



# NORTH BOUND

THE "NEEDLE OF OUR ENTERPRISE" POINTS UPWARDS



*The 'vital signs' of our enterprise show a positive trend. Seylan Bank is moving towards healthy growth. The Bank has been able to resolve most of the legacy issues over the past few years and head towards prosperity. We are firmly on track...our 'graphs' are heading North...upwards...in the right direction!*

Review of the National Economy  
Operational Review  
Asset Quality  
Financial Review  
Divisional Performance  
Outlook





# NORTH BOUND

THE "NEEDLE OF OUR ENTERPRISE" POINTS UPWARDS



Annual Report 2011



*Dedicated to  
all our stakeholders*

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# Operational Highlights

- Successfully completed a rights issue and **raised Rs. 4.7 Bn.**, thereby improving the total Capital Adequacy Ratio to 15.55%, making ample leeway available for future expansion and business growth.

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- **Post-tax profits reached Rs. 1 Bn.** despite payments made under the voluntary retirement scheme, the second-highest profit recorded by the Bank in its history

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- A distinguished and able banker, **Mr. Kapila Ariyaratne was appointed the General Manager/Chief Executive Officer** in March 2011.

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- **298 employees received early-retirement benefits at a cost of Rs. 698.6 Mn.** under a voluntary retirement scheme

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- **A salary revision of 15.25%** was granted to all staff with effect from July 2011.

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- **755 staff promotions**, covering a three year backlog, were ratified.

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- **The management structure of the Bank was altered** to bring more focus on customer needs and satisfaction, and also to explore the credit potential of the growing economic sectors

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- **Strengthened and restructured risk management, branch banking, legal and recoveries.**

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- **A new Strategic Plan covering the period 2012-2015** was prepared and implemented.

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- **Fitch Ratings upgraded credit rating to A-** in recognition of measures taken by management to strengthen the capital position and indicators of creditworthiness.

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# Financial Highlights

During the Year	BANK			GROUP		
	2011 Rs. '000	2010 Rs. '000	Change %	2011 Rs. '000	2010 Rs. '000	Change %
Income	<b>19,404,302</b>	20,032,477	(3.14)	<b>19,542,623</b>	20,181,334	(3.16)
Net Profit before Income Tax	<b>1,572,407</b>	1,997,634	(21.29)	<b>1,560,047</b>	1,954,498	(20.18)
Income Tax on Profits	<b>569,755</b>	768,653	(25.88)	<b>571,308</b>	789,071	(27.60)
Net Profit after Taxation and Minority Interest	<b>1,002,652</b>	1,228,981	(18.42)	<b>1,005,798</b>	1,207,233	(16.69)
Revenue to Government	<b>1,017,232</b>	1,625,893	(37.44)	<b>1,018,785</b>	1,657,207	(38.52)
Gross Dividend - Note	<b>338,080</b>	257,120	31.49	<b>338,080</b>	257,120	31.49
<b>At the Year End</b>						
Shareholders' Funds	<b>17,539,525</b>	12,097,025	44.99	<b>17,947,566</b>	12,501,695	43.56
Retained Profit	<b>5,376,138</b>	4,969,137	8.19	<b>5,170,087</b>	4,759,940	8.62
Deposits from Customers	<b>120,538,896</b>	109,891,338	9.69	<b>120,538,896</b>	109,891,338	9.69
Loans & Advances (Excluding Bills & Leases)	<b>100,336,449</b>	85,622,174	17.19	<b>100,336,449</b>	85,622,174	17.19
Total Assets	<b>165,877,296</b>	149,677,524	10.82	<b>167,357,700</b>	151,363,240	10.57
<b>Information per Ordinary Share</b>						
Earnings (Rs.) - 2010 Restated	<b>3.28</b>	4.60	(28.70)	<b>3.29</b>	4.52	(27.21)
Dividends (Rs.) - Note	<b>1.00</b>	1.00	-	<b>1.00</b>	1.00	-
Net Asset Value (Rs.)	<b>51.78</b>	47.58	8.83	<b>52.99</b>	49.17	7.77
Market Value (Rs.) - As at End of the Year						
- Voting Shares	<b>67.60</b>	97.80	(30.88)			
- Non-Voting Shares	<b>30.80</b>	49.00	(37.14)			
<b>Statutory/Other Ratios (%)</b>						
Core Capital Adequacy (Minimum Requirement - 5%)	<b>15.00</b>	10.58	41.78	<b>15.42</b>	10.74	43.58
Total Capital Adequacy (Minimum Requirement - 10%)	<b>15.55</b>	12.07	28.83	<b>15.99</b>	12.24	30.64
Liquidity						
- Domestic Banking Unit Operations % (Minimum Requirement - 20%)	<b>21.51</b>	25.07	(14.20)			
- Foreign Currency Banking Unit Operations % (Minimum Requirement - 20%)	<b>25.48</b>	29.39	(13.30)			
Price Earnings Ratio						
- Voting (Times) - 2010 Restated	<b>20.61</b>	21.26	(3.06)			
Dividend Cover (Times) - Note	<b>2.97</b>	4.78	(37.87)			
Capital Funds to Liabilities and Commitments & Contingent Liabilities %	<b>9.50</b>	7.21	31.76			

Note: Dividends for year 2011 are accounted for as per the Accounting Standard - SLAS 12 (Revised).

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*‘Northwards’ and ‘upwards’ have become telling metaphors for a journey, heading towards sustainable well-being and prosperity that characterises Seylan Bank today. It is a journey that has steadily gathered momentum over the past three years. In traversing its path, the Bank is laying a solid foundation for its next phase of growth.*

*To fully appreciate the journey, perspective is necessary.*

”

EASTMAN NARANGODA

.....  
Chairman

## Chairman's Letter



### **The National Economy**

Sri Lanka's economic performance mirrors the healthy robustness of that of the South Asian region, where growth has been recorded amidst the chaos and downturns prevalent in countries of the Western hemisphere. GDP growth was maintained above 8%, making the Sri Lankan economy one of the fastest growing in the world. This is a testament to the Nation's successful implementation of its monetary and fiscal policies.

Sri Lanka's fortuitous return to peace has provided freedom and leeway for growth and kick started economic activity and enterprise across the island, particularly in the North and East. Key sectors of opportunity and growth are - tourism, agriculture, fisheries and construction.

These areas provide fertile ground for the Bank to be able to contribute and prosper in tandem with the Nation and its people.

# Chairman's Letter

## Consistent Performance Keeps us 'Heading North'

The Bank has enjoyed one of its best ever years, in terms of performance and achievement in 2011. However, I believe that to truly appreciate such results and lend them proper context, we need to revisit our performance over the period 2009 to 2011.

At the close of 2008, the Bank stood on the verge of collapse. A new Board of Directors, which I was privileged to chair, was appointed with a mandate to rescue the Bank and effect a turnaround in its fortunes. The remarkable story of how this was achieved is detailed at length in our Annual Report of 2009, titled 'The Case Study'. Our ability to 'return to good health' and restore the confidence of public and shareholder alike sans any bail-out from the Government is unique and remains unprecedented in Sri Lanka to date.

In 2010, a combination of emancipated strategic planning and decisive action helped the Bank embark on a positive upward trend. At year end 2010, we had achieved an after tax profit of Rs. 1.2 Bn., a record for the Bank and exceeding results for 2009 by 126%. Most importantly, we made significant progress in renewing stakeholder confidence in the Bank.

In 2011, Seylan Bank achieved after tax profits of Rs. 1.0 Bn. This figure has to be viewed in the context of higher expenditure occasioned by the funding of a voluntary retirement scheme to the value of Rs. 699 Mn. Without the effect of this scheme, the before tax profit would have stood at Rs. 2.2 Bn. which compares very favourably with the previous year's record achievement and would have indeed set a new 'best ever' for the Bank.

## Laying a Solid Foundation for Growth

The Bank took several important initiatives during the year in review to strengthen our 'foundation for growth' and target sustainable development in the coming years.

Top level recruitment initiatives saw us retain a new General Manager and a Chief Financial Officer and appoint senior consultants for our Risk Management and Legal Divisions. In the process we have augmented our Corporate Governance and Risk Management regimes, among other areas.

The Bank's voluntary retirement scheme was completed in an environment of amity. This has allowed us to meet the aspirations of retirees as well as those remaining in employment, whilst also speeding up restructuring for the future.

Most significantly we cleaned up our Assets Portfolio and reduced our Gross NPL Ratio from 25.07% in 2010 to 17.67% in 2011.

The Bank has also implemented a new strategic plan for the period 2012 to 2015.

One of the most encouraging developments during the year has been the show of commitment and loyalty by shareholders in support of the Bank. By subscribing to a rights issue during the year under review, they have reaffirmed their faith and confidence in the conduct and management of the Bank's affairs whilst injecting capital for its envisioned growth and development.

In conclusion, I wish to thank the Government of Sri Lanka, the Governor of the Central Bank of Sri Lanka (CBSL), the Bank Supervision Department of CBSL, our shareholders, every employee of the Bank and our loyal and steadfast customers - your confidence and trust in Seylan Bank is not misplaced. In fact, the Bank regards this as a sacred trust to be cherished and safeguarded above all else.

To my colleagues on the Board, I extend heartfelt thanks for their dedication and valuable contribution.

I like to think that we are all co-travellers on a journey 'headed North' towards the further prosperity of the Bank, the Nation and its people.



**Eastman Narangoda**  
*Chairman*

8th February 2012

# Management Discussion and Analysis

Report of the General Manager/Chief Executive Officer



*The Bank approached the year under review with a firm resolve to lay a solid foundation and a launching pad for the future. Highlighted in this report are several measures that were undertaken to consolidate the progress made in the previous year and to implement key changes that were identified as essential, albeit sometimes difficult, steps towards sustainable future growth and profitability.*



KAPILA ARIYARATNE

.....  
General Manager/Chief Executive Officer



## Securing Capital for Future Operations

The year also saw a rights issue, long planned, which was fully subscribed despite coming at a somewhat difficult time for investors. The Bank's capital base was boosted to the tune of Rs. 4.7 Bn. by our loyal shareholders, whose faith in us is noted with gratitude. Following the issue, Seylan Bank emerged with a capital adequacy ratio of nearly 15%, one of the highest in the industry and well above the regulatory minimum 10%.

## Voluntary Retirement Scheme (VRS)

In order to rationalise the staff cadres by function a voluntary retirement scheme was introduced and completed in July 2011 through which two hundred and ninety eight former staff opted for retirement. Though introduction of any type of VRS causes a level of distraction measures had been put in place well in advance to minimise the disruption to day to day business and quality of customer service. Measures had to be taken to ensure uninterrupted operation and undiminished efficiency and service quality. This was achieved quite successfully through a combination of better streamlined processes, automation, centralisation and last but not least through the enhanced commitment and dedication of the remaining staff.



# Management Discussion and Analysis

## Pay Rises and Promotions: Clearing the Backlog

Readers of this Report will be aware that 2010 was a very successful year for the Bank, resulting in the highest profits in its history. Following the difficulties and setbacks of the years preceding, this achievement naturally raised staff expectations with regard to pay and promotion. These aspirations were met, after negotiations conducted with the relevant employee unions and the Bank staff received a 15.25% salary adjustment across the board. A number of rounds of staff promotions, some of which had been pending for several years were concluded thus strengthening the operational processes whilst recognising good performers.

## Improving Internal Controls and Processes

Considerable attention was paid to processes and controls. This was an urgent necessity, since little had been done in the recent past and much had to be done to improve efficiencies and customer service levels and to take up the slack in staff numbers post-VRS. Rebuilding confidence with the regulator was also a priority.

Management structure was revised, and the branch system and various divisions of the Bank were restructured and restaffed with people more suited for specific roles. Through these changes, some of which could be considered drastic, the organisational structure was realigned with business needs and priorities so that the branches and business support divisions of the Bank could pull together. These initiatives also resulted

in assignment of specific responsibilities to specific individuals, which is helping us build a culture of accountability and transparency within the Bank.

Internal communications were another area which left much to be desired. A programme of regular internal meetings, discussions, knowledge-sharing and branch visits by senior managers in Head office functions was drawn up and implemented. A hand-picked team of around thirty officers now visits branches periodically to discuss important and relevant issues with branch staff, bringing them into the decision-making loop and recognising their contributions.

The low level of cross sell was another area affected by the lack of internal communication and coordination. Several key products with great features were handled and sold only by the divisions that had originally developed them. Sale of our extensive card-product portfolio, Treasury services and many others were not being adequately supported by the branches. With new internal communications initiatives and incentives, these products are now getting the support they deserve, with results that may be deduced from the improved sales figures.

## Strategic Plan and Budget

Another area to undergo a complete overhaul was strategic planning and budgeting. Earlier, the Bank's planning and budgeting tended to be top-down, with little input from or sense of ownership among the branch network. The same was true of the last Strategic Plan. This

year, a conscious and vigorous effort was made to involve frontline staff in strategic planning and to motivate them to support the finished plan through a sense of ownership. The Strategic Planning process that commenced late in the 3rd Quarter involved nearly a hundred individual presentations from our branch managers, based on brainstorming sessions they had previously concluded with their respective branch staff. With the support of our external coordinator MTI Consultants, several regional workshops were also held as part of the process. The Strategic Plan 2012-2015 was completed and launched on schedule in late December 2011. Implementation of the completed plan and budget began in January with the 2012 budget and action plan fully aligned to it. Just as important as timing was the achievement of getting a wide cross section of the staff fully on board with the planning process, enriching the plan with their practical input and ensuring adherence to it through ownership and understanding; something we intend to continue in years to come.

### **Restoring Our Brand**

The events surrounding the Ceylinco group caused considerable damage to the public image of Seylan Bank, even though the Bank itself was not involved in those events. In 2011, we worked hard to restore the Seylan brand to its rightful place in the eyes of our customers and the public. New marketing messages and campaigns were deployed to achieve this. The now very popular *Thagi Pita Thagi* promotional campaign also helped build brand value even

as it offered attractive value additions to our loyal customers.

In fact, our entire approach to sales and marketing was rebuilt from the ground up into something that involved more relationship management from a previously more predominant simply sales focused culture. Incentives were changed from personal incentives to group incentives that were more longer term in outlook thus ensuring more commitment to client retention and relationship management.

For example, every staff member (grouped by department) was given personal targets to be met in relation to the *Thagi Pita Thagi* campaign. Each person had a specific savings target and an overall deposit target, with rewards for successfully meeting them. With all staff motivated to sell, the campaign was a great success with even back office departments making huge contributions through personal selling efforts of the staff members. In addition to the deposits mobilised, the new approach has had an energising effect on team spirit.

### **Bringing Down Non-Performing Advances (NPA)**

The Bank adopted new strategies and tactics with respect to recovery and rehabilitation of non-performing debts. Non-performing advances (Net of Interest in Suspense) totalled 21.4% of the entire advances portfolio at the beginning of the year. Rather than dwelling on assigning blame we set in motion an aggressive plan to bring the figure down as

# Management Discussion and Analysis

far and as quickly as possible. This approach proved successful: further aided by the improved economic conditions and activity levels the NPA (Net of Interest in Suspense) ratio had fallen to 14.2% by December 2011. This figure represents reductions of around Rs. 4.7 Bn. for the year.

## Infrastructure Brought Up to Speed

After some years of neglect, the renovation, refurbishment and in some cases relocation of branches is now going ahead at speed. Several new branches and convenience centres were also opened in the course of the year expanding our network.

The Information Technology Division has also been the focus of numerous improvements. The links between product development, product marketing and IT have been strengthened. The Business Divisions, which are the end-customers of the IT Division, are being involved in both marketing and IT. The expected result of this is to make IT operations and projects more relevant to customer demands and business requirements.

Many other support systems and processes were also improved in 2011. We instituted a new integrated approach to risk management in which all staff are sensitised to risk issues and understand the part they must personally take in mitigating risk.

Arriving in the train of these developments, the upgrade in our credit rating by Fitch was a strong affirmation that

we are now moving in the right direction. The Fitch report explicitly recognises the process improvements, Balance Sheet structures and controls we have implemented.

## Looking Ahead

The changes and improvements described above (and, in more detail, in the analysis that follows) have laid the foundation for solid and sustainable future growth. A robust management structure is in place, staff members are energised and more focused and this is amply demonstrated in the strong strides the core business has taken.

For Seylan Bank, 2012 will be the year of the customer. We will focus on products and service quality as never before and repay the faith and commitment our customers have displayed in supporting us through hard times. Though our current portfolio is excellent, some rationalisation and greater emphasis on key products is called for. We have placed more resources to ensure better product-management with dedicated managers and support staff for each product that will deliver better value to our clients and support the branches in their sales efforts. We see great potential in remittances and have begun to extend and strengthen our overseas network of representatives and agency partners.

A product management approach and appropriate IT support will enable us to relaunch or reposition most of our products in a manner that is more attuned to customer

expectations. But this is only one aspect of a larger effort to build and maintain customer relationships. Contact with customers and prospects outside the four walls of the Bank will increase, with a strong emphasis on the commercial, SME and retail banking segments.

Human resources management and development has been made a priority and an area of focus. A substantial budget has been dedicated to training and development that will in the short-term focus on credit, service quality, product management and risk management.

The human side of human resources management has not been neglected either. A number of initiatives have been planned to build staff morale and express the Bank's appreciation of its people. Among these will be a formal awards and recognition event. Other morale and team-building exercises, neglected in recent years due to more pressing concerns, will be revived. Quizzes and competitive events will be integrated into the training and education effort, as will sports and efforts to improve work-life balance. Our people have endured a great deal over the last three years and deserve this recognition and appreciation of their efforts.

Sources of potential future growth are plentiful. The Government's policy of taking development out of Colombo and building a strong regional middle class aligns perfectly with our large nationwide mid market customer base giving rise to exciting

opportunities. Best of all, thanks to the measures set in place in 2011, they lie already within our grasp.

Overall, then, the future looks bright and we are looking ahead with a sense of renewed hope as well as with satisfaction of what has been achieved through a great team effort. At this point I wish to acknowledge the strong support and guidance of our Board of Directors in all matters, the hard work and commitment of all members of staff led by the senior management, the guidance of the regulator and various external stakeholders who went out of their way and supported us in our endeavors. I also wish to acknowledge the role of our shareholders in our success story and last but not least our loyal customers without whose faith in us, support and loyalty none of these would have been possible.



**Kapila Ariyaratne**

*General Manager/Chief Executive Officer*

8th February 2012

# Management Discussion and Analysis

## Introduction

*The purpose of this management discussion is to help the reader understand the year's financial results by placing them in the context of the economic, business and operational environment of the Bank. It explains why important measures were taken and what lies beyond the financial results in terms of the achievements, limitations and future expectations of the Bank. This information will, we hope, be of use to the reader in making investment and other decisions.*

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***An enabling economic environment provided fertile ground for our operations and the Bank implemented many operational initiatives which together with our strengthened credit risk management systems improved our asset quality thus enabling the Bank to report a stellar performance...contributed to by all divisions which augurs well for the future.***

# Management Discussion and Analysis

## 1. Review of the National Economy

### Key Indicators

The economy maintained its post-war momentum. GDP grew by 8.3%, recording a growth of over 8% in two consecutive years for the first time in the history. The policy target of raising per-capita income from its current level to US\$ 4,000 by 2016 looks feasible in the light of these figures.

Growth within every sector apart from agriculture was significant compared with the previous year, reflecting buoyancy across the Sri Lankan economy. Agriculture suffered a setback due to adverse weather at the beginning of the year and grew by only 2% in 2011, compared to 7% in 2010.

The industrial sector grew by 10.1% in 2011 (compared to 8.4% in 2010), while the services sector expanded by 8.6% (8% in 2010) despite a recessionary or pre-recessionary global economic environment.

As expected, annual average inflation rose gradually towards the end of 2011, but remained within single digits at around 6.7%.

Worker remittances recorded 27% growth year on year, while the most significant impact of the post-war economic climate continued to be on tourism. Tourist arrivals recorded a significant increase every month with an year-on-year increase of approximately 33%.

Despite a widening trade deficit, the country's reserves position continued to cover a healthy five to six months of imports in the first three quarters of the year.

### National Credit Rating

Sri Lanka's sovereign rating was upgraded by international agencies on account of the country's increasingly-evident macroeconomic and financial stability, improving external-payments position and greater political stability. Fitch upgraded Sri Lanka's long-term foreign- and local-currency issuer default ratings to BB- from B+; Moody's changed its outlook of Sri Lanka's foreign currency-sovereign rating from 'stable' to 'positive', while Standard & Poor's raised its long-term foreign-currency sovereign credit rating to 'positive' from 'stable'.

### Fiscal Review and Impact of Budget Proposals

In 2011, the national economy was cushioned by two tranches of an IMF Standby Agreement Facility of US\$ 435 Mn. The country has now received seven tranches under this facility, amounting to US\$ 1,707 Mn. The Government also issued a US\$ 1 Bn. sovereign bond in 2011.

The Budget proposals for 2012 are designed to strengthen certain sectors of the economy while reinforcing the stability of the financial sector. They



include important concessions to the agriculture, tourism and SME sectors. The Government's decision to continue with low market interest rates boosted credit to the private sector, which increased from 24.1% in December 2010 to 34.4% by September 2011. The momentum was expected to continue in 2012 and beyond with significant investments being made to develop infrastructure, especially in the hotels and tourism sector. However, the Government's post-Budget decision to raise interest rates in February 2012 amid fears of an overheating economy are likely to slow credit growth, as indeed they are intended to do.

A credit line of US\$ 57.4 Mn. was approved by the World Bank to help develop SMEs. Its provisions include technical assistance to banks to help them improve their capacity to lend funds and offer technical advice to SMEs. The Government also requested banks to increase credit to SMEs and train staff to focus on SME operations.

## **The Budget and the Financial Sector**

The policy of continuing interest-reductions compelled all financial institutions to reduce rates on both deposits and advances in 2011. Nevertheless, the industry maintained an average net interest margin of around 4% to 5%. However, as mentioned above, this policy now appears to be in abeyance.

The minimum capital requirement of all banks required to be as follows:

- Rs. 3 Bn. by 31st December 2011
- Rs. 4 Bn. by 31st December 2013
- Rs. 5 Bn. by 31st December 2015

These changes, intended to build a stronger banking system, had no impact on the operations of the Bank, which has maintained its core capital at levels significantly above the stipulated minimum.

The relaxation of exchange-control regulations, which commenced in 2009 and continued throughout 2011, significantly increased the volume of foreign-currency transactions recorded by banks, as well as Foreign Direct Investments (FDIs) routed through the banking system.

Savings on corporate tax as a result of a Budget measure are to be held by banks as a low-yielding, tax-free asset on the Balance Sheet, strengthening long-term lending power. These savings will help increase the unilateral capital buffer needed for credit expansion under the Basel II requirements.

The reductions in both corporate and personal taxes in the national Budget present opportunities for banks by encouraging saving; and with inflation projected to remain at current levels, we may hope that it will also increase disposable income for consumption.

*An enabling economic environment provided fertile ground for our operations and **the Bank implemented many operational initiatives** which together with our strengthened credit risk management systems improved our asset quality thus enabling the Bank to report a stellar performance...contributed to by all divisions which augurs well for the future.*

## 2. Operational Review

### 2.1 Delivery Channels

With 133 branches and extension offices and 133 ATMs around the country, Seylan Bank can lay claim to one of the largest distribution networks of any Sri Lankan bank. The Bank is also engaged in opening up new and innovative channels of distribution, such as online banking and telesales.

#### 2.1.1 Branch Network

Seylan Bank serves customers islandwide through a network of 99 branches and 34 convenience-banking centres. The year under review saw many branch expansions and relocations as the Bank expanded its reach and service portfolio. In all, four new branches and seven extension offices were added to the network. In keeping with Government policy, which is dedicated to the economic revival of the Northern and Eastern Provinces of the country after many years of armed conflict, all four new branches were opened in those provinces.

Seylan was the first private bank to open a branch in Mullaitivu. Another

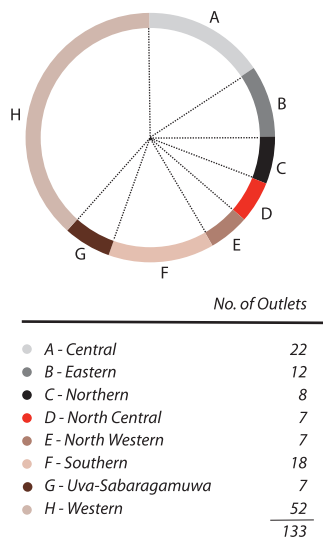
branch was opened at Chavakachcheri, a northern city with high growth potential. Two new extension offices were also opened in the Northern Province. In the Eastern Province, new branches were opened at Chenkalady and Kalmunai, as well as three new extension offices at Kantalai, Kalavanchikkudy and Pottuvil.

Elsewhere in the country, extension offices were opened in the Katunayake Free Trade Zone and also at Kamburupitiya.

Seven branches and three extension offices moved to new addresses in their respective localities in order to serve customers better in new premises that offer comfortable, modern banking environments and many additional convenience features.

The chart below summarises the Bank's branch and extension-office network province-wise.

**Bank's Network Province-wise 2011**



Kantale Banking Centre opening on 14th March

# Management Discussion and Analysis

## 2.1.2 ATM Network

Seylan Bank has been involved in electronic banking since the installation of the first ATM at its City Office in 1994. It has one of the most geographically-dispersed ATM networks in the country, covering the whole island. These machines are connected to the Visa, Master, Maestro and Cirrus networks and can also be used by customers to pay their utility bills.

The Bank installed its first ever drive-through ATM at Bloomfield Athletic & Cricket Club in Colombo - one of eight new ATMs installed during 2011, bringing the network tally to 133 (125 on-site at Bank branches and 8 off-site). Customer ATM transactions for the year amounted to 5.2 Mn., a modest increase over last year's figure of 5.0 Mn., while funds disbursed from ATMs amounted to Rs. 37.4 Bn. as against Rs. 33.5 Bn. in 2010.

New ATMs were installed at the locations shown in the accompanying table.

1. Chavakachcheri
2. Mullaitivu
3. Mannar
4. Kamburupitiya
5. Kalmunai
6. Chenkalady
7. Katunayake
8. Bloomfield A&CC (first drive-through ATM)

In 2012, the Bank will broaden its footprint with new branches, extension offices and

ATMs at locations already identified in accordance with the objectives of the future business plan.

## 2.1.3 Other Channels

Seylan Bank has begun reaching out to customers through a number of innovative channels such as social-networking sites on the internet. For example, the Bank's recent *Thagi Pita Thagi* campaign was promoted and closely followed on Facebook and Twitter.



*Thagi Pita Thagi*

Several personal-banking convenience features promote customer engagement and enhance the banking experience. The utility-payment facility has proved very popular, with customers making over 200,000 separate bill payments to the Ceylon Electricity Board, Dialog Telekom, Lanka Bell, Mobitel, the National Water Supply & Drainage Board, Sri Lanka Telecom and Suntel, among others, at Seylan banking counters.

Trials with telesales, banking kiosks and third-party outlets are planned for 2012.

### Correspondent Banks

Seylan Bank enjoys 335 correspondent relationships with banks locally and across the world. Through these relationships, it is able to undertake or facilitate any customer transaction, anywhere in the world.

### Internet Payment Gateway

Launched in 2004 and relaunched with improvements this year, Seylan Bank IPG is well entrenched as the preferred service provider for both the private and public sectors in Sri Lanka. The service provides merchants with opportunities to display and sell their products and services online, receiving Visa™ credit-card payments through the gateway.

In the year under review, seven prestigious merchants joined the network. Plans are now being drawn up to add a MasterCard™ facility to further enhance competitiveness.

### Internet Banking

Having been a pioneer in Sri Lankan internet banking, Seylan Bank will relaunch an upgraded internet-banking facility in 2012. Customers already able to manage their funds, make utility and credit-card payments, etc., online, will be able to do more on the internet with greater convenience after the facility is relaunched.

Seylan Bank internet banking is at [www.eseylanet.com](http://www.eseylanet.com).

### SMS Banking

The Bank also pioneered SMS banking in Sri Lanka. Its facility, connected to all national mobile networks, now boasts nearly fifty thousand customers. A new marketing thrust, promoting the SMS facility as a fraud-detection method for cardholders, was undertaken in 2011. We are currently improving the SMS banking facility with a view to relaunching it in early 2012 with advanced new features based on a study of market dynamics and collated consumer inputs.

### Website

Launched in 2001, Seylan Bank's website became the first trilingual site maintained by a Sri Lankan bank after its relaunch in 2008. It is one of the most informative Sri Lankan bank sites on the web, providing information about deposit products, pawning, leasing, loan facilities, the branch network, financials, credit cards, properties to sell, FOREX rates and eCommerce products, as well as featuring an ATM locator.

### Phone Banking

The Bank's phone banking product, Seylaphone, was launched in 1998. It has become a popular way for account holders to carry out basic banking using a mobile or fixed-line telephone. The facility is provided free of charge and account holders may select their preferred language.

# Management Discussion and Analysis

## Call Centre

Seylan Bank's 24-hour Call Centre is a prime contact point for customers of the Bank, handling all queries regarding their banking operations and the Bank's range of products and services, including those concerning credit, debit, prepaid and travellers' card inquiries, reports of lost or stolen cards, temporary limit enhancements for emergencies, etc.

The Call Centre monitors foreign and reject card transactions round the clock in order to mitigate any possible fraudulent activity. Further the Call Centre records changes to customer information and responds to funds transfer requests made by telephone. It also makes reminder calls on overdue branch advances. The centre also handles Speed Cash remittances round the clock, uploading them to customers' cards on request.

The Call Centre currently employs 27 permanent staff members working round the clock on a roster basis, 365 days a year. At present, it handles approximately 1,300 inbound and outbound calls every day.

Improvements to enable the Call Centre to undertake outbound marketing campaigns will be introduced in 2012.

## 2.2 Operational Efficiency

### 2.2.1 Efficiency

Numerous measures were taken to improve operational efficiency and improve

customer service. These included increased automation, business process re-engineering and the centralisation of back-office functions. Several divisions were streamlined and reorganised. These measures, together with ongoing efforts to improve efficiency had, as the accompanying table shows, a marked impact.

### Efficiency Indicators, Year on Year

	2011	2010
Revenue per employee (Rs. '000)	<b>6,160</b>	5,531
Assets per employee (Rs. Mn.)	<b>53</b>	41
Gross loans per employee (Rs. Mn.)	<b>38</b>	28
Deposits per employee (Rs. Mn.)	<b>38</b>	30

The effects of restructuring the Bank's systems and controls were recognised by the Fitch Ratings agency, which commented favourably on them in its rating-upgrade report.

### 2.2.2 Human Resources

Ever since its foundation, Seylan Bank has distinguished itself from its competitors in the public eye through a combination of professionalism, friendliness and courtesy. This distinction is enshrined in its slogan, 'The Bank With a Heart.'

Such an attitude is not generated automatically. It is the result of extensive training and human development, combined with efficiency and flexibility in business process and service delivery. The Human Resources Department is continually working to develop and empower the

Bank's invaluable human capital to sustain this competitive edge.

Human Resources (HR) policies are designed to support professionalism, respect for customers and colleagues and mutual support. The Bank adheres to international HR practices, in line with ILO standards, as well as domestic labour laws.

The year under review saw several modifications to HR policy and practice. Revisions were made to remuneration, succession-planning and promotion policies in order to keep the Bank up to date with contemporary best practice. The Board subcommittees on nomination and remuneration approved a number of new HR initiatives and policies.

By successfully building and maintaining one of the finest talent pools in the industry, the Bank achieves remarkable results and preserves business sustainability in the face of numerous challenges from the highly competitive Sri Lankan banking environment.

### Voluntary Retirement Scheme

An important recent contributor to operational efficiency was the voluntary-retirement scheme (VRS) which reduced 298 staff and by the end of the year, had trimmed five hundred from the staff payrolls of the Bank. The scheme was based on the offer of generous compensation paid to retiring staff, with a cost to the Bank of Rs. 698 Mn. The sum was fully justified in terms of savings on

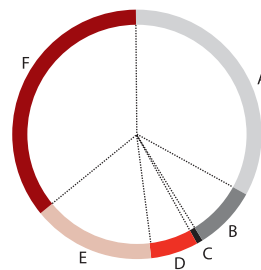
staff costs and completely accounted for in the year under review.

This substantial reduction in staff numbers was made possible through the intensive re-engineering and simplification of business processes that was achieved over the past two years. The reduced staff load now permits systematic automation of processes to improve service quality and efficiency; overall, it is clear that VRS has added considerable value to the Bank, to the benefit of shareholders and other stakeholders.

### Staff Strength, 2009-2011

2009	2010	2011
3,733	3,622	<b>3,150</b>

### Employee by Category



	%
● A - Banking Trainees and Banking Assistants	33
● B - Office Assistants and Others	8
● C - Corporate Management	1
● D - Managers	6
● E - Executives	16
● F - Junior Officers	36

# Management Discussion and Analysis

## Revised Organisational Structure

In tandem with VRS, the Bank carried out a restructuring programme aimed at improving the overall efficiency and contribution to the Bank's bottom line of three of key business divisions: Branch Operations, Retail Banking and Recoveries. All three were restructured, restaffed and realigned with current strategic goals and objectives.

Branch operations were placed under a single head, while a specialised and focused branch credit unit was created. This functions within the main unit to promote efficiency and productivity.

## Salary Revision

Implementation of VRS also helped make funds available for an upward revision of salaries across the board. Every employee received an increase of 15.25% on his or her basic salary. This revision was implemented following a survey conducted for the Bank by a professional research agency, which revealed a shortfall between Seylan Bank employees' compensation and the industrial average.

## Collective Agreement

A collective agreement was signed in September between the Bank and the Ceylon Bank Employees' Union, covering approximately 2,200 executive and non-executive employees. The agreement, which deals mainly with monetary benefits to staff, is to remain operative for a period of 18 months from July 2011.

## Promotions

During the year, the Bank announced 755 promotions covering all the grades, as listed in the accompanying table. Total promotions during the year amounted to around a quarter of staff strength. The accompanying tables give an analysis of promotions by staff grade and sex.

### Staff Promotions 2011

	Count
Banking Assistant	12
Sub Offices	235
Executive - I	168
Executive - II	194
Assistant Manager	94
Manager	29
Senior Manager	21
Chief Manager	2
<b>Total</b>	<b>755</b>

### Promotions in 2011, Analysis by Gender

	Male	Female	Total
	511	244	755

## Standardised Job Descriptions

In 2011, the Human Resources Department began the task of rewriting job descriptions for all staff of executive grade and above. The well-defined delineation of tasks and responsibilities is expected to prevent operational overlap among personnel within the new organisational structure. Grades of assistant manager and above had received their new job descriptions by the end of the year.



## Performance Management

Setting aside the conventional appraisal systems formerly used, the Bank adopted a more objective method of performance management based on key performance indicators in 2011. The method is Web-based, which saves time when processing appraisals and setting targets for staff throughout the organisation. Individual goals and departmental targets were aligned to the business goals of the Bank. All confirmed officers were evaluated and ranked under the new scheme during the year.

## Succession Planning

A corporate succession plan that covers all critical positions was drawn up in 2011. The identification and grooming of potential successors to the officers now occupying these positions commenced immediately thereafter. The Assessment Centre is now carrying out a comprehensive competency-mapping exercise among the identified individuals in order to pinpoint competency shortfalls and help in the preparation and monitoring of professional-development programmes for these individuals.

## Job Rotation

The intent of job rotation is to provide employees with opportunities for career development and to increase the number

of functions in which they are skilled.

Job rotation is also practiced to enhance productivity and to increase employee job satisfaction by varying and enriching the working experience. The Bank's transfer and staff/job rotation programmes were redesigned in 2011 to deploy talent more effectively and avoid ad hoc transfers that result in de-motivation and low productivity.

## Training and Professional Development

The policy of the Bank with respect to training and professional development is to assist our staff to acquire the skills demanded by their current and prospective job descriptions, building competencies while improving their performance in pursuit of the goals of the organisation.

Training is therefore needs-based.

Training needs analysis are based on four inputs:

- Individual annual appraisals of staff at which training needs are identified;
- Analyses of what training is to be given in order to achieve the business goals of the Bank;
- Personal inputs from management, members of the Board of Directors, and focus-group discussions; and
- Competency mapping in identified work areas.

# Management Discussion and Analysis

Structured on-the-job training programmes are designed to fulfil the individual training needs of staff; regional and external training programmes are mainly focused on building staff competencies that have been identified as required in order to achieve the business goals of the Bank.

## Training Analysis

The table below provides an overview of important training and development programmes and other initiatives in the year under review:

## Human Resources Information System (HRIS)

The automation of transactional human resource functions has enabled the HR team to provide useful and important benefits to its 'internal customers' at the Bank: reduced routine, fewer manual operations and less paperwork. Automation has also made available time in which HR personnel can focus on the transformational aspects of their work, planning and implementing initiatives to enhance the quality of the human capital available to the Bank.

### Training Analysis - 2011

Training Area	Internal		External		Foreign	
	No. of Participants	Total Training Hours	No. of Participants	Total Training Hours	No. of Participants	Total Training Hours
Branch Banking and Operations	584	7,555	25	266	1	32
Credit Operations	1,628	13,380	112	538	-	-
Treasury and Trade Services	338	2,704	20	212	2	24
Information Technology	139	1,112	24	224	-	-
Service Marketing	244	1,952	10	64	-	-
Legal Aspects of Banking	154	1,232	58	444	-	-
Management Development	346	2,768	9	91	-	-
Customer Service & Care	498	3,984	-	-	-	-
Leadership Development	136	1,304	2	16	-	-
Personal Development	526	4,208	28	224	-	-
Development of Communication Skills	184	1,472	6	176	-	-
Process and Productivity Improvements	58	464	-	-	-	-
Promotions-oriented Programme			-	-	-	-
Other	304	2,432	121	1,290	3	64
<b>Total</b>	<b>5,139</b>	<b>44,567</b>	<b>415</b>	<b>3,545</b>	<b>06</b>	<b>120</b>

The period under review saw ongoing development in the Bank's Human Resources Information System (HRIS), with consequent improvements in the timeliness and relevance of HR information. The development and widespread use of HRIS has had an impressive impact on such aspects of HR as performance management and staff deployment.

