's gross income grow by 38.8% over FY 2011, similar to industry growth. This was driven mainly by loan growth and increased lending rates.

Operating income which includes net interest income and non-funded revenue grew by 18.9% over previous year, as opposed to 22.1% experienced by the banking sector.

Marginal drop experienced in FY 2012 due to interest cost hikes, salary amendments and higher loan loss provisioning compared to FY 2011.

Key Performance Indicators (KPI)

What does it Show? What we have accomplished and plan to achieve?

Non-Performing Loans (NPL)

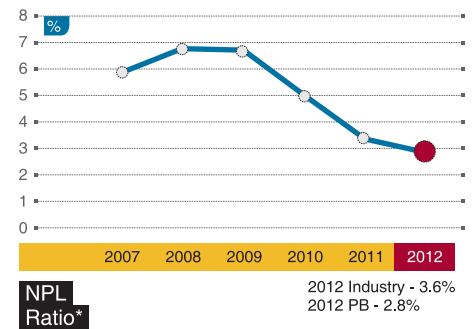
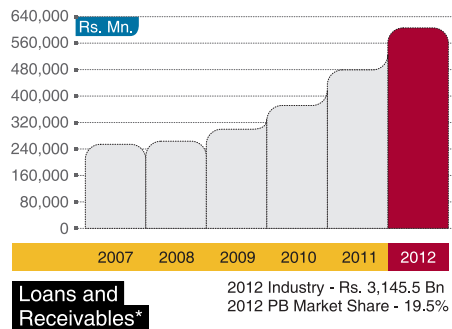
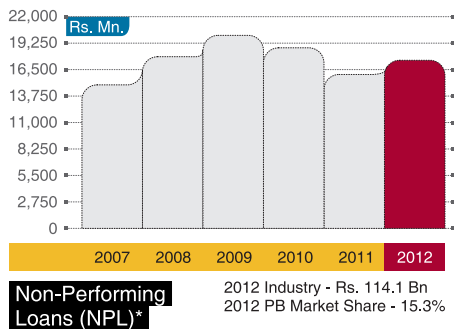
Loans with settlement issues categorised as per Central Bank (CBSL) guidelines.

Gross Loans and Advances

Total loans and advances before deduction of provisions for doubtful debts.

Non-Performing Loans Ratio

Non-performing loans/total gross loans and advances.



The Bank still carries over Rs. 7 Bn worth of old hard-core NPL's granted prior to FY 2001, which is fully provided. Hence the actual NPL slippage (post - 2001) is under 3%. This is a remarkable achievement considering the size and market share of the Bank over industry.

Gross loans and advances grew by 30% over FY 2011. 29% of loan growth value is to state-owned enterprises.

Bank's gross NPL ratio reduced from 3.4% in 2011 to 2.8% in 2012 which was fueled by stringent credit control and recovery measures together with quality lending relationships.

Notwithstanding, over 80% of the NPL book is provided for. This coverage is the highest amongst Banks.

The growth in NPLs is marginal compared to the loan growth in FY 2012.

\*Note: Based on previous SLAS

Key Performance Indicators (KPI)

What does it Show? What we have accomplished and plan to achieve?

Profit before Taxation (PBT)

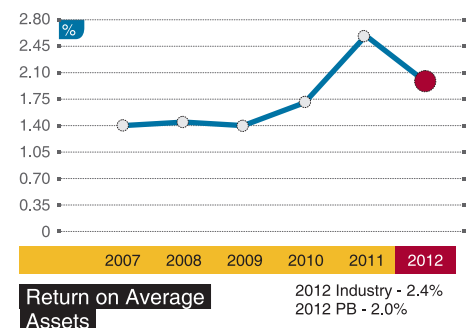
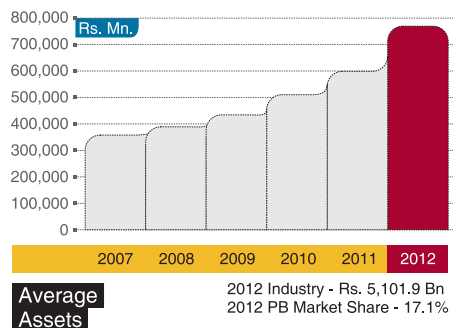
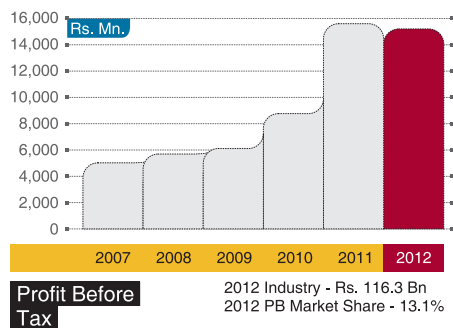
Earnings from operations less overheads and provisions.

Average Assets

Total loans and advances, investments and treasury instruments etc.

Return on Average Assets (before Tax)

% of profit before tax over average assets.



Marginal drop experienced in FY 2012 due to interest cost hikes, salary amendments and higher loan loss provisioning compared to FY 2011.

PB has the second largest asset base in the industry. The Bank has focused on quality asset growth over the years which has yielded healthy returns. FY 2012 recorded an asset increase of 31.9% over FY 2011 which ended at Rs. 873.1 Bn. This is compared to the growth of 17.1% in the banking industry.

The Bank experienced a drop in this KPI in FY 2012 driven by the marginal drop in PBT compared to the 31.9% increase in assets YOY.

Key Performance Indicators (KPI)

What does it Show? What we have accomplished and plan to achieve?

Capital Base

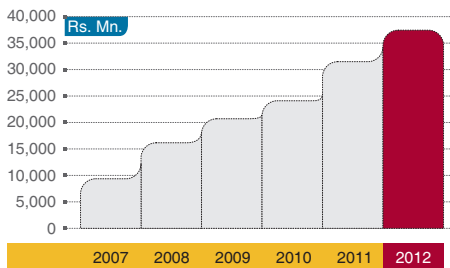
A combination of Tier I & Tier II capital as approved by CBSL.

Risk-Weighted Assets

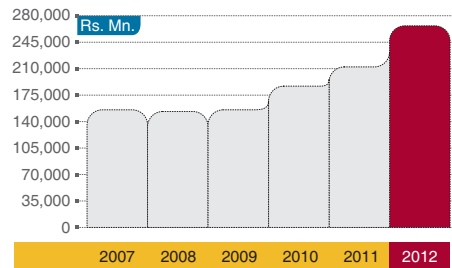
Risk % assigned on all assigned based on CBSL guidelines.

Capital Adequacy Ratio

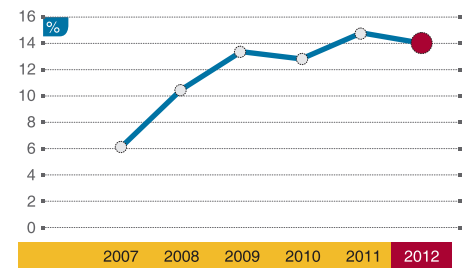
A ratio computed using the above variables.  
The requirement is above 10% for the local banking industry.



Capital Base



Risk Weighted Assets



Capital Adequacy Ratio (CAR) 2012 Industry - 15.0%  
2012 PB - 14.0%

The Bank has continuously increased its capital base with maximum ploughed back earnings and debentures (Tier II). The total capital base has reached Rs. 37.4 Bn compared to negative Rs. 7 Bn in FY 2001.

Bank's risk weighted assets have increased from 212.6 Bn to 267.2 Bn over FY 2011 driven mainly by a higher operational risk charge as PB has a large net revenue base.

The Bank recorded a CAR of 14.0% for FY 2012. This is a remarkable achievement given that this ratio was negative from FY 2001 to 2004 and below 10% from FY 2005 to FY 2007.

Sustaining this ratio is a key focus going forward.

Key Performance Indicators (KPI)

What does it Show? What we have accomplished and plan to achieve?

Profit after Tax

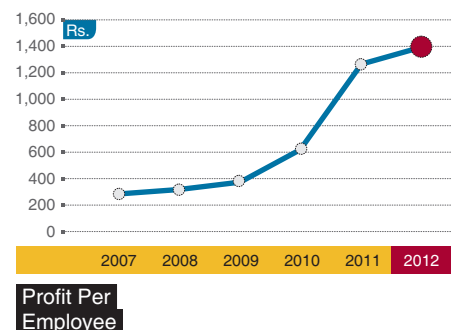
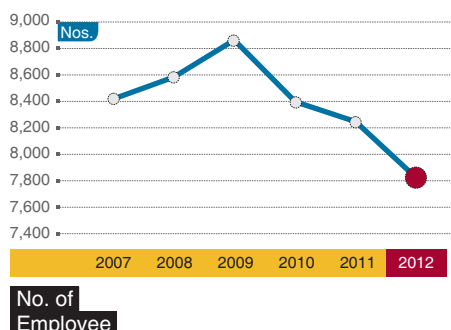
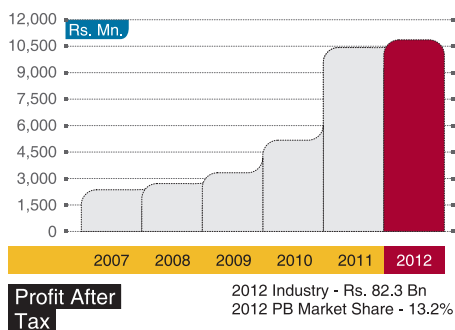
Profit before tax less tax liability.

Number of Employees

Number of permanent employees as at year end.

Profit per Employee

Profit after taxation computed per permanent employee.



The Bank recorded a modest growth on profit after taxation in FY 2012.

This was primarily due to a lower tax charge compared to FY 2011. This was mainly due to over provisions made for taxes in FY 2011 and deferred tax reversals.

Over 400 permanent employees retired during the year 2012 which is the reason behind the notable drop in head count.

As a State Bank, we also provide value added free services to our customers, hence has a higher work force compared to private sector peers.

The Bank is required to maintain a certain number of employees to meet such social obligations plus the large branch network.

PPE recorded a growth of 10% over the previous year. We also note that People's Bank offers services which cannot be accounted in terms of impact on bottom-line growth. Payment of Government servants salaries, armed forces salaries, teachers salaries, settlement of electricity bills, water bills, pension payments to Government servants and loans to Government servants for housing are to name a few. High personnel cost of the Bank and the requirement of a large number of staff to man the largest branch outreach in the country adds strain to this KPI.

**Note:** The results reported above for 2011 and 2012 have been extracted from the Audited Financial Statements of the Bank prepared based on new Sri Lanka Accounting Standards (SLFRS and LKAS) that came into effect from 1st January 2012. The results reported for 2008-2010 have been extracted from the Audited Financial Statements of the Bank prepared based on previous Sri Lanka Accounting Standards (SLAS) that were in force up to 31st December 2011. The Bank has duly restated its Financial Statements for 2011 in accordance with SLFRS and LKAS.







# FINANCIAL REPORTS

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# Directors' Report

## DIRECTORS

The Board of Directors of People's Bank consists of nine Directors appointed by the Minister of Finance out of which two names were nominated by the Minister-in-Charge of Co-operatives under the provisions of People's Bank Act No. 29 of 1961 as amended. The Board meets at least once a month and met 18 times in 2012. The quorum for a Board meeting is five members. The Directors of the Bank during the year 2012 were as follows:

| Name   |
|--|
| Late Mr. W. Karunajeewa<br>(Up to 28th January 2013) |
| Dr. D.J.D. Jayakody                                  |
| Mr. Jehan P. Amaratunga                              |
| Mr. Ajith Panditharatne                              |
| Ms. Lakshmi K. Sangakkara                            |
| Ms. Dharma N. Gammampila                             |
| Ms. M.T.I. Visakha Amarasekera                       |
| Mr. M.M. Priyantha K. Mayadunne                      |
| Mr. D.M. Pawara Dassanayake                          |

### Directors' Attendance at the Board Meetings

Number of meetings held during the year 2012 - 18

| Name  | No. of Meetings Held | No. of Meetings Attended |
|---|----------------------|--------------------------|
| Late Mr. W. Karunajeewa (Up to 28th January 2013) | 18                   | 18                       |
| Dr. D.J.D. Jayakody                               | 18                   | 18                       |
| Mr. Jehan P. Amaratunga                           | 18                   | 16                       |
| Mr. Ajith Panditharatne                           | 18                   | 15                       |
| Ms. Lakshmi K. Sangakkara                         | 18                   | 17                       |
| Ms. Dharma N. Gammampila                          | 18                   | 15                       |
| Ms. Visakha Amarasekera                           | 18                   | 16                       |
| Mr. Priyantha Mayadunne                           | 18                   | 16                       |
| Mr. Pawara Dassanayake                            | 18                   | 17                       |

## SUBSIDIARIES AND ASSOCIATES

The following are the subsidiaries/associate companies of the Bank:

### (a) People's Leasing Finance PLC

Bank's Shareholding - 75%

The principal activities of the Company are Financial and Operating Leasing, Hire Purchase, Asset Financing and Islamic Finance Deposits and Savings.

#### Directors' representation is as follows:

|  |            |
|--|------------|
| Late Mr. W. Karunajeewa<br>(Up to 28th January 2013) | - Chairman |
| Dr. D.J.D. Jayakody                                  | - Director |
| Mr. N. Vasantha Kumar                                | - Director |

### (b) People's Travels (Pvt) Ltd.

Bank's Shareholding - 99%

The principal activities of the Company - Air Ticketing and Organising of Tours.

#### Directors' representation is as follows:

|                           |               |
|---------------------------|---------------|
| Ms. Lakshmi K. Sangakkara | - Chairperson |
| Dr. D.J.D. Jayakody       | - Director    |
| Mr. N. Vasantha Kumar     | - Director    |

### (c) People's Merchant Finance PLC

Bank's Shareholding - 26.1%

The principal activities of the Bank are Lease Financing, Trade Financing, Corporate Finance and Related Advisory Services, Investment Banking and Real Estate Development.

#### Directors' representation is as follows:

|   |            |
|---|------------|
| Mr. P.A. Ajith Panditharatne                        | - Chairman |
| Mr. Jehan P. Amaratunga                             | - Director |
| Ms. L.K. Sangakkara<br>(Nominated in November 2012) | - Director |
| Mr. Sabry Ibrahim<br>(Resigned in November 2012)    | - Director |

## CORPORATE GOVERNANCE

The Bank has voluntarily adopted Best Practice provisions and have in place systems and procedures to ensure sound Corporate Governance.

A detailed Report is given on pages 87 to 93.

## COMPLIANCE REPORTING

A separate Compliance Function Unit has been set up within the Bank. Monthly Compliance Reports certified by the CEO and the Compliance Officer are submitted to the Central Bank - bimonthly. Compliance Reports are also submitted to the Board. A Code of Conduct for staff has been formulated and issued to all members of staff.

A detailed report is given on pages 85 and 86.

## BOARD SUBCOMMITTEES

Subcommittees of the Board as at 31st December 2012 are as follows:

### Board Audit Committee (BAC)

|  |            |
|--|------------|
| Mr. Jehan P. Amaratunga<br>(Chaired the Committee) | - Director |
| Ms. Visakha Amarasekera                            | - Director |
| Ms. Dharma N. Gammampila                           | - Director |

Main function of the Committee is identifying the operational risks faced by the Bank as preventing/minimising the effects of such risks and communicating and encouraging best practices and positive quality assurance throughout the branch network.

### Board Executive Credit Committee (BECC)

|  |                                     |
|--|-------------------------------------|
| Late Mr. W. Karunajeewa<br>(Up to 28th January 2013) | - Chairman                          |
| Dr. D.J.D. Jayakody                                  | - Director                          |
| Ms. Lakshmi K. Sangakkara                            | - Director                          |
| Mr. Pawara Dassanayake                               | - Director                          |
| Mr. N. Vasantha Kumar                                | - CEO/GM                            |
| Mr. Sabry Ibrahim                                    | - SDGM (Risk Management)            |
| Mr. Rasitha Gunawardane                              | - Actg. DGM (Credit Control & Risk) |

Main functions are formulating and periodically reviewing the credit policy of the Bank. Authorising credit facilities over and above the delegated limits of specified categories.

### Board Human Resource & Remuneration Committee (BHRRC)

|  |            |
|--|------------|
| Late Mr. W. Karunajeewa<br>(Up to 28th January 2013) | - Chairman |
| Dr. D.J.D. Jayakody                                  | - Director |
| Mr. Ajith Panditharatne                              | - Director |
| Mr. Priyantha Mayadunne                              | - Director |
| Mr. N. Vasantha Kumar                                | - CEO/GM   |

Main functions of the Committee are to formulate policies and procedures in relation to Human Resource Management, review and set in place the manning levels of the Bank according to business requirements, approve recruitment, employee benefits, service extensions, corporate and executive management employment contracts.

### Board Integrated Risk Management Committee (BIRMC)

|                          |                  |
|--------------------------|------------------|
| Mr. Jehan P. Amaratunga  | - Chairman BIRMC |
| Dr. D.J.D. Jayakody      | - Director       |
| Ms. Dharma N. Gammampila | - Director       |
| Ms. Visakha Amarasekera  | - Director       |
| Mr. N. Vasantha Kumar    | - CEO/GM         |

The Board Subcommittee was set up to have an overview and input into the Bank-wide efforts relating to Integrated Risk Management.

The Board Subcommittee on Integrated Risk Management specifically views the summary of proceedings and issues arising out of Assets & Liabilities Committee (ALCO) Reports and meetings, credit risk related issues and reports and the efforts of establishing an operational risk management framework.

More details relating to the Bank's Integrated Risk Management are set out in a specific section dealing with the subject in this Report on pages 96 to 107.

### Board Nomination Committee (BNC)

|  |            |
|--|------------|
| Late Mr. W. Karunajeewa<br>(Up to 28th January 2013) | - Chairman |
| Dr. D.J.D. Jayakody                                  | - Director |
| Mr. Jehan P. Amaratunga                              | - Director |
| Ms. Dharma N. Gammampila                             | - Director |
| Mr. P.A. Ajith Panditharatne                         | - Director |
| Ms. Lakshmi K. Sangakkara                            | - Director |
| Ms. Visakha Amarasekera                              | - Director |
| Mr. Priyantha Mayadunne                              | - Director |
| Mr. Pawara Dassanayake                               | - Director |

Main functions of the Committee are to implement a procedure to select/appoint CEO/GM and Senior Management Personnel, to set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO/GM and senior management positions, to consider and recommend from time to time the requirements of additional/new expertise required for the progress of the Bank.

### Board Investment Banking Committee (BIBC)

|                         |                        |
|-------------------------|------------------------|
| Mr. Jehan P. Amaratunga | - Chairman of the BIBC |
| Dr. D.J.D. Jayakody     | - Director             |
| Ms. Visakha Amarasekera | - Director             |

The purpose of setting up of Board Investment Banking Committee is to provide a strategic direction and guidance to the Investment Banking Unit (IBU) and to review the performance of IBU of the Bank.

Main functions of the BIBC are regular review over Investment Banking model of the Bank, approval of share trading limits, approval of new investment products, review of the operations of Investment Banking Unit (IBU) and approval for the utilisation of stock brokers, trading platforms and IT Systems.

### Board IT Committee (BITC)

|                         |                    |
|-------------------------|--------------------|
| Dr. D.J.D. Jayakody     | - Chairman of BITC |
| Mr. Jehan P. Amaratunga | - Director         |
| Mr. Priyantha Mayadunna | - Director         |
| Mr. N. Vasantha Kumar   | - CEO/GM           |

Main functions of the Board IT Committee are to formulate far-sighted strategies to overcome challenges & competition and to provide policy directions to drive the Bank's Information Technology in the competitive business environment successfully



**Rohan Pathirage**  
Deputy General Manager  
*Secretary to the Board of Directors*

29th January 2013

## Directors' Responsibility for Financial Reporting

The Board of Directors of the Bank has responsibility for ensuring that the Bank keeps proper books of account of all the transactions and prepares Financial Statements that give a true and fair view of the state of affairs and of the profit/loss for the year.

Accordingly, the Board of Directors oversees the Managements' responsibilities for financial reporting through their regular meeting reviews and the Audit Committee. The Board Audit Committee Report is given on page 154.

The Board of Directors has instituted effective and comprehensive systems of internal control. This comprises internal checks, internal audit and the whole system of financial and other controls required to carry on business of banking in an orderly manner, safeguard its assets and secure as far as practicable the accuracy and reliability of the records. Directors consider that they adopted appropriate accounting policies on a consistent basis and supported by reasonable and prudent judgment and estimates in preparing the Financial Statements for the year 2012 exhibited on pages 157 to 242.

The Bank's Financial Statements for the year ended 31st December 2012 prepared and presented in this Report are in conformity with the requirements of Sri Lanka Accounting Standards and the Banking Act No. 30 of 1988 and amendments thereto. The Financial Statements reflect a true and fair view of the state of affairs of the Bank and the Group as at that date.



**Rohan Pathirige**  
Deputy General Manager  
*Secretary to the Board of Directors*

29th January 2013

# The Directors' Statement on Internal Controls

## RESPONSIBILITY

In line with the Section 3 (8) (II) (b) of the Banking Act Direction No. 11 of 2007, the Board of Directors presents this report on Internal Controls of the People's Bank (the Bank).

The Board of Directors (Board) is responsible for the adequacy and effectiveness of the system of internal controls of the Bank. However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the policies and business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

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

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting,

and that the preparation of Financial Statements for external purposes and is in accordance with relevant accounting principles and regulatory requirements.

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

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

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

- Board of Directors has appointed subcommittees to ensure the effective internal control mechanism within the Bank. Appointment of corporate management headed by CEO/GM has enabled to delegate the authority from Board to other layers. The management assist the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risk faced, and in the design, operation and monitoring of suitable internal control to mitigate and control these risks.
- Systems and procedures are in place to identify, control and report on the major risks including credit, market and

operational risks. Exposure to these risks is monitored by Board Integrated Risk Management Committee (BIRMC). The Committee assesses all risks to the Bank on a periodic basis through appropriate risk indicators and management information, review the adequacy and effectiveness of all management level committee to address specific risks and to manage those risks within quantitative and qualitative risk limits. This includes stress test and risk dashboard reviews. The BIRMC also takes corrective action to mitigate the effects of specific risks, where risks are at levels beyond the prudent limits decided by the Committee.

- In assessing the internal control system over financial reporting, the Bank reviews all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Division for suitability of design and effectiveness on an ongoing basis. Findings of the Internal Audit Department are submitted to the Board Audit Committee for review at their periodic meetings. The assessment covered only the process applied by the Bank and did not include the processes carried out by its subsidiaries and associates.
- The Board Audit Committee monitors the overall effectiveness of the system of internal control and has reported regularly to the Board of Directors. The key processes used by the Committee include: regular business and operational risk assessments, regular reports from the heads of key risk functions including Internal Audit and Compliance, review and follow-up on Internal Audit Reports,



External Audit Reports, prudential reviews and regulatory reports. The Board Audit Committee keeps under review the status of key risk areas which impact the Bank and considers whether the mitigating actions put in place are appropriate.

- The Bank's financial reporting process for preparing the annual accounts is controlled using documented accounting policies developed based on Sri Lanka Accounting Standards and reporting formats and guidance on reporting requirements issued by the Central Bank of Sri Lanka. As the current year was the first year of adopting new Sri Lanka Accounting Standards comprising LKAS and SLFRS, processes to comply with new requirements of recognition, measurement, classification and disclosure have been done.

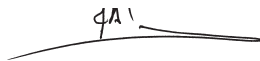
### Confirmation

Based on the above processes, the Board of Directors confirms that the internal control over 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 the Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

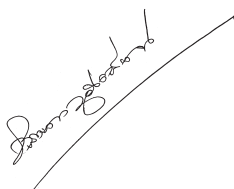
### Review of the Statement by External Auditors

The External Auditors have reviewed the above Directors' Statement on internal control included in the Annual Report of the Bank for the year ended 31st December 2012 and reported to the Board that nothing has come to their attention that causes them to believe that the Statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Bank.

For and on behalf of the Board,



**Jehan P. Amaratunga**  
*Chairman of the Audit Committee*



**Visakha Amarasekera**  
*Director*



**Dharma N. Gammampila**  
*Director*

15th March 2013

# Independent Assurance Report



## විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அறிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය  
எனது இல  
My No.

FB/G/PB/FA/2012(02)

මබේ අංකය  
உமது இல  
Your No.

දිනය  
திகதி  
Date

22 March 2013

### ASSURANCE REPORT OF THE AUDITOR GENERAL TO THE BOARD OF DIRECTORS ON THE DIRECTORS' STATEMENT ON INTERNAL CONTROLS OF PEOPLE'S BANK

#### Introduction

This report is to provide assurance on the Directors' Statement on Internal Control ("Statement") of People's Bank included in the annual report for the year ended 31 December 2012. In carrying out this assurance engagement I was assisted by a firm of Chartered Accountants in public practice.

#### Management's Responsibility

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

#### My Responsibilities and Compliance with SLSAE 3050

My responsibility is to issue a report to the Board of Directors on the Statement based

on the work performed. I conducted my 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

This 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 (Please refer annexure 1).

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

SLSAE 3050 does not require me 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 me 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.

#### Conclusion

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

H.A.S. Samaraweera  
Auditor General

අංක 306/72 පොල්දූව පාර,  
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இல. 306/72, பொல்துவ வீதி,  
புத்தரமுல்லை இலங்கை

No.306/72, Polduwa Road,  
Battaramulla, Sri Lanka

දුරකථනය  
தொலைபேசி  
Telephone } 2887028 - 34

ෆැක්ස් අංකය  
பக்ஸ் இல  
Fax No. } 2887223

ඉලෙක්ට්‍රොනික් තැපෑල  
ஈ- மெயில்  
E-mail. } oaggov@sltnet.lk

## ANNEXURE 1

1. Reviewed the documentation prepared by or for the Directors to support their Statement intended to be made.
2. Independently-performed Test of Controls both at Head Office level and Branch level on a sample basis.
3. Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
4. Considered whether the Directors' Statement on Internal Controls covers the year under review and that adequate processes are in place to identify any significant matters arising.
5. Obtained written representations from Directors on matters material to the Statement on Internal Controls when other sufficient appropriate audit evidence cannot reasonably be expected to exist.

# Report of Factual Findings and Corporate Governance



## විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அறிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



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எனது இல  
My No.

FB/G/PB/FA/2012(02)

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உமது இல  
Your No.

දිනය  
திகதி  
Date

22 March 2013

### AUDITOR GENERAL'S REPORT OF FACTUAL FINDINGS OF PEOPLE'S BANK TO THE BOARD OF DIRECTORS OF THE PEOPLE'S BANK ON THE COMPLIANCE REQUIREMENT OF THE CORPORATE GOVERNANCE DIRECTION ISSUED BY THE CENTRAL BANK OF SRI LANKA

I have performed the procedures enumerated in Annexure 1 to this report, with respect to the Governance Report of the Board of Directors prepared and presented to meet the compliance requirement of the corporate governance direction issued by the Central Bank of Sri Lanka (CBSL). This engagement has been performed in accordance with the principles set out in Sri Lanka Standards on Related Services 4400 (SLSRS 4400) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you to meet the compliance requirement of the corporate governance directive. In carrying out this engagement I was assisted by a firm of Chartered Accountants in public practice.

I report my findings in the attached Annexure to this report.

Because the above procedures do not constitute an audit or review made in accordance with Sri Lanka Auditing Standards, or Sri Lanka Standards on Review Engagements I do not express any assurance on the compliance with the directives of corporate governance issued by CBSL.

Had I performed additional procedures or had I performed an audit or review of the Governance Report in accordance with Sri Lanka Auditing Standards or Sri Lanka Standards on Review Engagements, other matters might have come to my attention that would have been reported to you.

My report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties.

This report relates only to the items specified above and does not extend to any financial statements of People's Bank, taken as a whole.

H.A.S. Samaraweera  
Auditor General

අංක 306/72 පොල්දූව පාර,  
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இல. 306/72, பொல்துவ வீதி,  
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No.306/72, Polduwa Road,  
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දුරකථනය  
தொலைபேசி  
Telephone } 2887028 - 34

ෆැක්ස් අංකය  
பக்ஸ் இல  
Fax No. } 2887223

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ஈ- மெயில்  
E-mail. } oaggov@slt.net.lk

## ANNEXURE TO THE REPORT ON FACTUAL FINDINGS

Note: The below mentioned numbering is used to coincide with the 'Section 3' of the Banking Act Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka, the Sections 1 and 2 are not applicable for this document.

| Section          | Procedure Performed   | Complied | Not Complied | N/A | Reference  |
|------------------|---|----------|--------------|-----|--|
| <b>3 (1)</b>     | <b>The Responsibilities of the Board</b>  |          |              |     |  |
| <b>3 (1) (i)</b> | Agreed upon procedures carried out to ensure the Board has strengthened the safety and soundness of the Bank.   |          |              |     |  |
|                  | <ul style="list-style-type: none"> <li>Checked the Board approval, the Bank's strategic objectives and corporate values.</li> </ul>   | Complied |              |     | Observed the strategic plan approved by the Board. It was approved through the Board paper No. 372/2012 and Board minute No. 3/2012.   |
|                  | <ul style="list-style-type: none"> <li>Checked whether the Bank has communicated the Bank's strategic objectives and corporate values throughout the Bank.</li> </ul>                             | Complied |              |     | Strategies are communicated to respective Branch Managers through circulars. This procedure is carried out by 'Strategic Implementation Unit'.   |
|                  | <ul style="list-style-type: none"> <li>Checked the Board approval of the overall business strategy of the Bank.</li> </ul>  | Complied |              |     | Observed the strategic plan approved by the Board. It was approved through the Board paper No. 372/2012 and Board minute No. 15/2012.  |
|                  | <ul style="list-style-type: none"> <li>Checked that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.</li> </ul> | Complied |              |     | Those aspects are addressed in the approved strategic plan.  |
|                  | <ul style="list-style-type: none"> <li>Checked that the overall business strategy contains measurable goals, for at least the next three years.</li> </ul>  | Complied |              |     | Measurable goals are included in the strategic plan.   |
|                  | <ul style="list-style-type: none"> <li>Checked that the appropriate systems to manage the risks identified by the Board are prudent and are properly implemented.</li> </ul>                      | Complied |              |     | 'Board Integrated Risk Management Committee' has taken necessary steps periodically to resolve these matters. Further, this was observed by referring to reports in this regard. So, we can ensure that there is an appropriate system in this regard. (Board paper No. 142/2012 and 363/2012 and minute Nos. 9 and 13). |

| Section | Procedure Performed   | Complied | Not Complied | N/A | Reference  |
|---------|---|----------|--------------|-----|--|
|         | <ul style="list-style-type: none"> <li>Checked that the Board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.</li> </ul>   | Complied |              |     | Observed the strategic policy on communication. It was approved through the Board paper No. 194/2012 and 148/2012. Board minute Nos. 6 and 3 respectively.   |
|         | <ul style="list-style-type: none"> <li>Checked that the Board has reviewed the adequacy and the integrity of the bank's internal control systems and management information systems.</li> </ul>   | Complied |              |     | Adequacy and integrity of internal controls and management information system has been reviewed by the Board. (Observed respective Board papers e.g., Board paper No. 391/2012).   |
|         | <ul style="list-style-type: none"> <li>Checked that the Board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management.</li> </ul>   | Complied |              |     | 'Nomination Committee' minutes were observed. Minute No. 7/2012.   |
|         | <ul style="list-style-type: none"> <li>Checked that the Board has exercised appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy;</li> </ul>  | Complied |              |     | This is addressed through the financial performance review and Internal Audit Committee. We observed the Board papers & minutes. E.g., (Board paper No. 50/2012 and No. 1/2012. minute No. 1 and 2).   |
|         | <ul style="list-style-type: none"> <li>Checked that the Board has defined the areas of authority and key responsibilities for the Board Directors themselves and for the Key Management Personnel;</li> </ul>   | Complied |              |     | As we observed, there are no documented key responsibilities to each Director. But Directors were allocated to subcommittees. It is evident that they have still key responsibilities in their capacity and key responsibilities and authority is defined under the People's Bank Act Section 7.1. |
|         | <ul style="list-style-type: none"> <li>Checked that the Board has periodically assessed the effectiveness of the Board Directors' own governance practices, including: (i) the selection, nomination and election of Directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary.</li> </ul> | Complied |              |     | Selections, nominations and election of the Board of Directors are done by the Finance Minister under the People's Bank Act. Assessment of the governance practice was minuted in Board paper No. 49/2012 minute No. 01.   |

| Section            | Procedure Performed  | Complied | Not Complied | N/A | Reference   |
|--------------------|--|----------|--------------|-----|---|
|                    | <ul style="list-style-type: none"> <li>Checked that the Board has a succession plan for Key Management Personnel.</li> </ul>   | Complied |              |     | Suitable personnel have been identified for most of key positions and the Bank is currently in the process of formulating a succession plan. Board paper No. 279/2012 and minute No. 9.                                   |
|                    | <ul style="list-style-type: none"> <li>Checked that the Board has scheduled regular meetings with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.</li> </ul> | Complied |              |     | Such schedule is available and we observed meetings have been held with compliance with that schedule.  |
|                    | <ul style="list-style-type: none"> <li>Checked that the Board has taken measures and processes in place to understand the regulatory environment and that the Bank maintains a relationship with regulators.</li> </ul>                        | Complied |              |     | <p>'Board Audit Committee' assists the Bank in this regard. Eg., Board paper No. 66/2012 and minute No. 2.</p> <p>Further, there is a separate compliance officer at the Bank who represents the Bank in this regard.</p> |
|                    | <ul style="list-style-type: none"> <li>Checked that the Board has a process in place for hiring and oversight of External Auditors.</li> </ul>   |          |              | N/A | This procedure is in accordance with the requirement of the People's Bank Act 29 of 1961.   |
| <b>3 (1) (ii)</b>  | Checked that the Board has appointed the Chairman and the Chief Executive Officer (CEO).   | Complied |              |     | <p>The Chairman has been appointed by the Finance Minister.</p> <p>The CEO has been appointed by the Board through the Nominations Committee. Present CEO was appointed under Board minute No. 05/2011.</p>               |
|                    | Checked that the functions and responsibilities of the Chairman and the CEO are in line with Direction 3 (5) of these Directions.  | Complied |              |     | Please refer the result observed under Direction 3 (5) of the Direction.  |
| <b>3 (1) (iii)</b> | Checked that the Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals.  | Complied |              |     | Checked the Board minutes and Board has met 18 times for the period of 2012 and further observed the 'Directors' Attendance Book'.  |



| Section      | Procedure Performed  | Complied | Not Complied | N/A | Reference  |
|--------------|--|----------|--------------|-----|--|
| 3 (1) (iv)   | Checked that the Board has a procedure in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.  | Complied |              |     | Checked the Board papers and matters and proposals relating to the promotion of business presenting to the Board through the Board papers. |
| 3 (1) (v)    | Checked that the Board has given notice of at least 7 days for a regular Board meeting to provide all Directors an opportunity to attend. And for all other Board meetings, notice has been given.   | Complied |              |     | This is done through a letter signed by the Secretary to the Board.  |
| 3 (1) (vi)   | Checked that the Board has taken required action on Directors who have not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the Directors' meetings through an Alternate Director, however, to be acceptable as attendance. | Complied |              |     | The Directors have attended the meetings as required.<br><br>Observed the 'Directors' Attendance Sheets'.                                  |
| 3 (1) (vii)  | Checked that the Board has appointed a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.                               | Complied |              |     | Name of the appointed person is Mr. Rohan Pathirage, a lawyer by profession.   |
| 3 (1) (viii) | Checked the process to enable all Directors to have access to advice and services of the Company Secretary.  | Complied |              |     | All Directors shall have unlimited access to advice and for the service of the Company Secretary.  |
| 3 (1) (ix)   | Checked that the Company Secretary maintains the minutes of Board meetings and there is a process for the Directors to inspect such minutes.   | Complied |              |     | Observed Board minutes book. It is kept with the Company Secretary for any inspection.   |
| 3 (1) (x)    | Checked that the minutes of a Board meeting contained or refer to the following: <ul style="list-style-type: none"> <li>a summary of data and information used by the Board in its deliberations;</li> </ul>   | Complied |              |     | Information required under this regulation is included in the Board minutes maintained.  |

| Section      | Procedure Performed   | Complied | Not Complied | N/A | Reference   |
|--------------|---|----------|--------------|-----|---|
|              | <ul style="list-style-type: none"> <li>the matters considered by the Board;</li> <li>the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence;</li> <li>the matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations;</li> <li>the understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and</li> <li>the decisions and Board resolutions.</li> </ul> |          |              |     |   |
| 3 (1) (xi)   | Checked that there are procedures agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense.  | Complied |              |     | There is a procedure to seek independent professional advices by the Directors. (Observed the respective Board paper No. 343/2011). |
| 3 (1) (xii)  | Checked that there is a procedure to determine, report, resolve and to take appropriate action relating to Directors avoid conflicts of interests, or the appearance of conflicts of interest.  | Complied |              |     | For this it followed the CBSL Directions and the Code of Best Practice in Corporate Governance of People's Bank.                    |
|              | Checked that a Director has abstained from voting on any Board resolution in relation to which he/ she or any of his/her close relation or a concern in which a Director has substantial interest, is interested.   | Complied |              |     | Such a person has not been counted in the quorum.   |
|              | Checked that has he/she been counted in the quorum for the relevant agenda item at the Board meeting.   | Complied |              |     | Such a person has not been counted in the quorum.   |
| 3 (1) (xiii) | Checked that the Board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the Bank is firmly under its authority.   | Complied |              |     | There is a formal schedule maintained by the Board. Checked the Board minutes.  |

| Section      | Procedure Performed   | Complied | Not Complied | N/A | Reference   |
|--------------|---|----------|--------------|-----|---|
| 3 (1) (xiv)  | Checked that the Board has forthwith informed the Director of Bank supervision of the situation of the Bank prior to taking any decision or action, if it considers that the procedures to identify when the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors. |          |              | N/A | As we observed, such a situation has not been evident through the review of the Board minutes.  |
| 3 (1) (xv)   | Checked that the Board has the Bank capitalised at levels as required by the Monetary Board.  | Complied |              |     | This has been complied with reference to the draft Financial Statements.  |
| 3 (1) (xvi)  | Checked that the Board publishes, in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.   | Complied |              |     | A report on corporate governance has been published in the 2011 Annual Report. The same practice will be continued in the 2012 Annual Report as well.   |
| 3 (1) (xvii) | Checked that the Board adopts a scheme of self-assessment to be undertaken by each Director annually, and maintains records of such assessments.  | Complied |              |     | Checked self-assessment made by the Directors for the year 2012.<br><br>Checked details under Board paper No. 49/2012 and minute 1.   |
| 3 (2)        | <b>The Board's Composition</b>  |          |              |     |   |
| 3 (2) (i)    | Checked that the Board comprise of not less than 7 and not more than 13 Directors.  | Complied |              |     | The Board consists of 9 Directors and composition has been maintained during the period. Observed the Board minutes and Annual Report of 2011. (Page No. 20-22)   |
| 3 (2) (ii)   | (A) Checked that the total period of service of a Director other than a Director who holds the position of CEO, does not exceed 9 years.  | Complied |              |     | As we observed that Directors have not exceeded 9 years of services in the capacity of Directors. Observed Directors self-evaluation forms.<br><br>(All Directors were appointed after 2007) Board Paper - 49/2012. |
|              | (B) In the event of any Director serving more than 9 years, check that the transitional provisions have been applied with.  |          |              | N/A | As we observed above, no Directors have exceeded 9 years in the capacity of Directors.  |

| Section     | Procedure Performed   | Complied | Not Complied | N/A | Reference   |
|-------------|---|----------|--------------|-----|---|
| 3 (2) (iii) | Checked that the number of Executive Directors, including the CEO does not exceed one-third of the number of Directors of the Board.  | Complied |              |     | All Directors are Non-Executive and appointed by the Minister of Finance under the Section 8 of People's Bank Act No. 29 of 1961.     |
| 3 (2) (iv)  | Checked that the Board has at least three independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher.   | Complied |              |     | All Directors are Non-Executives and as per the representation given, the Directors are independent.                                  |
|             | Checked if Non-Executive Directors can be considered independent if he/she:   |          |              |     |   |
|             | <ul style="list-style-type: none"> <li>• Holds a direct and indirect shareholdings of more than 1% of the Bank;</li> </ul>  |          |              | N/A | As per the Annual Report of 2011 Directors are not holding any share of the Bank.   |
|             | <ul style="list-style-type: none"> <li>• currently has or had during the period of two years immediately preceding his/ her appointment as Director, any business transactions with the Bank as described in Direction 3 (7) hereof, exceeding 10% of the regulatory capital of the Bank;</li> </ul>  |          |              | N/A | The Directors were appointed by the Minister of Finance.<br><br>As per the Annual Report of 2011, there is no any such a transaction. |
|             | <ul style="list-style-type: none"> <li>• has been employed by the Bank during the two years period immediately preceding the appointment as Director;</li> </ul>  |          |              | N/A | The Directors were appointed by the Minister of Finance.  |
|             | <ul style="list-style-type: none"> <li>• has had a close relation; who is a Director, CEO, a member of Key Management Personnel, a material shareholder of the Bank or another bank. (For this purpose, a 'close relation' means the spouse or a financially dependent child);</li> </ul>   |          |              | N/A | Appointments of Directors are done by Minister of Finance under Section 8 of People's Bank Act No. 29 of 1961.                        |
|             | <ul style="list-style-type: none"> <li>• represents a specific stakeholder of the bank</li> </ul>   |          |              | N/A | Appointments of Directors are done by Minister of Finance.  |
|             | <ul style="list-style-type: none"> <li>• is an employee or a Director or a material shareholder in a company or business organisation:                             <ul style="list-style-type: none"> <li>- which currently has a transaction with the Bank as defined in Direction 3 (7) of these Directions, exceeding 10% of the regulatory capital of the Bank; or</li> </ul> </li> </ul> |          |              | N/A | We did not identify such matters based on the 2011 Annual Report.   |

| Section      | Procedure Performed  | Complied | Not Complied | N/A | Reference  |
|--------------|--|----------|--------------|-----|--|
|              | <ul style="list-style-type: none"> <li>in which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or</li> <li>in which any of the other Directors of the Bank have a transaction as defined in Direction 3 (7) of these Directions, exceeding 10% of regulatory capital in the Bank.</li> </ul> |          |              |     | Checked Annual Report of year 2011 and there is no business transaction which is exceeding 10% of the regulatory capital of the Bank and as per the explanation given, there are no such transactions. |
| 3 (2) (v)    | In the event an alternate Director was appointed to represent an Independent Director. Checked the person so appointed meet the criteria that applies to the Independent Director.   |          |              | N/A | No alternative Directors were appointed during the year.   |
| 3 (2) (vi)   | Checked that the Bank has a process for appointing Independent Directors.  | Complied |              |     | Appointments of the Directors are done by the Minister of Finance under Section 8 of the People's Bank Act No. 29 of 1961.   |
| 3 (2) (vii)  | Checked that the stipulated quorum of the Bank includes more than 50% of the Directors and out of this quorum more than 50% should include Non-Executive Directors.  | Complied |              |     | Stipulated quorum of the Bank is 5 and it consists only from 5 Non-Executive Directors.  |
| 3 (2) (viii) | Checked that the Bank discloses the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual corporate governance report.   | Complied |              |     | Checked Annual Report of year 2011 and Bank has disclosed the composition of the Board. (Page Nos. 20-22).   |
| 3 (2) (ix)   | Checked the procedure for the appointment of new Directors to the Board.   | Complied |              |     | Appointment of the Directors is done by the Minister of Finance under Section 8 of the People's Bank Act. No. 29 of 1961.  |
| 3 (2) (x)    | Checked that all Directors appointed to fill a casual vacancy be subject to election by shareholders at the first General Meeting after their appointment.   |          |              | N/A | The Directors are appointed by the finance minister in compliance with the People's Bank Act. But during the period there were no such appointments (Observed Board minute).                           |
| 3 (2) (xi)   | Checked if a Director resigns or is removed from office, the Board:  |          |              |     |  |

| Section      | Procedure Performed   | Complied | Not Complied | N/A | Reference  |
|--------------|---|----------|--------------|-----|--|
|              | <ul style="list-style-type: none"> <li>announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Directors' disagreement with the Bank, if any; and</li> </ul> |          |              | N/A | During the period there was no any Director resigned or removed from office.   |
|              | <ul style="list-style-type: none"> <li>issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.</li> </ul>   |          |              | N/A | During the period there was no any Director resigned or removed from office.   |
| 3 (2) (xii)  | Checked if there is a process to identify whether a Director or an employee of a Bank is appointed, elected or nominated as a Director of another bank.   | Complied |              |     | The Bank follows CBSL guidelines on best practice.<br><br>We observed the Code of Best Practice in Corporate Governance of People's Bank.  |
| <b>3 (3)</b> | <b>Criteria to Assess the Fitness and Propriety of Directors</b>  |          |              |     |  |
| 3 (3) (i)    | Checked that the age of a person who serves as Director does not exceed 70 years.   | Complied |              |     | Checked self-assessment made by the Directors for the year 2012. There are no Directors who have exceeded 70 years of age.<br><br>Further, we observed that the Board confirmed through the Board meeting No. 11/2012 dated 27th July 2012 ses. 9.2. |
|              | (A) Checked that the transitional provisions have been complied with.   |          |              | N/A | Based on the above result, no such Directors.  |
| 3 (3) (ii)   | Checked if a person holds office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.  | Complied |              |     | Reviewed the self-assessment made by the Directors for the year 2012.  |
| <b>3 (4)</b> | <b>Management Functions Delegated by the Board</b>  |          |              |     |  |
| 3 (4) (i)    | Checked that the delegation arrangements have been approved by the Board.   | Complied |              |     | Delegation arrangements have been approved by the Board under the BECC No. 0085/2012 on 19th February 2012.  |

| Section     | Procedure Performed   | Complied | Not Complied | N/A | Reference  |
|-------------|---|----------|--------------|-----|--|
| 3 (4) (ii)  | Checked that the Board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.  | Complied |              |     | Through review of minutes it was noted that the Board has discussed matters in a responsible manner.   |
| 3 (4) (iii) | Checked that the Board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.   | Complied |              |     | The Board has reviewed the delegation process on a periodic basis.   |
| 3 (5)       | <b>The Chairman and Chief Executive Officer</b>   |          |              |     |  |
| 3 (5) (i)   | Checked that the roles of the Chairman and CEO are separate and not performed by the same individual.   | Complied |              |     | Roles of the chairman and CEO are separate and not performed by the same individual.<br><br>We observed the Code of Best Practice in Corporate Governance of People's Bank (Section 2.23) which is complied with CBSL guidelines on best practice. |
| 3 (5) (ii)  | Checked that the Chairman is a Non-Executive Director.  | Complied |              |     | The Chairman is a Non-Executive Director and he is appointed by the Finance Minister under the People's Bank Act.  |
|             | In the case where the Chairman is not an Independent Director, check that the Board designate an Independent Director as the Senior Director with suitably documented terms of reference.   |          |              | N/A | N/A  |
|             | Checked that the designation of the senior director be disclosed in the Bank's Annual Report.   |          |              | N/A | N/A  |
| 3 (5) (iii) | Checked that the Board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the CEO and Board members and the nature of any relationships including among members of the Board. | Complied |              |     | There is no specific process. CBSL guidelines are followed by the Bank in this regard.   |



| Section      | Procedure Performed  | Complied | Not Complied | N/A | Reference   |
|--------------|--|----------|--------------|-----|---|
| 3 (5) (iv)   | <p>Checked that the Board has a self-evaluation process where the Chairman:</p> <ul style="list-style-type: none"> <li>• provides leadership to the Board;</li> <li>• ensures that the Board works effectively and discharges its responsibilities; and</li> <li>• ensures that all key and appropriate issues are discussed by the Board in a timely manner.</li> </ul> | Complied |              |     | Yes, annual self evaluation process in respect of 2012 has been carried out by the minute No. 01/2012 and Board paper No. 49/2012.  |
| 3 (5) (v)    | Checked that a formal agenda is circulated by the Company Secretary approved by the Chairman.  | Complied |              |     | There is a formal agenda with key items identified for all Board meetings. The Board has also approved a process for the Directors to include their proposals in the agenda.                                      |
| 3 (5) (vi)   | Checked that the Chairman ensures, through timely submission that all Directors are properly briefed on issues arising at Board meetings.  | Complied |              |     | Checked Board minutes and Board papers. Directors are properly briefed on issues arising at Board meetings.   |
| 3 (5) (vii)  | Checked that the Board has a self-evaluation process that encourages all Directors to make a full and active contribution to the Board's affairs and the Chairman taking the lead to act in the best interest of the Bank.   |          |              |     | Yes, annual self-evaluation process in respect of 2012 has been carried out by the minute No. 01/2012 and Board paper No. 49/2012.  |
| 3 (5) (viii) | Checked that the Board has a self-evaluation process that assesses the contribution of Non-Executive Directors.  | Complied |              |     | Yes, annual self-evaluation process in respect of 2012 has been carried out by the minute No. 01/2012 and Board paper No. 49/2012. (Observed self-evaluation form completed by each Director).                    |
| 3 (5) (ix)   | Checked that the Chairman does not engage in activities involving direct supervision of key Management Personnel or any other executive duties whatsoever.   | Complied |              |     | The Chairman has not engaged in activities involving direct supervision of Key Management Personnel.  |
| 3 (5) (x)    | Checked that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.  | Complied |              |     | As we observed, Bank's representative of shareholder (Government representative - Ms. Vishakha Amarasekara) attends to each and every Board meetings. We observed the attendance with referring to Board minutes. |

| Section    | Procedure Performed  | Complied | Not Complied | N/A | Reference   |
|------------|--|----------|--------------|-----|---|
| 3 (5) (xi) | Checked that the Chief Executive Officer functions as the apex Executive-in-Charge of the day-to-day management of the Bank's operations and business.               | Complied |              |     | Under the Section 3 of the Code of Best Practice in Corporate Governance of People's Bank, the CEO should function as the person in charge of day-to-day management of Bank's business.   |
| 3 (6)      | <b>Board Appointed Committees</b>  |          |              |     |   |
| 3 (6) (i)  | Checked that the Bank has established at least four Board Committees as set out in Directions 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) of these Directions. | Complied |              |     | Checked the Annual Report of 2011 and according to it there are 6 Board Subcommittees: <ul style="list-style-type: none"> <li>• Board Audit Committee</li> <li>• Board Executive Credit Committee</li> <li>• Human Resources and Remuneration Committee</li> <li>• Board Integrated Risk Management Committee (BIRMC)</li> <li>• Board Nomination Committee</li> <li>• Board Investment Banking Committee.</li> </ul> (Page Nos. 155-156) |
|            | Checked that each Board Committee report is addressed directly to the Board.   | Complied |              |     | Each Board Subcommittee report is directly addressed to the Board.<br><br>We observed the reports of such Board committees.   |
|            | Checked that the Board presents in its Annual Report, a report on each committee on its duties, roles and performance.   | Complied |              |     | As per the page Nos. 155 and 156 of People's Bank Annual Report of 2011, the Bank has complied with this requirement.   |

| Section    | Procedure Performed  | Complied | Not Complied | N/A | Reference   |
|------------|--|----------|--------------|-----|---|
| 3 (6) (ii) | <p>Audit Committee:</p> <ul style="list-style-type: none"> <li>Checked that the Chairman of the Committee is an Independent Non-Executive Director and possesses qualifications and related experience.</li> </ul> | Complied |              |     | <p>The Chairman is an independent Non-Executive Director.</p> <p>The Chairman of the 'Board Audit Committee' has necessary qualifications and experience.</p> <p>(Associate member of The Institute of Chartered Accountants of Sri Lanka and has over 24 years experience in finance and management) (Annual Report 2011 - page No. 20).</p> |
|            | <ul style="list-style-type: none"> <li>Checked that all members of the Committee are Non-Executive Directors.</li> </ul>   | Complied |              |     | All Directors of the Bank are Independent Non- Executives, and appointed by the minister of finance under Section 8 of the People's Bank Act No. 29 of 1961.  |
|            | <ul style="list-style-type: none"> <li>Checked that the Committee has made recommendations on matters in connection with:</li> </ul>   |          |              |     |   |
|            | <ul style="list-style-type: none"> <li>the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;</li> </ul>  |          |              | N/A | The External Auditor has been appointed as per the provision contained in the Section 34 of People's Bank Act No. 29 of 1961. As per such provisions, 'Auditor General' is the External Auditor.  |
|            | <ul style="list-style-type: none"> <li>the implementation of the Central Bank guidelines issued to Auditors from time to time;</li> </ul>  | Complied |              |     | <p>There is a separate officer called 'DGM Compliance' in the Bank and such person is responsible for implementation of the Central Bank Guidelines.</p> <p>Also there is a separate officer in the Central Bank who represent the Bank and as well as to update the Bank on Central Bank Guidelines.</p>                                     |
|            | <ul style="list-style-type: none"> <li>the application of the relevant accounting standards; and</li> </ul>  | Complied |              |     | Chief Internal Auditor and Head of Finance are responsible in this regard.  |

| Section | Procedure Performed  | Complied | Not Complied | N/A | Reference  |
|---------|--|----------|--------------|-----|--|
|         | <ul style="list-style-type: none"> <li>the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.</li> </ul>   | Complied |              |     | The External Auditor has been appointed as per the provision contained in the Section 34 of the People's Bank Act No. 29 of 1961. As per such provisions, 'Auditor General' is the External Auditor.   |
|         | <ul style="list-style-type: none"> <li>Checked that the Committee has obtained representations from the External Auditors on their independence, and that the audit is carried out in accordance with SLAS.</li> </ul>   |          |              | N/A | The External Auditor has been appointed as per the provision contained in the Section 34 of the People's Bank Act No. 29 of 1961.<br><br>'Chief Internal Auditor' and 'Head of Finance' are responsible in this regard.  |
|         | <ul style="list-style-type: none"> <li>Checked that the Committee has implemented a policy on the engagement of an External Auditor to provide non-audit services in accordance with relevant regulations.</li> </ul>  |          |              | N/A | The External Auditor has been appointed as per the provision contained in the Section 34 of the People's Bank Act No. 29 of 1961.  |
|         | <ul style="list-style-type: none"> <li>Checked that the Committee has discussed and finalised the nature and scope of the audit, with the External Auditors in accordance with SLAS before the audit commences.</li> </ul>   |          |              | N/A | The External Auditor has been appointed as per the provision contained in the Section 34 of the People's Bank Act No. 29 of 1961.  |
|         | <ul style="list-style-type: none"> <li>Checked that the Committee has a process to review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following:                             <ul style="list-style-type: none"> <li>major judgmental areas;</li> <li>any changes in accounting policies practices;</li> <li>the going concern assumption; and</li> </ul> </li> <li>the compliance with relevant accounting standards and other legal requirements; and</li> <li>in respect of the annual Financial Statements the significant adjustments arising from the audit.</li> </ul> | Complied |              |     | The Bank has reviewed the financial Information through the 'Board Audit Committee'.<br><br>We checked following 'Board Audit Committee' papers and minutes, which are reviewed the financial information.<br><br>BAC No. - 12/2012<br>BM No. - 03/2012<br>BAC No. - 46/2012<br>BM No. - 09/2012 |