### Staff Welfare

The Bank pays close attention towards the welfare of its staff. During the year under review, the welfare society undertook several projects in collaboration with the HR Department. Apart from recreational activities (among them several regional staff get-togethers), the society also administers staff benefit schemes such as death donations, the distribution of schoolbooks at discount rates, financial assistance to critically ill staff (or dependants of staff) and a scheme to reward the children of employees who win Year-5 scholarships of cash prizes worth Rs. 5,000 credited to their *Tikiri* Accounts.

### Safety, Health and Work-Life Balance

A comprehensive insurance scheme from the Sri Lanka Insurance Corporation covers the expenses associated with hospitalisation and critical illnesses for all staff and their immediate families.

Grievance-handling and professional counselling programmes are in place to

help ensure the psychological health of all employees.

No workplace accidents of any kind were reported during the year under review. The Bank continued to take all necessary precautions and to train staff members in the measures required to maintain safety in their respective workplaces. Among these were:

- First-aid workshops conducted by the Bank's Skills Development Centre in collaboration with the Red Cross Society of Sri Lanka;
- Half-yearly firefighting training sessions attended by selected staff members representing every floor of the Bank's head office; these will be extended to branch level in the future;
- The traditional annual fire drills conducted by the Bank.

In order to ensure speedy disaster recovery, a backup of the main computer system is situated at a location away from the head office, enabling the continuance of business without any interruption in the event of some unforeseen calamity that might cause the main servers to malfunction.

### 2.2.3 IT Department

Superior information technology confers an important competitive advantage that Seylan Bank is at pains to maintain and

# Management Discussion and Analysis

augment. During the year under review, the IT Division was restructured to serve the Bank's business units more effectively. The new measures were developed with the active involvement of staff members who are 'customers' of the department. The IT Steering Committee, consisting of key business and technology department heads, assigned priority to and oversaw implementation of the agreed initiatives.

The IT Department has also played a vital role in the centralisation of business processes, which has significantly improved the Bank's staff-to-branch ratio.

## Automation and Improvements

- The funds-transfer process was automated, enabling business managers to make better-informed decisions with regard to the profitability of any given business unit.
- Data from the Bank's separate systems were consolidated in a single 'client view', greatly facilitating the process of identifying the various relationships a customer has with the Bank.
- Many HR processes that were hitherto manual have now been automated, among them staff appraisal, goal setting, training and job rotation.
- In a 'green' initiative, the printing of salary slips was discontinued. Employee salary slips are now made available online.
- All bank staff now have access to corporate e-mail, which has reduced paper use and improved operational efficiency.
- The Bank's internal development team rolled out a comprehensive remittances module which allows overseas exchange houses to remit funds to Seylan account holders (as well as to non-Seylan account holders on production of valid identification). Remittances to account holders are credited in near-real time, round the clock, seven days a week. The module is linked to the Sri Lanka Interbank Payment System so that funds may also be remitted to customers of other banks. Remittances of Rs. 400 Mn. had been made through the module by 31st December 2011.
- The management of standing orders was previously handled by branches, a procedure which resulted in several inefficiencies. It has been centralised in a module developed by the IT team.
- A cheque-return-management module was introduced, easing the burden on branch staff and further improving efficiency.
- Bank customers now enjoy the option of getting their current account statements online in optional PDF or text formats.

The accompanying table lists process improvements and their internal and external impacts.

### *Process Improvements, Benefits and Impacts*

Initiative	Benefit to Customers	Benefit to Bank	Impact
ATM network expansion	Better ATM access (8 new outlets)	Improved access profile	High
Visa Money Transfer™	Foreign remittances received immediately	Additional income to the Bank	High
SeyCash	Remittances received almost instantly	Competitive edge with overseas exchange houses by providing online credits to customers	High
Unique borrower view	Automatically collated information on all advances in a single view	Manual work and human error eliminated	High
Funds-transfer pricing	Transfer pricing now automatic, saving time and difficulty	Accuracy and efficiency in calculating transfer pricing between Head Office and branches	Low
E-mail	Convenience, less paperwork	Improved staff communication	High
HR process automation	–	Less manual work, increased productivity.	Medium
Rationalise the use of laser printers	–	Reduced overheads, more effective printer use at Head Office	High
Corporate e-mail facility for all staff	–	Improved communication among staff and management	Medium
Installation of Kaspersky Virus Guard network protection	–	System and data protection	High
Implementation of line encryption on network	Debit/credit card information protection	Reduced fraud, improved Bank reputation	High
Web content filtering	–	More efficient use of limited bandwidth	High

### Centralisation Completed

The Operations Department was streamlined to permit greater focus on centralisation and back-office functions. Centralisation commenced in mid-2010 and was completed in the year under review. The efficiency of our branches has improved considerably

following centralisation, which also made possible the successful implementation of the voluntary retirement scheme.

# Management Discussion and Analysis

The following back-office functions were centralised in 2011:

- Scanning and archiving mandates of new accounts opened
- Input of customer information
- Account maintenance
- Scanning and archiving new standing-order applications
- Standing-order processing
- Standing-order maintenance
- Printing and delivery of stop-payment confirmations
- Printing and delivery of fixed deposit renewal notices
- Printing and delivery of reminders for non-execution of standing order letters
- Debiting of non-execution charges relating to standing orders
- Cancellation of standing orders centrally
- Printing and dispatch of standing-order cancellation letters.
- Automation of outward return entries

Also implemented, the following process improvements:

- Introduction of statement-savings-accounts.
- Discontinuation of pre-printed account-opening forms (now readily available at the Bank website).

- Scanning and archiving cheque deposit slips.
- Crediting of outward clearing proceeds to customers accounts by 3.00 p.m.

## Looking Ahead

The Bank has commissioned Misys International, the supplier of its core banking system, to perform a system software upgrade. Due to be completed by mid-2012, the upgrade will further increase operational efficiency at branch level and provide the Bank with powerful new data-warehousing and data-mining capabilities.

The IT Department is also in the process of evaluating vendors to undertake virtualisation of the servers used by the Bank. The benefit of this initiative will be reduced expenditure on electricity, air conditioning and server maintenance.

The IT Department is now working on the development and implementation of a secure mobile-banking platform that will allow customers to pay for goods and services by mobile phone.

More generally, the department will continue with systems improvements and the automation of business units, evaluating all current processes to identify potential improvements that might be achieved through the creative application of information technology.

*An enabling economic environment provided fertile ground for our operations and the Bank implemented many operational initiatives **which together with our strengthened credit risk management systems improved our asset quality** thus enabling the Bank to report a stellar performance...contributed to by all divisions which augurs well for the future.*

# Management Discussion and Analysis

## 3. Asset Quality

In 2011, Seylan Bank improved credit quality by shifting the emphasis of its credit operations away from Colombo, adopting a regionally balanced approach instead. Staff with specialised credit-processing expertise and local knowledge in depth were assigned to the Bank's nine Regional Centres, helping us know our customers better and reach them faster. This measure, as well as being cost-effective, also allows branch managers to concentrate purely on customer service.

The Branch Banking division was restructured under a Senior DGM, with three DGMs, two covering Branch Sales and a third on Branch Credit. A separate DGM now handles credit for the entire branch network and has the task of improving credit quality by imposing the necessary controls. Delegated authority limits were reviewed and changes made where necessary.

### 3.1 Recoveries Division

The Recoveries Division was restructured and strengthened. A senior DGM was placed at the head of a team of experienced staff and charged with making the recovery process speedier. A variety of innovative approaches and effective strategies brought Non-Performing Assets (NPA) down by

18.57% in absolute terms (as against an industry average of 8.69%). The Centralised Recoveries Division was given a makeover in terms of ambience and culture, designed to make it more approachable to customers facing difficulties with repayments.

The Division worked closely with regional and branch managers to monitor borderline cases. Experienced staff worked closely with customers in financial difficulty to restructure their outstanding loans. The process of invoking legal options in the case of hard-core defaulters was expedited; in every case, however, sincere attempts were made to reach settlement with customers through cordial discussion, in some cases even after litigation had commenced. Throughout the year, fortnightly meetings chaired by an Executive Director were held to evaluate and monitor progress on large NPA.

### Improvement in the NPA Position

As a result of these efforts, the Bank has succeeded in reducing its net NPA ratio to 14.24% (net of interest in suspense) and, more important, reduced NPA by over Rs. 4.7 Bn. in absolute numbers.



### Change in Quarterly NPA Position

	Dec. 2011	Sep. 2011	Jun. 2011	Mar. 2011	Dec. 2010
Gross NPA (Rs. Mn.)	20,923	23,374	23,514	25,126	25,694
Gross NPA %	17.67	20.94	22.02	24.08	25.07
Net NPA (Rs. Mn.)	16,193	18,503	18,631	20,150	20,854
Net NPA (%)	14.24	17.33	18.29	20.28	21.36
Credit Loss Provision - Specific (Rs. Mn.)	4,657	5,389	5,393	5,699	5,717
Open Credit Exposure (%)	66.95	79.39	78.32	115.01	114.86

In January 2011, the Bank's gross NPA portfolio stood at Rs. 25.7 Bn. in absolute terms or 25.07 in percentage terms. The initiatives described above brought about an absolute diminution of 18% (to Rs. 20.9 Bn.), resulting a gross NPA ratio of 17.67% by the end of the year.

#### Credit Exposure

The open credit exposure ratio improved dramatically during the year. A capital infusion of Rs. 4.7 Bn. from the rights issue in June, together with significant reduction in NPA (see above) helped to reduce the ratio from 114.9% at the beginning of the year to 66.95% at year's end. This is a strong positive indicator, which the Bank hopes further to improve by maintaining strong asset quality, increasing recoveries and expanding the loan book.

#### Future Outlook

For the future, actions to reduce non-performing loans will continue, with a budgeted further reduction of 20% on this

year's reported figures, and similar year on year reductions over the next three years until the figure reaches the industry average.

New entrants to the non-performing category will continue to be handled through close and stringent monitoring. Timely information from the Credit Control Unit on new entrants is rapidly disseminated to the relevant regional and branch managers, who in turn initiate quick corrective measures.

We will continuously measure NPA and plan to encourage and reward significant recoveries with a lucrative incentive scheme. The Bank will also assess the appropriateness and effectiveness of its risk control measures at regular intervals.

### 3.2 Legal Division

The Legal Division was restructured, with an experienced professional appointed at its head. Duties and functions were clearly segregated between the Recoveries and Legal divisions to streamline processes

# Management Discussion and Analysis

and avoid any conflict of interest. The property unit, previously attached to the Legal Division, was hived off from it and restructured as a separate operation.

## 3.3 Risk and Performance Management

The Assets and Liabilities Committee (ALCO) was strengthened in 2011 by the reconstitution of its committee. The Committee's responsibilities were divided into two categories, risk and performance; these are now discussed in detail once a month at regular or special ALCO meetings.

Measures taken by the Committee during the year to improve asset quality included:

- Regular monitoring of credit risk arising from the quality on risk-based capital and the Bank's ability to leverage capital through these assets;
- Regular monitoring of liquidity risk at ALCO meetings to verify that the operations of the Bank can generate sufficient cash from assets, liabilities or outside sources to meet customers' needs;
- Regular review of interest-rate risk to discern whether changes in prevailing rates could adversely affect the earnings stream of the Bank, resulting in reduced net interest income. Several measures were taken to mitigate risks arising from interest-rate changes, averting adverse impact on the value of assets, liabilities and capital.

*An enabling economic environment provided fertile ground for our operations and the Bank implemented many operational initiatives which together with our strengthened credit risk management systems improved our asset quality **thus enabling the Bank to report a stellar performance...** contributed to by all divisions which augurs well for the future.*

# Management Discussion and Analysis

## 4. Financial Review

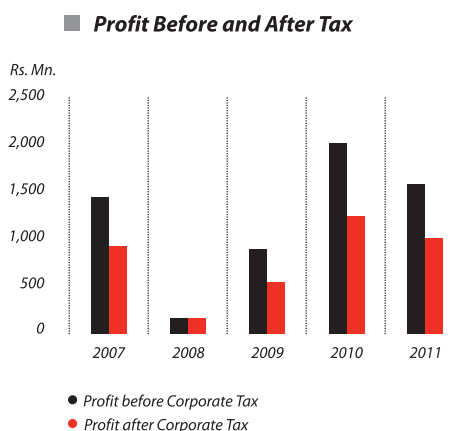
The year was an exceptional one for the Bank. Post-tax profit reached Rs. 1.0 Bn., while assets grew by 10.82%. The year also saw the implementation of a voluntary retirement scheme (VRS) under which two hundred and ninety eight staff accepted severance. The scheme cost the Bank a total of Rs. 698.6 Mn.

### 4.1 Income Statement

Earnings per share (EPS) declined to Rs. 3.28 in 2011 from the figure of Rs. 4.60 recorded in 2010. This was mainly due to the issue of shares and the VRS cost. If these are discounted, the EPS figure would be much higher than that recorded. The improvement in 'pre-VRS earnings' was driven by operational efficiencies and improved credit quality.

Primary sources of earnings improved their performance during the course of the year. Lending grew 15.57% and deposits by 9.69%, generating a net interest income of Rs. 7.78 Bn. Other financial services to customers generated a fee income of Rs. 3.19 Bn. Despite VRS, the Bank still recorded a profit before tax of Rs. 1.57 Bn. in 2011, a decline of 21.29% from the 2010 figure.

These results represent a significant achievement for the Bank, given the adverse market conditions affecting the share book, the interest rates on government securities,



the cost of VRS and the salary revision of 15.25% announced during the year.

### Net Interest Income

The reduction in interest rates by the Central Bank thinned the Bank's net interest margin. Less interest was earned on debt securities, primarily due to lower yields on new investments in Treasury bills following the maturities and prepayments of higher yielding bills. This was aggravated by the addition of new corporate and commercial loans with yields below the existing portfolio average. Interest spread thus decreased to 5.01%, down from 6.01% in 2010.

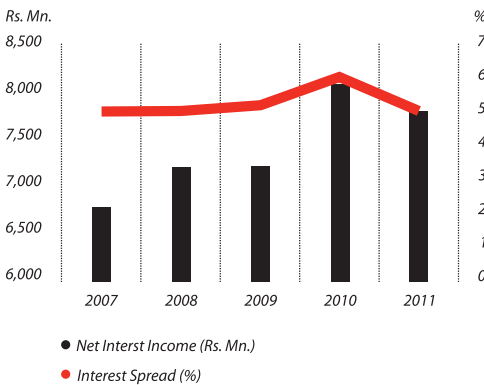
The continued low-interest rate regime of 2011 (rates have since risen) reduced the Bank's top-line income by 3.14% to Rs. 19.40 Bn. from Rs. 20.03 Bn. the previous year, in spite of an asset growth of 10.82%.

Interest income on customer advances increased by 7.33% to Rs. 12.33 Bn., compared to Rs. 11.48 Bn. in 2010. Interest yield on customer advances fell to 12.35% from 13.41% due to the aforementioned reduction in lending rates. Interest income on Treasury bills and bonds and money-market instruments fell by 26.78% to Rs. 3.69 Bn., compared to Rs. 5.05 Bn. in 2010.

On the positive side of the ledger, interest expenses on deposits also decreased by 5.20%, to Rs. 6.88 Bn. in 2011 from Rs. 7.26 Bn. in 2010.

Interest-earning assets grew by Rs. 16.57 Bn. due to increases in loans and investment securities. This rise was partially offset by a decline in investments in Treasury bills and bonds.

■ **Net Interest Income and Interest Spread**



**Operating Income**

Operating income stood at Rs. 10.98 Bn. in 2011 compared to Rs. 11.43 Bn. in 2010, a decline of 3.99%. This was mainly due to the reduction in net interest income.

*Operating Income, Year-on-Year*

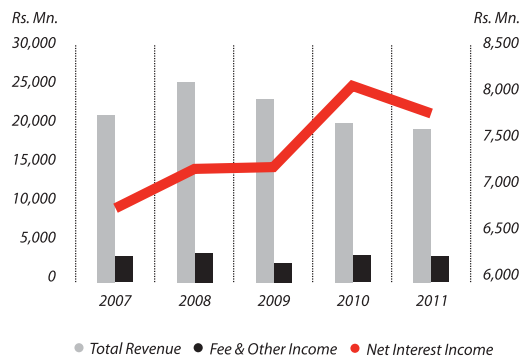
	2011 Rs. Bn.	2010 Rs. Bn.	Growth %
Operating income	<b>10.98</b>	11.43	(3.99)
Operating expenses	<b>9.41*</b>	9.44	(0.33)
Profit before tax	<b>1.57</b>	1.99	(21.29)
Profit for the year	<b>1.00</b>	1.23	(18.42)

\* including VRS cost of Rs. 698.65 Mn.

**Fees and Other Income**

Fees and commission income increased by Rs. 85.17 Mn. to Rs. 1.51 Bn. year-on-year. Growth in lending, credit and debit cards, trade-related services and other fee-based activities contributed to the increase. However, other income received fell to Rs. 1.14 Bn. from Rs. 1.61 Bn. due to

■ **Total Revenue, Nil and Fee & Other Income**

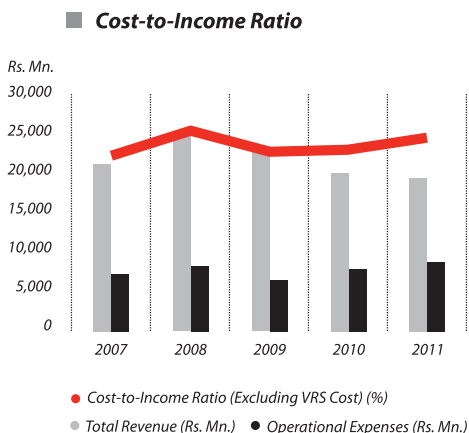


# Management Discussion and Analysis

lesser contribution from profit on sale of shares, resulting in an overall year-on-year diminution of the consolidated figure for fees and other income.

## Cost-to-Income Ratio

The Bank's cost-to-income ratio rose to 73.40% in 2011 from the figure of 68.69% recorded for 2010, primarily due to the decrease in other income and the subsequent salary revision.

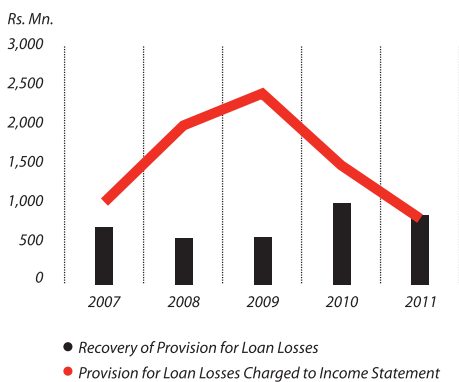


## Credit Loss Provision

The provision for specific credit losses was drawn down by 45.19% to Rs. 827.40 Mn. in 2011, compared to Rs. 1,509.51 Mn. in 2010. The reduction was mainly due to the prudential measures taken for controlling and recovering existing NPA. During the year, the Bank reduced its total gross NPA by Rs 4.77 Bn., allowing the reversal

of provisions made in previous years to improve profitability.

## ■ Recovery of Provision for Loan Losses/Provision for Loan Losses Charged to Income Statement



## Taxation

The Bank's effective tax rate decreased to 36% from 38% in 2010. This was primarily due to the reduction in rates of assessment for the tax year 2011/2012. Tax-exempted income decreased to Rs. 285.90 Mn. in 2011 compared with Rs. 580.39 Mn. in 2010.

The Bank recorded a net deferred tax asset of Rs. 211.84 Mn. as at 31st December 2011, as against Rs. 269.56 Mn. at the end of 2010. The tax effects of temporary differences that gave rise to significant contributions to deferred tax assets are presented in Note No. 28 to the Financial Statements.

VAT paid on financial services fell by Rs. 409.76 Mn., a drop of 47.80% over the last year. This was due to a reduction in

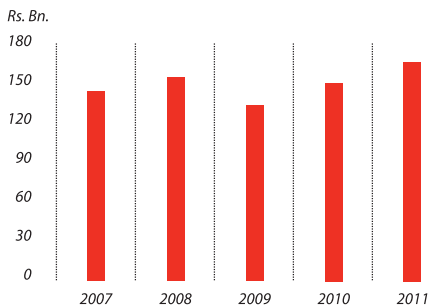
the rate payable from 20% to 12%. This concession helped the Bank improve service pricing and customer value addition.

The savings from both income tax and VAT on financial services were invested in long-term bonds. The total of savings converted to investment was Rs. 272.99 Mn. at the end of the year.

## 4.2 Balance Sheet

Market risks inherent in our assets and liabilities were managed within prudent limits, ensuring that adequate liquidity and funding sources were available to sustain growth.

### ■ Growth in Total Assets



### Asset Growth by Class, Year-on-Year

	2011 Rs. Bn.	2010 Rs. Bn.	Growth %
Deposits	<b>120.54</b>	109.89	9.69
Loans and Advances	<b>118.42</b>	102.47	15.57
Non-performing (Net of IIS) Assets	<b>16.19</b>	20.85	(22.35)
<b>Total Assets</b>	<b>165.88</b>	149.68	10.82
Shareholders' Funds	<b>17.54</b>	12.10	44.99

Significant measures were undertaken to reposition the balance sheet, increasing interest-earning assets by 12.88%. Measures taken during year to reduce NPA also impacted on the balance sheet.

### Investment in Government Securities

The Bank held a highly liquid portfolio of Government securities, primarily for the purposes of liquidity and interest-rate risk management as well as for yield enhancement. This portfolio comprised Rs. 34.91 Bn. in Treasury bills and bonds as at 31st December 2011, compared with Rs. 36.32 Bn. as at 31st December 2010.

### Loans and Advances

Loans and advances amounted to Rs. 118.42 Bn. as at 31st December 2011, compared with Rs. 102.47 Bn. at the end of 2010. The main contributors to growth were overdrafts, term loans, pawning products and leasing. Overdrafts and Term loans increased by Rs. 2.93 Bn. (12.18%) and Rs. 3.67 Bn. (8.19%), respectively in 2011. Meanwhile, pawning advances increased by Rs. 3.87 Bn. (47.75%). The special leasing campaign announced in September 2011 drove growth in the total base to the tune of Rs. 3.36 Bn. (79.46%) year on year.

### Deposits

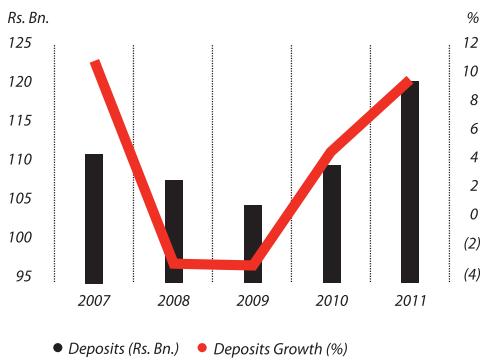
Deposits stood at Rs. 120.54 Bn. as at 31st December 2011 compared to Rs. 109.89 Bn.

# Management Discussion and Analysis

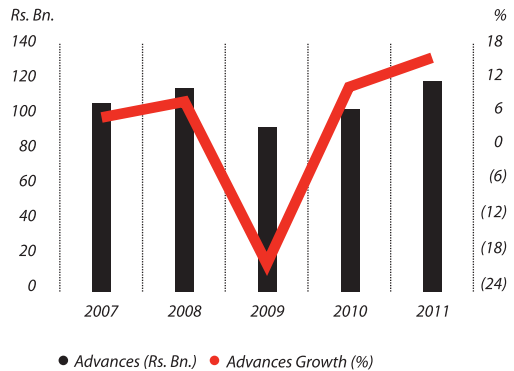
at the end of 2010. They funded 72.67% of the Bank's assets, compared to 73.42% the previous year. Interest-bearing liabilities increased to Rs. 129.30 Bn., up from Rs. 117.29 Bn. a year ago. Non-interest-bearing liabilities also increased, to Rs. 36.58 Bn. from Rs. 32.61 Bn., while low-cost deposits rose from Rs. 46.57 Bn. in 2010 to Rs. 49.14 Bn. in 2011. These rises reflect solid growth in our corporate, commercial and consumer relationships.

The *Thagi Pita Thagi* promotional campaign, which began in October, was a great success, attracting Rs. 5.7 Bn. worth of deposits in just 68 days.

## Deposits and Deposit Growth



## Advances and Advances Growth



## 4.3 Shareholder Value

A rights issue of Rs. 4.7 Bn., undertaken in June, raised the stated capital of the Bank from Rs. 5.57 Bn. to Rs. 10.26 Bn. With this infusion of additional capital, the Bank's total risk-based capital ratio stood at 15.55% on 31st December 2011, while the Tier 1 capital ratio stood at 15.00%. These figures comfortably exceed the respective minimum regulatory limits of 10% and 5%. On 31st December 2010, these ratios stood at 12.07% and 10.58%, respectively.

The one-rupee dividend declared at the last Annual General Meeting was paid in April 2011.

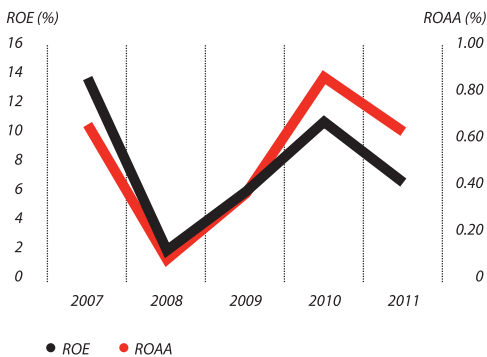


### Shareholder Value: Key Indicators

	2011	2010	Change %
Net Assets Value per share (Rs.)	<b>51.78</b>	47.58	8.83
ROA after tax (%)	<b>0.64</b>	0.87	(26.44)
ROE after tax (%)	<b>6.78</b>	10.88	(37.68)
Cost to income ratio (%)*	<b>73.40</b>	68.69	6.86
NPA net of IIS (%)	<b>14.24</b>	21.36	(33.33)
Open credit exposure (%)	<b>66.95</b>	114.86	(41.71)
<b>Capital adequacy:</b>			
Tier I (%)	<b>15.00</b>	10.58	41.78
Tier I & Tier II (%)	<b>15.55</b>	12.07	28.83
Dividend per share (Rs.)	<b>1.00</b>	1.00	-

\* Cost-to-income ratio for 2011 excludes VRS cost of Rs. 698.65 Mn.

### Return on Average Assets and Equity



The decline in ROAA and ROE for 2011 is mainly due to the impact of VRS and the rights issue that were undertaken in the year under review.

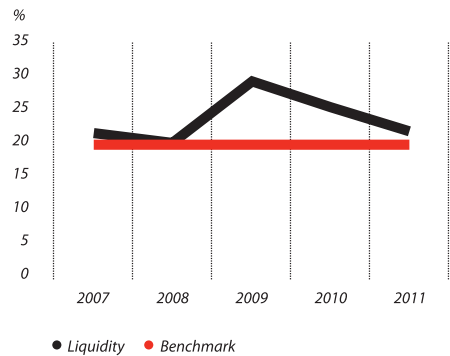
## 4.4 Other Financial Indicators & Measures

### Liquidity

The liquid assets of the Bank comprise Treasury bills and bonds (79.93%), cash (13.44%) and other liquid assets (6.63%).

Throughout the year under review, the Bank maintained an overall liquidity ratio above the statutory limit of 20%, as shown below:

### Liquidity Ratio



Disproportionate growth in the lending portfolio over the last two years, compared to deposit growth over the same period, has reduced the liquidity of the Bank.

Nevertheless, the position reflects the Bank's optimal utilisation of funds within the limits imposed by statute.

# Management Discussion and Analysis

## Credit Quality

Credit risk is managed through prudent policies and continuous monitoring and evaluation of the credit process. In 2011, non-performing loans as a percentage of loans outstanding declined substantially in comparison to the previous year. Asset quality improved, with net non-performing loans decreasing by 22.35% to Rs. 16.19 Bn., compared to Rs. 20.85 Bn. in 2010.

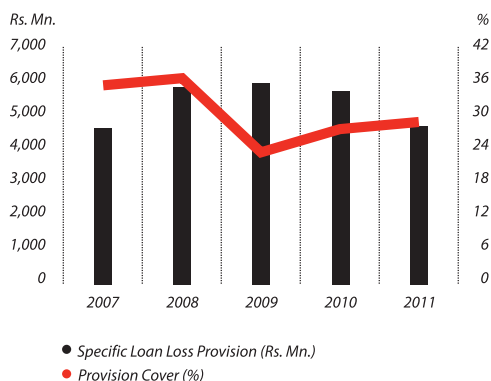
- The gross non-performing-loans ratio improved by 29.52%.
- The NPA ratio net of interest in suspense (IIS) improved by 33.33%.
- The NPA ratio net of loan loss provision was significantly lower than in 2010: 9.81% as compared to 14.92%.
- The provision cover ratio, which stood at 27.41% in 2010, rose to 28.76% in 2011.

The relevant figures are given in the accompanying table.

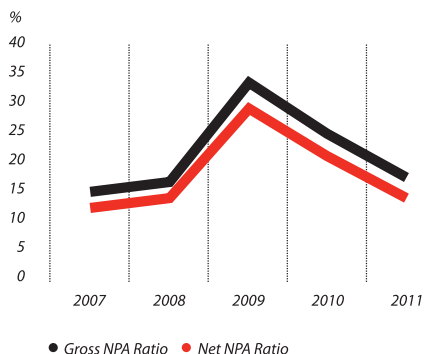
### Credit Quality Analysis, 2007-2011

Year	Gross NPA Rs. Bn.	Net NPA Rs. Bn.	Gross NPA Ratio (%)	Net NPA Ratio (%)	Provision Cover (%)
2011	20.92	16.19	17.67	14.24	28.76
2010	25.69	20.85	25.07	21.36	27.41
2009	31.15	25.49	33.61	29.29	23.37
2008	19.43	15.91	16.93	14.30	36.49
2007	16.35	13.04	15.39	12.68	35.23

### Specific Loan Loss Provision and Provision Cover



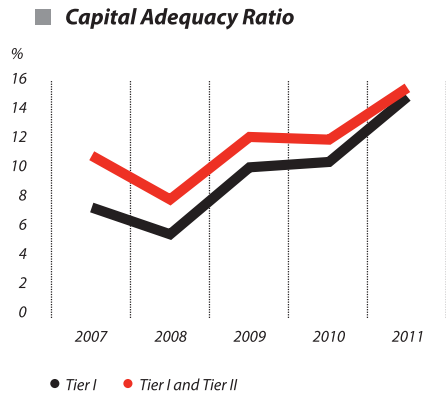
### Gross and Net NPA Ratio



## Capital Adequacy

With the successful completion of the rights issue, the Bank was able to declare capital-adequacy ratios of 15.00% and 15.55%, respectively for 'Tier I' and 'Tier I & Tier II' as at 31st December 2011, well above the industry ratios for core and total capital. This comfortable margin allows the Bank to expand its operations and pursue market opportunities in the near term.

The Board has also approved a capital-augmentation plan for the next two years, as described in 'Capital Adequacy Computation of the Bank'.



*An enabling economic environment provided fertile ground for our operations and the Bank implemented many operational initiatives which together with our strengthened credit risk management systems improved our asset quality thus enabling the Bank to report a stellar performance... **contributed to by all divisions** which augurs well for the future.*

## 5. Divisional Performance

During the year under review, important structural changes were made to the Bank. Units were restructured and strengthened to streamline operationality and improve management oversight.

In this section, the performance of the individual business units of Seylan Bank is covered in detail.

- Branch Banking
- Corporate Banking
- Retail Banking
- Treasury
- International

### 5.1 Branch Banking Performance

Branches are the main source of the Bank's business, and branch-related activity accounts for more than 90% of all operations. The contribution runs across all segments of business and from all geographical areas of the country.

The downward shift in interest rates increased demand for loans, especially in respect of leases. This created significant opportunities for all branches of the Bank. Meanwhile, the devaluation of the rupee announced in the national Budget generated fee-based income through an abundance of trade-related opportunities which the branches were quick to exploit.

The recovery of business following the end of the recent war made possible the repayment of capital or interest on many formerly non-performing advances. This unplanned fillip to profitability proved a strong motivator for branch staff.

Business opportunities derived from upcoming development projects also drove growth in branch banking operations. In some cases, branches were relocated to better serve this demand.

#### *Branch Operations, Year-on-Year*

	Actual 2011 Rs. '000	Actual 2010 Rs. '000	Variance Rs. '000
Deposits	106,486,859	96,115,208	10,371,651
Advances	71,693,531	59,556,606	12,136,925
Operating expenses	3,575,599	3,502,821	72,778
Interest income	5,082,977	5,259,861	(176,884)
Non-performing advances	7,694,553	9,742,681	(2,048,128)

# Management Discussion and Analysis

## Deposit and Advances Mobilisation

Every branch of Seylan Bank played its part in driving business through marketing and promotional campaigns at local and regional level. Campaigns were carried out in support of products such as pawning, Seylan Scholar, *Tikiri Plus*, Seylan Sure Creative and Smart Lease, as well as in connection with the *Thagi Pita Thagi* promotion.



*Thagi Pita Thagi promotion in action*

## Agriculture and Small Business Financing

Branches continued to market loans to the agriculture sector, penetrating deep into the nation's agricultural heartland. Effective outreach, together with the ability to offer competitive rates as a result of the Bank's access to various lines of credit made available by donors to refinance agricultural lending, resulted in the disbursement of loans to an aggregate value of Rs 11.92 Bn. during the year under review. Effective outreach also underlies the Bank's commitment to microfinance, details of

which are given in the Bank's Sustainability Report elsewhere in this volume.

In April, the Central Bank of Sri Lanka amended the refinance rules for the *Saubhagya* loan scheme, raising loan limit for SMEs to Rs. 25 Mn., while stipulating that loans of over Rs. 500,000/- for a 'sub-project' must be approved by the Regional Development Department of the Central Bank. Central Bank of Sri Lanka also amended the directions on capital-adequacy ratios with respect to SMEs, raising the Bank's loan limit from Rs. 35 Mn. to Rs. 200 Mn. The Bank is thus empowered to grant SME facilities of higher value, at a lower risk weighting that will result in reduced capital charges. This reflects the policy adopted by the Government in its 2011 Budget.

The Central Bank defines a small or medium enterprise (SME) as one whose total assets, excluding land and buildings, amount to less than Rs. 40 Mn., and which employs 5-100 persons.

## Operational Improvements

- A Funds Transfer Policy (FTP) module was introduced to help business managers manage their portfolios effectively, combining profitability to the Bank with the best rate to the client.
- Extended office hours on Saturday and Sunday, are adjusted from branch to branch to suit the needs and customs of the locality,

- Besides greatly facilitating banking activities and customer convenience, the new centralised structure (see below) played a key role in mitigating the impact of the voluntary retirement scheme on operations.
- Certain business processes were simplified and the customer paperwork associated with them considerably reduced.
- The registration of mortgage bonds and the handling of transfer deeds were streamlined.
- An Operational Risk policy was issued and implemented. Staff were educated on its implications and its impact on their functions and responsibilities.

## Restructuring

Three important structural changes had their impact on branch banking in 2011:

1. Earlier, the Bank's branches were subsumed under three zones, each headed by its own DGM. This arrangement has now been superseded by one in which branches are divided into two zones, each zone under its own Zonal DGM. Zone I is divided into six areas: Metropolitan, Suburban I, Suburban II, South & Uva and Sabaragamuwa; while Zone II consists of the Central, East, North, North-Central, Northwest and West areas. Both Zonal DGMs reports to the Senior DGM–

Branches, who heads the division. These managers were made fully responsible for all aspects of branch banking except credit approvals.

2. The approval and administration and recovery of credit with respect to branches were made the responsibility of DGM–Branch Credit (a newly-created position). This officer, in turn, reports to the Senior DGM–Branches.
3. Operations, originally an independent function headed by an AGM, was brought within the branch-banking structure under the responsibility of and separate DGM operations.

## Staff Utilisation & Operational Efficiency

### Staff Strength, 2011

	Zone 1	Zone 2	Total
Total staff by zone	1,080	908	1,988
Total operating expense per employee (Rs. '000)	2,785	2,285	1,799
Total interest income per employee (Rs. '000)	1,853	1,733	2,557
Operating profit per employee (Rs. '000)	1,185	799	1,008

## Mitigating the effects of VRS

As a result of the voluntary retirement scheme that was implemented in 2011, branch operations had the potential to be affected by staff reductions. In the final VRS committee discussions, corporate

# Management Discussion and Analysis

management were at pains to ensure that staff reductions did not erode the quality of customer service. As a result of their efforts, the operational efficiency of the branches was in fact increased.

## *Effect of VRS on Branch Staff Numbers*

	No.	Reductions due to VRS
Corporate Management	4	0
Managers	195	26
Executives	552	53
Banking Assistants	1172	50
Other Supporting staff	141	53
<b>Total</b>	<b>2,064</b>	<b>182</b>

## Branch Monitoring and Evaluation

The branch monitoring process was streamlined through the use of a range of improved tools and procedures. Among the measures adopted were:

Regular meetings at regional and zonal level on the financial, commercial and operational aspects of business;

- Regular branch visits by regional and zonal heads and members of senior management;
- Monthly progress reports to the Board by the two Zonal DGMs;
- The introduction of a Branch Ranking Booklet, updated on an ongoing basis, in which the Bank's branches are ranked on a points system, based on performance in deposits, advances, revenue per employee and NPA.

## Outlook for the Branch Banking Division

Further expansions of the branch network will focus on improving access to areas where banking service coverage is limited. In the network as a whole, customised product development and increased value additions will raise our competitive profile. The number of ATMs will also increase, making for better visibility and improving the Bank's image.

The Bank seeks to enhance its exposure to emerging sectors, in particular.

- The energy sector and renewables
- Agriculture-related exports and food processing
- Commercial agriculture
- Tourism
- Dairy farming and the manufacture of dairy products
- Education
- IT and business-process outsourcing
- Construction, transportation and health

Lending to small entrepreneurs and microentrepreneurs will increase, in line with the enhanced Central Bank limits earlier mentioned. The Bank will pursue a strategy of credit mobilisation among rural communities, backed by refinance schemes available for lending in the North and the East.

At the opposite end of the demographic pyramid, the Bank plans to create a priority



banking unit for high-net-worth customers, staffed by capable and well-trained personnel with superior product knowledge and customer-handling skills.

## 5.2 Corporate Banking

The Corporate Banking Division is made up of the Bank's Offshore Banking Unit (OBU) and two Corporate Banking units. The division caters to a varied clientele in diverse fields of business in Sri Lanka. Among these clients are medium-sized and large local corporate entities as well as many blue chip companies.

Our exceptionally personalised service stood us in good stead as the credit demanded by the private sector accelerated towards the latter part of the year, buoyed by an optimistic post conflict development agenda which has earmarked certain growth sectors for our nation. Development of roads and other infrastructure are being prioritised and will lay the foundation to increase the ease of doing business in Sri Lanka. Advanced telecommunications facilities are increasing the connectivity of all Sri Lankans to the development mainstream, while the leisure industry is being geared to become a key revenue driver with targets to attract over a million tourists in 2012 and 2.5 Mn. by 2016.

The strengthened corporate relationship enabled us to explore the specific needs of our corporate clients and gear financial solutions at competitive prices

that would help them exploit opportunities within these emerging sectors.

Corporate Credit is equipped to offer customers total financial solutions under one roof. The Bank's ability to maintain a strong liquidity position by attracting deposits through the wide spread and expanding network of branches, and the ability to effectively manage the cost of funds by closely monitoring market rates, paved the way for Corporate Credit to offer competitive interest rates. The sound liquidity of the Bank also enabled us to offer competitively priced short-term/money market loans.

During the year we attracted many new customers into our corporate credit portfolio. We also maintained a very close rapport with our existing clients, monitoring their utilisation limits on a regular basis in order to ensure that we remained as their primary banker.

With the expected boom in the tourism industry we explored funding opportunities to construct new hotels and refurbish existing hotels.

Corporate Credit contributed significantly to the overall performance of the Bank, and this was largely due to the aggressive lending strategies adopted which enabled us to maintain the momentum of the growth in advances throughout the year. Enhanced fee-based income also greatly contributed to improving our bottom line.

# Management Discussion and Analysis

With the end of Sri Lanka's long drawn civil conflict and return to peace the country could look forward to an encouraging future. Reconstruction in the North and East of the country and major national-infrastructure projects undertaken by the Government, gave a thrust to the formerly inert economy. The end of the war has also brought hopes of revival in tourism. These developments encouraged large corporate entities to expand their operations, with welcome consequences for Banks, giving them opportunities to grow their loan books.

Despite pressure on interest margins, we have been able to improve profitability mainly due to improved macroeconomic conditions that prevailed in the country, which contributed to an increased appetite for credit by the clientele.

In 2011, the division concentrated on streamlining business processes and greater efforts to control and reduce costs. Profitability improved despite pressure on interest margins, mainly due to improved macro-economic conditions that fed a growing appetite for credit.

## Securitisation

During the year under review, the division structured and facilitated many securitisation transactions, mainly capitalising on the demand for credit from

registered leasing and finance companies. This resulted in growth of the Corporate Lending portfolios.

## Recoveries

Aggressive recovery strategies brought down the volume of non-performing advances, resulting in a decrease in the NPA ratio. The assistance of the Recoveries and Legal Departments in this regard is noted with appreciation.

## Outlook for Corporate Banking

The outlook for the financial sector is favourable, with a forecast acceleration in domestic economic growth. The improvement in business conditions and a resurgence of economic activity will multiply opportunities for financial institutions. The division expects to record increased credit growth, while the volume of non-performing loans, now stable, is expected to decline. These developments augur well for the future.

## 5.3 Retail Banking (Cards, Pawning, Housing and Personal Loans)

### (a) Card Operations

The Retail Banking Division of Seylan Bank conducts business in credit cards, home loans, pawning services and personal loans. In 2011, the division was established

and streamlined under the Senior Deputy General Manager - Retail Banking as part of the overall restructuring undertaken by the Bank.

### Credit Card Operations

Several important activities and achievements marked a successful year for the Credit Card unit.

- In December, Seylan Bank became the first bank to launch the new Visa Money Transfer™ Service, a module that enables Seylan Bank Visa™ debit or credit cardholders to receive remittances using the Visa International™ network. This product is not restricted to NRFC clients but is available to any cardholder. Transfers can be either 'card-to-card' or 'cash-to-card'.
- Seylan is one of the three banks in the country to offer debit cardholders the ability to withdraw cash up to a maximum of Rs. 5,000/- at merchant outlets while making purchases, thus eliminating intermittent ATM visits while or after shopping.
- VBV (Verified by Visa™), a security feature based on a one-time password, was successfully launched in October. The feature prevents lost cards from being used in internet transactions, a powerful defence against fraud.

### Alliances

- Under an agreement signed with The Finance Co. PLC, Seylan Bank will issue Visa debit cards to clients of the former who open savings accounts with the Bank
- Seylan Bank and NMK Management Services (Pvt.) Limited will jointly issue a co-branded proprietary card (not a Visa card or MasterCard) to their distributors, who will use them to settle their bills with NMK. Benefits to the Bank will be increased card usage and interest income from debts not settled in full.
- Selected Gold Cards were upgraded to Platinum following a reduction in the credit limit for Platinum cards by Visa International. The Bank will receive 0.6% of the transaction value as additional interchange income following the upgrade.
- A 0% instalment scheme in partnership with Sri Lankan Airlines now enables cardholders to pay for air tickets in 12 or 24 monthly instalments at no interest.
- A booklet detailing discounts offered at 150 merchant outlets was mailed to all credit cardholders.
- The Seylan Prepaid Rupee Card was repositioned as a gift card at Odel, a prominent retailer. No account needs be opened to obtain these cards, which can be purchased and loaded at any Bank branch. The receiver of the card may use it at any participating merchant outlet or ATM.

# Management Discussion and Analysis

## Marketing and Value Addition

A number of innovative and relevant marketing and promotional schemes supported the Bank's card products, raising the bar for the entire credit-card industry in 2011. Among the most important of these were the following:

- SMS alerts for every card transaction, helping prevent fraudulent transactions.
- A revision in fee structure for specially-identified Platinum cardholders, with several of the usual tariffs waived.
- Free air-travel insurance for every Seylan cardholder purchasing air tickets with his or her card, with varying limits for different categories of card.
- Extraordinary discounts on cardholders' bills at selected hotels in Sri Lanka during the *Avurudu* and December festive seasons.
- Limited discount periods at selected retailers, with discounts offered by 150 merchants.

The Bank's debit cardholders were also entitled to most promotions offered to

credit cardholders, a benefit not offered by most of our competitors.

## Monitoring and Reducing Risk

In the year under review, the unit saved Rs. 9.551 Mn. from Visa skimmed-transaction frauds through appropriate and timely action. A further Rs. 4.292 Mn. was recovered from a Malaysian acquiring bank.

A call centre monitors international transactions on a 24-hour basis. Staff are trained to detect fraudulent transactions and special detection and verification procedures are in place.

## Card Operations Outlook

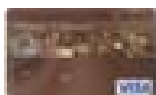
The transparency of the unit's card charge structure and the success of its aggressive promotions have driven a rise in card issues, bringing the Bank nearer its objective of regaining industry leadership. As the unit continues to surprise cardholders with ever more innovative value-added benefits and offers in the coming year, the outlook for the Bank's card business appears very positive.

### One of the Widest Card Product Ranges on the Market

With eight different credit cards and a range of debit-card options, Seylan Bank offers cardholders an appropriate product for every need, each supported by unequalled benefits and value additions.



Master Visa



Visa Classic



Visa Gold



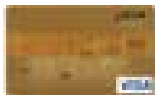
Titanium



MasterCard



Platinum Card



Gold Card



Blue Card

### (b) Pawning

With the market price of gold rapidly increasing, the Retail Banking Division moved to exploit the resultant opportunity by accepting gold as security against advances of very high value. An important feature of this new approach is personalised service, with customers privately attended to by the branch manager. The aim is to meet the short-term financial needs of the business community. Facilities are processed and disbursements made within minutes of a customer's request.

Despite fluctuating gold prices, growth in pawning operations contributed significantly to the advances portfolio. Pawning advances accounted for 10% of the Bank's loan book in 2011. While we continue to offer a higher advance rate per sovereign than other leading banks, this retail-banking initiative has set a trend for the whole of the pawning sector.

#### *Pawning Performance*

	Actual 2011 Rs. '000	Actual 2010 Rs. '000
Interest income	1,413,858	877,791
Pawning portfolio	11,987,612	8,113,661
Growth in pawning %	48	128

#### Monitoring and Reducing Risk

Pursuant to the guidelines issued by the Central Bank of Sri Lanka, Seylan Bank took several measures to mitigate the risks associated with pawning. The matter

was regularly reviewed by ALCO and the Integrated Risk Management Committee, and several precautionary measures were taken.

In fact, growth in this segment has been achieved with almost no NPA and has made a solid contribution to the capital adequacy of the Bank.

#### Pawning Outlook

We anticipate that market conditions will drive continued growth in this segment and plan to introduce pawning facilities at new outlets to meet the anticipated demand. Procedures are being streamlined, with strict adherence to Central Bank of Sri Lanka (CBSL) Guidelines in order to mitigate associated risk.

### (c) Housing Loans

The downward shift in interest rates inevitably resulted in greater demand for housing and related loans, creating a lucrative opportunity for the Bank. The Retail Division further strengthened its housing-loans unit and reduced loan delivery time to 4 days, an important competitive advantage.

#### *Housing Loans, Performance*

	Actual 2011 Rs. '000	Actual 2010 Rs. '000
Interest income	<b>1,060,932</b>	1,173,433
Housing-loan portfolio	<b>8,755,497</b>	8,323,123
Growth in housing loans %	<b>5.2</b>	(1.2)

# Management Discussion and Analysis

## Housing Loans Outlook

The housing loan market in Sri Lanka retains its high potential, as well as the very low default rate that is a marked feature of this segment. We anticipate steady, continued growth in the loan book. Processes will be further streamlined and automated to offer competitive advantage.

## (d) Educational Loans

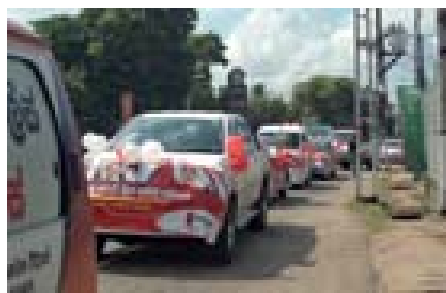
This is an emerging, rapidly growing segment with a relatively low risk profile. Alive to its high potential, the Retail Banking Division will re-launch its educational-loan product aggressively in 2012, marketing it through alliances with institutes that prepare students for foreign diploma examinations as well as through recognised professional bodies.

## (e) Leasing

Despite the dip in interest rates that occurred in 2011, the Bank aggressively pursued growth in leasing throughout the year.

Several statutory measures improved the market climate. The abolition of debits tax on leases from April 2011, announced in the national Budget, helped increase growth, as did the SVAT registration enactment, also effective from April, which allows eligible customers cash rebates on VAT payments. As a result of the latter, export customers need no longer pay VAT on purchases.

Growth over the last three months of the year made a notable contribution to advances. This phenomenon was apparent at all our branches across the country. The most important marketing development was the launch of Smart Lease, a flexible lease payment scheme, from September to December.



*Smart Leasing*

The Bank also continued to offer financing for the purchase of tractors and mopeds under the *Govi Jaya* leasing scheme. Vehicle leases continued to dominate the business of the Leasing unit.

## Leasing Performance

	Actual 2011 Rs. '000	Actual 2010 Rs. '000
Interest Income	<b>831,269</b>	645,391
Leasing Portfolio	<b>7,578,842</b>	4,223,180
Growth %	<b>79</b>	29

## Leasing Outlook

The sector has wide potential associated with emerging sectors such as construction

and tourism. While continuing to build business in these sectors in 2012, the Leasing Unit will direct special efforts at a key market segment it has identified, namely SMEs. The SME sector offers tremendous potential due to its importance in respect of Government economic policy and foreign donor support.

#### 5.4 Treasury

The Treasury Division experienced constant pressure from interest-rates fluctuations. The depreciation of the rupee, announced during the reading of the national Budget, also put pressure on the Bank's foreign-exchange position. Adverse market conditions prevailed throughout the year: the Bank saw its equity investments decline in value by Rs. 316 Mn., compared with a profit of around Rs. 79 Mn. in 2010.

Entrusted with managing the Bank's liquidity, interest rates, foreign-currency exposure and funding sources both local and foreign, the Treasury found itself acutely susceptible to changes in both the local and global macroeconomic environments. Despite the highly volatile prevailing conditions, however, the division maintained its winning streak. This success was based on our ability to read market fluctuations accurately. Being a 'price-maker' also gives the Bank the advantage of moving with the market, enabling the Treasury to maximize the profitability of its operations.

During the year, the Bank also became the first Firm in Sri Lanka to adopt the FXall multi-bank trading platform for foreign-exchange trading. It is now evaluating the benefits of migration to a fully integrated treasury-processing system, one that features risk-management controls as required by the regulator in 2012.

#### Interest Rates, Market Liquidity and Government Securities

Average interest rates on Treasury bills and Treasury bonds declined by 101 and 81 basis points, respectively. However, short-term yields increased from mid-October. Lower expectations with respect to inflation and increased investor appetite contributed to a somewhat stable interest-rate environment. Credit expansion continued, with rupee loans increasing by 33.4% and foreign-currency-denominated loans by 30.4%.

Policy interest rates during the year remained unchanged after one downward revision in January 2011. Weighted average call-money rates continued stable within the policy rate corridor.

The latter part of the year witnessed a spike in both deposit and advances interest rates. Excess liquidity in the market declined to less than Rs. 10 Bn., from Rs. 124 Bn. in December 2010. The statutory reserve ratio was increased by 1% in April 2011, absorbing about Rs. 18 Bn. of excess liquidity from the system. The regulator also commenced

# Management Discussion and Analysis

overnight reverse-repurchase auctions during the latter part of the year to stabilise market interest rates.

## Exchange Rate

The market enjoyed stable exchange rates until the last week of November, when a 3% devaluation of the rupee was announced during the Budget speech, taking the market by surprise.

According to the IMF, this devaluation was a positive step that will improve the competitiveness of the nation's exports and safeguard its foreign reserves. Competing nations' currencies have also depreciated this year; for example, the Indian rupee fell by 14.2% against the US dollar, even as the Sri Lankan currency strengthened by 0.5% (this was prior to the devaluation).

The Central Bank of Sri Lanka absorbed and supplied foreign currency to maintain rate stability and avoid excessive volatility in the domestic foreign-exchange market. Overall, the rupee fell by 2.6% against the US dollar in 2011.

In August, the Chinese renminbi (more commonly known as the yuan), was designated by the Central Bank as a currency in which foreign-exchange transactions may be conducted.

The liberalisation of exchange-control regulations also continued.

## Colombo Stock Exchange (CSE)

The CSE experienced a well-publicised decline, shedding gains made in the first quarter. Thirteen IPOs took place, raising Rs. 19 Bn., along with 22 rights issues (raising Rs. 26 Bn.) and 26 new company listings. The net foreign outflow through the stock market was Rs. 19 Bn. (0.9% of a market capitalisation of Rs. 2,214 Bn.), offset by foreign purchases of Government securities, which increased by Rs. 25 Bn.

Primary-market Treasury bill rates kept pace with the decline in policy rates, falling by 175 basis points. Prudent decision-making and close monitoring of market rates by ALCO nevertheless enabled the division to contribute significantly to the net interest margin by investing excess funds in Treasury Bills.

## Counterparty Limits

Many international banks set up counterparty limits with the Bank, increasing its funding options and improving its ability to seek out competitive prices on foreign-currency deals. Dealing with these banks also resulted in greater access to critical market information, enabling the Bank to better advise its own customers regarding market trends.



### Primary Dealer Unit

The Primary Dealer Unit is now in full operation and empowered to handle repos and reverse repos, strengthening the overall effectiveness of Treasury operations.

The Primary Dealer Unit began offering trustee services for asset-backed securities in 2011. Operational procedures were also streamlined, which helped the unit contribute Rs. 120.53 Mn. towards the Bank's operating income.

### Gold Investment Unit

There was high market demand for gold as an investment product. The unit saw its business volumes grow in line with this demand. However, one of its products, Gold Heart, had to be withdrawn from the market following a directive issued by the regulator. Despite this setback, the unit contributed Rs. 97.66 Mn. to the Bank's operating income.

### Foreign-Exchange Operations and Dealing

Seylan Bank intends to transform itself into a major force in the Sri Lanka foreign-exchange market by offering aggressively competitive rates to other banks and customers. The division will maintain exposures to all major time buckets with the approval of the Board of Directors and ALCO.

	Actual 2011 Rs. '000	Actual 2010 Rs. '000
Income	3,836,766	3,553,965
Operating Profit	1,990,285	1,875,118

### Treasury Outlook

Plans for 2012 include the following:

- Fully exploit the potential for volume growth resulting from the operational advantages of newly-automated Treasury services.
- Increase dollar/rupee trading volumes through the adoption of new strategies.
- Continue to look for avenues to maximise revaluation gains.
- Increase focus on corporate as well as retail clients.
- Devise mechanisms to approach non-customers.
- Bid more aggressively in the primary market for Treasury bills.
- Target corporate and retail customers for Treasury bill secondary-market operations.

## 5.5 International Trade

### (a) International and Trade Operations

The International Division provides pre- and post-shipment facilities to the Bank's client base, many of whose members are of long standing. It serves a variety of sectors, including agriculture, construction, consumer goods, machinery & equipment and transport.

The performance of the division in 2011 was remarkable. The number of letters of credit opened grew by 3.46%,

# Management Discussion and Analysis

while their total value increased by 13.76%. Collection bills handled grew 35.8% by volume, with a total value of 134%. Pre-shipment facilities decreased by 10.66% and import loans granted by 33.76%. Overall, the imports business grew by 81.98%, driven by improved economic conditions, investment in sectors of importance to the Government's development agenda, and duty concessions on motor vehicles.

Export volumes, too, were satisfactory. Export finance to the agricultural sector, mainly pre-export financing, decreased by 11.6%, Rs. 1.0 Bn. This was achieved through the energetic canvassing of new business clients and the preservation of existing relationships.

An important development in the year under review was the commencement of discussions with the International Financial Corporation (the private sector financing arm of the World Bank) concerning the establishment of a trade-finance facility. IFC has now completed its appraisal and the Bank is awaiting its decision. The establishment of this facility would generate funds for further expansion of trade business and improve the risk profile of the Bank.

Several structural and process changes were introduced to improve customer service, cost-effectiveness and productivity.

## Correspondent Relationships

During the Cricket World Cup, of which the Bank was a joint sponsor in collaboration with Moneygram International, the division carried out an inward-remittances promotion, offering gifts to all recipients of remittances together with a draw for free tickets to matches held in Sri Lanka.

Following successful visits to the UAE by the GM/CEO and the DGM-International, facilities the Bank enjoys with its correspondents in the Gulf - the National Bank of Abu Dhabi, Mashreq Bank Dubai and Emirates NDB - were enhanced. This development reflects the confidence these international banks have placed in Seylan Bank.

## Customer Relationships

In January, the Trade Services Unit organised a well-attended seminar for existing and potential customers on INCOTERMS 2010 and the recent relaxation of exchange-control regulations, at the Inter Continental Hotel. Some 100 participants were afforded an opportunity to interact with a senior official of the Department of Import & Export Control to raise issues relating to trade transactions. Two senior officials of the Exchange Control Dept. of the Central Bank and the Import/Export Control Department attended the question-and-answer session, their presence much appreciated by all.

It is a matter of pride to us that at the Annual National Exports Awards, organised by the National Chamber of Exporters, 16 of our loyal and valuable clients won major awards.

#### (b) Remittances and Foreign-Currency Deposits

An appreciating currency and higher interest rates tended to encourage rupee savings, limiting the growth of US dollar deposits in 2011. Seylan Bank actively promoted its remittance services in the domestic market and in countries where large numbers of Sri Lankans work, among them Italy, Kuwait, Oman, Qatar, Saudi Arabia and the UAE. Despite severe competition from other Sri Lankan banks and ever-more-aggressive price wars among international remittance agents and exchange houses, the Bank successfully defended its market share.

The Bank appointed representatives in the UAE, Oman and Dammam, Saudi Arabia and entered into agreements with exchange houses to install representatives in Lebanon and Qatar. It also made arrangements with Bank Al-Bilad, a large Saudi Arabian bank with an extensive countrywide branch network, to help Sri Lankans living in that country remit money home.

Promotional campaigns were undertaken in April and July-August to drive remittances during the Avurudu and Ramadan seasons.

#### Correspondent Banking

Seylan Bank maintains over 335 correspondent relationships with banks in Sri Lanka and abroad in order to facilitate its trade-banking and Treasury business. It has 48 'Nostro' accounts with 31 banks, covering all currencies in which the Central Bank permits trading. These relationships include some of the world's leading banks.

In the year under review, the Remittances Unit revived many of these correspondent links, allowing the Bank to establish or enhance Treasury limits, gain access to useful lines of US Dollar credit and successfully conduct its trade and remittance business. Trading accounts were established in Bangladeshi USD account opened with Standard Chartered Bank - Bangladesh in order to minimise delay encountered in setting import bills and Chinese renminbi, the latter having been declared a tradable currency by the Central Bank of Sri Lanka.

The Bank continued to comply with the requirements and risk-assessment criteria specified in the policies and guidelines of the Central Bank, as well as those of its overseas correspondents.

# Management Discussion and Analysis

## Important Developments in 2011

- New INCOTERMS were introduced in January 2011, following the changing patterns of trade and new developments in information technology. Under these, the number of terms has been reduced from 13 to 11. Two new terms, 'delivered at place' (DAP) and 'delivered at terminal' (DAT) replaced the earlier DAF, DES, DEQ and DDU terms.
- A new method for open-account transactions was introduced in March, streamlining the method of payment by importers.
- In April, the Import and Export Control Dept. lowered the age limit on imported used vehicles from 3 ½ to two years.
- The Chinese renminbi became a tradable currency under Central Bank rules in August.
- In September, the Import & Export Control Dept. further relaxed its requirement for the pre-inspection certification of motor vehicles for import, declaring as acceptable any certificate already approved by the Secretary to the Ministry of Finance & Planning (other than those of the Japan Auto Appraisal Institute and Bureau Veritas) for vehicles falling under certain HS codes.
- November 2011 saw the devaluation of the rupee, a move made by the Government in order to discourage imports and raise export revenue.

## FCY and Remittances Outlook

Development initiatives announced by the Government are likely to create many opportunities, based on an upsurge in demand for trade finance for post-conflict growth in the North and the East of the country. The unit will pursue these diligently. It will also seek to increase trade business in line with the expansion of the branch network, renew its commitment to innovation and product development, improve service levels and enhance market share.

## 5.6 Seylan Development PLC

The Company was formed in 1992 for the construction of the head office building of the Bank. It is a listed company quoted on the Main Board of the Colombo Stock Exchange. Seylan Developments operates as the main provider of utility services to the Bank. The main source of income of the Company is building rent. The Bank presently holds 51.83% stake in the Company.

The Company achieved a revenue growth of 15.4% in 2011 compared to 2010. The Company has recorded a 170% growth in post-tax profits mainly due to the reduction of debts. The Company made a rights issue during the year and raised capital of Rs. 813 Mn.

## Outlook

*An enabling economic environment provided fertile ground for our operations and the Bank implemented many operational initiatives which together with our strengthened credit risk management systems improved our asset quality thus enabling the Bank to report a stellar performance...contributed to by all divisions **which augurs well for the future.***

# Management Discussion and Analysis

## 6. Outlook

During the year, the Bank commenced implementation of a four-year strategic plan (2012-2015). The 2012 Budget, drawn up along with this plan, received early approval by the Board and has now been communicated to the respective business divisions and supporting units. It is planned to monitor progress towards these targets closely; staff have already been informed that achievement of their specified targets will be an important factor in performance evaluations and rewards.

### Current Position of the Bank

The immediate outlook for the domestic economy is encouraging, and the Bank is well-positioned to capitalise on new market opportunities arising from the positive macroeconomic outlook. The June rights issue produced a capital infusion of Rs. 4.7 Bn., raising the capital-adequacy ratio to well above the statutory minimum and the industry average. The Fitch rating upgrade to A- (lka) which occurred in September 2011 is certain to attract business and facilitate fund raising.

## Return on Assets & Return on Equity

Actual and estimated RoE and RoA are indicated in the table below:

### RoE & RoA, Year-on-Year

Year	RoA	RoE
2010	0.87%	10.88%
2011	0.64%	6.78%
2012 (est.)	>1.00%	>11.50%

## Business Volume Growth

The accompanying table presents actual and forecast growth in the asset base of the Bank over the three years to 2012.

### Growth in the Assets Base

Year	Growth (%)
2010 actual	12.74%
2011 actual	10.82%
2012 (estimated)	>13%

## Improvement of Business Processes

The Bank is currently working on the following strategic initiatives in order to enhance operational efficiency, service quality, pricing and returns to stakeholders.

### Current Strategic Initiatives

Project	Commenced	Responsibility
Centralisation	2011	DGM INL & OPS
Business process re-engineering	2011	DGM INL & OPS
Cost optimisation	2012	CFO
Product & customer rationalisation	2012	Business Units

## **Strengthening Risk Management and Compliance**

The Bank has retained a specialist consultant, well-known in the region, to advise on the improvement of risk-management policies and procedures. The Risk Management Unit will undertake such of the consultant's recommendations as are approved by the Board, strengthening the relevant areas of activity and employing experienced staff to handle all aspects of risk management.

Preliminary discussions on an automated solution to manage the new accounting-standards requirements have already commenced. The Bank has also appointed a separate project team, with representation from all relevant departments, to handle the implementation of IFRS. Comprehensive training for the implementation team and operational staff has already begun.

## **Impact of Sri Lanka Financial Reporting Standards (SLFRS) based on International Financial Reporting Standards (IFRS)**

A detailed study was carried out to identify shortfalls between Sri Lanka GAAP and IFRS. Broadly speaking, nine standards may affect the Bank's accounting treatment as a result of having to adopt IFRS from 1st January 2012. The standards most likely to affect the Bank's financial results are IAS 32, IAS 39 and IFRS 7. Quantification of the likely effect of adoption of these standards are disclosed in Note 3.5.17 to the Financial Statements.

# Risk Management Report

## (1) Our Vision for Risk Management

In today's challenging financial, economic and technological environment, effective risk management is fundamental to maintain consistency in profitability and sustainability.

Our vision focuses on developing a strong strategic and integrated approach aimed at optimising performance. We have a firm belief that the best risk management practices add greater sustainable value in our business strategy, operations, and the wealth of all our stakeholders.

## (2) Introduction to Risk Management

The Business of banking naturally entails risk in business transactions and as a result risk management is acquiring a stronger strategic focus in the management of banks in today's volatile financial market.

The key risk areas that the Bank focuses on are credit risk, market risk, liquidity risk, operational risk, regulatory risk and strategic risk. Our risk management strategy is based on a clear understanding of these multiple risks, systemised through the disciplined risk assessment, measurement procedures and continuous monitoring.

The Bank follows an integrated approach to risk management and has initiated a number of improvements in

risk management practices this year. The policies and the procedures designed for the management of risk are being continuously reviewed according to the evolving business requirements and regulatory guidelines whilst benchmarking against international best practices.

## (3) Governance and Key Principles of our integrated Risk Management Framework

The Board Integrated Risk Management Committee (BIRMC) provides the direction on the risk management process and formulation of policies for the ratification of Board of Directors. The Board has the authority to determine the overall risk management framework for the Bank and has the responsibility to oversee the effective application.

To support the above risk management strategy, The Risk Management Unit develops and maintains a robust and pervasive risk culture which promotes the soundness of the Bank. It is headed by a Chief Risk Officer (CRO) who reports to the GM/CEO and the Board Integrated Risk Management Committee (BIRMC) and is responsible for Risk Management across the entire Organisation. This Unit has been further strengthened by a seasoned international consultant who has a track record of turning around troubled banking

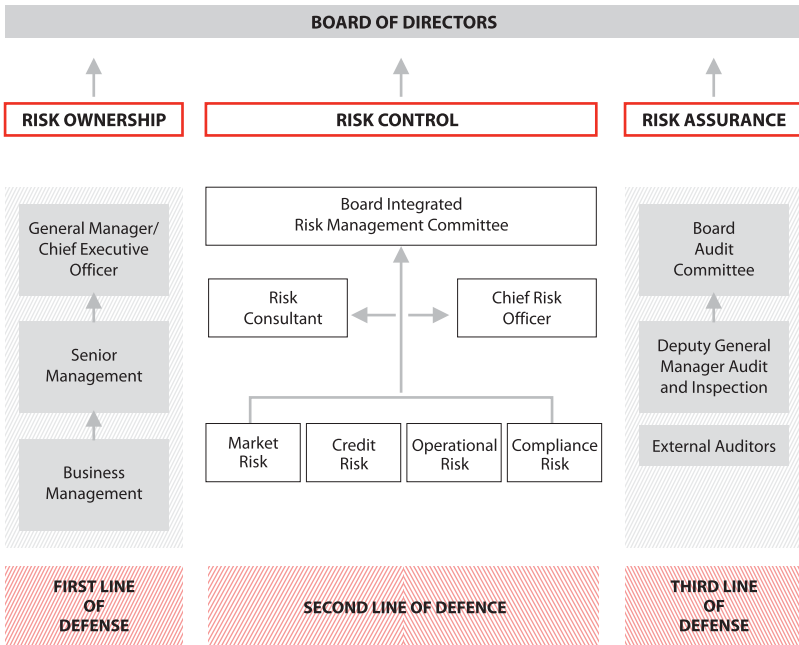


businesses, and introducing improved risk management frameworks providing banks with additional confidence in growing their business. The Risk Management Unit is totally independent of any business activities, which ensures greater transparency and impact.

The fundamentals of the Bank's risk management can be discussed as follows:

- The Board of Directors has oversight of all aspects of risk assumed by the Bank. The Board maintains the overall responsibility to ensure that adequate structure, policies and procedures are in place and implemented effectively. The Board approves the risk management policies and sets goals and limits for the Bank's risk appetite and strategy.

Following is an illustration of the risk management framework built on defense risk model



# Risk Management Report

- The Board has delegated the overall risk management responsibility to the BIRMC which is responsible for supervising, the risk management activities of the Bank and reviewing the material risks it faces.
- The Board through the BIRMC reviews the adequacy and effectiveness of management level committees and individual executives empowered and held accountable for managing the various risks which the bank faces.
- Primary responsibility for managing risks within each business line or function lies with members of Corporate Management and CRO, under the leadership of GM/CEO.
- Responsible executives have been delegated limits of authority for recommending or approving risk and are held primarily responsible for managing risks that they have recommended or approved.
- The Bank assigns responsibility for risk management across the entire organisation to the Chief Risk Officer (CRO).

## (4) Risk Management Committees/Units

Committee/Unit	Key Risk Related Objectives/Functions
1. Board Integrated Risk Management Committee (BIRMC)	Establishment and implementation of a robust Risk Policy Framework that defines the responsibilities of the senior management. Reviews materiality and management of the Bank's risks, formulate the Bank's risk appetite and strategy and sets the risk limits.
2. Board Credit Committee	Approve/Recommend to the Board of Directors credit facilities above the delegated authority of the CEO. Evaluate the quality of credit portfolios of the Bank, and directs corrective action.
3. Board Audit Committee	Oversees risk assurance and provides the direction on behalf of the Board. Monitors the effectiveness of internal audit function of the Bank.
4. Asset and Liability Management Committee (ALCO)	ALCO is the decision-making authority responsible for the management of the Balance Sheet from a risk-return perspective including the managing market and liquidity risk.
5. Executive Credit Risk Management Committee	Responsible for implementing and overseeing the Bank's credit risk management framework and policies. Manages and reviews credit risk standards and processes to ensure that business managers maintain quality credit portfolios.
6. Executive Market/Operational Risk Management Committee	Responsible for implementing and overseeing the Bank's non-credit risk management framework and policies.
7. The Risk Management unit	Consist of credit risk, market risk, operation risk and compliance risk management units. Implements, reviews and monitors the Bank's policy framework addressing multiple risk and regulatory compliance issues. The unit reviews and assesses the key risk indicators, covering the areas of credit risk, interest rate risk, liquidity risk, foreign exchange risk, operational risk and compliance risk to improve the framework, set risk acceptance limits and monitors deviations.

### Risk Management in Practice

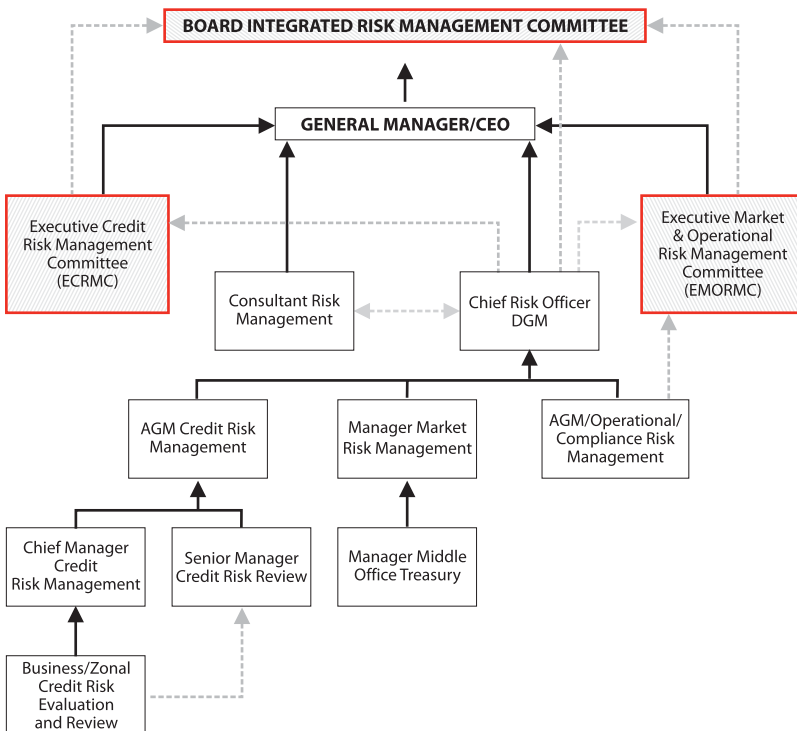
The risk management unit is headed by the Chief Risk Officer (CRO) who is responsible for the ongoing review and maintenance of the risk management framework in response to internal and external developments. The Risk Managers appointed to follow the risk management cycle mainly in the sphere of Credit, Operational, Market and Compliance risks are responsible to CRO for upholding the overall integrity of the Bank's risk management framework laid out by the BIRMC.

### (5) Major Types of Risk Faced by The Bank

#### 5-1 Credit Risk

Credit risk is the potential financial loss that could arise as a result of the failure of a borrower or counterparty to honour its contractual obligations. The credit risk emanates from various activities of the Bank including on Balance Sheet exposure such as lending, international trade, treasury functions, leasing and off-balance sheet exposures such as guarantees. Lending is

Risk Management Organisation Structure



# Risk Management Report

one of the main lines of business of the Bank; credit risk is the largest contributor in the overall risk exposure of the Bank and bears the highest risk-related capital charge. Within the integrated risk Management framework, Credit Risk Management Unit (CRMU) assists the business units to manage their credit risk exposures in an objective and informed manner.

## 5-1-a Credit Risk Appetite

The credit risk appetite approved by the Board of Directors and the Credit Risk Acceptance Criteria are clearly defined in the Bank's Lending Guidelines. Lending Officers are guided by these Risk Acceptance Criteria in focusing their lending activities and achieving business development priorities. The sectors which are perceived to be exceptionally 'High Risk' have been clearly defined by the Credit Policies and Lending Guidelines of the Bank to alert the Lending Officers to demand adequate risk mitigants and higher pricing if considering proposals from such high risk sectors. The credit policies also clearly define prohibited lending types which the Bank under no circumstances will entertain due to either the very high risks involved in such proposals and/or to negative social/ethical considerations.

## 5-1-b Credit Risk Exposure of the Bank

Major credit exposures of the Bank are created from lending to various sectors of the economy; Corporate/SME/Retail Borrowers, Treasury and Trade-Related activities lending placements with Financial Institutions and other counterparties. Exposures to foreign counterparties also trigger cross border risks. In the case of corporate and retail borrowers, exposures are mainly created from conventional on Balance Sheet exposures such as Overdrafts, Term Loans, Import Loans, Pre-Shipment Loans, Export Bill Purchasing and off-Balance Sheets products such as Letters of Guarantee and Letters of Credit.

Whilst Board Integrated Risk Management Committee formulates credit strategy by identifying target markets, business sectors and type of facilities granted. Risk management will provide inputs on preferred level of diversification, concentration and the cost of capital in granting credit.

With these two combined efforts, the credit strategy establishes limits to mitigate concentration risk with regard to sector, region and product.

The graphical presentation below depicts the analysis of the Bank's overall credit risk exposure as at 31st December 2011 based on industry sector concentration.

**Our major credit exposures lies within the sectors of Manufacturing Agriculture, Fisheries, Traders as well as in the growing sectors of the economy like the Finance sector. The credit exposure is within the CBSL capital adequacy guidelines.**

### Sector-wise Distribution of Advances

(Excluding Lease Rentals Receivable and Bills of Exchange)

	Rs. '000	% of Advances
Food, beverages and tobacco	751,989	0.68
Agriculture, Agro business and fisheries	3,938,898	3.59
Textiles and Wearing apparel	1,094,748	1.00
Wood and paper products	908,843	0.83
Rubber and leather products	286,334	0.26
Metals, Chemicals and Engineering	645,829	0.59
Hotels	1,209,546	1.10
Services	6,035,788	5.50
Exports	5,726,226	5.20
Imports	6,765,564	6.16
Trading	12,998,057	11.83
Financial Services	12,841,052	11.69
Housing	11,250,475	10.24
Consumption	15,894,372	14.47
Miscellaneous	29,491,943	26.85
<b>Total Advances as at 31st December</b>	<b>109,839,664</b>	<b>100.00</b>

### Total Lending to Agriculture Sector

Total direct and indirect lending to agricultural sector exceeds 10% of the portfolio and has been categorised under different segments.

Further the geographical distribution of advances portfolios as at 31st December 2011, below indicates that the Advances are centered around the Western Province.

Central	Eastern	North Central	Northern	North Western	Sabaragamuwa	Southern	Uva	Western
4.70%	2.90%	2.04%	4.90%	3.10%	5.37%	3.60%	1.17%	72.22%

### 5-1-c Credit Risk Indicators

The risk management unit uses various credit risk indicators for assessing and monitoring credit risk of the Bank.