| Section | Procedure Performed  | Complied | Not Complied | N/A | Reference   |
|---------|--|----------|--------------|-----|---|
|         | <ul style="list-style-type: none"> <li>Checked that the Committee has met the External Auditors relating to any issue in the absence of the executive management with relation to the audit.</li> </ul>  |          |              | N/A | As per the given explanation, a 'Board Audit Committee' has not met the External Auditor since no such matters arised during the year.  |
|         | <ul style="list-style-type: none"> <li>Checked that the Committee has reviewed the External Auditor's management letter and the management's response thereto.</li> </ul>  | Complied |              |     | As per the explanation given, the External Auditor submitted management letter for 2011 in December 2012. Therefore, above management letter will be presented to the Board under paper No. BAC 09/2013 and it will be discussed by the 'Board Audit Committee' on 15th February 2013.  |
|         | <ul style="list-style-type: none"> <li>Checked that the Committee shall take the following steps with regard to the internal audit function of the Bank:                             <ul style="list-style-type: none"> <li>Review the adequacy of the scope, functions and resources of the internal Audit Department, and satisfy itself that the Department has the necessary authority to carry out its work;</li> </ul> </li> </ul> | Complied |              |     | We observed the Internal Audit Department plan of the People's Bank which is presented to the Board under BAC paper No. 57/2012. The plan consists of scope, function and resources of the Internal Audit Department.<br>BM No.- 10/2012<br><br>Also we checked the 'Term of Reference' (TOR) of the 'Board Audit Committee'. |
|         | <ul style="list-style-type: none"> <li>Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;</li> </ul>   | Complied |              |     | We observed the Internal Audit Department plan of the People's Bank which is presented to the Board under BAC paper No. 57/2012.<br>BM No.- 10/2012<br>Checked, 'Term of Reference'.  |
|         | <ul style="list-style-type: none"> <li>Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;</li> </ul>   | Complied |              |     | We observed the Board minutes of assessment of the performance of head and senior staff.<br>E.g. BAC No. 06,0483  |
|         | <ul style="list-style-type: none"> <li>Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</li> </ul>  |          |              | N/A | During the year there was no such recommendation from the Board for any appointment or termination of Internal Audit Department staffs.   |

| Section | Procedure Performed   | Complied | Not Complied | N/A | Reference   |
|---------|---|----------|--------------|-----|---|
|         | <ul style="list-style-type: none"> <li>o Checked that the Committee is appraised of resignations of senior staff members of the Internal Audit Department including the chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;</li> </ul>   |          |              | N/A | During the period there was no such appraisal made by the Board.  |
|         | <ul style="list-style-type: none"> <li>o Checked that the internal audit function is independent of the activities it audits.</li> </ul>  | Complied |              |     | It was noted that the internal audit function is independent according to the 'Term of Reference' of BAC.   |
|         | <ul style="list-style-type: none"> <li>• Checked the minutes to determine whether the Committee has considered major findings of internal investigations and management's responses thereto.</li> </ul>   | Complied |              |     | <p>The Board has considered major findings of internal investigations and relevant board Audit Committee papers and minutes are as follows:</p> <p>BAC No. 05/2012<br/>BM No. 01/2012</p> <p>BAC No. 29/2012<br/>BM No. 04/2012</p> <p>BAC No. 58/2012<br/>BM No. 10/2012</p> |
|         | <ul style="list-style-type: none"> <li>• Checked whether the Committee has had at least two meetings with the External Auditors without the Executive Directors being present.</li> </ul>   | Complied |              |     | Mr. G.H.D. Dharmapala - 'Superintendent of Audit' on behalf of the 'Auditor General' was present for 7 Audit Committee meetings held during the period of 2012.   |
|         | <ul style="list-style-type: none"> <li>• Checked the 'Terms of Reference' of the Committee to ensure that there is - <ul style="list-style-type: none"> <li>o explicit authority to investigate into any matter within its terms of reference;</li> <li>o the resources which it needs to do so;+</li> <li>o full access to information; and</li> <li>o Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</li> </ul> </li> </ul> | Complied |              |     | Checked the 'Term of Reference' of the Audit Committee and ensure that those provisions are available.  |

| Section | Procedure Performed   | Complied | Not Complied | N/A | Reference  |
|---------|---|----------|--------------|-----|--|
|         | <ul style="list-style-type: none"> <li>Checked that the Committee has met, at least four times and maintained minutes.</li> </ul>   | Complied |              |     | As per the Board Audit Committee minutes, 'Board Audit Committee' has met ten times for the period of 2012.  |
|         | <ul style="list-style-type: none"> <li>Checked that the Board has disclosed in the Annual Report:                             <ul style="list-style-type: none"> <li>details of the activities of the Audit Committee;</li> <li>the number of Audit Committee meetings held in the year; and</li> <li>details of attendance of each individual Director at such meetings.</li> </ul> </li> </ul>  | Complied |              |     | The details of the activities of the Board Audit Committee were disclosed in page No. 155 of People's Bank Annual Report 2011.   |
|         | <ul style="list-style-type: none"> <li>Checked that the Secretary of the Committee is the Company Secretary or the head of the internal audit function.</li> </ul>  | Complied |              |     | <p>Mr. Rohan Pathirage (Secretary of the Board Audit Committee) is the Company Secretary.</p> <p>Checked 'Board Audit Committee' minutes.</p>  |
|         | <ul style="list-style-type: none"> <li>Checked that the 'whistle-blower' policy covers the process of dealing with-                             <ul style="list-style-type: none"> <li>The improprieties in financial reporting, internal control or other matters:</li> <li>In relation to (i) the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and</li> <li>Appropriate follow-up action.</li> </ul> </li> </ul> | Complied |              |     | <p>We observed the 'whistle-blower' policy of the People's Bank presented to the Board under Board Audit Committee No. 54/2012 BM No. 10/2012.</p> <p>The Committee has ensured that proper arrangements are in place for fair investigation and it was stated under the 'whistle-blower' policy.</p> <p>Further, we observed the terms of references for the Audit Committee and it discusses how the Bank should act in this regard.</p> |



| Section     | Procedure Performed   | Complied | Not Complied | N/A | Reference   |
|-------------|---|----------|--------------|-----|---|
| 3 (6) (iii) | Checked whether the following rules apply in relation to the Human Resources and Remuneration Committee:  |          |              |     |   |
|             | <ul style="list-style-type: none"> <li>Checked that the Committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to Directors, CEO and Key Management Personnel of the Bank by review of the 'Terms of Reference' and minutes.</li> </ul>                    |          |              | N/A | <p>Remuneration relating to Directors, CEO and Key Management Personnel was decided as per circulars of the Ministry of Finance.</p> <p>Reviewed the term of references of human Resources and Remuneration Committee.</p>  |
|             | <ul style="list-style-type: none"> <li>Checked that the goals and targets for the Directors, CEO and the Key Management Personnel are documented.</li> </ul>  | Complied |              |     | The vision, goals of the Bank, targets, key responsibilities of the Board and Key Management Personnel for achieving the Bank vision are mentioned in the 5-years strategic plan (2011 - 2016).   |
|             | <ul style="list-style-type: none"> <li>Checked that the Committee has considered evaluations of the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.</li> </ul> | Complied |              | N/A | Under the Board minute number 07/2012, the Board has considered evaluation and promotion of Key Management Personnel. BAC No. - 156/2012  |
|             | <ul style="list-style-type: none"> <li>Checked that the 'Terms of Reference' provides that the CEO is not present at meetings of the Committee, when matters relating to the CEO are being discussed by reviewing the minutes.</li> </ul>   | Complied |              |     | 'Terms of Reference' of Human Resources and Remuneration Committee stated that CEO is not present at the meeting when matters related to the CEO are being discussed.   |
| 3 (6) (iv)  | Does the following rules apply in relation to the 'Nomination Committee':   |          |              |     |   |
|             | <ul style="list-style-type: none"> <li>Checked that the Committee has implemented a procedure to select/appoint new Directors, CEO and Key Management Personnel.</li> </ul>   | Complied |              |     | <p>Key Management Personnel are nominated by the Board Nomination Committee and Directors are appointed by the Finance Minister as per provisions 8 in People's Bank Act. No. 29 of 1961.</p> <p>In the 'Code of Best Practice in Corporate Governance in 2011' of People's Bank stated that the Bank has complied with this requirement.</p> |

| Section | Procedure Performed  | Complied | Not Complied | N/A | Reference   |
|---------|--|----------|--------------|-----|---|
|         | <ul style="list-style-type: none"> <li>Checked that the Committee has considered and recommended (or not recommended) the re-election of current Directors.</li> </ul>   |          |              | N/A | The Directors are appointed by the Finance Minister under the Section 8 of People's Bank Act. No. 29 of 1961.   |
|         | <ul style="list-style-type: none"> <li>Checked that the Committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the Key Management Personnel, by review of job description.</li> </ul> | Complied |              |     | <p>Appointment of CEO and Key Management Personnel are done by the Board Nomination Committee.</p> <p>Under the Board minute number 07/2012, Board has evaluated and promoted the key management personnel.<br/>BAC No. - 156/2012.</p> <p>In the 'Code of Best Practice in Corporate Governance in 2011' of People's Bank stated that Bank has complied with this requirement.</p> |
|         | <ul style="list-style-type: none"> <li>Checked that the Committee has obtained from the Directors, CEO and Key Management Personnel signed declarations that they 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.</li> </ul>       | Complied |              |     | <p>Checked the self-assessment made by the Directors and CEO under Board Paper No. - 49/2012.</p> <p>The Board has reviewed reports which are submitted by the acting DGMs under the Board minute No. 05/2012.<br/>BP - 195/2012.</p>   |
|         | <ul style="list-style-type: none"> <li>Checked that the Committee has considered a formal succession plan for the retiring Directors and Key Management Personnel.</li> </ul>  | Complied |              |     | Formal succession plan was submitted to the Board under Board paper No. 279/2012 and it was reviewed by the Board under Board minutes No. 10/2012.  |
|         | <ul style="list-style-type: none"> <li>Checked that the Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent directors. The CEO may be present at meetings by invitation.</li> </ul>   | Complied |              |     | All the Directors are Independent and Non-Executive Directors are appointed by the finance ministry and CEO is present at the meeting by invitation.  |

| Section   | Procedure Performed   | Complied | Not Complied | N/A | Reference  |
|-----------|---|----------|--------------|-----|--|
| 3 (6) (v) | Checked whether the following rules apply in relation to the Board Integrated Risk Management Committee (BIRMC):  | Complied |              |     | <p>The BIRMC Committee consists of four Non-Executive Directors, CEO and other Key Management Personnel by invitation. It was mentioned in the page No. 156 of the People's Bank 2011 Annual Report and the term of references of the BIRMC Committee.</p> <p>We observed the BIRMC minutes No. 01/2012 and 3/2011 for further assurance.</p>  |
|           | <ul style="list-style-type: none"> <li>Checked that the Committee has a process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of Subsidiary Companies and Associate Companies, risk management shall be done, both on a bank basis and group basis.</li> </ul> | Complied |              |     | <p>All mentioned risk categories are assessed through 'Stress Testing Report' prepared by Board Integrated Risk Management Committee.</p> <p>The 'Stress Testing Report' was presented to the Board of BIRMC under following Board papers and Board minutes:</p> <p>BIRMC No. - 10/2012<br/>BM No. - 01/2012</p> <p>BIRMC No. - 19/2012<br/>BM No. - 02/2012</p> <p>BIRMC No. - 28/2012<br/>BM No. - 03/2012<br/>BIRMC No. - 04/2012</p> |
|           | <ul style="list-style-type: none"> <li>Checked that the Committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the Credit Committee and the asset-liability committees, and report any risk indicators periodically.</li> </ul>   | Complied |              |     | <p>BIRMC reviewed specific quantitative and qualitative risk limits for all management level committees under the following Board minutes:</p> <p>M. No. - 01/2012<br/>M. No. - 02/2012<br/>M. No. - 03/2012</p>   |

| Section | Procedure Performed   | Complied | Not Complied | N/A | Reference   |
|---------|---|----------|--------------|-----|---|
|         | <ul style="list-style-type: none"> <li>Checked that the Committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.</li> </ul>                         | Complied |              |     | <p>Checked the 'Board integrated Risk Management Committee' minutes:</p> <p>M. No. - 02/2012<br/>M. No. - 03/2012<br/>BRIMC No. - 28/2012</p> <p>Checked the 'Terms of Reference of Board Integrated Risk Management Committee'.</p> <p>Checked risk review report and committee prepared this report on monthly basis and submitted to the General Manager and in addition to that this report is submitted to the BIRMC on a quarterly basis.</p> |
|         | <ul style="list-style-type: none"> <li>Checked how many times the Committee has met at least quarterly.</li> </ul>  | Complied |              |     | <p>The Committee has met four times during the year on quarterly basis as follows:</p> <p>29-03-2012<br/>20-06-2012<br/>03-09-2012<br/>15-12-2012</p> <p><i>(Observed the minutes of the meetings)</i></p>  |
|         | <ul style="list-style-type: none"> <li>Checked that the Committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.</li> </ul> | Complied |              |     | <p>Board Integrated Risk Management Committee has reviewed and recommended to adopt a formal disciplinary action procedure under Board minutes No. 03/2012.</p>   |
|         | <ul style="list-style-type: none"> <li>Checked that the Committee submits a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.</li> </ul>         | Complied |              |     | <p>Risk assessment report submitted to the BIRMC under,</p> <p>BIRMC No. - 28/2012<br/>BIRMC No. - 19/2012</p>  |

| Section          | Procedure Performed  | Complied | Not Complied | N/A | Reference  |
|------------------|--|----------|--------------|-----|--|
|                  | <ul style="list-style-type: none"> <li>Checked that the Committee has establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from Key Management Personnel to carry out the compliance function and report to the Committee periodically.</li> </ul>   |          |              |     | <p>There is a dedicated compliance officer for the compliance function.<br/>(Ms. S. Senannayake)</p> <p>Compliance Officer has submitted the compliance report to the Board once in two months.</p> <p>Observed following Board minute and Board paper which mentioned that board has reviewed the compliance report:</p> <p>B/M No. - 01/2012<br/>BIRMC No. - 02/2012</p> |
| <b>3 (7)</b>     | <b>Related Party Transactions</b>  |          |              |     |  |
| <b>3 (7) (i)</b> | <p>Checked that there is a established and documented process by the Board to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as related parties' for the purposes of this Direction:</p> <ul style="list-style-type: none"> <li>Any of the Bank's subsidiary companies;</li> <li>Any of the Bank's associate companies;</li> <li>Any of the Directors of the Bank;</li> <li>Any of the Bank's Key Management Personnel;</li> <li>A close relation of any of the Bank's Directors or Key Management Personnel;</li> <li>A shareholder owning a material interest in the Bank;</li> <li>A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest.</li> </ul> | Complied |              |     | We observed that there is well-established process identified and approved by the Board Circular No. 581/2004 known as a credit manual and other than that Bank follows up CBSL Directions.  |

| Section     | Procedure Performed  | Complied | Not Complied | N/A | Reference   |
|-------------|--|----------|--------------|-----|---|
| 3 (7) (ii)  | <p>Checked that there is a process to identify and report the following types of transactions been identified as transactions with related parties that is covered by this Direction.</p> <ul style="list-style-type: none"> <li>The grant of any type of accommodation, as defined in the monetary Board's Directions on maximum amount of accommodation.</li> <li>The creation of any liabilities of the Bank in the form of deposits, borrowings and investments.</li> <li>The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank.</li> <li>The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.</li> </ul> | Complied |              |     | <p>As per credit manual section 5. maximum amount of accommodation is Rs. 500,000/-.</p> <p>Generally related party transactions are recognised in the generally used data base called Silverlake Integrated Banking System (SIBS). We have checked the RPT report generated in the SIBS.</p> <p>This RPT process is done by DGM (Domestic Credit - Mr. K.B. Rajapaksha).</p> <p>Quarterly report to the Central Bank.</p> <p>All related party transactions are reported to the Board through Board paper and complied with credit manual.</p> <p>Further, we observed the report which is sent to Central Bank.</p> |
| 3 (7) (iii) | <p>Checked whether the Board has a process to ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the Bank carrying on the same business.</p>   | Complied |              |     | <p>The Bank follows up credit manual and CBSL Directions.</p> <p>As Bank's policies, there are no lower rates transactions. Further, this is assessed periodically by the senior manager at the credit department.</p>  |

| Section | Procedure Performed  | Complied | Not Complied | N/A | Reference   |
|---------|--|----------|--------------|-----|---|
|         | <ul style="list-style-type: none"> <li>Granting of 'total net accommodation' to related parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board. For purposes of this sub-direction-</li> </ul>   |          |              |     | The Bank applied general procedure when granting loans to the related party by complying credit manual also.              |
|         | <ul style="list-style-type: none"> <li>'Accommodation' shall mean accommodation as defined in the Banking Act Directions, No. 07 of 2007 on Maximum Amount of Accommodation.</li> </ul>  |          |              |     | The Senior Managers assess the accuracy of the interest rates. When granting loans, the Bank complies with credit manual. |
|         | <ul style="list-style-type: none"> <li>The 'total net accommodation' shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's Share Capital and debt instruments with a maturity of 5 years or more.</li> </ul>     |          |              |     | We observed this provision is complied with the credit manual Section 5.  |
|         | <ul style="list-style-type: none"> <li>Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty.</li> </ul>   |          |              |     | As per credit manual Section 5 normal interest should be used for the purpose of lending to a Director.                   |
|         | <ul style="list-style-type: none"> <li>Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties.</li> </ul>                       |          |              |     | If the Director requests the special interest rate, it should be approved by the Board.                                   |
|         | <ul style="list-style-type: none"> <li>Providing services to or receiving services from a related party without an evaluation procedure.</li> </ul>  |          |              |     | Quarterly report to Central Bank.   |
|         | <ul style="list-style-type: none"> <li>Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</li> </ul> |          |              |     |   |



| Section    | Procedure Performed   | Complied | Not Complied | N/A | Reference  |
|------------|---|----------|--------------|-----|--|
| 3 (7) (iv) | Checked that the Bank has a process for granting accommodation to any of its Directors and Key Management Personnel, and that such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary Board as well.   | Complied |              |     | The Bank is applying Section 5 of credit manual for this process.  |
| 3 (7) (v)  | <ul style="list-style-type: none"> <li>Checked that the Bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, that steps have been taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.</li> </ul> | Complied |              |     | <p>The Bank is applying the credit manual for this process and also complying with the directions stated in the People's Bank Act and CBSL Directions.</p> <p>No such incident was observed.</p> |
|            | <ul style="list-style-type: none"> <li>Checked where such security is not provided by the period as provided in Direction 3 (7) (v) (a) above, has the Bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.</li> </ul>  |          |              | N/A | <p>No such incident was observed.</p> <p>The Bank has complied with Section 5.2 of credit manual.</p>  |
|            | <ul style="list-style-type: none"> <li>Checked that there is a process to identify any Director who fails to comply with the above sub-Directions be deemed to have vacated the office of director and has the Bank disclose such fact to the public.</li> </ul>  | Complied |              |     | The Bank is applying the credit manual for this process and also complying with the Directions stated in the People's Bank Act and CBSL Directions.  |

| Section     | Procedure Performed  | Complied | Not Complied | N/A | Reference   |
|-------------|--|----------|--------------|-----|---|
|             | <ul style="list-style-type: none"> <li>Checked the process in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such bank.</li> </ul>  | Complied |              |     | The Bank is applying the credit manual for this process and also complying with the Directions stated in the People's Bank Act and CBSL Directions. |
| 3 (7) (vi)  | Checked that there is a process in place to identify when the Bank grants any accommodation or 'more favourable treatment' relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above. | Complied |              |     | The Bank is applying the credit manual for this process and also complying with the Directions stated in the People's Bank Act and CBSL Directions. |
| 3 (7) (vii) | Checked that there is a process to obtain prior approval from the Monetary Board for any accommodation granted by a bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary Board and any remission without such approval is void and has no effect.  | Complied |              |     | The Bank is applying the credit manual for this process and also complying with the Directions stated in the People's Bank Act and CBSL Directions. |
| 3 (8)       | <b>Disclosures</b>   |          |              |     |   |
| 3 (8) (i)   | Checked that the Board has disclosed: <ul style="list-style-type: none"> <li>Annual Audited Financial Statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.</li> </ul>   | Complied |              |     | Observe Annual Report 2011. Further, those statements were published in the newspaper.  |

| Section    | Procedure Performed  | Complied | Not Complied | N/A | Reference   |
|------------|--|----------|--------------|-----|---|
|            | <ul style="list-style-type: none"> <li>Quarterly Financial Statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.</li> </ul>  | Complied |              |     | The statements were published in the news paper - (Observed financial details of the financial department). |
| 3 (8) (ii) | <p>Checked that the Board has made the following minimum disclosures in the Annual Report:</p> <ul style="list-style-type: none"> <li>The statement to the effect that the annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.</li> <li>The report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.</li> <li>Checked that the Board has obtained the External Auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3 (8) (ii) (b) above.</li> <li>Details of Directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank.</li> <li>Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.</li> </ul> | Complied |              |     | These have been checked with reference to Annual Report of year 2011.                                       |
|            |  | Complied |              |     |   |
|            |  | Complied |              |     |   |
|            |  | Complied |              |     |   |
|            |  | Complied |              |     |   |

| Section          | Procedure Performed  | Complied | Not Complied | N/A | Reference   |
|------------------|--|----------|--------------|-----|---|
|                  | <ul style="list-style-type: none"> <li>The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.</li> </ul>                                       | Complied |              |     |   |
|                  | <ul style="list-style-type: none"> <li>Checked that the Board has obtained the External Auditor's Report on the compliance with Corporate Governance Directions.</li> </ul>  | Complied |              |     | According to the compliance report which is included in the annual report of 2011, it has set out the details of the compliance with regulations and requirements of law etc. |
|                  | <ul style="list-style-type: none"> <li>A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.</li> </ul>  | Complied |              |     |   |
|                  | <ul style="list-style-type: none"> <li>A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.</li> </ul> |          |              | N/A | No such non-compliance was reported.  |
| <b>3 (9)</b>     | <b>Transitional and Other General Provisions</b>   |          |              |     |   |
| <b>3 (9) (i)</b> | Compliance with this Direction shall commence from 1st January 2008 onwards and all licensed commercial banks shall – comply with this provision of direction by or before 1st January 2009 except where extended compliance dates have been specifically provided for in this Direction.  | Complied |              |     | The Bank is applying the Directions stated in the People's Bank Act and CBSL Directions in this regard.   |

| Section            | Procedure Performed   | Complied | Not Complied | N/A | Reference   |
|--------------------|---|----------|--------------|-----|---|
| <b>3 (9) (ii)</b>  | In respect of the Bank that have been incorporated by specific statutes in Sri Lanka, the Board as specified in such statutes shall continue to function in term of provisions of the respective statutes, provided they take steps to comply with all provision of this Directions that are not inconsistent with the provision of the respective statutes.                                  | Complied |              |     | The Bank is applying the directions stated in the People's Bank Act and CBSL directions in this regard. |
| <b>3 (9) (iii)</b> | The direction shall apply to the branches of the foreign bank operating in Sri Lanka to the extent that it is not inconsistent with the regulation and laws applicable in such bank's country. The branch of foreign shall also publish its parent bank's annual corporate governance report together with its annual report and accounts of the branch operation in Sri Lanka.               | Complied |              |     | The Bank is applying the directions stated in the People's Bank Act and CBSL directions in this regard. |
| <b>3 (9) (iv)</b>  | In the event of a conflict between any of the provision of this Direction and the Articles of Association (or Internal Rules) pertaining to any bank, the provision of this Direction shall prevail. However if the Articles of Association of an individual bank set a more stringent that that specified in this directions, such provision in the Articles of Association may be followed. | Complied |              |     | The Bank is applying the Directions stated in the People's Bank Act and CBSL Directions in this regard. |
| <b>3 (9) (v)</b>   | If any person shall as ill health or any incapacity as provided in the Banking Act, the Monetary Board considers that exemption referred to in Direction 3 (2) (ii) B, 3 (3) (ii) A should not be availed of, such ground may be notified to the person by the Monetary Board , and after hearing, the Monetary Board may limit the period of exemption.                                      |          |              |     |   |

# Board Audit Committee Report

The Board Audit Committee (BAC) proceedings were based on the Charter adopted by the Board of Directors for the functioning of the Committee.

The Board Audit Committee held ten (10) regular meetings in the year 2012 to review the progress of internal audit functions, adequacy, efficiency and effectiveness of controls to manage risks paying special attention to the following:

- Further strengthening of the risk-based internal audit approach to identify various risks faced by the Bank and to ensure proper management of risks by placing special emphasis on the comprehensive audit methodology for pre-audit risk assessment and audit planning.
- Early correction of the deficiencies rectified identified during the course of audit and ensuring regular follow-up action on audit findings through the Internal Audit Department.
- Actions needed to improve audit grading/ performance standards of Bank branches.
- Examining the system of internal controls and management of business risks.
- Reviewing the external and internal audit processes.
- Reviewing the financial reporting process and procedures in place for monitoring compliance with laws, regulations and in particular Central Bank Guidelines and statutory financial reporting requirements.
- Reviewing the CBSL statutory Examination Report, Management Letter, Auditor General's Report and COPE Reports and also followed up on corrective measures taken by the management during the year 2012 on matters raised by the above Reports.
- Reviewing with the senior staff of other functions to identify key accounting and control issues and resolve those with the primary objective of establishing an adequate control environment and ensuring presentation of Financial Statements that provide a true and fair view of the financial results of the Bank.
- Reviewing Internal Control System before issuing Directors' Statement on Internal Control of the Bank.
- Implementing software audit tool within the Internal Audit Department enabling them to monitor operations of the branch network.
- The internal audit functions were directed at identifying various risks faced by the Bank and preventing mitigating the effects of such risks and communicating and encouraging best practices and positive quality assurance throughout the Branch Network.
- The Committee noted the strong commitment of the Internal Audit Department to make continued progress in improving efficiency and effectiveness of its function. It completed 751 audit assignments for the year 2012.

The BAC ensured the provision of all information and documents required by the Auditor General for the purpose of audit and compliance with Sri Lanka Accounting Standards in the preparation and presentation of Financial Statements. The BAC is of the view that adequate controls and procedures are in place and Charter of the BAC were complied with in all material aspects.



**Jehan P. Amaratunga**  
Chairman  
*Board Audit Committee*

8th January 2013

# Report of the Auditor General



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கணக்காய்வாளர் தலைமை அறிபதி திணைக்களம்

**AUDITOR GENERAL'S DEPARTMENT**



මගේ අංකය  
எனது இல  
My No.

FB/G/PB/FA/2012

මමේ අංකය  
உமது இல  
Your No.

දිනය  
திகதி  
Date

27 March 2013

## REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE PEOPLE'S BANK AND ITS SUBSIDIARIES FOR THE YEAR ENDED 31 DECEMBER 2012

The audit of the financial statements of the People's Bank ("Bank") and the consolidated financial statements of the Bank its subsidiaries (Group) for the year ended 31 December 2012 comprising the Statements of Financial Position as at 31 December 2012, the Statements of Income, Statements of Comprehensive Income, Statements of Changes in Equity and Cash Flow Statements for the year then ended, and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice. The financial statements of the subsidiaries were audited by firms of Chartered Accountants in public practice appointed by the members of the respective subsidiaries.

### 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 and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of the material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of Accounting Policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### Opinion - Bank

In my opinion the financial statement give a true and fair view of the financial position of the Bank as at 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basis for Qualified Opinion - Group

Bank has prepared its consolidated financial statements for the year ended 31 December 2010 and 31 December 2011 based on the unaudited financial statements of its subsidiaries. Therefore, I am unable to satisfy myself as to the completeness and accuracy in respect of opening balances used in the consolidated financial statements for the year ended 31 December 2012.

#### Qualified Opinion - Group

In my opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the consolidated

financial statements give a true and fair view of the financial position of the Bank and its subsidiaries as at 31 December 2012 and their financial performance and their cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Report on Other Legal and Regulatory Requirements

These financial statements have been presented the information required by the Banking Act, No. 30 of 1988 and subsequent amendments.

The Central Bank of Sri Lanka (CBSL) issued the circular, dated 12th March 2012 "Ceiling on Credit growth of Licensed Banks" requiring all Licensed Banks to maintain credit growth of a bank in the year 2012 which shall not exceed 18% of the total outstanding credit as at end of year 2011 or 800 Mn, whichever is higher. However, during the period the bank had not complied with this requirement and granted accommodation in excess of 18%.

#### Exemption

The bank has been exempted from the provisions of Part II of the Finance Act, No. 38 of 1971 by an Order of then Minister of Finance published in the Government Gazette No. 715 of 14 May 1992 by virtue of powers vested in him by Sections 5 (1) of the said Finance Act.

#### Report to Parliament

My report to Parliament in pursuance of provisions in Article 154 (6) of the constitution will be tabled in due course.

H.A.S. Samaraweera  
Auditor General

අංක 306/72 පොල්දූව පාර,  
වත්තරමුල්ල, ශ්‍රී ලංකාව

දුරකථනය }  
දුරකථන අංකය } 2887028 - 34  
Telephone }  
දුරකථන අංකය }  
පැකස් ඉල } 2887223  
Fax No. }

இல. 306/72, பொல்துவ வீதி,  
புத்தரமுல்லை இலங்கை

දුරකථනය }  
දුරකථන අංකය } 2887223  
පැකස් ඉල }  
Fax No. }

No.306/72, Polduwa Road,  
Battaramulla, Sri Lanka

ඉලෙක්ට්‍රොනික් තැපෑල }  
අංක - මෙගයින් } oaggov@sltnet.lk  
E-mail. }

# Income Statement

| For the year ended 31st December                     | Note | BANK             |                  |             | GROUP            |                  |             |
|--|------|------------------|------------------|-------------|------------------|------------------|-------------|
|  |      | 2012<br>Rs. '000 | 2011<br>Rs. '000 | Change<br>% | 2012<br>Rs. '000 | 2011<br>Rs. '000 | Change<br>% |
| <b>Gross Income</b>                                  | 6    | 94,777,398       | 68,298,254       | 38.8        | 109,973,739      | 79,899,674       | 37.6        |
| Interest Income                                      |      | 85,241,301       | 61,788,438       | 38.0        | 100,844,385      | 73,617,879       | 37.0        |
| Interest Expenses                                    |      | (51,323,506)     | (31,470,220)     | 63.1        | (60,211,285)     | (37,339,887)     | 61.3        |
| <b>Net Interest Income</b>                           | 7    | 33,917,795       | 30,318,218       | 11.9        | 40,633,099       | 36,277,991       | 12.0        |
| Fee and Commission Income                            |      | 3,541,589        | 2,929,812        | 20.9        | 4,289,051        | 3,188,365        | 34.5        |
| Fee and Commission Expenses                          |      | (144,364)        | (396,912)        | (63.6)      | (144,364)        | (396,912)        | (63.6)      |
| <b>Net Fee and Commission Income</b>                 | 8    | 3,397,225        | 2,532,900        | 34.1        | 4,144,688        | 2,791,453        | 48.5        |
| Net Gain from Trading                                | 9    | 2,072,563        | 922,329          | 124.7       | 2,095,881        | 896,741          | 133.7       |
| Other Operating Income (Net)                         | 10   | 3,921,946        | 2,657,675        | 47.6        | 2,744,423        | 2,196,689        | 24.9        |
| <b>Total Operating Income</b>                        |      | 43,309,529       | 36,431,122       | 18.9        | 49,618,091       | 42,162,875       | 17.7        |
| Impairment for Loans and Other Losses                | 11   | (3,874,383)      | (410,443)        | 844.0       | (4,575,378)      | (684,539)        | 568.4       |
| <b>Net Operating Income</b>                          |      | 39,435,146       | 36,020,679       | 9.5         | 45,042,713       | 41,478,335       | 8.6         |
| Personnel Expenses                                   | 12   | (13,818,647)     | (10,547,583)     | 31.0        | (14,932,771)     | (11,418,120)     | 30.8        |
| Other Expenses                                       | 13   | (7,902,154)      | (7,439,042)      | 6.2         | (9,626,216)      | (8,516,509)      | 13.0        |
| <b>Operating Profit before Value Added Tax (VAT)</b> |      | 17,714,345       | 18,034,054       | (1.8)       | 20,483,725       | 21,543,707       | (4.9)       |
| Value Added Tax (VAT) on Financial Services          |      | (2,464,963)      | (2,434,052)      | 1.3         | (2,745,109)      | (2,734,448)      | 0.4         |
| <b>Operating Profit after Value Added Tax (VAT)</b>  |      | 15,249,382       | 15,600,001       | (2.2)       | 17,738,616       | 18,809,259       | (5.7)       |
| Share of Profits/(Loss) of Associates                |      | -                | -                |             | (67,207)         | 33,663           |             |
| <b>Profit before Tax</b>                             |      | 15,249,382       | 15,600,001       | (2.2)       | 17,671,409       | 18,842,921       | (6.2)       |
| Tax Expenses   | 14   | (4,355,390)      | (5,153,628)      | (15.5)      | (5,774,717)      | (6,319,383)      | (8.6)       |
| <b>Profit for the year</b>                           |      | 10,893,992       | 10,446,373       | 4.3         | 11,896,692       | 12,523,538       | (5.0)       |
| <b>Profit Attributable to:</b>                       |      |                  |                  |             |                  |                  |             |
| Equity Holders of the Bank                           |      | 10,893,992       | 10,446,373       | 4.3         | 11,230,199       | 12,117,411       | (7.3)       |
| Non-Controlling Interests                            |      | -                | -                | -           | 666,494          | 406,127          | 64.1        |
| <b>Profit for the Year</b>                           |      | 10,893,992       | 10,446,373       | 4.3         | 11,896,692       | 12,523,538       | (5.0)       |
| <b>Earnings Per Share on Profit</b>                  | 15   |                  |                  |             |                  |                  |             |
| Basic Earnings per Ordinary Share                    | 15.1 | 10,894           | 10,446           | 4.3         | 11,230           | 12,117           | (7.3)       |
| Diluted Earnings per Ordinary Share                  | 15.2 | 76               | 73               | 4.3         | 78               | 84               | (7.3)       |

The Notes appearing on pages 163 to 242 form an integral part of these Financial Statements.

# Statement of Comprehensive Income

|   | BANK              |                    | GROUP             |                    |
|---|-------------------|--------------------|-------------------|--------------------|
|   | 2012<br>Rs. '000  | 2011<br>Rs. '000   | 2012<br>Rs. '000  | 2011<br>Rs. '000   |
| <i>For the year ended 31st December</i>                                   |                   |                    |                   |                    |
| <b>Profit for the Year</b>  | <b>10,893,992</b> | <b>10,446,373</b>  | <b>11,896,692</b> | <b>12,523,538</b>  |
| <b>Other Comprehensive Income Net of Tax</b>                              |                   |                    |                   |                    |
| Actuarial Gains and Losses on Defined Benefit Plans                       | (57,966)          | (2,170,391)        | (57,748)          | (2,169,308)        |
| Gains and Losses on Re-Measuring Available-for-Sale Financial Assets      | (18,489)          | (96,671)           | (38,609)          | (93,090)           |
| <b>Less:</b>  |                   |                    |                   |                    |
| Tax Expense/(Income) Relating to Components of Other Comprehensive Income | -                 | -                  | -                 | -                  |
| <b>Other Comprehensive Income for the Year, Net of Taxes</b>              | <b>(76,455)</b>   | <b>(2,267,062)</b> | <b>(96,357)</b>   | <b>(2,262,398)</b> |
| <b>Total Comprehensive Income for the Year</b>                            | <b>10,817,537</b> | <b>8,179,311</b>   | <b>11,800,335</b> | <b>10,261,139</b>  |
| <b>Attributable to:</b>   |                   |                    |                   |                    |
| Equity Holders of the Bank  | 10,817,537        | 8,179,311          | 11,138,781        | 9,853,846          |
| Non-Controlling Interests   | -                 | -                  | 661,554           | 407,293            |
|   | <b>10,817,537</b> | <b>8,179,311</b>   | <b>11,800,335</b> | <b>10,261,139</b>  |

The Notes appearing on pages 163 to 242 form an integral part of these Financial Statements.

# Statement of Financial Position

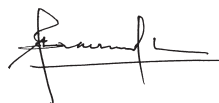
| As at 31st December                        | Note | BANK               |                    |             |                    | GROUP              |                    |             |                    |
|--|------|--------------------|--------------------|-------------|--------------------|--------------------|--------------------|-------------|--------------------|
|  |      | 2012<br>Rs. '000   | 2011<br>Rs. '000   | Change<br>% | 2010<br>Rs. '000   | 2012<br>Rs. '000   | 2011<br>Rs. '000   | Change<br>% | 2010<br>Rs. '000   |
| <b>Assets</b>                              |      |                    |                    |             |                    |                    |                    |             |                    |
| Cash and Cash Equivalents                  | 17   | 24,401,979         | 16,792,665         | 45.3        | 17,268,510         | 26,102,723         | 18,866,425         | 38.4        | 19,518,151         |
| Balance with the Central Bank of Sri Lanka | 18   | 43,412,048         | 35,717,033         | 21.5        | 26,739,341         | 43,412,048         | 35,717,033         | 21.5        | 26,739,341         |
| Placements with Banks                      | 19   | 13,341,252         | 16,893,327         | (21.0)      | -                  | 13,341,252         | 16,893,327         | (21.0)      | -                  |
| Other Financial Assets Held-for-Trading    | 20   | 18,772,710         | 23,891,041         | (21.4)      | 20,975,857         | 19,002,137         | 23,984,207         | (20.8)      | 21,033,924         |
| Loans and Receivables to Banks             | 21   | 35,350,098         | 31,731,952         | 11.4        | 53,268,853         | 35,350,098         | 31,731,952         | 11.4        | 53,268,853         |
| Loans and Receivables to Other Customers   | 22   | 611,414,267        | 461,655,759        | 32.4        | 358,593,640        | 690,197,310        | 534,875,220        | 29.0        | 407,049,791        |
| Financial Investments - Available-for-Sale | 23   | 27,977,489         | 9,464,211          | 195.6       | 561,431            | 27,982,839         | 9,497,534          | 194.6       | 600,341            |
| Financial Investments - Held-to-Maturity   | 24   | 78,522,570         | 46,303,056         | 69.6        | 50,210,126         | 80,151,886         | 47,798,436         | 67.7        | 50,953,273         |
| Investments in Subsidiaries                | 25   | 1,253,434          | 1,419,950          | (11.7)      | 1,519,950          | -                  | -                  | -           | -                  |
| Investments in Associates                  | 26   | 273,100            | 273,100            | -           | 155,500            | 309,989            | 427,196            | (27.4)      | 248,830            |
| Goodwill and Intangible Assets             | 27   | 44,352             | 100,807            | (56.0)      | 196,636            | 405,768            | 460,807            | (11.9)      | 559,203            |
| Property, Plant & Equipment                | 28   | 8,234,565          | 7,522,702          | 9.5         | 6,866,152          | 10,923,098         | 9,932,841          | 10.0        | 8,226,965          |
| Investment Properties                      | 29   | 398,508            | 406,165            | (1.9)       | 414,403            | 398,508            | 406,165            | (1.9)       | 414,403            |
| Prepaid Leases                             | 30   | 291,866            | 325,224            | (10.3)      | 326,517            | 291,866            | 325,224            | (10.3)      | 326,517            |
| Deferred Tax Assets                        | 31   | 501,587            | 186,884            | 168.4       | 62,455             | 501,997            | 195,734            | 156.5       | 76,035             |
| Other Assets                               | 32   | 8,916,779          | 9,392,788          | (5.1)       | 9,947,673          | 12,488,561         | 13,277,350         | (5.9)       | 14,448,992         |
| <b>Total Assets</b>                        |      | <b>873,106,604</b> | <b>662,076,663</b> | <b>31.9</b> | <b>547,107,045</b> | <b>960,860,079</b> | <b>744,389,451</b> | <b>29.1</b> | <b>603,464,618</b> |
| <b>Liabilities</b>                         |      |                    |                    |             |                    |                    |                    |             |                    |
| Due to Banks                               | 33   | 94,124,713         | 43,351,641         | 117.1       | 6,155,237          | 133,987,864        | 81,133,645         | 65.1        | 36,723,268         |
| Due to Other Customers                     | 34   | 683,950,837        | 550,226,448        | 24.3        | 470,969,729        | 708,896,611        | 572,721,654        | 23.8        | 481,093,664        |
| Other Borrowings                           | 35   | 41,024,958         | 20,700,940         | 98.2        | 32,992,294         | 40,740,098         | 19,894,126         | 104.8       | 32,992,294         |
| Current Tax Liabilities                    |      | 1,860,689          | 2,806,539          | (33.7)      | 1,527,448          | 1,933,576          | 3,307,218          | (41.5)      | 2,244,303          |
| Deferred Tax Liabilities                   | 31   | -                  | -                  | -           | -                  | 864,461            | 337,537            | 156.1       | 551,991            |
| Other Liabilities                          | 36   | 12,940,620         | 11,902,462         | 8.7         | 11,053,014         | 18,688,304         | 18,261,498         | 2.3         | 18,721,475         |
| Subordinated Term Debts                    | 37   | 10,000,000         | 10,000,000         | -           | 5,000,000          | 10,000,000         | 10,000,000         | -           | 5,000,000          |
| <b>Total Liabilities</b>                   |      | <b>843,901,816</b> | <b>638,988,030</b> | <b>32.1</b> | <b>527,697,722</b> | <b>915,110,913</b> | <b>705,655,679</b> | <b>29.7</b> | <b>577,326,995</b> |
| <b>Equity</b>                              |      |                    |                    |             |                    |                    |                    |             |                    |
| Stated Capital/Assigned Capital            | 38   | 7,201,998          | 7,201,998          | -           | 7,201,998          | 7,201,998          | 7,201,998          | -           | 7,201,998          |
| Statutory Reserve Fund                     | 39   | 2,437,291          | 1,892,591          | 28.8        | 49,998             | 2,437,291          | 1,892,591          | 28.8        | 49,998             |
| Other Reserves                             | 40   | 15,585,914         | 11,174,731         | 39.5        | 7,829,431          | 16,394,908         | 11,507,929         | 42.5        | 7,829,431          |
| Retained Earnings                          | 41   | 3,979,585          | 2,819,313          | 41.2        | 4,327,895          | 15,135,134         | 13,708,652         | 10.4        | 10,972,971         |
| <b>Total Shareholders' Equity</b>          |      | <b>29,204,788</b>  | <b>23,088,633</b>  | <b>26.5</b> | <b>19,409,322</b>  | <b>41,169,330</b>  | <b>34,311,169</b>  | <b>20.0</b> | <b>26,054,398</b>  |
| Non-Controlling Interests                  | 42   | -                  | -                  | -           | -                  | 4,579,836          | 4,422,603          | 3.6         | 83,225             |
| <b>Total Equity</b>                        |      | <b>29,204,788</b>  | <b>23,088,633</b>  | <b>26.5</b> | <b>19,409,322</b>  | <b>45,749,166</b>  | <b>38,733,772</b>  | <b>18.1</b> | <b>26,137,623</b>  |
| <b>Total Equity and Liabilities</b>        |      | <b>873,106,604</b> | <b>662,076,663</b> | <b>31.9</b> | <b>547,107,045</b> | <b>960,860,079</b> | <b>744,389,451</b> | <b>29.1</b> | <b>603,464,618</b> |
| Contingent Liabilities and Commitments     | 43   | 207,021,384        | 190,732,157        | 8.5         | 131,397,539        | 208,570,110        | 191,045,197        | 9.2         | 131,397,539        |

The Notes appearing on pages 163 to 242 form an integral part of these Financial Statements.

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. These Financial Statements were approved by the Board of Directors and signed on their behalf.



Yohan A. Soza  
Head of Finance



N. Vasantha Kumar  
Chief Executive Officer/General Manager



Gamini S. Senarath  
Chairman

27th March 2013, Colombo

# Cash Flow Statement

| For the year ended 31st December  | Note | BANK                |                     | GROUP               |                     |
|---|------|---------------------|---------------------|---------------------|---------------------|
|   |      | 2012<br>Rs. '000    | 2011<br>Rs. '000    | 2012<br>Rs. '000    | 2011<br>Rs. '000    |
| <b>Cash Flows from Operating Activities</b>                                 |      |                     |                     |                     |                     |
| Profit Before Tax   |      | 15,249,382          | 15,600,001          | 17,671,409          | 18,842,921          |
| Adjustment for:   |      |                     |                     |                     |                     |
| Non-Cash Items Included in Profit Before Tax                                | 44   | 3,431,840           | 1,983,405           | 4,515,991           | 2,442,779           |
| Changes in Operating Assets   | 45   | (173,144,405)       | (79,981,135)        | (188,289,730)       | (105,811,595)       |
| Changes in Operating Liabilities  | 46   | 204,656,120         | 101,831,444         | 217,986,736         | 121,421,930         |
| Net Gains from Investing Activities   |      | -                   | -                   | -                   | -                   |
| Share of Profits in Associates and Joint Ventures                           |      | -                   | -                   | 67,207              | (33,663)            |
| Dividend Income from Subsidiaries and Associates                            |      | (1,622,503)         | (833,250)           | (1,622,503)         | (833,250)           |
| Interest Expense on Subordinated Debt                                       |      | 1,337,500           | 737,500             | 1,337,500           | 737,500             |
| Contribution Paid to Defined Benefit Plans                                  |      | 1,108,383           | 992,261             | 1,108,384           | 992,261             |
| Tax Paid  |      | (5,608,101)         | (3,998,966)         | (6,919,856)         | (5,590,621)         |
| <b>Net Cash-Generated from Operating Activities</b>                         |      | <b>45,408,216</b>   | <b>36,331,260</b>   | <b>45,855,138</b>   | <b>32,168,262</b>   |
| <b>Cash Flows from Investing Activities</b>                                 |      |                     |                     |                     |                     |
| Purchase of Property, Plant & Equipment                                     |      | (1,327,807)         | (1,600,826)         | (2,190,339)         | (2,871,908)         |
| Proceeds from the Sale of Property, Plant & Equipment                       |      | 23,879              | 37,150              | 383,938             | 42,758              |
| Purchase of Financial Investments   |      | (32,245,111)        | (35,821,579)        | (32,379,047)        | (36,573,812)        |
| Proceeds from the Sale and Maturity of Financial Investments                |      | -                   | -                   | -                   | -                   |
| Net Purchase of Intangible Assets   |      | -                   | -                   | (18,557)            | (12,173)            |
| Net Cash Flow from Acquisition of Investment in Subsidiaries and Associates |      | -                   | -                   | -                   | (144,703)           |
| Net Cash Flow from Disposal of Subsidiaries                                 |      | 166,516             | 100,000             | -                   | -                   |
| Proceeds from Disposal of Associates and Joint Ventures                     |      | -                   | (117,600)           | 50,000              | -                   |
| Dividends Received from Investment in Subsidiaries and Associates           |      | 1,622,503           | 833,250             | 1,622,503           | 833,250             |
| <b>Net Cash (Used in) from Investing Activities</b>                         |      | <b>(31,760,020)</b> | <b>(36,569,605)</b> | <b>(32,531,502)</b> | <b>(38,726,588)</b> |
| <b>Cash Flows from Financing Activities</b>                                 |      |                     |                     |                     |                     |
| Net Proceeds from the Issue of Ordinary Share Capital                       |      | -                   | -                   | -                   | 6,362,902           |
| Net Proceeds from the Issue of Other Equity Instruments                     |      | -                   | -                   | -                   | -                   |
| Net Proceeds from the Issue of Subordinated Debt                            |      | -                   | 5,000,000           | -                   | 5,000,000           |
| Repayment of Subordinated Debt  |      | -                   | -                   | -                   | -                   |
| Interest Paid on Subordinated Debt  |      | (1,337,500)         | (737,500)           | (1,337,500)         | (737,500)           |
| Dividend Paid to Non-Controlling Interest                                   |      | -                   | -                   | (34,027)            | 21,750              |
| Dividend Paid to Shareholders of the Parent Company                         |      | -                   | -                   | -                   | -                   |
| Dividend Paid to Holders of Other Equity Instruments                        |      | (4,701,382)         | (4,500,000)         | (4,701,382)         | (4,500,000)         |
| Share Issue Expenses  |      | -                   | -                   | (14,429)            | (211,190)           |
| Disposal of Changes of Holdings   |      | -                   | -                   | -                   | (29,362)            |
| <b>Net Cash from Financial Activities</b>                                   |      | <b>(6,038,882)</b>  | <b>(237,500)</b>    | <b>(6,087,338)</b>  | <b>5,906,600</b>    |
| <b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>               |      | <b>7,609,314</b>    | <b>(475,845)</b>    | <b>7,236,296</b>    | <b>(651,726)</b>    |
| Cash & Cash Equivalents at the Beginning of the Year                        |      | 16,792,665          | 17,268,510          | 18,866,425          | 19,518,151          |
| Exchange Difference in Respect of Cash & Cash Equivalent                    |      | -                   | -                   | -                   | -                   |
| Cash & cash Equivalents at the end of the Year                              | 17   | 24,401,979          | 16,792,665          | 26,102,723          | 18,866,425          |

The Notes appearing on pages 163 to 242 form an integral part of these Financial Statements.

# Statement of Changes in Equity

For the year ended 31st December

|   | Stated Capital/Assigned Capital |                              | Reserves                 |                                 |                            |                             | Total<br>Rs. '000 |                               |
|---|---------------------------------|------------------------------|--------------------------|---------------------------------|----------------------------|-----------------------------|-------------------|-------------------------------|
|   | Ordinary Shares<br>Rs. '000     | Assigned Capital<br>Rs. '000 | Reserve Fund<br>Rs. '000 | Revaluation Reserve<br>Rs. '000 | Other Reserves<br>Rs. '000 | Investment Fund<br>Rs. '000 |                   | Retained Earnings<br>Rs. '000 |
| <b>BANK</b>   |                                 |                              |                          |                                 |                            |                             |                   |                               |
| <b>Balance as at 31.12.2010</b>                           | 49,998                          | 7,152,000                    | 49,998                   | 5,630,460                       | 2,198,971                  | –                           | 5,175,883         | 20,257,310                    |
| Deposit EIR Adjustment to Opening Retained Earnings       | –                               | –                            | –                        | –                               | –                          | –                           | 581,573           | 581,573                       |
| Changes in Fair Value in AFS Investments                  | –                               | –                            | –                        | –                               | –                          | –                           | 116,925           | 116,925                       |
| Impairment Charges in Respect of Off-Balance Sheet Items  | –                               | –                            | –                        | –                               | –                          | –                           | (212,595)         | (212,595)                     |
| Net Defined Benefit Obligation                            | –                               | –                            | –                        | –                               | –                          | –                           | (1,333,891)       | (1,333,891)                   |
| <b>Balance as at 01.01.2011</b>                           | 49,998                          | 7,152,000                    | 49,998                   | 5,630,460                       | 2,198,971                  | –                           | 4,327,895         | 19,409,322                    |
| Profit for the Year                                       | –                               | –                            | –                        | –                               | –                          | –                           | 10,446,373        | 10,446,373                    |
| Changes in Fair Value in AFS Investments                  | –                               | –                            | –                        | –                               | –                          | –                           | (96,671)          | (96,671)                      |
| Net Defined Benefit Obligation                            | –                               | –                            | –                        | –                               | –                          | –                           | (2,170,391)       | (2,170,391)                   |
| Transfer to Reserve During the Period                     | –                               | –                            | 1,842,593                | –                               | 1,447,598                  | 1,897,702                   | (5,187,893)       | –                             |
| Special Levy to Treasury                                  | –                               | –                            | –                        | –                               | –                          | –                           | (4,500,000)       | (4,500,000)                   |
| <b>Balance as at 31.12.2011</b>                           | 49,998                          | 7,152,000                    | 1,892,591                | 5,630,460                       | 3,646,569                  | 1,897,702                   | 2,819,313         | 23,088,633                    |
| Profit for the Year                                       | –                               | –                            | –                        | –                               | –                          | –                           | 10,893,992        | 10,893,992                    |
| Changes in Fair Value in AFS Investments                  | –                               | –                            | –                        | –                               | –                          | –                           | (18,489)          | (18,489)                      |
| Net Defined Benefit Obligation                            | –                               | –                            | –                        | –                               | –                          | –                           | (57,966)          | (57,966)                      |
| Gain/(Loss) on Revaluation of Property, Plant & Equipment | –                               | –                            | –                        | –                               | –                          | –                           | –                 | –                             |
| Transfers to Reserves During the Period                   | –                               | –                            | 544,700                  | (166,964)                       | 1,432,304                  | 3,145,843                   | (4,955,882)       | –                             |
| Dividend Paid to GOSL                                     | –                               | –                            | –                        | –                               | –                          | –                           | (201,382)         | (201,382)                     |
| Special Levy to Treasury                                  | –                               | –                            | –                        | –                               | –                          | –                           | (4,500,000)       | (4,500,000)                   |
| <b>Balance as at 31.12.2012</b>                           | 49,998                          | 7,152,000                    | 2,437,291                | 5,463,496                       | 5,078,873                  | 5,043,545                   | 3,979,585         | 29,204,788                    |

For the year ended 31st December

|  | Stated Capital/<br>Assigned Capital |                                 | Reserves                    |                                    |                               |                                |                                  | Total<br>Rs. '000 | Non-<br>Controlling<br>Interest<br>Rs. '000 | Total<br>Equity<br>Rs. '000 |
|--|-------------------------------------|---------------------------------|-----------------------------|------------------------------------|-------------------------------|--------------------------------|----------------------------------|-------------------|---|-----------------------------|
|  | Ordinary<br>Shares<br>Rs. '000      | Assigned<br>Capital<br>Rs. '000 | Reserve<br>Fund<br>Rs. '000 | Revaluation<br>Reserve<br>Rs. '000 | Other<br>Reserves<br>Rs. '000 | Investment<br>Fund<br>Rs. '000 | Retained<br>Earnings<br>Rs. '000 |                   |   |                             |
| <b>GROUP</b>   |                                     |                                 |                             |                                    |                               |                                |                                  |                   |   |                             |
| <b>Balance as at 31.12.2010</b>                          | 49,998                              | 7,152,000                       | 49,998                      | 5,630,460                          | 2,198,971                     | -                              | 11,820,958                       | 26,902,385        | 83,225                                      | 26,985,610                  |
| Deposit EIR Adjustment to Opening Retained Earnings      | -                                   | -                               | -                           | -                                  | -                             | -                              | 581,573                          | 581,573           | -   | 581,573                     |
| Changes in Fair Value in AFS Investments                 | -                                   | -                               | -                           | -                                  | -                             | -                              | 116,925                          | 116,925           | -   | 116,925                     |
| Impairment Charges in Respect of Off-Balance Sheet Items | -                                   | -                               | -                           | -                                  | -                             | -                              | (212,595)                        | (212,595)         | -   | (212,595)                   |
| Net Defined Benefit Obligation                           | -                                   | -                               | -                           | -                                  | -                             | -                              | (1,333,891)                      | (1,333,891)       | -   | (1,333,891)                 |
| <b>Balance as at 01.01.2011</b>                          | 49,998                              | 7,152,000                       | 49,998                      | 5,630,460                          | 2,198,971                     | -                              | 10,972,971                       | 26,054,398        | 83,225                                      | 26,137,623                  |
| Profit/(Loss) for the Year                               | -                                   | -                               | -                           | -                                  | -                             | -                              | 12,117,411                       | 12,117,411        | 406,127                                     | 12,523,538                  |
| Changes in Fair Value in AFS Investments                 | -                                   | -                               | -                           | -                                  | -                             | -                              | (93,985)                         | (93,985)          | 895   | (93,090)                    |
| Net Defined Benefit Obligation                           | -                                   | -                               | -                           | -                                  | -                             | -                              | (2,169,579)                      | (2,169,579)       | 271   | (2,169,308)                 |
| Transfer to Reserve During the Period                    | -                                   | -                               | 1,842,593                   | -                                  | 1,447,598                     | 2,230,900                      | (5,521,091)                      | -                 | -   | -                           |
| Dividend Paid to GOSL                                    | -                                   | -                               | -                           | -                                  | -                             | -                              | (3,580)                          | (3,580)           | -   | (3,580)                     |
| Special Levy to Treasury                                 | -                                   | -                               | -                           | -                                  | -                             | -                              | (4,500,000)                      | (4,500,000)       | -   | (4,500,000)                 |
| Deemed Disposal Profit                                   | -                                   | -                               | -                           | -                                  | -                             | -                              | 3,150,026                        | 3,150,026         | -   | 3,150,026                   |
| Share Issue Expenses                                     | -                                   | -                               | -                           | -                                  | -                             | -                              | (211,190)                        | (211,190)         | -   | (211,190)                   |
| Goodwill Adjustment                                      | -                                   | -                               | -                           | -                                  | -                             | -                              | (2,969)                          | (2,969)           | -   | (2,969)                     |
| Disposal of Change of Holdings                           | -                                   | -                               | -                           | -                                  | -                             | -                              | (29,362)                         | (29,362)          | -   | (29,362)                    |
| Acquired During the Year                                 | -                                   | -                               | -                           | -                                  | -                             | -                              | -                                | -                 | 3,932,085                                   | 3,932,085                   |
| <b>Balance as at 31.12.2011</b>                          | 49,998                              | 7,152,000                       | 1,892,591                   | 5,630,460                          | 3,646,569                     | 2,230,900                      | 13,708,652                       | 34,311,169        | 4,422,603                                   | 38,733,772                  |
| Profit/(Loss) for the Year                               | -                                   | -                               | -                           | -                                  | -                             | -                              | 11,230,199                       | 11,230,199        | 666,494                                     | 11,896,692                  |
| Changes in Fair Value in AFS Investments                 | -                                   | -                               | -                           | -                                  | -                             | -                              | (57,802)                         | (57,802)          | 54  | (57,748)                    |
| Net Defined Benefit Obligation                           | -                                   | -                               | -                           | -                                  | -                             | -                              | (33,616)                         | (33,616)          | (4,994)                                     | (38,609)                    |
| <b>Transfers to Reserves During the Period</b>           | -                                   | -                               | 544,700                     | (166,964)                          | 1,432,304                     | 3,621,639                      | (5,431,679)                      | -                 | -   | -                           |
| Dividend Paid to GOSL                                    | -                                   | -                               | -                           | -                                  | -                             | -                              | (201,382)                        | (201,382)         | -   | (201,382)                   |
| Special Levy to Treasury                                 | -                                   | -                               | -                           | -                                  | -                             | -                              | (4,500,000)                      | (4,500,000)       | -   | (4,500,000)                 |
| Movement in Deemed Disposal Profit                       | -                                   | -                               | -                           | -                                  | -                             | -                              | 435,191                          | 435,191           | -   | 435,191                     |
| Share Issue Expenses                                     | -                                   | -                               | -                           | -                                  | -                             | -                              | (14,429)                         | (14,429)          | (504,322)                                   | (518,751)                   |
| <b>Balance as at 31.12.2012</b>                          | 49,998                              | 7,152,000                       | 2,437,291                   | 5,463,496                          | 5,078,873                     | 5,852,539                      | 15,135,134                       | 41,169,330        | 4,579,835                                   | 45,749,166                  |



# Notes to the Financial Statements

## 1. REPORTING ENTITY

### 1.1 Corporate Information

The People's Bank ('The Bank') is a Government-owned Bank, established under People's Bank Act No. 29 of 1961 on 1st July 1961 and is domiciled in Sri Lanka. The Consolidated Financial Statements of the Bank for the year ended 31st December 2012 comprises the Bank, its Subsidiaries i.e., People's Leasing & Finance PLC and People's Travels (Pvt) Ltd. and the Sub-Subsidiaries of People's Leasing Fleet Management Ltd., People's Leasing Property Development Ltd., People's Leasing Insurance Ltd., People's Leasing Finance PLC, People's Microfinance Ltd., People's Leasing Havelock Properties Ltd. and the Group's Associate Company i.e., People's Merchant Finance PLC. The Consolidated Financial Statements for the year ended 31st December 2012 were authorised for issue on 27th March 2013 by the Board of Directors.

### 1.2 Principal Activities

#### Bank

The Bank's business comprises, Accepting Deposits, Granting Credit Facilities, Personal Banking, Development Banking, Pawnbroking, International Trade, Dealing in Government Securities, Credit Card Operations and FCBU for Foreign Currency Banking, inter alia.

#### Subsidiaries

The principal activities of People's Leasing & Finance PLC are Providing Leases, Hire Purchase Assets, Financing Islamic Financial Services and Accepting Deposits. People's Travels Ltd., relates to arrangement of Tours and Air Ticketing.

#### Sub-Subsidiaries

The principal activities of the Bank's Sub-Subsidiaries are as follows:

| Name of Company                            | Principal Activity  |
|--|---|
| People's Leasing Fleet Management Ltd.     | Providing operating leases  |
| People's Leasing Property Development Ltd. | Providing property development and constructions  |
| People's Leasing Insurance Ltd.            | Providing non-life insurance services   |
| People's Leasing Finance PLC               | Granting finance leases, operating leases, hire purchase assets, financing and accepting deposits |
| People's Microfinance Ltd.                 | Microfinance lending  |
| People's Leasing Havelock Properties Ltd.  | Development of Havelock Properties  |

#### Associates

The principal activities of People's Merchant Finance PLC, relate to Trade Finance, Leasing, Hire Purchase, Real Estate, Short-Term Investments and Corporate Finance Services.

### 1.3 Directors' Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Bank and its subsidiaries in accordance with Sri Lanka Accounting Standards. (SLFRS and LKAS)

## 2. BASIS OF PREPARATION

### 2.1 Basis of Measurement

The consolidated financial statements of the Bank and the Group encompassing the statement of financial position, statement of comprehensive income, statement of cash flow, statement of changes in equity, accounting policies and the notes are prepared in conformity with Accounting

Standards issued by The Institute of Chartered Accountants of Sri Lanka and on the basis of historical cost convention except for the following:

- Financial instruments at fair value through profit or loss are measured at fair value
- Derivative financial instruments are measured at fair value
- Available-for-sale financial assets are measured at fair value
- The liability for defined benefit obligations are actuarially valued and recognised as the present value of the defined benefit obligation less the net total of the plan assets.

Adjustments have not been made for inflationary factors.

### 2.2 Statement of Compliance

The Financial Statements of the Bank and Group are prepared in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS) as issued by The Institute of Chartered Accountants of Sri Lanka.

For all periods up to and including the year ended 31st December 2011, the Group prepared its Financial Statements in accordance with Sri Lanka Accounting Standards (SLAS). These Financial Statements for the year ended 31st December 2012 are the first the Bank and the Group have prepared in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS).

This is the Bank's and Group's first Consolidated Financial Statements prepared in accordance with SLFRS/LKAS and SLFRS 1 First-time adoption of Sri Lanka Accounting standards has been applied.

An explanation on how the transition to Sri Lanka Accounting Standards - SLFRSs and LKASs, have affected the reported financial position and the financial performance of the Company is provided in Note 5.

### 2.3 Presentation of Financial Statements

The Bank and Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 50.

### 2.4 Basis of Consolidation

The Financial Statements of the Bank and Group comprise the Financial Statements of the Bank and its subsidiaries for the year ended 31st December 2012. The Financial Statements of the Bank's subsidiaries for the purpose of consolidation are prepared for the same reporting year as that of People's Bank, using consistent accounting policies.

### Acquisitions on or After 1st January 2012

For acquisitions on or after 1st January 2012, the Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

### Acquisitions Prior to 1st January 2012

As part of its transition to SLFRSs, the Group elected not to restate those business combinations that occurred on or after 1st January 2012. In respect of acquisitions prior to 1st January 2012, goodwill represents the amount recognised under the Group's previous Sri Lanka Accounting Standards.

### 2.5 Subsidiaries

Subsidiaries are entities that are controlled by the Group. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The Financial Statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

There are no significant restrictions on the ability of subsidiaries to transfer funds to parent in the form of cash dividends or to repay loans and advances. All subsidiaries of the Bank have been incorporated in Sri Lanka.

### 2.6 Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating

policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in associate's entities are accounted for using the equity method (equity-accounted investees) and are recognised initially at cost. The cost of the investment includes transaction costs.

The Consolidated Financial Statements include the Bank's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Bank's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reported at nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. If the associate subsequently reports profits, the Bank's resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

### 2.7 Business Combinations

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets acquired,

the discount on acquisition is recognised directly in the Income Statement in the year of acquisition.

### 2.8 Acquisitions of Non-Controlling Interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders. Therefore, no goodwill is recognised as a result of such transactions.

### 2.9 Transactions Eliminated on Consolidation

All intra-group transactions, balances, income and expenses (except for foreign currency transaction gains or losses) are eliminated on consolidation. Unrealised gains and losses resulting from transactions between the Group and its associates are also eliminated on consolidation to the extent of the Group's interests in the associates.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### 2.10 Material Gain or Loss, Provision Value or Error Corrections

There were no material gains or losses, provisional values or error corrections recognised during the year in respect of the business combinations that took place in previous periods.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Bank's accounting policies, the management has exercised judgment and estimates and assumptions in determining the amounts recognised in the Financial Statements. 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.

The most significant uses of judgments and estimates are as follows:

#### 3.1 Going Concern

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

#### 3.2 Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include

the use of mathematical models. The inputs to these models are derived from observable market data where possible. However, if this is not available, judgment is required to establish fair values. The valuation of financial instruments is described in more detail in Note 49.

#### 3.3 Impairment Losses on Loans and Advances

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

If impairment is not required based on the individual assessment all such individually significant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics. This is required to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as loan ownership types, levels of arrears, industries, etc.), and judgments on the effect of concentration of risks and economic data. The impairment loss on loans and advances is disclosed in more detail in Note 22.

In carrying out the impairment assessment, the Bank uses the parameters disclosed in Note 49.

### 3.4 Impairment of Available for Sale Investments

The Bank reviews its securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment.

The impairment loss on available-for-sale investments is disclosed in more detail in Note 23.

### 3.5 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

### 3.6 Defined Benefit Plan

The cost of the defined benefit pension plan (Pre-1996 employed staff members) is determined using an actuarial valuation. The actuarial valuation involves making assumptions on discount rates, expected

rates of return on assets, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each reporting date. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. See Note 36.1 for the assumptions used.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 4.1 Foreign Currency Translation

The Bank's and the Group's Financial Statements are presented in Sri Lankan Rupees, which is the functional currency of the Bank and all its subsidiaries.

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange on the reporting date. All differences arising on non-trading activities are taken to 'other operating income' in the Income Statement.

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

### 4.2 Financial Instruments - Initial Recognition, Classification and Subsequent Measurement

#### 4.2.1 Date of Recognition

Purchases of financial assets which are traded regularly are recognised using settlement date accounting. The settlement date is the date that an asset is delivered to an entity. Settlement date accounting refers to the recognition of an asset on the day it is received by the entity. When settlement date accounting is applied an entity accounts for any change in the fair value of the assets to be received during the period between the trade date and settlement date.

Non-regular purchases of financial assets and liabilities are recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument.

A regular purchase is a purchase of a financial asset under a contract whose terms require delivery of the assets within the time frame established generally by a regulation or convention in the market place concerned.

#### 4.2.2 Initial Measurement of Financial Instruments

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

### 4.2.3 Classification and Subsequent Measurement of Financial Assets and Financial Liabilities

#### *Financial Assets*

At inception a financial asset is classified in one of the following categories:

- At fair value through profit or loss  
Held for trading, or  
Designated at fair value through profit or loss
- Available-for-sale
- Loans and receivables
- Held-to-maturity

The subsequent measurement of financial assets depends on their classification.

#### *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.

The subsequent measurement of financial liabilities depends on their classification.

### 4.2.4 Financial Assets or Financial Liabilities Held for Trading

Financial assets or financial liabilities held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Net trading income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract or when the right to the payment has been established.

Included in this classification are debt securities and equities that have been acquired principally for the purpose of trading in the short term.

### 4.2.5 Derivatives Recorded at Fair Value Through Profit or Loss

The Bank uses derivatives such as forward foreign exchange contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net trading income'.

### 4.2.6 Available-for-Sale Financial Investments

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the other categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein.

Unrealised gains and losses are recognised in the other comprehensive income. In the event of disposal of such an investment, the cumulative gain or loss previously recognised in equity is recognised in the Income Statement in 'Other operating income'. Dividends earned whilst holding available for sale financial investments are recognised in the Income Statement as 'Other operating income' at the date of declaration by the Company in which the

investment is made. The losses arising from impairment of such investments are recognised in the Income Statement in 'Net gain/(loss) from financial investments' and removed from the respective asset/investment account in the 'Statement of Financial Position'.

### 4.2.7 Held-to-Maturity Financial Investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. Such investments are mainly Treasury Bonds. Subsequent to initial measurement, held-to-maturity financial investments are later measured at amortised cost using effective interest rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and significant fees that are an integral part of the EIR. The amortisation is included in 'Interest income' in the Income Statement. The losses arising from impairment of such investments are recognised in the Income Statement line 'net gain/(loss) from financial investments'. If the Bank were to sell or reclassify a significant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, if this happens, the Bank would be prohibited from classifying any financial asset as held-to-maturity for two subsequent years.



#### 4.2.8 Financial Assets Classified as Loans and Receivables

Financial assets classified as loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at fair value through profit or loss.
- Those that the Bank, upon initial recognition, designates as available for sale.
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts 'Due from banks' and 'Loans and advances to customers' are subsequently measured at amortised cost using EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the Income Statement. The losses arising from impairment are recognised in the Income Statement in 'impairment expenses'.

#### 4.2.9 Reclassification of Financial Assets

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been

recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the Income Statement.

The Bank may reclassify a non-derivative trading asset out of the 'held for trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the discretion of the management and is determined on an instrument-by-instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

#### 4.2.10 'Day 1' Difference for Staff Loans

All staff loans are granted at below market interest rates and were recognised at fair value. The difference between the fair value and the amount disbursed were treated as Day 1 difference and amortised as staff cost in the Income Statement over the loan period by using the effective interest rate. This amount is shown as interest income as well. Hence, the net effect on the Income Statement is zero.

#### 4.2.11 Other Financial Liabilities

Financial instruments issued by the Bank that are not designated at fair value through profit or loss, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Other financial liabilities include, deposits from customers, amount due from banks, borrowings from bank and others and debentures.

After initial measurement, other financial liabilities are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

### 4.3 Derecognition of Financial Assets and Financial Liabilities

#### 4.3.1 Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; or either:
  - o The Bank has transferred substantially all the risks and rewards of the asset; or

- o The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

#### 4.3.2 Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

#### 4.4 Repurchase and Reverse Repurchase Agreements

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

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'Cash collateral on securities borrowed and reverse repurchase agreements', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR.

#### 4.5 Determination of Fair Value

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

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 49.

#### 4.6 Impairment of Financial Assets

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

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

##### 4.6.1 Financial Assets Carried at Amortised Cost

For financial assets carried at amortised cost (such as amounts due from Banks and loans and advances to customers), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the



asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited as an income.

The present values of the estimated future cash flows are discounted at the financial asset's original EIR. If a loan has a variable

interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as asset type, industry, ownership type, past-due status and other relevant factors.

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

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### 4.6.2 Available-for-Sale Financial Investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged'

decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Income Statement - is removed from equity and recognised in the Income Statement. Impairment losses on equity investments are not reversed through the Income Statement; increases in the fair value after impairment are recognised in other comprehensive income.

See Note 23 for details of impairment losses on financial investments available-for-sale.

#### 4.6.3 Renegotiated Loans

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

#### 4.6.4 Collateral Valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and other credit enhancements.

#### 4.6.5 Collateral Repossessed or Where Properties have Devolved to the Bank

The immovable property acquired by foreclosure of collateral from defaulting customers, or which has devolved on the Bank as part settlement of debt, has not been accounted for as an investment property or as part of the assets of the Bank in accordance with Directions issued by the Central Bank of Sri Lanka.

#### 4.7 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the statement of financial position.

#### 4.8 Leasing

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

##### 4.8.1 Bank as a Lessee

###### *Operating Leases*

Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense

in the Income Statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

###### *Finance Lease*

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the Income Statement. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

##### 4.8.2 Bank as a Lessor

###### *Finance Lease*

Assets leased to customers who transfer substantially all the risks and rewards associated with ownership other than legal title are classified as finance leases. Lease rentals receivables are stated in the Financial position net of provision for impairments.

#### 4.9 Cash and Cash Equivalents

Cash and short-term funds include cash in hand, balances with banks, placements with banks and money at call and at short notice. Details of the cash and short-term funds are given in Note 17 to the Financial Statements.

#### 4.10 Property, Plant & Equipment

Property, Plant & Equipment is stated at cost or valuation excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate and treated as changes in accounting estimates.

###### **Cost Model**

Plant & Equipment are stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the Plant & Equipment when the cost is incurred, if the recognition criteria are met.

###### **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 impairment charged subsequent to the date of the revaluation.

Revaluations are performed every 7 years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus is credited to the revaluation reserve included in the equity section of the Balance Sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except that deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

### Subsequent Cost

The cost of replacing part of an item of Property, Plant & Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow into the Group and its cost can be reliably measured.

### Restoration Cost

Expenditure incurred on repairs or maintenance of Property, Plant & Equipment in order to restore or maintain future economic benefits is charged to Statement of Comprehensive Income as incurred.

### Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of building, major plant and machinery and system development, awaiting capitalisation. These are stated in the statement of financial position at cost.

### Depreciation

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

| Category of Asset                   | Period of Depreciation   |
|-------------------------------------|--------------------------|
| Leasehold Building                  | Over the period of lease |
| Freehold Buildings                  | 2% p.a.                  |
| Furniture, Equipment & Machinery    | 20% p.a.                 |
| Freehold & Leasehold Motor Vehicles | 25% p.a.                 |
| Prepaid Leases                      | Over the period of lease |

### Derecognition

Property, Plant & Equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the Income Statement in the year the asset is derecognised.

### 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.

#### Basis of Recognition

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.

### Measurement

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 complete.

The Group applies the cost model for investment properties in accordance with Sri Lanka Accounting Standard 40 (LKAS 40) - 'Investment Property'. Accordingly, land classified as investment properties are stated at cost less any accumulated impairment losses and buildings classified as investment properties are stated at cost less any accumulated depreciation and any accumulated impairment losses.

### 4.12 Intangible Assets

#### Basis of Recognition

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

#### Measurement

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

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

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

| The Class of Intangible Assets | Useful Life | Amortisation Method  |
|--------------------------------|-------------|----------------------|
| IT - Related Capital Items     | 5 Years     | Straight-line-method |

### 4.13 Impairment of Non-Financial Assets

#### Basis of Recognition

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable

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

#### Measurement

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

Impairment losses relating to goodwill are not reversed in future periods.

Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes and is not larger than an operating segment in accordance with SLFRS 8 - 'Operating Segments'.

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the Income Statement.

### 4.14 Financial guarantees

#### Basis of Recognition

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees

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

#### Measurement

Any increase in the liability relating to financial guarantees is recorded in the Income Statement in 'Credit loss expense'. The premium received is recognised in the Income Statement in 'Net fees and commission income' on a straight-line basis over the life of the guarantee.

### 4.15 Pension Benefits

#### 4.15.1 Defined Benefit Pension Plan

##### 4.15.1.1 Pre-1996 - Pension Scheme

The Bank operates a defined benefit pension plan, for the permanent staff members who have joined the Bank prior to 1st January 1996, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined separately using the projected benefit actuarial valuation method. Actuarial gains and losses are fully-recognised as income or expense in the respective financial year.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of plan assets out of which the obligations are

to be settled directly, less actuarial losses not yet recognised. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The latest actuarial valuation was carried out as of 1st January 2011, by Piyal S. Gunatilleke F.S.A. (USA), Member of the American Academy of Actuaries and Consulting Actuaries.

The principal financial assumptions used in the valuation as at 1st January 2011 are as follows:

|                                       |          |
|---------------------------------------|----------|
| Interest/Discount Rate                | 10% p.a. |
| Increase in Cost of Living Allowances | 5% p.a.  |
| Basic Salary increase for all Grades  | 7% p.a.  |

The Bank provides a pension to retiring staff on the following basis; Staff are eligible to draw a pension after 10 years of service and after reaching normal age of retirement of 55 years. The quantum of pension paid is dependent on the length of service as follows:

| Length of Service        | Quantum of Pension   |
|--------------------------|--|
| (i) 10 to 20 years       | 80% of last drawn salary.  |
| (ii) 21 to 29 years      | 80% plus 1% for each additional year in excess of 20 years of last drawn salary. |
| (iii) 30 years and above | 90% of last drawn salary.  |

The accounts of the Pension Fund are maintained separately and are subject to annual audit by Independent External Auditors. The Statement of Accounts as well as the Auditors Report are tabled and reviewed by the Board of Trustees. These Statements of Accounts and Auditor's Report are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at required levels. Pension is payable monthly as long as the participant is alive.

#### 4.15.1.2 Gratuity

Employees who joined the Bank on or after 1st January 1996 will be eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983, or if opted can join the proposed new post-1996 pension scheme and if so such employees will forfeit their right to gratuity.

Other employees whose services are terminated other than by retirement are eligible to receive terminal gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of one half of gross salary applicable to the last month of the financial year in which employment is terminated, for each year of continuous service, for those who have served in excess of 5 years.

The Bank makes a monthly provision towards such gratuity payment liabilities and this value is reflected in the Balance Sheet of the Bank. Up to 31st December 2007, the Bank made a provision based on the gratuity formula. However as per Sri Lanka Accounting Standards the Bank has provided for gratuity liability based on an actuary valuation.

The subsidiary and associate companies of the Bank provide for gratuity under the Payment of Gratuity Act No. 12 of 1983.



Provision for gratuity has been made for employees who have completed one year of service with the companies. These liabilities are not externally funded.

#### 4.15.2 Defined Contribution Plans

The Bank also operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability.

The Bank contributes to the following Schemes:

##### 4.15.2.1 Employees' Provident Fund

The Bank and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Provident Fund. The Bank's Provident Fund is an approved fund under the Employees' Provident Fund Act and is maintained internally.

##### 4.15.2.2 Employees' Trust Fund

The Bank contributes 3% of the employee's monthly gross salary excluding overtime to the Employees' Trust Fund maintained by the Employees Trust Fund Board.

#### 4.15.3 Post-1996 Pension Plan

As approved by the Ministry of Finance the Bank has almost finalised a new pension scheme for permanent employees who joined the Bank post-1st January 1996. The Bank has transferred Rs. 198 Mn of the gratuity fund as initial start up or seed money for this new pension scheme. In addition Rs. 854 Mn has been added to this fund; totalling Rs. 1,052 Mn as at end December 2012. This amount was derived using an

actuary valuation. The Bank has received close to 3,300 applications from the eligible 4,187 employees to join this scheme.

#### 4.15.4 Widow'/Widowers' and Orphans Pension Plan (Pre-1996)

A separate fund is maintained by the Bank to meet future obligations under the scheme, based on the advice of a qualified actuary.

#### 4.15.5 Post-Employment Medical Benefits

The Bank expenses post-employment medical benefits as and when it arises based on the schemes approved by the Bank. A separate medical fund is maintained in order to meet abnormally high medical expenses in the future. Management discretion is used to utilise this fund as and when required.

### 4.16 Provisions

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

### 4.17 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 or associate 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.

### 4.18 Taxes

#### 4.18.1 Current Taxation

Current tax assets and liabilities consists of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the Balance Sheet date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified in Note 14 to the Financial Statements.

#### 4.18.2 Deferred Taxation

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

##### 4.18.2.1 Deferred Tax Liability

Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither the accounting profit nor the taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

#### 4.18.2.1 *Deferred tax Assets*

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

- Where deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or losses; and
- In respect of deductible temporary differences associated with investments in Subsidiaries and Associates, deferred tax assets are recognised only to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised.

The carrying amount of a deferred tax asset is reviewed at each Balance Sheet date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset are reassessed at each Balance Sheet

date and are recognised to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

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

#### 4.18.3 **Value Added Tax on Financial Services (VAT)**

Bank's total value addition was subjected to a 12% Value Added Tax as per Section 25 A of the Value Added Tax No. 14 of 2002 and amendments thereto.

#### 4.18.4 **Economic Service Charge (ESC)**

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

#### 4.18.5 **Withholding Tax on Dividends (WHT)**

Dividend distributed out of taxable profit of the local subsidiaries 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 subsidiaries in the Consolidated Financial Statements as a consolidation adjustment.

### 4.19 **Recognition of Income and Expenses**

Revenue is recognised to the extent that it is probable that the economic benefits will flow

to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

#### 4.19.1 **Interest and Similar Income and Expense**

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

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

#### 4.19.2 **Fee and Commission Income**

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fees and commission income are recognised when the service is performed. Fees earned for the provision of services over a period of time are accrued over that period.



#### 4.19.3 Dividend Income

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

#### 4.19.4 Net Trading Income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'held for trading'.

#### 4.20 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.

#### 4.21 Segment Reporting

The Bank's segmental reporting is based on the following operating segments: Banking, Leasing and Travels and others. Information relating to above is disclosed in Note 47.

#### 4.22 Cash Flow Statement

The Cash Flow Statement has been prepared using the 'Indirect Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard (LKAS 7) 'Statement of Cash Flows'. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalent include cash in hand, balances with banks and money at call and short notice.

#### 4.23 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 Section 32 A to 32 E 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 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.

Licensed Commercial Banks are required to pay a premium of 0.10% on eligible deposit liabilities if the Bank maintains a Capital Adequacy Ratio (CAR) of 14% or above as at the end of the immediately preceding financial year and a premium of 0.125%

on eligible deposit liabilities for all other Licensed Commercial Banks (with CAR below 14%) calculated on the total amount of eligible deposits as at the end of the quarter payable within a period of 15 days from the end of the quarter.

#### 4.24 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 (IFA).

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 the payment of income tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self-assessment payment of tax.

The monies in this account should be utilised to fund long-term (Over 5 years) projects and SME loans (as specified) at preferential interest rates.

#### 4.25 Comparative Information

The comparative information is reclassified wherever necessary to conform with the current year's presentation in order to provide a better presentation.

## 5. EXPLANATION OF TRANSITION TO NEW SRI LANKA ACCOUNTING STANDARDS (SLFRSs & LKASs)

As stated in Note 2.2, the Bank's Financial Statements are now prepared in accordance with new Sri Lanka Accounting Standards (both and SLFRS and LKAS), issued by The Institute of Chartered Accountants of Sri Lanka (ICASL). The Accounting Policies set out in Note 4 have been applied in preparing the Financial Statements for the year ended 31st December 2012, the comparative information for the year ended 31st December 2011 and in the preparation of an opening Statement of Financial Position as at 1st January 2011. The adoption of the SLFRS and LKAS resulted in changes/adjustments to previous years reported Financial Statements (prepared according to previous SLASs). The following notes and tables gives an explanation on the effect of the transition or first time adoption.

### Reconciliation of Equity as at 01.01.2011

|   |      | Rs. '000           |                               |                    |                    |                               |                    |
|---|------|--------------------|-------------------------------|--------------------|--------------------|-------------------------------|--------------------|
|   |      | BANK               |                               |                    | GROUP              |                               |                    |
| As at 1st January 2011                      | Note | Previous SLASs     | Effect of Transition to SLASs | New SLASs          | Previous SLASs     | Effect of Transition to SLASs | New SLASs          |
| <b>Assets</b>                               |      |                    |                               |                    |                    |                               |                    |
| Cash and Cash Equivalents                   | a    | 46,356,928         | (29,088,418)                  | 17,268,510         | 48,848,408         | (29,330,257)                  | 19,518,151         |
| Balance with Central Bank                   |      | 26,739,341         | -                             | 26,739,341         | 26,739,341         | -                             | 26,739,341         |
| Placements with Banks                       |      | -                  | -                             | -                  | -                  | -                             | -                  |
| Other Financial Assets Held-for-Trading     |      | 20,975,857         | -                             | 20,975,857         | 21,033,924         | -                             | 21,033,924         |
| Loans and Receivables to Banks              | b    | -                  | 53,268,853                    | 53,268,853         | -                  | 53,268,853                    | 53,268,853         |
| Loans and Receivables to Other Customers    | c    | 357,336,421        | 1,257,219                     | 358,593,640        | 398,600,386        | 8,449,405                     | 407,049,791        |
| Financial Investments - Available-for-Sale  | d    | 444,506            | 116,924                       | 561,430            | 544,516            | 55,824                        | 600,340            |
| Financial Investments - Held-to-Maturity    | e    | 48,978,998         | 1,231,128                     | 50,210,126         | 48,978,998         | 1,974,275                     | 50,953,273         |
| Investments in Subsidiaries                 |      | 1,519,950          | -                             | 1,519,950          | -                  | -                             | -                  |
| Investments in Associates                   |      | 155,500            | -                             | 155,500            | 248,830            | -                             | 248,830            |
| Government of Sri Lanka Restructuring Bonds | f    | 7,323,000          | (7,323,000)                   | -                  | 7,323,000          | (7,323,000)                   | -                  |
| USD Development Bonds                       | g    | 17,256,725         | (17,256,725)                  | -                  | 17,256,725         | (17,256,725)                  | -                  |
| Goodwill and Intangible Assets              |      | 196,636            | -                             | 196,636            | 559,203            | -                             | 559,203            |
| Property, Plant & Equipment                 |      | 7,861,555          | (995,403)                     | 6,866,152          | 9,223,575          | (996,610)                     | 8,226,965          |
| Investment Properties                       |      | -                  | 414,403                       | 414,403            | -                  | 414,403                       | 414,403            |
| Prepaid Leases                              |      | 326,517            | -                             | 326,517            | 326,517            | -                             | 326,517            |
| Deferred Tax Assets                         |      | 62,455             | -                             | 62,455             | 73,381             | 2,654                         | 76,035             |
| Other Assets                                | h    | 12,081,440         | (2,133,767)                   | 9,947,673          | 16,059,671         | (1,610,679)                   | 14,448,992         |
| <b>Total Assets</b>                         |      | <b>547,615,829</b> | <b>(508,785)</b>              | <b>547,107,045</b> | <b>595,816,475</b> | <b>7,648,142</b>              | <b>603,464,618</b> |

Rs. '000

| As at 1st January 2011                        | Note | BANK               |                               |                    | GROUP              |                               |                    |
|---|------|--------------------|-------------------------------|--------------------|--------------------|-------------------------------|--------------------|
|   |      | Previous SLASs     | Effect of Transition to SLASs | New SLASs          | Previous SLASs     | Effect of Transition to SLASs | New SLASs          |
| <b>Liabilities</b>                            |      |                    |                               |                    |                    |                               |                    |
| Due to Banks                                  | i    | 2,454,883          | 3,700,354                     | 6,155,237          | 2,454,883          | 34,268,386                    | 36,723,268         |
| Due to Other Customers                        | j    | 462,140,255        | 8,829,474                     | 470,969,729        | 463,727,842        | 17,365,822                    | 481,093,664        |
| Other Borrowings                              | k    | 36,677,163         | (3,684,869)                   | 32,992,294         | 67,459,886         | (34,467,592)                  | 32,992,294         |
| Current Tax Liabilities                       |      | 1,527,448          | –                             | 1,527,448          | 2,133,133          | 111,170                       | 2,244,303          |
| Deferred Tax Liabilities                      |      | –                  | –                             | –                  | 36,564             | 515,427                       | 551,991            |
| Other Liabilities                             | l    | 18,977,772         | (7,924,758)                   | 11,053,014         | 27,233,541         | (8,512,066)                   | 18,721,475         |
| Subordinated Term Debts                       |      | 5,000,000          | –                             | 5,000,000          | 6,170,530          | (1,170,530)                   | 5,000,000          |
| <b>Total Liabilities</b>                      |      | <b>526,777,521</b> | <b>920,201</b>                | <b>527,697,722</b> | <b>569,216,379</b> | <b>8,110,617</b>              | <b>577,326,995</b> |
| <b>Equity</b>                                 |      |                    |                               |                    |                    |                               |                    |
| Stated Capital/Assigned Capital               |      | 7,201,998          | –                             | 7,201,998          | 7,201,998          | –                             | 7,201,998          |
| Statutory Reserve Fund                        |      | 49,998             | –                             | 49,998             | 49,998             | –                             | 49,998             |
| Retained Earnings                             | m    | 5,756,881          | (1,428,985)                   | 4,327,895          | 11,435,444         | (462,474)                     | 10,972,971         |
| Other Reserves                                |      | 7,829,431          | –                             | 7,829,431          | 7,829,431          | –                             | 7,829,431          |
| Total Shareholders' Equity                    |      | 20,838,308         | (1,428,985)                   | 19,409,322         | 26,516,871         | (462,474)                     | 26,054,398         |
| Non-Controlling Interests                     |      | –                  | –                             | –                  | 83,225             | –                             | 83,225             |
| <b>Total Equity</b>                           |      | <b>20,838,308</b>  | <b>(1,428,985)</b>            | <b>19,409,322</b>  | <b>26,600,096</b>  | <b>(462,474)</b>              | <b>26,137,623</b>  |
| <b>Total Equity and Liabilities</b>           |      | <b>547,615,829</b> | <b>(508,785)</b>              | <b>547,107,045</b> | <b>595,816,475</b> | <b>7,648,142</b>              | <b>603,464,618</b> |
| <b>Contingent Liabilities and Commitments</b> |      | <b>131,397,539</b> | <b>–</b>                      | <b>131,397,539</b> | <b>131,397,539</b> | <b>–</b>                      | <b>131,397,539</b> |

## Reconciliation of Equity as at 31.12.2011

Rs. '000

| As at 31st December 2011                    | Note | BANK               |                               |                    | GROUP              |                               |                    |
|---|------|--------------------|-------------------------------|--------------------|--------------------|-------------------------------|--------------------|
|   |      | Previous SLASs     | Effect of Transition to SLASs | New SLASs          | Previous SLASs     | Effect of Transition to SLASs | New SLASs          |
| <b>Assets</b>                               |      |                    |                               |                    |                    |                               |                    |
| Cash and Cash Equivalents                   | a    | 25,431,645         | (8,638,980)                   | 16,792,665         | 30,383,489         | (11,517,064)                  | 18,866,425         |
| Balance with Central Bank                   |      | 35,717,033         | -                             | 35,717,033         | 35,717,033         | -                             | 35,717,033         |
| Placements with Banks                       |      | 9,592,720          | 7,300,607                     | 16,893,327         | 9,592,720          | 7,300,607                     | 16,893,327         |
| Other Financial Assets Held-for-Trading     |      | 23,891,041         | -                             | 23,891,041         | 24,313,670         | (329,463)                     | 23,984,207         |
| Loans and Receivables to Banks              | b    | -                  | 31,731,952                    | 31,731,952         | -                  | 31,731,952                    | 31,731,952         |
| Loans and Receivables to Other Customers    | c    | 464,812,240        | (3,156,481)                   | 461,655,759        | 540,307,612        | (5,432,393)                   | 534,875,219        |
| Financial Investments - Available-for-Sale  | d    | 412,546            | 9,051,665                     | 9,464,211          | 562,556            | 8,934,978                     | 9,497,534          |
| Financial Investments - Held-to-Maturity    | e    | 45,461,567         | 841,489                       | 46,303,056         | 45,461,567         | 2,336,869                     | 47,798,436         |
| Investments in Subsidiaries                 |      | 1,419,950          | -                             | 1,419,950          | -                  | -                             | -                  |
| Investments in Associates                   |      | 273,100            | -                             | 273,100            | 377,196            | 50,000                        | 427,196            |
| Government of Sri Lanka Restructuring Bonds | f    | 7,323,000          | (7,323,000)                   | -                  | 7,323,000          | (7,323,000)                   | -                  |
| USD Development Bonds                       | g    | 24,368,558         | (24,368,558)                  | -                  | 24,368,558         | (24,368,558)                  | -                  |
| Goodwill and Intangible Assets              |      | 100,807            | -                             | 100,807            | 450,412            | 10,395                        | 460,807            |
| Property, Plant & Equipment                 |      | 8,103,702          | (581,000)                     | 7,522,702          | 10,329,118         | (396,277)                     | 9,932,841          |
| Investment Properties                       |      | 406,165            | -                             | 406,165            | 406,165            | -                             | 406,165            |
| Prepaid Leases                              |      | 325,224            | -                             | 325,224            | 325,224            | -                             | 325,224            |
| Deferred Tax Assets                         |      | 186,884            | -                             | 186,884            | 248,787            | (53,053)                      | 195,734            |
| Other Assets                                | h    | 15,250,971         | (5,858,183)                   | 9,392,788          | 18,411,268         | (5,133,918)                   | 13,277,350         |
| <b>Total Assets</b>                         |      | <b>663,077,154</b> | <b>(1,000,491)</b>            | <b>662,076,663</b> | <b>748,578,376</b> | <b>(4,188,925)</b>            | <b>744,389,451</b> |
| <b>Liabilities</b>                          |      |                    |                               |                    |                    |                               |                    |
| Due to Banks                                | i    | 72,799             | 43,278,842                    | 43,351,641         | 72,799             | 81,060,845                    | 81,133,645         |
| Due to Other Customers                      | j    | 539,861,539        | 10,364,909                    | 550,226,448        | 548,033,399        | 24,688,255                    | 572,721,654        |
| Other Borrowings                            | k    | 62,747,794         | (42,046,854)                  | 20,700,940         | 112,484,623        | (92,590,497)                  | 19,894,126         |
| Current Tax Liabilities                     |      | 2,806,539          | -                             | 2,806,539          | 3,427,708          | (120,490)                     | 3,307,218          |
| Deferred Tax Liabilities                    |      | -                  | -                             | -                  | 410,382            | (72,845)                      | 337,537            |
| Other Liabilities                           | l    | 21,093,137         | (9,190,675)                   | 11,902,462         | 29,391,165         | (11,129,667)                  | 18,261,498         |
| Subordinated Term Debts                     |      | 10,000,000         | -                             | 10,000,000         | 12,072,830         | (2,072,830)                   | 10,000,000         |
| <b>Total Liabilities</b>                    |      | <b>636,581,808</b> | <b>2,406,222</b>              | <b>638,988,030</b> | <b>705,892,906</b> | <b>(237,227)</b>              | <b>705,655,679</b> |
| <b>Equity</b>                               |      |                    |                               |                    |                    |                               |                    |
| Stated Capital/Assigned Capital             |      | 7,201,998          | -                             | 7,201,998          | 7,201,998          | -                             | 7,201,998          |
| Statutory Reserve Fund                      |      | 1,892,591          | -                             | 1,892,591          | 1,892,591          | -                             | 1,892,591          |
| Retained Earnings                           | m    | 6,226,025          | (3,406,712)                   | 2,819,313          | 17,525,519         | (3,816,867)                   | 13,708,652         |
| Other Reserves                              |      | 11,174,731         | -                             | 11,174,731         | 11,507,929         | -                             | 11,507,929         |
| Total Shareholders' Equity                  |      | 26,495,346         | (3,406,712)                   | 23,088,633         | 38,128,037         | (3,816,867)                   | 34,311,170         |
| Non-Controlling Interests                   |      | -                  | -                             | -                  | 4,557,433          | (134,830)                     | 4,422,603          |
| <b>Total Equity</b>                         |      | <b>26,495,346</b>  | <b>(3,406,712)</b>            | <b>23,088,633</b>  | <b>42,685,470</b>  | <b>(3,951,697)</b>            | <b>38,733,773</b>  |
| <b>Total Equity and Liabilities</b>         |      | <b>663,077,154</b> | <b>(1,000,491)</b>            | <b>662,076,663</b> | <b>748,578,376</b> | <b>(4,188,925)</b>            | <b>744,389,451</b> |
| Contingent Liabilities and Commitments      |      | 190,732,157        | -                             | 190,732,157        | 191,045,197        | -                             | 191,045,197        |

## Reconciliation of Income Statement for the year ended 31 December 2011

|  |      | BANK              |                               |                   | GROUP             |                               |                   | Rs. '000 |
|--|------|-------------------|-------------------------------|-------------------|-------------------|-------------------------------|-------------------|----------|
| <i>For the year ended 31st December 2011</i>         | Note | Previous SLASs    | Effect of Transition to SLASs | New SLASs         | Previous SLASs    | Effect of Transition to SLASs | New SLASs         |          |
| Interest Income                                      | c,n  | 61,822,469        | (34,031)                      | 61,788,438        | 74,115,009        | (467,978)                     | 73,647,031        |          |
| Interest Expenses                                    | j    | (31,703,406)      | 233,186                       | (31,470,220)      | (37,454,263)      | 114,376                       | (37,339,887)      |          |
| <b>Net Interest Income</b>                           |      | <b>30,119,063</b> | <b>199,155</b>                | <b>30,318,218</b> | <b>36,660,746</b> | <b>(353,602)</b>              | <b>36,307,144</b> |          |
| Fee and Commission Income                            |      | 3,822,017         | (892,205)                     | 2,929,812         | 3,846,053         | (657,688)                     | 3,188,365         |          |
| Fee and Commission Expenses                          |      | (30,194)          | (366,718)                     | (396,912)         | (30,194)          | (366,718)                     | (396,912)         |          |
| <b>Net Fee and Commission Income</b>                 |      | <b>3,791,823</b>  | <b>(1,258,923)</b>            | <b>2,532,900</b>  | <b>3,815,859</b>  | <b>(1,024,406)</b>            | <b>2,791,453</b>  |          |
| Net Gain from Trading                                | o    | 714,765           | 207,564                       | 922,329           | 714,765           | 181,976                       | 896,741           |          |
| Net Gain/(Loss) from Financial Investments           | p    | (59,824)          | 59,824                        | –                 | (59,824)          | 59,824                        | –                 |          |
| Other Operating Income (Net)                         |      | 2,037,184         | 620,491                       | 2,657,675         | 1,832,379         | 364,310                       | 2,196,689         |          |
| <b>Total Operating Income</b>                        |      | <b>36,603,011</b> | <b>(171,889)</b>              | <b>36,431,122</b> | <b>42,963,925</b> | <b>(771,898)</b>              | <b>42,192,027</b> |          |
| Impairment for Loans and Other Losses                |      | (970,919)         | 560,476                       | (410,443)         | 965,624           | (1,679,315)                   | (713,691)         |          |
| <b>Net Operating Income</b>                          |      | <b>35,632,092</b> | <b>388,587</b>                | <b>36,020,679</b> | <b>43,929,549</b> | <b>(2,451,213)</b>            | <b>41,478,336</b> |          |
| Personnel Expenses                                   | c,q  | (10,110,026)      | (437,557)                     | (10,547,583)      | (10,962,776)      | (455,344)                     | (11,418,120)      |          |
| Other Expenses                                       |      | (7,777,348)       | 338,306                       | (7,439,042)       | (9,169,288)       | 652,779                       | (8,516,509)       |          |
| <b>Operating Profit before Value Added Tax (VAT)</b> |      | <b>17,744,718</b> | <b>289,336</b>                | <b>18,034,054</b> | <b>23,797,486</b> | <b>(2,253,778)</b>            | <b>21,543,707</b> |          |
| Value Added Tax (VAT) on Financial Services          |      | (2,434,052)       | –                             | (2,434,052)       | (2,828,053)       | 93,605                        | (2,734,448)       |          |
| <b>Operating Profit after Value Added Tax (VAT)</b>  |      | <b>15,310,666</b> | <b>289,335</b>                | <b>15,600,001</b> | <b>20,969,432</b> | <b>(2,160,173)</b>            | <b>18,809,259</b> |          |
| Share of Profits of Associates                       |      | –                 | –                             | –                 | 33,663            | –                             | 33,663            |          |
| Profit before Tax                                    |      | 15,310,666        | 289,335                       | 15,600,001        | 21,003,095        | (2,160,173)                   | 18,842,921        |          |
| Tax Expenses   |      | (5,153,628)       | –                             | (5,153,628)       | (7,068,024)       | 748,641                       | (6,319,383)       |          |
| <b>Profit for the Year</b>                           |      | <b>10,157,038</b> | <b>289,335</b>                | <b>10,446,373</b> | <b>13,935,071</b> | <b>(1,411,533)</b>            | <b>12,523,538</b> |          |

## Explanation of Transition to New Sri Lanka Accounting Standards (SLFRSs and LKASs)

Notes to the Reconciliation of Equity as at 1st January 2011, 31st December 2011 and Income Statement for the year ended 31st December 2011.

### *Assets*

#### *a. Cash and Cash Equivalents*

Investments made in Central Bank Securities previously recorded under 'Cash and Short-Term Funds' is now categorised under 'Loans and Receivables to Banks'.

#### *b. Loans and Receivables to Banks*

Investments made in Government of Sri Lanka Restructuring Bonds and USD Development Bonds is now reclassified under this category.

#### *c. Loans and Receivables to Other Customers*

Previous SLASs required provision for impairment of receivables which consist of a specific amount for incurred losses and a general amount for expected future losses. New SLASs do not permit recognition of impairment for expected future losses and instead requires a collective as well as individual basis assessment on objective evidence of past impairments.

Based on new SLASs, all loans granted to staff members of the Bank at concessionary interest rates are initially recognised at fair value. Subsequent interest thereon is recognised as per Effective Interest Rate (EIR). Day 1 difference is treated as pre-paid staff cost and amortised over the remaining tenor of the staff loan.

#### *d. Financial Investments - Available-for-Sale*

The Bank invests on unquoted shares and debt securities and these assets are now categorised under 'Financial Investments Available-for-Sale' and recorded in the Statement of Financial Position at market value. The difference between the cost and the fair value is accounted in the statement of 'Other Comprehensive Income'.

#### *e. Financial Investments - Held-to-Maturity*

Financial Assets where the Bank has the ability and intention to hold-to-maturity is classified as Held-to-Maturity and measured at amortised cost using the effective interest rate method.

#### *f. Government of Sri Lanka Restructuring Bonds*

Investment made in 'Government of Sri Lanka Restructuring Bonds' which was shown under investments previously is now been categorised under 'Loans and Receivables to Banks'.

#### *g. USD Development Bonds*

Investment made in 'USD Development Bonds' is now been categorised under 'Loans and Receivables to Banks'.

*h. Other Assets*

Interest receivable on loans and receivables and investments, previously recorded under other assets is now categorised under 'Loans and Receivables to Other Customers' and relevant investment categories.

***Liabilities***

*i. Due to Banks*

Call Money Borrowings from the interbank market previously recorded under 'Borrowings' is now been categorised under 'Due to Banks'.

*j. Due to Other Customers*

Interest payable to customers which was classified under 'other liabilities' is now been added to 'Due to Other Customers' as part of amortised cost. Further, Interest expense on deposits with longer maturities (fixed deposits which mature over 1 year) is recognised based on EIR method.

*k. Other Borrowings*

Call Money Borrowings from the interbank market previously recorded under 'Borrowings' has now been categorised under 'Due to Banks'.

*l. Other Liabilities*

Interest payable on deposits and other borrowings recognised under 'other liabilities' is now reclassified under due to other customers and other borrowings.

*m. Retained Earnings*

The net effect of adoption of new SLFRS and LKAS on the transition date of 1st January 2011 is recorded through 'Retained Earnings'.

***Income Statement***

*n. Interest Income*

Interest due to amortisation of day one differences for staff loans granted at concessionary rates and is now accounted.

*o. Net Gain/(Loss) from Trading*

The difference is as a result of capital gains on Treasury Bills & Bonds which is held to maturity is categorised under 'other operating income'.

*p. Net Gain/(loss) from Financial Investments*

Arising due to provision for fall/increase in value of unquoted investments (fair value adjustment for unquoted investments) is now recorded under other comprehensive income.