# Risk Management Report

## • Internal Risk Rating System

Risk rating of the borrowers has been used as a single point indicator to place them on the risk continuum. With the planned automation of the credit evaluation process, the Bank expects to introduce a robust risk rating system which will have the capability of predicting the Probability of Default (PD) and the Exposure at Default of a borrower.

These indicators would help the Lending Officers to measure the risk profile of the credit portfolios in an objective manner. Currently, the Bank uses internal rating models for commercial and individual customers based on risk factors and in line with internationally accepted rating criterion used by external rating agencies.

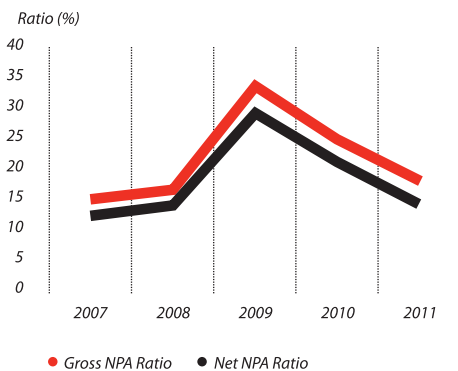
## Classifications of NPA Loans and Advances Trend

	March 2011	June 2011	Sept. 2011	Dec. 2011
Loans and Advances - Performing (Gross) (Rs. Mn.)	79,232	83,255	88,275	97,496
Loans and Advances - Non-Performing (Gross) (Rs. Mn.)	25,126	23,514	23,374	20,923
Loans and Advances - Total (Gross) (Rs. Mn.)	104,358	106,769	111,649	118,419
Suspended Interest (-) (Rs. Mn.)	4,976	4,883	4,871	4,729
Specific Loan Loss provisions (-) (Rs Mn.)	5,699	5,393	5,388	4,657
General Loan Loss Provisions (-) (Rs Mn.)	469	455	406	382
Loans and Advances (Net) (Rs. Mn.)	99,383	101,885	106,778	113,690
Loans and Advances Non-Performing (Net) (Rs. Mn.)	20,150	18,631	18,503	16,193
Gross NPL Ratio	24.08%	22.02%	20.94%	17.67%
Net NPL Ratio (Net of IIS)	20.28%	18.29%	17.33%	14.24%

### • *Gross and Net Non-Performing Advances Ratio*

Assessment on the quality of credit is an important tool in any financial institution and as the Bank had experienced the worst NPA ratio during the crisis period, it has since focused on ensuring that new credit will not result in bad loans. During 2011, the total gross advances have grown by 15.57%. The Credit Risk Management Unit has undertaken independent pre-sanction reviews have for large increases in facilities. As such new non-performing advances greatly declined this year: Gross NPA has reduced by 7.40% while reduction of 7.12% in net NPA (Net of interest in suspense) at the end of December 2011 due to careful post-sanctioning, monitoring, aggressive collections and a determined recovery programmes.

#### ■ **Gross and Net NPA Ratio**



### 5-1-d Credit Risk Mitigation

The Bank believes that a key component of a disciplined credit culture is adherence to internal policies and procedures. Hence, a comprehensive Credit Policy Manual and Lending Guidelines have been established in the Bank to ensure consistent high quality lending discipline. A well-defined delegated approval hierarchy supported by high ethical standards, well-established policies and procedures provide a robust framework for the organisation and management of credit risk.

The Bank does not assume any credit exposure without undertaking a thorough risk evaluation. The Bank avoids over exposing itself to any Borrower/Counterparty, Economic Sector, Product or Country, by establishing prudent exposure limits.

Lending strategy is laid down in the Bank's 'Lending Guidelines' which has defined target markets, risk acceptance criteria for use of credit approval authority and guidelines for portfolio management. These guidelines are revised at least annually to reflect changing market conditions and in response to emerging risk.

The Credit Risk Management Unit engages in independent risk assessment of all credit risk exposures above certain thresholds before considering new proposals. It also carries out credit risk

# Risk Management Report

reviews on a regular basis to provide credit quality assurance.

Seylan Bank follows a prudent collateral acceptance and management policy. This policy clearly defines the type of collateral suitable for different types of credit and to ascertain the values of such securities not only at the time of facility disbursement but also during the tenure of the facility. Collaterals are recorded to the facility in the core banking system to determine our exposure in an extreme situation.

## 5-1-e Credit Risk Monitoring

The credit risk of the Bank is regularly monitored through daily, weekly and monthly management reports. This process is complemented by the executive committees which meet regularly to review and direct various aspects of the lending activities of the Bank. Major risks emerging in the portfolios are detected well in advance through the credit risk indicators stated above and remedial measures taken without delay.

In addition, the Credit Risk Review function is deployed to independently monitor the credit processes and quality of the portfolio and risk rating systems to ensure that high credit standards are maintained by Lending Officers at all times.

The following performance indicators of the quality of portfolio management are monitored regularly:

Reviews of the year's monitoring activities are summarised below:

- *Level of Expired Credits*

The level of **expired overdrafts in performing facilities has reduced from 463 accounts** in December 2010 to 424 in December 2011. Credit Risk Management follows up with branches for further improvements.

- *Collateral Recording Module*

The updating of collaterals into the core banking system shows an improvement. The number of accounts where collateral is not recorded in December 2011 has reduced to 3,004 compared to 4,722 in December 2010.

- *Independent Review of Large Credits*

Credit Risk Management Unit (CRMU) has commenced an independent post-evaluation of large credits subsequent to the reviews done by Relationship Managers to ensure that credit quality is maintained and corrective action initiated promptly where appropriate.

- *Internal Credit Risk Rating*

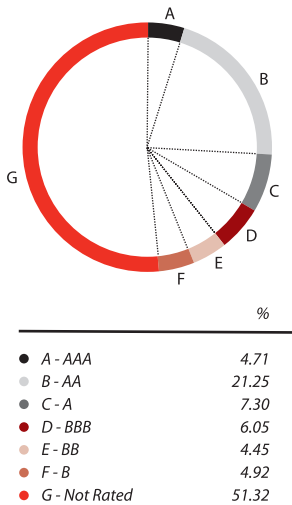
Seylan Bank has defined the borrower credit risk ratings based on risk factors and in line with internationally accepted rating criteria



used by external rating agencies. There are different rating models used for commercial and individual customers; Large Corporate, SME, SMI, Housing and Personal Assistance Loans. The rating processes capture, analyse and evaluate the customer’s financial data, group financial data, and assist the bank in interpreting risk factors denoted by quantitative and qualitative data evaluation.

The Value of credit portfolio under each rating is given in the chart.

■ **Risk Rating Progress - 2011**



### 5-2 Market Risk

Market risk is the risk that is affected by movements in market risk factors such as

interest rates, foreign exchange rates, and equity and commodity prices.

#### 5-2-a Market Risk Appetite

Market risk is managed by establishing exposure limits of various types. Limits are set for portfolios, products and risk types with risk appetite being the primary factor in determining the level of limits being set. The objective of a limit is to ensure that the negative earnings and impact of price risks are within the market risk appetite of the Bank. ALCO manages market risk exposures in order to optimise return on risk and to maintain a stable market profile and status.

The major stakeholder for the trading related market risk exposure of the Bank is the Bank’s Treasury. The Market Risk Management Unit (MRMU) ensures that the risks assumed by the Bank’s Treasury are within the stipulated risk appetite of the Bank or the regulatory limits that are in place whichever is more stringent. Board approval is sought in setting up of limits, and limits are formulated giving due cognisance to the business opportunities and risk appetite. The Treasury Middle Office works independently and is responsible for evaluating and reporting the market risk exposures through CRO to ALCO.

#### 5-2-b Market Risk Exposure

The Bank’s market risk exposures are mainly measured in terms of Interest Rate

# Risk Management Report

Risk, Foreign Exchange Risk, Liquidity Risk and Commodity/Equity Price Risk. The assessment of each market risk types are briefly described below:

## *5-2-b-(1) Interest Rate Risk (IRR)*

Interest rate risk is the likelihood that changes in the level of market interest rates will adversely affect the Bank's net interest income and the value of any financial instruments. It is also the possibility of loss which arises within portfolios through mismatches between the future yield on assets and the funding cost as a result of future interest rate changes.

A considerable proportion of the Bank's assets are in the form of long-term loans and other long-term commitments some of which are matched against short-term deposits. This in turn results in the Bank being vulnerable to interest rate hikes. The Bank understands the importance of managing IRR from the earnings perspective so that interest rate movements will not adversely impact the Net Interest Income (NII) of the Bank.

The Bank having invested in a comprehensive ALM system will measure the impact from probable changes in interest rates, by performing Interest Rate Sensitive simulations to forecast possible volatilities to the Net Interest Income. Simulation Modules such as Rate Shock analysis and Monte Carlo Scenario Analysis will be carried out on the Rate Sensitive

Assets (RSA) and Rate Sensitive Liabilities (RSL) to observe the outcome of various scenarios and will be used as a strategic guide in pricing assets and liabilities and to facilitate proactive decision-making.

## *5-2-b-(2) Liquidity Risk*

Liquidity Risk is the risk that the Bank cannot promptly fulfil its payment obligations due to unforeseen factors or be forced to borrow funds on unfavourable terms. Thus the ALCO committee manages the Balance Sheet of the Bank within the performance of the liquidity risk parameters laid down by the Board of Directors. ALCO reviews various risk measurements against policy limits to determine interest rate risk, price risk, and appropriate asset and liability mix. ALCO reviews Statements of Maturity of Assets and Liabilities (MAL) and statement of Sensitivity of Assets (SAL).

In addition to the more traditional Liquidity Gap Reports (prepared with certain assumptions) Liquidity Gap Reports, are prepared to incorporate contracted as well as anticipated inflows and outflows which are regularly discussed at ALCO to ascertain real cash flow mismatches.

## *Statutory Liquid Asset Ratio (SLAR)*

Liquidity being of paramount importance in a financial institution, several measures are in place to monitor and control the risk associated with liquidity inadequacies. In

addition to complying with the Statutory Liquid Asset Ratio (SLAR) stipulated by the Central Bank of Sri Lanka, the Bank monitors Advances to Deposit ratio as a key indicator of liquidity risk and the Banks' ability to meet the loan demand. We focus on building on reliable core deposit base to underpin our liquidity and support our planned growth.

### 5-2-b-(3) Foreign Exchange Risk

Foreign exchange risk is the current or future risk to earnings and capital arising from adverse movements in exchange rates. Foreign exchange risk also arises as a result of exposures of the bank due to maturity mismatches.

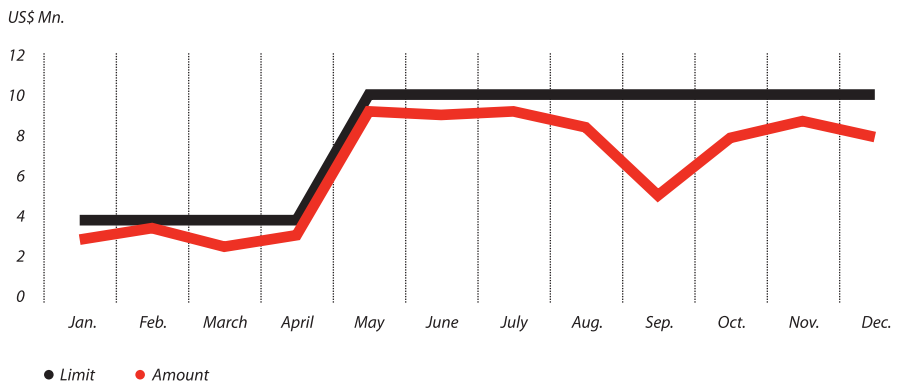
The Bank is exposed to foreign exchange risk caused by mismatches

between the value of assets and liabilities in each currency, this arises from foreign currency denominated loans, deposits and securities, future cash flows in foreign currencies arising from foreign exchange transactions and various forward foreign exchange contracts of which values fluctuate with changes in currency exchange rates and foreign interest rates.

### Net Open Position (NOP)

Foreign exchange risk is managed on a daily basis by the Bank's Treasury department. Limits are set on the Net Open position of the Bank, furthermore limits are set on dealer trading activities on a day light and overnight basis.

### ■ Foreign Exchange Exposure - 2011



# Risk Management Report

The above graph indicates the sensitivity of the foreign exchange Net Open Position (NOP). The Net Open Position which had been well within the threshold consisted of a limit of USD 4.0 Mio up to April 2011 was enhanced to USD 10.0 Mio thereafter aiming to capitalise periodic opportunities to earn income on the interest rate differential and take advantage of favourable market movements. However running an over-sold NOP position had a negative impact on our profitability when a surprise devaluation was triggered on 22nd November 2011.

Foreign exchange risk is mitigated by fixing appropriate limits on open positions, gaps and monitoring dealer/counterparty/product limits. The Market Risk Management Unit (MRMU) carries out daily a sensitivity analysis on the NOP under different shock scenarios and calculates the resultant impact on the capital adequacy and profitability of the Bank.

## 5-2-b-(4) Equity Risk

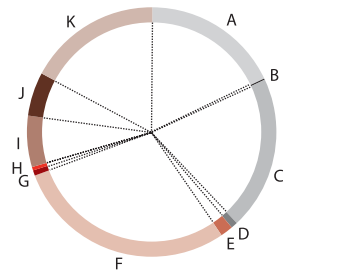
Equity risk is the risk of loss arising from movements in equity prices. The downward fluctuation of quoted equity prices and resultant fall in All Share Price Index faced during the year has affected the value of investment and trading portfolios of equity. Daily computation of mark to market value of on Balance Sheet and off Balance Sheet securities listed in the stock exchange is vital

to verify whether the losses if any are within the approved stop loss limit. A stress test on fall in equity prices to assess the impact on profitability and capital adequacy is carried out monthly and results are reported to the Share Investment committee for appropriate action.

### • Marking to Market

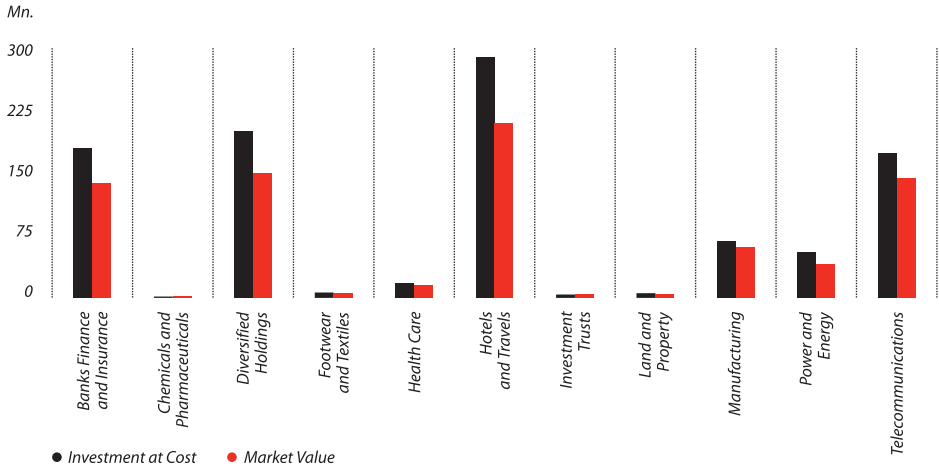
The Bank was exposed to a great extent of the Equity Pricing Risk due to the market conditions in 2011. Given below is a graph on the diversification of the Bank's portfolio and the market values as on 31st December 2011. The Bank recognises the need to

■ **Portfolio Value according to Diversification**



	%
● A - Banks Finance and Insurance	17.96
● B - Chemicals and Pharmaceuticals	0.19
● C - Diversified Holdings	19.99
● D - Footwear and Textiles	0.67
● E - Health Care	1.72
● F - Hotels and Travels	28.93
● G - Investment Trusts	0.42
● H - Land and Property	0.54
● I - Manufacturing	6.76
● J - Power and Energy	5.47
● K - Telecommunications	17.35

■ **Market Values of Portfolio**



control the risks arising through equity and commodity price movements. Stringent measures such as stop losses and profit taking limits are set to curtail the risk related with volatility.

● **Value At Risk**

The Bank recognises the importance of using single point indicators such as Value at Risk (VAR) to measure market risk across different products and is working towards setting up a robust software backed risk indicator system in 2012.

The Bank was exposed to a minimum commodity pricing risk during 2011 as the investment in commodities such as bullion trading has been marginal.

5-2-c Market Risk Indicators

With a view to maintain the Bank’s exposure to market risk at a reasonable level, Key Risk Indicators are identified, assessed and periodically monitored.

The Bank’s overall risk appetite and the Board approved risk tolerance limits have been disseminated to the Treasury front office. The adherence to these exposure limits are monitored on a daily basis by the Middle Office which comes under the purview of the Market Risk Management Unit (MRMU). Key Market Risk Indicators have been established for each of the following major market risk exposures.

# Risk Management Report

- *Interest Rate Risk (IRR) Indicator*

The Bank monitors interest rate risk on an ongoing basis giving due cognisance to the re-pricing characteristics of the individual asset and liability products. Yield Curve Risk, the risk arising from change in the slope and shape of the yield curve of re-pricing mismatches after applying rate shocks of different magnitudes to all relevant assets and liabilities are computed and monitored on a regular basis to ensure that the impact to the Bank's earnings is within reasonable levels.

In order to assess and monitor the Basis risk, where the interest rate of different assets and liabilities may change in different magnitudes, the ALCO of the Bank carries out analysis of the movement of AWPLR and Government Securities rates (T-Bill and T-Bond) and take appropriate action.

- *Foreign Exchange (FX) Risk Indicator*

The impact of the Bank's exposure to FX risk is managed by identifying and providing exchange rate shocks to the Net Open Position (NOP) of the Bank taking into account the exchange rate movement of the USD/LKR.

## 5-2-3 Market Risk Mitigation and Monitoring

Trading related market risk mitigation is mainly through policies, limits and control measures such as strict segregation of

duties which seek to reduce risk within or across the treasury desks. The Asset and Liability Management (ALM), Liquidity and the Foreign Exchange Policies sets out the standards, guidelines and limits pertaining to market risk and related activities in detail.

Treasury Desks, which include foreign exchange, money market, fixed income, corporate sales, desks are allocated with the following limits:

- Hierarchical Dealer Limits
- Foreign exchange position limits
- Counterparty, Spot, forward and placement limits.
- Trading stop loss limits.

The front office treasury initiates foreign exchange, money market, capital market transactions on the Bank's own behalf and on behalf of customers and reports direct to GM/CEO; the treasury back office independently records, accounts for and reconciles those transactions and our exposures on a daily basis and reports to Deputy General Manager - Operations. An independent middle office, reporting to CRO, continuously monitors and analyses all the Bank's market risk exposures and the risks created by treasury operations and reviews their day to day activities. Dealers are required to sign a special Code of Conduct which ensures that dealing activities are carried out within ethical standards and acceptable trade practices.

All risk tolerance limits and material risks related to treasury operations are subject to immediate review by CRO and reported at least monthly to ALCO for decisions on any further appropriate mitigation measures.

The Bank employs a range of tools mentioned above to monitor and manage market risk exposures which are regularly reviewed at ALCO meetings. Scenario analyses and stress testing are used to highlight to Management and Board the consequences of market turbulence or other events that could materially impact our profitability or liquidity.

CRO submits regular assessments of market risk to the Board Integrated Risk Management Committee of the Bank and discusses the risks created by market risk exposures at least on a quarterly basis at their meetings.

### 5-3 Operational Risk

Operational Risk is the risk of loss or harm resulting from inadequate or failed internal processes, people and systems or from external events including legal risk. Capability to carry out a large number of transactions effectively and accurately while complying with applicable laws and regulations constitute Operational Risk Management activities of the Bank.

Operational Risk is relevant to every aspect of our business and covers a wide spectrum of issues, losses arising through fraud, unauthorised activities, errors, omissions, inefficiency, system failure or from external events all fall within the definition of operational risk.

#### Objectives

The objective of our operational risk management is to monitor control of operational risk in a cost-effective manner within targeted levels of operational risk consistent with our risk appetite.

#### Organisation and Responsibilities

Operational Risk Management is primarily the responsibility of all employees and business management.

Each member of Corporate Management is accountable for maintaining oversight over operational risk and internal control, covering all businesses and operations for which they are responsible.

The AGM Operational Risk reports to the CRO and the Executive Market/Operational Risk Management Committee (EMORMC). Operational Risk Management Unit (ORMU) maintain the Operational Risk Management Framework of the Bank; monitor the level of operational losses and the effectiveness of the control environment. It is also

# Risk Management Report

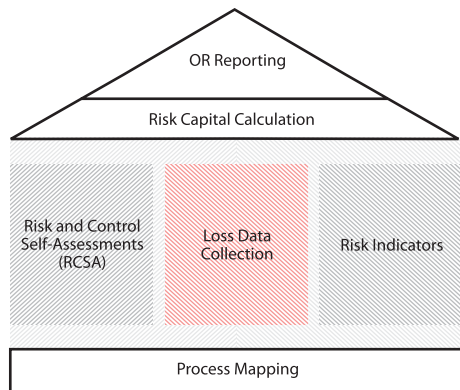
responsible for operational risk reporting, including preparation of reports of material risk for consideration by the EMORMC.

Our business and functional managers are responsible for maintaining an acceptable level of internal control, commensurate with the scale and nature of operations. They are responsible for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. ORMU helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of operational loss data.

## 5-3-1 Operational Risk Management Programme

The Banks' Operational Risk Management programme is designed to meet the internal risk culture and number of external governance requirements including Basel II and the industry best practices, it includes the following key elements.

- Risk and Control Self Assessment
- Internal Loss Data Collation
- Development of Key risk indicators (KRIs)



## 5-3-2 Operational Risk Control Self-Assessments (RCSA) Approach

Seylan Operational Risk and Control Self Assessments (RCSA) are performed by individual business units and functions. The risk and control assessment process is designed to provide business areas and functions with a forward looking view of material operational risks and an assessment of the effectiveness of controls, and a tracking mechanism for action plans so that they can proactively manage operational risks within acceptable levels. Risk and control assessments will be reviewed and updated at least annually.

All appropriate means of mitigation and controls are considered. These include:

- making specific changes to strengthen the internal control environment;
- investigating whether cost effective insurance cover is available to mitigate the risk; and
- other means of protecting us from loss.



The RCSA Policy has been structured to ensure performance risk assessment of the entire business processes or business line from 'end to end'.

### 5-3-3 Operational Risk Exposure of the Bank

An operational risk event is any circumstance where, through the lack or failure of a control, Bank has actually, or could have, made a loss. The definition includes situations in which the Bank could have made a loss, but in fact made a gain, as well as incidents resulting in reputational damage or regulatory impact. The Bank is in the process of collecting Internal Loss Data (IDL) and establishing a database with a view to manage the risk through learning and migrate to advanced Measurement Approach (AMA) of computing Operational Risk Capital by year 2013.

The Bank has reported the internal loss data to CBSL commencing from September 2011. For this purpose the Bank's business lines have been categorised into four as follows:

- I. Trading & Sales
- II. Payment & Settlement
- III. Retail Banking
- IV. Commercial Banking

### 5-3-4 The business line wise loss events analysis:

For comparative purposes, the analysis below presents Seylan operational risk events by Basel II categories. In 2011, the highest frequency of events occurred in Execution, Delivery and Process Management (78.5%) and External Fraud (19.6%).

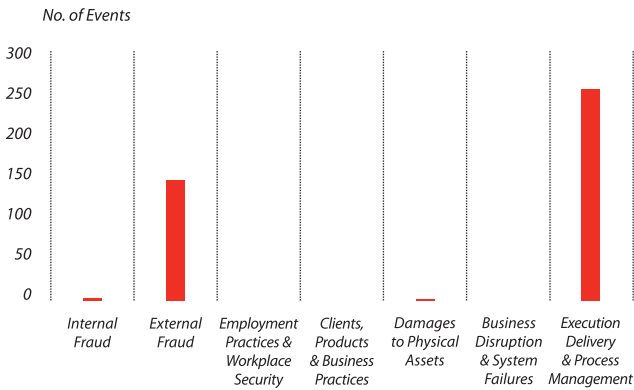
The two graphs below depict the Bank's number of operational loss events and the gross values of such events as a percentage against their respective totals, during the past year.

Based on the gross values of the losses incurred, the Execution, Delivery and Process Management carry a higher percentage of losses during the year 2011 and external fraud represent the second largest. The number of events with values less than Rs. 100,000/- accounted for more than 52% of the total loss events and only 1% represent over Rs. 1 Mn. events. In business line perspective, the largest operational losses were reported in Retail Banking.

# Risk Management Report

## 5-3-5 Event Wise Analysis

### ■ Loss Data Event-Wise



## Value Wise Analysis

### ■ Loss Data Events Value-Wise



### 5-3-6 Key Risk Indicators (KRIs)

The RCSA approach ensures that the Bank focuses on Key Risk Indicators related to the most risky activities and processes. Effective tracking of these indicators by the Operation Risk Management (ORM) team enables the Bank to identify changes to material risks and review their management. By combining data from risk events, risk assessments and key indicators with that from audit findings, expert management judgement and other internal data sources, Seylan is able to generate Key Risk Scenarios (KRSs). These scenarios identify the most significant operational risks across the Bank.

### 5-3-7 Information Risk Management

Risks associated with information technology and systems (Strategic Alignment, Risk Management, Resource Management, Value Delivery of IT Investment and Performance Measurement) are managed through information risk assessment policy and dynamically engaging in processes and introducing mitigation controls. The Bank is committed to secure customer information as well as Bank information by developing, implementing and monitoring policies and systems and strict measures are enforced to assure the integrity, confidentiality and availability of such information. The Bank has developed series of information security

policies aligned to international standards and regulatory requirements commensurate with the business.

### 5-3-8 Business Continuity Management

Business Continuity Management (BCM) aims at ensuring resiliency of business activities for emergencies and disasters. The BCM risk assurance provides overall guidance and direction, monitors compliance with CBSL requirements and best-practices and facilitates regular review of BCM practices of the Bank. It ensures that all business units develop business continuity capabilities for their respective functions which are then tested from time to time as per predetermined Recovery Time Objectives. As a key requirement of the Bank's BCM Policy it has established a comprehensive off-site Disaster Recovery Centre outside city limits with alternative arrangements to facilitate key operations in the event of various disaster events. Such plans are being periodically reviewed and tested for validity.

### 5-3-9 Insurance

The Bank's risk mitigation programme includes insurance and where feasible and appropriate, to transfer the risk of high severity and low probability events arising from fraud and external events that are beyond the control of the Bank. The

# Risk Management Report

insurance covers obtained include: Infidelity of Employees, Premises cover, Transit Cover, Forged Cheques, Forged Securities, Counterfeit Currency, Damage to Office equipment, Teller shortages/Negligence, Strike, Riot or Civil Commotion, Terrorism, Fire Insurance, Electronic Insurance, and Burglary cover.

These covers are being consistently monitored and reviewed for their adequacy and validity.

## 5-4 Strategic Risk Management

Strategic risk is the possibility of current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. The Risk Management Unit continuously reviews the emerging risks involved in the implementation of the Bank's Strategic Plan.

## 5-5 Compliance Risk Management

The independent compliance unit within the Bank is headed by the Chief Risk Officer and Compliance Officer who continuously review the legal and regulatory risks facing the Bank and report material risks arising direct to the Executive Market/Operational Risk Management Committee. The Bank has adopted a structured framework for compliance by formulating a Compliance Policy, which is approved by the Board of Directors and is reviewed periodically.

The Risk Management Unit addresses the Bank's legal and regulatory risk including compliance with regulations such as Know Your Customer (KYC) and Anti-Money Laundering (AML) functions. Appropriate mechanisms have been devised by the Unit, to identify laws and regulatory directions applicable to the Bank and to assess key compliance requirements, which are then disseminated to those business/operations units, who are primarily responsible for complying, on a regular basis.

### 5-5-1 Monitoring of Compliance

The Bank has adopted an overview-based approach to monitoring compliance, while at times a detailed oriented approach is also undertaken, depending on the severity of the potential impact of the risk event.

As part of the Bank's overview based approach, the CRO relies on the compliance reports generated, based on the confirmations provided by the heads of business units and functions, and follows up on exception reports which highlight any compliance breaches.

### 5-5-2 Anti-Money Laundering (AML) Compliance

The Bank has established a sound framework for AML compliance based on relevant laws enacted by the Government of Sri Lanka to combat money laundering/terrorist financing and in line with the

rules governing the conduct of all account relationship issued by Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka. A separate policy for AML has been approved by the Board of Directors and is reviewed periodically, while the Compliance Unit carries out sample testing bank-wise to ensure adherence.

The Bank's AML Policy establishes standards of AML compliance which applies to all branches/departments and ensures strict compliance with all existing laws and regulatory requirements.

### 5-5-3 New Product Development Framework

Prior to launching or formally approving new products or new procedures which form the operating instructions for various activities; the CRO ensures that they provide an adequate risk management and control framework and incorporate regulatory and legal requirements into operational procedures and appropriate manuals.

### 5-5-4 Capacity Building on Risk Management and Compliance

Capacity building through various internal and external training opportunities forms a critical building block of Bank's success in Risk Management and Compliance. Internal training and orientation for new recruits include training modules on Risk and Compliance. Existing and new staff are

provided training throughout the year to ensure that sufficient numbers of trained staff members are present in all branches and departments.

### 5-5-5 Legal Risk

Legal risk falls within the definition of operational risk and includes contractual risk, dispute risk, legislative risk and non-contractual rights risk. The Bank has to manage three type of legal risks.

- Contractual risk is the risk that the rights and/or obligations of the Bank within a contractual relationship are defective.
- Non-contractual rights risk is the risk that the Bank's assets are not properly owned or are infringed by others, or the Bank infringes another party's rights.
- Legislative risk is the risk that a bank fails to adhere to the laws of the jurisdictions in which it operates.

### *Operational Structure in Managing Legal Risk.*

- The Legal department oversees the legal function and is headed by a Deputy General Manager as a centralised division where branches have to hand their cases/issues to the legal department for appropriate action.
- The legal function provides legal advice and support in managing claims against the Bank, as well as in respect of non-

# Risk Management Report

routine debt recoveries or other litigation against third parties.

- Legal officers attached to branches/region cover substantial amount of regular day-to-day legal work that are required for the ordinary course of business activities mitigating future legal risk.
- An ongoing review of products, services, policies and systems and legal documentation including contracts with external parties by the legal department ensures conformity with the applicable laws and regulations
- Central Division directly handles any litigation which is either threatened or commenced against the Bank or an employee as appropriate in consultation with HR Internal Audit Investigations and other Divisions.
- Legal department immediately advises any action to be taken by a regulatory authority, where the proceedings are criminal, or where the claim might materially affect the Bank's reputation.
- Any substantial claims will be notified to the Board as appropriate by the legal division
- Where the action taken by a regulatory authority, the proceedings are criminal, the claim might materially affect the Bank's reputation, will be reported as a disclosure in the interim accounts and annual report as with the expected financial outcome as appropriate.

- Ongoing training for legal officers and other related staff.

## Litigation Risk

Litigation is a part and a usual occurrence in the Bank in its ordinary course of business. Litigation is a process authorised by law, in a court of justice, or in any of the agencies set up by law, for the purpose of enforcing a right. It includes a case, dispute or lawsuit. Apart from the usual courts, there are Labour Tribunals, and Financial Ombudsman. This process causes a risk to the Bank monetary-wise. The quantum may vary on a 'year on year' basis.

### *Managing Litigation Risk*

Main litigation involves the recovery process wherein the Bank files cases against the defaulting customers, with a view to recover the debt through judicial process. In mortgage-secured debts the Bank possesses 'extra judicial process' which is popularly called 'parate proceedings' to recover debts secured by mortgages. In this instance usually the defaulter goes to courts and commences litigation in order to delay or prevent the Bank from auctioning the mortgaged property. These cases are usually reflected in the Bank's documents as 'against the Bank cases'. These cases carry a value, which technically reflects as a risk. Most of the cases are decided in favour of the Bank, some by negotiations and many by full throttle litigation. A few exceptional cases

are against the Bank, which are financially insignificant.

### *Labour Tribunal Risk*

The Bank with a large number of employees encounters usual worker disputes. Most of the worker disputes are before the Labour Tribunal or Labour Commissioner and some from these two offices escalate to Higher Courts. However most of them are amicably settled or mostly decided in favour of the Bank.

### *Conclusion*

All of the outstanding cases, disputes and lawsuits have been perused by us and we are of the opinion that they will not cause any material impact or considerable Risk on the financial stability of the Bank and therefore no related provisions are made.

## **6 Conclusion and Future Outlook**

Banking Act Direction No. 07 of 2011 requires banks to constitute a high level committee to oversee Credit Risk Management, control and policy development. Seylan Bank plans to incorporate the requirement of that Directive to:

**1. Implement and manage the effectiveness of the Credit Risk Framework;** formulating, amending, updating, approving and effectively communicating

- (i) Credit policies
- (ii) Lending Guidelines which will include:

- a. The strategy to grow confidently and manage a high performing and robust credit portfolio to achieve the goals and performance indicators set in the Bank's Corporate Plan within the Credit Risk Appetite parameters approved by the Board,
- b. Standards for presentation of credit proposals,
- c. Standards required for financial statements and covenants,
- d. Credit risk rating standards and benchmarks,
- e. Conditions of use of delegated credit approving powers,
- f. Prudent limits on large credit exposures and asset concentrations.

**2. Manage credit risk standards ensuring they are effective,** including standards for:

- (i) Loan collateral
- (ii) Portfolio management
- (iii) Credit risk review
- (iv) Development of prudential portfolios, to optimise diversified risk concentrations and recommend appropriate single borrower limits
- (v) Credit risk rating
- (vi) Credit risk monitoring and evaluation
- (vii) Risk-based pricing
- (viii) Provisioning
- (ix) Regulatory compliance

# Risk Management Report

**3. Oversee the establishment and effectiveness of the Credit Risk Management Framework and function.**

**4. Review and Manage Portfolio (including bank counterparty, cross border and margin trading) Risk and Rewards** by industry and customer type, lending type, geography and other potential risk behavioral concentrations, the lessons learnt by the Credit Risk Review and Recovery functions, significant changes and likely changes in the political, regulatory and economic environment. Ensure that they are taken into account in updates to our credit Risk Appetite/Lending Guidelines.

**5. Ensure that business managers, recoveries and credit risk management functions are effectively managing the quality of credit portfolios and resolving problems** such as expiry of credit limits, frequent excesses, rating slippage and other forms of early problem recognition and follow up on appropriate remedial management.

**6. Review and recommend standard systems and processes** where greater control, efficiency and/or customer service can be obtained such as on-line collateral recording, on-line credit appraisal and

approval system, and regular updating and improvement of credit rating modules.

**7. Manage stress test and scenario analysis plans**, review assumptions, interpret results and make appropriate recommendations to the Board Integrated Risk Management Committee.

**8. Manage credit knowledge management process throughout the Bank** ensuring that lessons learnt through the credit risk management, credit risk review and recovery processes is effectively communicated to the Board and all levels of Management. Ensure that such guidance is incorporated in updated Lending Guidelines and training programmes so that Managers recommending or approving business have the information and skills needed to better focus their activities, manage and be accountable for the risks created.

Similar improvements to our framework and methodologies will be implemented for Market, Operational and Compliance Risk Management in accordance with the requirements of the Banking Act Directive whilst realising additional business benefits for the Bank.



## Main Risk Exposures as at December 2011 with Set Risk Policy Parameters

Type of Risk	Measure	Limit Rs./% Statutory	Limit Rs./% Internal	Bank Position as at December 2011 Rs./%	Remarks/Action
<b>CREDIT RISK</b>					
Concentration Risk	Credit exposure lent to agriculture and fisheries sector	10%	10%	10.40%	
	Pawning	–	15%	10.10%	
	Margin trading	–	5%	3%	
CAPITAL Adequacy	Capital adequacy ratio				The policy is that when ratio falls below 11%, capital infusion will be mandatory
	Tier I	5%	6%	15.00%	
	Tier I & II	10%	11%	15.55%	
Non-Performing Advances	Non-performing advances ratio (gross)	–	12.81%	17.67%	Targets given to recovery division
					Close monitor by the branch is to avoid new non-performing advances
<b>MARKET RISK</b>					
Interest Rate Risk	Mark to market losses on the Government Securities trading portfolios			82.49 Mn.	
Foreign Exchange Risk	Net open position limit	11 Mn.	10 Mn.	7.963 Mn. (short position)	
Liquidity Risk	a. Statutory liquid assets ratio (overall)	20%	20.5%	21.96%	
	b. SWAPS		40 Mn.	16.5 Mn.	
	c. External borrowing DBU & FCBU (value in LKR)		7.5 Bn.	5.84 Bn.	