*q. Personnel Expenses*

Arising due to amortisation of the day one difference on staff loans granted at concessionary rates as shown in interest income.



|                              | BANK              |                   | GROUP              |                   |
|------------------------------|-------------------|-------------------|--------------------|-------------------|
|                              | 2012<br>Rs. '000  | 2011<br>Rs. '000  | 2012<br>Rs. '000   | 2011<br>Rs. '000  |
| <b>6. GROSS INCOME</b>       |                   |                   |                    |                   |
| Interest Income              | 85,241,301        | 61,788,438        | 100,844,385        | 73,617,879        |
| Fee and Commission Income    | 3,541,589         | 2,929,812         | 4,289,051          | 3,188,365         |
| Net Gain from Trading        | 2,072,563         | 922,329           | 2,095,881          | 896,741           |
| Other Operating Income (Net) | 3,921,946         | 2,657,675         | 2,744,423          | 2,196,689         |
| <b>Total Gross Income</b>    | <b>94,777,398</b> | <b>68,298,254</b> | <b>109,973,739</b> | <b>79,899,674</b> |

## 7. NET INTEREST INCOME

### Interest Income

|   |                   |                   |                    |                   |
|---|-------------------|-------------------|--------------------|-------------------|
| Cash and Cash Equivalents                   | 162,947           | 185,504           | 162,947            | 185,504           |
| Placements with Banks                       | 88,077            | 84,468            | 88,077             | 84,468            |
| Other Financial Assets Held-for-Trading     | 1,993,291         | 1,788,608         | 1,993,291          | 1,788,608         |
| Loans and Receivables Financial Investments | 2,098,733         | 2,602,479         | 2,098,733          | 2,602,479         |
| Loans and Receivables to Other Customers    | 73,486,157        | 49,059,393        | 89,089,241         | 60,888,834        |
| Financial Investments - Held-to-Maturity    | 6,659,250         | 7,351,104         | 6,659,250          | 7,351,104         |
| Financial Investments - Available-for-Sale  | 39,274            | -                 | 39,274             | -                 |
| Day One Difference on Staff Loans           | 713,573           | 705,296           | 713,573            | 705,296           |
| Others                                      | -                 | 11,587            | -                  | 11,587            |
| <b>Total Interest Income</b>                | <b>85,241,301</b> | <b>61,788,438</b> | <b>100,844,385</b> | <b>73,617,879</b> |

### Interest Expenses

|                                |                     |                     |                     |                     |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|
| Due to Banks                   | (2,811,482)         | (588,892)           | (2,811,482)         | (588,892)           |
| Due to Other Customers         | (43,798,066)        | (27,340,788)        | (45,201,363)        | (28,215,558)        |
| Other Borrowings               | (3,376,458)         | (2,803,040)         | (10,860,941)        | (7,797,938)         |
| Debt Securities Issued         | (1,337,500)         | (737,500)           | (1,337,500)         | (737,500)           |
| <b>Total Interest Expenses</b> | <b>(51,323,506)</b> | <b>(31,470,220)</b> | <b>(60,211,285)</b> | <b>(37,339,887)</b> |
| <b>Net Interest Income</b>     | <b>33,917,795</b>   | <b>30,318,218</b>   | <b>40,633,099</b>   | <b>36,277,991</b>   |

|   | BANK             |                  | GROUP            |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2012<br>Rs. '000 | 2011<br>Rs. '000 |
| <b>8. NET FEE AND COMMISSION INCOME</b> |                  |                  |                  |                  |
| <b>Fee and Commission Income</b>        |                  |                  |                  |                  |
| Loans                                   | 2,433            | 3,145            | 554,795          | 133,172          |
| Cards                                   | 219,283          | 171,950          | 219,283          | 171,950          |
| Trade and Remittances                   | 1,374,740        | 1,135,972        | 1,374,742        | 1,135,972        |
| Investment Banking                      | 16,110           | 3,324            | 16,110           | 3,324            |
| Deposits                                | 1,408,209        | 1,164,211        | 1,408,209        | 1,164,211        |
| Guarantees                              | 418,318          | 370,920          | 418,318          | 370,920          |
| Others                                  | 102,495          | 80,291           | 297,595          | 208,816          |
|   | <b>3,541,589</b> | <b>2,929,812</b> | <b>4,289,051</b> | <b>3,188,365</b> |
| <b>Fee and Commission Expenses</b>      |                  |                  |                  |                  |
| Loans                                   | (578)            | (8,639)          | (578)            | (8,639)          |
| Investment Banking                      | (24,948)         | (23,355)         | (24,948)         | (23,355)         |
| Guarantees                              | (8,953)          | (6,041)          | (8,953)          | (6,041)          |
| Others                                  | (109,884)        | (358,877)        | (109,884)        | (358,877)        |
|   | <b>(144,364)</b> | <b>(396,912)</b> | <b>(144,364)</b> | <b>(396,912)</b> |
| <b>Net Fee and Commission Income</b>    | <b>3,397,225</b> | <b>2,532,900</b> | <b>4,144,688</b> | <b>2,791,453</b> |

## 9. NET GAIN/(LOSS) FROM TRADING

|   |                  |                |                  |                |
|---|------------------|----------------|------------------|----------------|
| Foreign Exchange                          | 2,126,109        | 1,207,902      | 2,126,109        | 1,207,902      |
| Equities                                  | (75,733)         | (108,850)      | (52,415)         | (134,438)      |
| Others                                    |                  |                | -                |                |
| Capital Gain T Bills/Bonds                | 127,795          | 133,486        | 127,795          | 133,486        |
| Revaluation Gain/(Loss) of Treasury Bills | 71,973           | (55,011)       | 71,973           | (55,011)       |
| Revaluation Gain/(Loss) of Treasury Bonds | (177,580)        | (255,197)      | (177,580)        | (255,197)      |
| <b>Total</b>                              | <b>2,072,563</b> | <b>922,329</b> | <b>2,095,881</b> | <b>896,741</b> |

|   | BANK             |                  | GROUP            |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2012<br>Rs. '000 | 2011<br>Rs. '000 |
| <b>10. OTHER OPERATING INCOME</b>                         |                  |                  |                  |                  |
| Gain /(Loss) on Investment Properties                     |                  |                  |                  |                  |
| Gain/(loss) on Sale of Property, Plant and Equipment      | 22,566           | 7,353            | 80,878           | 24,302           |
| Gain /(Loss) on Revaluation of Foreign Exchange           | 1,076            | (234,278)        | 1,076            | (234,278)        |
| Dividend from Investment                                  |                  |                  |                  |                  |
| - Unquoted  | 17,850           | 23,301           | 17,850           | 23,301           |
| - Subsidiaries and Associate Companies                    | 1,622,503        | 833,250          | -                | -                |
| Recovery of Bad Debts Written Off and Provision Reversals | 1,314,985        | 1,026,434        | 1,368,585        | 1,048,931        |
| Others  | 942,966          | 1,001,615        | 1,276,033        | 1,334,433        |
| <b>Total</b>  | <b>3,921,946</b> | <b>2,657,675</b> | <b>2,744,423</b> | <b>2,196,689</b> |

## 11. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES

|                                       |                    |                  |                    |                  |
|---------------------------------------|--------------------|------------------|--------------------|------------------|
| Loans and Receivables                 |                    |                  |                    |                  |
| To Other Customers [Note 22 (b)]      | (3,874,383)        | (410,443)        | (4,535,386)        | (612,746)        |
| Financial Investments                 |                    |                  |                    |                  |
| Available-for-Sale [Note 23 (a)]      | -                  | -                | (6,174)            | (64,386)         |
| Investments in Subsidiaries (Note 25) | -                  | -                | (50,000)           | -                |
| Others                                | -                  | -                | 16,183             | (7,407)          |
| <b>Total</b>                          | <b>(3,874,383)</b> | <b>(410,443)</b> | <b>(4,575,378)</b> | <b>(684,539)</b> |

## 12. PERSONNEL COSTS

|   |                     |                     |                     |                     |
|---|---------------------|---------------------|---------------------|---------------------|
| Salaries, Bonus & Related Expenses                    | (7,938,472)         | (6,217,951)         | (8,948,237)         | (7,015,779)         |
| Contribution to Defined Contribution Plan (Note 12.1) | (1,108,383)         | (992,261)           | (1,108,384)         | (992,261)           |
| Cost on Staff Loans                                   | (713,573)           | (705,296)           | (713,573)           | (705,296)           |
| Others  | (4,058,219)         | (2,632,076)         | (4,162,578)         | (2,704,785)         |
| <b>Total</b>  | <b>(13,818,647)</b> | <b>(10,547,583)</b> | <b>(14,932,771)</b> | <b>(11,418,120)</b> |

### 12.1 Contribution to Defined Contribution Plan

|                         |                  |                |                  |                |
|-------------------------|------------------|----------------|------------------|----------------|
| Current Service Cost    | 535,681          | 667,733        | 535,681          | 667,733        |
| Interest Cost           | 4,191,535        | 4,009,550      | 4,191,535        | 4,009,550      |
| Expected Return         | (3,627,807)      | (3,685,022)    | (3,627,807)      | (3,685,022)    |
| Actual Expenses & Taxes | 8,974            | -              | 8,974            | -              |
| <b>Net Expense</b>      | <b>1,108,383</b> | <b>992,261</b> | <b>1,108,383</b> | <b>992,261</b> |

|  | BANK               |                    | GROUP              |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | 2012<br>Rs. '000   | 2011<br>Rs. '000   | 2012<br>Rs. '000   | 2011<br>Rs. '000   |
| <b>13. OTHER EXPENSES</b>                        |                    |                    |                    |                    |
| Directors' Emoluments                            | (3,900)            | (3,117)            | (6,107)            | (4,802)            |
| Auditors' Remunerations                          | (7,675)            | (4,458)            | (12,286)           | (8,075)            |
| Non-Audit Fees to Auditors                       | -                  | -                  | (13,094)           | (1,748)            |
| Professional and Legal Expenses                  | (67,790)           | (61,677)           | (83,038)           | (70,238)           |
| Depreciation of Property, Plant and Equipment    | (510,590)          | (829,696)          | (783,718)          | (1,047,029)        |
| Amortisation of Leasehold Property               | (111,890)          | (78,861)           | (111,890)          | (78,861)           |
| Amortisation of Intangible Assets                | (56,455)           | (95,829)           | (73,596)           | (107,600)          |
| Amortisation of Prepayment Leases                | (33,359)           | (23,864)           | (33,359)           | (23,864)           |
| Office Administration and Establishment Expenses | (5,548,412)        | (4,828,998)        | (6,970,167)        | (5,650,609)        |
| Others   | (1,562,083)        | (1,512,542)        | (1,538,960)        | (1,523,680)        |
| <b>Total</b>                                     | <b>(7,902,154)</b> | <b>(7,439,042)</b> | <b>(9,626,216)</b> | <b>(8,516,509)</b> |

|                                     | BANK             |                  |
|-------------------------------------|------------------|------------------|
|                                     | 2012<br>Rs. '000 | 2011<br>Rs. '000 |
| <b>14. TAX EXPENSES</b>             |                  |                  |
| Current Tax Expense                 |                  |                  |
| Current Year                        | 4,800,567        | 4,812,323        |
| Prior Years' (Over)/Under Provision | (130,475)        | 465,734          |
| Deferred Tax Expense                |                  |                  |
| Effect of Change in Tax Rates       |                  |                  |
| Temporary Differences               | (314,702)        | (124,429)        |
| Prior Years' (Over)/Under Provision |                  |                  |
| <b>Total</b>                        | <b>4,355,390</b> | <b>5,153,628</b> |

Income Tax Liability has been computed based on Inland Revenue Act No. 10 of 2006. As the Bank's ESC liability is more than Rs. 30 Mn per Quarter, the balance is limited to pay maximum amount of Rs. 120 Mn Economic Service Charges per annum and however Rs. 60 Mn has been set off against the income tax liability.

|   | BANK             |                  |
|---|------------------|------------------|
|   | 2012<br>Rs. '000 | 2011<br>Rs. '000 |
| <b>14.1 Reconciliation of Tax Expenses</b>                          |                  |                  |
| Profit/(loss) Before Tax  | 15,249,382       | 15,600,001       |
| Income Tax for the Period (Accounting Profit @ Applicable Tax Rate) | 4,269,834        | 4,501,518        |
| Adjustment in respect of Current Income Tax of Prior Periods        | (130,475)        | 465,734          |
| Add:  |                  |                  |
| Tax Effect of Expenses that are not Deductible for Tax Purposes     | 1,748,158        | 1,133,147        |
| (Less):   |                  |                  |
| Tax Effect of Expenses that are not Deductible for Tax Purposes     | (1,217,424)      | (822,342)        |
| <b>Tax Expense for the Period</b>                                   | <b>4,670,093</b> | <b>5,278,057</b> |

#### 14.2 The Deferred Tax (Credit)/Charge in the Income Statement comprise the following:

|  |                  |                  |
|--|------------------|------------------|
| Deferred Tax Assets                              | 76,938           | (255,617)        |
| Deferred Tax Liabilities                         | (391,641)        | 131,188          |
| Deferred Tax (Credit/Charge to Income Statement) | (314,703)        | (124,429)        |
| <b>Income Tax Expenses</b>                       | <b>4,355,390</b> | <b>5,153,628</b> |
| <b>Effective Tax Rate</b>                        | <b>31.5%</b>     | <b>30.8%</b>     |

|  | 2012<br>% | 2011<br>% |
|--|-----------|-----------|
|--|-----------|-----------|

Income Tax has been provided on the Taxable Income at the following rates:

|  |    |    |
|--|----|----|
| Domestic Operation of the Bank                             | 28 | 28 |
| On-Shore Banking Operations of the Off-Shore Banking Unit  | 28 | 28 |
| Off-Shore Banking Operations of the Off-Shore Banking Unit | 28 | 28 |
| People's Leasing Co. Ltd.                                  | 28 | 28 |
| People's Travels (Pvt) Ltd.                                | 15 | 15 |
| People's Merchant Bank                                     | 28 | 28 |

#### Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions

The Inland Revenue (Amendment) Act No. 10 of 2006, provides that a company which derives interest income from the secondary market transactions in Government Securities would be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the Company for that year of assessment. Accordingly the net interest income earned by the Bank & Group from the secondary market transactions in Government securities for the year has been grossed up in these Financial Statements.

| GROUP            |                  | BANK             |                  |
|------------------|------------------|------------------|------------------|
| 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2012<br>Rs. '000 | 2011<br>Rs. '000 |

## 15. EARNINGS PER SHARE

### 15.1 Basic

|   |               |               |               |               |
|---|---------------|---------------|---------------|---------------|
| Net Profit Attributable to Ordinary Equity Holders  | 10,893,992    | 10,446,373    | 11,230,199    | 12,117,411    |
| Weighted Average Number of Ordinary Shares in Issue | 1,000         | 1,000         | 1,000         | 1,000         |
| <b>Basic Earnings Per Share</b>                     | <b>10,894</b> | <b>10,446</b> | <b>11,230</b> | <b>12,117</b> |

### 15.2 Diluted

|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Net Profit Attributable to Ordinary Equity Holders     | 10,893,992 | 10,446,373 | 11,230,199 | 12,117,411 |
| Weighted Average Number of Ordinary Shares in Issue    | 1,000      | 1,000      | 1,000      | 1,000      |
| Number of Ordinary Shares in Capital Pending Allotment | 143,040    | 143,040    | 143,040    | 143,040    |
| Total Number of Shares in issue and Pending Allotment  | 144,040    | 144,040    | 144,040    | 144,040    |
| <b>Diluted Earnings per Share</b>                      | <b>76</b>  | <b>73</b>  | <b>78</b>  | <b>84</b>  |

## 16. MEASUREMENT OF FINANCIAL INSTRUMENTS

### Bank - 2012

|   | HFT        | Designated<br>at FVTPL | HTM        | L & R       | AFS        | Others    | Total              |
|---|------------|------------------------|------------|-------------|------------|-----------|--------------------|
| <b>ASSETS</b>   |            |                        |            |             |            |           |                    |
| Cash and Cash Equivalents                             |            | 24,401,979             |            |             |            |           | 24,401,979         |
| Balances with Central Banks                           |            | 43,412,048             |            |             |            |           | 43,412,048         |
| Placements with Banks                                 |            |                        |            | 13,341,252  |            |           | 13,341,252         |
| Financial Assets at Fair Value through Profit or Loss | 18,772,710 |                        |            |             |            |           | 18,772,710         |
| Loans and Receivables to Banks                        |            |                        |            | 35,350,098  |            |           | 35,350,098         |
| Loans and Receivables to Other Customers              |            |                        |            | 611,414,267 |            |           | 611,414,267        |
| Financial Investments                                 |            |                        | 78,522,570 |             | 27,977,489 |           | 106,500,059        |
| <b>Total Financial Assets</b>                         |            |                        |            |             |            |           | <b>853,192,413</b> |
| Investments in Subsidiaries                           |            |                        |            |             |            | 1,253,434 | 1,253,434          |
| Investments in Associates                             |            |                        |            |             |            | 273,100   | 273,100            |
| Goodwill and Intangible Assets                        |            |                        |            |             |            | 44,352    | 44,352             |
| Property, Plant & Equipment                           |            |                        |            |             |            | 8,234,565 | 8,234,565          |
| Investment Properties                                 |            |                        |            |             |            | 398,508   | 398,508            |
| Prepaid Leases  |            |                        |            |             |            | 291,866   | 291,866            |
| Deferred Tax Assets                                   |            |                        |            |             |            | 501,587   | 501,587            |
| Other Assets  |            |                        |            |             |            | 8,916,779 | 8,916,779          |
| <b>Total Assets</b>                                   |            |                        |            |             |            |           | <b>873,106,604</b> |

|  | HFT | Designated<br>at FVTPL | Amortised<br>Cost | Others     | Total              |
|--|-----|------------------------|-------------------|------------|--------------------|
| <b>LIABILITIES</b>   |     |                        |                   |            |                    |
| Due to Banks   |     |                        | 94,124,713        |            | 94,124,713         |
| Financial Liabilities designated at Fair Value<br>through Profit or Loss |     |                        |                   |            | -                  |
| Due to Other Customers   |     |                        | 683,950,837       |            | 683,950,837        |
| Other Borrowings   |     |                        | 41,024,958        |            | 41,024,958         |
| Current Tax Liabilities  |     |                        |                   | 1,860,689  | 1,860,689          |
| Debt Securities Issued   |     |                        |                   |            | -                  |
| Subordinated Term Debts  |     |                        | 10,000,000        |            | 10,000,000         |
| Other Liabilities  |     |                        |                   |            | -                  |
| <b>Total Financial Liabilities</b>                                       |     |                        |                   |            | <b>830,961,196</b> |
| Other Liabilities  |     |                        |                   | 12,940,620 | 12,940,620         |
| <b>Total Liabilities</b>   |     |                        |                   |            | <b>843,901,816</b> |

## Bank - 2011

|   | HFT        | Designated<br>at FVTPL | HTM        | L & R       | AFS       | Others    | Total              |
|---|------------|------------------------|------------|-------------|-----------|-----------|--------------------|
| <b>ASSETS</b>   |            |                        |            |             |           |           |                    |
| Cash and Cash Equivalents                             |            | 16,792,665             |            |             |           |           | 16,792,665         |
| Balances with Central Banks                           |            | 35,717,033             |            |             |           |           | 35,717,033         |
| Placements with Banks                                 |            |                        |            | 16,893,327  |           |           | 16,893,327         |
| Financial Assets at Fair Value through Profit or Loss | 23,891,041 |                        |            |             |           |           | 23,891,041         |
| Loans and Receivables to Banks                        |            |                        |            | 31,731,952  |           |           | 31,731,952         |
| Loans and Receivables to Other Customers              |            |                        |            | 461,655,759 |           |           | 461,655,759        |
| Financial Investments                                 |            |                        | 46,303,056 |             | 9,464,211 |           | 55,767,266         |
| <b>Total Financial Assets</b>                         |            |                        |            |             |           |           | <b>642,449,043</b> |
| Investments in Subsidiaries                           |            |                        |            |             |           | 1,419,950 | 1,419,950          |
| Investments in Associates                             |            |                        |            |             |           | 273,100   | 273,100            |
| Goodwill and Intangible Assets                        |            |                        |            |             |           | 100,807   | 100,807            |
| Property, Plant & Equipment                           |            |                        |            |             |           | 7,522,702 | 7,522,702          |
| Investment Properties                                 |            |                        |            |             |           | 406,165   | 406,165            |
| Prepaid Leases  |            |                        |            |             |           | 325,224   | 325,224            |
| Deferred Tax Assets                                   |            |                        |            |             |           | 186,884   | 186,884            |
| Other Assets  |            |                        |            |             |           | 9,392,786 | 9,392,786          |
| <b>Total Assets</b>                                   |            |                        |            |             |           |           | <b>662,076,661</b> |



|  | HFT | Designated<br>at FVTPL | Amortised<br>Cost | Others     | Total              |
|--|-----|------------------------|-------------------|------------|--------------------|
| <b>LIABILITIES</b>   |     |                        |                   |            |                    |
| Due to Banks   |     |                        | 43,351,639        |            | 43,351,639         |
| Financial Liabilities designated at Fair Value<br>through Profit or Loss |     |                        |                   |            | -                  |
| Due to Other Customers   |     |                        | 550,226,448       |            | 550,226,448        |
| Other Borrowings   |     |                        | 20,700,940        |            | 20,700,940         |
| Current Tax Liabilities  |     |                        | 2,806,539         | -          | 2,806,539          |
| Debt Securities Issued   |     |                        |                   |            | -                  |
| Subordinated Term Debts  |     |                        | 10,000,000        |            | 10,000,000         |
| Other Liabilities  |     |                        |                   |            | -                  |
| <b>Total Financial Liabilities</b>                                       |     |                        |                   |            | <b>627,085,566</b> |
| Other Liabilities  |     |                        |                   | 11,902,462 | 11,902,462         |
| <b>Total Liabilities</b>   |     |                        |                   |            | <b>638,988,028</b> |

**Group - 2012**

|   | HFT        | Designated<br>at FVTPL | HTM        | L & R       | AFS        | Others     | Total              |
|---|------------|------------------------|------------|-------------|------------|------------|--------------------|
| <b>ASSETS</b>   |            |                        |            |             |            |            |                    |
| Cash and Cash Equivalents                             |            | 26,102,723             |            |             |            |            | 26,102,723         |
| Balances with Central Banks                           |            | 43,412,048             |            |             |            |            | 43,412,048         |
| Placements with Banks                                 |            |                        |            | 13,341,252  |            |            | 13,341,252         |
| Financial Assets at Fair Value through Profit or Loss | 19,002,137 |                        |            |             |            |            | 19,002,137         |
| Loans and Receivables to Banks                        |            |                        |            | 35,350,098  |            |            | 35,350,098         |
| Loans and Receivables to Other Customers              |            |                        |            | 690,197,310 |            |            | 690,197,310        |
| Financial Investments                                 |            |                        | 80,151,886 |             | 27,982,839 |            | 108,134,725        |
| <b>Total Financial Assets</b>                         |            |                        |            |             |            |            | <b>935,540,292</b> |
| Investments in Subsidiaries                           |            |                        |            |             |            | -          | -                  |
| Investments in Associates                             |            |                        |            |             |            | 309,989    | 309,989            |
| Goodwill and Intangible Assets                        |            |                        |            |             |            | 405,768    | 405,768            |
| Property, Plant & Equipment                           |            |                        |            |             |            | 10,923,098 | 10,923,098         |
| Investment Properties                                 |            |                        |            |             |            | 398,508    | 398,508            |
| Prepaid Leases  |            |                        |            |             |            | 291,866    | 291,866            |
| Deferred Tax Assets                                   |            |                        |            |             |            | 501,997    | 501,997            |
| Other Assets  |            |                        |            |             |            | 12,488,561 | 12,488,561         |
| <b>Total Assets</b>                                   |            |                        |            |             |            |            | <b>960,860,079</b> |

|  | HFT | Designated<br>at FVTPL | Amortised<br>Cost | Others     | Total              |
|--|-----|------------------------|-------------------|------------|--------------------|
| <b>LIABILITIES</b>   |     |                        |                   |            |                    |
| Due to Banks   |     |                        | 133,987,864       |            | 133,987,864        |
| Financial Liabilities designated at Fair Value<br>through Profit or Loss |     |                        |                   |            | -                  |
| Due to Other Customers   |     |                        | 708,896,611       |            | 708,896,611        |
| Other Borrowings   |     |                        | 40,740,098        |            | 40,740,098         |
| Current Tax Liabilities  |     |                        |                   | 1,933,576  | 1,933,576          |
| Debt Securities Issued   |     |                        |                   |            | -                  |
| Subordinated Term Debts  |     |                        | 10,000,000        |            | 10,000,000         |
| Other Liabilities  |     |                        |                   |            | -                  |
| <b>Total Financial Liabilities</b>                                       |     |                        |                   |            | <b>895,558,148</b> |
| Other Liabilities  |     |                        |                   | 18,688,304 | 18,688,304         |
| Deferred Tax   |     |                        |                   | 864,461    | 864,461            |
| <b>Total Liabilities</b>   |     |                        |                   |            | <b>915,110,913</b> |

**Group - 2011**

|   | HFT        | Designated<br>at FVTPL | HTM | L & R       | AFS       | Others     | Total              |
|---|------------|------------------------|-----|-------------|-----------|------------|--------------------|
| <b>ASSETS</b>   |            |                        |     |             |           |            |                    |
| Cash and Cash Equivalents                             |            | 18,866,425             |     |             |           |            | 18,866,425         |
| Balances with Central Banks                           |            | 35,717,033             |     |             |           |            | 35,717,033         |
| Placements with Banks                                 |            |                        |     | 16,893,327  |           |            | 16,893,327         |
| Financial Assets at Fair Value through Profit or Loss | 23,984,207 |                        |     |             |           |            | 23,984,207         |
| Loans and Receivables to Banks                        |            |                        |     | 31,731,952  |           |            | 31,731,952         |
| Loans and Receivables to Other Customers              |            |                        |     | 534,875,220 |           |            | 534,875,220        |
| Financial Investments                                 |            | 47,798,436             |     |             | 9,497,534 |            | 57,295,971         |
| <b>Total Financial Assets</b>                         |            |                        |     |             |           |            | <b>719,364,134</b> |
| Investments in Subsidiaries                           |            |                        |     |             |           | -          | -                  |
| Investments in Associates                             |            |                        |     |             |           | 427,196    | 427,196            |
| Goodwill and Intangible Assets                        |            |                        |     |             |           | 460,807    | 460,807            |
| Property, Plant & Equipment                           |            |                        |     |             |           | 9,932,841  | 9,932,841          |
| Investment Properties                                 |            |                        |     |             |           | 406,165    | 406,165            |
| Prepaid Leases  |            |                        |     |             |           | 325,224    | 325,224            |
| Deferred Tax Assets                                   |            |                        |     |             |           | 195,734    | 195,734            |
| Other Assets  |            |                        |     |             |           | 13,277,347 | 13,277,347         |
| <b>Total Assets</b>                                   |            |                        |     |             |           |            | <b>744,389,449</b> |

|  | HFT | Designated<br>at FVTPL | Amortised<br>Cost | Others     | Total              |
|--|-----|------------------------|-------------------|------------|--------------------|
| <b>LIABILITIES</b>   |     |                        |                   |            |                    |
| Due to Banks   |     |                        | 81,133,644        |            | 81,133,644         |
| Financial Liabilities designated at Fair Value<br>through Profit or Loss |     |                        |                   |            | -                  |
| Due to Other Customers   |     |                        | 572,721,654       |            | 572,721,654        |
| Other Borrowings   |     |                        | 19,894,126        |            | 19,894,126         |
| Current Tax Liabilities  |     |                        | 3,307,218         | -          | 3,307,218          |
| Debt Securities Issued   |     |                        |                   |            | -                  |
| Subordinated Term Debts  |     |                        | 10,000,000        |            | 10,000,000         |
| Other Liabilities  |     |                        |                   |            | -                  |
| <b>Total Financial Liabilities</b>                                       |     |                        |                   |            | <b>687,056,642</b> |
| Other Liabilities  |     |                        |                   | 18,261,498 | 18,261,498         |
| Deferred Tax   |     |                        |                   | 337,537    | 337,537            |
| <b>Total Liabilities</b>   |     |                        |                   |            | <b>705,655,677</b> |

|                                      | BANK                    |                   |                   | GROUP                   |                   |                   |
|--------------------------------------|-------------------------|-------------------|-------------------|-------------------------|-------------------|-------------------|
|                                      | <b>2012</b><br>Rs. '000 | 2011<br>Rs. '000  | 2010<br>Rs. '000  | <b>2012</b><br>Rs. '000 | 2011<br>Rs. '000  | 2010<br>Rs. '000  |
| <b>17. CASH AND CASH EQUIVALENTS</b> |                         |                   |                   |                         |                   |                   |
| Cash in Hand                         | 12,463,527              | 10,366,350        | 8,997,198         | 12,943,463              | 10,496,907        | 9,075,002         |
| Cash at Banks                        | 11,938,453              | 6,426,315         | 2,342,582         | 13,159,260              | 8,369,518         | 4,514,420         |
| Money at Call and Short Notice       | -                       | -                 | 5,928,730         | -                       | -                 | 5,928,730         |
|                                      | <b>24,401,979</b>       | <b>16,792,665</b> | <b>17,268,510</b> | <b>26,102,723</b>       | <b>18,866,425</b> | <b>19,518,151</b> |

## 18. BALANCES WITH CENTRAL BANKS

|   |                   |                   |                   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Statutory Balances with Central Bank of Sri Lanka | 43,412,048        | 35,717,033        | 26,739,341        | 43,412,048        | 35,717,033        | 26,739,341        |
|   | <b>43,412,048</b> | <b>35,717,033</b> | <b>26,739,341</b> | <b>43,412,048</b> | <b>35,717,033</b> | <b>26,739,341</b> |

The Balance with the Central Bank of Sri Lanka in the Statutory Cash Reserve is 8% of Rupee deposit liabilities. This is a non-interest bearing balance. A similar reserve is not required in respect of Foreign Currency Deposits Liabilities in the Domestic Banking Unit and Deposit Liabilities in the Off-Shore Banking Unit.

|            | BANK             |                  |                  | GROUP            |                  |                  |
|------------|------------------|------------------|------------------|------------------|------------------|------------------|
|            | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2010<br>Rs. '000 | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2010<br>Rs. '000 |
| Placements | 13,341,252       | 16,893,327       | -                | 13,341,252       | 16,893,327       | -                |
|            | 13,341,252       | 16,893,327       | -                | 13,341,252       | 16,893,327       | -                |

## 19. PLACEMENTS WITH BANKS

## 20. OTHER FINANCIAL ASSETS HELD-FOR-TRADING

### 20.1 Held-for-Trading

#### 20.1.1 Sri Lanka Government Securities

|                |            |            |            |            |            |            |
|----------------|------------|------------|------------|------------|------------|------------|
| Treasury Bills | 12,632,775 | 17,599,848 | 13,488,024 | 12,632,775 | 17,599,848 | 13,488,024 |
| Treasury Bonds | 5,466,398  | 5,422,021  | 7,009,780  | 5,466,398  | 5,422,021  | 7,009,780  |

#### 20.1.2 Equity Securities

|  |            |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|------------|
|  | 673,537    | 869,172    | 478,053    | 902,964    | 962,338    | 536,119    |
|  | 18,772,710 | 23,891,041 | 20,975,857 | 19,002,137 | 23,984,207 | 21,033,924 |

|  | No. of<br>Shares/<br>Unit | Cost<br>2012<br>Rs. '000 | Market<br>Value<br>as at<br>31.12.2012<br>Rs. '000 | No. of<br>Shares/<br>Unit | Cost<br>2011<br>Rs. '000 | Market<br>Value<br>as at<br>31.12.2011<br>Rs. '000 | No. of<br>Shares/<br>Unit | Cost<br>2010<br>Rs. '000 | Market<br>Value<br>as at<br>31.12.2010<br>Rs. '000 |
|--|---------------------------|--------------------------|--|---------------------------|--------------------------|--|---------------------------|--------------------------|--|
|  |                           |                          |  |                           |                          |  |                           |                          |  |

#### 20.1.2.a Held-for-Trading Equity Securities - Bank

##### Quoted

|                                |            |         |         |            |         |         |            |         |         |
|--------------------------------|------------|---------|---------|------------|---------|---------|------------|---------|---------|
| Magpeck Ltd.                   | 125,000    | 5,000   | -       | 125,000    | 5,000   | -       |            |         |         |
| Overseas Reality (Ceylon ) PLC | 20,722,353 | 300,474 | 298,402 | 20,722,353 | 300,474 | 290,113 | 20,722,353 | 165,771 | 317,052 |
| Aitkem Spence                  | 119,140    | 14,011  | 14,535  | 80,100     | 8,811   | 9,644   | -          | -       | -       |
| ACL Cables                     | -          | -       | -       | 183,200    | 13,630  | 13,557  | -          | -       | -       |
| Bairaha                        | -          | -       | -       | 73,900     | 15,076  | 15,541  | -          | -       | -       |
| Browns                         | -          | -       | -       | 47,600     | 11,238  | 11,176  | -          | -       | -       |
| Brown Investments              | -          | -       | -       | 501,500    | 2,056   | 2,106   | -          | -       | -       |
| CIC Holdings                   | 79,800     | 5,028   | 5,171   | -          | -       | -       | -          | -       | -       |
| CT Holdings                    | 55,000     | 6,795   | 6,820   | -          | -       | -       | -          | -       | -       |
| Colombo Fort Land              | -          | -       | -       | 62,800     | 2,939   | 3,065   | -          | -       | -       |
| Chevron Lubricants Lanka       | -          | -       | -       | 118,500    | 19,564  | 20,145  | -          | -       | -       |
| Colombo Dockyard               | 165,000    | 35,198  | 36,300  | 93,700     | 22,207  | 22,375  | -          | -       | -       |
| Colombo Land                   | -          | -       | -       | 159,900    | 8,729   | 8,778   | -          | -       | -       |
| Dialog Axiata                  | -          | -       | -       | 1,193,800  | 9,550   | 9,312   | -          | -       | -       |
| Distilleries Company           | 100,000    | 15,000  | 16,570  | 100,000    | 15,680  | 14,710  | -          | -       | -       |

|  | No. of<br>Shares/<br>Unit | Cost<br>2012<br>Rs. '000 | Market<br>Value<br>as at<br>31.12.2012<br>Rs. '000 | No. of<br>Shares/<br>Unit | Cost<br>2011<br>Rs. '000 | Market<br>Value<br>as at<br>31.12.2011<br>Rs. '000 | No. of<br>Shares/<br>Unit | Cost<br>2010<br>Rs. '000 | Market<br>Value<br>as at<br>31.12.2010<br>Rs. '000 |
|--|---------------------------|--------------------------|--|---------------------------|--------------------------|--|---------------------------|--------------------------|--|
| Expo Lanka                                   | 462,750                   | 3,129                    | 3,286  | 295,000                   | 2,746                    | 2,655  | -                         | -                        | -  |
| Free Lanka                                   | -                         | -                        | -  | 1,650,900                 | 5,118                    | 5,118  | -                         | -                        | -  |
| Hemas Holdings                               | -                         | -                        | -  | 316,400                   | 10,599                   | 10,441   | -                         | -                        | -  |
| Hemas Power                                  | 176,000                   | 3,590                    | 3,872  | 41,000                    | 1,140                    | 1,095  | -                         | -                        | -  |
| Janashakthi                                  | 371,325                   | 3,754                    | 3,936  | 69,000                    | 979                      | 1,035  | -                         | -                        | -  |
| John Keells Holdings                         | 249,200                   | 51,958                   | 54,799   | 259,200                   | 44,064                   | 44,116   | -                         | -                        | -  |
| Kegalle Plantations                          | -                         | -                        | -  | 47,700                    | 5,008                    | 5,008  | -                         | -                        | -  |
| Kotagala Plantations                         | -                         | -                        | -  | 49,800                    | 3,456                    | 3,202  | -                         | -                        | -  |
| Lanka Hospitals                              | 40,000                    | 1,470                    | 1,560  | -                         | -                        | -  | -                         | -                        | -  |
| Lanka IOC                                    | 563,095                   | 10,980                   | 11,205   | 112,800                   | 2,064                    | 2,089  | -                         | -                        | -  |
| Laugh Gas NV                                 | -                         | -                        | -  | 407,200                   | 9,895                    | 9,366  | -                         | -                        | -  |
| National Development Bank                    | 77,100                    | 10,277                   | 10,640   | 77,100                    | 9,260                    | 10,647   | -                         | -                        | -  |
| Nawaloka Hospitals                           | 1,282,640                 | 3,848                    | 3,848  | 1,090,300                 | 4,143                    | 4,252  | -                         | -                        | -  |
| Pan Asia Power                               | -                         | -                        | -  | 500,000                   | 2,150                    | 2,150  | -                         | -                        | -  |
| PC House                                     | -                         | -                        | -  | 60,000                    | 858                      | 834  | -                         | -                        | -  |
| Pelwatta Sugar                               | 58,100                    | 1,365                    | -  | 58,100                    | 1,365                    | 1,365  | -                         | -                        | -  |
| Renuka Holdings                              | -                         | -                        | -  | 27,895                    | 1,496                    | 1,503  | -                         | -                        | -  |
| Richard Peiris Company PLC                   | -                         | -                        | -  | 1,500,000                 | 14,100                   | 13,500   | -                         | -                        | -  |
| Royal Ceramic                                | 192,300                   | 17,057                   | 19,115   | 142,300                   | 19,922                   | 20,135   | -                         | -                        | -  |
| Sampath Bank                                 | -                         | -                        | -  | 109,200                   | 22,189                   | 21,294   | -                         | -                        | -  |
| Singer Industries                            | -                         | -                        | -  | 2,000                     | 464                      | 508  | -                         | -                        | -  |
| Lion Brewery                                 | -                         | -                        | -  | 39,400                    | 7,289                    | 7,486  | -                         | -                        | -  |
| Tokyo Cement NV                              | 600,000                   | -                        | 11,520   | 149,200                   | 4,551                    | 4,551  | -                         | -                        | -  |
| The Finance Company                          | 2,080,400                 | 34,534                   | 38,695   | 2,080,400                 | 84,256                   | 84,256   | -                         | -                        | -  |
| Textured Jersey                              | -                         | -                        | -  | 3,755,800                 | 40,938                   | 38,309   | -                         | -                        | -  |
| United Motors                                | -                         | -                        | -  | 55,000                    | 8,325                    | 8,030  | -                         | -                        | -  |
| Vallibel Power                               | -                         | -                        | -  | 407,000                   | 3,337                    | 3,256  | -                         | -                        | -  |
| Vallibel One                                 | -                         | -                        | -  | 391,300                   | 9,352                    | 9,313  | -                         | -                        | -  |
|  |                           | 523,468                  | 540,274  |                           | 754,018                  | 736,036  |                           | 165,771                  | 317,052  |
| <b>Unquoted</b>                              |                           |                          |  |                           |                          |  |                           |                          |  |
| National Equity Fund                         | 5,112,735                 | 130,630                  | 133,263  | 5,112,735                 | 130,630                  | 133,136  | 5,112,735                 | 76,134                   | 161,000  |
| <b>Total Value of the Dealing Securities</b> |                           | 654,098                  | 673,537  |                           | 884,648                  | 869,172  |                           | 241,905                  | 478,052  |

|                               | No. of<br>Shares/<br>Unit | Cost<br>2012<br>Rs. '000 | Market<br>Value<br>as at<br>31.12.2012<br>Rs. '000 | No. of<br>Shares/<br>Unit | Cost<br>2011<br>Rs. '000 | Market<br>Value<br>as at<br>31.12.2011<br>Rs. '000 | No. of<br>Shares/<br>Unit | Cost<br>2010<br>Rs. '000 | Market<br>Value<br>as at<br>31.12.2010<br>Rs. '000 |
|-------------------------------|---------------------------|--------------------------|--|---------------------------|--------------------------|--|---------------------------|--------------------------|--|
| Magpeck Ltd.                  | 125,000                   | 5,000                    | -  | 125,000                   | 5,000                    | -  | 125,000                   | 5,000                    | -  |
| Overseas Reality (Ceylon) PLC | 20,722,353                | 300,474                  | 298,402  | 20,722,353                | 300,474                  | 290,113  | 20,722,353                | 165,771                  | 317,052  |
| Aitken Spence                 | 201,940                   | 30,298                   | 24,471   | 163,100                   | 25,098                   | 19,613   | 75,000                    | 14,898                   | 12,742   |
| ACL Cables                    | -                         | -                        | -  | 183,200                   | 13,630                   | 13,557   | -                         | -                        | -  |
| Bairaha                       | -                         | -                        | -  | 73,900                    | 15,076                   | 15,541   | -                         | -                        | -  |
| Browns                        | -                         | -                        | -  | 47,600                    | 11,238                   | 11,176   | 10,000                    | 1,146                    | 2,469  |
| Brown Investments             | -                         | -                        | -  | 501,500                   | 2,056                    | 2,106  | -                         | -                        | -  |
| CIC Holdings                  | 79,800                    | 5,028                    | 5,171  | -                         | -                        | -  | -                         | -                        | -  |
| CT Holdings                   | 55,000                    | 6,795                    | 6,820  | -                         | -                        | -  | -                         | -                        | -  |
| Colombo Fort Land             | -                         | -                        | -  | 62,800                    | 2,939                    | 3,065  | -                         | -                        | -  |
| Chevron Lubricants Lanka      | -                         | -                        | -  | 118,500                   | 19,564                   | 20,145   | -                         | -                        | -  |
| Colombo Dockyard              | 165,000                   | 35,198                   | 36,300   | 93,700                    | 22,207                   | 22,375   | -                         | -                        | -  |
| Colombo Land                  | -                         | -                        | -  | 159,900                   | 8,729                    | 8,778  | -                         | -                        | -  |
| Commercial Bank PLC           | 715,162                   | 64,409                   | 70,069   | 217,000                   | 16,705                   | 16,188   | 15,000                    | 2,455                    | 3,898  |
| Commercial Bank V             | -                         | -                        | -  | 132                       | 12,761                   | 13,235   | -                         | -                        | -  |
| Dialog Axiata                 | -                         | -                        | -  | 1,193,800                 | 9,550                    | 9,312  | -                         | -                        | -  |
| Distilleries Company          | 300,000                   | 39,133                   | 49,770   | 100,000                   | 15,680                   | 14,710   | -                         | -                        | -  |
| Expo Lanka                    | 462,750                   | 3,129                    | 3,286  | 295,000                   | 2,746                    | 2,655  | -                         | -                        | -  |
| Free Lanka                    | -                         | -                        | -  | 1,650,900                 | 5,118                    | 5,118  | -                         | -                        | -  |
| Hemas Holdings                | 25,000                    | 1,109                    | 675  | 341,400                   | 11,708                   | 11,266   | 25,000                    | 1,109                    | 1,112  |
| Hemas Power                   | 176,000                   | 3,590                    | 3,872  | 41,000                    | 1,140                    | 1,095  | -                         | -                        | -  |
| Hatton National Bank PLC NV   | 224,271                   | 24,366                   | 25,230   | 77,000                    | 7,905                    | 6,357  | -                         | -                        | -  |
| Horana Plantations PLC        | 20,000                    | 768                      | 490  | 5,000                     | 389                      | 189  | -                         | -                        | -  |
| Janashakthi                   | 371,325                   | 3,754                    | 3,936  | 69,000                    | 979                      | 1,035  | -                         | -                        | -  |
| John Keels Holdings           | 309,200                   | 65,563                   | 67,993   | 319,200                   | 57,669                   | 54,328   | 20,000                    | 6,289                    | 5,968  |
| Kegalle Plantations           | -                         | -                        | -  | 47,700                    | 5,008                    | 5,008  | -                         | -                        | -  |
| Keells Hotels PLC             | 100,000                   | 2,001                    | 1,380  | 100,000                   | 2,001                    | 1,350  | 100,000                   | 2,001                    | 2,000  |
| Kotagala Plantations          | -                         | -                        | -  | 49,800                    | 3,456                    | 3,202  | -                         | -                        | -  |
| Lanka Hospitals               | 40,000                    | 1,470                    | 1,560  | -                         | -                        | -  | -                         | -                        | -  |
| Lanka IOC                     | 563,095                   | 10,980                   | 11,205   | 112,800                   | 2,064                    | 2,089  | -                         | -                        | -  |
| Laugh Gas V                   | -                         | -                        | -  | -                         | -                        | -  | 3,900                     | 90                       | 101  |
| Laugh Gas NV                  | -                         | -                        | -  | 407,200                   | 9,895                    | 9,366  | 3,400                     | 51                       | 63   |
| Mackwoods Energy Ltd.         | 100,000                   | 1,400                    | 1,320  | -                         | -                        | -  | -                         | -                        | -  |
| National Development Bank     | 77,100                    | 10,277                   | 10,640   | 77,100                    | 9,260                    | 10,647   | -                         | -                        | -  |
| Nations Trust Bank            | 912,971                   | 55,704                   | 51,126   | 365,000                   | 27,458                   | 20,799   | 309,900                   | 23,873                   | 25,846   |
| Nawaloka Hospitals            | 1,282,640                 | 3,848                    | 3,848  | 1,090,300                 | 4,143                    | 4,252  | -                         | -                        | -  |
| Pan Asia Power                | -                         | -                        | -  | 500,000                   | 2,150                    | 2,150  | -                         | -                        | -  |
| PC House                      | -                         | -                        | -  | 60,000                    | 858                      | 834  | -                         | -                        | -  |
| Pelwatta Sugar                | 58,100                    | 1,365                    | -  | 58,100                    | 1,365                    | 1,365  | -                         | -                        | -  |

### 20.1.2.b Held for Trading Equity Securities - Group Quoted

|  | No. of    | Cost       | Market  | No. of    | Cost       | Market  | No. of    | Cost       | Market  |
|--|-----------|------------|---------|-----------|------------|---------|-----------|------------|---------|
|  | Shares/   | 2012       | Value   | Shares/   | 2011       | Value   | Shares/   | 2010       | Value   |
|  | Unit      | 31.12.2012 |         | Unit      | 31.12.2011 |         | Unit      | 31.12.2010 |         |
|  | Rs. '000  | Rs. '000   |         | Rs. '000  | Rs. '000   |         | Rs. '000  | Rs. '000   |         |
| Renuka Holdings                              | -         | -          | -       | 27,895    | 1,496      | 1,503   | -         | -          | -       |
| Richard Pieris Company PLC                   | -         | -          | -       | 1,500,000 | 14,100     | 13,500  | -         | -          | -       |
| Royal Ceramic                                | 192,300   | 17,057     | 19,115  | 142,300   | 19,922     | 20,135  | -         | -          | -       |
| Odel Ltd.                                    | -         | -          | -       | -         | -          | -       | 5,400     | 81         | 197     |
| Sampath Bank                                 | -         | -          | -       | 109,200   | 22,189     | 21,294  | -         | -          | -       |
| Seylan Bank V                                | 459,676   | 17,355     | 18,037  | 58,000    | 3,974      | 3,943   | 25,000    | 1,505      | 2,445   |
| Seylan Bank NV                               | -         | -          | -       | 168,000   | 5,929      | 5,185   | 25,000    | 962        | 1,225   |
| Singer Industries                            | -         | -          | -       | 2,000     | 464        | 508     | -         | -          | -       |
| Lion Brewery                                 | -         | -          | -       | 39,400    | 7,289      | 7,486   | -         | -          | -       |
| Tokyo Cement NV                              | 700,000   | 4,650      | 13,450  | 249,200   | 9,201      | 7,601   | -         | -          | -       |
| The Finance Company                          | 2,080,400 | 34,534     | 38,696  | 2,080,400 | 84,256     | 84,255  | -         | -          | -       |
| Textured Jersey                              | -         | -          | -       | 3,755,800 | 40,938     | 38,309  | -         | -          | -       |
| United Motors                                | -         | -          | -       | 55,000    | 8,325      | 8,030   | -         | -          | -       |
| Vallibel Power                               | -         | -          | -       | 407,000   | 3,337      | 3,256   | -         | -          | -       |
| Vallibel One                                 | 100,000   | 2,196      | 1,810   | 441,300   | 10,841     | 10,503  | -         | -          | -       |
| People's Leasing Finance                     | 29,800    | 1,130      | 1,028   | 19,000    | 888        | 675     | -         | -          | -       |
|  |           | 752,581    | 769,701 |           | 869,168    | 829,202 |           | 225,231    | 375,118 |
| <b>Unquoted</b>                              |           |            |         |           |            |         |           |            |         |
| National Equity Fund                         | 5,112,735 | 130,630    | 133,263 | 5,112,735 | 130,630    | 133,136 | 5,112,735 | 76,134     | 161,000 |
| <b>Total Value of the Dealing Securities</b> |           | 883,211    | 902,964 |           | 999,798    | 962,338 |           | 301,365    | 536,118 |

|  | BANK             |                  |                  | GROUP            |                  |                  |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
|  | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2010<br>Rs. '000 | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2010<br>Rs. '000 |

## 21. LOANS AND RECEIVABLES TO BANKS

|                             |            |            |            |            |            |            |
|-----------------------------|------------|------------|------------|------------|------------|------------|
| Gross Loans and Receivables | 35,350,098 | 31,731,952 | 53,268,853 | 35,350,098 | 31,731,952 | 53,268,853 |
| Net Loans and Receivables   | 35,350,098 | 31,731,952 | 53,268,853 | 35,350,098 | 31,731,952 | 53,268,853 |

### (a) Analysis

#### Sri Lanka Government Securities

|   |                   |                   |                   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Central Bank Securities                                 | -                 | -                 | 29,088,418        | -                 | -                 | 29,088,418        |
| Sri Lanka Development Bonds                             | 27,651,601        | 24,368,558        | 17,256,725        | 27,651,601        | 24,368,558        | 17,256,725        |
| Government of Sri Lanka Restructuring Bonds (Note 21.1) | 7,689,150         | 7,689,150         | 7,323,000         | 7,689,150         | 7,689,150         | 7,323,000         |
| Others  | 9,347             | (325,756)         | (399,291)         | 9,347             | (325,756)         | (399,291)         |
| <b>Gross Total</b>                                      | <b>35,350,098</b> | <b>31,731,952</b> | <b>53,268,853</b> | <b>35,350,098</b> | <b>31,731,952</b> | <b>53,268,853</b> |



## 21.1 Government of Sri Lanka Restructuring Bonds

**21.1.a** In April 1993, the Bank received Restructuring Bonds amounting to Rs. 10,541 Mn from the Government of Sri Lanka (GOSL) for the following purposes:

|      | Rs. Mn          |   |
|------|-----------------|---|
| i.   | 1,152.0         | To achieve the capital adequacy requirement in accordance with CBSL guidelines.   |
| ii.  | 1,700.5         | To write-off loans granted to Sri Lanka State Plantations Corporation and Paddy Marketing Board of Rs. 1,467 Mn and Rs. 233.5 Mn, respectively. |
| iii. | 4,355.0         | To finance pension liabilities.   |
| iv.  | 3,231.0         | To provide for loan loss provision.   |
| v.   | 102.5           | For loans to be transferred to Special Recovery Unit (RACA).  |
|      | <u>10,541.0</u> |   |

**21.1.b** The above value of Bonds granted by GOSL effectively relates to accounting entries that were booked to clear carrying values of advances granted under State recommendation, which were deemed as irrecoverable.

**21.1.c** The Agreement underlying the granting of these Bonds, stipulates the following:

- A tenor of 30 years, where the Bonds could be redeemed through the recovery of any of the specific loan losses for which the Bonds were issued.

As at Balance Sheet date, no recoveries have been made of those specific loan losses.

- As per the initial agreement an interest rate of 12% p.a. would apply, with half-yearly payment of interest.
- A value of 25% of income derived from (b) above would be refunded to the GOSL annually.

**21.1.d** As indicated in Note 21.1.a, a sum of Rs. 4,355 Mn of this tranche of Bonds was assigned to the Pension Fund (Rs. 3,218 Mn) and to the W&OP Fund (Rs. 1,137 Mn).

Accordingly, the carrying balance of Bonds reflected on the Balance Sheet does not include the value assigned to the Pension Fund, which is managed as an Independent Trust Fund.

**21.1.e** The financial implications of these Bonds in year the 2012 are as follows:

- A value of Rs. 7,323 Mn is reflected on the Balance Sheet as a Long-Term Asset.
- A value of Rs. 879 Mn is received during the year as income and is reflected under Interest Income.

|  | BANK               |                    |                    | GROUP              |                    |                    |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|  | 2012<br>Rs. '000   | 2011<br>Rs. '000   | 2010<br>Rs. '000   | 2012<br>Rs. '000   | 2011<br>Rs. '000   | 2010<br>Rs. '000   |
| <b>22. LOANS AND RECEIVABLES TO OTHER CUSTOMERS</b>  |                    |                    |                    |                    |                    |                    |
| Gross Loans and Receivables                          | 660,624,099        | 508,234,737        | 406,486,125        | 740,674,806        | 582,195,443        | 455,591,004        |
| Less: Impairment Allowance for Loans and Receivables |                    |                    |                    |                    |                    |                    |
| Individual Impairment (Note 22.2)                    | (37,405,759)       | (36,860,035)       | (31,943,918)       | (37,466,907)       | (36,925,445)       | (32,009,328)       |
| Collective Impairment (Note 22.2)                    | (11,804,073)       | (9,718,943)        | (15,948,567)       | (13,010,589)       | (10,394,778)       | (16,531,885)       |
| <b>Net Loans and Receivables</b>                     | <b>611,414,267</b> | <b>461,655,759</b> | <b>358,593,640</b> | <b>690,197,310</b> | <b>534,875,220</b> | <b>407,049,791</b> |

### 22.1 Analysis of Loans and Receivables to Other Customers

#### By Product

|   |                    |                    |                    |                    |                    |                    |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Bills of Exchange                                     | 24,475,964         | 5,374,261          | 1,135,379          | 24,475,964         | 5,374,261          | 1,135,379          |
| Overdrafts  | 84,887,272         | 65,337,822         | 81,824,293         | 82,846,131         | 62,700,839         | 81,824,293         |
| Trade Finance   | 94,008,361         | 56,470,579         | 7,044,034          | 94,008,361         | 56,470,579         | 7,044,034          |
| Credit Cards  | 1,064,377          | 935,392            | 697,757            | 1,064,377          | 935,392            | 697,757            |
| Pawning   | 250,772,083        | 195,796,472        | 138,999,791        | 250,772,083        | 195,796,472        | 138,999,791        |
| Staff Loans (Note 22.1.1)                             | 9,908,894          | 9,396,885          | 8,841,121          | 10,205,514         | 9,661,927          | 8,951,076          |
| Term Loans:   |                    |                    |                    |                    |                    |                    |
| Short-term  | 47,384,946         | 49,519,535         | 49,665,339         | 47,384,946         | 49,519,535         | 49,665,339         |
| Medium-term   | 83,317,824         | 74,062,821         | 76,198,625         | 164,763,152        | 150,167,071        | 124,843,577        |
| Long-term   | 64,515,820         | 49,471,002         | 40,821,742         | 64,515,820         | 49,471,002         | 40,821,742         |
| Securities Sold Under Resale Agreements               | 85,307             | 1,303,612          | 403,412            | 435,209            | 1,532,010          | 753,383            |
| Others  | 203,250            | 566,357            | 854,632            | 203,250            | 566,357            | 854,632            |
| <b>Gross Loans and Receivables to Other Customers</b> | <b>660,624,099</b> | <b>508,234,737</b> | <b>406,486,125</b> | <b>740,674,806</b> | <b>582,195,443</b> | <b>455,591,004</b> |

#### 22.1.1 Staff Loans

|  |                  |                  |                  |                   |                  |                  |
|--|------------------|------------------|------------------|-------------------|------------------|------------------|
| Gross Staff Loans                        | 16,843,164       | 16,079,880       | 15,501,759       | 17,139,784        | 16,344,921       | 15,611,714       |
| (Less): Allowance for Day One Difference | (6,934,270)      | (6,682,995)      | (6,660,638)      | (6,934,270)       | (6,682,995)      | (6,660,638)      |
| <b>Net Staff Loans</b>                   | <b>9,908,894</b> | <b>9,396,885</b> | <b>8,841,121</b> | <b>10,205,514</b> | <b>9,661,927</b> | <b>8,951,076</b> |

|   | BANK               |                    |                    | GROUP              |                    |                    |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|   | 2012<br>Rs. '000   | 2011<br>Rs. '000   | 2010<br>Rs. '000   | 2012<br>Rs. '000   | 2011<br>Rs. '000   | 2010<br>Rs. '000   |
| <b>By Currency</b>  |                    |                    |                    |                    |                    |                    |
| Sri Lankan Rupee  | 580,990,045        | 457,912,671        | 392,747,137        | 661,040,752        | 531,873,377        | 441,852,017        |
| United States Dollar  | 76,943,272         | 50,311,118         | 13,737,959         | 76,943,272         | 50,311,118         | 13,737,959         |
| Great Britain Pound   | 3,255              | 3,185              | 299                | 3,255              | 3,185              | 299                |
| Others  | 2,687,527          | 7,763              | 729                | 2,687,527          | 7,763              | 729                |
| <b>Gross Loans and Receivables</b>  | <b>660,624,099</b> | <b>508,234,737</b> | <b>406,486,125</b> | <b>740,674,806</b> | <b>582,195,443</b> | <b>455,591,004</b> |
| <b>By Industry</b>  |                    |                    |                    |                    |                    |                    |
| Agriculture and Fishing   | 206,758,307        | 162,724,110        | 124,997,578        | 209,843,660        | 165,707,450        | 126,610,522        |
| Manufacturing   | 19,954,340         | 15,354,537         | 23,469,024         | 20,108,491         | 15,495,853         | 23,524,590         |
| Tourism   | 4,036,184          | 3,842,647          | 3,263,112          | 4,492,502          | 4,306,755          | 3,500,103          |
| Transport   | 957,592            | 195,409            | 363,948            | 18,210,366         | 17,219,529         | 11,902,289         |
| Construction  | 112,624,992        | 97,613,293         | 73,144,208         | 116,599,680        | 100,882,127        | 74,767,953         |
| Traders   | 40,931,668         | 27,913,877         | 43,283,012         | 65,122,380         | 50,717,577         | 56,571,163         |
| New Economy   | 5,665              | 29,110             | -                  | -                  | -                  | -                  |
| Others  | 275,355,351        | 200,561,754        | 137,965,243        | 306,297,727        | 227,866,152        | 158,714,384        |
| <b>Gross Loans and Receivables</b>  | <b>660,624,099</b> | <b>508,234,737</b> | <b>406,486,125</b> | <b>740,674,806</b> | <b>582,195,443</b> | <b>455,591,004</b> |
| <b>22.2 Movements in Individual and Collective Impairment during the Year</b> |                    |                    |                    |                    |                    |                    |
| Balance as at 01st January  | 46,578,978         | 47,892,485         | 47,804,259         | 47,320,224         | 48,541,213         | 47,804,259         |
| Gross Charge for Impairment   | 3,874,383          | 410,443            | 1,477,496          | 4,535,386          | 612,746            | 2,126,224          |
| Reversals Made during the Year  | (1,225,922)        | (913,429)          | (879,600)          | (1,360,507)        | (1,023,214)        | (879,600)          |
| Exchange Rate Variance on Foreign Currency<br>Provision                       | 239,519            | 52,203             | (216,935)          | 239,519            | 52,203             | (216,935)          |
| Write-off During the Year   | (257,126)          | (862,724)          | (292,735)          | (257,126)          | (862,724)          | (292,735)          |
| <b>Balance as at 31st December</b>  | <b>49,209,832</b>  | <b>46,578,978</b>  | <b>47,892,485</b>  | <b>50,477,496</b>  | <b>47,320,224</b>  | <b>48,541,213</b>  |
| <b>Allowance for Individual Impairment</b>                                    |                    |                    |                    |                    |                    |                    |
| <b>Opening Balance</b>  | <b>36,860,035</b>  | <b>31,943,918</b>  | <b>29,601,017</b>  | <b>36,925,445</b>  | <b>32,009,328</b>  | <b>29,601,017</b>  |
| <b>Movement in Individual Impairment</b>                                      | <b>545,724</b>     | <b>4,916,117</b>   | <b>2,342,901</b>   | <b>541,462</b>     | <b>4,916,117</b>   | <b>2,408,311</b>   |
| <b>Closing Balance</b>  | <b>37,405,759</b>  | <b>36,860,035</b>  | <b>31,943,918</b>  | <b>37,466,907</b>  | <b>36,925,445</b>  | <b>32,009,328</b>  |

Around 80% of the individual impairment is pertaining to non-performing which is over 10 years advances.

|                                     | BANK                           |                  |                  | GROUP                          |                  |                  |
|-------------------------------------|--------------------------------|------------------|------------------|--------------------------------|------------------|------------------|
|                                     | <b>2012</b><br><b>Rs. '000</b> | 2011<br>Rs. '000 | 2010<br>Rs. '000 | <b>2012</b><br><b>Rs. '000</b> | 2011<br>Rs. '000 | 2010<br>Rs. '000 |
| Allowance for Collective Impairment |                                |                  |                  |                                |                  |                  |
| Opening Balance                     | 9,718,943                      | 15,948,567       | 18,203,242       | 10,394,778                     | 16,531,885       | 18,203,242       |
| Movement in Collective Impairment   | 2,085,130                      | (6,229,624)      | (2,254,675)      | 2,615,811                      | (6,137,107)      | (1,671,357)      |
| Closing Balance                     | 11,804,073                     | 9,718,943        | 15,948,567       | 13,010,589                     | 10,394,778       | 16,531,885       |

## 23. FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE

|                                    |            |           |           |             |           |           |
|------------------------------------|------------|-----------|-----------|-------------|-----------|-----------|
| Equity Securities (Note 23.1)      | 1,309,758  | 1,309,758 | 1,309,758 | 1,459,768   | 1,459,768 | 1,409,768 |
| Debt Securities                    | 531,768    | -         | -         | 531,768     | -         | -         |
| Others                             | 27,000,000 | 9,000,000 | -         | 27,000,000  | 9,000,000 | -         |
| (Less): Impairment (Note 23.2)     | (864,037)  | (845,547) | (748,327) | (1,008,697) | (962,234) | (809,427) |
| Net Available-for-Sale Investments | 27,977,489 | 9,464,211 | 561,431   | 27,982,839  | 9,497,534 | 600,341   |

|   | No. of Shares | Fair Value as at<br>31.12.2012 |                          | Fair Value as at<br>31.12.2011 |                          | Fair Value as at<br>31.12.2010 |           |
|---|---------------|--------------------------------|--------------------------|--------------------------------|--------------------------|--------------------------------|-----------|
|   |               | Cost as at<br>31.12.2012       | Cost as at<br>31.12.2011 | Cost as at<br>31.12.2011       | Cost as at<br>31.12.2010 | Cost as at<br>31.12.2010       |           |
| <b>23.1 Equity Securities -<br/>Available-for-Sale - Bank</b> |               |                                |                          |                                |                          |                                |           |
| Sri Lankan Airlines   | 4,236,135     | -                              | 1,137,000                | -                              | 1,137,000                | -                              | 1,137,000 |
| Credit Information Bureau of Sri Lanka                        | 47,400        | 50,715                         | 50,715                   | 50,715                         | 50,715                   | 50,715                         | 50,715    |
| Southern Development Financial Company Ltd.                   | 2,500,000     | -                              | 25,000                   | -                              | 25,000                   | 549                            | 25,000    |
| Society for Worldwide Inter-Bank Fund Transfer                | 14            | 1,168                          | 1,168                    | 1,168                          | 1,168                    | 1,168                          | 1,168     |
| Regional Development Bank                                     | 7,418,448     | 369,866                        | 72,000                   | 387,391                        | 72,000                   | 485,124                        | 72,000    |
| Lanka Financial Services Bureau                               | 225,000       | 2,347                          | 2,250                    | 3,312                          | 2,250                    | 2,250                          | 2,250     |
| Fitch Rating Lanka Ltd.                                       | 62,500        | 625                            | 625                      | 625                            | 625                      | 625                            | 625       |
| Lanka Clear (Pvt) Ltd.  | 2,100,000     | 21,000                         | 21,000                   | 21,000                         | 21,000                   | 21,000                         | 21,000    |
|   |               | 445,722                        | 1,309,758                | 464,211                        | 1,309,758                | 561,431                        | 1,309,758 |

|   | BANK             |                  |                  | GROUP            |                  |                  |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
|   | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2010<br>Rs. '000 | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2010<br>Rs. '000 |
| <b>23.2 Movements in Impairment during the Year -<br/>AFS Equity Securities</b> |                  |                  |                  |                  |                  |                  |
| Opening Balance   | 845,547          | 748,327          | 865,252          | 962,234          | 809,427          | 865,252          |
| Charge/(Write-back) to Income Statement   | 18,490           | 97,220           | (116,925)        | 46,463           | 152,807          | (55,825)         |
| <b>Closing Balance</b>  | <b>864,037</b>   | <b>845,547</b>   | <b>748,327</b>   | <b>1,008,697</b> | <b>962,234</b>   | <b>809,427</b>   |

## 24. FINANCIAL INVESTMENTS HELD-TO-MATURITY

### Sri Lanka Government Securities

|   |                   |                   |                   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Treasury Bills                          | 23,710,583        | -                 | -                 | 25,316,497        | 1,445,491         | 694,469           |
| Treasury Bonds                          | 54,186,987        | 45,678,056        | 49,585,126        | 54,210,389        | 45,727,945        | 49,633,804        |
| Long-Term Treasury Bonds (Note 24.1)    | 625,000           | 625,000           | 625,000           | 625,000           | 625,000           | 625,000           |
| <b>Net Held-to-Maturity Investments</b> | <b>78,522,570</b> | <b>46,303,056</b> | <b>50,210,126</b> | <b>80,151,886</b> | <b>47,798,436</b> | <b>50,953,273</b> |

### 24.1 Long-Term Treasury Bonds

Long-term Treasury Bonds represent bonds received during 2003 on account of loans and overdrafts granted by the Bank to Co-operative Wholesale Establishment (CWE) amounting to Rs. 625 Mn. These Bonds have been received as part of the restructuring process of the Co-operative Wholesale Establishment and its financial obligations. These Bonds are not negotiable and carry a zero coupon rate of interest with a maturity of 13 years. However, these Bonds carry an interest payment scheme for which CWE is required to make a semi-annual payment of interest at 3.68% p.a. net of withholding tax.