# Risk Management Report

Type of Risk	Measure	Limit Rs./% Statutory	Limit Rs./% Internal	Bank Position as at December 2011 Rs./%	Remarks/Action
Equity Price Risk	1. Revaluation losses		50 Mn.	316 Mn.	A realised gain of Rs. 130 Mn. was recorded during the year 2011. The losses are monitored on a daily basis and reported to the Share Investment Committee, which obtains Board concurrence for the Committee's decision to hold shares which has breached the stop-loss limits and any other share which may breach the stop-loss limits.
<b>Operational Risk</b>					
	Risk control self assessment - probability criteria - impact criteria - key controls - residual risk	-	-	RCSA has been rolled out to all key branches/ departments.	
	Internal loss data				
	- Business line wise - Types of loss events	Above LKR 500,000	Above LKR 10,000	Completed the loss data collection criteria & statutory reporting	
	Key risk indicators	-	-	Top 10 KRIs (bottom up risks) have been developed	

## Risk Register

Risk	Impact	Description/Risk Assessment	Mitigating Measures	Risk Rating
<b>Credit Risk</b>				
Risk of loss arising from a borrower's or counterparty's inability to meet its obligations				
<b>1. Counterparty Risk</b>				
Counterparty risk otherwise known as default risk, is the risk that a borrower (individual or organisation) does not pay out on a borrowing, when it is due or when called upon to do so.	High	<ul style="list-style-type: none"> <li>Structured &amp; standardised evaluation process</li> <li>Pre-credit risk evaluation</li> <li>Internal credit risk rating</li> <li>Delegated authority</li> <li>Lending guidelines</li> <li>Portfolio review process</li> </ul>	<ol style="list-style-type: none"> <li>Credit risk management policies, procedures, prudential limits</li> <li>Credit administration</li> <li>Centralised credit evaluation</li> <li>Follow-up and recovery</li> <li>Post credit/post-mortem review process</li> </ol>	Medium
<b>2. Credit Concentration Risk</b>				
Concentration risk is the probability of loss impact due to the Bank's concentrated credit exposure to one or a few lending sectors with respect to industry, business type, geography etc.	Medium	<ul style="list-style-type: none"> <li>Concentration risk is assessed based on a quarterly study of prospects for different industries using market and other early warning indicators</li> <li>Identification of sectors/lending types etc with correlated behavioral characteristics in the event of market down turn.</li> </ul>	<ol style="list-style-type: none"> <li>Maximum exposure limits for agriculture and fisheries sector/pawning/margin trading/SME</li> <li>Portfolio monitoring and management</li> <li>Sector &amp; product limits</li> <li>Review by Executive Credit Risk Management Committee</li> </ol>	Medium
<b>Operational Risk</b>				
Possibility of loss resulting from inadequate or failed internal processes people and systems or from external events, including legal risk				
<b>1. Operational Data Losses Risk</b>				
Risk of operational losses due to failed internal controls, information systems, employee integrity, errors and mistakes, negligence, accident, fraud or through weaknesses of operating procedures	Medium	<ul style="list-style-type: none"> <li>Analysis of loss events</li> <li>Annual Risk Control Assessment (RCSA)</li> <li>Key risk indicators</li> <li>Key risk scenarios</li> </ul>	<ol style="list-style-type: none"> <li>Operational risk policy</li> <li>Risk and compliance review of process, new products and procedures</li> <li>Fraud prevention measures</li> <li>Insurance</li> <li>Customer grievance handling</li> <li>Business continuity plan</li> <li>Training/Awareness</li> <li>Oversight by Market/Operational Risk Management Committee</li> </ol>	Medium

# Risk Management Report

Risk	Impact	Description/Risk Assessment	Mitigating Measures	Risk Rating
<b>2. Technology Risk</b>				
Failure to plan, manage and monitor performance of technology-related projects, products, services processes, staff and delivery channels, including failure to recognise latest technology	High	<ul style="list-style-type: none"> <li>• The Bank's IT Steering Committee continuously monitors, plans to introduce appropriate technology, and supplement the core banking system with other peripheral systems.</li> <li>• Identify the strategies measurement requirements for necessary IT controls</li> <li>• Committee reviews the IT application efficiently in managing user requirements</li> </ul>	<ol style="list-style-type: none"> <li>1. IT policies and procedures</li> <li>2. Information security policies</li> <li>3. Management and Systems audit</li> <li>4. System audit carried out periodic to ensure the required specifications of the system</li> <li>5. Independent review by operational and risk Management Unit.</li> <li>6. Oversight by Executive Market/Operational Risk Management Committee.</li> </ol>	Medium
<b>3. Control Frameworks Risk</b>				
Inadequate design or performance of the existing risk management framework	Medium	<ul style="list-style-type: none"> <li>• Risk assists and guides business units and continuously reviews and control framework provides the assurance that each business/function is complying with internal and regulatory policies, controls and procedures.</li> <li>• Risk review of all products, systems and procedures.</li> <li>• Internal audits to identify material risk and risk based on audit plans</li> </ul>	<ol style="list-style-type: none"> <li>1. Risk management Policies, procedures and planning</li> <li>2. Internal audits</li> </ol>	Medium
<b>4. Information Security Risk</b>				
Risk of unauthorised disclosure or modification of information, loss of availability of information, or inappropriate use of information	High	<p>Systems audit and internal audit carried out every year</p> <p>Business continuity planning and IT departments play a combined role in making sure that sufficient controls and planning are in place.</p>	<ol style="list-style-type: none"> <li>1. Systems audit</li> <li>2. Backup and disaster recovery procedures</li> <li>3. Business continuity planning</li> <li>4. Controls and system security checks</li> </ol>	Low

Risk	Impact	Description/Risk Assessment	Mitigating Measures	Risk Rating
<b>5. Legal/Regulatory Compliance Risk</b>				
Failure to comply with the laws of the countries (regulatory/statutory) where business operations are carried out.	High	Structured compliance unit to ensure adherence of all compliance regulatory issues including reporting to the FIU (Financial Intelligence Unit) and anti-money laundering requirements.	<ol style="list-style-type: none"> <li>1. Compliance policy</li> <li>2. Anti-money Laundering Policy</li> <li>3. Quarterly sign-offs to the BOD on regulatory/statutory - requirements/returns</li> <li>4. Monthly compliance certificate to Central Bank of Sri Lanka</li> <li>5. Board level monitoring of level of compliance</li> <li>6. Dissemination of regulatory directives through internal circulars</li> <li>7. Transaction monitoring and submission of reports to FIU</li> <li>8. Regular training</li> <li>9. Oversight by Executive Market/ Operational Risk Management Committee</li> </ol>	Low
<b>6. System Risk</b>				
Risk of financial losses due to system and telecommunication failures, including temporary system shut downs, malfunction, hacking and disruptions caused by external parties.	High	<ul style="list-style-type: none"> <li>• This risk assessment is at a very high level as all transactions depend on IT infrastructure</li> <li>• Management level review</li> <li>• Assessment by system audit</li> </ul>	<ol style="list-style-type: none"> <li>1. Periodic maintenance and - upgrades</li> <li>2. Renewals of licenses</li> <li>3. Backup and disaster recovery procedures and virus guards</li> <li>4. Business continuity planning</li> </ol>	Low
<b>7. Corporate Governance Risk</b>				
Failure of Directors to fulfil their personal statutory obligations in managing and controlling the Bank according to the governing rules and respective bodies.	High	The Board of Directors take a responsible role in practicing governance rules. They abide by the Colombo Stock Exchange, Securities and Commission Exchange, Company Act, Banking Act, Central Bank Code of Corporate Governance and the level of assessment is within these parameters.	<ol style="list-style-type: none"> <li>1. Annual Corporate Governance Report being audited and certified by External Auditors.</li> <li>2. Oversight by Board subcommittees</li> <li>3. Company Secretariat function to guide them</li> <li>4. Training &amp; awareness building for Directors</li> </ol>	Low

# Risk Management Report

Risk	Impact	Description/Risk Assessment	Mitigating Measures	Risk Rating
			5. New legislations been addressed at Board meetings and Committee meetings 6. Governance policies and procedures 7. Compliance and risk-management functions 8. Board appraisals	

## Market Risk

Possibility of losses to the Bank by volatility in market variables such as interest and exchange rates. It is also defined as the risk that value of 'on' or 'off' Balance Sheet positions are adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices.

### 1. Liquidity Risk

The possibility that the Bank suffers a loss due to not having sufficient financial resources at its disposal to meet its obligations as and when they fall due.	High	The liquidity risk exposures is tested on the movements of the Bank's Balance Sheet and is regularly monitored by ALCO	1. Liquidity limits Monitored and directed by ALCO 2. Market risk management using market risk indicators 3. Statutory and ALCO Committee set Limits 4. Oversight by Board and Executive Market/Operational Risk Management Committee	Medium
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### 2. Interest Rate Risk

Interest rate risk is the possibility of adverse effects due to interest rate movements on net interest income	Medium	Interest rate risk exposure is an embedded risk for a financial institution and can impact a financial profitability if regular monitoring and mitigation measures are not performed	1. Portfolio monitoring 2. Regular monitored and directed by ALCO 3. Prudential limits 4. Monthly performance evaluation 5. Oversight by Executive Market/Operational Risk Management Committee	Low
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Risk	Impact	Description/Risk Assessment	Mitigating Measures	Risk Rating
<b>3. Foreign Exchange Risk</b>				
Forex risk is the risk that a bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in an individual foreign currency.	High	Treasury operations are affected by forex risk as they deal in significant amounts of foreign currency on a daily basis and the Treasury middle office, an independent unit assess the risk by monitoring interest rate indicators, currency rate movements, monetary policy forecast etc... The findings are reported to ALCO.	<ol style="list-style-type: none"> <li>1. Monitored and directed by ALCO</li> <li>2. Prudential limits for instance on foreign net open position</li> <li>3. Value at risk calculations</li> <li>4. SWAPS</li> <li>5. Hedging</li> <li>6. Oversight by Executive Market/Operational Risk Management Committee</li> </ol>	Medium
<b>1. Reputation Risk</b>				
Negative effects of public opinion, customer opinion and market reputation, and the damage caused due to brands by failure to manage public relations.	High	<p>Having overcome a crisis period in 2008, several measures are taken to avoid such a situation.</p> <p>The changed corporate governance practices helped lower the reputation risk assessment.</p> <p>Further The stakeholder engagement policy was implemented in December 2010 addressing all points of engagements to the respective stakeholder responsible officers were appointed to monitor engagements</p> <p>Customer complaints are routed through the personal assistant to General Manager</p>	<ol style="list-style-type: none"> <li>1. Stakeholder engagement policy.</li> <li>2. Policies &amp; procedures in all key areas</li> <li>3. Board risk reviews</li> <li>4. Public relations management &amp; corporate campaigns</li> <li>5. Customers complaints</li> <li>6. Code of Conduct</li> <li>7. Compliance reviews</li> <li>8. Insider dealing policies</li> <li>9. Business continuity planning</li> <li>10. Training</li> <li>11. Oversight by BIRMC and other committees</li> </ol>	Low

# Risk Management Report

Risk	Impact	Description/Risk Assessment	Mitigating Measures	Risk Rating
<b>Strategic Risk</b>				
<b>1. Strategic Risk</b>				
Failure to meet long-term strategic goals of the business, including dependence on any estimated or planned outcomes that may be in the control of the third parties.	Medium	<p>Board set the strategies and communicates to the management</p> <p>Financial performance is reviewed monthly and recommended to the Board.</p> <p>All Heads of units were made available for the Board meeting for necessary clarification</p> <p>The Bank set tasks and formulated the next strategic plan 2012-2015.</p>	<ol style="list-style-type: none"> <li>1. Current strategic plan 2009-2011 was exercised and the next strategic plan 2012-2015 launched in December 2011</li> <li>2. There is also an annual budget being prepared by the business units and approved by the Board.</li> <li>3. The annual budget performance reviewed monthly</li> <li>4. Variance with the justification is submitted to the Board</li> <li>5. Corporate Governance</li> <li>6. Risk &amp; compliance management</li> <li>7. Training and development</li> <li>8. Review and oversight by BIRMC</li> <li>9. Sustainability progress report</li> </ol>	Low



## Capital Adequacy Computation of the Bank

### A. Illustration of the Capital Adequacy Ratio Performance

	31.12.2010	31.03.2011	30.06.2011	30.09.2011	31.12.2011 (Based on Audited Accounts) Rs. '000
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Regulatory Capital</b>					
Core Capital (Tier I)	11,554,236	11,210,695	15,675,928	15,641,564	16,624,991
Capital Base	13,179,754	12,564,793	16,901,615	16,519,174	17,231,695
<b>Calculation of Total Risk-Weighted Amount</b>					
Risk-weighted Assets for Credit Risk	84,541,901	88,115,393	86,316,496	89,984,954	91,268,804
Risk-weighted Assets for Market Risk	8,624,600	7,553,530	5,685,850	5,155,650	3,434,770
Risk-weighted Assets for Operational Risk	16,025,352	16,025,352	16,025,352	16,025,352	16,110,505
Total Risk-weighted Assets	109,191,853	111,694,275	108,027,698	111,165,956	110,814,079
<b>Calculation of Capital Adequacy Ratios</b>					
Core Capital (Tier I) Ratio, %	10.58	10.04	14.51	14.07	15.00
Total Capital Ratio, %	12.07	11.25	15.65	14.86	15.55

### B. Bank's Summarised Board Approved Capital Augmentation Plan

	2012 Rs. '000	2013 Rs. '000
Total Risk-Weighted Assets	133,196,545	157,931,518
Total Capital Base	17,299,997	17,721,374
Total Capital Adequacy Ratio, %	12.99	11.22

# Risk Management Report

## C. Capital Adequacy Computation - Bank

### Computation of Risk-Weighted Assets - Credit Risk

	On Balance Sheet Assets and Credit Equivalent of Off-Balance Sheet Assets		Risk-Weight Factor	Risk-Weighted Assets	
	2011 Rs. '000	2010 Rs. '000	%	2011 Rs. '000	2010 Rs. '000
<b>Assets*</b>					
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	<b>41,983,060</b>	43,441,520	0	-	-
Claims on Banks	<b>832,510</b>	368,310	20-150	<b>468,653</b>	173,928
Claims on Financial Institutions	<b>3,123,689</b>	826,276	20-150	<b>2,190,691</b>	822,076
Claims on Corporates	<b>28,934,802</b>	24,259,174	20-150	<b>28,601,474</b>	23,801,472
Retail Claims	<b>33,907,994</b>	25,208,510	75-100	<b>28,097,153</b>	21,017,370
Claims Secured by Residential Property	<b>9,955,728</b>	8,349,548	50-100	<b>5,163,525</b>	4,670,524
Non-Performing Assets (NPAs)	<b>11,773,652</b>	16,724,242	50-150	<b>16,128,890</b>	23,012,525
Cash Items	<b>4,455,983</b>	3,995,866	0-20	<b>32,458</b>	26,983
Property, Plant & Equipment	<b>2,807,826</b>	2,997,163	100	<b>2,807,826</b>	2,997,163
Other Assets	<b>7,778,134</b>	8,019,860	100	<b>7,778,134</b>	8,019,860
<b>Total</b>	<b>145,553,378</b>	134,190,469		<b>91,268,804</b>	84,541,901

### Off-Balance Sheet Exposure

	Off-Balance Sheet Assets		Credit Conversion Factor	Credit Equivalent	
	2011 Rs. '000	2010 Rs. '000	%	2011 Rs. '000	2010 Rs. '000
<b>Instruments*</b>					
Direct Credit Substitutes	<b>349,331</b>	144,938	100	<b>349,331</b>	144,938
Transaction-Related Contingencies	<b>6,450,959</b>	6,180,317	50	<b>3,225,480</b>	3,090,160
Short-Term Self-Liquidating Trade-Related Contingencies	<b>9,017,749</b>	7,302,131	20	<b>1,803,550</b>	1,460,425
Other Commitments with an original maturity of up to one year or which can be unconditionally cancelled at any time	<b>14,675,341</b>	11,966,858	0	-	-
Foreign Exchange Contracts	<b>26,760,598</b>	11,916,345	0-5	<b>535,212</b>	238,327
<b>Total</b>	<b>57,253,978</b>	37,510,589		<b>5,913,573</b>	<b>4,933,850</b>

\* Excluding exposure recognised under Credit Risk Mitigation.

## Capital Charge for Market Risk

Item	2011 Rs. '000	2010 Rs. '000
Capital Charge for Interest Rate Risk	120,722	658,343
Capital Charge for Equity	130,511	161,730
Capital Charge for Foreign Exchange and Gold	92,244	42,387
Total Capital Charge for Market Risk	343,477	862,460
Total Risk-Weighted Assets Market Risk	3,434,770	8,624,600

## Capital Charge for Operational Risk

### Gross Income

Year 1	9,662,476	10,884,757
Year 2	11,503,470	9,662,476
Year 3	11,055,064	11,503,470
<b>Average Gross Income</b>	<b>10,740,337</b>	10,683,568
Total Capital Charge for Operational Risk - (15%)	1,611,051	1,602,535
Total Risk-Weighted Assets Operational Risk	16,110,505	16,025,352

## Computation of Capital

	2011 Rs. '000	2010 Rs. '000
<b>TIER I: Core Capital</b>		
Paid-up Ordinary Shares/Common Stock/ Assigned Capital/Stated Capital	10,225,452	5,567,820
Statutory Reserves	618,501	568,368
Published Retained Profits/(Accumulated Losses)	5,376,138	4,969,137
General and Other Reserves	823,535	531,577
Less:		
Net Deferred Tax Assets	211,844	-
50% Investments in the Capital of Other Banks and Financial Institutions	206,791	82,666
<b>Total Eligible Core Capital (TIER I Capital)</b>	<b>16,624,991</b>	11,554,236
<b>TIER II: Supplementary Capital</b>		
Revaluation Reserves (as approved by Central Bank of Sri Lanka)	62,619	62,619
General Provisions	382,239	570,655
Approved Subordinated Term Debt	689,096	1,395,369
Less:		
50% Investments in the Capital of Other Banks and Financial Institutions	527,250	403,125
<b>Total Eligible Supplementary Capital (TIER II Capital)</b>	<b>606,704</b>	1,625,518
<b>Total Capital Base</b>	<b>17,231,695</b>	13,179,754

# Risk Management Report

	2011 Rs. '000	2010 Rs. '000
<b>Computation of Ratios</b>		
Total Risk-Weighted Assets (RWA)		
Total Risk-Weighted Assets for Credit Risk	<b>91,268,804</b>	84,541,901
Total Risk-Weighted Assets Market Risk	<b>3,434,770</b>	8,624,600
Total Risk-Weighted Assets Operational Risk	<b>16,110,505</b>	16,025,352
<b>Sub Total</b>	<b>110,814,079</b>	109,191,853
Minimum Capital Charge		
Minimum Capital Charge for Credit Risk	<b>9,126,880</b>	8,454,190
Minimum Capital Charge for Market Risk	<b>343,477</b>	862,460
Minimum Capital Charge for Operational Risk	<b>1,611,051</b>	1,602,535
<b>Sub Total</b>	<b>11,081,408</b>	10,919,185
Total Capital available to meet the Capital Charge for Credit Risk		
Total Eligible Core Capital (TIER I Capital)	<b>16,624,991</b>	11,554,236
Total Eligible Supplementary Capital (TIER II Capital)	<b>606,704</b>	1,625,518
<b>Total Capital Base</b>	<b>17,231,695</b>	13,179,754
<b>Core Capital Ratio (Minimum Requirement 5%)</b>		
Total Eligible Core Capital (TIER I Capital)	<b>16,624,991</b>	11,554,236
Total Risk-Weighted Assets	<b>110,814,079</b>	109,191,853
	<b>15.00%</b>	10.58%
<b>Total Capital Ratio (Minimum Requirement 10%)</b>		
Total Capital Base	<b>17,231,695</b>	13,179,754
Total Risk-Weighted Assets	<b>110,814,079</b>	109,191,853
	<b>15.55%</b>	12.07%

# Auditors' Report on Internal Control



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## To the Board of Directors of Seylan Bank PLC

We were engaged by the Board of Directors of Seylan Bank PLC ('Bank') to provide assurance on the Directors' Statement on Internal Control ('Statement') included in the Annual Report for the year ended 31st December 2011 as set out in pages 107 to 109 in this Annual Report.

## Management's responsibility for the Statement on Internal Control

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the section 3 (8) (ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

## Scope of the Engagement in Compliance with SLSAE 3050

Our responsibility is to issue a report to the board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka (ICASL).

## Summary of Work Performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Bank.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

- (a) Enquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the Directors in the Annual Report.
- (b) Reviewed the documentation prepared by the Directors to support their Statement made.
- (c) Related the Statement made by the Directors to our knowledge of the bank obtained during the audit of the Financial Statements.
- (d) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
- (e) Attended meetings of the audit committee at which the annual report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.

# Auditors' Report on Internal Control

- (f) Considered whether the Director's Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
- (g) Obtained written representations from Directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

## Our Conclusion

In assessing the internal control system, all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Bank were collated and in turn checked by the internal audit department for suitability of design and effectiveness on an ongoing basis.

Further, based on the ICASL format under Sri Lanka Standard on Assurance Engagements 3050, the said controls have been documented with our comments for further improvements required to controls documentations in the areas of purchasing, other assets, provisions, related party transactions, property plant and equipment; along with testing documentation improvements in relation to assessing impairment, depreciation and related party transactions.

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.



**Chartered Accountants**

Colombo

08th February 2012

# Directors' Statement on Internal Control

## Responsibility

The Board of Directors ('Board') is responsible for the adequacy and effectiveness of the Seylan Bank PLC's ('Bank') system of internal controls. However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

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 and regulatory guidelines. The process is regularly reviewed by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka (ICASL). The Board has assessed the internal control system taking into account principles for the assessment of internal control system as given in that guidance. As required by the Direction No. 11 of 2007, Section 3 (8) (ii) (b) under the Banking Act, the Board of Directors present this report.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks. The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes and is in accordance with relevant accounting principles and regulatory requirements.

## Key Features of the Process Adopted in Applying in Reviewing the Design and Effectiveness of the Internal Control System

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

- The Board Committees established by the Board, assist the Board in ensuring the effectiveness of the Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.

# Directors' Statement on Internal Control

- The Internal Audit Division of the Bank checks compliance with policies and procedures and the effectiveness of the internal control systems and highlight significant findings in respect of any non-compliances. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Division, the External Auditors, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled at the Board meeting of the Bank on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on page 163.
- The Board Committees have been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations. These Committees include the Integrated Risk Management Committee, Human Resource & Remuneration Committee, the Credit Committee, the Sustainability Committee and the Marketing & Product Development Committee
- Policies and procedures to ensure compliance with internal controls and the relevant laws and regulations are set out in operations manuals, guidelines and the directives issued by the Bank which are updated from time to time.
- In assessing the internal control system, all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank were collated and in turn checked by the internal audit department for suitability of design, appropriateness, reliability of information and effectiveness on an ongoing basis. Further, based on the ICASL format under Sri Lanka Standards on Assurance Engagements 3050, all the said controls have been since documented including the IT general controls and the branch level application controls.



- Risk rating based audits were initiated from January 2010 onwards with a 3-year audit cycle.
- Comments made by the External Auditors in connection with Internal Control systems will be taken into consideration and further improvements in documentation in the areas of purchasing, other assets, provisions, related party transactions, property, plant & equipment along with testing documentation improvements in relation to assessing impairment, depreciation and related party transaction, will be addressed during the ensuing year in order to fully comply with the said Directive.
- This report and assessment does not include the subsidiary of the Bank.

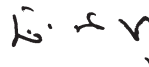
### Confirmation

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

### Review of the Statement by External Auditors

The External Auditors have reviewed the above Directors Statement on Internal Control of the Bank for the year ended 31st December 2011 and reported to the Board that nothing has come to their attention that causes them to believe that the above statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system over financial reporting of the Bank. Their report to the Board is disclosed on pages 105 and 106 of this Annual Report.

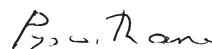
By Order of the Board  
Seylan Bank PLC



**E. Narangoda**  
*Chairman*



**R. Nadarajah**  
*Executive Director*



**Lalith Withana**  
*Chairman - Board Audit Committee*

08th February 2012

# Corporate Governance Report

## Chairman's Statement

Dear Stakeholder,

Your Bank witnessed another year of progression towards adopting sustainable corporate governance measures in compliance with the regulations, rules, guidelines and principles. Ever since Seylan Bank commenced functioning under a new Board of Directors in 2009, it has been firm in its resolve that the members of the Board, the senior management team and staff are all committed towards adoption and implementation of transparent and effective corporate governance practices within the Bank. Towards this end, we expect not only the Board of Directors and employees but also the external stakeholders, viz. auditors, consultants, customers and suppliers to act with honesty, integrity and fairness and ensure a high element of ethical business conduct. We, at Seylan Bank, are confident that such a culture will enhance business prosperity and realise long-term shareholder value by retaining the trust of its depositors whilst safeguarding the interests of all its stakeholders.

As Chairman, I believe promoting standards of exemplary corporate governance is central to my role. I, as well as my Board, believe that it is important to ensure that there are

good processes that underpin and enable the Board to maximise the effectiveness. As Chairman I strive to create an inclusive environment where open debate and constructive challenge is encouraged within the context of a unitary Board.

The Bank's Corporate Governance Report which follows confirms the Bank's commitment for compliance during the last three years and reflects the extent to which it has complied to date to the best of its ability with the regulations, rules, guidelines and principles as required under the Banking Act Direction No. 11 of 2007 (as amended) on Corporate Governance; the Colombo Stock Exchange Rules on Corporate Governance and the Code of Best Practice of Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

The External Auditors carried out an agreed upon procedure in respect of the Bank's compliance with the Banking Act Direction No. 11 of 2007 (as amended) in accordance with the Sri Lanka Related Services Practice Statement 4750 as well as a review/factual findings on the Board's Statement on Internal Controls relating to financial reporting system, based on Sri Lanka Standard on Assurance Engagement 3050 and the Examiners of the Department of Bank Supervision of the Central Bank of

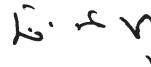
Sri Lanka carried out the periodic Statutory Examination in respect of the years 2009-2010 during the year 2011. Consequent to their engagements/examination, the Board and the Management positively reviewed their observations and took necessary steps to address their recommendations to the best of its ability which paved the way for increased compliance during 2011. I take this opportunity to thank the External Auditors, Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants and the Director of Bank Supervision and the Team of Examiners for their valuable observations and recommendations. My appreciation is also extended to the Management for their efforts and commitment towards taking the necessary steps to address the issues and further to all those staff members who assisted and supported the Management to carry out their functions.

I wish to extend my appreciation to the Board members who have been supportive and committed in their efforts in implementing and maintaining a good

governance culture within the Bank. Their contributions at Board and Board Sub-committee levels to uphold transparent governance practices have been immense.

Whilst introducing and endorsing this Corporate Governance Report, on behalf of the Board of Directors, I assure that we will continue to make further improvements deemed necessary to our corporate governance practices and sustain the best corporate governance values in Seylan Bank. I further wish to state that shareholder engagement is one key aspect of effective corporate governance. Therefore, we welcome your valuable feedback to carry them out and maintain them at its highest levels.

Yours sincerely,



**Eastman Narangoda**  
*Chairman*

8th February 2012

# Corporate Governance Report

## Corporate Governance Structure of Seylan Bank PLC

### Compliance Requirements

Seylan Bank PLC, being a quoted, public, limited liability company with its principal activities being commercial banking is regulated by the Companies Act No. 7 of 2007, the Banking Act No. 30 of 1988 (as amended) and the Rules of the Colombo Stock Exchange. The Bank's compliance with Corporate Governance principles and guidelines revolves around the following:

- **Banking Act Direction No. 11 of 2007 (Directions on Corporate Governance for Licensed Commercial Banks in Sri Lanka)** issued by the Monetary Board of the Central Bank of Sri Lanka including subsequent amendments thereto. It is mandatory that Licensed Commercial Banks comply fully with these Directions.
- **The Colombo Stock Exchange (CSE) Rules on Corporate Governance.** It is mandatory that Companies listed on the CSE adhere to the CSE Rules, unless an exemption is sought by a Company and approved by the Board of Directors of the Exchange to waive off the requirement to comply with the CSE Rules either in full or part on the grounds that the said Company is required to comply by any other law/regulations applicable to such Company. However, the Bank has not sought for this exemption during

the year 2011 and hence has made the relevant disclosures. Furthermore, the Bank has also ensured compliance with the Continuing Listing Requirements of the CSE.

- **The Code of Best Practice of Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL).** Compliance with the SEC/ ICASL Code of Best Practice on Corporate Governance is carried out on a voluntary basis.

### Internal Governance/Rules

The Bank is also internally governed mainly by its Articles of Association. The other internally established policies, codes and procedure/policy manuals enable the Bank to execute the required compliances effectively and sustain governance values in the Bank.

### Delegation of Responsibilities

The Board has delegated certain of its responsibilities to be discharged by the Board appointed Sub-committees headed by Non-executive Directors who have adequate expertise/experience in the relevant areas. The Committees' fulfillment of responsibilities and compliances of the required corporate governance practices are explained in their respective reports and are also briefed in

the Corporate Governance Report that follows. The delegation of responsibilities does not detract the Board from its ultimate responsibilities towards the Bank.

### Reconstitution of Board Sub-committees

The Board Credit Committee and the Board Sustainability Committee were reconstituted during the year to provide a greater balance of Non-Executive Directors in the Committees in accordance with the Corporate Governance principles. The Terms of Reference of the Board Credit Committee were amended to accommodate the increase in quorum required, consequent to the increase in membership.

### Change of Status of Directors

Non-executive Director, Mr. S.P.S. Ranatunga was deemed and confirmed as an Independent Director with effect from 28th December 2011, whilst Chairman, Mr. E. Narangoda will function in a non-executive capacity with effect from 1st January 2012. Consequently, the Bank successfully fulfilled the Non-Executive and Independent Directors balance in the Board as required under the Banking Act Direction No. 11 of 2007.

### Board's Effectiveness

The principles outlined in the Code of Business Conduct and Ethics for Directors

are intended to codify a standard of conduct by which the Directors are expected to abide; protect the business interests of the Bank; maintain the Bank's reputation for integrity, and foster compliance with applicable legal and regulatory obligations. The Board of Directors annually attest their familiarity with and adherence to the principles of this Code. The Company Secretary collated and tabled a summarised report on the individual and independent evaluations carried out by the Board Members on both Executive and Non-executive Directors' performance and effectiveness during 2011 for the Board members' review in February 2012. The evaluation confirmed the views of the Board and it was a good indicator of the openness that exists within the Board.

### Ownership Structure

The Bank successfully completed a Rights Issue of its Ordinary Voting Shares and Ordinary Non-voting Shares on 16th June 2011, particulars of which are explained in the Report of the Directors and in the Notes to the Financial Statements. The Ownership structure of the Bank changed consequently with Brown & Company PLC subscribing to an increased stake in the voting capital of the Bank with the approval of the Monetary Board of the Central Bank of Sri Lanka as explained below\*. Sri Lanka Insurance Corporation Limited retained the same

# Corporate Governance Report

stake of 15% by subscribing to the Rights provisionally allotted to them. The 10% holding of Bank of Ceylon was reduced to 7.5% as Bank of Ceylon did not subscribe to the Rights Issue.

\* Pursuant to the Rights Issue, Brown & Company PLC and LOLC Investments Limited collectively hold 23.42% of the issued voting capital of the Bank. This joint shareholding limit has been approved by the Central Bank, subject to the following:

- i. Shareholding of Brown & Company PLC to be reduced from 13.87% to 9.55% within five years from 16th June 2011.
- ii. The joint holding of Brown & Company PLC and LOLC Investments Limited to be reduced from 23.42% to 15% within a period of 15 years from 13th October 2009.

The Employees' Provident Fund also increased its stake in the Bank from 5.03% to 8.26% during the year. Please refer 'Investors Information' pages for more information on the Bank's shareholding structure (both voting and non-voting share capital).

## Strategic Plan - 2012/2015

The Board has formulated a new four year Strategic Plan for the Bank. As at the date of this Report, the implementation of the new Strategic Plan has already commenced with the objectives and values set within a revised Corporate Vision and Mission which are appended herein. The review of the Strategic Plan 2012/2015 has been declared as a main item on the Board Meetings' Agenda for 2012. The Board commenced reviewing its progress with effect from January 2012.

### Vision

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

### Mission

- We provide our customers with financial services that meet their needs in terms of value, pricing, delivery and service
- We will do so through a team of Seylan Bankers who are recognised and rewarded for results orientation
- We will ensure that our efforts translate to meeting the expectations of our shareholders, whilst always acting as responsible corporate citizens.

## Annual Corporate Governance Report

Seylan Bank PLC's Corporate Governance Report this year too states its compliances and the extent of compliances made to the best of its ability as required under the following three regulatory authorities' directions, rules, codes and principles.

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### Section One Directions of the Banking Act Direction No. 11 of 2007 on Corporate Governance

**for Licensed Commercial Banks in Sri Lanka** issued by the Monetary Board of the Central Bank of Sri Lanka under Section 41 (6) of the Banking Act No. 30 (as amended) including subsequent amendments to the said Directions.

The disclosures reflecting the Bank's compliance and the extent of its compliance under this Direction covers the following eight sub sections. The External Auditors have issued a Report certifying the disclosures made herein.

- The Responsibilities of the Board
- The Composition of the Board
- Fitness and Propriety of Directors
- Management Functions Delegated by the Board of Directors
- Chairman and Chief Executive
- Board Appointed Committees
- Related Party Transactions
- Disclosures

Disclosed  
in pages  
116 to 146  
of this  
Report

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### Section Two Section 7.10 of the Rules of the Colombo Stock Exchange (CSE) on Corporate Governance

Disclosures made include the following areas as required under the above Section.

- Non-Executive and Independent Directors
- Disclosures relating to Directors
- Human Resources and Remuneration Committee
- Audit Committee

Disclosed  
in pages  
147 and 148  
of this  
Report

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### Section Three Code of Best Practice on Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL)

The extent of compliance by the Bank of the above Code of Best Practice promulgated by ICASL and SEC are summarised under the following sub-headings. The Bank's compliance with this Code is on a voluntary basis.

- Directors
- Directors' Remuneration
- Relations with Shareholders
- Accountability and Audit
- Institutional Investors

Disclosed  
in pages  
149 to 158  
of this  
Report

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# Corporate Governance Report

## Section One

**Statements of compliance under the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Monetary Board of the Central Bank of Sri Lanka under Section 41(6) of the Banking Act No. 30 (as amended) including subsequent amendments to the said Directions (hereinafter referred to as the Banking Act Direction on Corporate Governance).**

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
<b>3 (1) The Responsibilities of the Board</b>		
3 (1) (i)	Processes and procedures carried out by the Board to ensure to strengthen the safety and soundness of the Bank	
a.	Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank.	<p><b>Complied with</b></p> <p>Bank's 3-year strategic plan 2009/11 and the budgets were presented to the Board and approved in 2009. Board regularly reviewed the progress on the strategic plan and the performance against budgets.</p> <p>The Board approved the 4-year Strategic Plan 2012/2015 and communicated the new strategic objectives and corporate values to the staff at a launch held on 15th December 2011.</p>
b.	Approve the overall business strategy of the Bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years.	<p><b>Complied with</b></p> <p>The Strategic Plan approved in 2009 addressed the Bank's overall business strategy up to the year 2011.</p> <p>The Board approved the new 4-year Strategic Plan 2012/2015 on 12th December 2011 prior to its launch.</p>
c.	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.	<p><b>Complied with</b></p> <p>The Board has delegated these responsibilities to its Integrated Risk Management Subcommittee. The Committee ensures that the Bank's Chief Risk Officer/Risk Unit identifies principal risks and puts in place policies and guidelines to be reviewed and approved by the Committee.</p>
d.	Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.	<p><b>Complied with</b></p> <p>A Stakeholder Engagement Policy has been approved and implemented.</p>



Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
e.	Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	<b>Complied with</b> Adequacy and integrity of the Bank's internal control systems and management information systems were reviewed by the Board Audit Committee. The decisions and/or actions taken are submitted for Board's information and/or action (if deemed necessary).
f.	Identify and designate key management personnel, as defined in the International 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.	<b>Complied with</b> The Board has identified key management personnel who are in a position to influence and exercise control as mentioned herein and deemed as 'related parties' in order that necessary steps could be taken to abide by/comply with the relevant Banking Act Directions [Ref: 3 (7) of this report] and the SLAS disclosures on related party transactions.
g.	Define the areas of authority and key responsibilities for the Board of Directors themselves and for the key management personnel.	<b>Complied with</b> Directors' and key management personnel's responsibilities are defined and documented.
h.	Ensure that there is appropriate oversight of the affairs of the Bank by key management personnel, that is consistent with Board policy.	<b>Complied with</b> Communication of Board approved policies through circulars; decisions of the relevant key management personnel ensures this requirement.
i.	Periodically assess the effectiveness of the Board of Directors' own governance practices, including: <ul style="list-style-type: none"> <li data-bbox="169 1275 462 1360">i. the selection, nomination and election of Directors and key management personnel;</li> <li data-bbox="169 1367 476 1418">ii. the management of conflicts of interests; and</li> <li data-bbox="169 1425 522 1508">iii. the determination of weaknesses and implementation of changes where necessary.</li> </ul>	<b>Complied with</b> Effectiveness of the Board's own governance practices including (i), (ii) and (iii) specified herein are ensured. Evaluation of the Board performance including all governance practices are assessed by the Directors individually and collectively discussed/reviewed by the Board annually, including any matters that may indicate conflicts of interest.

# Corporate Governance Report

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
j.	Ensure that the Bank has an appropriate succession plan for key management personnel.	<b>Complied with</b> The succession plan is reviewed by the CEO and the HR Division submits such reviewed plan to the Board's Nomination Committee for its review and/or concurrence annually or as deemed necessary.
k.	Meet regularly, on a needs basis, with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	<b>Complied with</b> Key management personnel are co-opted and/or attend by invitation to the Board Subcommittees. Minutes of the subcommittees and action plans arising out of same are tabled at Board meetings for the Board's review and/or follow up.  Key management personnel are also called by the Board as and when required to explain matters relating to their respective functions.
l.	Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	<b>Complied with</b> The Board is updated of the changes in the regulatory environment and maintains an effective relationship with regulators. The process is managed by the Compliance Officer.
m.	Exercise due diligence in the hiring and oversight of External Auditors.	<b>Complied with</b> The Board Audit Committee carries out this exercise and recommends for the concurrence of the Board.
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3 (5) of these Directions.	Consequent to the reconstitution of the Bank in December 2008, the Board operated during the last three years with an Executive Chairman. The functions and responsibilities of the Chairman and Chief Executive were defined and divided to the extent possible.  To mitigate any adverse effects of same, the Board appointed a Senior Independent Non-Executive Director with Board approved terms of reference.  Chairman functions in a non-executive capacity with effect from 1st January 2012.

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
3 (1) (iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	<p><b>Complied with</b></p> <p>Regular meetings held monthly with special meetings held as and when required. 13 regular meetings and 6 special meetings were held during the year. These meetings were held with the required quorum which included the participation of majority Non-Executive Directors. Directors actively contribute to the Board proceedings. Resolutions by circulation are kept at a minimum and restricted to matters of a routine nature.</p>
3 (1) (iv)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	<p><b>Complied with</b></p> <p>Board meetings are scheduled monthly and Directors are notified of the date of the next meeting well in advance enabling them to include matters and proposals in this regard. At Board meetings too Directors' propose and collectively agree on matters to be included in the Agenda of future Board Meetings.</p>
3 (1) (v)	The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given.	<p><b>Complied with</b></p> <p>Notice of meeting, agenda and Board papers are circulated to the Directors 7 days prior to the meeting for regular meetings. Special meetings were called with much lesser notice period due to the urgency of the matters concerned.</p>
3 (1) (vi)	The Board procedures shall ensure that a Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' meetings through an alternate Director shall, however, be acceptable as attendance.	<p>Details of Directors' attendance in accordance with the Corporate Governance Code is set out on page 159 of this Annual Report. One Director was excused by the Board from attending three consecutive Meetings as he was indisposed.</p> <p>Only attendance at the regular Board meetings has been considered for this purpose as special Board meetings convened during the year were on very short notice.</p>

# Corporate Governance Report

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
3 (1) (vii)	The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the Secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	<p><b>Complied with</b></p> <p>The Board has appointed a Company Secretary who satisfies these provisions and requirements.</p> <p>The Company Secretary is responsible for inducting new Directors and assisting the Chairman in determining the Annual Board plan and guide the individual Directors about the Bank's procedures where necessary.</p>
3 (1) (viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	<p><b>Complied with</b></p> <p>All Directors have access to the advice and services of the Company Secretary who is a Chartered Secretary to ensure that Board procedures and all applicable rules and regulations are followed.</p>
3 (1) (ix)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	<p><b>Complied with</b></p> <p>Minutes of Board meetings are prepared and circulated to the Directors to enable them to peruse same and confirm/rectify and record any discrepancy at the next Board meeting. Minutes are maintained by the Company Secretary for inspection of any Director on reasonable notice.</p>
3 (1) (x)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the Minutes, as to whether the Board acted with due care and prudence in performing its duties. The Minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board meetings.	<p><b>Complied with</b></p> <p>Minutes of Board meetings are recorded by the Company Secretary in sufficient detail to enable a proper assessment to be made of the extent of deliberations at the meetings.</p> <p>The Minutes include the matters considered by the Board, discussions, risks, strategies and decisions.</p>

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
3 (1) (xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the Bank.	<p><b>Complied with</b></p> <p>The Directors are permitted to seek independent professional advice on any matters whenever required. A Board approved procedure is in place.</p> <p>A Director can inform by writing to the Chairman or the Company Secretary to seek professional advice and based on written approval proceed to obtain such advice.</p>
3 (1) (xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board meeting, where Independent Non-Executive Directors [refer to Direction 3 (2) (iv) of these Directions] who have no material interest in the transaction, are present. Further, a Director shall abstain from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant Agenda item at the Board meeting.	<p><b>Complied with</b></p> <p>Directors avoid conflicts of interest with the Bank and any situation which involves, or may reasonably be expected to involve, a conflict of interest is disclosed promptly. Directors abstain from voting on any such resolution in which the Directors have related party interests or are interested by virtue of their directorships. The interested Directors are also not counted in the quorum for the relevant Agenda item.</p> <p>An approved procedure to determine, report, resolve and take action with regard to conflicts of interests will be implemented [refer comment on Direction No. 3 (7) (i)].</p>
3 (1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.	<p><b>Complied with</b></p> <p>A schedule of matters reserved for Board's decisions is included in the agenda to ensure Board's contribution in the decision-making process and to make the ultimate decisions.</p>

# Corporate Governance Report

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
3 (1) (xiv)	The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action.	<p><b>Complied with</b></p> <p>Although this situation has not arisen, the Board has instructed that the Asset Liability Committee, the CEO and other officers responsible should monitor liquidity risks, events that could lead to such a situation and to promptly bring them to the notice of the Board to notify the Director of Bank Supervision.</p>
3 (1) (xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the Capital Adequacy Ratio and other prudential grounds.	<p><b>Complied with</b></p> <p>The Bank has duly complied with Capital Adequacy Ratio requirements.</p> <p>A Capital Augmentation Plan for 3 years (2011-2013) was approved by the Board during the year.</p> <p>The Board maintains and reviews compliance quarterly.</p>
3 (1) (xvi)	The Board shall publish in the Bank's Annual Report, an Annual Corporate Governance Report setting out the compliance with Direction 3 of these Directions.	<p><b>Complied with</b></p> <p>This Corporate Governance Report discloses the extent to which the Bank has complied with Direction 3 of the Banking Act Directions on Corporate Governance.</p>
3 (1) (xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually and maintain records of such assessments.	<p><b>Complied with</b></p> <p>The Board has adopted an annual scheme of self-assessment. The self-assessment reports are tabled at Board meetings and are held in Company Secretary's custody.</p>
<b>3 (2) Composition of the Board</b>		
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	<p><b>Complied with</b></p> <p>The Board comprises of 10 Directors.</p>

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
3 (2) (ii)	<p>(A) The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years, and such period in office shall be inclusive of the total period of service served by such Director up to 01 January 2008 and,</p> <p>(B) Transitional provisions relating to the above.</p>	The present Directors are appointed to the Board on or after 30th December 2008.
3 (2) (iii)	<p>An employee of a Bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.</p>	<p><b>Complied with</b></p> <p>The number of Executive Directors does not exceed one-third of the total number of Directors on the Board.</p>
3 (2) (iv)	<p>The Board shall have at least three Independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher.</p>	<p>The Board comprised of three Independent Non-Executive Directors until 27th December 2011. Non-Executive Director, Mr. S.P.S. Ranatunga was declared and confirmed as an Independent Director with effect from 28th December 2011, thereby complying with the said requirement.</p>
3 (2) (v)	<p>In the event an Alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that applicable to the Independent Director.</p>	No Alternate Directors have been appointed.

# Corporate Governance Report

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
3 (2) (vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	<p><b>Complied with</b></p> <p>The Non-Executive Directors of the Board are eminent personnel and their extensive experience in the fields of banking, finance, law, insurance, marketing and other related fields serves this purpose. Please refer section on 'Profiles of the Directors' for a brief profile of each of the Directors.</p>
3 (2) (vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one-half of the number of Directors present at such meeting are Non-Executive Directors.	<p><b>Complied with</b></p> <p>Required quorum was maintained from commencement to the conclusion of Board proceedings.</p>
3 (2) (viii)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual Corporate Governance Report.	<p><b>Complied with</b></p> <p>Please refer Composition of Board described in the schedule appended to this Report on page 159.</p>
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	<p><b>Complied with</b></p> <p>A Board approved procedure is in place which addresses these requirements.</p>
3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	<p><b>Complied with</b></p> <p>Messrs A.M.M. De Alwis and P. Kudabalage were elected at the Annual General Meeting held on 30th March 2011 (the first general meeting after their appointment to the Board on 20th August 2010).</p>



Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
3 (2) (xi)	<p>If a Director resigns or is removed from office, the Board shall:</p> <p>(a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and</p> <p>(b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.</p>	<p><b>Complied with</b></p> <p>The procedure set out herein is followed. Shareholders are informed vide a letter to the Colombo Stock Exchange and through the Annual Report of the Bank published subsequent to resignation/removal.</p> <p>There were no resignations or removals during the year, 2011.</p>
3 (2) (xii)	<p>A Director or an employee of a Bank shall not be appointed, elected or nominated as a Director of another Bank except where such Bank is a subsidiary company or an associate company of the first mentioned Bank.</p>	<p><b>Complied with</b></p> <p>None of the employees or Directors of the Bank are Directors of other Banks.</p> <p>The Bank's policy on Directors' appointment provides for this preclusion.</p>
<b>3 (3) Criteria to Assess the Fitness and Propriety of Directors</b>		
3 (3) (i)	<p>The age of a person who serves as Director shall not exceed 70 years.</p>	<p><b>Complied with</b></p> <p>None of the present Directors fall within the ambit of this section.</p>
3 (3) (ii)	<p>A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank. Of such 20 companies/entities/institutions, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.</p>	<p><b>Complied with - subject to the following Note:</b></p> <p>As per declarations submitted by Directors in March 2011, all Directors, except Messrs A.L. Devasurendra and I.C. Nanayakkara held office in less than 20 companies and in 10 or less than 10 specified business entities.</p> <p>However, Messrs A.L. Devasurendra and I.C. Nanayakkara had since complied with this Direction prior to the end of the year, 2011.</p>

# Corporate Governance Report

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
3 (3) (ii) A	If any person holds posts in excess of the limitation as above, such person shall within a maximum period of 3 years from 1st January 2009 comply with the above- mentioned limitation and notify the Monetary Board accordingly.	Not applicable.
<b>3 (4) Management Functions delegated by the Board of Directors</b>		
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	<p><b>Complied with</b></p> <p>The Board has delegated matters pertaining to the affairs of the Company to the Board subcommittees within the scope of the respective terms of reference as approved by the Board and also to the CEO and other key management personnel/ line management through approved delegated authority limits which are reviewed from time to time.</p> <p>The Board is empowered by the Articles of Association subject to the provisions in the Companies Act to delegate any of its powers to committees consisting of such member or members as the Board thinks fit. Any committee so formed shall in the exercise of the powers so delegated conform to any regulations that may be imposed on them by the Board.</p>
3 (4) (ii)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	<p><b>Complied with</b></p> <p>The delegation process is reviewed by the Board from time to time so as not to hinder or reduce the Board's overall powers to effectively discharge its functions.</p>
3 (4) (iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	<p><b>Complied with</b></p> <p>The delegation process to the Board subcommittees and to the CEO and line management is reviewed by the Board from time to time <i>vis-à-vis</i> taking into account any structural changes as approved by the Board from time to time.</p>

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### 3 (5) Chairman and Chief Executive

3 (5) (i) The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.

#### Complied with

The positions of the Chairman and the CEO have been separated. However, the Chairman functioned in an executive capacity (pursuant to the Seylan Bank Board being re-constituted in December 2008). The Chairman functions in a non-executive capacity with effect from 1st January 2012.

3 (5) (ii) The Chairman shall be a Non-Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Bank's Annual Report.

Mr. E. Narangoda, Chairman of the Bank functioned in an executive capacity pursuant to the Board being re-constituted since December 2008.

In order to comply with this section, Mr. E. Narangoda will function in a Non-Executive capacity with effect from 1st January 2012 as unanimously agreed upon by the Board at its meeting held in December 2011.

In January 2010, Mr. N.M. Jayamanne PC, an Independent Non-Executive Director of the Bank was nominated and appointed by the Board as Senior Director under Board approved terms of reference.

3 (5) (iii) The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.

#### Complied with

Relationships (if any) and/or nature of relationships are identified from the disclosures made by the Chairman and the Directors in their declarations of interest submitted to the Board periodically.

No relationship of any nature exists between the Chairman and the CEO.

The relationships among members of the Board in relevance to this section are as follows:

- Directors, Messrs A.L. Devasurendra and I.C. Nanayakkara hold common directorships and related party interests in companies within the LOLC Group and the Browns Group.
- Directors, Messrs A.M.M. De Alwis and P. Kudabalage represent the Bank's material shareholder, Sri Lanka Insurance Corporation Limited and hold executive directorships in the said Company.

The Bank has since adopted a process and obtained declarations in 2012 specifically confirming the nature of relationships (if any) as required in this Direction.

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3 (5) (iv)	The Chairman shall: <ul style="list-style-type: none"> <li>(a) provide leadership to the Board;</li> <li>(b) ensure that the Board works effectively and discharges its responsibilities; and</li> <li>(c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.</li> </ul>	<b>Complied with</b> The Chairman provides leadership to the Board and ensures that the Board effectively discharges its responsibilities and that all key issues are discussed and resolved.
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board Meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	<b>Complied with</b> Drawing up of the agenda has been delegated by the Chairman to the Company Secretary. Papers submitted for inclusion in the Agenda are reviewed by the Chairman prior to forwarding them to the Company Secretary. The Agenda is finalised taking into account the items requested to be included in the agenda by any Director or the CEO with the approval of the Chairman.
3 (5) (vi)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board Meetings and also ensure that Directors receive adequate information in a timely manner.	<b>Complied with</b> Board papers covering adequate information of matters to be taken up for discussions are circulated with the Notice of Meeting at least 7 days prior to the Meeting.
3 (5) (vii)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	<b>Complied with</b> All Directors make an active contribution to the Board's affairs. Majority of the Directors chairs the Board Sub-committees and by virtue of their membership in the Committees contribute effectively in the best interests of the Bank.
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	<b>Complied with</b> Please refer comment above.

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3 (5) (ix)	The Chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	The organisation structure in place ensures that all key management personnel report directly to the General Manager/Chief Executive except the Head of Audit and the Chief Risk Officer who report directly to the Board Audit Committee and the Board Integrated Risk Management Committee with administrative reporting to the GM/CEO. The Chairman in his capacity as Executive Director during the year supervised certain functions such as Human Resources and Marketing. He functions in a non-executive capacity with effect from 1st January 2012.
3 (5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	<p><b>Complied with</b></p> <p>At general meetings, the shareholders are given the opportunity to take up matters for which clarifications are needed which are adequately clarified by the Chairman or any other Director, CEO or any other officer. The Bank has through its 'Seylanian Shareholder Privileged Scheme' provided concessions and benefits suggested by shareholders at these forums and through request letters. These concessions are reviewed by the Bank annually.</p> <p>The Company Secretariat ensures that all shareholder queries/requests pertaining to their shareholdings, dividend payments, etc. are duly addressed and responded as soon as possible. Any correspondence which requires the Board's attention are referred to the Board.</p> <p>Pursuant to requests made by many of the Preference Shareholders, the Chairman and the Board of Directors took necessary steps for the redemption of the said shares.</p>
3 (5) (xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Bank's operations and business.	<p><b>Complied</b></p> <p>The GM/CEO of the Bank heads the senior management team of the Bank and reports directly to the Board of Directors. His main functions and responsibilities are the overall management and operations of the Bank.</p>

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## 3 (6) Board Appointed Committees

3 (6) (i) Each Bank shall have at least four Board Committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions. Each committee shall report directly to the Board. All committees shall appoint a Secretary to arrange the meetings and maintain minutes, records, etc., under the supervision of the Chairman of the Committee. The Board shall present a report of the performance on each committee, on their duties and roles at the Annual General Meeting.

### Complied with

The Board appointed Committees are as follows, which function within the Board approved Terms of Reference.

- Audit Committee
- Integrated Risk Management Committee
- HR and Remuneration Committee
- Nomination Committee
- Credit Committee
- Sustainability Committee
- Marketing and Product Development Committee

The Company Secretary functions as the Secretary to these Committees.

Minutes of the Meetings held and/or matters arising and Reports that need Board's attention and/or decision are tabled to the Board by the Secretary. The Reports of these Committees reviewed and approved by the Board are given on pages 163 to 173 of the Annual Report. Summarised write ups of Credit Committee, Marketing & Product Development Committee and Sustainability Committee are given at the end of this Report on pages 160 to 162.

## 3 (6) (ii) Audit Committee

The following rules shall apply in relation to the Audit Committee:

a. The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.

### Complied with

Mr. P.L.P. Withana [MBA, BA (Hons), FCMA FCA] is the Chairman of the Committee. He is an Independent Non-Executive Director counting over 20 years experience including accounting and audit.

b. All members of the Committee shall be Non-Executive Directors.

### Complied with

Directors, Messrs P.L.P. Withana, N.M. Jayamanne PC and P. Kudabaduge are Non-Executive Directors.

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c.	<p>The Committee shall make recommendations on matters in connection with -</p> <p>(i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>(ii) the implementation of the Central Bank guidelines issued to Auditors from time to time;</p> <p>(iii) the application of the relevant Accounting Standards</p> <p>(iv) the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.</p>	<p><b>Complied with</b></p> <p>As per the terms of reference, the Committee has made the relevant recommendations in line with these guidelines, viz -</p> <ul style="list-style-type: none"> <li>• The appointment of Messrs KPMG Ford Rhodes Thornton &amp; Co., Chartered Accountants as the External Auditors for audit services in compliance with the relevant statutes.</li> <li>• Implementation of CBSL guidelines applicable to the Auditors.</li> <li>• Application of relevant accounting standards, particularly the adoption of IFRS from 01/01/2012.</li> <li>• The current Audit Partner has been engaged since 2009.</li> </ul>
d.	<p>The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.</p>	<p><b>Complied with</b></p> <p>The Committee has obtained the representation from the External Auditor's on their independence and that the audit is carried out in accordance with the Sri Lanka Accounting and Auditing Standards.</p>
e.	<p>The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity. When assessing the External Auditor's independence or objectivity in relation to the provision of non-audit services, the Committee shall consider -</p>	<p><b>Complied with</b></p> <p>Further, in the instances where non-audit services are obtained from the External Auditor, prior approval is obtained from the Audit Committee in accordance with regulations. Audit Committee evaluates the Bank's requirement, nature of the non-audit service required by the Bank, fee structure, skills and the experience required to perform the said service of the Auditors.</p> <p>The Audit Committee reviews this process prior to awarding the assignment to the External Auditors to ensure independence is not impaired.</p>

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	<p>I. whether the skills and experience of the audit firm make it a suitable provider of the non-audit services;</p> <p>II. whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and</p> <p>III. whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditor.</p>	
f.	<p>The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including -</p> <p>i. an assessment of the Bank's compliance with the relevant Directions in relation to corporate governance and the management's internal controls over financial reporting;</p> <p>ii. the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and</p> <p>iii. the co-ordination between firms where more than one audit firm is involved.</p>	<p><b>Complied with</b></p> <p>The Committee has discussed and finalised the nature and scope of audit, with the External Auditors in accordance with SLAS. The letter of engagement has been tabled at the Audit Committee prior to the final approval of the Board.</p> <p>The Audit Committee has also shared this understanding of the Bank's Internal Control Mechanism and Compliance to Corporate Governance with the External Auditors.</p>



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g.	<p>The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its annual report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the Bank's Annual Report and accounts and quarterly reports before submission to the Board, the Committee shall focus particularly on:</p> <ul style="list-style-type: none"> <li>i. major judgmental areas;</li> <li>ii. any changes in accounting policies and practices;</li> </ul>	<p><b>Complied with</b></p> <p>Meetings of the Audit Committee are convened for this purpose and their reviews/comments and recommendations submitted to the Board for the final review and approval.</p>
	<ul style="list-style-type: none"> <li>iii. significant adjustments arising from the audit;</li> <li>iv. the going concern assumption; and</li> <li>v. the compliance with relevant accounting standards and other legal requirements.</li> </ul>	
h.	<p>The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.</p>	<p><b>Complied with</b></p> <p>The Committee has met the External Auditors relating to any issue in absence of the Executive Management with relation to the audit.</p>
i.	<p>The Committee shall review the External Auditor's management letter and the management's response thereto.</p>	<p><b>Complied with</b></p> <p>External Auditor's management letter and management response thereto is reviewed by the Committee and appropriate guidance issued.</p>

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j.	The Committee shall take the following steps with regard to the Internal Audit function of the Bank:	
I.	Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work.	<b>Complied with</b>
II.	Review the internal audit programme and results of the internal audit process and where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department.	
III.	Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department.	The appraisal of the performance (during 2011) of the Head of Audit carried out as per the Board's instructions will be submitted for the review of the Audit Committee in the 1st quarter of 2012.
IV.	Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function.	Complied with - Appointments have been recommended.
V.	Ensure that the Committee is appraised of resignations of senior staff members of the internal audit department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	Committee is appraised of senior staff resignations of the Internal Audit Department. The Committee will ensure that such persons will be provided an opportunity to submit reasons for resigning.
VI.	Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.	<b>Complied with</b>

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k.	The Committee shall consider the major findings of internal investigations and management's responses thereto.	<b>Complied with</b>
l.	The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board Members and the chief executive officer may also attend meetings upon the invitation of the Committee. However, at least twice a year, the Committee shall meet with the External Auditors without the Executive Directors being present.	<b>Complied with</b> The Committee met the External Auditors twice during the year without the Executive Directors being present.
m.	The committee shall have: <ul style="list-style-type: none"> <li data-bbox="169 927 494 1016">i. explicit authority to investigate into any matter within its terms of reference;</li> <li data-bbox="169 1024 530 1051">ii. the resources which it needs to do so;</li> <li data-bbox="169 1060 458 1086">iii. full access to information; and</li> <li data-bbox="169 1095 518 1218">iv. authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</li> </ul>	<b>Complied with</b> The Terms of Reference of the Board Audit Committee include these scope and responsibilities and the Committee exercises the authority accordingly.
n.	The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	<b>Complied with</b> Please refer Report of the Board Audit Committee published in this Annual Report.
o.	The Board shall disclose in an informative way, <ul style="list-style-type: none"> <li data-bbox="169 1457 494 1518">i. details of the activities of the audit committee;</li> <li data-bbox="169 1527 470 1589">ii. the number of audit committee meetings held in the year; and</li> <li data-bbox="169 1598 530 1651">iii. details of attendance of each individual director at such meetings.</li> </ul>	<b>Complied with</b> Please refer Report of the Board Audit Committee published in the Annual Report.

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p.	The Secretary of the Committee (who may be the Company Secretary or the head of the internal audit function) shall record and keep detailed minutes of the Committee meetings.	<b>Complied with</b> The Company Secretary functions as the Secretary to the Committee.
q.	The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditor.	The Bank is in the process of formulating a Whistle Blower Policy which will be adopted and implemented during 2012.
<b>3 (6) (iii) Human Resources and Remuneration Committee</b>		
The following rules shall apply in relation to the Human Resources and Remuneration Committee:		
a.	The Committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer (CEO) and key management personnel of the Bank.	<b>Complied with</b> Please refer Report of the Board HR and Remuneration Committee
b.	The Committee shall set goals and targets for the Directors, CEO and the key management personnel.	Goals and targets set for the CEO and key management personnel were approved by the Board and documented. The Board of Directors followed the goals set/marked in the Strategic Plan 2009/11 to a great extent.
c.	The Committee shall evaluate the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	The performance against goals and targets/KPIs set in respect of the year 2011, for CEO and KMPs will be evaluated soon after the finalisation of audit.

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d.	The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	<b>Complied with</b>
<b>3 (6) (iv) Nomination Committee</b>		
The following rules shall apply in relation to the Nomination Committee:		
a.	The Committee shall implement a procedure to select/appoint new Directors, CEO and key management personnel.	<b>Complied with</b> The policies and procedures are approved and documented to cover the requirements set out in this Section.
b.	The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.	<b>Complied with</b> The Committee as well as the Board has recommended the re-election of the Non-Executive Directors, Messrs E. Narangoda, N.M. Jayamanne and A.L. Devasurendra who are due to retire by rotation in terms of Article 82 of the Articles of Association of the Bank at the next Annual General Meeting of the Bank taking into account their contribution to the Board's responsibilities. The Committee also recommended the re-election of Executive Director, Mr. R. Nadarajah for sake of good corporate governance, since he was lastly re-elected as a Director in 2009.
c.	The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.	<b>Complied with</b> Procedures are documented and reviewed by the Committee.
d.	The Committee shall ensure that Directors, CEO and key management personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the Statutes.	<b>Complied with</b> Declarations and Affidavits issued in compliance with this Direction are reviewed and assessed by the Committee.
e.	The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and key management personnel.	<b>Complied with</b> Succession arrangements for key management personnel are reviewed periodically in line with organisational structural changes. Succession arrangements for Directors are guided by the approved policy on appointment of Directors.

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f.	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.	<b>Complied with</b> The Committee is chaired by Rear Admiral B.A.J.G. Peiris who is an Independent Director.
<b>3 (6) (v)</b>	<b>Board Integrated Risk Management Committee</b> The following rules shall apply in relation to the Board Integrated Risk Management Committee (BIRMC):	
a.	The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with key management personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	<b>Complied with</b> GM/CEO, Chief Risk Officer and CFO are co opted to the Committee and Heads overlooking Treasury, Credit, Operations, Operational Risk and IT are invited to attend the Committee meetings.
b.	The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and Group basis.	<b>Complied with</b> The Risk Management Unit assesses all risks as required herein on a regular basis and reports to the respective Management Committees which are held frequently and updates the BIRMC at its quarterly meetings for necessary guidance. The Committee made an assessment of its only subsidiary in order to assess the risk on Group basis.
c.	The Committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	<b>Complied with</b> The Committee assesses the adequacy of the Asset Liability Committee which is a non-board sub-committee. It does not review the Credit Committee since it being a Board sub-committee, the proceedings of same are reviewed by/ approved by the Board. However, reports based on the assessment and management of credit risk are submitted to the Committee by the Chief Risk Officer.

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d.	The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the Bank's policies and regulatory and supervisory requirements.	<b>Complied with</b> The Risk Unit constantly monitors and reviews risks of this nature in order to take corrective action and wherever necessary submit to the Committee for its advise and decision.
e.	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	<b>Complied with</b> Please also refer Report of the Board Integrated Risk Management Committee.
f.	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.	The Internal Audit in the process of its risk based internal audit identifies lapses of this nature. An agreed upon procedure will be implemented by Head of Risk, Head of Internal Audit and Head of HR for compliance.
g.	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	<b>Complied with</b> Presented/tabled at the monthly Board meeting that follows the Committee meeting.
h.	The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.	<b>Complied with</b> The Bank has appointed a Compliance Officer who is identified as a Key Person as defined in the Banking Act No. 30 of 1988 (as amended). The Compliance Officer submits the Compliance Reports to the Board at its meetings held monthly.

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## 3 (7) Related Party Transactions

<p>3 (7) (i) The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as 'related parties' for the purposes of this Direction:</p> <ul style="list-style-type: none"> <li>(a) Any of the Bank's subsidiary companies;</li> <li>(b) Any of the Bank's associate companies;</li> <li>(c) Any of the Directors of the Bank;</li> <li>(d) Any of the Bank's key management personnel;</li> <li>(e) A close relation of any of the Bank's Directors or key management personnel;</li> <li>(f) A shareholder owning a material interest in the Bank;</li> <li>(g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest.</li> </ul>	<p>The Board takes necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with its related parties.</p> <p>The approved documented process/policy on Related Party Transactions and conflicts of interest will be put into due implementation during the year 2012.</p>
<p>3 (7) (ii) The type of transactions with related parties that shall be covered by this Direction shall include the following:</p> <ul style="list-style-type: none"> <li>a. The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation,</li> <li>b. The creation of any liabilities of the Bank in the form of deposits, borrowings and investments,</li> </ul>	<p>Transactions are carried out with related parties in the normal course of business as disclosed in the Annual Report under Notes to the Financial Statements on 'Related Party Disclosures'.</p>



Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
	<ul style="list-style-type: none"> <li>c. The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank,</li> <li>d. The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.</li> </ul>	<p>The management officers who deal in these types of transactions are aware of the related party guidelines stipulated in that they take them into account in their evaluation of the related transaction and reports/submits same to the Board to avoid any conflict of interest.</p> <p>A formal process will be put in place to manage related party transactions and to avoid conflicts of interest.</p>
3 (7) (iii)	<p>The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the Bank carrying on the same business. In this context, 'more favourable treatment' shall mean and include treatment, including the:</p> <ul style="list-style-type: none"> <li>a. Granting of 'total net accommodation' to related parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board;</li> <li>b. Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty;</li> <li>c. Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;</li> </ul>	<p>The Board ensures to engage in any transactions with related parties subject to compliance with the clauses mentioned herein.</p> <p>An agreed upon process is in place wherein in the Company Secretariat provides periodic updates of Directors' disclosures to the Divisional Heads who deal in these type of transactions in order that they ensure that the directions are not violated.</p>

# Corporate Governance Report

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
	<p>d. Providing services to or receiving services from a related-party without an evaluation procedure;</p> <p>e. Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</p>	
3 (7) (iv)	<p>A Bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.</p>	<p><b>Complied with</b></p> <p>Approval as required herein has been obtained for accommodation granted to related parties, and such accommodation are also duly secured.</p>
3 (7) (v)	<p>a. Where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director. The Bank did not encounter any situation as specified herein during the year 2011.</p>	<p>Other than the following event which was regularised, the Bank did not encounter any situation during the year.</p> <ul style="list-style-type: none"> <li>Security granted for facilities to a related concern of Director, Mr. I.C. Nanayakkara which was not regularised within the stipulated deadline (24th November 2010) was regularised in February 2011.</li> </ul>

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
	<p>b. Where such security is not provided by the period as provided in Direction 3 (7) (v) (a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.</p> <p>c. Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of Director and the Bank shall disclose such fact to the public.</p> <p>d. This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank.</p>	
3 (7) (vi)	A Bank shall not grant 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.	<p><b>Complied with</b></p> <p>No accommodation has been granted to employees on a favourable basis other than general schemes applicable to the staff such as staff loan facilities.</p>

# Corporate Governance Report

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
3 (7) (vii)	No accommodation granted by a Bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	<b>Complied with</b>
<b>3 (8) Disclosures</b>		
3 (8) (i)	<p>The Board shall ensure that:</p> <p>(a) annual audited Financial Statements and quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that</p> <p>(b) such Statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p>	<p><b>Complied with</b></p> <p>Interim (unaudited) Financial Statements as well as Audited Financial Statements are also submitted to the Colombo Stock Exchange (CSE). The Financials are made available in the websites of CSE as well as of the Bank for information of all those who are interested.</p> <p>The Financial Statements are prepared in accordance with SLAS and the formats prescribed by the Supervisory Regulatory Authorities.</p> <p>Annual Financial Statements are disclosed in the Annual Report and quarterly Financial Statements are published in the newspapers in all three languages.</p>
3 (8) (ii)	<p>The Board shall ensure that the following minimum disclosures are made in the Annual Report:</p> <p>a. A statement to the effect that the annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.</p>	<p><b>Complied with</b></p> <p>The Financial Statements for the year ended 31st December 2011 are in conformity with all rules and regulatory requirements;</p> <p>Compliance with applicable accounting standards and regulatory requirements has been reported in the Directors' Responsibility Statement for Financial Reporting on pages 261 and 262.</p>

Direction No. Banking Act Direction on Corporate Governance  
Description of the Direction/Guideline

Seylan Bank PLC's Status/Extent of Compliance

b. A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.

**Complied with**

Please refer Directors' Statement on Internal Control.

c. The External Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3 (8)(ii) (b) above, in respect of any statements prepared or published after 31st December 2008.

**Complied with**

The Bank has obtained an Assurance Report on the internal controls over financial reporting based on the auditing framework issued by ICASL for this engagement. The External Auditors' Report on the internal control mechanism is reported on pages 105 and 106.

d. Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank.

Please refer Report of the Board of Directors for details on Directors and transactions with the Bank. Please refer Notes to the Financial Statements for particulars relating to fees/remuneration paid.

e. Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.

Accommodation granted to related parties is given in Notes 45 and 46 to the Financial Statements on pages 339 to 355.

The net accommodation granted to each category of related parties is given below as a percentage of the Bank's regulatory capital.

Category of related party transactions	Amount (Rs.) (Mn.)	% of regulatory capital
• Credit Card balances outstanding from key management personnel	0.543	0.00315
• Facilities to KMP's	14.949	0.08675
• Loans and advances outstanding from Subsidiary	-	-
• Advance payments to Subsidiary	15.687	0.09104
• Transactions with concerns in which a Director of the Bank or material shareholder has a substantial interest. (Funded and Non-Funded)	1,696.389	9.84459

# Corporate Governance Report

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
f.	The aggregate values of remuneration paid by the Bank to its key management personnel and the aggregate values of the transactions of the Bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	Please refer Note 45 to the Financial Statements on related party transactions.
g.	The External Auditor's certification of the compliance with these Directions in the annual corporate governance reports published after 1st January 2010.	The Bank has obtained a certification of this factual finding report on annual Corporate Governance from the External Auditors. The findings reported in this Corporate Governance Report are in line with the matters reported by the Auditors to the Board of Directors in their Report dated 8th February 2012.
h.	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.	Please refer Statement of Directors' Responsibility for Financial Reporting on pages 261 and 262.
i.	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	There were no significant supervisory concerns on lapses in the Bank's risk management system or non-compliance with these Directions that have been pointed out by the Director of the Bank Supervision Department of the Central Bank and requiring disclosure to the public.

## Section Two

Statements of Compliance under Section 7.10 of the Rules of the Colombo Stock Exchange (CSE) on Corporate Governance.

CSE Section No.	Brief description of the Corporate Governance Rule of the CSE	Seylan Bank PLC's extent of Compliance and Comments
7.10.1	<b>The Board of Directors Requirement</b> for at least 2 Non-Executive Directors or 1/3rd of Board whichever is higher.	<b>Complied with</b> As at 31st December 2011, the Board comprised of 10 Directors of whom 8 were Non-Executive Directors.
7.10.2	<b>Independent Directors</b> Two or at least one-third of Non-Executive Directors to be independent against specified criteria.	<b>Complied with</b> Of the 8 Non-Executive Directors, Messrs P.L.P. Withana, N.M. Jayamanne PC, Rear Admiral B.A.J.G. Peiris and S.P.S. Ranatunga are determined to be Independent Non-Executive Directors.  The Non-Executive Directors have submitted signed declarations declaring their independence/non-independence against the specified criteria described in 7.10.4 of the CSE Rules.
7.10.3	<b>Disclosure Relating to Directors</b>	<b>Complied with</b> The Board has made the determination of the independent/non-independent status based on declarations received from the aforementioned Directors as at 31st December 2011.  Please refer section on 'Profiles of the Directors' for a brief profile of each of the Directors.
7.10.5	<b>Remuneration Committee</b> Composition; chairman to be non-executive, functions of the Remuneration Committee and Statement of Remuneration Policy.	<b>Complied with</b> The HR and Remuneration Committee comprises of four Non-Executive Directors of whom three are independent with the Chairman, Mr. Nihal Jayamanne, PC also being an Independent Non-Executive Director.  The Committee determines and recommends the remuneration of the Directors, CEO and the key management personnel of the Bank <i>vis-à-vis</i> its other functions and responsibilities as specified in its Terms of Reference. Please refer 'Report of the Board HR and Remuneration Committee' in this Annual Report for more details.

# Corporate Governance Report

CSE Section No.	Brief description of the Corporate Governance Rule of the CSE	Seylan Bank PLC's extent of Compliance and Comments
7.10.6	<p><b>Audit Committee</b></p> <p>Composition, chairman to be Independent Non-Executive with membership from accounting body; functions, ensuring internal control, independence of auditors.</p>	<p><b>Complied with</b></p> <p>The Audit Committee consists of three Non-Executive Directors of whom two are independent. The Committee is chaired by Mr. Lalith Withana who holds a Fellow Membership of the Institute of Chartered Accountants.</p> <p>The CEO, CFO, Head of Internal Audit and the External Auditors attend meetings of the Committee by invitation. The Committee functions within the scope of the Board approved Audit Charter.</p> <p>Please refer 'Report of the Board Audit Committee' for more details.</p>



## Section Three

**Statements of Compliance of the Principles under the Code of Best Practice of Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL) (hereinafter referred to as Principles of the Code of Best Practice - SEC/ICASL)**

Code Ref.	Brief description of the Principle in the Code of Best Practice - SEC/ICASL	Seylan Bank PLC's Status/ Level of Compliance
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### Board of Directors

A.1	Board - requirement for every company to be headed by an effective Board to direct and control the Company.	<b>Complied with</b> - The Board comprised of 2 executive and 8 Non-Executive Directors who are eminent professionals with extensive experience in the fields of banking, finance, law, insurance, marketing and other related fields.
A.1.1	Regular Board Meetings.	<b>Complied with</b> - Regular Board Meetings are held monthly and special Board Meetings are held as and when the need arises. The details of the Board Meetings and Board Sub-Committee Meetings and the attendance are reflected in the table provided at the end of this Report.
A.1.2	Board Responsibilities.	<b>Complied with</b> - The Board has taken relevant measures as necessary to ensure the safety and soundness of the Bank. Confirmations of the many compliances under the Banking Act Directions vouch for this statements.
A.1.3	Access to independent professional advice.	<b>Complied with</b> - The Board has approved a procedure enabling Directors to seek independent professional advice at the Bank's expense as and when such advice is required.
A.1.4	Advice and services of the Company Secretary.	<b>Complied with</b> - The members of the Board have access to the advice and services of the Company Secretary who is a Chartered Secretary to ensure that Board procedures and all applicable rules and regulations are followed.
A.1.5	Independent Judgement of Directors.	<b>Complied with</b> - Directors of the Bank bring forward their independent judgement to bear on Board proceedings and assist in strategy formulation and direction.
A.1.6	Dedication of adequate time and effort by the Board and Board Committees.	<b>Complied with</b> - Directors have devoted adequate time for Board meetings as well as Board sub-committee meetings during the year. The details of the Meetings held and their attendance are given in the schedule at the end of this Report.
A.1.7	Training for Directors.	<b>Complied with</b>

# Corporate Governance Report

Code Ref.	Brief description of the Principle in the Code of Best Practice - SEC/CASL	Seylan Bank PLC's Status/ Level of Compliance
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## Chairman and CEO

A.2	Chairman and Chief Executive Officer and Division of Responsibilities to ensure a balance power and authority, such that no one individual has unfettered powers of decision.	The positions of the Chairman and the CEO have been separated. However, the Chairman functioned in an executive capacity (pursuant to the Seylan Bank Board being re-constituted in December 2008). It has been since decided that the Chairman function in a non-executive capacity with effect from 1st January 2012.
A.2.1	Justification to combine the posts of Chairman and Chief Executive Officer.	The positions of Chairman and CEO are separate.