## 25. INVESTMENTS IN SUBSIDIARIES

|                                   | BANK             |                  |                  | GROUP            |                  |                  |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                   | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2010<br>Rs. '000 | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2010<br>Rs. '000 |
| Quoted Equity Share (Note 25.1)   | 1,248,484        | 1,415,000        | 1,515,000        | -                | -                | -                |
| Unquoted Equity Share (Note 25.2) | 4,950            | 4,950            | 4,950            | -                | -                | -                |
| (Less): Impairment                | -                | -                | -                | -                | -                | -                |
| <b>Net Total</b>                  | <b>1,253,434</b> | <b>1,419,950</b> | <b>1,519,950</b> | <b>-</b>         | <b>-</b>         | <b>-</b>         |

|                                | BANK          |                            |                    | BANK          |                            |                    | No. of Shares | Holding % as at 31.12.2010 | Cost 2010 Rs. '000 |
|--------------------------------|---------------|----------------------------|--------------------|---------------|----------------------------|--------------------|---------------|----------------------------|--------------------|
|                                | No. of Shares | Holding % as at 31.12.2012 | Cost 2012 Rs. '000 | No. of Shares | Holding % as at 31.12.2011 | Cost 2011 Rs. '000 |               |                            |                    |
| <b>25.1 Quoted</b>             |               |                            |                    |               |                            |                    |               |                            |                    |
| People's Leasing & Finance PLC |               |                            |                    |               |                            |                    |               |                            |                    |
| - Ordinary Shares              | 1,172,680,069 | 75.17                      | 498,484            | 1,170,000,120 | 75                         | 465,000            | 50,000,000    | 100                        | 465,000            |
| - Preference Shares            | 75,000,000    |                            | 750,000            | 95,000,000    |                            | 950,000            | 105,000,000   | 99                         | 1,050,000          |
| <b>25.2 Unquoted</b>           |               |                            |                    |               |                            |                    |               |                            |                    |
| People's Travels (Pvt) Ltd.    | 495,000       | 99                         | 4,950              |               | 99                         | 4,950              | 495,000       |                            | 4,950              |
| <b>Total</b>                   |               |                            | <b>1,253,434</b>   |               |                            | <b>1,419,950</b>   |               |                            | <b>1,519,950</b>   |

## 26. INVESTMENTS IN ASSOCIATES

|                       | BANK           |                |                | GROUP          |                |                |
|-----------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                       | 2012 Rs. '000  | 2011 Rs. '000  | 2010 Rs. '000  | 2012 Rs. '000  | 2011 Rs. '000  | 2010 Rs. '000  |
| Quoted Equity Share   | 273,100        | 273,100        | 155,500        | 359,989        | 427,196        | 248,830        |
| Unquoted Equity Share | 25,000         | 25,000         | 25,000         | 25,000         | 25,000         | 25,000         |
| (Less): Impairment    | (25,000)       | (25,000)       | (25,000)       | (75,000)       | (25,000)       | (25,000)       |
| <b>Sub Total</b>      | <b>273,100</b> | <b>273,100</b> | <b>155,500</b> | <b>309,989</b> | <b>427,196</b> | <b>248,830</b> |

|  | BANK               |                    |                    |                            | GROUP              |                    |                    |                            |
|--|--------------------|--------------------|--------------------|----------------------------|--------------------|--------------------|--------------------|----------------------------|
|  | Cost 2012 Rs. '000 | Cost 2011 Rs. '000 | Cost 2010 Rs. '000 | Holding % as at 31.12.2012 | Cost 2012 Rs. '000 | Cost 2011 Rs. '000 | Cost 2010 Rs. '000 | Holding % as at 31.12.2012 |
| <b>Quoted</b>  |                    |                    |                    |                            |                    |                    |                    |                            |
| People's Merchant Finance PLC                              |                    |                    |                    |                            |                    |                    |                    |                            |
| - Ordinary Shares  | 263,100            | 263,100            | 145,500            | 26.13                      | 299,989            | 367,196            | 238,830            | 35.13                      |
| - Preference Shares  | 10,000             | 10,000             | 10,000             |                            | 10,000             | 10,000             | 10,000             |                            |
| <b>Unquoted</b>  |                    |                    |                    |                            |                    |                    |                    |                            |
| Smart Net Lanka (Pvt) Ltd. (Non-Operational)               | 25,000             | 25,000             | 25,000             | 37.3                       | 75,000             | 75,000             | 25,000             | 37.3                       |
|  | 298,100            | 298,100            | 180,500            |                            | 384,989            | 452,196            | 273,830            |                            |
| Less: Impairment of Smart Net Lanka (Pvt) Ltd. (Note 26.1) | (25,000)           | (25,000)           | (25,000)           |                            | (75,000)           | (25,000)           | (25,000)           |                            |
| <b>Total Value of Investment at the Year end</b>           | <b>273,100</b>     | <b>273,100</b>     | <b>155,500</b>     |                            | <b>309,989</b>     | <b>427,196</b>     | <b>248,830</b>     |                            |

|  | BANK             |                  |                  | GROUP            |                  |                  |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
|  | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2010<br>Rs. '000 | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2010<br>Rs. '000 |
| <b>26.1. Movement in Impairment During the Year - Investment in Associates</b> |                  |                  |                  |                  |                  |                  |
| Opening Balance  | 25,000           | 25,000           | 25,000           | 25,000           | 25,000           | 25,000           |
| Charge/(Write-back) to Income Statement  | -                | -                | -                | 50,000           | -                | -                |
| <b>Closing Balance at</b>  | <b>25,000</b>    | <b>25,000</b>    | <b>25,000</b>    | <b>75,000</b>    | <b>25,000</b>    | <b>25,000</b>    |

## 27. GOODWILL AND INTANGIBLE ASSETS

### 27.1 Intangible Assets

#### Cost or Valuation

|                                     |                |                |                |                  |                |                |
|-------------------------------------|----------------|----------------|----------------|------------------|----------------|----------------|
| As at beginning of the Year         | 886,334        | 886,334        | 879,263        | 988,003          | 949,438        | 903,923        |
| Acquired during the Year            | -              | -              | 7,071          | 18,607           | 38,566         | 7,071          |
| Disposals/Reversals during the Year | -              | -              | -              | (140)            | -              | -              |
| <b>As at end of the year</b>        | <b>886,334</b> | <b>886,334</b> | <b>886,334</b> | <b>1,006,470</b> | <b>988,003</b> | <b>910,994</b> |

#### Accumulated Amortisation

|                              |                |                |                |                |                |                |
|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| As at beginning of the Year  | 785,527        | 689,698        | 730,052        | 835,741        | 728,142        | 730,052        |
| Amortisation for the Year    | 56,455         | 95,829         | (40,354)       | 73,551         | 107,599        | (40,354)       |
| Disposals during the Year    | -              | -              | -              | (45)           | -              | -              |
| <b>As at end of the Year</b> | <b>841,982</b> | <b>785,527</b> | <b>689,698</b> | <b>909,247</b> | <b>835,741</b> | <b>689,698</b> |
| <b>Net Book Value</b>        | <b>44,352</b>  | <b>100,807</b> | <b>196,636</b> | <b>97,223</b>  | <b>152,262</b> | <b>221,296</b> |

### 27.2 Goodwill

#### Cost or Valuation

|                                     |          |          |          |                |                |                |
|-------------------------------------|----------|----------|----------|----------------|----------------|----------------|
| As at beginning of the Year         | -        | -        | -        | 308,545        | 337,908        | 337,907        |
| Acquired during the Year            | -        | -        | -        | -              | -              | -              |
| Disposals/Reversals during the Year | -        | -        | -        | -              | (29,362)       | -              |
| <b>As at end of the Year</b>        | <b>-</b> | <b>-</b> | <b>-</b> | <b>308,545</b> | <b>308,545</b> | <b>337,907</b> |

#### Accumulated Amortisation

|                              |               |                |                |                |                |                |
|------------------------------|---------------|----------------|----------------|----------------|----------------|----------------|
| As at beginning of the Year  | -             | -              | -              | -              | -              | -              |
| Amortisation for the Year    | -             | -              | -              | -              | -              | -              |
| <b>As at end of the Year</b> | <b>-</b>      | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>       |
| <b>Net Book Value</b>        | <b>-</b>      | <b>-</b>       | <b>-</b>       | <b>308,545</b> | <b>308,545</b> | <b>337,907</b> |
| <b>Total Net Book Value</b>  | <b>44,352</b> | <b>100,807</b> | <b>196,636</b> | <b>405,768</b> | <b>460,807</b> | <b>559,203</b> |



## 28. PROPERTY, PLANT & EQUIPMENT

|  | Freehold<br>Land and<br>Buildings<br>Rs. '000 | Leasehold<br>Buildings<br>Rs. '000 | Motor<br>Vehicles<br>Rs. '000 | Leasehold<br>Motor<br>Vehicles<br>Rs. '000 | Furniture<br>Rs. '000 | Machinery &<br>Equipment<br>Rs. '000 | Computer<br>Rs. '000 | <b>Total</b><br><b>31.12.2012</b><br><b>Rs. '000</b> | Total<br>31.12.2011<br>Rs. '000 | Total<br>31.12.2010<br>Rs. '000 |
|--|---|------------------------------------|-------------------------------|--|-----------------------|--------------------------------------|----------------------|--|---------------------------------|---------------------------------|
| <b>BANK</b>                                |   |                                    |                               |  |                       |                                      |                      |  |                                 |                                 |
| <b>Cost/Fair Value</b>                     |   |                                    |                               |  |                       |                                      |                      |  |                                 |                                 |
| Opening Balance as at 01.01.2012           | 5,900,486                                     | 1,131,628                          | 368,256                       | 387,737                                    | 588,495               | 2,174,569                            | 5,905,718            | <b>16,456,889</b>                                    | 15,107,801                      | 14,200,659                      |
| Additions                                  | 343,919                                       | 159,959                            | 248,020                       | –  | 32,403                | 311,283                              | 296,846              | <b>1,392,430</b>                                     | 1,383,227                       | 1,030,718                       |
| Disposals                                  | (3,026)                                       | –                                  | (11,836)                      | –  | –                     | –                                    | –                    | <b>(14,862)</b>                                      | (34,139)                        | (123,576)                       |
| <b>Closing Balance as at 31.12.2012</b>    | <b>6,241,379</b>                              | <b>1,291,587</b>                   | <b>604,440</b>                | <b>387,737</b>                             | <b>620,898</b>        | <b>2,485,852</b>                     | <b>6,202,564</b>     | <b>17,834,457</b>                                    | <b>16,456,889</b>               | <b>15,107,801</b>               |
| <b>Accumulated Depreciation</b>            |   |                                    |                               |  |                       |                                      |                      |  |                                 |                                 |
| Opening Balance as at 01.01.2012           | 1,072,925                                     | 547,430                            | 336,329                       | 219,757                                    | 535,169               | 1,818,332                            | 5,086,669            | <b>9,616,611</b>                                     | 8,720,807                       | 8,156,589                       |
| Charge for the Year                        | 53,871  | 109,017                            | 50,517                        | 25,483                                     | 20,543                | 106,932                              | 246,853              | <b>613,216</b>                                       | 900,145                         | 592,245                         |
| Disposals                                  | –   | –                                  | (11,836)                      | –  | –                     | –                                    | –                    | <b>(11,836)</b>                                      | (4,341)                         | (28,027)                        |
| <b>Closing Balance as at 21.12.2012</b>    | <b>1,126,796</b>                              | <b>656,447</b>                     | <b>375,010</b>                | <b>245,240</b>                             | <b>555,712</b>        | <b>1,925,264</b>                     | <b>5,333,522</b>     | <b>10,217,991</b>                                    | <b>9,616,611</b>                | <b>8,720,807</b>                |
| <b>Net Book Value at 31.12.2012</b>        | <b>5,114,583</b>                              | <b>635,140</b>                     | <b>229,430</b>                | <b>142,497</b>                             | <b>65,186</b>         | <b>560,588</b>                       | <b>869,042</b>       | <b>7,616,466</b>                                     | <b>6,840,278</b>                | <b>6,386,994</b>                |
| Capital Work-in-Progress at Cost           |   |                                    |                               |  |                       |                                      |                      | <b>470,184</b>                                       | <b>589,910</b>                  | <b>341,728</b>                  |
| Furniture Equipment and Machinery at Store |   |                                    |                               |  |                       |                                      |                      | <b>147,915</b>                                       | <b>92,514</b>                   | <b>137,430</b>                  |
|  |   |                                    |                               |  |                       |                                      |                      | <b>8,234,565</b>                                     | <b>7,522,702</b>                | <b>6,866,152</b>                |
| <b>GROUP</b>                               |   |                                    |                               |  |                       |                                      |                      |  |                                 |                                 |
| <b>Cost/Fair Value</b>                     |   |                                    |                               |  |                       |                                      |                      |  |                                 |                                 |
| Opening Balance as at 01.01.2012           | 7,431,273                                     | 1,169,626                          | 684,410                       | 387,737                                    | 828,830               | 2,587,064                            | 6,252,549            | <b>19,341,489</b>                                    | 16,174,232                      | 15,267,090                      |
| Additions                                  | 835,828                                       | 184,917                            | 396,520                       | –  | 81,629                | 420,851                              | 368,076              | <b>2,287,822</b>                                     | 3,305,586                       | 1,030,718                       |
| Disposals                                  | (185,925)                                     | (4,603)                            | (145,773)                     | –  | (7,101)               | (42,122)                             | –                    | <b>(385,525)</b>                                     | (138,329)                       | (123,576)                       |
| Exchange Rate Variance                     | –   | –                                  | –                             | –  | –                     | –                                    | –                    | <b>–</b>   | –                               | –                               |
| <b>Closing Balance as at 31.12.2012</b>    | <b>8,081,176</b>                              | <b>1,349,940</b>                   | <b>935,157</b>                | <b>387,737</b>                             | <b>903,358</b>        | <b>2,965,793</b>                     | <b>6,620,625</b>     | <b>21,243,786</b>                                    | <b>19,341,489</b>               | <b>16,174,232</b>               |
| <b>(Less): Accumulated Depreciation</b>    |   |                                    |                               |  |                       |                                      |                      |  |                                 |                                 |
| Opening Balance as at 01.01.2012           | 1,073,279                                     | 582,598                            | 502,444                       | 219,757                                    | 613,466               | 1,944,743                            | 5,256,582            | <b>10,192,871</b>                                    | 9,191,920                       | 8,627,702                       |
| Charge for the Year                        | 78,373  | 119,251                            | 119,845                       | 25,483                                     | 66,779                | 168,392                              | 308,423              | <b>886,545</b>                                       | 1,116,986                       | 592,245                         |
| Additions                                  | –   | –                                  | –                             | –  | (5,825)               | (28,837)                             | –                    | <b>(34,662)</b>                                      | –                               | –                               |
| Disposals                                  | 1,247   | (4,603)                            | (75,081)                      | –  | –                     | –                                    | –                    | <b>(78,437)</b>                                      | (116,035)                       | (28,027)                        |
| Exchange Rate Variance                     | –   | –                                  | –                             | –  | –                     | –                                    | –                    | <b>–</b>   | –                               | –                               |
| <b>Closing Balance as at 31.12.2012</b>    | <b>1,152,900</b>                              | <b>697,246</b>                     | <b>547,207</b>                | <b>245,240</b>                             | <b>674,420</b>        | <b>2,084,298</b>                     | <b>5,565,005</b>     | <b>10,966,317</b>                                    | <b>10,192,870</b>               | <b>9,191,920</b>                |
| <b>Net Book Value as at 31.12.2012</b>     | <b>6,928,276</b>                              | <b>652,694</b>                     | <b>387,949</b>                | <b>142,497</b>                             | <b>228,938</b>        | <b>881,495</b>                       | <b>1,055,620</b>     | <b>10,277,469</b>                                    | <b>9,148,618</b>                | <b>6,982,311</b>                |
| Capital Work-in-Progress at Cost           |   |                                    |                               |  |                       |                                      |                      | <b>497,714</b>                                       | <b>694,175</b>                  | <b>1,107,224</b>                |
| Furniture Equipment and Machinery at Store |   |                                    |                               |  |                       |                                      |                      | <b>147,915</b>                                       | <b>90,048</b>                   | <b>137,430</b>                  |
| Market Value at                            |   |                                    |                               |  |                       |                                      |                      | <b>10,923,098</b>                                    | <b>9,932,841</b>                | <b>8,226,965</b>                |

|   | BANK             |                  |                  | GROUP            |                  |                  |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
|   | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2010<br>Rs. '000 | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2010<br>Rs. '000 |
| <b>29. INVESTMENTS PROPERTIES</b>       |                  |                  |                  |                  |                  |                  |
| Opening Balance                         | 455,049          | 455,049          | 450,887          | 455,049          | 455,049          | 450,887          |
| Additions                               | 1,414            | -                | 4,162            | 1,414            | -                | 4,162            |
| Closing Balance                         | 456,463          | 455,049          | 455,049          | 456,463          | 455,049          | 455,049          |
| <b>(Less): Accumulated Depreciation</b> |                  |                  |                  |                  |                  |                  |
| Opening Balance                         | 48,884           | 40,646           | 32,409           | 48,884           | 40,646           | 32,409           |
| Charge for the Year                     | 9,071            | 8,238            | 8,237            | 9,071            | 8,238            | 8,237            |
| Closing Balance                         | 57,955           | 48,884           | 40,646           | 57,955           | 48,884           | 40,646           |
| Net Book Value                          | 398,508          | 406,165          | 414,403          | 398,508          | 406,165          | 414,403          |

### 30. PREPAID LEASES

|                                |           |           |           |           |           |           |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Cost                           | 706,204   | 706,204   | 683,632   | 706,204   | 706,204   | 683,632   |
| Less: Accumulated Amortisation | (414,338) | (380,979) | (357,115) | (414,338) | (380,979) | (357,115) |
| Net Book Value                 | 291,866   | 325,224   | 326,517   | 291,866   | 325,224   | 326,517   |

### 31. DEFERRED TAX ASSETS/LIABILITIES

|                                      |           |           |           |           |           |          |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|----------|
| Deferred Tax Liabilities (Note 31.1) | 189,726   | 581,368   | 450,180   | 864,461   | 337,537   | 551,991  |
| Deferred Tax Assets (Note 31.2)      | (691,313) | (768,252) | (512,635) | (501,997) | (195,734) | (76,035) |
|                                      | (501,587) | (186,884) | (62,455)  | 362,464   | 141,803   | 475,956  |

|                                      | BANK                                |                         |                                     |                         | GROUP                               |                         |                                     |                         |
|--------------------------------------|-------------------------------------|-------------------------|-------------------------------------|-------------------------|-------------------------------------|-------------------------|-------------------------------------|-------------------------|
|                                      | 2012                                |                         | 2011                                |                         | 2012                                |                         | 2011                                |                         |
|                                      | Temporary<br>Difference<br>Rs. '000 | Tax Effects<br>Rs. '000 | Temporary<br>Difference<br>Rs. '000 | Tax Effects<br>Rs. '000 | Temporary<br>Difference<br>Rs. '000 | Tax Effects<br>Rs. '000 | Temporary<br>Difference<br>Rs. '000 | Tax Effects<br>Rs. '000 |
| <b>31.1 Deferred Tax Liabilities</b> |                                     |                         |                                     |                         |                                     |                         |                                     |                         |
| Balance as at 1st January            | 2,076,314                           | 581,368                 | 1,607,786                           | 450,180                 | 1,205,489                           | 337,537                 | 1,971,396                           | 551,991                 |
| Originating During the Year          | (1,398,721)                         | (391,642)               | 468,529                             | 131,188                 | 1,881,871                           | 526,924                 | (765,907)                           | (214,454)               |
| Balance as at 31st December          | 677,593                             | 189,726                 | 2,076,314                           | 581,363                 | 3,087,361                           | 864,461                 | 1,205,489                           | 337,537                 |

|   | BANK                    |             |                         |             | GROUP                   |             |                         |             |
|---|-------------------------|-------------|-------------------------|-------------|-------------------------|-------------|-------------------------|-------------|
|   | 2012                    |             | 2011                    |             | 2012                    |             | 2011                    |             |
|   | Temporary<br>Difference | Tax Effects | Temporary<br>Difference | Tax Effects | Temporary<br>Difference | Tax Effects | Temporary<br>Difference | Tax Effects |
|   | Rs. '000                | Rs. '000    | Rs. '000                | Rs. '000    | Rs. '000                | Rs. '000    | Rs. '000                | Rs. '000    |
| <b>31.2 Deferred Tax Assets</b>   |                         |             |                         |             |                         |             |                         |             |
| Balance as at 1st January   | 2,743,757               | 768,252     | 1,830,839               | 512,635     | 699,050                 | 195,734     | 271,554                 | 76,035      |
| Deferred Tax Assets Recognised/<br>(Reversal) on Deductible<br>Temporary Difference | (274,782)               | (76,939)    | 912,918                 | 255,617     | 1,093,796               | 306,263     | 427,496                 | 119,699     |
| Balance as at 31st December   | 2,468,975               | 691,313     | 2,743,757               | 768,252     | 1,792,846               | 501,997     | 699,050                 | 195,734     |

|  | BANK             |                  |                  | GROUP             |                   |                   |
|--|------------------|------------------|------------------|-------------------|-------------------|-------------------|
|  | 2012             | 2011             | 2010             | 2012              | 2011              | 2010              |
|  | Rs. '000         | Rs. '000         | Rs. '000         | Rs. '000          | Rs. '000          | Rs. '000          |
| <b>32. OTHER ASSETS</b>                    |                  |                  |                  |                   |                   |                   |
| Deposits and Prepayments                   | 245,650          | 214,971          | 124,897          | 349,021           | 344,813           | 217,859           |
| Unamortised Day One Difference Staff Loans | 6,934,270        | 6,682,995        | 6,660,638        | 6,941,258         | 6,710,681         | 6,660,638         |
| Derivative Financial Instruments           | 2,791            | 7,251            | 1,794            | 2,795             | 7,250             | 1,794             |
| Others                                     | 1,734,068        | 2,487,569        | 3,160,345        | 5,195,487         | 6,214,603         | 7,568,701         |
| <b>Total</b>                               | <b>8,916,779</b> | <b>9,392,788</b> | <b>9,947,673</b> | <b>12,488,561</b> | <b>13,277,350</b> | <b>14,448,992</b> |

### 33. DUE TO BANKS

|                         |                   |                   |                  |                    |                   |                   |
|-------------------------|-------------------|-------------------|------------------|--------------------|-------------------|-------------------|
| Money Market Borrowings | 80,560,402        | 38,358,024        | –                | 80,560,402         | 38,358,024        | –                 |
| Call Money Borrowings   | 12,840,334        | 4,168,104         | 3,684,868        | 12,840,334         | 4,168,104         | 3,684,868         |
| Other Borrowings        | 723,977           | 825,513           | 2,470,369        | 40,587,128         | 38,607,518        | 33,038,400        |
| <b>Total</b>            | <b>94,124,713</b> | <b>43,351,641</b> | <b>6,155,237</b> | <b>133,987,864</b> | <b>81,133,645</b> | <b>36,723,268</b> |

### 34. DUE TO OTHER CUSTOMERS

|                                     |                    |                    |                    |                    |                    |                    |
|-------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Total Amount due to Other Customers | 683,950,837        | 550,226,448        | 470,969,729        | 708,896,611        | 572,721,654        | 481,093,664        |
| <b>Total</b>                        | <b>683,950,837</b> | <b>550,226,448</b> | <b>470,969,729</b> | <b>708,896,611</b> | <b>572,721,654</b> | <b>481,093,664</b> |

|                                   | BANK               |                    |                    | GROUP              |                    |                    |
|-----------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                                   | 2012<br>Rs. '000   | 2011<br>Rs. '000   | 2010<br>Rs. '000   | 2012<br>Rs. '000   | 2011<br>Rs. '000   | 2010<br>Rs. '000   |
| <b>a. Analysis</b>                |                    |                    |                    |                    |                    |                    |
| <b>Product-Wise Analysis</b>      |                    |                    |                    |                    |                    |                    |
| Demand Deposit (Current Accounts) | 36,343,016         | 41,570,950         | 40,617,338         | 36,343,016         | 41,570,950         | 40,617,338         |
| Savings Deposits                  | 236,230,243        | 233,515,970        | 204,044,487        | 236,779,366        | 233,922,879        | 204,442,853        |
| Fixed Deposits                    | 381,570,595        | 262,452,688        | 223,090,054        | 391,593,923        | 267,888,519        | 225,159,877        |
| Other Products                    | 29,806,984         | 12,686,840         | 3,217,851          | 44,180,306         | 29,339,306         | 10,873,597         |
| <b>Total</b>                      | <b>683,950,837</b> | <b>550,226,448</b> | <b>470,969,729</b> | <b>708,896,611</b> | <b>572,721,654</b> | <b>481,093,664</b> |
| <b>By Currency</b>                |                    |                    |                    |                    |                    |                    |
| Sri Lanka Rupee                   | 619,601,386        | 499,384,088        | 441,032,823        | 644,547,160        | 521,879,293        | 451,156,759        |
| United State Dollar               | 37,302,953         | 30,010,129         | 17,670,509         | 37,302,953         | 30,010,129         | 17,670,509         |
| Great Britain Pound               | 3,401,353          | 3,109,278          | 1,830,799          | 3,401,353          | 3,109,278          | 1,830,799          |
| Others                            | 23,645,145         | 17,722,954         | 10,435,597         | 23,645,145         | 17,722,954         | 10,435,597         |
| <b>Total</b>                      | <b>683,950,837</b> | <b>550,226,449</b> | <b>470,969,729</b> | <b>708,896,611</b> | <b>572,721,654</b> | <b>481,093,664</b> |

## 35. OTHER BORROWINGS

|                                       |                   |                   |                   |                   |                   |                   |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Central Bank of Sri Lanka             | 2,029,468         | 2,803,188         | 2,733,821         | 2,029,468         | 2,803,188         | 2,733,821         |
| Other Financial Institutions          | 1,688,372         | 1,294,141         | 944,067           | 1,688,372         | 1,294,141         | 944,067           |
| Borrowings Under Repurchase Agreement | 37,307,118        | 16,603,611        | 29,314,406        | 37,022,258        | 15,796,797        | 29,314,406        |
| <b>Total</b>                          | <b>41,024,958</b> | <b>20,700,940</b> | <b>32,992,294</b> | <b>40,740,098</b> | <b>19,894,126</b> | <b>32,992,294</b> |

## 36. OTHER LIABILITIES

|  |                   |                   |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Interest Payable   | -                 | -                 | -                 | 65,438            | 76,826            | -                 |
| Impairment Charges in Respect of Off-Balance Sheet Items | 251,959           | 276,744           | 212,595           | 251,959           | 276,744           | 212,595           |
| Sundry Creditors   | 3,305,033         | 3,077,786         | 3,106,803         | 3,044,909         | 2,701,934         | 3,268,011         |
| Net Defined Benefit Obligation (Note 36.1)               | 3,142,555         | 3,236,544         | 1,333,891         | 3,142,555         | 3,236,544         | 1,333,891         |
| Provision for Gratuity (Note 36.2)                       | 314,964           | 314,682           | 223,712           | 369,575           | 348,476           | 248,553           |
| Derivative Financial Instruments                         | 1,710             | 241,527           | 16,544            | 1,710             | 241,527           | 16,544            |
| Other Payables   | 5,924,398         | 4,755,179         | 6,159,469         | 11,812,157        | 11,379,449        | 13,641,881        |
| <b>Total</b>   | <b>12,940,620</b> | <b>11,902,462</b> | <b>11,053,014</b> | <b>18,688,304</b> | <b>18,261,498</b> | <b>18,721,475</b> |

|  | BANK                           |                  |                  | GROUP                          |                  |                  |
|--|--------------------------------|------------------|------------------|--------------------------------|------------------|------------------|
|  | <b>2012</b><br><b>Rs. '000</b> | 2011<br>Rs. '000 | 2010<br>Rs. '000 | <b>2012</b><br><b>Rs. '000</b> | 2011<br>Rs. '000 | 2010<br>Rs. '000 |
| <b>36.1 Net Defined Benefit Obligation</b>           |                                |                  |                  |                                |                  |                  |
| <b>Pre-1996 Pension Plan</b>                         |                                |                  |                  |                                |                  |                  |
| Opening Balance                                      | 3,236,543                      | 1,333,891        |                  | 3,236,543                      | 1,333,891        |                  |
| Current Service Cost                                 | 535,681                        | 667,733          |                  | 535,681                        | 667,733          |                  |
| Interest Cost  | 4,191,535                      | 4,009,550        |                  | 4,191,535                      | 4,009,550        |                  |
| Expected Return                                      | (3,627,807)                    | (3,685,022)      |                  | (3,627,807)                    | (3,685,022)      |                  |
| Provision Adjustment                                 | (1,260,337)                    | (1,260,000)      |                  | (1,260,337)                    | (1,260,000)      |                  |
| Actuarial Loss                                       | 1,025,294                      | 287,633          |                  | 1,025,294                      | 287,633          |                  |
| Difference between Expected Return and Actual Return | (967,327)                      | 1,882,758        |                  | (967,327)                      | 1,882,758        |                  |
| Actual Expenses and Taxes                            | 8,973                          | –                |                  | 8,973                          | –                |                  |
| Closing Balance                                      | 3,142,555                      | 3,236,543        |                  | 3,142,555                      | 3,236,543        |                  |

### 36.2 Provision for Gratuity

|                            |         |         |         |         |         |         |
|----------------------------|---------|---------|---------|---------|---------|---------|
| Opening Balance            | 314,682 | 223,712 | 164,014 | 348,476 | 248,553 | 188,855 |
| Provisions during the Year | 2,061   | 92,500  | 62,000  | 22,877  | 101,453 | 62,000  |
| Payments during Year       | (1,779) | (1,530) | (2,302) | (1,779) | (1,530) | (2,302) |
| Closing Balance            | 314,964 | 314,682 | 223,712 | 369,574 | 348,476 | 248,553 |

The principal assumptions used in the valuation of Gratuity Liability as at 31st December 2012 are as follows:

|                           |          |
|---------------------------|----------|
| Discount Rate             | 10%      |
| Annual Basic Salary Scale | 7%       |
| Normal Retirement Age     | 55 Years |

## 37. SUBORDINATED TERM DEBTS

|                              | Interest Rate and<br>Repayment Terms | Issue<br>Date | Maturity<br>Date | BANK             |                  |                  | GROUP            |                  |                  |
|------------------------------|--------------------------------------|---------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                              |                                      |               |                  | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2010<br>Rs. '000 | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2010<br>Rs. '000 |
| <b>Issued by the Bank</b>    |                                      |               |                  |                  |                  |                  |                  |                  |                  |
| (i) Tranch 1                 | 16.0% - Biannually                   | 2008.12.30    | 2016.12.30       | 2,500,000        | 2,500,000        | 2,500,000        | 2,500,000        | 2,500,000        | 2,500,000        |
| (ii) Tranch 2                | 13.5% - Biannually                   | 2009.12.30    | 2017.12.30       | 2,500,000        | 2,500,000        | 2,500,000        | 2,500,000        | 2,500,000        | 2,500,000        |
| (iii) Tranch 3               | 12.0% - Biannually                   | 2011.12.30    | 2019.12.19       | 5,000,000        | 5,000,000        | -                | 5,000,000        | 5,000,000        | -                |
| <b>Issued by the Group</b>   |                                      |               |                  |                  |                  |                  |                  |                  |                  |
| Securitisation               |                                      |               |                  |                  |                  |                  |                  |                  |                  |
| Debenture                    |                                      |               |                  |                  |                  |                  |                  |                  |                  |
| Redeemable Preference Shares |                                      |               |                  | 10,000,000       | 10,000,000       | 5,000,000        | 10,000,000       | 10,000,000       | 5,000,000        |
| <b>Total</b>                 |                                      |               |                  |                  |                  |                  |                  |                  |                  |
| Due within 1 Year            |                                      |               |                  | -                | -                | -                | -                | -                | -                |
| Due after 1 Year             |                                      |               |                  | 10,000,000       | 10,000,000       | 5,000,000        | 10,000,000       | 10,000,000       | 5,000,000        |
| <b>Total</b>                 |                                      |               |                  | 10,000,000       | 10,000,000       | 5,000,000        | 10,000,000       | 10,000,000       | 5,000,000        |

## 38. SHARE CAPITAL/ASSIGNED CAPITAL

### 38.1 Share Capital

#### 38.1.1 Movement of Share Capital

|   | BANK             |                  |                  | GROUP            |                  |                  |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
|   | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2010<br>Rs. '000 | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2010<br>Rs. '000 |
| <b>Authorised</b>                           |                  |                  |                  |                  |                  |                  |
| 20,000,000 Ordinary Shares of Rs. 50/- each | 1,000,000        | 1,000,000        | 1,000,000        | 1,000,000        | 1,000,000        | 1,000,000        |
| <b>Issued and Fully-Paid</b>                |                  |                  |                  |                  |                  |                  |
| 999,960 Ordinary Shares of Rs. 50/- each    | 49,998           | 49,998           | 49,998           | 49,998           | 49,998           | 49,998           |

All issued shares of 1 Mn are fully-paid except for 40 shares for which calls have been made, but remain unpaid.

**38.1.2 Principal Shareholders of the Bank are as follows:**

|                         | <b>2012</b><br>% | 2011<br>% | 2010<br>% |
|-------------------------|------------------|-----------|-----------|
| Government of Sri Lanka | 92.27            | 92.27     | 92.27     |
| Co-operative Societies  | 7.73             | 7.73      | 7.73      |
|                         | <b>100.00</b>    | 100.00    | 100.00    |

**38.2 Assigned Capital (Capital Pending Allotment)**

**38.2.1** The Government of Sri Lanka has injected Rs. 7,152 Mn as capital to the Bank. This amount is currently in the Capital Pending Allotment Account. The Bank is planning to issue 143,040,000 shares of Rs. 50/- each, subsequent to the increase in authorised Share Capital.

**38.2.2** The increase in paid up capital requires an amendment to the People's Bank Act and it is yet to be finalised.

**38.2.3** The Ministry of Finance of the Government of Sri Lanka infused capital to the Bank as follows. Four tranches of Rs. 1 Bn, Rs. 2 Bn, Rs. 1.5 Bn and Rs. 1.5 Bn for the years 2005, 2006, 2007 and 2008 to meet the stipulated minimum capital requirement by the Central Bank of Sri Lanka.

**39. STATUTORY RESERVE FUND**

The Permanent Reserve Fund is maintained as required by the Banking Act No. 30 of 1988. Accordingly, the Bank should, out of net profit after taxation but before any dividend is declared, transfer to the Permanent Reserve a sum equivalent to not less than 5% of the Bank's paid-up capital until the Permanent Reserve is equal to 50% of the paid-up capital and not less than 2% until the Permanent Reserve equals the paid-up capital.

No transfer to the Permanent Reserve was made this year as it has already reached the required level.

No new transfers have been made to the Permanent Reserve, as the balance now equals the existing Issued Share Capital balance.



## 40. OTHER RESERVES

### 40.1 Revaluation Reserve

This reserve was created on revaluation of assets of the Bank as per Board approval in compliance with Section 19 (7) of the Banking Act No. 30 of 1988.

### 40.2 Capital Reserve

This reserve was created in 1987 and increased in 1998, has no transfers to date.

### 40.3 Special Risk Reserve

In terms of Central Bank Directives, 25% of the profit has been transferred to Special Risk Reserve in order to promote safety, soundness and the stability of the Primary Dealer System and to build-up a Primary Dealer Capital Base.

### 40.4 General Reserve

This reserve has been created under Section 22 (2) of the People's Bank Act No. 29 of 1961. The General Reserve represents accumulated unallocated retained Profits and Losses which are available for distribution and for settlement of debentures issued.

### 40.5 Investment Fund Account

As per Central Bank of Sri Lanka guidelines, this fund is created using the nominal tax savings from the reduced taxation rates applicable on Financial VAT and mainstream taxation from 2011.

### 40.6 Dividend Paid to GOSL

According to the Agreement between the Government of Sri Lanka and the People's Bank, the Bank is required to pay back 25% of the Restructuring Bond interest to the General Treasury as a dividend. Additional details relating to this expense are reflected in Note 20.

### 40.7 Special Levy to Treasury

This pertains to a special dividend paid to the consolidated fund of the Government of Sri Lanka as determined by the Ministry of Finance. The amount payable for 2012 is Rs. 4,500 Mn.

|   | Statutory<br>Reserve<br>Rs. '000 | Revaluation<br>Reserve<br>Rs. '000 | Capital<br>Reserve<br>Rs. '000 | Special Risk<br>Reserve<br>Rs. '000 | General<br>Reserve<br>Rs. '000 | Investment<br>Fund<br>Rs. '000 | Profit/(Loss)<br>(Restated)<br>Rs. '000 | Total<br>Rs. '000 |
|---|----------------------------------|------------------------------------|--------------------------------|-------------------------------------|--------------------------------|--------------------------------|---|-------------------|
| <b>41. MOVEMENT IN<br/>RETAINED EARNINGS AND<br/>OTHER RESERVES</b> |                                  |                                    |                                |                                     |                                |                                |   |                   |
| <b>BANK</b>   |                                  |                                    |                                |                                     |                                |                                |   |                   |
| <b>Balance as at 31.12.2010</b>                                     | 49,998                           | 5,630,460                          | 5,663                          | 1,253,808                           | 939,500                        | –                              | 5,175,883                               | 13,055,312        |
| Deposit EIR Adjustment to Opening<br>Retained Earnings              | –                                | –                                  | –                              | –                                   | –                              | –                              | 581,573                                 | 581,573           |
| Changes in Fair Value in AFS Investments                            | –                                | –                                  | –                              | –                                   | –                              | –                              | 116,925                                 | 116,925           |
| Impairment Charges in Respect of<br>Off-Balance Sheet Items         | –                                | –                                  | –                              | –                                   | –                              | –                              | (212,595)                               | (212,595)         |
| Net Defined Benefit Obligation                                      | –                                | –                                  | –                              | –                                   | –                              | –                              | (1,333,891)                             | (1,333,891)       |
| <b>Balance as at 01.01.2011</b>                                     | 49,998                           | 5,630,460                          | 5,663                          | 1,253,808                           | 939,500                        | –                              | 4,327,895                               | 12,207,324        |
| Profit/(Loss) for the Year  | –                                | –                                  | –                              | –                                   | –                              | –                              | 10,446,373                              | 10,446,373        |
| Changes in Fair Value in AFS Investments                            | –                                | –                                  | –                              | –                                   | –                              | –                              | (96,671)                                | (96,671)          |
| Net Defined Benefit Obligation                                      | –                                | –                                  | –                              | –                                   | –                              | –                              | (2,170,391)                             | (2,170,391)       |
| Transfer to Reserve During the Period                               | 1,842,593                        | –                                  | –                              | 197,598                             | 1,250,000                      | 1,897,702                      | (5,187,893)                             | –                 |
| Dividend Paid to GOSL   | –                                | –                                  | –                              | –                                   | –                              | –                              | –                                       | –                 |
| Special Levy to Treasury  | –                                | –                                  | –                              | –                                   | –                              | –                              | (4,500,000)                             | (4,500,000)       |
| <b>Balance as at 31.12.2011</b>                                     | 1,892,291                        | 5,630,460                          | 5,663                          | 1,451,406                           | 2,189,500                      | 1,897,702                      | 2,819,313                               | 15,886,635        |
| Profit/(Loss) for the Year  | –                                | –                                  | –                              | –                                   | –                              | –                              | 10,893,992                              | 10,893,992        |
| Changes in Fair Value in AFS Investments                            | –                                | –                                  | –                              | –                                   | –                              | –                              | (18,489)                                | (18,489)          |
| Net Defined Benefit Obligation                                      | –                                | –                                  | –                              | –                                   | –                              | –                              | (57,966)                                | (57,966)          |
| Transfers to Reserves During the Period                             | 544,700                          | (166,964)                          | –                              | 182,304                             | 1,250,000                      | 3,145,843                      | (4,955,882)                             | –                 |
| Dividend Paid to GOSL (Note 40.6)                                   | –                                | –                                  | –                              | –                                   | –                              | –                              | (201,382)                               | (201,382)         |
| Special Levy to Treasury (Note 40.7)                                | –                                | –                                  | –                              | –                                   | –                              | –                              | (4,500,000)                             | (4,500,000)       |
| <b>Balance as at 31.12.2012</b>                                     | 2,437,291                        | 5,463,496                          | 5,663                          | 1,633,710                           | 3,439,500                      | 5,043,545                      | 3,979,585                               | 22,002,790        |
| Notes   | 39                               | 40.1                               | 40.2                           | 40.3                                | 40.4                           | 40.5                           |   |                   |

|  | Statutory Reserve | Revaluation Reserve | Capital Reserve | Special Risk Reserve | General Reserve | Investment Fund | Profit/(Loss) (Restated) | Total       | Non-Controlling Interest | Total       |
|--|-------------------|---------------------|-----------------|----------------------|-----------------|-----------------|--------------------------|-------------|--------------------------|-------------|
|  | Rs. '000          | Rs. '000            | Rs. '000        | Rs. '000             | Rs. '000        | Rs. '000        | Rs. '000                 | Rs. '000    | Rs. '000                 | Rs. '000    |
| <b>GROUP</b>   |                   |                     |                 |                      |                 |                 |                          |             |                          |             |
| <b>Balance as at 31.12.2010</b>                          | 49,998            | 5,630,460           | 5,663           | 1,253,808            | 939,500         | -               | 11,820,958               | 19,700,387  | 83,225                   | 19,783,612  |
| Deposit EIR Adjustment to Opening Retained Earnings      | -                 | -                   | -               | -                    | -               | -               | 581,573                  | 581,573     | -                        | 581,573     |
| Changes in Fair Value in AFS Investments                 | -                 | -                   | -               | -                    | -               | -               | 116,925                  | 116,925     | -                        | 116,925     |
| Impairment Charges in Respect of Off-Balance Sheet Items | -                 | -                   | -               | -                    | -               | -               | (212,595)                | (212,595)   | -                        | (212,595)   |
| Net Defined Benefit Obligation                           | -                 | -                   | -               | -                    | -               | -               | (1,333,891)              | (1,333,891) | -                        | (1,333,891) |
| <b>Balance as at 01.01.2011</b>                          | 49,998            | 5,630,460           | 5,663           | 1,253,808            | 939,500         | -               | 10,972,971               | 18,852,400  | 83,225                   | 18,935,625  |
| Profit/(Loss) for the Year                               | -                 | -                   | -               | -                    | -               | -               | 12,117,411               | 12,117,411  | 406,127                  | 12,523,538  |
| Changes in Fair Value in AFS Investments                 | -                 | -                   | -               | -                    | -               | -               | (93,985)                 | (93,985)    | 895                      | (93,090)    |
| Net Defined Benefit Obligation                           | -                 | -                   | -               | -                    | -               | -               | (2,169,579)              | (2,169,579) | 271                      | (2,169,308) |
| Transfer to Reserve During the Period                    | 1,842,593         | -                   | -               | 197,598              | 1,250,000       | 2,230,900       | (5,521,091)              | -           | -                        | -           |
| Dividend Paid to GOSL                                    | -                 | -                   | -               | -                    | -               | -               | (3,580)                  | (3,580)     | -                        | (3,580)     |
| Special Levy to Treasury                                 | -                 | -                   | -               | -                    | -               | -               | (4,500,000)              | (4,500,000) | -                        | (4,500,000) |
| Deemed Disposal Profit                                   | -                 | -                   | -               | -                    | -               | -               | 3,150,026                | 3,150,026   | -                        | 3,150,026   |
| Share Issue Expenses                                     | -                 | -                   | -               | -                    | -               | -               | (211,190)                | (211,190)   | -                        | (211,190)   |
| Goodwill Adjustment                                      | -                 | -                   | -               | -                    | -               | -               | (2,969)                  | (2,969)     | -                        | (2,969)     |
| Disposal of Change of Holdings                           | -                 | -                   | -               | -                    | -               | -               | (29,362)                 | (29,362)    | -                        | (29,362)    |
| Acquired During the Year                                 | -                 | -                   | -               | -                    | -               | -               | -                        | -           | 3,932,085                | 3,932,085   |
| <b>Balance as at 31.12.2011</b>                          | 1,842,593         | 5,630,460           | 5,663           | 1,451,406            | 2,189,500       | 2,230,900       | 13,708,652               | 27,109,171  | 4,422,603                | 31,531,774  |
| Profit/(Loss) for the Year                               | -                 | -                   | -               | -                    | -               | -               | 11,230,199               | 11,230,199  | 666,494                  | 11,896,692  |
| Changes in Fair Value in AFS Investments                 | -                 | -                   | -               | -                    | -               | -               | (57,802)                 | (57,802)    | 54                       | (57,748)    |
| Net Defined Benefit Obligation                           | -                 | -                   | -               | -                    | -               | -               | (33,616)                 | (33,616)    | (4,994)                  | (38,609)    |
| Deemed Disposal Profit                                   | -                 | -                   | -               | -                    | -               | -               | -                        | -           | -                        | -           |
| Transfers to Reserves During the Period                  | 544,700           | (166,964)           | -               | 182,304              | 1,250,000       | 3,621,639       | (5,431,679)              | -           | -                        | -           |
| Dividend Paid to GOSL (Note 40.6)                        | -                 | -                   | -               | -                    | -               | -               | (201,382)                | (201,382)   | -                        | (201,382)   |
| Special Levy to Treasury (Note 40.7)                     | -                 | -                   | -               | -                    | -               | -               | (4,500,000)              | (4,500,000) | -                        | (4,500,000) |
| Movement in Deemed Disposal Profit                       | -                 | -                   | -               | -                    | -               | -               | 435,191                  | 435,191     | (504,322)                | (69,131)    |
| Share Issue Expenses                                     | -                 | -                   | -               | -                    | -               | -               | (14,429)                 | (14,429)    | -                        | (14,429)    |
| SLAS to IFRS Adjustment                                  | -                 | -                   | -               | -                    | -               | -               | -                        | -           | -                        | -           |
| <b>Balance as at 31.12.2012</b>                          | 2,437,291         | 5,463,496           | 5,663           | 1,633,710            | 3,439,500       | 5,852,539       | 15,135,134               | 33,967,332  | 4,579,835                | 38,547,167  |
| Notes  | 39                | 40.1                | 40.2            | 40.3                 | 40.4            | 40.5            |                          |             |                          |             |

|   | BANK                           |                  |                  | GROUP                          |                  |                  |
|---|--------------------------------|------------------|------------------|--------------------------------|------------------|------------------|
|   | <b>2012</b><br><b>Rs. '000</b> | 2011<br>Rs. '000 | 2010<br>Rs. '000 | <b>2012</b><br><b>Rs. '000</b> | 2011<br>Rs. '000 | 2010<br>Rs. '000 |
| <b>42. NON-CONTROLLING INTEREST</b>     |                                |                  |                  |                                |                  |                  |
| Balance at beginning of the Year        | -                              | -                | -                | 4,422,603                      | 83,225           | 6,217            |
| Acquire during the Year                 | -                              | -                | -                | -                              | 3,833,012        | 73,903           |
| Disposal during the Year                | -                              | -                | -                | (176,824)                      | -                | -                |
| Goodwill Adjustment                     | -                              | -                | -                | -                              | 154,843          | -                |
| Share of Net Profit/(Loss) for the Year | -                              | -                | -                | 661,554                        | 407,293          | 3,118            |
| Dividend Payments during the Year       | -                              | -                | -                | (327,497)                      | (55,770)         | (13)             |
| <b>Balance as at end of the Year</b>    | <b>-</b>                       | <b>-</b>         | <b>-</b>         | <b>4,579,836</b>               | <b>4,422,603</b> | <b>83,225</b>    |

### 43. COMMITMENTS AND CONTINGENCIES

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

|  | BANK                           |                    |                    | GROUP                          |                    |                    |
|--|--------------------------------|--------------------|--------------------|--------------------------------|--------------------|--------------------|
|  | <b>2012</b><br><b>Rs. '000</b> | 2011<br>Rs. '000   | 2010<br>Rs. '000   | <b>2012</b><br><b>Rs. '000</b> | 2011<br>Rs. '000   | 2010<br>Rs. '000   |
| <b>43.1 Contingent Liabilities</b>         |                                |                    |                    |                                |                    |                    |
| Acceptances                                | 79,408,496                     | 51,071,798         | 41,489,046         | 79,408,496                     | 51,071,798         | 41,489,046         |
| Documentary Credit                         | 62,340,734                     | 81,052,753         | 33,945,717         | 62,414,458                     | 81,365,793         | 33,945,717         |
| Guarantees                                 | 24,119,294                     | 25,928,142         | 22,241,936         | 25,594,294                     | 25,928,142         | 22,241,936         |
| Forward Exchange Contracts                 | 2,680,654                      | 12,959,751         | 7,636,022          | 2,680,654                      | 12,959,751         | 7,636,022          |
|  | <b>168,549,178</b>             | <b>171,012,444</b> | <b>105,312,721</b> | <b>170,097,902</b>             | <b>171,325,484</b> | <b>105,312,721</b> |
| <b>43.2 Commitments</b>                    |                                |                    |                    |                                |                    |                    |
| Non-Disbursed Overdrafts                   | 38,472,206                     | 19,719,713         | 26,084,818         | 38,472,206                     | 19,719,713         | 26,084,818         |
|  | <b>38,472,206</b>              | <b>19,719,713</b>  | <b>26,084,818</b>  | <b>38,472,206</b>              | <b>19,719,713</b>  | <b>26,084,818</b>  |
| <b>Total Commitments and Contingencies</b> | <b>207,021,384</b>             | <b>190,732,157</b> | <b>131,397,539</b> | <b>208,570,108</b>             | <b>191,045,197</b> | <b>131,397,539</b> |