## Chairman's Role

A.3.1	Role of the Chairman.	<b>Complied with</b> - The Chairman provides leadership to the Board and ensures that the Board members effectively discharge their responsibilities and make an active contribution to the Board's affairs. Under the Chairman's supervision, the agenda and matters to be taken up at the Board meeting are itemised and scheduled and the balance of power of the Board is maintained.
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## Financial Acumen

A.4	Ensure availability of sufficient financial acumen to guide the Board on matters of finance.	<b>Complied with</b> - The Board has adequate number of Directors who have financial acumen and knowledge to contribute and offer guidance to the Board on matters of finance as evident from their profiles briefed in this Annual Report.
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## Board Balance - have a balance of Executive and Non-Executive Directors

A.5.1 - Board Balance.		<b>Complied with</b> - The Board maintains the required balance of Executive and Non-Executive Directors on the Board. Board consisted 2 Executive Directors and 8 Non-Executive Directors of whom 4 are independent.
A.5.2		
A.5.3 - Board to determine annually as to the Independence or Non-Independence of Non-Executive Directors.		<b>Complied with</b> - The Board determines the independence and Non-Independence of the Non-Executive Directors, based on the declarations submitted by them and also based on the extent of independence as defined in the Banking Act Direction No. 3(2)(iv) on Corporate Governance.
A.5.5		
A.5.6 - Appointment of Senior Independent Non-Executive Director.		<b>Complied with</b> - The Board has appointed Mr. Nihal Jayamanne, PC as the Senior Independent Non-Executive Director who has made himself available for confidential discussions.
A.5.7		

Code Ref.	Brief description of the Principle in the Code of Best Practice - SEC/ICASL	Seylan Bank PLC's Status/ Level of Compliance
A.5.8	Meetings only with Non-Executive Directors.	Chairman performed in an executive capacity, during the year. Compliance with this section will be adhered to henceforth since Chairman functions in a non-executive capacity with effect from 1st January 2012.
A.5.9	Recording of concerns of Directors in Board minutes where they cannot be unanimously resolved.	<b>Complied with</b> - The Board Minutes include concerns raised by Directors and the ultimate unanimous decisions of the Board.
<b>Supply of Information</b> - Board should be provided with timely information of a quality which enables them to discharge its duties.		
A.6.1 - A.6.2	Supply of Information - Obligation of the Management to provide appropriate and timely information to the Board.	<b>Complied with</b> - Timely and adequate information is provided by the Management to the Board which is circulated to the Directors 7 days prior to the date of regular meetings. Reasonable notice of special/emergency meetings is also given to the Directors with the purpose duly briefed.  The Management also make themselves available on call to respond to queries raised at Board meetings and to provide additional information as and when required by the Board Members.
<b>Appointments to the Board</b> - should be a formal and transparent procedure for appointment of new Directors.		
A.7.1 - A.7.2	Procedure for appointment of New Directors; Role of Nomination Committee and procedure for appointment of New Directors and details of newly appointed Directors.	<b>Complied with</b> - A Board approved procedure is in place. Please refer Section 3(6)(iv) of the Banking Act Direction for more details.
A.7.3	Details of new Directors to be disclosed when appointed including their profiles, nature of expertise in relevant functional areas; the names of companies in which the Director holds directorships or memberships in Board committees; and whether such Director can be considered independent.	<b>Complied with</b> - The Bank did not appoint new Directors during the year.  Please refer Section on 'Profiles of the Directors' in this Annual Report for a brief profile of each of the Directors.

# Corporate Governance Report

Code Ref.	Brief description of the Principle in the Code of Best Practice - SEC/ICASL	Seylan Bank PLC's Status/ Level of Compliance
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**Re-election** - All Directors should be submitted for re-election regularly or at least once in every three years

A.8.1 - Re-election of Directors.

A.8.2

**Complied with** - Re-election of Directors is carried out in accordance with the provisions of the Articles of Association. One-third of the Directors (excluding the Executive Directors) longest in office retires by rotation at the Annual General Meeting and are re-elected, if eligible.

The Nomination Committee of the Board has recommended the re-election of Directors, Messrs E. Narangoda, N.M. Jayamanne, PC and A.L. Devasurendra who are due to retire by rotation in terms of Article 82 of the Articles of Association of the Bank at the next Annual General Meeting. The Committee also recommended the re-election of Director, Mr. R. Nadarajah for sake of good governance as he was last re-elected in 2009.

**Appraisal of Board Performance** - Periodic appraisal of Board's performance to ensure that their responsibilities are effectively discharged.

A.9.1 - Appraisal of Board

A.9.3 performance.

**Complied with**- Evaluation of the Board performance including all governance practices are assessed by the Directors individually/independently and shared collectively by the Board annually. Directors have also submitted reports on their self-assessments based on the annual assessment of their performance and contribution to the Board's responsibilities. Please refer Section 3 (1) (xvii) of the Banking Act Direction for further details.

**Disclosure of Information in respect of Directors** - Shareholders to be advised of relevant details in respect of Directors

A.10.1 Disclosure of Information in respect of Directors.

**Complied with**

Information pertaining to Directors are disclosed in the following Sections of this Annual Report.

- i. 'Profiles of the Board of Directors' - present the qualifications, number of years and nature of expertise, etc.
- ii. 'Report of the Board of Directors on the state of affairs of the Company' - provides details pertaining to directorships held by the Directors in other entities (including listed companies); Directors' interest in contracts; in shares and debentures, etc.

Code Ref.	Brief description of the Principle in the Code of Best Practice - SEC/ICASL	Seylan Bank PLC's Status/ Level of Compliance
		<p>iii. Notes to the Financial Statements - carry details of related party transactions.</p> <p>Details of Directors' interest in contracts and related party transactions are given in Notes 45 and 46 of the Financial Statements.</p> <p>Attendance at Board and Sub-Committee meetings - please refer page 159 of the Annual Report.</p>
<b>Requirement for Board to at least annually assess the performance of the CEO.</b>		
A.11.1 - Appraisal of Chief Executive		Mr. Kapila Ariyaratne, the present General Manager/Chief Executive Officer assumed office in March 2011. The Board will carry out the appraisal of his performance in 2012.
A.11.2 Officer.		

## Directors' Remuneration

**B.1 Remuneration Procedure** - Requirement to establish a formal and transparent procedure for developing policy on executive remuneration and fixing remuneration packages for individual Directors. The Code further specifies that no Director should be involved in deciding his/her own remuneration.

B.1.1	Establishment of a Remuneration Committee.	<b>Complied with</b> The responses/extent of compliance in respect of Banking Act Direction No. 3 (6) (iii) and the CSE Section No. 7.10.5 provide the necessary details.
B.1.2	Remuneration Committee to comprise of only Non-Executive Directors.	<b>Complied with</b> - All four members of the Committee are Non-Executive Directors.
B.1.3	Membership to be disclosed.	<b>Complied with</b> - Disclosed in the Board HR and Remuneration Committee Report published in this Annual Report.
B.1.4	Board to determine remuneration of Non-Executive Directors.	<b>Complied with</b>
B.1.5	Consultation with Chairman for remuneration proposals and access to professional advice.	<b>Complied with</b> - The Chairman is consulted on proposed/ revisions to compensation packages and independent advice is also resorted to, as deemed necessary.

**Level and make up of Remuneration** - Requirement that the level and make up of both Executive and Non-Executive remuneration be sufficient to attract and retain the Directors. Proportion of Executive Directors' remuneration should be linked to corporate and individual performance.

# Corporate Governance Report

Code Ref.	Brief description of the Principle in the Code of Best Practice - SEC/CASL	Seylan Bank PLC's Status/ Level of Compliance
B.2.1 -	- Level and make up of	Executive Directors' remuneration is reviewed periodically. A
B.2.9	remuneration of Executive Directors including performance related elements in pay structure.	performance-based element in remuneration package has not been introduced to date. No share options have been offered to Executive Directors.
	- Remuneration packages to be in line with industry practices	Non-Executive Directors' remuneration packages were reviewed and revised in January 2011 in recognition of their commitment and contribution towards the overall decision making process of the Board and providing independent advice and assistance in achieving the strategic objectives of the Bank.
	- Executive share option	
	- Non-Executive Directors' remuneration	

**Disclosure of Remuneration** - Requirement for Annual Report to contain a Statement of Remuneration Policy and details of Board's remuneration as a whole.

B.3.1	Annual Report to give details of the Remuneration Committee, statement of remuneration policy and aggregate remuneration payable to Executive and Non-Executive Directors.	<b>Complied with</b> - Disclosed in the Board HR and Remuneration Committee Report published in this Annual Report. Aggregate remuneration paid during the year to Executive and Non-Executive Directors is disclosed in the Notes to the Financial Statements.
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## Relations with Shareholders

### C.1 Constructive use of Annual General Meeting and Conduct of General Meetings -

Requirement that Board uses the Annual General Meeting to communicate with shareholders and encourage their participation.

C.1.1	Counting of proxy votes	<b>Complied with</b> - Proxy votes are separately counted and declared at the outset of the Annual General Meeting and also recorded in the Minutes. An automated process is in place to count two-way proxies received.
C.1.2	Separate resolution to be proposed for each item.	<b>Complied with</b>
C.1.3	Heads of Board sub-committees to be available to answer queries.	<b>Complied with</b> - In the absence of the Chairman of the respective Committee, a co-member will attend to queries raised.

Code Ref.	Brief description of the Principle in the Code of Best Practice - SEC/ICASL	Seylan Bank PLC's Status/ Level of Compliance
C.1.4	Notice of Annual General Meeting to be sent to shareholders with other papers as per statute.	<b>Complied with</b> - Requisite notice together with the form of proxy and a copy of the Annual Report complying with the provisions of the Companies Act No.07 of 2007, CSE Rules and the Bank's Articles of Association are despatched to all shareholders. This provides an opportunity to all shareholders to attend the AGM and obtain clarifications on issues of concern relating to the Bank.
C.1.5	Summary of procedures governing voting at General meetings to be informed.	<b>Complied with</b> - Notice of Annual General Meeting and proxy form carries required instructions for shareholders as to the voting procedure.

#### **Major Transactions** - Disclosure of proposed major transactions to shareholders

C.2.1	Disclosure to shareholders of all material facts concerning any proposed transaction involving acquisition, sale or disposition of greater than half of the net value of the Company's assets or of its subsidiary.	There were no major transactions warranting disclosure of this nature.
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## **Accountability and Audit**

### **Financial Reporting** - Requirement for Board to present a balanced and understandable assessment of the Company's financial position, performance and prospects.

D.1.1	Proper disclosure of interim and other price-sensitive and statutorily mandated reports to regulators.	<b>Complied with</b> - Please refer confirmation provided in Banking Act Direction No. 3 (8) (i) - (ii).
D.1.2	Should contain the following declarations made by the Directors: <ul style="list-style-type: none"> <li>• The Company has not engaged in any activities, which contravene laws and regulations;</li> <li>• Declaration of all material interests in contracts;</li> <li>• Equitable treatment of shareholders;</li> </ul>	<b>Complied with</b> - Declarations/confirmations pertaining to this Principle are disclosed in the 'Annual Report of the Board on the state of affairs of the Company'.

# Corporate Governance Report

Code Ref.	Brief description of the Principle in the Code of Best Practice - SEC/ICASL	Seylan Bank PLC's Status/ Level of Compliance
	<ul style="list-style-type: none"> <li>● Company is a going concern with supporting assumptions or qualifications as necessary; and</li> <li>● Effectiveness of internal controls.</li> </ul>	
D.1.3	Annual Report to set out Statement of Directors' responsibilities for preparation & presentation of Financial Statements.	<b>Complied with</b> - Please refer the "Statement on Directors' Responsibility for Financial Reporting".
D.1.4	Should include a 'Management Discussion and Analysis Report' discussing at least the following issues: <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> <li>● social and environmental protection activities carried out by the Company;</li> <li>● financial performance;</li> <li>● material developments in human resources/industrial relations; and</li> <li>● prospects for the future.</li> </ul>	<b>Complied with</b> - Please refer report on 'Management Discussion and Analysis' published in this Annual Report.
D.1.5	Board should report that the business is a going concern with all the supporting assumptions and qualifications.	<b>Complied with</b> - Reported in the 'Annual Report on the state of affairs of the Company' published in this Annual Report.
D.1.6	Remedial action at Extra-ordinary General Meeting if net assets fall below 50% of value of shareholders' funds.	This situation has not arisen



Code Ref.	Brief description of the Principle in the Code of Best Practice - SEC/ICASL	Seylan Bank PLC's Status/ Level of Compliance
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**Internal Control** - Requirement for Board to maintain a sound system of internal control to safeguard shareholders' investments and company's assets.

D.2.1	Annual review of effectiveness of system of internal control.	<b>Complied with</b> - The Board's Statement on the effectiveness of the Bank's internal control mechanism as reviewed by the Board Audit Committee is presented under the caption 'Directors' Statement on Internal Control' in this Annual Report. The Bank also received External Auditors' assurance report in this regard pursuant to the independent audit conducted by them in accordance with the Sri Lanka Standard on Assurance Engagements SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Control.
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D.2.2	Internal audit function.	<b>Complied with</b> - A fully-fledged internal audit department is functional within the Bank which reports to the Board Audit Committee and the Board.
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**Audit Committee** - formal and transparent arrangements to be in place for application of accounting policies, financial reporting and internal control principles and maintaining appropriate relationship with the Company's auditors.

D.3.1 - D.3.4	Audit Committee composition, terms of reference, duties and responsibilities and disclosure requirements.	<b>Complied with</b> - Disclosure relating to these is presented in the 'Report of the Board Audit Committee'.
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**Code of Business Conduct and Ethics** - Requirement to adopt a Code of Business Conduct and Ethics for Directors and members of senior management with due disclosures of waivers.

D.4.1	Disclosure whether the Company has a Code of Business Conduct & Ethics for Directors and members of the senior management team with an affirmative statement of the Chairman.  Should also disclose an affirmative declaration that they have abided by such Code.  The Chairman must certify that he/she is not aware of any violation of any of the provisions of this Code.	<b>Complied with</b> - Separate Board approved Codes of Business Conduct and Ethics one of which is adhered to by the Directors and the other by the staff members.  A declaration to the effect that they are aware of and will abide by the Code of Business Conduct and Ethics for Directors has been issued by the Chairman and the Directors.  <i>The Chairman's certification of there being no violation of the provisions of both Codes.</i>
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# Corporate Governance Report

Code Ref.	Brief description of the Principle in the Code of Best Practice - SEC/ICASL	Seylan Bank PLC's Status/ Level of Compliance
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**Corporate Governance Disclosures** - Requirement to disclose the extent to which the Company adheres to established principles and practices of good corporate governance.

D.5.1	Disclosure of extent to which the Company has complied with principles and provisions of the SEC/ICASL Corporate Governance Code.	<b>Complied with</b> - Compliance with the Principles of the Code of Best Practice of SEC/ICASL is as provided hereinbefore (Section Three of the Annual Corporate Governance Report).
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## Institutional Investors

### Section 2: Shareholders

**E.1 Institutional Investors - Shareholder voting** - Institutional shareholders to make use of their votes to encourage that their voting intentions are translated into practice.

E.1.1	Regular dialogue to be maintained with shareholders and the Chairman to communicate shareholders' views to the Board.	<b>Complied with</b> - The Annual General Meeting/Extraordinary General Meetings are forums utilised by the Board as well as the shareholders of the Bank to have an effective dialogue with one another. In addition, the Bank has institutional shareholder representation (of three of its major shareholders) on the Board consequent to its re-capitalisation process in 2009.
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### Evaluation of Governance Disclosures

E.2	Due weight to be given to Board structure and composition by institutional shareholders.	<b>Complied with</b>
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### Other Investors - Investing/Divesting Decision and Shareholder Voting

F.1	Encourage individual shareholder participation at General Meetings.	<b>Complied with</b> - The Bank has a healthy participation rate of individual ordinary voting shareholders at its General Meetings.
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Board of Directors/Board Subcommittees Composition and Directors'/Committee Members' Attendance at Board and Board Sub-committee Meetings during 2011

Name of Director and Executive/Non-Executive/Independent Capacity	Board of Directors			Board Audit Committee			Board Integrated Risk Management Committee			Board HR and Remuneration Committee			Board Nomination Committee			Board Credit Committee***			Board Sustainability Committee***			Board Marketing & Product Development Committee		
	E	A	S	E	A	S	E	A	S	E	A	S	E	A	S	E	A	S	E	A	S	E	A	S
Mr. E. Narangoda Executive Director (Chairman)	13	13							Bl		3	Bl		1	C** M	40	33	C** M	3	3		Bl		1
Mr. R. Nadarajah Executive Director	13	13	Bl		7				Bl		3	Bl		1	M	40	36	M	3	2			3	1
Mr. P.L.P. Withana Independent Director	13	12	C	10	10	M	6	4	M	6	3	M	7	6										
Mr. N.M. Jayamanne PC Independent Director	13	09	M	11	7				C	6	5	M	7	5								Bl		1
Rear Adm. B.A.J.G. Peiris Independent Director	13	11							M	6	5	C	7	7	M	35	24				Bl		1	
Mr. A.L. Devasurendra Non-Executive Director	13	09				C	6	4				M	7	5	M	40	18	M	3	2		3	1	
Mr. I.C. Nanayakkara Non-Executive Director	13	09													M	40	15	M** C	3	2	Bl		1	
Mr. S.P.S. Ranatunga Non-Executive Director	13	13							M	6	5	M	7	7				** M	1	0		3	3	
Mr. A.M.M. de Alwis Non-Executive Director	13	12				M	6	6							M** C	35	28					3	3	
Mr. P. Kudabalage Non-Executive Director	13	10	M	11	10																Bl		1	

\*S - Status of the Director in the Respective Committees

\*E - Eligibility to Attend; \*A - Attendance

C - Chairman of Committee; M - Member of the Committee  
Bl - By invitation

\*\* Mr. A.M.M. de Alwis was appointed as Chairman of the Board Credit Committee and Mr. I.C. Nanayakkara was appointed as Chairman of the Board Sustainability Committee with effect from 29th June 2011 in place of Mr. E. Narangoda in keeping with the Corporate Governance principle that Board Subcommittees shall be Chaired by Non-Executive Directors.

Mr. S.P.S. Ranatunga was appointed to the Sustainability Committee with effect from 29th June 2011.

\*\*\* The number of members of the Credit Committee was increased to 6 (from 4) during the year and the number of members of the Sustainability Committee was increased to 5 (from 4) in order to maintain majority membership of Non-Executive Directors.

# Corporate Governance Report

The composition and scope/terms of reference and key activities carried out by Board sub-committees other than those specified by the Banking Act Direction No. 11 of 2007 (and amendments thereto) on Corporate Governance which were functional as at 31st December 2011 are given below:

Committee/Composition	No. of Meetings		Scope/Terms of Reference
	Eligibility to attend	Attended	
<b>Board Credit Committee</b>			
Mr. A.M.M. de Alwis <i>(Non-Executive Director)- Chairman of the Committee</i>	35	28	<p>At the beginning of the year 2011, the Board Credit Committee comprised of two Executive Directors and two Non-Executive Directors headed by Executive Chairman, Mr. E. Narangoda. However, in order to give a greater balance to Non-Executive Directors' membership in the Committee and due to the frequency of the meetings being held (an average of three meetings per month) the number of Non-Executive Directors was increased to four with the appointment of Rear Admiral B.A.J.G. Peiris, Independent Non-Executive Director and Mr. A.M.M. de Alwis, Non-Executive Director. Mr. A.M.M. de Alwis was appointed as the Chairman of the Committee with effect from 29th June 2011 in keeping with the Banking Act Direction on Corporate Governance. Mr. E. Narangoda continued to be a Member of the Committee.</p> <p>General Manager/CEO and senior management personnel supervising credit, credit monitoring and risk attend the meetings by invitation. The Head of Recoveries and Head of Treasury too attend the meetings as observers.</p> <p>The Committee's responsibilities include formulating credit policies and credit strategies for the Bank towards maintaining a healthy credit portfolio and credit discipline within the Bank.</p>
Mr. E. Narangoda <i>(Executive Chairman) - Member</i>	40	33	
Mr. R. Nadarajah <i>(Executive Director) - Member</i>	40	36	
Mr. A.L. Devasurendra <i>(Non-Executive Director) - Member</i>	40	18	
Mr. I.C. Nanayakkara <i>(Non-Executive Director) - Member</i>	40	15	
Rear Admiral B.A.J.G. Peiris <i>(Independent Non-Executive Director) - Member</i>	35	24	

Committee/Composition	No. of Meetings		Scope/Terms of Reference
	Eligibility to attend	Attended	
			<p>The Committee approves the credit facilities above the delegated authority limits of the Internal Credit Committee subject to a specified limit and recommends facilities to the Board in excess of the said limit. The Committee also formulates policies/reviews existing policies on credit risk management, monitors recoveries and formulates recovery strategies and ensures that the credit portfolio does not exceed accepted levels of risk. Regulatory changes and proposed regulatory changes relating to advances and credit from time to time are brought to the attention of the Committee for its review and decisions/advice.</p> <p>Consequent to the structural changes during the year, the Board approved the revised delegated lending authority as recommended by the Committee.</p>
<b>Board Marketing &amp; Product Development Committee</b>			
Mr. S.P.S. Ranatunga (Non-Executive Director) - Chairman of the Committee	3	3	The Board Marketing & Product Development Committee comprises of 3 Non-Executive Directors and an Executive Director. The Committee met thrice (03) during the year.
Mr. R. Nadarajah (Executive Director) - Member	3	1	The Committee reviews the overall Marketing plans of the Bank to ensure that the plans aim at optimising value creation for the Bank and support the Strategic goals. The Committee also assesses its deposit, lending and investment products and pursues new product opportunities with the aim of achieving business growth.
Mr. A.L. Devasurendra (Non-Executive Director) - Member	3	1	
Mr. A.M.M. de Alwis (Non-executive Director) - Member	3	3	<p>General Manager/CEO and the Head of Marketing are co-opted to the meeting, whilst other Board members attend on invitation.</p> <p>During the year 2011, the Committee reviewed the marketing strategy and the marketing budget and its recommendations were reviewed and approved by the Board.</p>

# Corporate Governance Report

Committee/Composition	No. of Meetings		Scope/Terms of Reference
	Eligibility to attend	Attended	
<b>Sustainability Committee</b>			
Mr. I.C. Nanayakkara <i>(Non-Executive Director)</i> - <i>Chairman of the Committee</i>	3	2	<p>The Board Sustainability Committee comprised of two Executive Directors and two Non-Executive Directors at the beginning of the year 2011 headed by Executive Chairman, Mr. E. Narangoda. However, in keeping with the Banking Act Direction on Corporate Governance, Mr. I.C. Nanayakkara was appointed as Chairman of the Committee and Mr. S.P.S. Ranatunga was appointed as a Member of the Committee with effect from 29th June 2011 to have a greater balance of Non-Executive Directors membership in the Committee. Mr. E. Narangoda continued to be a Member of the Committee.</p> <p>The Committee met thrice (03) during the year. General Manager/CEO and Team Leaders of the Management Sustainability Committee attend the Committee Meetings by invitation to report on the progress made on the various sustainability projects undertaken.</p> <p>The Committee determines and reviews the overall Sustainability Policy of the Bank and ensures that it is current, relevant, practical and effective and functions in line with the GRI (Global Reporting Initiative) Sustainability Reporting Guidelines. It also ensures that the Bank's business principles, policies and activities meet and support sustainability criteria.</p>
Mr. E. Narangoda <i>(Executive Chairman) - Member</i>	3	3	
Mr. R. Nadarajah <i>(Executive Director) - Member</i>	3	2	
Mr. A.L. Devasurendra <i>(Non-Executive Director) - Member</i>	3	2	
Mr. S.P.S. Ranatunga <i>(Independent Director)</i>	1	0	

# Report of the Board Audit Committee

## The Board Audit Committee Audit Charter/Terms of Reference

The scope and responsibilities of Seylan Bank's Board Audit Committee ('Audit Committee') emanate from its Charter approved and adopted by the Board. The Audit Committee functions within this Board approved Audit Charter/Terms of Reference. It also ensures that its role, composition and responsibilities comply with International Best Practices and Corporate Governance Rules as laid down in Section 3 (6) (ii) of the Banking Act Direction No. 11 of 2007 titled 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' and subsequent amendments thereto; Rule 7.10.6 of the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL).

## Composition

The Board Audit Committee comprises of three Non-Executive Directors of the Bank, two of whom are independent. Directors, Mr. Lalith Withana, Mr. Nihal Jayamanne PC and Mr. P. Kudabalage functioned as Members of the Audit Committee during 2011. The Chairman of the Committee, Mr. Lalith Withana, is an independent Non-Executive Director. He is a Fellow of The Institute

of Chartered Accountants of Sri Lanka and a Fellow of the Chartered Institute of Management Accountants, UK. Mr. Kudabalage is also a Fellow of The Institute of Chartered Accountants of Sri Lanka and the Institute of Certified Management Accountants of Sri Lanka.

Executive Director, Mr. R. Nadarajah, General Manager/Chief Executive Officer, Chief Financial Officer and Deputy General Manager - Internal Audit attend the meetings of the Audit Committee by invitation. Other members of the Senior Management of the Bank too participate in the meetings when called upon by the Committee. The Engagement Partner and the Audit Team Manager/Supervisor of the Bank's External Auditors, Messrs KPMG Ford, Rhodes, Thornton & Co., too attend the meetings on the invitation of the Committee. The Company Secretary functions as the Secretary to the Audit Committee.

## Role of the Board Audit Committee

The Audit Committee continues to assist the Board of Directors to effectively carry out its responsibilities relating to financials and other connected affairs of the Bank. Whilst the management is primarily responsible for the financial statements, for maintaining effective internal control over financial reporting and assessing the

# Report of the Board Audit Committee

effectiveness of such control systems, the Committee has always maintained vigilance in exercising its oversight role in respect of financial reporting, internal controls and risk management.

## Performance of the Board Audit Committee During 2011

### Meetings

The Committee met eleven times during the year 2011 which included four (quarterly) regular meetings. Five special meetings were held one of which was for the evaluation of the Board Integrated Risk Management Committee's performance in 2010 and the other four were convened and held for the review of the draft audited final accounts (2010)/interim half yearly accounts (2011) and quarterly unaudited financial statements (2011). Two meetings were held with the External Auditors without the presence of the Executive Directors/management.

The attendance by the Members at the Audit Committee Meetings held during the year is as follows:

### Financial Reporting

The Committee reviewed and discussed with the Management and the External Auditors, the draft annual financial statements and the interim unaudited financial statements during the year. Consequently, the Committee was able to assist the Board by recommending the release of the Financial Statements which reflected a true and fair view of the affairs of the Bank conforming to the required standards and regulations.

### Internal Audit and Inspection

The Committee reviewed the progress of the internal audit plan for 2011. The Committee also reviewed and monitored the effectiveness of the internal audit and inspection functions and the performance of the Internal Audit and Inspection Department and consequently had discussed the requirement for implementation of improved processes effective 2012.

Board Audit Committee Member	Attendance/Eligible to Attend
Mr. Lalith Withana (Independent Non-Executive Director) - <i>Chairman of the Committee</i>	10/10*
Mr. Nihal Jayamanne PC (Independent Non-Executive Director) - <i>Member</i>	07/11
Mr. Piyadasa Kudabalage (Non-Executive Director) - <i>Member</i>	10/11

\* Mr. Lalith Withana did not attend the Meeting held on 22nd January 2011 which was held for the evaluation of the Board Integrated Risk Management Committee (BIRMC) since he was a member of the BIRMC.



## Internal Audit Manual

On the recommendation of the Committee, Messrs PricewaterhouseCoopers, Chartered Accountants have commenced a post-implementation review of the Internal Audit Manual adopted by the Bank in 2010 that incorporates risk-based planning, sampling and execution methodologies and emphasises on value protection.

## Internal Controls

The Committee reviewed the effectiveness of the Bank's internal controls over financial reporting and other controls relating to core areas such as deposit accepting, credit approval, operations, compliance and risk management systems as required by the Banking Act Direction No. 11 of 2007 on Corporate Governance (Direction 3 (8) (ii) b) and the Guidelines issued by The Institute of Chartered Accountants of Sri Lanka (ICASL). The Board's Statement on the effectiveness of Bank's internal control mechanism as reviewed by the Committee, is published on pages 107 to 109 of the Annual Report.

In accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Control, External Auditor's Independent assurance report on the Bank's internal control mechanism is given on pages 105 and 106 of the Annual Report.

## External Audit

The Committee met with the External Auditors, KPMG Ford, Rhodes, Thornton & Co. to discuss the management letter in respect of the year 2010; the audited financial statements for the year 2010; the audited interim financials for six months ended June 2011; the unaudited interim (quarterly) Financial Statements during 2011; the plan, scope, approach and the methodology to be adopted in carrying out the annual audit for 2011 including the requirement to adopt the new Sri Lanka Financial Reporting Standards (SLFRS) with effect from January 2012 to comply with the IAS and the IFRS in all material respects.

The Committee's meetings with the External Auditors without the presence of the executive management ensured that there was no limitation of scope or incidents that could have a negative impact on the effectiveness of the external audit.

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

# Report of the Board Audit Committee

The Committee also carried out due diligence in the hiring and oversight of External Auditors; determined the independence of External Auditors as per the provisions of the Companies Act and the ICASL's Code of Professional Conduct and recommended their reappointment as the Auditors of the Bank for the financial year ending 31st December 2012 subject to the approval of the Shareholders at the next Annual General Meeting.

## Regulatory Compliance

Compliance with mandatory banking and other statutory requirements and procedures in place were regularly reviewed by the Board through monthly/quarterly reports submitted to the Board of Directors by the Heads of Divisions responsible.

## Internal Audit Charter

The Internal Audit Charter of the Bank which was approved by the Board in 2010 is a tool to further strengthen the internal audit function and structure of the Bank in addition to the Board Audit Committee Charter.

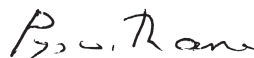
The Internal Audit Charter defined the scope, functions, authority, responsibility, adjudication, external relationship management and ethics that assist and direct/guide the Internal Audit Department to discharge its functions independently.

## Governance

The Committee has ensured that good corporate governance was practiced in conformity with the Banking Act Direction No. 11 of 2007 and subsequent amendments thereto (Central Bank Code of Corporate Governance for Licensed Commercial Banks), the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by the SEC & ICASL. As required by Direction 3 (8) (ii) (g) of the Banking Act Direction No. 11 of 2007, the External Auditor's certification on the extent of compliance with the Directions of the Central Bank Code on Corporate Governance was received. The Annual Corporate Governance Report is published on pages 110 to 162 of the Annual Report.

## Evaluation of the Board Audit Committee

As authorised by the Board, the Board Audit Committee carried out a self-evaluation/appraisal on the effectiveness of the Committee and submitted its Self-Assessment Report to the other members of the Board for their review and the Board concurred that the Committee had carried out its responsibilities very satisfactorily.



**Lalith Withana**

*Chairman - Board Audit Committee*

8th February 2012

# Report of the Board Integrated Risk Management Committee

## The Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee ('BIRMC') was formed with a mandate to assess all risks, viz. credit, market, liquidity, operational and strategic risks to the Bank through appropriate risk indicators and management information and regularly review the risk exposures of the Bank in line with risk management strategies and objectives and also set risk concentration limits in line with the Bank's risk appetite.

## Risk Management Unit

The Bank has a dedicated Risk Management Unit (RMU) to carry out the Integrated risk management function headed by the Chief Risk Officer. The RMU ensures that the overall risk management framework and risk management initiatives are in line with the risk management philosophy and strategy of the Bank. Please refer pages 68 to 104 for a comprehensive 'Risk Management Report' of the Bank.

## Composition

The BIRMC appointed by the Board comprises of three Non-Executive Directors, namely, Mr. Ajith Devasurendra (Chairman of the Committee), Mr. Lalith Withana and Mr. Mohan De Alwis. The Company Secretary functions as the Secretary of the Committee.

The Executive Director, Mr. R. Nadarajah, the General Manager/Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Compliance Officer and Key Management Personnel supervising broad risk categories, i.e., credit, treasury, audit, operational and strategic risks attend the Committee meetings by invitation.

## Meetings

The Committee held 6 Meetings during the year 2011. Five were regular (quarterly) meetings while one was a special meeting held for the evaluation of the performance of the Board Audit Committee during 2010.

## Attendance at the BIRMC Meetings

Board Integrated Risk Management Committee Member	Attendance
Mr. Ajith Devasurendra (Non-Executive Director) - <i>Chairman of the Committee</i>	4/6
Mr. Lalith Withana (Independent Non-Executive Director) - <i>Member</i>	4/6
Mr. Mohan De Alwis (Non-Executive Director) - <i>Member</i>	6/6

# Report of the Board Integrated Risk Management Committee

## Proceedings at Committee Meetings and the Committee's Performance during 2011

The Minutes of the Committee meeting were recorded by the Secretary and made available to the Board of Directors for their information and action/instructions where necessary.

During the year, the BIRMC focused on the following key areas and recommended/guided the management to carry out the necessary processes for compliance:

- The adoption and management of the Business Continuity Management (BCM) Strategy and Programme as an integral part of its Integrated Risk Management Policy to reduce business risks arising from unexpected disruptions of the critical functions and/or operations (manual or automated).
- The adequacy and effectiveness of the credit risk discipline within the Bank viz. credit portfolio management with special emphasis on portfolio analysis, concentration risk, post mortem reviews for performing and non-performing advances to evaluate the composition, trend in portfolio behaviour.
- Adoption of the process on 'Collection of Internal Loss Event Data' for an effective operational risk management and move into an advanced management approach of operational risk capital computation commencing 2013.
- Review of the internal controls and processes/procedures including IT systems for operational and credit risk management and recommendation for improvements.
- Adoption and implementation of the Operational Risk Management Policy and the Risk and Control Self Assessment framework.
- Corrective actions to eliminate top operational risks.
- Implementation/review and update of Board approved Treasury operating limits as per the Bank's requirements.
- The adequacy and effectiveness of the Asset Liability Committee to address specific risks including the review of liquidity risks and market risks.
- Assessment of the risks associated with the subsidiary, Seylan Developments PLC to formulate the risk management on group basis.
- The BIRMC also approved and authorised the Risk Management Unit's proposal to introduce a high level 'Elements of a Strategic Vision for risk management at Seylan Bank' defining primary responsibilities for managing risks and ensure establishment of an effective integrated risk management framework in compliance with the guidelines issued under the new Banking Act Direction No. 7 of 2011 on integrated risk management framework for licensed banks in addition to the risk management principles and rules required in regulatory and supervisory procedures and other market best practices of Bank risk management.

## Evaluation of the Board Integrated Risk Management Committee

As authorised by the Board, the members of the BIRMC submitted their self-assessment report for the year 2011 to the other members of the Board. The Board members were satisfied with the effectiveness of the Board Integrated Risk Management Committee's activities during the year 2011 and was hopeful that the review of its functions and responsibilities in line with the new Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework will further strengthen the role of the Committee for a more focused and improved risk management process within the Bank.



**Ajith Devasurendra**

*Chairman - Board Integrated Risk  
Management Committee*

8th February 2012

# Report of the Board HR and Remuneration Committee

## Board HR and Remuneration Committee and its Objectives and Scope

The Board HR and Remuneration Committee, the overall scope of which is to review all significant human resource and remuneration policies of the Bank and to strategically direct the building of an effective and efficient human resource structure, for the Bank, comprises of four Non-Executive Directors, all of whom are independent.

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

The Committee also ensures that the performance/achievements against set goals and targets will relate to their remuneration, benefits and other payments of performance-based incentives.

The Remuneration Policy for the Bank was adopted in January 2011. The Policy aims to provide a framework for remuneration to attract, retain and motivate employees at all levels to achieve the set objectives of the Bank.

## Members

During the year 2011, Senior/Independent Director, Mr. Nihal Jayamanne PC headed the Committee as its Chairman, and Independent Directors, Rear Admiral Ananda Peiris, Mr. Lalith Withana and Mr. Samantha Ranatunga functioned as members of the Committee. The Company Secretary of the Bank functioned as the Secretary to the Committee.

The General Manager/Chief Executive and Head of Human Resources attend the meetings on the invitation of the Committee and participate in the deliberations except when matters of their own interest, performance and compensation are discussed. The Chief Financial Officer and the Assistant General Manager, Finance assist the Committee by providing relevant information for decision-making within the Board approved terms of reference.

## Meetings

The Committee held 6 meetings during the year which included two special meetings. Decisions and minutes and/or papers on recommendations made by the Committee were circulated to the Board of Directors and ratified/approved by the Board.

The Members' attendance at the HR and Remuneration Committee meetings held during 2011 was as follows:

<b>HR and Remuneration Committee Member</b>	<b>Attendance</b>
Mr. Nihal Jayamanne PC (Independent Non-Executive Director) - <i>Chairman of the Committee</i>	5/6
Mr. Lalith Withana (Independent Non-Executive Director) - <i>Member</i>	3/6
Rear Admiral Ananda Peiris (Independent Non-Executive Director) - <i>Member</i>	5/6
Mr. Samantha Ranatunga (Independent Non-Executive Director)* - <i>Member</i>	5/6

(\* Mr. Samantha Ranatunga was confirmed as an Independent Non-Executive Director w.e.f. 28th December 2011)

### **Key Achievements/Performance During the Year**

- The Committee steered the voluntary retirement scheme (VRS) of the Bank. Seylan Bank was the first entity in Sri Lanka to implement a web-based/online voluntary retirement scheme. A total of 298 staff retired under the VRS and a sum of Rs. 698.6 Mn was paid as compensation and other terminal benefits.
- The Committee advised and recommended a compensation benchmarking survey to be carried out by an external specialised consulting firm for the purpose of reviewing the Bank's remuneration structure. Consequently, the Bank successfully held and concluded negotiations with the Employee Unions and revised the salaries of staff with effect from 1st July 2011.

### **Evaluation of the Committee**

As authorised by the Board, the Board HR and Remuneration Committee carried out an appraisal of the performance/effectiveness of the Committee and submitted a Self-Assessment Report to the other members of the Board for their review who had expressed their satisfaction that the Committee had carried out its functions effectively.



**Nihal Jayamanne PC**

*Chairman - Board HR and Remuneration Committee*

8th February 2012

# Report of the Board Nomination Committee

## The Board Nomination Committee

The Board Nomination Committee ('Nomination Committee') appointed by the Board was lastly reconstituted on 13th December 2010 with the appointment of Independent Non-Executive Director, Mr. Lalith Withana. The Committee consists of five Non-Executive Directors, four of whom are Independent Directors.

## Composition

The present members are Rear Admiral Ananda Peiris (Chairman of the Committee), Mr. Nihal Jayamanne PC, Mr. Ajith Devasurendra, Mr. Samantha Ranatunga and Mr. Lalith Withana. The General Manager/ CEO and Head of Human Resources attend the Board Nomination Committee on invitation. The Executive Directors too attended some of the meetings by invitation during the year, where succession arrangements, profiling of key management personnel were discussed.

The Company Secretary functions as the Secretary to the Nomination Committee.

## Meetings and Members' Attendance at the Committee Meetings

The Committee held 7 Meetings during the year 2011 and the attendance of the Members at the Meetings is as follows:

<u>Board Nomination Committee Member</u>	<u>Attendance</u>
Rear Admiral B.A.J.G. Peiris (Independent Non-Executive Director) - <i>Chairman of the Committee</i>	7/7
Mr. Nihal Jayamanne PC (Senior Independent Non-Executive Director) - <i>Member</i>	5/7
Mr. A.L. Devasurendra (Non-Executive Director) - <i>Member</i>	5/7
Mr S.P.S. Ranatunga (Independent Non-Executive Director)* - <i>Member</i>	7/7
Mr. Lalith Withana (Independent Non-Executive Director) - <i>Member</i>	6/7

(\* Mr. Samantha Ranatunga was confirmed as an Independent Non-Executive Director w.e.f. 28th December 2011)

## Terms of Reference

The mandate of the Board Nomination Committee is summarised below:

- implementation of a procedure to select/ appoint new Directors, CEO and key management personnel including review of the structure, size, composition and competencies of the Board from time to time.