### 43.3 Litigation

In the normal course of business, the Bank is involved in various types of litigation, including litigation with borrowers who are in default under terms of their loan agreements. In certain circumstances, borrowers have asserted or threatened counter claims defences. The Bank is also contesting certain Labour Tribunal cases. In the opinion of management, based on its assessment and consultation with outside counsel, litigation which is currently pending against the Bank and the Group will not have a material impact on the financial condition or future operations of the Bank and the Group as a whole. The total value of litigation against the Bank amounts to approximately Rs. 8.20 Bn, of which details are given below:

| Zone   | Region           | Value<br>Rs.         |
|--|------------------|----------------------|
| Legal  | Legal Department | 654,411,418          |
|  | Court of Appeal  | 151,673,059          |
| Western I  | Western Zone I   | 72,940,000           |
|  | Gampaha          | 2,250,000            |
| Central  | Kandy            | 8,550,000            |
| Eastern  | Ampara           | 300,000              |
|  | Batticaloa       | 1,550,000            |
| North-Central                                      | Anuradhapura     | 5,550,000            |
|  | Polonnaruwa      | 120,000              |
| Southern   | Galle            | 8,400,000            |
|  | Hambantota       | 1,100,000            |
| Uva  | Matara           | 1,456,202            |
|  | Badulla          | 12,700,000           |
| Wayamba  | Kurunegala       | 4,690,188            |
|  | Puttalam         | 36,175,000           |
|  | Kegalle          | 5,304,722            |
| Western II   | Western II       | 33,142,000           |
|  | Kalutara         | 34,952,856           |
| Special Assets Unit/<br>Corporate Banking Division |                  | 7,164,256,790        |
| <b>Total</b>                                       |                  | <b>8,199,522,235</b> |

### 43.4 Other Capital Commitments

The following indicates the contractual amounts of the Group's Off-Balance Sheet financial instruments that commits it to extend credit to customers:

|                                 | BANK                           |                  |                  | GROUP                          |                  |                  |
|---------------------------------|--------------------------------|------------------|------------------|--------------------------------|------------------|------------------|
|                                 | <b>2012</b><br><b>Rs. '000</b> | 2011<br>Rs. '000 | 2010<br>Rs. '000 | <b>2012</b><br><b>Rs. '000</b> | 2011<br>Rs. '000 | 2010<br>Rs. '000 |
| Approved and Contracted for     | 264,180                        | 854,962          | 180,827          | 264,180                        | 854,962          | 180,827          |
| Approved but Not Contracted for | 543,170                        | –                | 8,874            | 543,170                        | –                | 8,874            |
|                                 | <b>807,350</b>                 | <b>854,962</b>   | <b>189,701</b>   | <b>807,350</b>                 | <b>854,962</b>   | <b>189,701</b>   |

|   | BANK                           |                  | GROUP                          |                  |
|---|--------------------------------|------------------|--------------------------------|------------------|
|   | <b>2012</b><br><b>Rs. '000</b> | 2011<br>Rs. '000 | <b>2012</b><br><b>Rs. '000</b> | 2011<br>Rs. '000 |
| Depreciation of Property, Plant & Equipment | 510,590                        | 821,284          | 783,718                        | 1,047,029        |
| Amortisation of Leasehold Properties        | 102,626                        | 78,861           | 111,890                        | 78,861           |
| Amortisation of Prepayment Leases           | 33,358                         | 23,864           | 33,358                         | 23,864           |
| Amortisation of Intangible Assets           | 56,455                         | 95,829           | 73,596                         | 107,600          |
| Depreciation of Investment Property         | 9,071                          | –                | 9,071                          | –                |
| Impairment Losses on Loans and Advances     | 2,742,305                      | 970,919          | 3,585,236                      | 1,202,374        |
| Other Impairments                           | –                              | –                | –                              | –                |
| Share-Based Payment Expenses                | –                              | –                | –                              | –                |
| Profit on Sale of Fixed Assets              | (22,565)                       | (7,352)          | (80,878)                       | (16,949)         |
|   | <b>3,431,840</b>               | <b>1,983,405</b> | <b>4,515,991</b>               | <b>2,442,779</b> |

### 44. NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX

|   | BANK             |                  | GROUP            |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2012<br>Rs. '000 | 2011<br>Rs. '000 |
| <b>45. CHANGES IN OPERATING ASSETS</b>                                    |                  |                  |                  |                  |
| Changes in Derivative Financial Instruments                               |                  |                  |                  |                  |
| Net Increase in Debt Securities, Treasury Bills & Bonds and Equity Shares |                  |                  |                  |                  |
| Held at Fair Value through Profit or Loss                                 | 5,143,928        | 36,813,465       | 5,007,667        | 36,778,366       |
| Net Increase in Balance with Central Bank                                 | (394,408)        | 12,809,954       | (394,408)        | 12,809,954       |
| Net Increase in Placement with Bank                                       | (3,748,532)      | (9,592,720)      | (3,748,532)      | (9,592,720)      |
| Net Increase/(Decrease) in Other Financial Assets held for Trading        | -                | -                | -                | -                |
| Net Increase in Loans and Receivable to Banks                             | (3,339,657)      | (7,185,367)      | (3,339,657)      | (7,185,367)      |
| Net Increase in Loans and Receivable to Customers                         | (143,465,972)    | (113,021,209)    | (158,834,289)    | (139,535,587)    |
| Net Increase/(Decrease) in Financial Investments Available for Sale       | (27,531,767)     | 548              | (27,485,305)     | 102,806          |
| Change in Other Assets  | 192,003          | 194,194          | 504,794          | 810,953          |
|   | (173,144,405)    | (79,981,135)     | (188,289,730)    | (105,811,595)    |

## 46. CHANGES IN OPERATING LIABILITIES

|   |                    |                    |                    |                    |
|---|--------------------|--------------------|--------------------|--------------------|
| Changes in due to Banks   | 50,522,643         | 37,027,306         | 52,603,790         | 44,241,278         |
| Changes in Derivative Financial Instruments                         | -                  | -                  | -                  | -                  |
| Change in Deposits from Banks, Customers and Debt Securities Issued | 133,724,389        | 79,256,719         | 136,573,324        | 91,627,990         |
| Change in Other Borrowings  | 20,237,823         | (12,587,421)       | 20,759,777         | (13,394,235)       |
| Change in Other Provisions  | -                  | -                  | -                  | -                  |
| Change in Other Liabilities   | 171,265            | (1,865,160)        | 8,049,845          | (1,053,103)        |
| Change in due to Subsidiaries                                       | -                  | -                  | -                  | -                  |
| <b>Total</b>  | <b>204,656,120</b> | <b>101,831,444</b> | <b>217,986,736</b> | <b>121,421,930</b> |



|   | BANKING          |                  | LEASING          |                  | TRAVELS          |                  | GROUP            |                  |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|   | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2012<br>Rs. '000 | 2011<br>Rs. '000 | 2012<br>Rs. '000 | 2011<br>Rs. '000 |
| <b>47. FINANCIAL REPORTING<br/>BY SEGMENT</b> |                  |                  |                  |                  |                  |                  |                  |                  |
| Interest                                      | 84,504,278       | 61,120,054       | 1,992,659        | 1,237,381        | -                | -                | 86,496,937       | 62,357,435       |
| Exchange                                      | 2,126,109        | 1,207,902        | -                | -                | -                | -                | 2,126,109        | 1,207,902        |
| Leasing                                       | 12,332           | 41,664           | 14,587,867       | 11,307,005       | -                | -                | 14,600,199       | 11,348,669       |
| Share Trading/Dividend                        | 31,135           | 33,848           | 40,392           | -                | -                | -                | 71,527           | 33,848           |
| Commissions and Fees                          | 3,541,589        | 2,929,812        | 262,999          | -                | 27,071           | 24,036           | 3,831,659        | 2,953,848        |
| Other   | 1,984,223        | 1,289,599        | 859,628          | 705,813          | 3,459            | 2,560            | 2,847,301        | 1,997,972        |
| Total Revenue from External Customers         | 92,199,664       | 66,622,879       | 17,743,545       | 13,250,199       | 30,530           | 26,596           | 109,973,739      | 79,899,674       |
| Inter-Segment Revenue                         | 2,577,734        | 1,675,375        | 138,722          | 105,731          | -                | -                | 2,716,456        | 1,781,4106       |
| Total Revenue                                 | 94,777,398       | 68,298,254       | 17,882,267       | 13,355,930       | 30,530           | 26,596           | 112,690,195      | 81,680,780       |
| Segment Result                                | 15,249,382       | 15,600,001       | 4,102,631        | 4,054,875        | 9,104            | 9,381            | 17,738,616       | 18,809,259       |
| Income from Associates                        | -                | -                | -                | -                | -                | -                | (67,207)         | 33,663           |
| Income Tax Expenses                           | (4,355,390)      | (5,153,628)      | (1,418,547)      | (1,164,770)      | (779)            | (985)            | (5,774,717)      | (6,319,383)      |
| Non-Controlling Interests                     | -                | -                | -                | -                | -                | -                | (661,554)        | (407,293)        |
| Net Profit for the Year                       | 10,893,992       | 10,446,373       | 2,684,084        | 2,890,105        | 8,325            | 8,396            | 11,235,138       | 12,116,245       |
| Segment Assets                                | 872,833,504      | 661,803,563      | 96,119,835       | 93,427,111       | 46,654           | 36,569           | 960,550,090      | 743,962,255      |
| Investment in Associates                      | 273,100          | 273,100          | 205,160          | 205,160          | -                | -                | 309,989          | 427,196          |
| Total Assets                                  | 873,106,604      | 662,076,663      | 96,324,995       | 93,632,271       | 46,654           | 36,569           | 960,860,079      | 744,389,451      |
| Segment Liabilities                           | 843,901,816      | 638,988,030      | 79,151,549       | 77,437,928       | 11,007           | 9,246            | 915,110,913      | 705,655,679      |
| Total Equity and Liabilities                  | 873,106,604      | 662,076,663      | 96,324,995       | 93,632,271       | 46,654           | 36,569           | 960,860,079      | 744,389,455      |

## 48. RELATED PARTY DISCLOSURES

### 48.1 Transactions with Key Management Personnel of the Bank

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling activities of the Bank. Such Key Management Persons include Chairman, Executive and Non-Executive Directors, Chief Executive Officer/General Manager of the Bank and their close family members.

|  | 2012<br>Rs. '000 | 2011<br>Rs. '000 |
|--|------------------|------------------|
| <b>48.1.1 Compensation of Key Management Personnel of the Bank</b> |                  |                  |
| Short-Term Employee Benefits                                       | 17,470           | 16,715           |
| Post-Employment Pension  | -                | -                |
| Termination Benefits   | -                | -                |
| Share-Based Payments   | -                | -                |

#### 48.1.2 Transactions with Key Management Personnel

The following table provides the outstanding balance and the corresponding interest, which have been entered into with Key Management Personnel of the Bank during the year:

|                       | Balance as at the Year end |                  | Income during the Year |                  |
|-----------------------|----------------------------|------------------|------------------------|------------------|
|                       | 2012<br>Rs. '000           | 2011<br>Rs. '000 | 2012<br>Rs. '000       | 2011<br>Rs. '000 |
| Residential Mortgages | -                          | -                | -                      | -                |
| Credit Cards          | 441                        | 130              | 5                      | 12               |
| Guarantees            | -                          | -                | -                      | -                |

#### 48.2 Transactions with Subsidiary Companies

The following table provides the outstanding balance of loans & advances and other credit facilities and deposits and the corresponding interest during the year of subsidiary companies:

|   | Balance as at the Year end |                  | Income/Expenses during the Year |                  |
|---|----------------------------|------------------|---------------------------------|------------------|
|   | 2012<br>Rs. '000           | 2011<br>Rs. '000 | 2012<br>Rs. '000                | 2011<br>Rs. '000 |
| <b>People's Leasing Co. Ltd.</b>  |                            |                  |                                 |                  |
| Investments - Ordinary Shares   | 498,484                    | 465,000          | 1,464,016                       | 660,000          |
| - Preference Shares   | 750,000                    | 950,000          | 157,250                         | 173,250          |
| Loans & Advances  | 6,230,062                  | 8,267,176        | 670,542                         | 592,107          |
| Deposits  | 136,429                    | 446,842          | 44,350                          | 27,526           |
| Other Receivables (Loan Interest, Building Rentals, etc.)               | 3,100                      | 3,750            | -                               | -                |
| Other Payables (Agency Commission, Hiring Rentals, Lease Rentals, etc.) | 252,055                    | 345,952          | -                               | -                |
| Building Rental Received  | -                          | -                | 18,600                          | -                |
| Agency Commission Paid  | -                          | -                | 744                             | -                |
| Lease Rental Paid   | -                          | -                | 36,416                          | -                |
| <b>People's Travels (Pvt) Ltd.</b>                                      |                            |                  |                                 |                  |
| Investments - Ordinary Shares   | 4,950                      | 4,950            | 1,238                           | -                |
| Off-Balance Sheet Accommodations  | 24,050                     | 15,050           | 459                             | 50               |
| Deposits  | 13,558                     | 15,125           | 1,679                           | 646              |

### 48.3 Transactions with Sub-Subsidiary Companies

The following table provides the outstanding balance of loans & advances and other credit facilities and deposits and the corresponding interest during the year of Sub-Subsidiary companies.

|   | Balance as at the Year end |                  | Income/Expenses during the Year |                  |
|---|----------------------------|------------------|---------------------------------|------------------|
|   | 2012<br>Rs. '000           | 2011<br>Rs. '000 | 2012<br>Rs. '000                | 2011<br>Rs. '000 |
| <b>People's Leasing Fleet Management Ltd.</b>     |                            |                  |                                 |                  |
| Deposits  | 3,241                      | 5,295            | 64                              | 69               |
| Hiring Rental Payable                             | 11,528                     | 11,886           | -                               | -                |
| Hiring Rental Paid                                | -                          | -                | 44,913                          | 34,262           |
| <b>People's Leasing Property Development Ltd.</b> |                            |                  |                                 |                  |
| Deposits  | 2,827                      | 786              | 24                              | 29               |
| Other Payables                                    | 26,027                     | 15,564           | -                               | -                |
| Expenses Paid                                     | -                          | -                | 49,043                          | 13,896           |
| <b>People's Insurance Ltd.</b>                    |                            |                  |                                 |                  |
| Repo Investments                                  | 262,207                    | 298,374          | 31,093                          | 12,991           |
| Other Receivables                                 | 1,241                      | 579              | -                               | -                |
| Insurance Premium Payable                         | 571                        | -                | -                               | -                |
| Service Charges and Claims Received               | -                          | -                | 78,117                          | 17,463           |
| Insurance Premium Paid                            | -                          | -                | 247,143                         | 271,501          |
| Other Income Received                             | -                          | -                | 6,077                           | 4,150            |
| <b>People's Finance PLC</b>                       |                            |                  |                                 |                  |
| Overdrafts  | 169,664                    | -                | 1,988                           | -                |
| Deposits  | 58,560                     | 7,925            | 1,855                           | 459              |
| Repo Investments                                  | 22,653                     | 408,440          | 5,712                           | 37,787           |
| <b>People's Microfinance Ltd.</b>                 |                            |                  |                                 |                  |
| Deposits  | 3,526                      | 352              | 73                              | -                |
| <b>People's Leasing Havelock Property Ltd.</b>    |                            |                  |                                 |                  |
| Repo Investment                                   | 14,873                     | 18,355           | 1,067                           | 1,320            |

## 48.4 Transactions with Associate Companies

The following table provides the outstanding balance of loans & advances and other credit facilities and deposits and the corresponding interest during the year of the associate company:

|                                   | Balance as at the Year end |                  | Income/Expenses during the Year |                  |
|-----------------------------------|----------------------------|------------------|---------------------------------|------------------|
|                                   | 2012<br>Rs. '000           | 2011<br>Rs. '000 | 2012<br>Rs. '000                | 2011<br>Rs. '000 |
| <b>People's Merchant Bank PLC</b> |                            |                  |                                 |                  |
| Investments - Ordinary Shares     | 263,100                    | 263,100          | -                               | -                |
| - Preference Shares               | 10,000                     | 10,000           | -                               | -                |
| Loans & Advances                  | 314,579                    | 224,600          | 39,987                          | 44,710           |
| Deposits                          | 131,918                    | 50,400           | 14,761                          | 799              |

## 48.5 Transactions with Government of Sri Lanka (GOSL) and State-Owned Enterprises (SOEs)

### 48.5.1 GOSL and SOE Loans and Advances

|                         | 2012<br>Balance   |                   |                   |                    | 2011<br>Balance   |                   |                  |                   |
|-------------------------|-------------------|-------------------|-------------------|--------------------|-------------------|-------------------|------------------|-------------------|
|                         | Overdrafts        | Loans & Advances  | Bills             | Total              | Overdrafts        | Loans & Advances  | Bills            | Total             |
|                         | Rs. '000          | Rs. '000          | Rs. '000          | Rs. '000           | Rs. '000          | Rs. '000          | Rs. '000         | Rs. '000          |
| Sri Lanka Government    | 35,712,233        | 4,058,085         | 12,837            | 39,783,155         | 23,195,571        | 2,419,989         | -                | 25,615,560        |
| Local Government Bodies | 15,384            | -                 | -                 | 15,384             | 602,830           | -                 | -                | 602,830           |
| Provincial Councils     | 166               | -                 | -                 | 166                | 166               | 32,469            | -                | 32,635            |
| Government Corporations | 22,653,774        | 91,346,349        | 22,248,456        | 136,248,579        | 14,380,863        | 49,630,556        | 4,315,000        | 68,326,419        |
| <b>Total</b>            | <b>58,381,556</b> | <b>95,404,434</b> | <b>22,261,293</b> | <b>176,047,283</b> | <b>38,179,430</b> | <b>52,083,014</b> | <b>4,315,000</b> | <b>94,577,444</b> |

### 48.5.2 GOSL and SOE Deposits

|                         | 2012<br>Balance   |                  |                   |                   | 2011<br>Balance   |                |                   |                   |
|-------------------------|-------------------|------------------|-------------------|-------------------|-------------------|----------------|-------------------|-------------------|
|                         | Demand            | Savings          | Time              | Total             | Demand            | Savings        | Time              | Total             |
|                         | Rs. '000          | Rs. '000         | Rs. '000          | Rs. '000          | Rs. '000          | Rs. '000       | Rs. '000          | Rs. '000          |
| Sri Lanka Government    | 8,388,864         | 599,095          | 2,051,654         | 11,039,614        | 8,594,360         | 252,232        | 2,847,502         | 11,694,094        |
| Local Government Bodies | 1,214,892         | -                | 501,378           | 1,716,270         | 1,240,905         | -              | 426,602           | 1,667,508         |
| Provincial Councils     | 891,389           | -                | 1,504             | 892,893           | 2,417,858         | -              | 466               | 2,418,325         |
| Government Corporations | 2,545,445         | 502,889          | 44,642,808        | 47,691,141        | 4,513,870         | 720,886        | 25,834,379        | 31,069,135        |
| <b>Total</b>            | <b>13,040,590</b> | <b>1,101,984</b> | <b>47,197,344</b> | <b>61,339,918</b> | <b>16,766,994</b> | <b>973,117</b> | <b>29,108,950</b> | <b>46,849,062</b> |

## 48.5.3 GOSL and SOE Off-Balance Sheet Items

|                         | 2012              |                       |                |                    | 2011              |                       |                |                    |
|-------------------------|-------------------|-----------------------|----------------|--------------------|-------------------|-----------------------|----------------|--------------------|
|                         | Acceptances       | Documentary<br>Credit | Guarantees     | Total              | Acceptances       | Documentary<br>Credit | Guarantees     | Total              |
|                         | Rs. '000          | Rs. '000              | Rs. '000       | Rs. '000           | Rs. '000          | Rs. '000              | Rs. '000       | Rs. '000           |
| Sri Lanka Government    | -                 | 3,113,279             | -              | 3,113,279          | 209,371           | 6,688,173             | -              | 6,897,544          |
| Government Corporations | 77,020,354        | 53,045,162            | 633,847        | 130,699,363        | 47,457,264        | 67,392,388            | 380,230        | 115,229,882        |
| <b>Total</b>            | <b>77,020,354</b> | <b>56,158,441</b>     | <b>633,847</b> | <b>133,812,642</b> | <b>47,666,635</b> | <b>74,080,561</b>     | <b>380,230</b> | <b>122,127,426</b> |

## 48.5.4 Government-Directed Loans and Advances

|  | Balance as at the Year end |                  | Income during the Year |                  |
|--|----------------------------|------------------|------------------------|------------------|
|  | 2012<br>Rs. '000           | 2011<br>Rs. '000 | 2012<br>Rs. '000       | 2011<br>Rs. '000 |
| Microfinance and Development Loans           | 10,583,278                 | 10,435,676       | 1,712,928              | 1,312,932        |
| Housing Loans Granted to Government Servants | 23,842,103                 | 19,567,504       | 2,926,909              | 2,194,176        |

## 48.6 Transactions with Staff Retirement Benefits

|   | 2012<br>Rs. '000 | 2011<br>Rs. '000 |
|---|------------------|------------------|
| Contribution during the Year - People's Bank Pension Trust Fund | 1,260,337        | 1,260,000        |
| - Proposed Pension Plan for Post-1996 Recruited Employees       | 304,548          | 200,000          |
| - Widows'/Widowers' & Orphans' Pension Fund                     | 35,860           | 39,120           |
|   | <b>1,600,745</b> | <b>1,499,120</b> |

## 49. FAIR VALUE OF FINANCIAL INSTRUMENTS

### Financial Instruments Recorded at Fair Value

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

### Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates.

### Financial Investments - Available-for-Sale

Available-for-sale financial assets valued using valuation techniques or pricing models primarily consist of unquoted equities. These assets are valued using models that use both observable data. The unobservable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile and economic assumptions.

### Other Financial Assets Held for Trading

Other trading assets valued using quoted (unadjusted) prices in active markets available for each of identical assets.

#### a. Determination of Fair Value and Fair Value Hierarchy

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

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

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

| 31st December 2012                              | Level 1<br>Rs. '000 | Level 2<br>Rs. '000 | Level 3<br>Rs. '000 | Total<br>Rs. '000 |
|---|---------------------|---------------------|---------------------|-------------------|
| <b>Financial Assets</b>                         |                     |                     |                     |                   |
| <b>Derivative Financial Instruments</b>         |                     |                     |                     |                   |
| Forward Foreign Exchange Contracts              | –                   | 2,681,730           | –                   | 2,681,730         |
| <b>Other Financial Assets Held-for-Trading</b>  |                     |                     |                     |                   |
| Treasury Bills and Bonds                        | –                   | 18,099,173          | –                   | 18,099,173        |
| Quoted Investments                              | 673,537             | –                   | –                   | 673,537           |
| <b>Financial Investments Available-for-Sale</b> |                     |                     |                     |                   |
| Unquoted Investments                            | –                   | –                   | 445,722             | 445,722           |
|   | 673,537             | 20,780,903          | 445,722             | 21,900,162        |
| 31st December 2011                              | Level 1<br>Rs. '000 | Level 2<br>Rs. '000 | Level 3<br>Rs. '000 | Total<br>Rs. '000 |
| <b>Financial Assets</b>                         |                     |                     |                     |                   |
| <b>Derivative Financial Instruments</b>         |                     |                     |                     |                   |
| Forward Foreign Exchange Contracts              | –                   | 12,725,473          | –                   | 12,725,473        |
| <b>Other Financial Assets Held-for-Trading</b>  |                     |                     |                     |                   |
| Treasury Bills and Bonds                        | –                   | 23,021,869          | –                   | 23,021,869        |
| Quoted Investments                              | 869,172             | –                   | –                   | 869,172           |
| <b>Financial Investments Available-for-Sale</b> |                     |                     |                     |                   |
| Unquoted Investments                            | –                   | –                   | 464,211             | 464,211           |
|   | 869,172             | 35,747,342          | 464,211             | 37,080,725        |

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

For the year ended 31st December

|   | 2012                              |                                       | 2011                              |                                       |
|---|-----------------------------------|---------------------------------------|-----------------------------------|---------------------------------------|
|   | Net Trading<br>Income<br>Rs. '000 | Other Operating<br>Income<br>Rs. '000 | Net Trading<br>Income<br>Rs. '000 | Other Operating<br>Income<br>Rs. '000 |
| <b>Financial Assets</b>                         |                                   |                                       |                                   |                                       |
| <b>Derivative Financial Instruments</b>         |                                   |                                       |                                   |                                       |
| Forward Foreign Exchange Contracts              | 1,076                             |                                       | (234,278)                         |                                       |
| <b>Other Financial Assets Held-for-Trading</b>  |                                   |                                       |                                   |                                       |
| Treasury Bills and Bonds                        | 22,188                            |                                       | (176,722)                         |                                       |
| Quoted Investments                              | (75,733)                          |                                       | (108,850)                         |                                       |
| <b>Financial Investments Available-for-Sale</b> |                                   |                                       |                                   |                                       |
| Unquoted Investments                            |                                   | 17,850                                |                                   | 23,301                                |



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

For the year ended 31st December

|  | <b>2012</b>                | 2011        | <b>2012</b>                | 2011        |
|--|----------------------------|-------------|----------------------------|-------------|
|  | <b>Carrying<br/>Amount</b> | Fair Value  | <b>Carrying<br/>Amount</b> | Fair Value  |
|  | <b>Rs. '000</b>            | Rs. '000    | <b>Rs. '000</b>            | Rs. '000    |
| <b>Financial Assets</b>                  |                            |             |                            |             |
| Cash and Cash Equivalents                | 24,401,979                 | 24,401,979  | 16,792,665                 | 16,792,665  |
| Balances with Central Banks              | 43,412,048                 | 43,412,048  | 35,717,033                 | 35,717,033  |
| Placements with Banks                    | 13,341,252                 | 13,341,252  | 16,893,327                 | 16,893,327  |
| Loans and Receivables                    | 646,764,366                | 646,079,649 | 493,387,711                | 494,382,673 |
| Financial Investments - Held-to-Maturity | 78,522,570                 | 75,990,352  | 46,303,056                 | 45,124,598  |
| Investment in Subsidiaries               | 1,253,434                  | 16,234,327  | 1,419,950                  | 19,674,952  |
| Investment in Associates                 | 273,100                    | 157,000     | 273,100                    | 163,860     |
| <b>Financial Liabilities</b>             |                            |             |                            |             |
| Due to Banks                             | 94,124,713                 | 94,124,713  | 43,351,639                 | 43,351,639  |
| Due to Other Customers                   | 683,950,837                | 684,106,858 | 550,226,448                | 549,297,289 |
| Other Borrowings                         | 41,024,958                 | 41,024,958  | 20,700,940                 | 20,700,940  |
| Subordinated Term Debts                  | 10,000,000                 | 9,907,647   | 10,000,000                 | 10,000,000  |

### Fair Value of Financial Assets and Liabilities Not Carried at Fair Value

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

#### Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short-term maturity (original maturity less than a year), it is assumed that the carrying amount approximate their fair values. This assumption is also applied to demand deposits, call deposits and savings deposits without specific maturity.

#### Fixed Rate Financial Instruments

Loans & advances with fixed interest rates were fair valued using market rates end of the reporting period and other variable interest-bearing loans were considered as carrying value equal fair value. Conversely, fixed deposits with original tenor above one year and interest paid at maturity were discounted using current market rates offered to customers end of the reporting period.

## 50. RISK MANAGEMENT

### Introduction

Commercial banks take on a certain amount of inherent risk due to the nature of business. Customers and counterparties seek the service of commercial banks, to obtain banking facilities/ funding and routing banking transactions.

In the process of providing the above services, the Bank's own Balance Sheet is used to facilitate these transactions and take on board assets/liabilities created in the process. This gives rise to a major part of the Bank's risk exposures.

The Bank also provide services which do not have a direct impact on the Balance Sheet such as, remittance services and private placement services facilitated by our Overseas Customer Service Unit and Investment Banking Division respectively.

However, the Bank recognises that both the above described categories of services do entail various types of risks which impose a significant amount of variability/volatility on the expected return from such services.

#### Some of the major risks recognised by the Bank are:

- i. Credit risk
- ii. Market risk
- iii. Concentration risk
- iv. Liquidity risk
- v. Operational risk

Most of the risks arising out of the Bank's principal activities of Lending and Borrowing are either mitigated/eliminated or monitored through carefully designed business practices or through product pricing and design.

#### Risks faced by the Bank are segmented into two different types:

- i. Risks that can be eliminated, transferred or avoided by appropriate business practices.
- ii. Risks that are absorbed and actively managed by the Bank.

#### We eliminate, avoid and transfer risks by:

- i. Defining and adhering to strict risk appetite.
- ii. Standardisation of processes, contracts and procedures to prevent inefficient or incorrect financial decisions.
- iii. Construction of portfolios, with strict diversification targets in order to reduce undue risk concentrations.
- iv. Product pricing and design.

We use our own resources and expertise in managing embedded risks. We believe that proper management of such risk positions is an important aspect in earning a consistent and adequate return ensuring stability and growth.

The Bank's risk management system consists of following sequence of steps/techniques:

**A. Clear policy directives on:**

- i. Risk underwriting standards (risk appetite)
- ii. Risk categorisation
- iii. Standard of review

**B. Establishment of risk position limits authority levels and rules**

- i. Risk taking is restricted to permitted asset classes/or counterparties with pre-defined quality standards.
- ii. Setting limits on eligible assets and counterparty exposures. Risks that can be assumed by any one individual is also restricted, by a well-defined authority levels. This applies to Treasury traders as well as credit line officers.

- C. Establishment of policies, procedures, guidelines and strategies for investment, credit and trading activities. Policies and strategies are articulated in terms of commitment to particular type and areas of the market. Tolerable concentration levels and tolerable levels of assets - liability mismatching (exposure) is defined.**

## The Bank's Initiatives during the Year

During the year under review, the Bank continued to consolidate and strengthen its risk management framework. New procedures and processes were introduced for measuring, monitoring and managing risks with a view to ensuring the establishment of a comprehensive internal capital adequacy assessment process as required under the Pillar 2 of the Basel II framework. Work processes relating to loss data collection was further strengthened. The B.O.D. established an executive committee for management of operational risk.

During the current year, the Bank introduced new policies relating to industry concentrations and individual/group borrower concentration in the Loan Book.

Stop-loss limits have been introduced on a number of traded products in order to further strengthen the risk management controls over Treasury activities.

## Integrated Risk Management at People's Bank

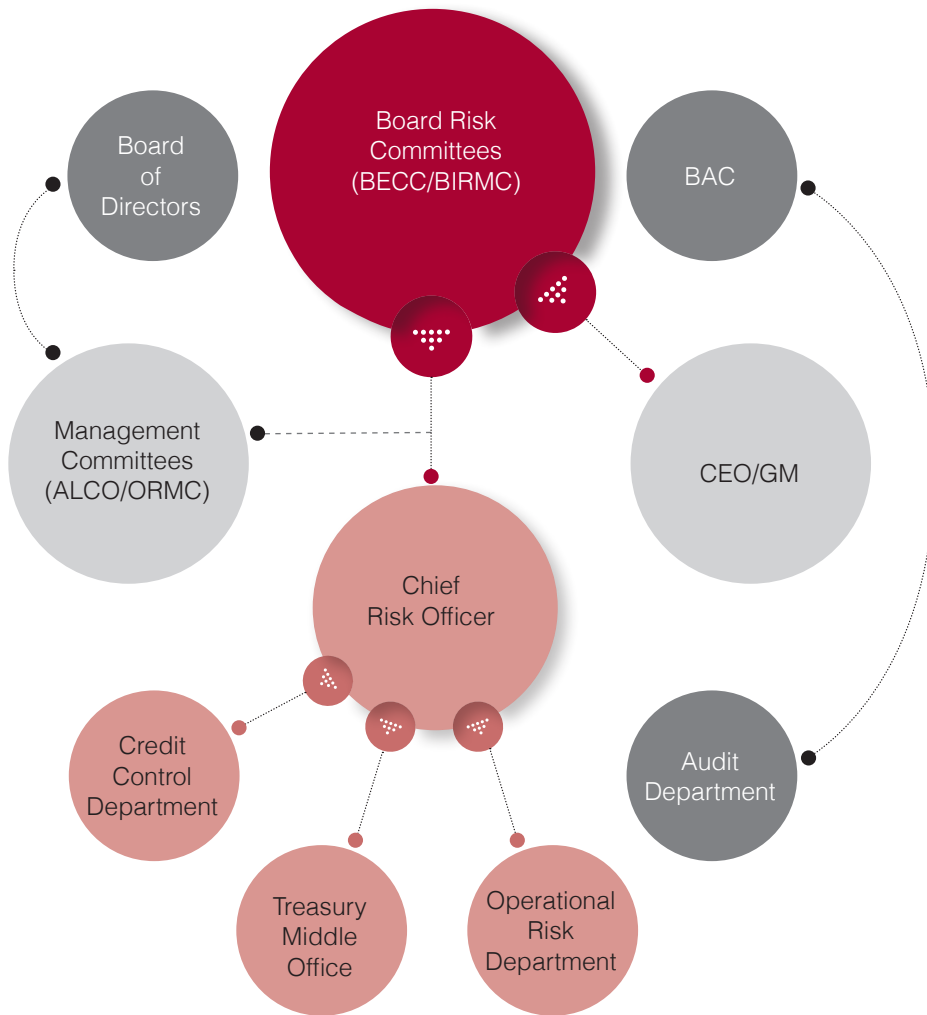
The Bank is primarily focused on the vulnerability to adverse impacts of multitude risk exposures on our capital resources and depositor funds. People's Bank has been working towards inculcating a strong risk management culture within the organisation, on a platform of robust and proactive risk governance structure. Formulation of risk strategy and capital allocation process is an integral part of our strategic and business planning process.

## Risk Management Structure

Board of Directors is responsible for overall risk management approach of the Bank. At People's Bank, Risk is managed through following Apex committees.

1. Board Integrated Risk Management Committee (BIRMC)
2. Board Executive Credit Committee (BECC)
3. Assets and Liabilities Committee (ALCO) – a Senior Management Level Committee.
  - a. The Board decides the risk appetite and delegates the task of overall risk oversight to the Board Integrated Risk Management Committee (BIRMC).
  - b. Risk Management Division oversees the major risk categories that the Bank is exposed to including credit, market, liquidity and operational risks. Risk Management Division is structurally and functionally independent of the business and other risk taking units of the Bank.
  - c. The Risk Taking Unit, the Risk Management Division and the Internal Audit Department form the three lines of defence in the overall risk management of the Bank.
  - d. Day-to-day management of risk inherent in business is the responsibility of the risk taking unit. Bank's Treasury is responsible for managing interest rate risk, exchange risk, equity risk and the liquidity risk of the Bank. Primary responsibility for managing credit risk rests with the lending units of the Bank, i.e. Branches, Corporate Banking Division, Overseas Banking Unit and respective credit line officers of the Bank.
  - e. Treasury Middle Office which is part of Risk Management Division and functions independently of the Treasury Division monitors the Treasury exposures.
  - f. Credit risk is monitored by Credit Control Division which is functionally and structurally independent of the Business Units.
  - g. Risk Management Division along with BECC and ALCO, develop the structural policies, tools and methodologies, to identify, measure, monitor and control the various risks.
  - h. Internal audit complements this structure by providing independent assurance of the overall efficiency and effectiveness of the risk management. Internal audit function reports direct to an independent Board Audit Committee.

### Risk Governance Structure of People's Bank



BECC - Board Executive Credit Committee  
 BIRMC - Board Integrated Risk Management Committee  
 BAC - Board Audit Committee  
 ALCO - Assets and Liabilities Committee  
 ORMC - Operational Risk Management Committee

### Risk Measurement and Reporting System

Credit risk is the major financial risk in the Bank. This is measured by using the standardised approach, as specified in the BASEL II accord. Operational risk is measured using the Basic Indicator approach. Market risk is measured using the standardised measurement approach. The modules make use of probabilities derived from internal experience and also market data available relating to traded market instruments and assets.

The Bank also measures the impact of worst-case scenarios by carrying out a regime of stress-tests on all significant risk categories.

Monitoring and controlling of risks is based on limits established on individual exposure level and portfolio level.

All significant risk exposures are identified measured and aggregated. The aggregated risk measure is monitored against the overall risk bearing capacity of the Bank, which is a function of the risk bearing capital stock of the Bank.

Information relating to risk exposures are collected and presented to Board Sub-Committees (BIRMC, BECC) and Management Level Committee (ALCO) by Finance Department, Risk Management Division, Credit Control Division, Treasury Middle Office, Operational Risk Management Division in order to facilitate timely identification and control of excessive risk exposures. These reports including aggregate credit risk exposure reports, key risk indicators, risk dash boards, stress-testing results, VAR reports, liquidity ratios, sensitivity reports based on Duration Gap statements and Maturity Gap statements, etc.

## 50.1 Credit Risk

Credit risk is defined as the possibility that a borrower or counterparty will fail to meet its obligation according to contractual agreement.

### Risk Mitigation

The major portion of our risk exposures is made up of credit risk. This risk is primarily mitigated through use of collateral.

### Excessive Risk Concentrations

Bank seeks to diversify its portfolio of assets in order to avoid excessive risk. Concentrations Bank regularly monitors concentrations of exposures to 'Industries' as well as 'Single Borrowers' or 'Related Group of Borrowers'. The Bank monitors its trading and investment portfolio of financial and equity instrument in relation to the issuer and maturity profile.

The Bank's credit function operates based on well-defined credit risk strategies/policies set up by the Board of Directors. Written policies/procedures are in place covering following aspects.

- i. Definitions of target markets, risk acceptance criteria, credit approval authority structure and relevant rules.
- ii. Credit origination and maintenance procedure.
- iii. Portfolio management guidelines, such as, maximum exposure limits for industries and individual borrowers.
- iv. Remedial/Rehabilitation management guidelines.

- v. Credit review policy.
- vi. Watch Listing of potentially risky borrowers, and monitoring of these borrowers.
- vii. Delegation of lending powers based on hierarchy in the credit line.
- viii. Credit extension is authorised by at least two or more credit officers including an officer from the Credit Risk Management Department, for exposures beyond a certain quantum.
- ix. Internal credit risk rating system, to assign a risk rating to every obligor.
- x. A loan review mechanism has been set up. A percentage of quarterly loan disbursements at Branch/Regional/Zonal authority levels is selected on a random basis and subjected to post-grant reviews at regional as well as head office level to monitor and ensure quality of lending decisions, and also to ensure timely remedial action.
- xi. Random credit audits are carried out by our Internal Audit Department. Credit risk and operational risk aspects are measured against set standards to determine adequacy of controls and identify areas for improvement.
- xii. Loan delinquencies are monitored on individual loans basis as well as on a portfolio basis. All delinquent loans are classified in accordance with CBSL guidelines. This process is fully automated ensuring strict adherence. We have managed to keep the NPL ratio below 4%.
- xiii. Impairment assessments of loans are carried out in accordance with LKAS 39 and relevant impairment provision is made for impaired loans.

### Impairment Assessment

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

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



### **Impairment Assessment for Individually Significant Loans**

The Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amounts and the present value of estimated future cash flows. (Refer Note 22)

### **Collective Assessment for Impairment**

Insignificant loans and loans which have no objective evidence will be collectively assessed for collective impairment. These loans are assessed collectively in group of assets with similar risk characteristics. (Refer Note 22)

### **Write off Policy**

If any portion of capital and interest is not recovered within two years and full provision has been made on the exposure, write-off is being done subsequent to Board approval. However, some exposures which are fully provided may not be written off based on legal advise.

### **Credit-Related Commitment Risk**

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

### **Collateral and other Credit Enhancements**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are as follows:

- For reverse repurchase transactions, cash or securities.
- For commercial lending, charges over real estate properties, inventory, trade receivables and personal guarantees.
- For retail lending, mortgages over residential properties and personal guarantees.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, and will request additional collateral accordance with the underlying agreement -

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claims.

The Bank reduces settlement risk and credit risk of fixed income securities transactions (Treasury Bills, Bonds, Repos) by using Central Depository System of the Central Bank of Sri Lanka, which allows these transactions to be settled on a delivery verses payment (DVP) basis.

## Analysis of Risk Concentration

### *Concentration Risk in the Credit Portfolio*

The Bank recently adopted a policy on exposure limits for industries and borrowers. Exposure limits have been imposed covering industry exposure, and individual/group exposures (name concentration risk). Such exposures are monitored by the Risk Management Department and reported to BIRMC periodically.

Analysis of sector-wise credit exposure. (Refer Note 22.1.)

The Bank has a more stringent Single Borrower Limit than the regulatory maximum. Concentration risk for both individual customers and for industry segments are regularly monitored using exposures over Rs. 100 Mn and the level of dispersion measured by using Herfindal - Hirshnean Index (HHI).

| Individual Customers | H.H.I. | Industry Segment | H.H.I. |
|----------------------|--------|------------------|--------|
| With GOSL            | 0.25   | With GOSL        | 0.28   |
| Without GOSL         | 0.08   | Without GOSL     | 0.12   |

### *The portfolio has low concentration without GOSL exposure*

Credit exposures against a number of SOEs exceeded the Single Borrower Limit during the year. Necessary exemptions were obtained from the Monetary Board. These exposures are secured under General Treasury Guarantees.

## Commitments and Guarantees

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

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment.

## 50.2 Liquidity Risk and Funding Management

Liquidity risk arises mainly due to funding of long-term assets with short-term liabilities, which is unavoidable for the Bank in its primary role as a financial intermediary. In a normal market situation, this is managed through role-over of short-term liabilities.

However, liquidity planning should ensure, at a minimum, the Bank's ability to fund its obligations even in an extremely stressed situations of internal and external origin.

Effective Liquidity Risk Management is extremely important, considering the systematic impact, a typical liquidity crisis in one Bank can have on the entire banking network of the country.

The inevitable trade-off between liquidity and profitability is recognised by the Bank and incorporated in the Bank's Liquidity Risk Management policies and guidelines.

It is obvious that a robust liquidity management strategy adds stability, enhancing the reputation of the Bank. This enhances the ability of the Bank to raise retail and wholesale funding at competitive rates.

Liquidity management is primarily, the responsibility of the Bank's ALCO. Treasury Division is responsible for day-to-day management of liquidity, with Treasury Middle Office being responsible for monitoring of liquidity.

Our liquidity management strategy is primarily based on maintaining a portfolio of liquid assets and also maintaining a diversified portfolio of retail deposits attracted to the Bank through well thought out product introductions and effective relationship management of such sources.

The Bank has developed a comprehensive contingency funding plan, which is augmented by a number of committed credit lines from external sources of foreign and local origin.

The Bank uses following tools for the liquidity risk monitoring and management:

- Cash Flow Maturity Gap statements of Asset-Liabilities and monitoring same against set limits.
- Monitoring of Liquidity indicators such as loans to customer deposits ratio, statutory liquid assets ratio, unutilised inter-bank borrowing lines, unutilised limits available to customers.
- Stress testing of liquidity positions for extreme scenarios such as substantial and sudden increase in non-performing assets, flight of hot money or a rating downgrade leading to high cost of liquidity etc.

| Liquidity Indicators                        | 2011<br>% | 2012<br>% |
|---|-----------|-----------|
| Loan/Customer Deposits.                     | 92.4      | 96.6      |
| Unutilised Inter-Bank Borrowing Lines.      | 48        | 44        |
| Medium-Term Funding                         | 101       | 102       |
| Statutory Liquid Assets Ratio - DBU         | 21.5      | 21.8      |
| FCBU  | 24.0      | 21.8      |
| Maximum Statutory Liquid Assets Ratio - DBU | 25.4      | 23.6      |
| FCBU  | 36.2      | 22.3      |
| Minimum Statutory Liquid Assets Ratio - DBU | 21.0      | 20.6      |
| FCBU  | 21.1      | 20.3      |

### Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

Maturity Profile of Assets and Liabilities (Rs. '000) as at 31.12.2012

|  | Up to 3 Months     | 3-12 Months        | 1-3 Years          | 3-5 Years         | Over 5 Years       | Total              |                    |
|--|--------------------|--------------------|--------------------|-------------------|--------------------|--------------------|--------------------|
|  | Rs. '000           | Rs. '000           | Rs. '000           | Rs. '000          | Rs. '000           | 2012<br>Rs. '000   | 2011<br>Rs. '000   |
| <b>Assets</b>                              |                    |                    |                    |                   |                    |                    |                    |
| Cash and Cash Equivalents                  | 24,401,979         | -                  | -                  | -                 | -                  | 24,401,979         | 16,792,665         |
| Balances with Central Bank                 | 43,412,048         | -                  | -                  | -                 | -                  | 43,412,048         | 35,717,033         |
| Placements with Banks                      | 13,341,252         | -                  | -                  | -                 | -                  | 13,341,252         | 16,893,327         |
| Other Financial Assets Held-for-Trading    | 4,341,741          | 14,430,969         | -                  | -                 | -                  | 18,772,710         | 23,891,041         |
| Loans and Receivables to Banks             | 644,265            | 2,600,162          | 24,416,521         | -                 | 7,689,150          | 35,350,098         | 31,731,952         |
| Loans and Receivables to Other Customers   | 200,097,611        | 217,231,892        | 60,816,670         | 47,389,085        | 85,879,009         | 611,414,267        | 461,655,759        |
| Financial Investments - Available-for-Sale | 27,000,000         | 977,489            | -                  | -                 | -                  | 27,977,489         | 9,464,211          |
| Financial Investments - Held-to-Maturity   | -                  | 45,332,817         | 21,358,195         | 6,119,170         | 5,712,388          | 78,522,570         | 46,303,056         |
| Investments in Subsidiaries                | -                  | -                  | -                  | -                 | 1,253,434          | 1,253,434          | 1,419,950          |
| Investments in Associates                  | -                  | -                  | -                  | -                 | 273,100            | 273,100            | 273,100            |
| Goodwill and Intangible Assets             | -                  | -                  | -                  | -                 | 44,352             | 44,352             | 100,807            |
| Property, Plant & Equipment                | -                  | -                  | -                  | -                 | 8,234,565          | 8,234,565          | 7,522,702          |
| Investment Properties                      | -                  | -                  | -                  | -                 | 398,508            | 398,508            | 406,165            |
| Prepaid Leases                             | -                  | -                  | -                  | -                 | 291,866            | 291,866            | 325,224            |
| Deferred Tax Assets                        | -                  | -                  | -                  | -                 | 501,587            | 501,587            | 186,884            |
| Other Assets                               | 248,441            | 1,734,066          | -                  | -                 | 6,934,270          | 8,916,777          | 9,392,786          |
| <b>Total Assets 2012</b>                   | <b>313,487,337</b> | <b>282,307,395</b> | <b>106,591,386</b> | <b>53,508,255</b> | <b>117,212,230</b> | <b>873,106,603</b> | -                  |
| <b>Total Assets 2011</b>                   | <b>195,286,167</b> | <b>199,058,426</b> | <b>89,251,659</b>  | <b>77,053,482</b> | <b>109,882,469</b> | -                  | <b>662,078,672</b> |

|  | Up to 3 Months     | 3-12 Months         | 1-3 Years          | 3-5 Years           | Over 5 Years       | Total              |                    |
|--|--------------------|---------------------|--------------------|---------------------|--------------------|--------------------|--------------------|
|  | Rs. '000           | Rs. '000            | Rs. '000           | Rs. '000            | Rs. '000           | <b>2012</b>        | 2011               |
|  |                    |                     |                    |                     |                    | <b>Rs. '000</b>    | Rs. '000           |
| <b>Liabilities</b>                       |                    |                     |                    |                     |                    |                    |                    |
| Due to Banks                             | 64,057,182         | 30,067,531          | –                  | –                   | –                  | <b>94,124,713</b>  | 43,351,641         |
| Due to Other Customers                   | 214,483,973        | 214,166,932         | 78,254,523         | 67,445,427          | 109,599,982        | <b>683,950,837</b> | 550,226,448        |
| Other Borrowings                         | 27,882,781         | 13,142,178          | –                  | –                   | –                  | <b>41,024,959</b>  | 20,700,940         |
| Current Tax Liabilities                  | 1,860,689          | –                   | –                  | –                   | –                  | <b>1,860,689</b>   | 2,806,539          |
| Deferred Tax Liabilities                 | –                  | –                   | –                  | –                   | –                  | <b>–</b>           | –                  |
| Other Liabilities                        | 3,691,514          | 6,503,952           | 2,676,240          | 68,913              | –                  | <b>12,940,619</b>  | 11,902,462         |
| Due to Subsidiaries                      | –                  | –                   | –                  | –                   | –                  | <b>–</b>           | –                  |
| Subordinated Term Debts                  | –                  | –                   | –                  | –                   | 10,000,000         | <b>10,000,000</b>  | 10,000,000         |
| <b>Total Liabilities 2012</b>            | <b>311,976,138</b> | <b>263,880,593</b>  | <b>80,930,764</b>  | <b>67,514,339</b>   | <b>119,599,982</b> | <b>843,901,816</b> |                    |
| <b>Total Liabilities 2011</b>            | <b>200,747,844</b> | <b>210,096,772</b>  | <b>67,117,295</b>  | <b>59,036,131</b>   | <b>109,310,785</b> |                    | <b>638,988,030</b> |
| <b>NET 2012</b>                          | <b>1,511,199</b>   | <b>18,426,801</b>   | <b>25,660,622</b>  | <b>(14,006,084)</b> | <b>(2,387,752)</b> | <b>29,204,787</b>  |                    |
| <b>NET 2011</b>                          | <b>(5,461,677)</b> | <b>(11,038,346)</b> | <b>22,134,364</b>  | <b>18,017,351</b>   | <b>571,684</b>     |                    | <b>23,090,643</b>  |
| <b>Total Equity and Liabilities 2012</b> | <b>313,487,337</b> | <b>282,307,395</b>  | <b>106,591,386</b> | <b>53,508,255</b>   | <b>117,212,230</b> | <b>873,106,603</b> |                    |
| <b>Total Equity and Liabilities 2011</b> | <b>195,286,167</b> | <b>199,058,426</b>  | <b>89,251,659</b>  | <b>77,053,482</b>   | <b>109,882,469</b> | <b>–</b>           | <b>662,078,672</b> |

### 50.3 Market Risk

Market risk arises from adverse changes in interest rates, foreign exchange rates, equity prices and commodity prices. Exposure to such risk is presented in both our Trading Book as well as the Banking Book.

A comprehensive set of policies and limits have been adopted in order to manage market risks. These policies/procedures encompass the statutory requirements whilst adhering to best practices.

The Asset and Liabilities Committee (ALCO) is responsible for management of market risk. All material sources of market risks are identified and risk limits defined by the ALCO. Various market risk exposures are closely monitored by the Treasury Middle Office, and reported to Chief Risk Officer and ALCO, for control action. However, the front line responsibility for market risk management (Trading/Investment Book) rests with the Treasury Trading Department, Treasury Front Office, Middle Office and Back Office are clearly segregated into three different reporting lines with clear and well-defined responsibilities.

### 50.3.1 Market Risk - Trading

#### *Foreign Exchange Risk*

Foreign exchange risk is the risk that the Bank may incur losses as a result of adverse exchange rate movement during a period in which the Bank has an open position.

As a primary measure of risk mitigation, following limits are set on risk open position:

- i. Volume limits by currency/trader
- ii. Overall room limits
- iii. Stop loss limits by currency/and trader

We also use following tools to measure and manage Foreign Exchange risk:

- i. Daily value at risk measure (DVAR) at 99% confidence level.
- ii. Maturity gap analysis of foreign currency denominated assets and liabilities.
- iii. Stress tests for exchange rate movements on capital adequacy ratio

### 50.4 Operational Risk

Operational Risk is inherent in all our business processes and activities. Its management and containment is very important considering the fact, we are one of the largest banks in Sri Lanka providing a full spectrum of Banking facilities to a wide and varied clientele. We employ people, who acts as agents of the Bank, own and occupies property spread across the country and hold and are custodians of assets, including information belonging to ourselves and our customers.

Operational risk is consequence of poor control or lack of controls over process used in the Bank's activities and external event whether deliberate, accidental or natural e.g., fire, robbery documentation error, incorrect accounting.

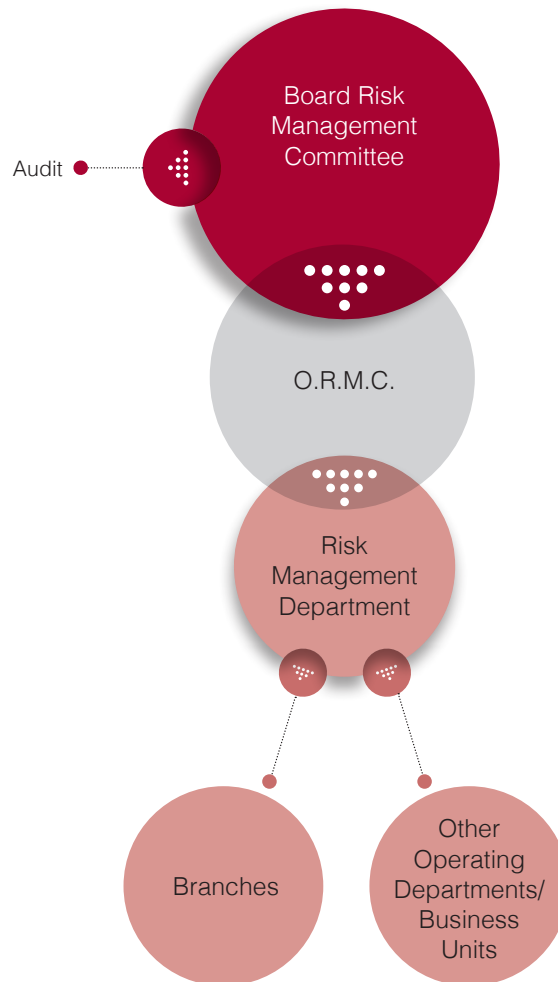
The Bank has formulated a well-defined operational risk management policy. The key objectives of this policy are to ensure:

- i. Bank's capital and earnings are protected from significant operational losses.
- ii. Well-defined clearly understood and uniform process for managing operational risk across the Bank.
- iii. Service delivery standards and our reputation are not compromised as a result of operational issues.

### Roles and Responsibilities

The foundation of operational risk management framework, is the definition by all functions of their roles and responsibilities so that, collectively they can assure that there is adequate segregation of duties, complete coverage of risks and clear accountability.

### Organisational Structure for Managing Operational Risk





## Capital Management

The Bank's lead regulator Central Bank of Sri Lanka sets and monitors capital requirements for the Bank.

The Bank is required to comply with the provisions of the Basel II framework in respect of regulatory capital.

The details of the computation of the capital and the ratios as at 31st December 2011 and 31st December 2012 are given below:

## Capital Adequacy

### Computation of Risk-Weighted Assets

| As at 31st December   | Balance            |                    | Risk Weight % | Risk-Weighted Balance |                    |
|---|--------------------|--------------------|---------------|-----------------------|--------------------|
|   | 2012<br>Rs '000    | 2011<br>Rs '000    |               | 2012<br>Rs '000       | 2011<br>Rs '000    |
| <b>Assets</b>   |                    |                    |               |                       |                    |
| Claims on Government of Sri Lanka and Central Bank of Sri Lanka       | 182,154,670        | 113,232,124        | 0             | –                     | –                  |
| Claims on Foreign Sovereigns and Their Central Banks                  | –                  | –                  | 0-150         | –                     | –                  |
| Claims on Public Sector Entities (PSEs)                               | 49,819,564         | 19,783,164         | 20-150        | 49,819,564            | 19,783,164         |
| Claims on Official Entities and Multilateral Development Banks (MDBs) | –                  | –                  | 0-150         | –                     | –                  |
| Claims on Banks   | 25,368,126         | 17,358,131         | 20-150        | 5,425,564             | 9,794,992          |
| Claims on Financial Institutions                                      | 5,341,828          | 8,491,907          | 20-150        | 1,696,389             | 4,772,017          |
| Claims on Corporates  | 33,123,597         | 28,505,621         | 20-150        | 30,278,250            | 22,558,702         |
| Retail Claims   | 75,545,905         | 63,207,283         | 75-100        | 66,360,215            | 55,066,907         |
| Claims Secured by Residential Property                                | 59,152,057         | 52,610,855         | 50-100        | 29,576,029            | 26,305,428         |
| Claims Secured by Commercial Real Estate                              | –                  | –                  | 100           | –                     | –                  |
| Non-Performing Assets (NPAs)  | 6,662,790          | 5,234,453          | 50-150        | 7,576,487             | 5,841,635          |
| Cash Items  | 14,890,441         | 11,369,594         | 0-20          | 436,951               | 199,632            |
| Property, Plant & Equipment   | 8,969,291          | 8,959,936          | 100           | 8,969,291             | 8,959,936          |
| Other Assets  | 5,795,262          | 3,311,383          | 100           | 5,795,262             | 3,311,383          |
| <b>Total</b>  | <b>466,823,531</b> | <b>332,064,451</b> |               | <b>205,934,002</b>    | <b>156,593,796</b> |

**Off-Balance Sheet Exposures**

|  | Balance<br>2012<br>Rs '000 | 2011<br>Rs '000   | Credit<br>Conversion<br>Factor (%) | Credit Equivalent<br>2012<br>Rs '000 | 2011<br>Rs '000   |
|--|----------------------------|-------------------|------------------------------------|--------------------------------------|-------------------|
| <b>Instruments</b>   |                            |                   |                                    |                                      |                   |
| Direct Credit Substitutes  | 5,747,890                  | 4,636,433         | 100                                | 5,747,890                            | 4,636,433         |
| Transaction-Related Contingencies  | 17,142,802                 | 19,958,050        | 50                                 | 8,571,401                            | 9,979,025         |
| Short-Term Self-Liquidating Trade-Related Contingencies  | 59,185,437                 | 34,966,686        | 20                                 | 11,837,087                           | 6,993,337         |
| Sale and Repurchase Agreements and Assets Sale with Recourse   |                            |                   |                                    |                                      |                   |
| Where the Credit Risk Remains with the Bank  | -                          | -                 | 100                                | -                                    | -                 |
| Obligations Under an On-going Underwriting Agreement   | -                          | -                 | 50                                 | -                                    | -                 |
| Other Commitments with an Original Maturity of up to One Year or Which<br>Can be Unconditionally Cancelled at any Time | 15,407,639                 | 21,547,157        | 0-20                               | 2,817,589                            | 4,250,792         |
| Commitments with an Original Maturity up to 1 year   | -                          | -                 | 20                                 | -                                    | -                 |
| Other Commitments with an Original Maturity of Over One Year   | -                          | -                 | 50                                 | -                                    | -                 |
| Foreign Exchange Contracts   | 10,408,741                 | 12,959,750        | 0-5                                | 208,175                              | 259,195           |
| Interest Rate Contracts  | -                          | -                 | 0-3                                | -                                    | -                 |
| <b>Total</b>   | <b>107,892,509</b>         | <b>94,068,076</b> |                                    | <b>29,182,142</b>                    | <b>26,118,782</b> |

**Computation of Capital**

|   | 2012<br>Rs '000   | 2011<br>Rs '000   |
|---|-------------------|-------------------|
| <b>Tier I : Core Capital</b>  |                   |                   |
| Paid-up Ordinary Shares/Common Stock/Assigned Capital                           | 7,201,998         | 7,201,998         |
| Statutory Reserve Fund  | 2,437,291         | 1,892,591         |
| Published Retained Profits  | 6,714,080         | 6,226,026         |
| General and Other Reserves  | 10,123,127        | 5,544,271         |
| <b>Deductions - Tier 1</b>  |                   |                   |
| 50% of Investments in Unconsolidated Banking and Financial Subsidiary Companies | 232,500           | 232,500           |
| 50% Investments in the Capital of Other Banks and Financial Institutions        | 194,956           | 171,848           |
| <b>Total Eligible Core Capital (Tier I)</b>                                     | <b>26,049,041</b> | <b>20,460,538</b> |
| <b>Tier II: Supplementary Capital</b>   |                   |                   |
| Revaluation Reserves (as Approved by Central Bank of Sri Lanka)                 | 2,208,884         | 2,208,884         |
| General Provisions  | 3,177,379         | 2,336,886         |
| Approved Subordinated Term Debt   | 6,400,000         | 6,900,000         |
| <b>Deductions - Tier II</b>   |                   |                   |
| 50% of Investments in Unconsolidated Banking and Financial Subsidiary Companies | 232,500           | 232,500           |
| 50% Investments in the Capital of Other Banks and Financial Institutions        | 194,956           | 171,848           |
| <b>Total Eligible Supplementary Capital (Tier II)</b>                           | <b>11,358,807</b> | <b>11,041,422</b> |
| <b>Total Capital Base</b>   | <b>37,407,848</b> | <b>31,501,960</b> |

**Computation of Ratios**

|   | <b>2012</b><br><b>Rs '000</b> | 2011<br>Rs '000    |
|---|-------------------------------|--------------------|
| Total Risk-Weighted Assets for Credit Risk                  | 205,934,002                   | 156,593,794        |
| Total Risk-Weighted Assets for Market Risk                  | 5,301,416                     | 6,676,882          |
| Total Risk-Weighted Assets for Operational Risk             | 55,927,977                    | 49,317,885         |
| <b>Total Risk-Weighted Assets (RWA)</b>                     | <b>267,163,395</b>            | <b>212,588,561</b> |
| <b>Core Capital Ratio - Tier 1 (Minimum Requirement 5%)</b> | <b>9.8%</b>                   | <b>9.6%</b>        |
| Core Capital  |                               |                    |
| _____ x 100   |                               |                    |
| Total Risk-Weighted Assets                                  |                               |                    |
| <b>Total Capital Ratio (Minimum Requirement 10%)</b>        | <b>14.0%</b>                  | <b>14.8%</b>       |
| Total Capital Base  |                               |                    |
| _____ x 100   |                               |                    |
| Total Risk-Weighted Assets                                  |                               |                    |

*Note: The above report has being prepared in accordance with the Basel II guidelines set out by the Central Bank of Sri Lanka.*



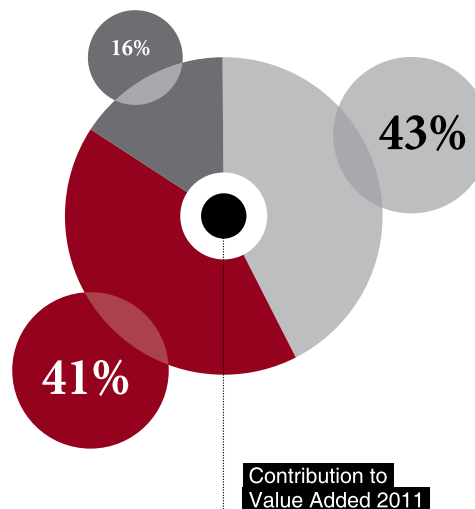
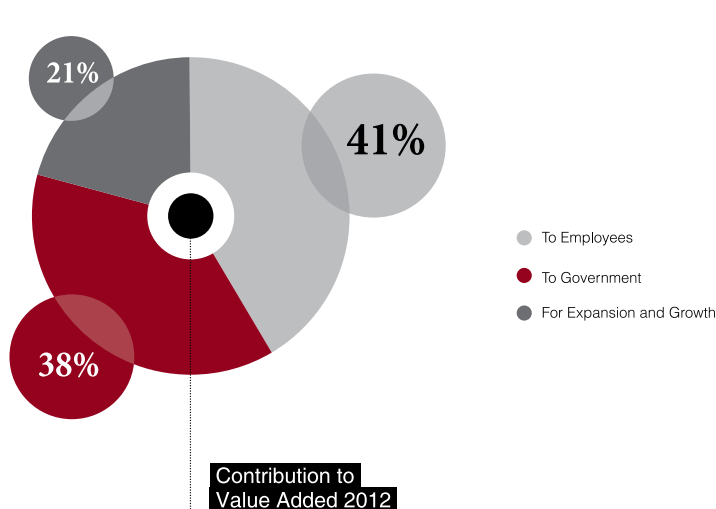
## ANNEXES

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# Value Added Statement

For the year ended 31st December

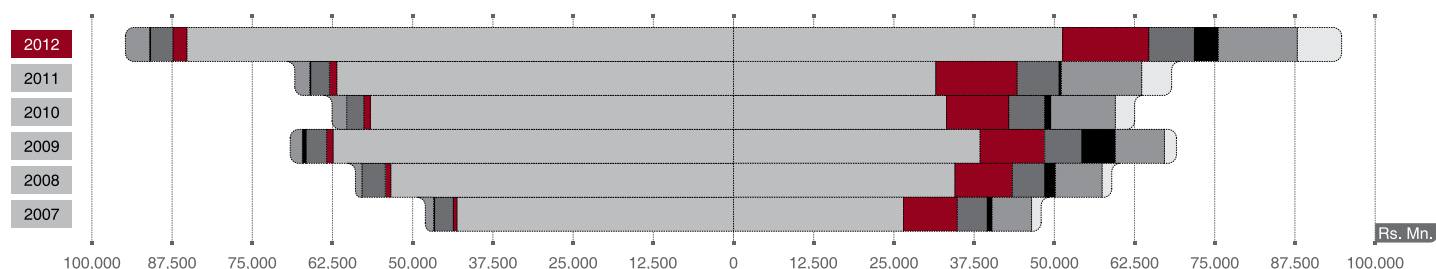
|   | 2012<br>Rs. '000 | %     | 2011<br>Rs. '000 | %     |
|---|------------------|-------|------------------|-------|
| <b>Value Added</b>                          |                  |       |                  |       |
| Income Earned by Providing Banking Services | 87,367,410       |       | 62,996,340       |       |
| Cost of Services                            | (58,258,881)     |       | (37,998,065)     |       |
| Value Added by Banking Services             | 29,108,529       |       | 24,998,275       |       |
| Non-Banking Income                          | 7,409,988        |       | 5,301,915        |       |
| Provision for Bad Debts                     | (3,874,383)      |       | (410,443)        |       |
|   | 32,644,134       |       | 29,889,746       |       |
| <b>Value Allocated to Employees</b>         |                  |       |                  |       |
| Salaries, Wages and Other Benefits          | 13,503,921       | 41.4  | 12,692,931       | 42.5  |
| <b>To Government</b>                        |                  |       |                  |       |
| Dividend Paid on GOSL Bonds                 | 201,382          | 0.6   | -                | -     |
| Special Levy to Treasury                    | 4,500,000        | 13.8  | 4,500,000        | 15.1  |
| PAYE Tax                                    | 372,692          | 1.1   | 25,044           | 0.1   |
| Income Tax                                  | 4,355,390        | 13.3  | 5,153,628        | 17.2  |
| Value Added Taxation (VAT)                  | 2,679,191        | 8.2   | 2,680,646        | 9.0   |
| Other Indirect Taxes                        | 203,110          | 0.6   | 129,936          | 0.4   |
| <b>For Expansion and Growth</b>             |                  |       |                  |       |
| Retained Income                             | 6,116,155        | 18.7  | 3,679,311        | 12.3  |
| Depreciation/Amortisation                   | 712,293          | 2.2   | 1,028,251        | 3.4   |
|   | 32,644,134       | 100.0 | 29,889,746       | 100.0 |



# Sources and Utilisation of Income

For the Year ended 31st December

|   | 2007<br>Rs. '000  | 2008<br>Rs. '000  | 2009<br>Rs. '000  | 2010<br>Rs. '000  | 2011<br>Rs. '000  | 2012<br>Rs. '000  |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Sources of Income</b>                        |                   |                   |                   |                   |                   |                   |
| Interest  | 43,074,181        | 53,453,556        | 62,341,236        | 56,534,172        | 61,788,438        | 85,241,301        |
| Exchange  | 648,988           | 818,399           | 1,120,819         | 1,120,022         | 1,207,902         | 2,126,109         |
| Commission and Fees                             | 2,866,414         | 3,591,387         | 3,108,401         | 3,170,590         | 2,929,812         | 3,541,589         |
| Capital Gain                                    | 86,774            | 110,988           | 674,447           | 174,373           | 133,487           | 127,795           |
| Other   | 1,307,691         | 973,780           | 1,804,705         | 1,533,270         | 2,238,616         | 3,740,605         |
| <b>Total</b>                                    | <b>47,984,048</b> | <b>58,948,110</b> | <b>69,049,608</b> | <b>62,532,427</b> | <b>68,298,255</b> | <b>94,777,398</b> |
| <b>Utilisation of Income</b>                    |                   |                   |                   |                   |                   |                   |
| To Depositors as Interest                       | 26,541,983        | 34,491,766        | 38,414,583        | 33,178,175        | 31,470,220        | 51,323,506        |
| To Employees as Emoluments                      | 8,405,683         | 8,895,182         | 10,063,967        | 9,778,541         | 12,692,931        | 13,503,921        |
| To Providers of Supplies & Services             | 4,633,972         | 5,107,471         | 5,743,785         | 5,553,225         | 6,527,845         | 6,935,375         |
| Provision for Possible Loan Losses & Others     | 722,174           | 1,620,025         | 5,272,496         | 1,013,406         | 410,443           | 3,874,383         |
| To Government - Taxes, Special Levy & Dividends | 6,226,043         | 7,348,508         | 7,654,273         | 9,970,964         | 12,489,254        | 12,311,765        |
| Retained for Growth                             | 1,454,193         | 1,485,158         | 1,900,504         | 3,038,116         | 4,707,562         | 6,828,448         |
| <b>Total</b>                                    | <b>47,984,048</b> | <b>58,948,110</b> | <b>69,049,608</b> | <b>62,532,427</b> | <b>68,298,255</b> | <b>94,777,398</b> |



Sources and Utilisation of Income

| Sources of Income   | Distribution of Income                         |
|---------------------|--|
| Interest            | To Depositors as Interest                      |
| Exchange            | To Employees as Emoluments                     |
| Commission and Fees | To Providers of Supplies & Services            |
| Capital Gain        | Provision for Possible Loan Losses & Others    |
| Other               | To Government - Taxes, Special Levy & Dividend |
|                     | Retained for Growth                            |

# Income Statement US\$

|   | BANK              |                   |             | GROUP             |                   |             |
|---|-------------------|-------------------|-------------|-------------------|-------------------|-------------|
|   | 2012<br>US\$ '000 | 2011<br>US\$ '000 | Change<br>% | 2012<br>US\$ '000 | 2011<br>US\$ '000 | Change<br>% |
| <i>For the year ended 31st December</i>       |                   |                   |             |                   |                   |             |
| <b>Gross Income</b>                           | 744,520           | 599,476           | 24.2        | 863,894           | 701,305           | 23.2        |
| Interest Income                               | 669,610           | 542,337           | 23.5        | 792,179           | 646,168           | 22.6        |
| Interest Expenses                             | (403,170)         | (276,224)         | 46.0        | (472,987)         | (327,744)         | 44.3        |
| <b>Net Interest Income</b>                    | 266,440           | 266,113           | 0.1         | 319,192           | 318,424           | 0.2         |
| Fee and Commission Income                     | 27,821            | 25,716            | 8.2         | 33,692            | 27,985            | 20.4        |
| Fee and Commission Expenses                   | (1,134)           | (3,484)           | (67.4)      | (1,134)           | (3,484)           | (67.4)      |
| Net Fee and Commission Income                 | 26,687            | 22,232            | 20.0        | 32,558            | 24,501            | 32.9        |
| Net Gain from Trading                         | 16,281            | 8,096             | 101.1       | 16,464            | 7,871             | 109.2       |
| Other Operating Income (Net)                  | 30,809            | 23,327            | 32.1        | 21,559            | 19,281            | 11.8        |
| <b>Total Operating Income</b>                 | 340,216           | 319,768           | 6.4         | 389,773           | 370,077           | 5.3         |
| Impairment for Loans and Other Losses         | (30,435)          | (3,603)           | 744.8       | (35,942)          | (6,008)           | 498.2       |
| <b>Net Operating Income</b>                   | 309,781           | 316,165           | (2.0)       | 353,831           | 364,069           | (2.8)       |
| Personnel Expenses                            | (108,552)         | (92,580)          | 17.3        | (117,304)         | (100,220)         | 17.0        |
| Other Expenses                                | (62,075)          | (65,295)          | (4.9)       | (75,618)          | (74,752)          | 1.2         |
| Operating Profit before Value Added Tax (VAT) | 139,154           | 158,291           | (12.1)      | 160,909           | 189,096           | (14.9)      |
| Value Added Tax (VAT) on Financial Services   | (19,363)          | (21,364)          | (9.4)       | (21,564)          | (24,001)          | (10.2)      |
| Operating Profit after Value Added Tax (VAT)  | 119,791           | 136,926           | (12.5)      | 139,345           | 165,095           | (15.6)      |
| Share of Profits/(Loss) of Associates         | -                 | -                 | -           | (528)             | 295               | -           |
| <b>Profit before Tax</b>                      | 119,791           | 136,926           | (12.5)      | 138,817           | 165,390           | (16.1)      |
| Tax Expenses                                  | (34,214)          | (45,235)          | (24.4)      | (45,363)          | (55,467)          | (18.2)      |
| <b>Profit for the Year</b>                    | 85,577            | 91,691            | (6.7)       | 93,454            | 109,923           | (15.0)      |
| <b>Profit Attributable to:</b>                |                   |                   |             |                   |                   |             |
| Equity Holders of the Bank                    | 85,577            | 91,691            | (6.7)       | 88,218            | 106,358           | (17.1)      |
| Non-Controlling Interests                     | -                 | -                 | -           | 5,236             | 3,565             | 46.8        |
| Profit for the Year                           | 85,577            | 91,691            | (6.7)       | 93,454            | 109,923           | (15.0)      |

Exchange Rate: 1 US\$ was Rs. 127.30 as at 31st December 2012 (Rs. 113.93 as at 31st December 2011).

The Income Statement and the Statement of Financial Position given on pages 246 and 247 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements.

# Statement of Financial Position US\$

| As at 31st December                           | BANK              |                   |              |                  | GROUP             |                   |              |                   |
|---|-------------------|-------------------|--------------|------------------|-------------------|-------------------|--------------|-------------------|
|   | 2012<br>US\$ '000 | 2011<br>US\$ '000 | Change<br>%  | 2010<br>Rs. '000 | 2012<br>US\$ '000 | 2011<br>US\$ '000 | Change<br>%  | 2010<br>US\$ '000 |
| <b>Assets</b>                                 |                   |                   |              |                  |                   |                   |              |                   |
| Cash and Cash Equivalents                     | 191,689           | 147,395           | 30.1         | 155,586          | 205,049           | 165,597           | 23.8         | 175,855           |
| Balance with the Central Bank of Sri Lanka    | 341,022           | 313,500           | 8.8          | 240,917          | 341,022           | 313,500           | 8.8          | 240,917           |
| Placements with Banks                         | 104,802           | 148,278           | (29.3)       | -                | 104,802           | 148,278           | (29.3)       | -                 |
| Other Financial Assets Held-for-Trading       | 147,468           | 209,699           | (29.7)       | 188,989          | 149,271           | 210,517           | (29.1)       | 189,512           |
| Loans and Receivables to Banks                | 277,691           | 278,521           | (0.3)        | 479,943          | 277,691           | 278,521           | (0.3)        | 479,943           |
| Loans and Receivables to Other Customers      | 4,802,940         | 4,052,100         | 18.5         | 3,230,864        | 5,421,817         | 4,694,771         | 15.5         | 3,667,446         |
| Financial Investments - Available-for-Sale    | 219,776           | 83,070            | 164.6        | 5,058            | 219,818           | 83,363            | 163.7        | 5,409             |
| Financial Investments - Held-to-Maturity      | 616,831           | 406,417           | 51.8         | 452,384          | 629,630           | 419,542           | 50.1         | 459,080           |
| Investments in Subsidiaries                   | 9,846             | 12,463            | (21.0)       | 13,694           | -                 | -                 | -            | -                 |
| Investments in Associates                     | 2,145             | 2,397             | (10.5)       | 1,401            | 2,435             | 3,750             | (35.1)       | 2,242             |
| Goodwill and Intangible Assets                | 348               | 885               | (60.6)       | 1,772            | 3,187             | 4,045             | (21.2)       | 5,038             |
| Property, Plant & Equipment                   | 64,686            | 66,029            | (2.0)        | 61,863           | 85,806            | 87,184            | (1.6)        | 74,123            |
| Investment Properties                         | 3,130             | 3,565             | (12.2)       | 3,734            | 3,130             | 3,565             | (12.2)       | 3,734             |
| Prepaid Leases                                | 2,293             | 2,855             | (19.7)       | 2,942            | 2,293             | 2,855             | (19.7)       | 2,942             |
| Deferred Tax Assets                           | 3,940             | 1,640             | 140.2        | 563              | 3,943             | 1,718             | 129.5        | 685               |
| Other Assets                                  | 70,045            | 82,443            | (15.0)       | 89,627           | 98,103            | 116,540           | (15.8)       | 130,183           |
| <b>Total Assets</b>                           | <b>6,858,654</b>  | <b>5,811,258</b>  | <b>18.0</b>  | <b>4,929,336</b> | <b>7,547,997</b>  | <b>6,533,744</b>  | <b>15.5</b>  | <b>5,437,108</b>  |
| <b>Liabilities</b>                            |                   |                   |              |                  |                   |                   |              |                   |
| Due to Banks                                  | 739,393           | 380,511           | 94.3         | 55,458           | 1,052,536         | 712,136           | 47.8         | 330,870           |
| Due to Other Customers                        | 5,372,748         | 4,829,513         | 11.2         | 4,243,353        | 5,568,709         | 5,026,961         | 10.8         | 4,334,568         |
| Other Borrowings                              | 322,270           | 181,699           | 77.4         | 297,255          | 320,032           | 174,617           | 83.3         | 297,255           |
| Current Tax Liabilities                       | 14,617            | 24,634            | (40.7)       | 13,762           | 15,189            | 29,029            | (47.7)       | 20,221            |
| Deferred Tax Liabilities                      | -                 | -                 | -            | -                | 6,791             | 2,963             | 129.2        | 4,973             |
| Other Liabilities                             | 101,655           | 104,472           | (2.7)        | 99,586           | 146,805           | 160,287           | (8.4)        | 168,677           |
| Subordinated Term Debts                       | 78,555            | 87,773            | (10.5)       | 45,049           | 78,555            | 87,773            | (10.5)       | 45,049            |
| <b>Total Liabilities</b>                      | <b>6,629,237</b>  | <b>5,608,602</b>  | <b>18.2</b>  | <b>4,754,462</b> | <b>7,188,617</b>  | <b>6,193,765</b>  | <b>16.1</b>  | <b>5,201,613</b>  |
| <b>Equity</b>                                 |                   |                   |              |                  |                   |                   |              |                   |
| Stated Capital/Assigned Capital               | 56,575            | 63,214            | (10.5)       | 64,889           | 56,575            | 63,214            | (10.5)       | 64,889            |
| Statutory Reserve Fund                        | 19,146            | 16,612            | 15.3         | 450              | 19,146            | 16,612            | 15.3         | 450               |
| Other Reserves                                | 122,435           | 98,084            | 24.8         | 70,542           | 128,790           | 101,009           | 27.5         | 70,542            |
| Retained Earnings                             | 31,261            | 24,746            | 26.3         | 38,994           | 118,893           | 120,325           | (1.2)        | 98,864            |
| Total Shareholders' Equity                    | 229,417           | 202,656           | 13.2         | 174,875          | 323,404           | 301,160           | 7.4          | 234,745           |
| Non-Controlling Interests                     | -                 | -                 | -            | -                | 35,977            | 38,819            | (7.3)        | 750               |
| <b>Total Equity</b>                           | <b>229,417</b>    | <b>202,656</b>    | <b>13.2</b>  | <b>174,875</b>   | <b>359,381</b>    | <b>339,979</b>    | <b>5.7</b>   | <b>235,495</b>    |
| <b>Total Equity and Liabilities</b>           | <b>6,858,654</b>  | <b>5,811,258</b>  | <b>18.0</b>  | <b>4,929,336</b> | <b>7,547,997</b>  | <b>6,533,744</b>  | <b>15.5</b>  | <b>5,437,108</b>  |
| <b>Contingent Liabilities and Commitments</b> | <b>1,626,248</b>  | <b>1,674,117</b>  | <b>(2.9)</b> | <b>1,183,868</b> | <b>1,638,414</b>  | <b>1,676,865</b>  | <b>(2.3)</b> | <b>1,183,868</b>  |

Exchange Rate: 1 US\$ was Rs. 127.30 as at 31st December 2012 (Rs. 113.93 as at 31st December 2011, Rs. 110.99 as at 31st December 2010).

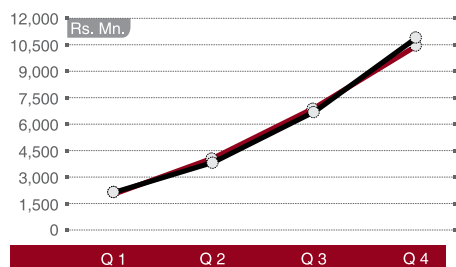
The Income Statement and the Statement of Financial Position given on pages 246 and 247 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements.



# Quarterly Financial Highlights

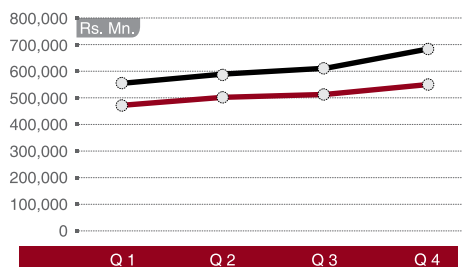
For the Quarter Ended

|                                   | 2012                |                     |                     |                      | 2011                |                     |                     |                      |
|-----------------------------------|---------------------|---------------------|---------------------|----------------------|---------------------|---------------------|---------------------|----------------------|
|                                   | Quarter 1<br>Rs. Mn | Quarter 2<br>Rs. Mn | Quarter 3<br>Rs. Mn | Quarter 4*<br>Rs. Mn | Quarter 1<br>Rs. Mn | Quarter 2<br>Rs. Mn | Quarter 3<br>Rs. Mn | Quarter 4*<br>Rs. Mn |
| <b>Income Statement - YTD</b>     |                     |                     |                     |                      |                     |                     |                     |                      |
| Net Interest Income               | 7,751               | 15,933              | 24,039              | 33,918               | 6,760               | 13,823              | 22,052              | 30,318               |
| Non-Funded Income                 | 2,273               | 4,106               | 7,114               | 9,392                | 1,164               | 2,433               | 4,287               | 6,113                |
| Operating Expenses                | (5,074)             | (10,665)            | (15,887)            | (21,721)             | (4,176)             | (8,592)             | (13,046)            | (17,987)             |
| Net Profit before VAT             | 3,858               | 7,233               | 12,332              | 17,714               | 3,623               | 7,445               | 12,521              | 18,034               |
| VAT on Financial Services         | (660)               | (1,310)             | (1,964)             | (2,465)              | (544)               | (1,122)             | (1,809)             | (2,434)              |
| Net Profit Before Tax             | 3,198               | 5,923               | 10,368              | 15,249               | 3,079               | 6,323               | 10,711              | 15,600               |
| Provision for Income Tax          | (1,125)             | (2,074)             | (3,628)             | (4,355)              | (1,078)             | (2,213)             | (3,749)             | (5,154)              |
| Net Profit after Tax              | 2,073               | 3,850               | 6,740               | 10,894               | 2,001               | 4,110               | 6,962               | 10,446               |
| <b>Balance Sheet</b>              |                     |                     |                     |                      |                     |                     |                     |                      |
| Total Assets                      | 706,760             | 772,170             | 778,297             | 873,107              | 557,346             | 618,816             | 620,971             | 662,077              |
| Total Loans and Receivables       | 521,425             | 561,446             | 574,505             | 660,624              | 366,440             | 410,954             | 416,607             | 508,235              |
| Total Deposits                    | 554,495             | 589,496             | 610,520             | 683,951              | 470,304             | 501,566             | 512,054             | 550,226              |
| <b>Key Performance Indicators</b> |                     |                     |                     |                      |                     |                     |                     |                      |
| Return on Assets (before Tax)     | 1.9%                | 1.7%                | 1.9%                | 2.0%                 | 2.2%                | 2.2%                | 2.4%                | 2.6%                 |
| Return on Equity (after Tax)      | 30.1%               | 28.1%               | 31.2%               | 41.7%                | 38.4%               | 38.0%               | 41.3%               | 49.2%                |
| Cost/Income Ratio                 | 57.2%               | 59.8%               | 57.3%               | 55.8%                | 59.6%               | 59.8%               | 56.4%               | 56.1%                |
| Fee Based Income/Net Income       | 22.7%               | 20.5%               | 22.8%               | 21.7%                | 14.7%               | 15.0%               | 16.3%               | 16.8%                |
| Advances/Deposits Ratio           | 94.0%               | 95.2%               | 94.1%               | 96.6%                | 77.9%               | 81.9%               | 81.4%               | 92.4%                |
| NPL Ratio                         | 3.5%                | 3.2%                | 3.3%                | 2.8%                 | 5.2%                | 4.6%                | 4.3%                | 3.4%                 |
| Total Capital Adequacy Ratio      | 14.8%               | 13.7%               | 14.0%               | 14.0%                | 12.4%               | 11.5%               | 11.1%               | 14.8%                |



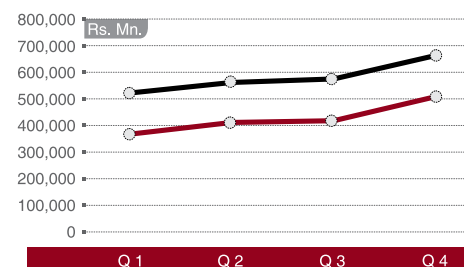
2011  
2012

Net Profit  
after Tax



2011  
2012

Total  
Deposits



2011  
2012

Total Loans  
& Receivables

\* Based on new Sri Lanka Accounting Standards (SLFRS and LKAS)

# Branch Network

## 1. Central Zone

- 1a. Kandy
- 1b. Matale
- 1c. Nuwara Eliya

## 2. Eastern Zone

- 2a. Ampara
- 2b. Batticaloa
- 2c. Trincomalee

## 3. Northern Zone

- 3a. Jaffna
- 3b. Wannai

## 4. North-Central Zone

- 4a. Anuradhapura
- 4b. Polonnaruwa

## 5. Wayamba Zone

- 5a. Puttalam
- 5b. Kurunegala

## 6. Sabaragamuwa Zone

- 6a. Kegalle
- 6b. Ratnapura

## 7. Southern Zone

- 7a. Galle
- 7b. Hambantota
- 7c. Matara

## 8. Uva Zone

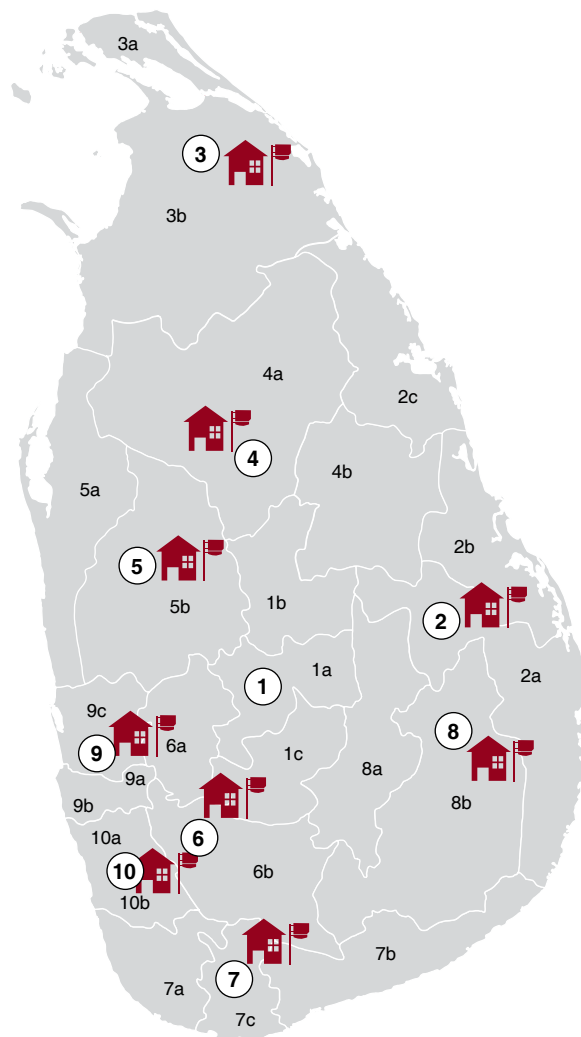
- 8a. Badulla
- 8b. Moneragla

## 9. Western Zone I

- 9a. Colombo North
- 9b. Colombo South
- 9c. Gampaha

## 10. Western Zone II

- 10a. Colombo Outer
- 10b. Kalutara



| Zone/Region    | Branch            | Branch Code |
|----------------|-------------------|-------------|
| Ampara         | Addalachchenai    | 228         |
|                | Akkaraipattu      | 063         |
|                | Ampara            | 015         |
|                | Kalmunai          | 023         |
|                | Karaitivu         | 223         |
|                | Mahaoya           | 181         |
|                | Maruthamunai      | 346         |
|                | Nintavur          | 296         |
|                | Pottuvil          | 164         |
|                | Sainthamaruthu    | 338         |
|                | Sammanthurai      | 064         |
|                | Thirukkivil       | 224         |
| Uhana          | 189               |             |
| Anuradhapura   | Anuradhapura      | 008         |
|                | Nuwarawewa        | 220         |
|                | Eppawala          | 170         |
|                | Galenbindunuwewa  | 177         |
|                | Galkiriyagama     | 301         |
|                | Galnewa           | 179         |
|                | Horowpathana      | 218         |
|                | Kahatagasdigiliya | 051         |
|                | Kebithigollewa    | 150         |
|                | Pulmuday          | 352         |
|                | Kekirawa          | 042         |
|                | Medawachchiya     | 096         |
|                | Meegalewa         | 246         |
|                | Nochchiyagama     | 171         |
|                | Padaviya          | 043         |
|                | Talawa            | 315         |
|                | Thambuttegama     | 219         |
|                | Badulla           | Badulla     |
| Muthiyangana   |                   | 269         |
| Bandarawela    |                   | 037         |
| Boralanda      |                   | 209         |
| Diyatalawa     |                   | 151         |
| Girandurukotte |                   | 268         |
| Haldummulla    |                   | 195         |

| Zone/Region    | Branch          | Branch Code |
|----------------|-----------------|-------------|
|                | Haliela         | 225         |
|                | Haputale        | 216         |
|                | Kandaketiya     | 250         |
|                | Keppetipola     | 240         |
|                | Koslanda        | 260         |
|                | Lunugala        | 251         |
|                | Mahiyangana     | 058         |
|                | Passara         | 116         |
|                | Uva-Paranagama  | 156         |
|                | Welimada        | 016         |
| Batticaloa     | Batticaloa      | 075         |
|                | Batticaloa Town | 113         |
|                | Chenkalady      | 227         |
|                | Eravur          | 123         |
|                | Kaluwanchikudy  | 190         |
|                | Kattankudy      | 065         |
|                | Kallar          | 339         |
|                | Kokkadicholai   | 342         |
| Puttalam       | Oddamavadi      | 340         |
|                | Valachchenai    | 102         |
|                | Anamaduwa       | 267         |
|                | Chilaw          | 024         |
| Western Zone I | Dankotuwa       | 291         |
|                | Kalpitiya       | 125         |
|                | Madampe         | 215         |
|                | Mahawewa        | 303         |
|                | Marawila        | 322         |
|                | Nattandiya      | 083         |
|                | Puttalam        | 009         |
|                | Wennappuwa      | 076         |
|                | Bambalapitiya   | 310         |
|                | Borella         | 078         |
| Borella Town   | 320             |             |
| Central Road   | 298             |             |
| Dam Street     | 297             |             |
| Dematagoda     | 071             |             |
| Duke Street    | 001             |             |

| Zone/Region          | Branch                   | Branch Code |
|----------------------|--------------------------|-------------|
|                      | First City Branch        | 046         |
|                      | Grandpass                | 126         |
|                      | Headquarters             | 204         |
|                      | Hyde Park Corner         | 025         |
|                      | Kehelwatta               | 259         |
|                      | Kirillapona              | 319         |
|                      | Kollupitiya Co-op. House | 210         |
|                      | Kotahena                 | 308         |
|                      | Liberty Plaza            | 309         |
|                      | Lucky Plaza              | 331         |
|                      | Malwatte Road            | 312         |
|                      | Maradana                 | 236         |
|                      | Majestic City            | 200         |
|                      | Mid City                 | 176         |
|                      | Mutwal                   | 214         |
|                      | Narahenpita              | 119         |
|                      | Olcott Mawatha           | 275         |
|                      | Pettah                   | 139         |
|                      | Queens Branch            | 033         |
|                      | Sangaraja Mawatha        | 056         |
|                      | Sea Street               | 277         |
|                      | Suduwella                | 143         |
|                      | Thimbirigasyaya          | 086         |
|                      | Town Hall                | 167         |
|                      | Union Place              | 014         |
|                      | Wellawatte               | 145         |
| <b>Colombo Outer</b> | Avissawella              | 029         |
|                      | Battaramulla             | 208         |
|                      | Boralesgamuwa            | 348         |
|                      | Dehiwala                 | 019         |
|                      | Dehiwala - Galle Road    | 337         |
|                      | Gangodawila              | 097         |
|                      | Hanwella                 | 229         |
|                      | Homagama                 | 049         |
|                      | Kaduwela                 | 196         |
|                      | Katubedda                | 313         |
|                      | Kesbewa                  | 327         |
|                      | Kolonnawa                | 194         |

| Zone/Region    | Branch            | Branch Code |
|----------------|-------------------|-------------|
|                | Kotikawatta       | 098         |
|                | Kottawa           | 328         |
|                | Maharagama        | 306         |
|                | Moratumulla       | 290         |
|                | Moratuwa          | 091         |
|                | Mount Lavinia     | 336         |
|                | Nugegoda          | 174         |
|                | Nugegoda City     | 335         |
|                | Piliyandala       | 103         |
|                | Pitakotte         | 279         |
|                | Ratmalana         | 080         |
| <b>Galle</b>   | Ahangama          | 188         |
|                | Ambalangoda       | 035         |
|                | Baddegama         | 087         |
|                | Balapitiya        | 154         |
|                | Batapola          | 234         |
|                | Elpitiya          | 073         |
|                | Galle Fort        | 013         |
|                | Galle Main Street | 169         |
|                | Hikkaduwa         | 136         |
|                | Imaduwa           | 247         |
|                | Karapitiya        | 343         |
|                | Koggala           | 329         |
|                | Thalgaswala       | 272         |
|                | Udugama           | 131         |
|                | Uragasmanhandiya  | 197         |
|                | Wanduramba        | 325         |
| <b>Gampaha</b> | Delgoda           | 118         |
|                | Gampaha           | 026         |
|                | Ganemulla         | 332         |
|                | Ja-Ela            | 239         |
|                | Kadawatha         | 273         |
|                | Kandana           | 175         |
|                | Katunayake        | 276         |
|                | Kelaniya          | 055         |
|                | Kiribathgoda      | 237         |
|                | Kirindiwela       | 202         |

| Zone/Region       | Branch            | Branch Code |
|-------------------|-------------------|-------------|
|                   | Mahara            | 217         |
|                   | Malwana           | 191         |
|                   | Marandaghamula    | 100         |
|                   | Meerigama         | 198         |
|                   | Minuwangoda       | 021         |
|                   | Nittambuwa        | 278         |
|                   | Pamunugama        | 318         |
|                   | Pugoda            | 093         |
|                   | Ragama            | 316         |
|                   | Seeduwa           | 324         |
|                   | Veyangoda         | 079         |
|                   | Wattala           | 222         |
|                   | Yakkala           | 333         |
|                   | Kochchikade       | 142         |
|                   | Negombo           | 034         |
| <b>Hambantota</b> | Ambalantota       | 072         |
|                   | Angunakolapelessa | 205         |
|                   | Beliatta          | 244         |
|                   | Hambantota        | 007         |
|                   | Kudawella         | 288         |
|                   | Middeniya         | 265         |
|                   | Ranna             | 345         |
|                   | Suriyawewa        | 264         |
|                   | Tangalle          | 067         |
|                   | Tissamaharama     | 061         |
|                   | Walasmulla        | 120         |
|                   | Weeraketiya       | 350         |
| <b>Jaffna</b>     | Atchuvely         | 107         |
|                   | Chankanai         | 108         |
|                   | Chavakachcheri    | 110         |
|                   | Chunnakam         | 109         |
|                   | Kannathiddy       | 284         |
|                   | J/Main Street     | 104         |
|                   | J/Stanley Road    | 030         |
|                   | J/University      | 162         |
|                   | Kankesanthurai    | 031         |
|                   | Kayts             | 105         |

| Zone/Region     | Branch            | Branch Code |
|-----------------|-------------------|-------------|
|                 | Nelliady          | 106         |
|                 | Point Pedro       | 285         |
|                 | Velvettithurai    | 141         |
| <b>Kalutara</b> | Aluthgama         | 084         |
|                 | Baduraliya        | 283         |
|                 | Bandaragama       | 121         |
|                 | Beruwala          | 311         |
|                 | Bulathsinhala     | 161         |
|                 | Horana            | 041         |
|                 | Ingiriya          | 300         |
|                 | Kalutara          | 039         |
|                 | Maggona           | 282         |
|                 | Matugama          | 070         |
|                 | Neboda            | 249         |
|                 | Panadura          | 148         |
|                 | Panadura Town     | 321         |
|                 | Pelawatta         | 261         |
|                 | Wadduwa           | 262         |
| <b>Kandy</b>    | Akurana           | 153         |
|                 | Alawathugoda      | 294         |
|                 | Ankumbura         | 183         |
|                 | Davulagala        | 206         |
|                 | Deltota           | 257         |
|                 | Galagedara        | 114         |
|                 | Hataraliyadda     | 341         |
|                 | Gampola           | 018         |
|                 | Hasalaka          | 140         |
|                 | Kadugannawa       | 159         |
|                 | Kandy             | 003         |
|                 | Kandy City Centre | 357         |
|                 | Katugastota       | 089         |
|                 | Menikhinna        | 157         |
|                 | Nawalapitiya      | 053         |
|                 | Panwila           | 211         |
|                 | Peradeniya        | 057         |
|                 | Pilimatalawa      | 256         |
|                 | Poojapitiya       | 358         |

| Zone/Region       | Branch           | Branch Code |
|-------------------|------------------|-------------|
|                   | Pussellawa       | 274         |
|                   | Senkadagala      | 158         |
|                   | Teldeniya        | 112         |
|                   | Wattegama        | 074         |
| <b>Kegalle</b>    | Aranayake        | 248         |
|                   | Bulathkohupitiya | 252         |
|                   | Dehiowita        | 293         |
|                   | Deraniyagala     | 180         |
|                   | Galigamuwa       | 185         |
|                   | Gonagaldeniya    | 238         |
|                   | Hemmathagama     | 221         |
|                   | Kegalle Main     | 027         |
|                   | Kegalle Bazaar   | 299         |
|                   | Kotiyakumbura    | 355         |
|                   | Mawanella        | 069         |
|                   | Rambukkana       | 101         |
|                   | Ruwanwella       | 081         |
|                   | Thulhiriya       | 270         |
|                   | Warakapola       | 054         |
|                   | Yatiantota       | 047         |
| <b>Kurunegala</b> | Alawwa           | 149         |
|                   | Bingiriya        | 172         |
|                   | Galgamuwa        | 184         |
|                   | Giriulla         | 092         |
|                   | Hettipola        | 144         |
|                   | Ibbagamuwa       | 207         |
|                   | Kobeigane        | 281         |
|                   | Ku/Ethugalpura   | 334         |
|                   | Ku/Maliyadeva    | 226         |
|                   | Kuliyapitiya     | 028         |
|                   | Kurunegala       | 012         |
|                   | Maho             | 052         |
|                   | Makandura        | 137         |
|                   | Mawathagama      | 199         |
|                   | Melsiripura      | 344         |
|                   | Narammala        | 082         |

| Zone/Region       | Branch                         | Branch Code |
|-------------------|--------------------------------|-------------|
|                   | Nikaweratiya                   | 124         |
|                   | Polgahawela                    | 059         |
|                   | Pothuhera                      | 280         |
|                   | Ridigama                       | 193         |
|                   | Wariyapola                     | 163         |
| <b>Matale</b>     | Dambulla                       | 138         |
|                   | Galewela                       | 115         |
|                   | Matale                         | 002         |
|                   | Naula                          | 146         |
|                   | Pallepola                      | 241         |
|                   | Raththota                      | 128         |
|                   | Ukuwela                        | 201         |
|                   | Wilgamuwa                      | 122         |
| <b>Matara</b>     | Akuressa                       | 117         |
|                   | Deniyaya                       | 132         |
|                   | Devinuwara                     | 243         |
|                   | Dickwella                      | 135         |
|                   | Gandara                        | 307         |
|                   | Hakmana                        | 130         |
|                   | Kamburupitiya                  | 133         |
|                   | Matara - Dharmapala<br>Mawatha | 152         |
|                   | Matara - Uyanwatta             | 032         |
|                   | Morawaka                       | 060         |
|                   | Urubokka                       | 271         |
|                   | Walasgala                      | 304         |
|                   | Weligama                       | 077         |
| <b>Moneragala</b> | Badalkumbura                   | 347         |
|                   | Bibile                         | 011         |
|                   | Buttala                        | 147         |
|                   | Kataragama                     | 168         |
|                   | Medagama                       | 258         |
|                   | Moneragala                     | 068         |
|                   | Thanamalwila                   | 230         |
|                   | Wellawaya                      | 062         |

| Zone/Region  | Branch         | Branch Code |
|--------------|----------------|-------------|
| Nuwara Eliya | Bogawantalawa  | 354         |
|              | Ginigathhena   | 302         |
|              | Hatton         | 186         |
|              | Maskeliya      | 178         |
|              | Nildandahinna  | 127         |
|              | Nuwara Eliya   | 134         |
|              | Pundaluoya     | 173         |
|              | Ragala         | 036         |
|              | Rikillagaskada | 353         |
|              | Talawakelle    | 038         |
|              | Udapussellawa  | 292         |
|              | Hanguranketha  | 022         |
| Ratnapura    | Balangoda      | 017         |
|              | Eheliyagoda    | 085         |
|              | Embilipitiya   | 045         |
|              | Godakawela     | 245         |
|              | Kahawatta      | 155         |
|              | Kalawana       | 235         |
|              | Kaltota        | 289         |
|              | Kiriella       | 266         |
|              | Kuruwita       | 263         |
|              | Nivitigala     | 192         |
|              | Pallebedda     | 349         |
|              | Pelmadulla     | 160         |
|              | Rakwana        | 129         |
|              | Ratnapura      | 088         |
|              | Ratnapura Town | 317         |
|              | Udawalawa      | 295         |

| Zone/Region      | Branch                | Branch Code |
|------------------|-----------------------|-------------|
| Polonnaruwa      | Aralaganwila          | 253         |
|                  | Bakamuna              | 242         |
|                  | Dehiattakandiya       | 330         |
|                  | Habarana              | 203         |
|                  | Hingurakgoda          | 006         |
|                  | Medirigiriya          | 231         |
|                  | Polonnaruwa           | 005         |
|                  | Polonnaruwa Town      | 232         |
|                  | Thambala              | 351         |
| Welikanda        | 254                   |             |
| Trincomalee      | Kantalai              | 090         |
|                  | Kinniya               | 094         |
|                  | Muttur                | 095         |
|                  | Serunuwara            | 233         |
|                  | Trincomalee           | 066         |
| Trincomalee Town | 255                   |             |
| Wanni            | Chettikulam           | 356         |
|                  | Kilinochchi re-opened | 048         |
|                  | Mankulam re-opened    | 165         |
|                  | Mullaitivu re-opened  | 020         |
|                  | Paranthan re-opened   | 111         |
|                  | Murunkan              | 166         |
| Mannar           | 044                   |             |

# Service Centres

| Zone/Region                     | Attached Service Centres                | Service Centre Code |     |
|---------------------------------|---|---------------------|-----|
| Ampara                          | Oluvil                                  | 863                 |     |
|                                 | South-East University, Oluvil           | 814                 |     |
|                                 | Palamunai                               | 598                 |     |
|                                 | Alayadiwembu                            | 902                 |     |
|                                 | Erakkamam                               | 861                 |     |
|                                 | Nawagampura                             | 597                 |     |
|                                 | Padiyathalawa                           | 860                 |     |
|                                 | Panama                                  | 972                 |     |
|                                 | Sammanthurai                            | 862                 |     |
|                                 | Viliniyady Town, Sammanthurai           | 924                 |     |
|                                 | Central Camp                            | 870                 |     |
| Gonagolla                       | 916                                     |                     |     |
| Anuradhapura                    | Anuradhapura                            | 410                 |     |
|                                 | Nachchiyaduwa                           | 829                 |     |
|                                 | Rambewa                                 | 866                 |     |
|                                 | North-Central Provincial Service Centre | 778                 |     |
|                                 | Mihintale                               | 434                 |     |
|                                 | Vilachchiya - Pemaduwa                  | 832                 |     |
|                                 | Thirappane                              | 912                 |     |
|                                 | Bulnewa                                 | 931                 |     |
|                                 | Gomarankadawala                         | 938                 |     |
|                                 | Maradankadawala                         | 507                 |     |
|                                 | Ganewelpola                             | 738                 |     |
|                                 | Saliyawewa                              | 508                 |     |
|                                 | Padavi Sri Pura                         | 827                 |     |
|                                 | Padavi Parakkramapura                   | 986                 |     |
|                                 | Rajanganaya                             | 833                 |     |
|                                 | Damsopura                               | 950                 |     |
|                                 | Rajina Handiya - Thambuttegama          | 911                 |     |
|                                 | Badulla                                 | Badulla Bazaar      | 402 |
|                                 |   | Badulla - Welekade  | 910 |
| Badulla - Pahala Weediya        |   | 897                 |     |
| Uva Provincial Council Premises |   | 824                 |     |
| Badulla Muthiyangana            |   | 775                 |     |
| Bandarawela Town                |   | 431                 |     |
| Ballaketuwa                     |   | 542                 |     |
| Bandarawela Commercial Centre   |   | 906                 |     |
| Perahettiya                     |   | 745                 |     |
| Bogahakumbura                   |   | 548                 |     |
| Nawa Medagama                   |   | 928                 |     |

| Zone/Region    | Attached Service Centres    | Service Centre Code |     |
|----------------|-----------------------------|---------------------|-----|
|                | Attampitiya                 | 564                 |     |
|                | Demodara                    | 895                 |     |
|                | Meegahakivula               | 872                 |     |
|                | Madolsima                   | 890                 |     |
|                | Lunuwatte                   | 880                 |     |
|                | Medawela                    | 770                 |     |
|                | Welimada Town               | 875                 |     |
|                | Batticaloa                  | Iruthayapuram       | 909 |
|                |                             | Puttur              | 952 |
|                |                             | Siththandy          | 934 |
| Mandur         |                             | 874                 |     |
| Palugamam      |                             | 974                 |     |
| Ariyampathi    |                             | 859                 |     |
| Kirankulam     |                             | 772                 |     |
| Wakarai        |                             | 953                 |     |
| Kiran          |                             | 750                 |     |
| Puttalam       |                             | Andigama            | 554 |
|                | Arachchikattuwa             | 467                 |     |
|                | Udappuwa                    | 908                 |     |
|                | Fisheries S.C.              | 589                 |     |
|                | Norochcholai                | 500                 |     |
|                | Thoduwawa                   | 547                 |     |
|                | Kottaramulla                | 498                 |     |
|                | Welipennagahamulla          | 570                 |     |
|                | Narawila                    | 571                 |     |
|                | Madurankuliya               | 546                 |     |
|                | Bolawatta                   | 482                 |     |
|                | Lunuwila                    | 483                 |     |
| Ulhitiyawa     | 828                         |                     |     |
| Western Zone I | Mihindu Mawatha             | 884                 |     |
|                | Dematagoda                  | 514                 |     |
|                | Sri Lanka Customer Premises | 747                 |     |
|                | Colombo Harbour Premises    | 822                 |     |
|                | Grandpass                   | 403                 |     |
|                | St. Joseph's Street         | 843                 |     |
|                | Wekanda                     | 515                 |     |
|                | Slave Island                | 891                 |     |
|                | Havelock Town               | 513                 |     |
|                | Jampettah Street            | 553                 |     |
|                | Bloemendhal                 | 919                 |     |



| Zone/Region          | Attached Service Centres                           | Service Centre Code |
|----------------------|--|---------------------|
|                      | Lotteries Board H/O Premises                       | 831                 |
|                      | Hultsdorf Courts Premises                          | 808                 |
|                      | Nagalagam Street                                   | 484                 |
|                      | Mutuwella  | 840                 |
|                      | Registrar of Motor Vehicles Premises - Narahenpita | 818                 |
|                      | Central Bank Premises                              | 911                 |
|                      | Maligawatta  | 485                 |
|                      | Suduwella  | 401                 |
|                      | Colombo University Premises                        | 586                 |
|                      | Colombo Medical College Premises                   | 803                 |
|                      | Treasury Unit Ministry of Finance                  | 826                 |
| <b>Colombo Outer</b> | Kosgama  | 439                 |
|                      | Thalduwa   | 460                 |
|                      | Talawathugoda                                      | 413                 |
|                      | Malabe   | 896                 |
|                      | Hokandara  | 926                 |
|                      | Sri Lanka Foreign Employment Bureau Premises       | 823                 |
|                      | Attidiya   | 457                 |
|                      | Nedimala   | 521                 |
|                      | Kalubowila   | 746                 |
|                      | Delkanda   | 407                 |
|                      | Sri Ja'pura University Premises                    | 812                 |
|                      | Hanwella Town                                      | 418                 |
|                      | Kahahena   | 551                 |
|                      | Padukka  | 419                 |
|                      | Godagama   | 497                 |
|                      | Homagama City                                      | 572                 |
|                      | Army H.Q.  | 807                 |
|                      | Meegoda  | 883                 |
|                      | Palali Army Camp                                   | 809                 |
|                      | Nawagamuwa   | 535                 |
|                      | Bandarawatta                                       | 982                 |
|                      | Soyzapura  | 428                 |
|                      | Kahatuduwa   | 409                 |
|                      | Wellampitiya                                       | 900                 |
|                      | Gothatuwa  | 415                 |
|                      | Mulleriyawa (Angoda)                               | 838                 |
|                      | Athurugiriya                                       | 416                 |
|                      | Mattegoda  | 531                 |
|                      | Pannipitiya (Moraketiya)                           | 429                 |

| Zone/Region    | Attached Service Centres                     | Service Centre Code |
|----------------|--|---------------------|
|                | Pamunuwa                                     | 922                 |
|                | Puwakaramba                                  | 449                 |
|                | Rawathawatta                                 | 448                 |
|                | Katukurunda                                  | 494                 |
|                | Embuldeniya                                  | 412                 |
|                | Nawala University Premises                   | 450                 |
|                | Chapel Lane                                  | 526                 |
|                | Welikada Plaza                               | 821                 |
|                | Kohuwala                                     | 464                 |
|                | Piliyandala City                             | 839                 |
|                | Bokundara                                    | 741                 |
|                | Ethulkotte                                   | 586                 |
|                | Sri Ja'pura - Thalapatpitiya Economic Centre | 949                 |
| <b>Galle</b>   | Ambalangoda - Main Street                    | 549                 |
|                | Watugedera                                   | 560                 |
|                | Kosgoda                                      | 889                 |
|                | Meetiyaigoda                                 | 937                 |
|                | Pitigala                                     | 441                 |
|                | Karandeniya                                  | 444                 |
|                | Kurundugaha Hethekma                         | 869                 |
|                | Gintota                                      | 420                 |
|                | Wanchawala                                   | 520                 |
|                | Pettigalawatta                               | 987                 |
|                | Galle Town Service Centres                   | 815                 |
|                | Kaluwella                                    | 404                 |
|                | Pinnaduwa                                    | 587                 |
|                | Ratgama                                      | 469                 |
|                | Gonapeenuwala                                | 561                 |
|                | Dodanduwa/Kumarakanda                        | 748                 |
|                | Yakkalamulla                                 | 424                 |
|                | Bogahagoda                                   | 980                 |
|                | Nagoda                                       | 522                 |
|                | Neluwa                                       | 442                 |
| <b>Gampaha</b> | Weliweriya                                   | 512                 |
|                | Gampaha - Ja-Ela Road                        | 533                 |
|                | Udugampola                                   | 907                 |
|                | Welipillewa                                  | 575                 |
|                | Weligampitiya                                | 528                 |
|                | Dehiyagatha Junction                         | 529                 |
|                | Ekala  | 925                 |

| Zone/Region       | Attached Service Centres   | Service Centre Code |
|-------------------|--|---------------------|
|                   | Kirillawela  | 446                 |
|                   | Kadawatha  | 973                 |
|                   | Averiwatta   | 576                 |
|                   | Sinharamulla   | 445                 |
|                   | Peliyagoda (Pattiyahandiya)  | 536                 |
|                   | Mawaramandiya  | 525                 |
|                   | Urapola  | 511                 |
|                   | Enderamulla  | 555                 |
|                   | Divulpitiya  | 437                 |
|                   | Demahandiya  | 530                 |
|                   | Kotadeniyawa   | 830                 |
|                   | Pallewela  | 969                 |
|                   | Thihariya  | 438                 |
|                   | Pasyala  | 510                 |
|                   | Wathupitiwala  | 539                 |
|                   | Dompe  | 538                 |
|                   | Mahabage   | 524                 |
|                   | Batuwatta  | 917                 |
|                   | Raddolugama  | 834                 |
|                   | Bandaranaike International Airport Premises (Attached to International Div.) | 805                 |
|                   | Naiwala  | 556                 |
|                   | Oliyamulla (Wattala)   | 557                 |
|                   | Welisara Economic Centre   | 893                 |
|                   | Mudungoda  | 532                 |
|                   | Katana   | 465                 |
|                   | Negombo Main Street  | 523                 |
|                   | Fishe. Bank - Negombo  | 590                 |
| <b>Hambantota</b> | Hungama  | 961                 |
|                   | Weerawila (Pannegamuwa)  | 565                 |
|                   | Hambantota Administrative Complex  | 776                 |
|                   | Katuwana   | 856                 |
|                   | Vitharandeniya   | 960                 |
|                   | Tangalla S.C.  | 774                 |
|                   | Lunugamwehera  | 941                 |
| <b>Jaffna</b>     | Puttur   | 970                 |
|                   | Pandatherippu  | 957                 |
|                   | Kodikamam  | 904                 |
|                   | Kopay  | 966                 |
|                   | Alaweddy   | 744                 |

| Zone/Region     | Attached Service Centres                    | Service Centre Code |
|-----------------|---|---------------------|
|                 | Inuvil                                      | 905                 |
|                 | Urumpirai                                   | 865                 |
|                 | Manipai                                     | 837                 |
|                 | Jaffna Naval Road                           | 956                 |
|                 | Thirunelvely                                | 855                 |
|                 | Kalviyankadu                                | 964                 |
|                 | Mallakam                                    | 899                 |
|                 | Puloly                                      | 963                 |
|                 | Uduppidy                                    | 971                 |
| <b>Kalutara</b> | Dargatown                                   | 451                 |
|                 | Alubomulla                                  | 568                 |
|                 | Moragahahena                                | 567                 |
|                 | Millaniya                                   | 588                 |
|                 | Gonapola                                    | 871                 |
|                 | Pokunuwita                                  | 989                 |
|                 | Handapangoda                                | 981                 |
|                 | Kalutara Central Junction                   | 458                 |
|                 | Kalutara North                              | 476                 |
|                 | Kalutara Hospital Junction                  | 929                 |
|                 | Katukurunda                                 | 749                 |
|                 | Agalawatta                                  | 447                 |
|                 | Dodangoda                                   | 968                 |
|                 | Panadura Keselwatta                         | 462                 |
|                 | Eluwila                                     | 591                 |
|                 | Modarawila                                  | 811                 |
|                 | Meegahathenna                               | 975                 |
|                 | Moronthuduwa                                | 534                 |
| <b>Kandy</b>    | Ambathanna                                  | 882                 |
|                 | Welamboda                                   | 894                 |
|                 | Galaha                                      | 877                 |
|                 | Pallegama                                   | 988                 |
|                 | Gelioya                                     | 491                 |
|                 | Gampola                                     | 492                 |
|                 | Kurunduwatta                                | 493                 |
|                 | Kolongoda                                   | 490                 |
|                 | Mahaiyawa                                   | 885                 |
|                 | Kandy Court Premises                        | 903                 |
|                 | Kundasale                                   | 927                 |
|                 | Kandy Lawyers' Complex                      | 773                 |
|                 | District Secretarial Service Centre - Kandy | 777                 |

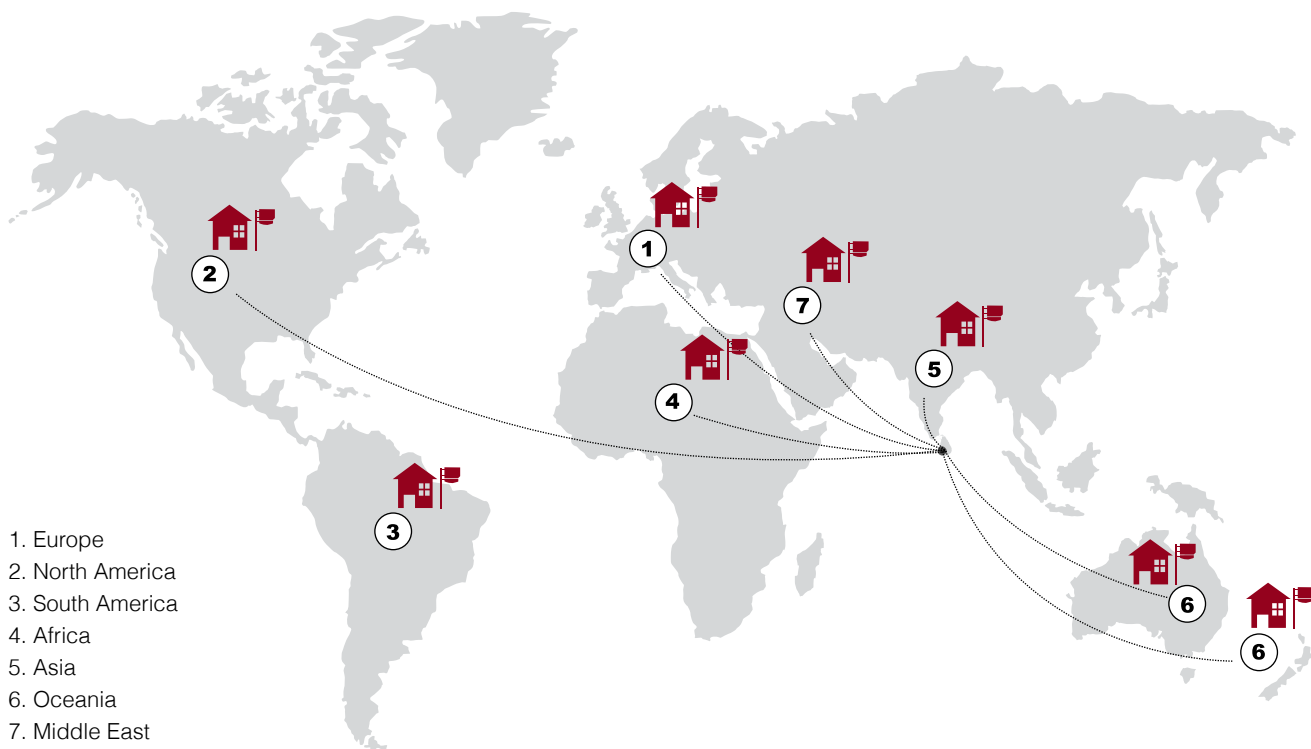
| Zone/Region       | Attached Service Centres | Service Centre Code |
|-------------------|--------------------------|---------------------|
|                   | Hedeniya                 | 584                 |
|                   | Polgolla                 | 984                 |
|                   | Digana                   | 455                 |
|                   | Huluganga                | 920                 |
|                   | Muruthalawa              | 583                 |
|                   | Peradeniya University SC | 801                 |
|                   | Pottapitiya              | 915                 |
|                   | Talatuoya                | 454                 |
|                   | Marassana                | 858                 |
|                   | Medamahanuwara           | 456                 |
|                   | Udu Dumbara              | 854                 |
|                   | Madawala Bazaar          | 898                 |
| <b>Kegalle</b>    | Nelundeniya              | 873                 |
|                   | Amithirigala             | 943                 |
|                   | Morontota                | 435                 |
|                   | Dewalagama               | 489                 |
|                   | Mawanella                | 436                 |
|                   | Aluthnuwara              | 946                 |
|                   | Pattampitiya             | 592                 |
|                   | Karawanella              | 936                 |
|                   | Galapitamada             | 488                 |
|                   | Horagasmankada           | 518                 |
|                   | Algama                   | 935                 |
|                   | Kitulgala                | 519                 |
| <b>Kurunegala</b> | Boyawalana               | 851                 |
|                   | Weerapokuna              | 577                 |
|                   | Ambanpola                | 433                 |
|                   | Damabadeniya             | 474                 |
|                   | Bammanna                 | 985                 |
|                   | Bandarakoswatta          | 848                 |
|                   | Kumbukgete               | 473                 |
|                   | Boraluwewa               | 544                 |
|                   | Hiripitiya               | 850                 |
|                   | Mallawapitiya            | 736                 |
|                   | Piduruwella              | 503                 |
|                   | Kuru/Maliyadewa          | 737                 |
|                   | Dummalasooriya           | 504                 |
|                   | Bihalpola                | 545                 |
|                   | Kandanegedera            | 566                 |
|                   | Udubaddawa               | 868                 |

| Zone/Region   | Attached Service Centres                | Service Centre Code |
|---------------|---|---------------------|
|               | Kurunegala Government Hospital Premises | 816                 |
|               | Kurunegala Municipal Council Premises   | 947                 |
|               | Polpitiyagama                           | 414                 |
|               | Nagollagama                             | 573                 |
|               | Pannala                                 | 475                 |
|               | Paragahadeniya                          | 432                 |
|               | Katupotha                               | 405                 |
|               | Nikaweratiya                            | 574                 |
|               | Giriulla                                | 886                 |
|               | Rasnayakapura                           | 743                 |
|               | Godawela                                | 502                 |
|               | Mathawa                                 | 735                 |
|               | Panagamuwa                              | 543                 |
|               | Dodangaslanda                           | 849                 |
|               | Maspotha                                | 878                 |
| <b>Matale</b> | Inamaluwa (Sigiriya)                    | 499                 |
|               | Madatugama                              | 852                 |
|               | Dewahuwa                                | 509                 |
|               | Matale - Trinco Street                  | 406                 |
|               | Matale - Gongawela                      | 559                 |
|               | Porcelain Factory Premises              | 802                 |
|               | Madawala Ulpotha                        | 853                 |
|               | Yatawatta                               | 558                 |
|               | Kaikawala                               | 887                 |
|               | Warakamura                              | 585                 |
|               | Laggala - Pallegama                     | 466                 |
| <b>Matara</b> | Telijjawila                             | 463                 |
|               | Pallegama                               | 918                 |
|               | Kottegoda                               | 487                 |
|               | Kekanadura                              | 921                 |
|               | Deiyandara                              | 459                 |
|               | Kirinda - Puhulwella                    | 930                 |
|               | Makandura                               | 440                 |
|               | Walgama                                 | 578                 |
|               | Kotuwegoda                              | 408                 |
|               | Yatiyana                                | 443                 |
|               | Ruhunu University Unit                  | 825                 |
|               | Matara Hospital Premises                | 945                 |
|               | Pitabeddara                             | 417                 |
|               | Opatha                                  | 942                 |
|               | Mawarala                                | 579                 |
|               | Mirissa                                 | 468                 |

| Zone/Region  | Attached Service Centres              | Service Centre Code |
|--------------|---------------------------------------|---------------------|
| Moneragala   | Okkampitiya                           | 857                 |
|              | Moneragala                            | 569                 |
|              | Dambagalla                            | 867                 |
|              | Siyabalanduwa                         | 977                 |
|              | Hambegamuwa                           | 596                 |
|              | Ethiliwewa                            | 976                 |
| Nuwara Eliya | Watawala                              | 540                 |
|              | Kotagala                              | 427                 |
|              | Dickoya                               | 541                 |
|              | Upcott                                | 552                 |
|              | Walapane                              | 581                 |
|              | Kandapola                             | 516                 |
|              | Nanu Oya                              | 582                 |
|              | Thawalantenna                         | 876                 |
|              | Hapugastalawa                         | 913                 |
|              | Ragala                                | 495                 |
|              | Agarapatana                           | 496                 |
|              | Talawakelle                           | 517                 |
|              | Adikarigama                           | 739                 |
|              | Padiyapelella                         | 470                 |
| Hewaheta     | 471                                   |                     |
| Ratnapura    | Weligepola                            | 480                 |
|              | Pambahinna                            | 562                 |
|              | Eheliyagoda                           | 430                 |
|              | Padalangala                           | 453                 |
|              | Kolonna                               | 537                 |
|              | Sevanagala Sugar Corporation Premises | 813                 |
|              | Well-Oya                              | 771                 |
|              | Ayagama                               | 477                 |
|              | Karawita                              | 478                 |
|              | Opanayake                             | 479                 |
|              | Ratnapura New Town                    | 810                 |
|              | Wewelwatta                            | 940                 |

| Zone/Region       | Attached Service Centres | Service Centre Code |
|-------------------|--------------------------|---------------------|
| Polonnaruwa       | Diyabeduma               | 563                 |
|                   | Siripura                 | 965                 |
|                   | Sandunpura               | 733                 |
|                   | Diyasenpura              | 939                 |
|                   | Kaduruwela               | 835                 |
|                   | Lankapura                | 580                 |
|                   | Jayanthipura             | 734                 |
|                   | Sewanapitiya             | 933                 |
| Trincomalee       | Mullipothanai            | 842                 |
|                   | Kachchakodithivu         | 959                 |
|                   | Thoppur                  | 958                 |
|                   | Echilampathai            | 594                 |
|                   | Palaoothu                | 841                 |
|                   | Uppuveli (Nilaveli)      | 881                 |
|                   | Kuchchuweli              | 593                 |
| Central Road, SPC | 501                      |                     |
| Wanni             | Kilinochchi Town         | 732                 |
|                   | Mallavi SC               | 978                 |
|                   | Kanagarajankulam         | 731                 |
|                   | Oddusudan                | 599                 |
|                   | Pallai                   | 979                 |
|                   | Nanattan                 | 967                 |
|                   | Silawathurei             | 742                 |
|                   | Pesalai                  | 955                 |
| Vavuniya Town     | 983                      |                     |
| Nedunkerny        | 595                      |                     |

# Worldwide Partners



1. Europe
2. North America
3. South America
4. Africa
5. Asia
6. Oceania
7. Middle East

## Europe

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 Bank of Ceylon, London  
 Bank of Cyprus Public Company Ltd., Nicosia  
 Barclays Bank PLC, London  
 BHF Bank Aktiengesellschaft, Frankfurt am Main  
 BNP Paribas SA, Paris  
 Budapest Bank RT, Budapest  
 Commerzbank AG, Frankfurt am Main  
 Credit Suisse, Zurich  
 Czeskoslovenka Obchodna Banca AS, Bratislava  
 Danske Bank A/S, Copenhagen  
 Deutsche Bank AG, Frankfurt am Main  
 Gorengska Banka DD, Ljubljana  
 HSBC Bank PLC, London  
 ING Bank NV, Amsterdam  
 ING Belgium SA/NV, Brussels

Intesa Sanpaolo SpA, Milano  
 Komerčni Bank NA, Prague  
 MKB Bank ZET, Budapest  
 National Westminster Bank PLC, London  
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 Raifaizen Bank, Vienna  
 SEB Bank, Tallinn  
 SEB Bank, Vilnius  
 Skandinaviska Enskilda Banken AB (Publ), Stockholm  
 Societe Generale, Paris  
 Sparkasse Kolnbonn, Cologne  
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 The Royal Bank of Scotland NV, Amsterdam  
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 UBAE SPA, Italy

UBS AG, Zurich  
 Ukrexim Bank, Kiev  
 Unicredit Bank Austria AG, Vienna  
 Unicredit Bank, Sofia  
 UniCredito Italiano SpA, Milan  
 Portigon AG, Dusseldorf  
 Zagrebacka Banka DD, Zagreb

#### North America

Bank of Montreal, Montreal  
 Bank of Nova Scotia, Canada  
 Canadian Imperial Bank of Commerce, Toronto  
 Citibank NA, New York  
 Deutsche Bank Trust Company Americas, New York  
 HSBC Bank USA NA, New York  
 JP Morgan Chase Bank NA, New York  
 MashreqBank PSC, New York  
 Standard Chartered Bank, New York  
 The Royal Bank of Scotland NV, New York  
 Wells Fargo Bank NA, USA

#### South America

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 Banco Santander Brazil SA, Sao Paulo  
 BBVA Banco Continental, Lima  
 Deutsche Bank, Sao Paulo

#### Africa

ABSA Bank Ltd., Johannesburg  
 Bank Misr, Cairo  
 Barclays Bank of Kenya Ltd., Nairobi  
 Citi Bank - Ivory Coast  
 Mauritius Commercial Bank Ltd. - Port Louis  
 National Bank of Egypt, Cairo  
 Nedbank Ltd., Johannesburg

#### Asia

Axis Bank Ltd., Mumbai  
 Bank for Foreign Trade - Hanoi  
 Bank of Ceylon, Chennai  
 Bank of China, China  
 Bank of Communications Co. Ltd.  
 Bank of Maldives, Male  
 Bank of Tokyo Mitsubishi UFJ Ltd., Tokyo  
 China Construction Bank, Beijing  
 China Development Bank  
 CIMB Bank Ltd., Kuala Lumpur

DBS Bank Ltd., Singapore  
 Exim Bank of Korea  
 Export Import Bank of China, Beijing  
 HSBC Bank, Hong Kong  
 ICICI Bank Ltd., Mumbai  
 Korea Exchange Bank, Seoul  
 MashreqBank PSC, Mumbai  
 MCB Bank Ltd., Karachi  
 Mizuho Corporate Bank Ltd., Tokyo  
 Myanmar Foreign Trade Bank, Yangon  
 Nepal Bank Ltd., Katmandu  
 Oversea-Chinese Banking Corp. Ltd., Hong Kong  
 Oversea-Chinese Banking Corp. Ltd., Kuala Lumpur  
 Oversea-Chinese Banking Corp. Ltd., Singapore  
 Pubali Bank Ltd., Dhaka  
 Rupali Bank Ltd., Dhaka  
 Standard Chartered Bank, Afghanistan  
 Standard Chartered Bank (Pakistan) Ltd., Karachi  
 Standard Chartered Bank, Bangladesh  
 Standard Chartered Bank, Nepal  
 Standard Chartered Bank, Tokyo  
 State Bank of India, Chennai  
 Sumitomo Mitsui Banking Corporation, Tokyo  
 UBAF, Singapore  
 Woori Bank, Hanoi

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 Australia & New Zealand Banking Group Ltd., Melbourne  
 National Australia Bank Ltd., Melbourne  
 Westpac Bank PNG Ltd., Port Moresby  
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#### Middle East

Ahli United Bank, Kuwait  
 Al Rajhi Banking & Investment Corporation, Riyadh  
 Bank Dhofar, Ruwi  
 Bank of Bahrain and Kuwait, Manama  
 BankMuscat SAOG, Ruwi  
 Byblos Bank SAL, Beirut  
 Commercial Bank of Dubai PSC, Dubai  
 Jordan Islamic Bank, Amman  
 MashreqBank PSC, Dubai  
 National Bank of Abu Dhabi, Abu Dhabi  
 National Bank of Oman SAOG, Muscat  
 UBAE S.P.A., Dubai

# Decades at a Glance

## 1961

People's Bank was inaugurated on 1st July 1961. The first branch was opened at Duke Street, Colombo. During the year, eight more branches were opened in Polonnaruwa, Hingurakgoda, Hambantota, Anuradhapura, Puttalam, Matale and Kandy in addition to the Foreign Branch in Colombo. The total number of employees stood at 169.

## 1962

The Head Office was relocated to Ratnam's Building in Union Place, Colombo 2 and 17 more branches were opened.

## 1963

The Bank commenced its pawning services.

## 1964

The Co-operative Rural Banking Scheme was inaugurated.

## 1965

Some departments of the Bank were relocated to the GCSU building in Sir Chittampalam A. Gardiner Mawatha, Colombo 2. The total number of branches increased to 48, this included new branches in Horana, Kekirawa, Padaviya, Mannar, Embilipitiya, Kahatagasdigiliya, Ragala and Talawakelle.

## 1967

The Bank commenced a new Agriculture Credit Scheme becoming the pioneer lender to the small farm sector.

## 1970

The 'Athamaru' Loan Scheme was introduced to finance economic activities of the informal sector. The Investment Savings Scheme, a Credit-Linked Savings Scheme was launched to attract regular savers.

## 1971

The Bank's hundredth branch was opened at Marandagahamula.

## 1973

A comprehensive Rural Credit Scheme was launched to provide both production and consumption credit facilities. The Bank initiated the 'ganu-denu' practice, identifying itself with the traditions of the Sinhala and Tamil New Year and encouraging customers to transact with the Bank at the auspicious time.

## 1975

An aggressive branch expansion programme brought our total branch count to 158.

## 1977

Our two hundredth branch opened at Kollupitiya. The Head Office was relocated to a building in Fort. The total number of employees reached 5,000. The first Fisheries Bank was opened at Koralawella.

## 1981

Our branch network increased to 290 branches. The Extended Minor Savings Scheme was launched.

## 1982

The three hundredth branch of the Bank opened at Ingiriya. The total number of employees reached 10,000.

## 1984

The People's Merchant Bank, a subsidiary of the Bank, was established. Our branch at Slave Island was merged with the International Division and the Fort Foreign Branch.

## 1986

The process of computerisation began at our Central Head Office and selected City branches and a Black Light System was introduced. Customer turn-around time was thereby significantly reduced.

## 1987

Our Headquarters Branch became the Bank's first fully-automated branch. A Special Loan Scheme for rural electrification was implemented in collaboration with the CEB.

## 1989

The Bank participated in a loan scheme sponsored by the Ministry of Labour to provide for housing against assignment of EPF balances. A scheme was launched in association with the Sri Lanka Foreign Employment Bureau to provide loans for job seekers abroad. The Bank participated in a loan scheme launched by REPIA to provide credit to those affected by civil unrest in 1983. A *Janasaviya* Associated Loan Scheme was introduced during the year. The Bank also commenced the issue of Negotiable Savings Certificates during the year.

## 1990

An Endowment Savings Deposit Scheme was introduced. The People's Visa Card was introduced in association with Visa International and 24 branches were fully computerised.

## 1991

The first ATM was installed at our Headquarters Branch.

## 1992

The Bank supported the Government's 200 Garment Factory Programme. 'People's Automated Banking System' (PABS) a banking application developed in-house, commenced live operations.

## 1993

The 330 Bank branches were operating throughout the country and 35 main branches were fully automated. 'Vanitha Vasana', a savings scheme for women was introduced.

## 1994

Eight new ATMs were installed and 160 branches were computerised under the automation programme.

## 1995

'Gurusetha', a new deposit mobilisation and loan scheme catering to Government teachers was launched with the co-operation of the Ministry of Education.

## 1996

'Suwa Sevana', a credit package for Government sector health personnel was launched. 'Sisu Udana', a new deposit scheme for schoolchildren was introduced. The Bank participated in two ADB-funded credit schemes - the Tea Small Holdings Development Project and the Perennial Crops Development Project. The Bank's fully-owned subsidiaries, People's Leasing Co. (PA) Ltd. and People's Travels (Pvt) Ltd. commenced operations. Zonal offices were opened to strengthen decentralised administration and to facilitate better customer service.

## 1997

The 'Surathura' Loan Scheme was launched to assist self-employment projects. The Bank extended its credit facilities to small and medium scale enterprises and industries under the NDB-funded Small and Medium Enterprises Assistance Project (SMEAP).

## 1998

The total number of ATMs increased to 36 serving over 125,000 PET cardholders. 175 branches were fully automated and the number of pawning centres increased to 188. A special credit cum deposit scheme known as 'Videshika' was introduced in collaboration with the Sri Lanka Foreign Employment Bureau to assist migrant workers.

## 1999

The Bank launched 'Isuru Udana', a deposit scheme that encourages parents and guardians to save for the benefit of their young charges.

## 2000

The 'Jana Jaya', savings cum loan scheme was launched. The newly introduced 'Jaya Sri' draw offered attractive prizes for depositors. The ATM network expanded to 74 machines throughout the country. The Central ATM Switch was introduced to connect the PABS branches and the ATM.



**2001**

The Bank's Corporate Management Team was strengthened by the recruitment of certain Heads of Division from the private banking sector. Restructuring of the Bank was initiated through the launch of a Strategic Plan. The total number of ATM machines grew to 90.

**2002**

The number of PABS automated branches increased to 218 and 119 branches were connected to the Central ATM Switch. A Treasury automation package was implemented.

**2003**

The 11th CEO/General Manager of the Bank, Mr. Asoka de Silva assumed duties on 1st February 2003. The Young Executive Saver's (YES) Account was launched. The Bank signed up with Silver Lake System SDV BUD Malaysia to install a state-of-the-art core banking package and Trade Services Solutions which will initially be operational in 60 selected branches including Head Office.

**2004**

The second phase of the restructuring plan for 2004-2008 launched and approved by the Government of Sri Lanka was based on the recapitalisation support of ADB. The Bank obtained the first ever public rating of BBB+ from Fitch Ratings Lanka. The Core Banking project was implemented successfully.

**2005**

The 15th Chairman of the Bank Dr. P.A. Kiriwandeniya assumed duties at the beginning of December 2005. This was followed immediately thereafter with a receipt of Rs. 2 Bn as the first tranche of Equity Capital Investment in the Bank by the Government of Sri Lanka in keeping with the agreement signed between the Government, ADB and People's Bank. The Core Banking project was

further extended across the branch network. The Bank also was a major intermediary in bringing Government granted financial assistance for the rebuilding of lives, homes and businesses affected by the tsunami of December 2004.

**2006**

The Bank obtained an A-rating from Fitch Ratings Lanka Ltd. indicating progress from its earlier Rating level.

People's Bank was awarded the POP Award for 2006 in the Banking and Financial Services Sector by the Sri Lanka Institute of Marketing. The second tranche of capital of Rs. 1 Bn was received from the Government of Sri Lanka.

**2007**

The 16th Chairman of the Bank Mr. W. Karunajeewa assumed duties in May 2007. The rating level of A - from Fitch Ratings was maintained during the year. The Government of Sri Lanka injected the third capital tranche of Rs. 1.5 Bn into People's Bank. People's Bank won the People's Award for the Banking & Financial Services Brand of the Year for the second consecutive year. The Bank surpassed the Rs. 300 Bn mark in total deposits during the year 2007.

**2008**

Mr. M. Wickremasinghe assumed office as the 12th CEO/General Manager of the Bank.

The Government of Sri Lanka released the fourth capital tranche of Rs. 1.5 Bn. The Bank reached the Capital Adequacy Level of 10.5% by the end of the year. Further, the Bank's first Debenture issue of Rs. 2.5 Bn was made in the year.

A notable advancement in the Bank's remittance service with the introduction of 'People's e-Remittance', a web-based remittance product supported by latest technology to remit money from overseas within

minutes. Two new foreign currency deposit products were launched, viz., 'Doo Daru Ethera Isura' a foreign currency deposit product for children and 'Special Foreign Investment Deposit Account' [SFIDA].

**2009**

The 13th CEO/General Manager of the Bank, Mr. P.V. Pathirana assumed duties in January 2009.

The Bank issued its second Debenture for Rs. 2.5 Bn during the year.

214 branches and 236 service centres were connected online. The Bank strategically placed over 300 ATMs islandwide.

Total deposits reached Rs. 400 Bn.

The highest recorded profit before tax of Rs. 6.1 Bn was achieved.

Received a SAFA (South Asian Federation of Accountants) Award for the 2008 Annual Report for the first time in the Bank's history.

**2010**

Mr. H.S. Dharmasiri assumed office as the 14th CEO/General Manager of the Bank in October 2010.

Branch Network and service centres expanded to 679. ATMs increased to 330.

People's International VISA Debit Card was launched in July 2010.

The Bank obtained AA- from Fitch Rating Lanka Ltd. and AAA from Ram Ratings.

Total deposits surpassed Rs. 462 Bn during the year 2010. The highest recorded profit before tax of Rs. 8.7 Bn was achieved.

ARC awarded two Gold Awards to People's Bank Annual Report held at New York.

The Bank received SAFA (South Asian Federation of Accountants ) Award for the 1st place in the Public Sector Category for the 2009 Annual Report.

**2011**

Mr. N. Vasantha Kumar assumed office as the 15th CEO/General Manager of the Bank on 22nd February 2011.

The Bank celebrated the Golden Jubilee on 1st July 2011.

Total branch network reached 714 whilst ATM locations increased to 382 covering almost all parts of the island.

The Bank obtained an upgraded rating of AA (stable) from Fitch Rating Lanka Ltd.

The Bank's total assets, total deposits and total loans and advances surpassed Rs. 663 Bn, Rs. 539 Bn and Rs. 478 Bn respectively. The highest recorded profit before tax of Rs. 15.3 Bn and a profit after tax of 10.2 Bn was achieved.

People's Bank won the SLIM-Nielsen People's Award for the Most Popular Bank in the Sri Lankan Banking and Financial Services Sector, SLIM-Nielsen People's Awards - Service Brand of the Year and also won the Bronze Award for Service Category at the SLIM Brand Excellence Awards 2011.

**2012**

Total branch network reached 728, whilst ATM locations increased to 420 covering almost all parts of the island.

The Bank obtained an upgraded rating of AA + (stable) from Fitch Rating Lanka Ltd. The Bank's total assets, total deposits and total loans and advances surpassed Rs. 873 Bn, Rs. 683 Bn and Rs. 660 Bn respectively.

The Bank's 2011 Annual Report won one Grand Award and three Gold Awards in the Banks: National category at 2012 International ARC Awards.



# Performance Review 1999-2012

Based on New SLASs

|                                 | 1999    | 2000    | 2001    | 2005    | 2006    | 2007    | 2008    | 2009    | 2010    | 2011    | 2012    |
|---------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <i>(Sri Lanka Rs. Mn)</i>       |         |         |         |         |         |         |         |         |         |         |         |
| Capital & Reserves              | (4,635) | (6,474) | (6,166) | 4,017   | 10,271  | 12,895  | 15,880  | 17,800  | 20,838  | 23,089  | 29,205  |
| <b>Liabilities</b>              |         |         |         |         |         |         |         |         |         |         |         |
| Customer Deposits               | 104,688 | 115,007 | 127,543 | 225,600 | 269,947 | 300,956 | 324,489 | 396,158 | 462,140 | 550,226 | 683,951 |
| Borrowing from Banks and Others | 12,405  | 39,744  | 28,369  | 29,134  | 35,840  | 49,063  | 33,714  | 36,884  | 39,132  | 64,053  | 135,150 |
| Other Liabilities               | 14,458  | 18,677  | 17,851  | 16,512  | 22,496  | 17,670  | 20,965  | 20,404  | 20,505  | 14,709  | 14,801  |
| Debentures                      | -       | -       | -       | -       | -       | -       | 2,500   | 5,000   | 5,000   | 10,000  | 10,000  |
|                                 | 131,551 | 173,428 | 173,763 | 271,246 | 328,283 | 367,689 | 381,668 | 458,445 | 526,778 | 638,988 | 843,902 |
| <b>Total Liabilities</b>        | 126,916 | 166,954 | 167,597 | 275,262 | 338,555 | 380,584 | 397,548 | 476,245 | 547,616 | 662,077 | 873,107 |
| <b>Assets</b>                   |         |         |         |         |         |         |         |         |         |         |         |
| Cash and Short-Term Funds       | 25,260  | 35,147  | 24,818  | 65,592  | 47,191  | 57,090  | 39,663  | 83,973  | 87,062  | 52,510  | 67,814  |
| Investments                     | 23,066  | 32,079  | 25,636  | 50,583  | 62,682  | 61,095  | 80,109  | 84,807  | 82,688  | 129,977 | 175,491 |
| Loans and Receivables (Net)     | 66,944  | 87,087  | 106,142 | 142,497 | 207,138 | 238,293 | 248,626 | 283,760 | 357,336 | 461,656 | 611,414 |
| Property, Plant & Equipment     | 2,945   | 2,930   | 2,834   | 4,862   | 8,936   | 8,414   | 8,362   | 7,939   | 8,385   | 7,523   | 8,235   |
| Other Assets                    | 8,701   | 9,711   | 8,167   | 11,727  | 12,608  | 15,691  | 20,787  | 15,766  | 12,144  | 10,412  | 10,153  |
| <b>Total Assets</b>             | 126,916 | 166,954 | 167,597 | 275,262 | 338,555 | 380,584 | 397,547 | 476,245 | 547,616 | 662,077 | 873,107 |
| Commitments & Contingencies     | 19,051  | 26,365  | 26,726  | 45,177  | 39,450  | 74,222  | 138,989 | 100,867 | 131,751 | 190,732 | 207,021 |
| <b>Operations</b>               |         |         |         |         |         |         |         |         |         |         |         |
| Gross Earnings                  | 14,262  | 18,450  | 25,198  | 27,202  | 35,131  | 47,984  | 58,948  | 69,050  | 62,532  | 68,298  | 94,777  |
| Net Income                      | 5,705   | 8,512   | 10,513  | 14,784  | 19,509  | 21,442  | 24,456  | 30,635  | 31,897  | 36,431  | 43,310  |
| Total Overheads                 | 5,459   | 8,160   | 8,867   | 11,070  | 15,038  | 15,736  | 17,159  | 19,719  | 21,305  | 20,421  | 24,186  |
| Profit before Taxation          | (6,671) | (1,268) | 880     | 4,035   | 4,079   | 5,002   | 5,664   | 6,076   | 8,771   | 15,600  | 15,249  |
| Provision for Taxation          | 98      | -       | -       | 1,263   | 922     | 2,628   | 2,959   | 2,755   | 3,565   | 5,154   | 4,355   |
| Profit after Taxation           | (6,573) | (1,268) | 880     | 2,772   | 3,157   | 2,374   | 2,705   | 3,320   | 5,206   | 10,446  | 10,894  |
| <b>Performance Indicators</b>   |         |         |         |         |         |         |         |         |         |         |         |
| No. of Employees (Permanent)    | 11,623  | 11,577  | 11,401  | 9,531   | 9,645   | 8,416   | 8,587   | 8,863   | 8,399   | 8,249   | 7,823   |

|  | 1999    | 2000    | 2001    | 2005    | 2006    | 2007    | 2008    | 2009    | 2010    | 2011    | 2012    |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Based on New SLASs                           |         |         |         |         |         |         |         |         |         |         |         |
| <i>(Sri Lanka Rs. '000)</i>                  |         |         |         |         |         |         |         |         |         |         |         |
| <b>Per Employee</b>                          |         |         |         |         |         |         |         |         |         |         |         |
| Deposits                                     | 9,007   | 9,934   | 11,187  | 23,670  | 27,988  | 35,760  | 37,788  | 44,698  | 55,023  | 66,702  | 87,428  |
| Advances                                     | 5,760   | 7,522   | 9,310   | 14,951  | 21,476  | 28,314  | 28,954  | 32,016  | 42,545  | 55,965  | 78,156  |
| Gross Earnings                               | 1,227   | 1,594   | 2,210   | 2,854   | 3,642   | 5,702   | 6,865   | 7,791   | 7,445   | 8,280   | 12,115  |
| Profit after Tax                             | (566)   | (110)   | 77      | 291     | 327     | 282     | 315     | 375     | 620     | 1,266   | 1,393   |
| <i>(Sri Lanka Rs.)</i>                       |         |         |         |         |         |         |         |         |         |         |         |
| <b>Per Share</b>                             |         |         |         |         |         |         |         |         |         |         |         |
| Profit after Taxation                        | (6,573) | (1,268) | 880     | 2,772   | 3,157   | 2,374   | 2,705   | 3,320   | 5,206   | 10,446  | 10,894  |
| Total Assets                                 | 126,916 | 166,954 | 167,597 | 275,262 | 338,555 | 380,584 | 397,547 | 476,245 | 547,616 | 662,077 | 873,107 |
| Net Worth                                    | (4,635) | (6,474) | (6,166) | 4,017   | 10,271  | 12,895  | 15,880  | 17,800  | 20,838  | 23,089  | 29,205  |
| <b>Key Performance Indicators (KPI)</b>      |         |         |         |         |         |         |         |         |         |         |         |
| Return on Assets (%) (Before Tax)            | (5.4)   | (0.9)   | 0.5     | 1.6     | 1.3     | 1.4     | 1.5     | 1.4     | 1.7     | 2.6     | 2.0     |
| Return on Equity (%)                         | 2,319.1 | 22.8    | (13.9)  | 139.2   | 44.2    | 20.5    | 18.8    | 19.7    | 26.9    | 49.2    | 41.7    |
| Cost/Income Ratio (%)                        | 146.0   | 102.8   | 89.2    | 72.7    | 73.8    | 68.7    | 65.4    | 60.6    | 60.2    | 56.1    | 55.8    |
| Capital Adequacy Ratio (CAR) (%)             | -       | (11.3)  | (10.5)  | 1.9     | 5.6     | 6.9     | 10.5    | 13.4    | 12.8    | 14.8    | 14.0    |
| <b>Based on Previous SLASs</b>               |         |         |         |         |         |         |         |         |         |         |         |
| Non-Performing Loan (NPL) Ratio (Gross) (%)  | 22.2    | 18.9    | 20.9    | 11.0    | 7.1     | 5.9     | 6.8     | 6.7     | 5.0     | 3.4     | 2.8     |
| Non-Performing Loan (NPL) Ratio (Net) (%)    | 6.2     | 4.4     | 8.2     | 1.8     | 0.9     | 0.7     | 1.6     | 2.0     | 1.3     | 0.5     | 0.4     |
| Non-Performing Loan (NPL) Coverage Ratio (%) | 72.3    | 76.9    | 61.0    | 83.9    | 87.1    | 88.0    | 75.7    | 70.6    | 73.6    | 81.5    | 84.0    |
| Fitch Rating                                 |         |         |         | BBB+    | A-      | A-      | A-      | A       | AA-     | AA      | AA+     |
| RAM Ratings                                  |         |         |         |         |         |         |         |         | AAA     | AAA     | AAA     |

# Glossary of Financial/Banking Terms

## A

### Accounting Policies

Principles, rules and procedures selected and consistently followed by the management of an entity in preparing and reporting the Financial Statements.

### 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.

### Amortisation

Systematic allocation of the depreciable amount of an intangible asset over its useful life. Depreciation and Amortisation both have the same meaning.

### Amortised Cost

The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

### Associate Company

A company other than a subsidiary in which a holding company has a participating interest and exercise a significant influence over its operating and financial policies.

### Available-for-Sale Financial Asset

Those financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit or loss.

## B

### Bill Discounted

A promissory Note or Bill of Exchange that has been purchased for less than face value, the difference representing interest on the unexpired term of the bill. At maturity, the holder collects the face value of the bill for its own account.

### Bill of Exchange

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

## C

### Call Deposits or Call Money

Deposits or funds lent out which are repayable on demand.

### Capital Adequacy

The ability of a bank to meet the needs of their depositors and other creditors in terms of available funds. As per requirement of Bank for International Settlements (SIBS) and Central Bank of Sri Lanka, Local Banks should maintain a stipulated minimum capital.

### Credit Risk

The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

### 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.

### Cash Equivalents

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

### Certificate of Deposit (CD)

A certificate issued by a bank against funds deposited with it that specifies the rate of interest payable and the date when the deposit will be repaid to the bearer. CDs are often negotiable.

### Commercial Paper

Unsecured short-term Promissory Notes issued by banks and credit worthy corporate borrowers.

### 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 that acts as an agent for another bank. The correspondent bank will generally provide a wide variety of banking services on behalf of the other banks in the region in which the correspondent bank is located.

### Cost Income Ratio

Operating expenses as a percentage of net income.

### Counterparty

The other party (including a bank) with whom a deal is made or closed.

### Country Risk

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

### Cross Rate

The calculated foreign exchange rate from two separate quotations involving the same currency.

### Currency Swap

A current exchange of principal amounts in two currencies combined with an agreement to re-exchange the currencies at a later date and to make interest payments, until the re-exchange, on the currency is received.

## D

### Deferred Tax

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

### Depreciation

The systematic allocations of the depreciable amount of the assets over its useful life.

**Derivative**

A financial instrument with all three of the following characteristics: (a) Its value changes in response to the change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable (sometimes called the 'underlying'). (b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types. (c) It is settled at a future date.

**Disintermediation**

The term often used to describe borrowers raising funds directly from the capital markets rather than from the banking sector. This is usually only undertaken by borrowers with the strongest credit ratings.

**Documentary Bill**

A bill of exchange that is accompanied by various documents, such as a bill of lading, an invoice and an insurance policy.

**Documentary Credit**

A letter of credit that stipulates the documents that must be produced in order for payment to be made.

**Draft**

A term generally synonymous with bill of exchange but sometimes used specifically in the context of inter-bank bills. A banker's draft is a draft, payable on demand, drawn by or on behalf of a bank.

**E****Effective Interest Method**

The method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

**Equity Instrument**

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

**F****Fair Value**

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**Fixed Charge**

A charge on specific property, usually freehold or leasehold property, or plant and machinery, given under a legal mortgage.

**Financial Instrument**

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Floating Charge**

A charge, taken by a lender to secure an advance upon property, such as stock, debtors, or cash, that permits the company to continue using and disposing of those assets in connection with its ordinary business. Such a charge becomes fixed in the event of the company's default.

**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 Contract**

A contract that commits two parties to an exchange at a specific future date under terms set out at the contract date.

**Forward Rate**

The price of currency with a maturity beyond the spot date. Forward rates may be either the same in price as spot rates or different. In the first case, the forward rate is flat. In the second case, the price is either higher, at a premium, or lower, at a discount.

**Forward Rate Agreement (FRA)**

An agreement to exchange payments at a specified future date based on the difference between a particular interest rate index (e.g. LIBOR) and an agreed fixed rate.

**G****Group**

A group is a parent and all its subsidiaries.

**H****Hedging**

A methodology used to cover against risk of unfavourable price movements (interest rates, prices, commodities, etc.).

**Held-to-Maturity Investments**

A financial asset with fixed or determinable payments and fixed maturity that an entity has the positive intent and ability to hold to maturity, other than those that the entity on initial recognition elects to designate as held for trading or available-for-sale, or that meet the definition of loans and receivables.

**I****Impairment**

This arises due to decline in recoverable amount below carrying amount.

**Indemnity**

An agreement whereby a person agrees to bear any loss that is suffered by a party to a contract to which he himself is not a party. The person giving the indemnity assumes primary liability, unlike a guarantor who assumes secondary liability.

**Interest Rate Risk**

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

**K****Key Management Personnel**

Those persons who have the authority and responsibility for planning, directing and controlling the activities of the entity.

**L****Letter of Credit (LC)**

A document issued by a bank, requesting another bank or banks to advance money to a third person, up to a certain amount, in accordance with the terms and conditions set out in the document.

**Liquidity Risk**

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

**M****Mark to Market**

The policy to periodically revaluing positions up or down to their current market or fair value.

**Market Risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

**Minority Interest**

The proportion of the profit or loss and net assets of a subsidiary attributable to equity interest that are not owned, directly or indirectly through subsidiaries, by the Parent.

**Mortgage**

A lien on real property used to secure a borrowing.

**N****Negotiable Instrument**

A security or other financial instrument which can be freely sold to a third party (i.e. 'negotiated'). Bank notes, bearer bonds, Bills of Exchange and cheques are normally negotiable instruments.

**Net Interest Margin**

Interest income as a percentage of Average Interest Earning Assets.

**Non-Performing Loan**

A loan where principal or interest payments are not being made on the due dates, or where the borrower is failing to meet some other term or condition of the loan. Non-performing loans are frequently allocated non-accrual status.

**Nostro Account**

A foreign currency current account maintained with another bank, usually but not necessarily a foreign correspondent bank. At the other bank, the deposit is called a nostro account.

**O****Objective Evidence**

Information based on facts that can be proved through analysis, measurement, observation, and other such means of research.

**Off-Balance Sheet Transactions**

Transactions not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

**P****Position**

The netted total commitments in a given currency or interest rate. A position can be either flat or square (no exposure), long (more currency bought than sold overbought) or shot (more currency sold than bought oversold).

**Prime Rate**

The interest rate which a bank charges its most credit worthy corporate customers.

**Promissory Note**

An unconditional promise in writing made by one person to another, signed by the promisor, engaging to pay on demand or at fixed or determinable future time a fixed sum to, or to the order of, a specified person, or to bearer.

**R****Related Parties**

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

**Repo**

Jargon for sale and repurchase agreement.

**Reserve Assets**

Assets of a financial institution which form part of its reserve requirements with the Central Bank.

**Reverse Repo**

The opposite of a repo, i.e. a purchase and resale agreement.

**Revolving Credit**

A line of credit that has terms permitting successive drawings and payments at the borrower's discretion. The funds available to the borrower are replenished by any repayments of principal.

**S****Securitisation**

This involves the transfer of a block of income producing assets to a vehicle company that finances the purchase through the issue of debt (usually notes or commercial paper).

**Segmental Analysis**

Analysis of financial information by segments of an enterprise specifically, the different geographical areas in which it operates.

**Segment Reporting**

Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealings, property and insurance.

**Settlement Date**

The date on which a securities transaction is completed by actual exchange of securities for cash.

**Short Position**

An excess of liabilities (and/or forward sale contracts) over assets (and/or forward purchase contracts). A dealer's position when the net of purchases and sales leaves a net sold or oversold position.

**Subsidiary Company**

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

**Suspense Account**

An account used to record items temporarily which are held subject to clarification and transfer to the appropriate account.

**Syndicated Loan**

A loan arrangement in which a number of banks, in a form of joint venture, provides funds which they would individually be unwilling or unable to provide. Syndications are used for customers whose scale of financing is too great for any single bank to accommodate without distorting its loan portfolio.

**T****Time Deposit**

An interest bearing deposit account which is subject to withdrawal only after a fixed term.

**Total Capital**

Is the sum of Tier I capital (core capital) and Tier II capital (supplementary capital).

**Trading Financial Assets and Liabilities**

A financial asset or financial liability is classified as held-for-trading if it is: (a) Acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (b) Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (c) A derivative (except for a derivative that is a designated and effective hedging instrument).

**Transaction Costs**

Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

**Treasury Bonds (T-Bond)**

A long-dated security issued by the Central Bank of Sri Lanka. T-Bonds carry a coupon rate of interest.

**V****Value Added**

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

**Value at Risk (VAR)**

A risk management methodology that estimates the potential loss arising from adverse movement in market interest or exchange rates over a defined holding period.

**Vostro Account**

A local currency current account maintained with a bank by another bank (compare with nostro account).

**Y****Yield Curve**

A graph showing market interest rates as a function of maturity. Normally, the yield curve is upward sloping; interest rates increase with the term of the instrument.

# Corporate Information

## Name of the Bank

People's Bank

## Legal Status

A Licensed Commercial Bank under the Banking Act No. 30 of 1988 incorporated as a Commercial Bank by People's Bank Act No. 29 of 1961.

## Head Office (Registered Office)

No. 75, Sir Chittampalam

A. Gardiner Mawatha,

Colombo 2, Sri Lanka.

Cable JANABANK

Tel.: +94 112327841 (6 Lines),

+94 112446316 (15 Lines), +94 112481481

e-mail: [info@peoplesbank.lk](mailto:info@peoplesbank.lk)

web: [www.peoplesbank.lk](http://www.peoplesbank.lk)

VAT Registration No. 409000037-7000

## Auditors

Auditors General

Auditor Generals Department

No. 306/72, Polduwa Road,

Battaramulla,

Sri Lanka.

KPMG,

(Chartered Accountants),

32A, Sir Mohamed Macan Marker Mawatha,

P.O. Box 186,

Colombo 0300,

Sri Lanka.

## Secretary

Mr. Rohan Pathirage, LLB, MMgt. in Banking  
Attorney-at-Law

## Corporate Banking Division

P.O. Box 437,

ANCL (Lake House Building),

No. 35, D.R. Wijewardena Mawatha,

Colombo 10, Sri Lanka.

Tel.: +94 112320651-6, +94 112437239-41,

+94 112392101-3

e-mail: [inter@peoplesbank.lk](mailto:inter@peoplesbank.lk)

SWIFT PSBKLKX

## Offshore Banking Unit

People's Bank, 1st Floor,

Head Office Building, No. 75,

Sir Chittampalam A Gardiner Mawatha,

Colombo 2, Sri Lanka.

Tel: +94 112206703, +94 112206704

Fax : +94 112458752 / 2458821

Telex : 21500 (PBSWTCE )

e-mail : [fcbu@peoplesbank.lk](mailto:fcbu@peoplesbank.lk)

SWIFT PSBKLKX

## Overseas Customer Services

No. 59, D.R. Wijewardena Mawatha,  
Colombo 10, Sri Lanka.

Tel.: +94 112332746, +94 112334278,

+94 112446409

Telex: 21486 PBKFMS CE

e-mail: [fastcash@peoplesbank.lk](mailto:fastcash@peoplesbank.lk)

[nrfc@peoplesbank.lk](mailto:nrfc@peoplesbank.lk),

[teletran@peoplesbank.lk](mailto:teletran@peoplesbank.lk)

SWIFT PSBKLKX

## Subsidiaries of People's Bank

### People's Travels (Pvt) Ltd.

No. 59, D.R. Wijewardena Mawatha,  
Colombo 10, Sri Lanka.

Tel.: +94 112470190, +94 112478385,

+94 112396296

Fax: 2434530

e-mail: [ptravel@peoplesbank.lk](mailto:ptravel@peoplesbank.lk)

Web: [www.peoplestravels.com](http://www.peoplestravels.com)

## People's Leasing & Finance PLC

1161, Maradana Road, Borella, Colombo 08.

Tel: +94 112631631

Fax: +94 112631000

## Sub-Subsidiaries of People's Bank

(Subsidiaries of People's Leasing &  
Finance PLC)

### People's Finance PLC

No. 385, Galle Road, Colombo 03.

Tel : +94 112376476

Fax: +94 112376477

### People's Insurance Ltd.

No. 53, Dharmapala Mawatha, Colombo 03.

Tel: +94 112206406

Fax: +94 112206399

### People's Leasing Property Development Ltd.

1161, Maradana Road, Borella, Colombo 08.

Tel: +94 112631631

Fax: +94 112631000

### People's Leasing Fleet Management Ltd.

1161, Maradana Road, Borella, Colombo 08.

Tel: +94 112631631

Fax: +94 112631000

### People's Microfinance Ltd.

1161, Maradana Road, Borella, Colombo 08.

Tel: +94 112631631

Fax: +94 112631000

### People's Leasing Havelock Properties Ltd.

1161, Maradana Road, Borella, Colombo 08.

Tel: +94 112631631

Fax: +94 112631000

## Associate of People's Bank

### People's Merchant Finance PLC

No. 21, Nawam Mawatha, Colombo 2,  
Sri Lanka.

Tel.: +94 112300191-4

Fax: +94 112300190



**PEOPLE'S  
BANK**  
THE PULSE OF THE PEOPLE

No. 75, Sir Chittampalam A. Gardiner Mawatha,  
Colombo 2, Sri Lanka.

Tel.: 2327841 (6 Lines),

2446316 (15 Lines), 2481481

e-mail: [info@peoplesbank.lk](mailto:info@peoplesbank.lk)

web: [www.peoplesbank.lk](http://www.peoplesbank.lk)



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