- Recommend (or not recommend) the re-election of current Directors having regard to their performance and contribution towards the overall discharge of the Board's responsibilities.
- Establish criteria to determine eligibility for appointment or promotion to the post of CEO and the key management positions.
- Ensure that the Directors, CEO and key management personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) of the Banking Act Direction No. 11 of 2007 ('Code of Corporate Governance for licensed commercial banks in Sri Lanka') and subsequent amendments thereto.
- Review and recommend requirements of additional/new expertise and the succession arrangements for retiring Directors and key management personnel (KMPs) from time to time.

### Performance during 2011

The Committee acted and carried out its functions and responsibilities during the year within the scope of its Terms of Reference to a very good extent including the following:

- The Committee reviewed the new organisation structure of the Bank and identified KMPs responsible for core areas of the Bank and approved the successors identified for their respective positions.
- The Committee reviewed the fitness and propriety of Directors, CEO and key persons [as defined in the Banking Act No. 30 of 1988 (as amended)].
- The Committee reviewed the contribution and performance made by Directors, Messrs E. Narangoda, R. Nadarajah, Nihal Jayamanne PC and A.L. Devasurendra and recommended the re-election of these Directors subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Bank.

### Evaluation of the Committee

As authorised by the Board, the Board Nomination Committee carried out an appraisal of the performance/effectiveness of the Committee and submitted a Self-Assessment Report to the other members of the Board for their review who had expressed satisfaction that the Nomination Committee had carried out its functions effectively.



**Rear Admiral B.A.J.G. Peiris**

*Chairman - Board Nomination Committee*

8th February 2012

# Sustainability Report

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*Chavakachcheri  
opening on  
29th April 2011*

## Chairman's Message

Seylan Bank, the Bank with a Heart, recognises that its corporate responsibility includes, and goes well beyond environmental protection, to considerations on broader economic and social issues - such as equitable development and financial inclusion of less privileged groups.

For us, 'Sustainability' is an approach that integrates our core banking business with the interests of our diverse stakeholder groups to create long-term value for shareholders, through responsible environmental, social and governance practices. It is an approach that also gives the Bank a strategic framework to contribute to the development of the nation at large. This poses both challenges as well as opportunities, as will be seen in the pages that follow.

The Board Sustainability Committee, set up in 2010, serves to infuse greater

involvement of the Board of Directors in defining a holistic approach to sustainability and business strategy. As a further step forward, a separate Sustainability Division was set up in 2011, which works closely with Management Committees focused on economic, environmental and social aspects. These Management Committees identify, plan and implement CSR projects in line with the Board-approved policy framework, while effectively engaging with key stakeholders that include investors, customers, employees, suppliers and the local communities.


Of special relevance is our continued commitment to uplifting the living standards of rural communities, as well as those recovering from the war-ravaged North and East of the country, by providing them the access to financial services for

# Sustainability Report

sustainable livelihoods. For example, we initiated a pilot village development project in Devamulla to support self-employment through micro financing, while at the same time integrated the educational needs of children and access to healthcare facilities of the local community into the project. It is not short-term philanthropy, but a strategic investment targeting poverty alleviation that holds promise for replication in more villages across the country in the coming years.

Looking ahead, 'sustainable banking for equitable development' will continue to be our watchword. We will deliver innovative and value added products and services while having in place appropriate safeguard measures to mitigate any negative social and environmental impacts, including those arising from our product portfolio.

In this third Sustainability Report we present our core business philosophy, strategies and results achieved during the year from the perspective of our key stakeholder groups. As the Bank completes its turnaround and sails forward, we have used the metaphor of charting a north bound course as our theme - an exciting voyage that is about finding purpose, setting direction whilst creating long-term value for our stakeholders.



**Eastman Narangoda**

*Chairman*

08th February 2012

## Report Parameters

### Reporting Period

Our Sustainability Report covers the 12-month period ending 31st December 2011. This is our third report on sustainability, produced annually and presented with the Bank's Annual Report. The most recent previous report, dated 18th February 2011, was presented with the Bank's Annual Report 2010 with a B+ self declared rating, demonstrating a significant improvement over the previous year.

### Report Scope and Content

The scope and content of the Report is determined by materiality, stakeholder inclusiveness, sustainability context and completeness. Materiality is largely influenced by financial performance and the impact on stakeholders' interests as detailed in the discussion that follows.

The Report begins with an analysis of the key elements of economic, environmental and social performance - the Triple Bottom Line - of the Bank that would substantially influence the assessment and decisions of our stakeholders. It identifies challenges as well as opportunities, risks and our strategic responses. We then provide a stakeholder analysis identifying their expectations, which in turn transform into our commitments and

objectives. These are then developed into key performance indicators and disclosed with comparative information for the previous year/s. Read in conjunction with supporting discussions, they provide insights on our business strategy, results achieved and outstanding issues.

### Report Boundary

Our Sustainability Report covers Seylan Bank PLC (the Bank), which operates countrywide. It does not include the Bank's 51.83% - owned subsidiary, Seylan Developments PLC, which produces a separate report that is presented in the subsidiary company's Annual Report.

### Measurement and Disclosure

Information presented herein has been extracted from the audited Financial Statements and other data sources maintained by the Bank.

### Reporting Framework and Assurance

Our report is based on the Global Reporting Initiative (GRI), using the current G3.1 sustainability indicators. It has been subject to independent assurance by KPMG Ford, Rhodes, Thornton & Co. Their Assurance Report is given on pages 222 and 223.

# Sustainability Report

## Contact Persons for Additional Information

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## Profile of the Bank

### Legal Form and Equity Partners

Seylan Bank PLC, set up in 1987 and set to celebrate its Silver Jubilee in 2012, is a public limited liability company incorporated in Sri Lanka and listed on the Colombo Stock Exchange. It is a licensed commercial bank regulated under the Banking Act No. 30 of 1988 (as amended). More details, as well as shareholding, are found in the sections titled Corporate Information and Investor Relations of the Annual Report respectively.

### Operational Structure

The Bank focuses on conventional commercial banking that utilises high-end technologies. Our primary business activities, that operationalise the Bank's Vision and Mission (page 114), are conducted through an operational structure comprising Corporate Banking, Retail Banking, Treasury and International & Trade Finance. They are discussed in detail in the section titled Management Discussion and Analysis of the Annual Report.

## Our Market Presence

The Bank continued its growth momentum through the addition of 11 more delivery points and 8 ATMs during the year. It has a presence in all 25 Districts and Nine Provinces of the country, with customer access through 99 branches, 34 convenient centres (extension offices), 83 student savings centres and 133 ATMs.

The Bank offers a wide range of banking and related services such as accepting deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, travel related services, corporate and retail credit, project financing, lease financing, rural credit, local and international credit cards, telebanking and internet banking facilities, and dealing in Government Securities.

## Scale of Operations

As at 31st December 2011 the Bank employed 3,150 persons countrywide. Other key indicators of scale are summarised below:

	Value Rs. Bn.	Growth %
Assets	165.88	10.82
Advances	118.42	15.57
Deposits	120.54	9.68
Equity	17.54	44.99
Profit before tax and VRS	2.27	13.68

More information is provided in the Financial Statements, the Ten Year Summary and elsewhere in the Annual Report.

## Approach to Sustainability

### Our Strategy

The Bank adopts a strategic approach that integrates our core banking business with the interests of our stakeholder groups to create long-term value for shareholders, through responsible environmental, social and governance practices. It is an ongoing and continuous area of focus in discussions and decisions that translate into setting goals and targets.

Our primary business objective is the provision of superior financial services that cater to the needs of our customers. In the process, it leads to several direct and indirect impacts on the lives of people, such as employment creation, access to education and healthcare, as well as environmental

consciousness. We play an important role in supporting economic growth, reducing poverty and unemployment, improving living conditions, empowering people, and creating a safe and clean environment for all our stakeholders and the community at large.

### Strategy in Action

Based on a stakeholder analysis (discussed in the sections that follow), our sustainability strategy translates into the following key areas of action:

- Creating sustainable value for our investors
  - Generating superior long-term financial returns
  - Supporting national economic priorities and equitable development
  - Complying with regulatory requirements and being a responsible corporate citizen
  - Recognition and acceptance
- Delighting our customers
  - Innovating value added products and ensuring excellence in service delivery
  - Providing recognition and support right through customer's life cycle
  - Promote SMEs, entrepreneurship and wealth creation
  - Supporting financial literacy
- Empowering and inspiring our Seylan Team
  - Maintaining sound labour practices and a decent workplace
  - Ensuring occupational health and safety

# Sustainability Report

- Encouraging diversity and equal opportunity
- Respecting human rights and labour relations
- Providing opportunities for professional and personal development
- Building Seylan Family
- Connecting with our communities
  - Supporting micro entrepreneurs
  - Fostering health and well-being
  - Investing in education
  - Piloting an integrated approach to village development
- Working closely with our suppliers
  - Adopting transparent procurement policies and practices and Seeking long-term relationships
  - Giving preference to locally based suppliers
- Protecting the environment for future generations
  - Promoting effective and efficient use of resources within the Bank
  - Monitoring environmental and social safeguards on projects financed
  - Creating environmental consciousness amongst the general public

The above are discussed in detail under the section titled Stakeholder Engagement that follows.

## Governance

Sound corporate governance is essential to create trust and engagement between the Bank and its shareholders, as well as the other stakeholders. It is a core part of the way we do business and is discussed in detail through a separate report on corporate governance that is an integral part of the Bank's Annual Report. As noted therein, the Bank has in place a dedicated Board Sustainability Committee that ensures:

- *Commitment to sustainability principles* that integrate our core business with economic, environmental and social considerations;
- *Adoption of social and environmental safeguards* to mitigate risks arising from the Bank's operations as well as its portfolio; and
- *Implementation of sound governance policies* that include transparency, responsibility and accountability to stakeholders.

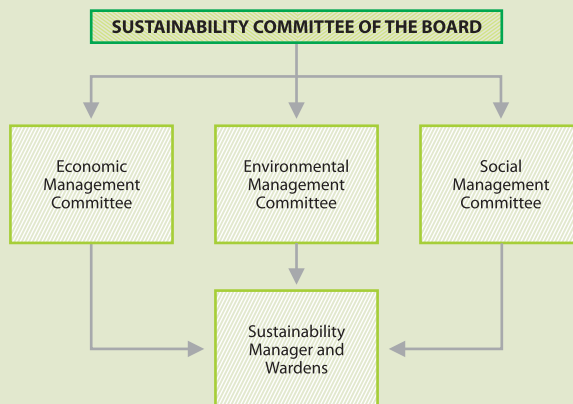


## Sustainability Precept

<b>Commitment to Sustainability</b>	To comprehensively integrate social economic and environmental considerations into the core business and to actively strive to all our business transactions that promote sustainability.
<b>Transparency and Governance</b>	The Bank is at all times transparent in its dealings with its stakeholders and to support public, society and the community reducing burden to the country and adopting public policies through the sustainability projects.
<b>Environmental Protection</b>	Prevent/minimise environmentally and/or socially detrimental impacts of the Bank's portfolios and operations and improve social and environmental conditions
<b>Responsibility and Accountability</b>	Bears responsibility for the environmental and social impacts of all its transactions

The Board Sustainability Committee is assisted by three Management Committees that are led by members of senior management, focusing on economic, environmental and social aspects. To provide greater thrust and effective implementation,

a separate Sustainability Division, was set up during the year. The Division, headed by a Sustainability Manager, is assisted by Sustainability Wardens drawn from all branches who perform this role in addition to their designated functions.



# Sustainability Report

The members of the three Sustainability Management Committees comprise General Manager/Chief Executive Officer, Chief Risk Officer, DGM Audit, DGM Branch Banking Zone 1, AGM Human Resources, AGM Supplies, AGM Finance, Personal Assistant to Chairman and representatives from Marketing, Human Resources and other areas.

The Management Committees are responsible for

- Developing the sustainability agenda
- Overseeing progress across the Corporate Responsibility strategies
- Ensuring conformance with sustainability guidelines
- Identifying and managing areas of non-compliance within the sustainability principles
- Setting standards for policies and procedures in meeting sustainability principles

The Sustainability Division executes the above initiatives through the Sustainability Manager and Wardens.

## Commitments to External Initiatives

The Bank maintains an active membership in several key associations to deal with

matters that arise from the ordinary course of business. They include the following:

Institute of Bankers Sri Lanka	Ceylon Chamber of Commerce
Association of Professional Bankers of Sri Lanka	The National Chamber of Commerce of Sri Lanka
Clearing Association of Bankers in Sri Lanka	International Chamber of Commerce Sri Lanka
Sri Lanka Banks Association (Guarantee) Limited	The Employers' Federation of Ceylon
Lanka SWIFT User Group	Employees Federation of Commerce in Sri Lanka
Credit Information Bureau	Colombo Stock Exchange

In addition we maintain regular contact with regulators, rating agencies, analysts, professional bodies such as ICASL, ACCA, etc.

## Managing Risk and Responding to Challenges

Risk is an integral aspect of our business. The Bank's strategies aim to deliver superior value to its stakeholders by managing the trade off between risk and return. The Bank's risk management strategy is based on the clear understanding of the various risks, disciplined assessments, measurements and continuous monitoring. A detailed account of our risk management process, including aspects on compliance, is given in the Board Integrated Risk Management Committee Report.

The table below summarises the challenges, opportunities, risks and our strategic response presented in the context of the triple bottom line - Economic, Environmental and Social aspects.

Triple Bottom Line	Challenges	Opportunities	Risks	Our Strategies
Economic	<p>The global financial crisis; Lingered negative perception of the Bank following the events of 2008; Liquidity crunch; Fluctuations in foreign exchange rates, interest rates and commodity prices.</p>	<p>Tapping market potential of growth sectors such as healthcare, leisure and Infrastructure development; Expanding opportunities in cleaner production technologies such as e-based channels and products.</p>	<p>Unbalanced or short-term economic targets could result in wasteful resource allocation and negate sustainable development.</p>	<p>Enhance customer reach and with new channels and products; Maintain effective capital allocation policies; Maintain a diversified portfolio; Be vigilant on market behaviour; Sound risk management, governance and operational policies; Comply with industry standards and practices.</p>
Environmental	<p>Balancing customer demands and Bank's objectives to conserve energy and reduce the use of paper; Getting local suppliers to provide the required goods and services at competitive prices while adhering to environmental and social standards;</p>	<p>Leverage cleaner and advanced technologies to minimise energy and paper consumption, and reduce operational costs.</p>	<p>Environmental degradation due to increased consumption of energy and paper. Although climate change does not materially affect the internal performance of the Bank, clients financed in certain sectors such as agriculture and fishery are vulnerable.</p>	<p>Close monitoring of operational costs; Training development and awareness creation programmes; Continuous improvement to enhance operational efficiency; Comprehensive risk management strategies which include preventive measures such as sector exposure limits, as well as remedial measures such as loan restructuring as per the Bank's credit policy.</p>
Social	<p>Employee retention; Protection of human rights and decent work practices; Strict conformance with labour legislations.</p>	<p>Improved productivity through training and development; Community building through continued initiatives in the thematic areas of education, environment, health, culture, disaster relief and employee volunteering.</p>	<p>Expansion plans and boom in certain industries may lure staff; New technologies could strain certain social and cultural norms within the community.</p>	<p>Need-based training and development; Performance-based staff appraisals and linkage with KPIs; Clearly understood policies and procedures</p>

# Sustainability Report

## Financial Implication/Other Risk and Opportunities due to Climate Changes

Bank is not directly exposed to risk arising from climate changes. However due to the fact that it provides financial accommodation to customers engaged in industries such as agriculture, fisheries, export business that are highly vulnerable to climate changes any adverse climate conditions could indirectly affect on the performance. Further dealing with the business engaging in the leisure sector, tourism and allied services and trade financing are also exposed to the risk from unfavourable climate conditions.

Bank support those affected segments with the affordable waive offs, flexible terms, allowing grace periods according to the credit policy of the Bank. Further, the Bank initiates precautionary measures to avoid any risk affecting the Bank's economic responsibility for its stakeholders. In this context, the limits on sector wise exposure is a key measurement

Details of the sector wise exposure is given in the risk report in addition to the Notes to the Financial Statement on page 313.

## Stakeholder Engagement

### Identifying Our Stakeholders and their Expectations

Stakeholders are individuals or groups who can affect or be affected by the activities of the Bank. Based on regular and ad hoc engagement with key stakeholder groups, we summarise below a matrix giving their primary expectations and our response in the form of a set of commitments and goals.

Stakeholders and their Expectations		
Stakeholder	Expectations	Our Commitments and Goals
Investors	Value creation and growth; Congruence with national economic priorities; Equitable development; Ethical business practices; Corporate responsibility	Effective and efficient management that delivers sustainable wealth and a superior return; Sound governance and transparency; Prudent risk management practices; Regulatory compliance; Respect for the individual; Good corporate citizen

## Stakeholders and their Expectations

Stakeholder	Expectations	Our Commitments and Goals
<b>Customers</b>	Convenience; Service excellence; Product innovation and value addition; Financial literacy; Entrepreneur building	Product innovation and management; Convenient and flexible banking options; Benchmarking and delivering superior customer services; Customer-focused value additions; Shared values
<b>Employees</b>	Recognition; Self-development; Fulfilling work; Team spirit; Remuneration package	Performance-linked remuneration, rewards and recognition policies; Fostering team spirit; Need-based training and development; Diversity and equal opportunity; Sound labour policies and practices; Respect for human rights
<b>Community</b>	Support the creation of sustainable communities through access to financial services, education and healthcare	Outreach and financial inclusion; Sustainable livelihoods through micro financing; Integrated programmes that include education, healthcare and entrepreneurship; Empowerment of the community
<b>Suppliers</b>	Transparent procurement policies and processes; Long-term partnerships	Transparent procurement policies and processes; Competitive sourcing based on quality and price; Preference for locally-based suppliers where appropriate; Long-term relationships
<b>Future Generations</b>	Sustainable environment; Future generations to enjoy the same or better environmental potential as presently exists	Effective and efficient use of resources; Adopt principles of responsible investment; Environmental and social safeguards on projects financed; Awareness creation

# Sustainability Report

## Delivering on Our Commitment

Effective stakeholder engagement assists the Bank in understanding current and emerging needs of stakeholders, and in turn the challenges to develop mutually beneficial solutions. A snapshot of our achievements based on stakeholder expectations is given in the table below, while details are discussed in the respective sections that follow:

Stakeholder Group	Priorities	Indicator of Performance	Achievement	
			2011	2010
Investors	Generating superior long-term financial return	Financial value added, Rs. Mn.	<b>6,406</b>	6,529
		Economic value added, Rs. Mn.	<b>(322)*</b>	926
		Profit after tax, Rs. Mn.	<b>1,003</b>	1,228
		Earnings per share, Rs.	<b>3.28</b>	4.60
		Return on equity, %	<b>6.78</b>	10.88
	Supporting national economic priorities and equitable development	Number of housing loans outstanding	<b>5,730</b>	5,369
		Value of housing loans, Rs. Mn. (Net)	<b>8,755</b>	8,323
		Customer savings and deposits, Rs. Mn.	<b>120,539</b>	109,891
	Ensuring regulatory compliance and being a responsible corporate citizen	Penalties arising from non-compliance	<b>Nil</b>	Nil
		Total training programmes on anti-corruption policies and procedures	<b>109</b>	103
KYC, anti-money laundering programmes		<b>19</b>	5	
Customers	Innovating value added products and ensuring excellence in service delivery	No. of branches and convenience centres	<b>134</b>	122
		No. of ATMs	<b>133</b>	125
		Total customer advances, Rs. Mn.	<b>118,419</b>	102,468
	Providing recognition and support right through out one's life	Total No. of 'Seylan Sure' claims	<b>2,440</b>	
		Total disbursed, Rs. Mn.	<b>23,650</b>	
	Supporting SMEs, entrepreneurship and wealth creation	SME loan portfolio, Rs. Mn. (Net)	<b>26,966</b>	20,801
		No. of new SME customers	<b>15,303</b>	14,484
	Promoting financial literacy	No. of Kids Banking Day events held	<b>47</b>	N/A
		No. of student banking centres	<b>83</b>	83
		Financial support to schools, Rs. Mn.	<b>9.89</b>	-
Employees	Maintaining sound labour practices and decent work place	Turnover Rate (excluding VRS)	<b>5.36</b>	3.40
		Percentage of permanent employees	<b>97.5</b>	97.8
		Percentage of employees covered by collective agreements	<b>67</b>	N/A
		Average benefits per employee excluding VRS, Rs. '000	<b>975</b>	806

\* With additional cost of capital and VRS (Refer detail EVA in page 189)

Stakeholder Group	Priorities	Indicator of Performance	Achievement	
			2011	2010
	Ensuring occupational health and safety	Percentage of staff covered by health plan	100	100
		Work-related fatalities or lost days	-	-
	Encouraging diversity and equal opportunity	Percentage of women employees	38	39
		Percentage of women in corporate and middle management	25	27
		Basic salary ratio, male/female (range depending on grade)	(Refer table for each grades in page 210)	
	Respect human rights and labour relations	Union membership, %	89	89
Number of pending human rights case against the Bank		Nil	Nil	
Providing opportunities for professional and personal development	External training programmes participants	421	312	
Community	Supporting micro entrepreneurs	Total micro finance loans granted, Rs. Mn.	646	86.1
	Fostering health and well-being	Contribution to healthcare projects, Rs. Mn.	1.5	0.2
	Investing in education	Contribution to education-related pursuits, Rs. Mn.	1.91	1.04
	Promoting financial inclusion		New loans granted for university students	7 Mn.
Suppliers	Adopting transparent procurement policies and practices	Number of complaints received from bidders and suppliers	-	-
Environment	Promoting effective and efficient use of resources within the Bank	Electricity consumed, units kwh ('000)	9,187	9,362
		Water consumption, Litres ('000)	72,907	90,346
		Stationery consumed, Kgs ('000)	222	256
		Waste paper recycled, Kgs ('000)	72	58

## Creating Sustainable Value for Investors

### Our Policy and Our Approach

*It is a policy of the Bank to deliver sustainable and superior value to all its investors. Our business goals are directed through the Bank's strategic plan and approved by the Board.*

They focus on:

- Generating superior long-term financial return
- Supporting national economic priorities and equitable development
- Complying with regulatory requirements and being a responsible corporate citizen.
- Recognition and acceptance

# Sustainability Report

## ● Generating superior long-term financial returns

The performance of the Bank is measured and monitored regularly at different levels. Management accounts are prepared monthly and variances with explanations are tabled at Board meetings.

Strategic plans are prepared in advance and approved by the Board before they are disseminated for implementation. The Bank

worked on the Strategic Plan 2009-11 during the year under review, and is now migrating to the Strategic Plan 2012-15 and that has been already approved and launched to facilitate key staff to understand the Bank's direction for the future years.

The tables below indicate the financial value generated and distributed by the Bank to its stakeholders, economic value added and the sources and utilisation of income:

### (i) Statement of Financial Value Added

	2011			2010		
	Rs. '000			Rs. '000		
<b>Value Added</b>						
Income Earned by Providing Banking Services	18,445,184			18,936,970		
Cost of Services	(12,348,202)			(11,921,386)		
<b>Value Added by Banking Services</b>	<b>6,096,982</b>			<b>7,015,584</b>		
Non-Banking Income	959,118			1,095,507		
Provision for Loan Losses	(649,236)			(1,581,842)		
	<b>6,406,864</b>			<b>6,529,249</b>		
	Rs. '000	2011 Rs. '000	%	Rs. '000	2010 Rs. '000	%
<b>Value Allocated</b>						
<b>To Employees</b>						
Salaries, Wages and Other Benefits	3,044,270			2,886,626		
Cost on Voluntary Retirement Scheme	698,650			2,886,626		
	3,742,920			44.21		
<b>To Providers of Capital</b>						
Dividends to Shareholders	338,080			257,120		
	5.28			3.94		
<b>To Government</b>						
Income Tax	569,755			768,653		
Stamp Duty	31,438			12,238		
VAT on Financial Services	447,477			857,240		
VAT and Debits Tax	12,192			25,697		
	1,060,862			1,663,828		
	16.56			25.48		
<b>To Expansion and Growth</b>						
Surplus/(Deficit)	664,572			971,861		
Depreciation	600,430			749,814		
	1,265,002			1,721,675		
	19.74			26.37		
	<b>6,406,864</b>			<b>100.00</b>		
	<b>100.00</b>			<b>6,529,249</b>		
	<b>100.00</b>			<b>100.00</b>		



## (ii) Economic Value Addition (EVA)

Bank recognises EVA as a key measurement of real economic value of the profitability that is distributed to the stakeholders, EVA of the year became negative due to the additional cost of capital. Additional capital infused during the year Rs. 4.7 Bn. and the cost of VRS Rs. 699 Mn.

## Statement of Economic Value Added

	2011 Rs. '000	2010 Rs. '000	2009 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Equity</b>					
Shareholders' Funds	17,539,525	12,097,025	10,570,972	7,020,011	7,036,235
Add: Accumulated Provision for Credit Losses	5,039,661	6,287,479	6,466,008	6,560,266	4,972,226
	<b>22,579,186</b>	18,384,504	17,036,980	13,580,277	12,008,461
<b>Earnings</b>					
Profit Attributable to Shareholders	1,002,652	1,228,981	543,301	155,241	923,189
Add: Provision for Credit Losses	649,236	1,581,842	2,183,132	2,467,187	1,365,075
Less: Direct Write Offs	(10,251)	(10,851)	(18,687)	(81,611)	(23,999)
	<b>1,641,637</b>	2,799,972	2,707,746	2,540,817	2,264,265
<b>Economic Cost % (12 month average</b>					
Treasury Bill rate plus 2% Risk Premium)	9.59%	10.58%	14.93%	20.91%	18.60%
Cost of Average Equity	1,964,209	1,873,796	2,285,578	2,675,302	2,132,983
Economic Value Addition	<b>(322,572)*</b>	926,176	422,168	(134,485)	131,282

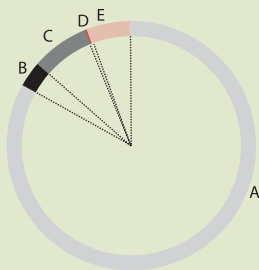
\* EVA Before VRS & additional capital - 601,037

# Sustainability Report

## (iii) Sources and Utilisation of Income

	2011 Rs. '000	2010 (Reclassified) Rs. '000	2009 (Reclassified) Rs. '000	2008 (Reclassified) Rs. '000	2007 Rs. '000
<b>Sources of Income</b>					
Interest	16,129,579	16,596,094	20,708,034	21,552,070	17,806,815
Exchange	624,216	403,066	521,388	670,731	603,824
Fee & Commission	1,512,211	1,427,046	1,274,251	1,801,826	1,465,027
Dividend	15,911	6,503	5,199	223,295	21,418
Other	1,122,385	1,599,768	645,657	998,287	1,182,801
<b>Total</b>	<b>19,404,302</b>	<b>20,032,477</b>	<b>23,154,529</b>	<b>25,246,209</b>	<b>21,079,885</b>
<b>Utilisation of Income</b>					
<b>Employees</b>					
Salaries and Other Payments	3,742,920	2,886,626	2,342,563	3,361,212	3,173,560
<b>Suppliers</b>					
Interest Paid	8,349,238	8,529,007	13,492,053	14,361,452	11,022,689
Other Expenses	5,248,630	5,724,035	5,785,828	7,007,501	4,798,290
	13,597,868	14,253,042	19,277,881	21,368,953	15,820,979
<b>Net Income before Government</b>					
Taxes and Levies	2,063,514	2,892,809	1,534,085	516,044	2,085,346
<b>Government</b>					
Income Tax/SRL/NBT/VAT/DT	1,060,862	1,663,828	990,784	360,803	1,162,157
<b>Shareholders</b>					
Dividend	338,080	257,120	133,018	-	255,232
Retained Profits	664,572	971,861	410,283	155,241	667,957
<b>Total</b>	<b>19,404,302</b>	<b>20,032,477</b>	<b>23,154,529</b>	<b>25,246,209</b>	<b>21,079,885</b>

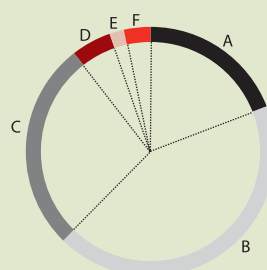
### ■ Sources of Income



%

● A - Interest	83.12
● B - Exchange	3.22
● C - Commission	7.79
● D - Dividend	0.08
● E - Other	5.79

### ■ Utilisation of Income



%

● A - Salaries and Other Payments	19.29
● B - Interest Paid	43.03
● C - Other Expenses	27.05
● D - Taxes	5.47
● E - Dividends	1.74
● F - Retained Profit	3.42

(iv) (a) Other key indicators of performance relevant to shareholders are tabulated below:

Indicator	2011	2010	2009	2008	2007
Earnings per Share, Rs.	<b>3.28</b>	4.60	2.83	0.90	5.50
Dividend Yield - Voting, %	<b>1.48</b>	1.02	1.35	–	4.69
Dividend Yield - Non-Voting, %	<b>3.25</b>	2.04	3.12	–	18.75
Gross Dividends - Ordinary, Rs. '000	<b>338,080</b>	253,560	126,780	–	250,680
Assets Growth - YOY, %	<b>10.82</b>	12.74	(13.82)	7.35	10.13
Share Price - Voting, Rs.	<b>67.60</b>	97.80	37.00	28.50	32.00
Share Price - Non-Voting, Rs.	<b>30.80</b>	49.00	16.00	6.00	8.00

#### (iv) (b) Anti Corruption

Seylan espouses a zero tolerance policy on corruption.

Similarly, Seylan does not tolerate ethically unsound or corrupt practices on the part of our business partners either.

There were no incidents of corruption reported during the year under review.

#### (iv) (c) Anti Competitive Behaviours

Seylan does not engage in anti-competitive behaviour. No legal action has been instituted against the Company on this basis.

#### (iv) (d) Public Policy

We work with regulatory and other authorities in different sectors to assist them in their sustainable development efforts across the country through our branch network.

No contributions were made to political parties in cash or in kind, in the year under review.

### • Supporting National Economic Objectives and Equitable Development

The Bank contributes to national initiatives by participating in credit programmes that target specific sectors. These programmes are structured to provide partial refinance for the lender, and also may entail disbursement of grants and subsidies made available by Government and other donor agencies.

# Sustainability Report

(i)

Refinance Scheme	Donor	Eligible Sectors	Loans granted in 2011	
			No.	Amount Rs. Mn.
Awakening the Northern sector	90% refinanced by Agency Francaise de Development	Any legally accepted income generating activities in the Northern Province	23	4.50
Eastern Province special loan scheme	100% refinance by Government of Sri Lanka	Any legally accepted income generating activities in the Eastern Province	3	0.65
'Saubhaga' - The prosperity loan scheme	100% refinanced by Government of Sri Lanka	Micro, small and medium scale enterprises	19	102.06
'Kapruka Ayojana' credit scheme	100% refinanced by the Coconut Cultivation Board	Small and medium scale coconut cultivation	9	4.20

Interest Subsidy Scheme	Interest Subsidy	Purpose of Loan	Loans granted in 2011	
			No.	Amount Rs. Mn.
New comprehensive rural credit scheme	8% interest subsidy from CBSL	Small scale farmers for cultivation and produce buyers under forward sales contracts	550	43.20

(ii) Contribution to Government Revenue

The Bank is subject to taxes on its income as shown below, which in turn make a significant contribution towards Government revenue.

Description	2011	2010	2009
	Rs. Mn.	Rs. Mn.	Rs. Mn.
Value Added Tax on Financial Services	447	857	561
Income Tax and Other Taxes	614	807	430
Total Contribution to Government from Bank's profile	1,061	1,664	991
Total Contribution as a % of total operating income	9.66%	14.55%	10.37%

## ● Complying with Regulatory Requirements and being a Responsible Corporate Citizen

(i) As a responsible corporate citizen, we conduct our business in full compliance with all applicable laws and regulations. Compliance is monitored monthly by the Board. The important provisions are discussed below:

Area of Compliance	Status of Compliance and Action Taken
Percentage and total number of business units analysed for risk relation to corruption and percentage of employees trained in the Bank's anti-corruption policies and procedures	The Bank conducts regular training programmes to make staff aware of the threats and issues from corruption. (Refer table below)
Action taken in response to incidents of corruption	There were no reported incidents.
Participation in public policy development	The Bank is regularly invited by the Government to submit its proposals for consideration when formulating the Government' Annual Budget and the implementation of IFRS.
Total value of financial and in kind contribution to political parties and politicians	The Bank carries out its transactions only in the ordinary course of business. No contributions were made to political parties or politicians.
Number of legal actions for anti-competitive behaviour	The Bank did not encounter any legal action for any anti-competitive behaviour during the year 2011.
Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	There were no fines or non-monetary sanctions during the year under review.  The Bank has complied with all applicable laws and regulations. Internal monthly compliance reports are tabled at Board meetings as a monitoring tool.

# Sustainability Report

## (ii) Specialised Training on Compliance

To further strengthen the staff capacity on compliance and prevention of fraud, selected staff participated in the following training programmes during the year:

- General Banking Practices
- Compliance and specialised areas such as Anti-Money Laundering/Know Your Customer
- System Security
- Accounting and Auditing

### *Our Training for Compliance*

Type of training	No. of Programmes	No. of Participants	No. of training hours
General Banking Practices	67	2,144	536
Anti-Money Laundering/KYC	19	608	152
System Security	7	17	56
Accounting and Auditing	16	44	128
<b>Total</b>	<b>109</b>	<b>2,813</b>	<b>872</b>

Details are provided along with other staff training and development programmes described later in this Sustainability Report.

## (iii) Defined Contribution Plan

As a responsible employer, the Bank operates a retirement gratuity scheme for employees as per the Gratuity Act No. 12 of 1983. An actuarial valuation of the retirement benefit obligation was carried out as at year end using the projected unit credit method as prescribed in Sri Lanka Accounting Standard No. 16 on Employee Benefits for the valuation.

The Bank contributes to two types of defined contribution plans for its employees, namely, the Employee Provident Fund (EPF) and the Employee Trust Fund (ETF). More details on these contribution plans are given in the Notes to the Consolidated Financial Statements and summarised below:

Contribution to Defined Benefits Plans	2011	2010	2009
	Rs. Mn.	Rs. Mn.	Rs. Mn.
Employee Provident Fund	221	224	229
Employee Trust Fund	55	56	57
<b>Total</b>	<b>276</b>	<b>280</b>	<b>286</b>

## Recognition and Acceptance

*Due recognition received by the Bank also provides long-term value creation to our investors, and we take justifiable pride in listing below awards received during the year 2011.*



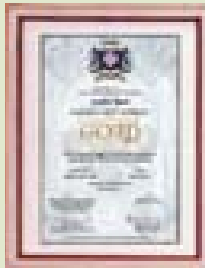
Business Top 20 Award



Merit Award - SAFA Best Presented Accounts 2010



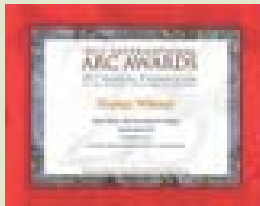
Certificate of Compliance 2010 - The Institute of Chartered Accountants of Sri Lanka



LMD Ranking under Gold Category 2011/2012

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### ARC Awards for Annual Report 2010



Three of the five ARC Awards won in New York

# Sustainability Report

## Delighting Our Customers

Our approaches include:

- Innovating value added products and features, ensuring excellence in service delivery and expanding our reach to bring banking to the customer's door step
- Providing recognition and support right through a customer's life cycle
- Promoting SMEs, entrepreneurship and wealth creation
- Supporting financial literacy

We serve with our heart, with the customer as our central focus. We provide a wide range of products and services through number of delivery channels in meeting, if not exceeding, the expectations of our customers.

- Innovating value added products and features, ensuring excellence in service delivery

### (i) Product Responsibility

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

Our product innovation has been based with different branded products which cater for our customer needs.





(ii) We offer branded and generic products and services which cater to the needs of customers. They are summarised below:

Business Segments	Delivery Channels	Products	Benefits
Personal Banking	Branch Network, Convenient Banking Centres, Mobile Banking Units, Student Saving Centres, Internet Banking, Telebanking, SMS Banking, ATMs.	Savings and Current Accounts, Minors Savings Accounts, Fixed Deposits. Overdrafts, Pawning, Housing Loans, Term loans, Leasing	Our products deliver a range of value added features and benefits to our customers at convenient locations and access points. Affordable prices are offered for loans and other services, thus assisting customers address their personal needs.
Corporate Banking	Branch Network, Internet Banking, ATMs	Overdrafts, Term loans Letters of Credit, Export and Import Loans, Leasing, Pledge Loans, Syndicated Loans, Letters of Guarantee, Leasing	Assist customers meet their funding requirements through regular and tailor-made products. Other services and assistance, including access to our specialised knowledge and expert advice.
Treasury and International	Branch Network	Treasury Bills and Bonds, other investments and instruments, Trade Services and related products	Assistance for investments; Access to specialised services and trade-related requirements.

(iii) Our product policy includes the following procedures, governance and the risk management practices:

#### Customer Health and Safety

Health and safety impacts of products and services on customers	The Bank continuously monitors and improves customer services to reduce indirect health and safety issues such as pressure, stress, anger by providing online access, e-banking facilities, trained tellers, countrywide access points etc.
Any incidents of non-compliance with regulations and voluntary codes in respect of health and safety issues	There were no incidents reported during the year.

#### Product and Service Labelling

Type of product and service information provided	The Bank discloses all required information in a clear and unambiguous manner to enable a customer to compare products and make an informed decision.
Any incidents for non-compliance for service information and labelling	No such incidents were encountered during the year under review

# Sustainability Report

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## Customer Satisfaction

Result of surveys, and measurement of satisfaction	The Bank initiated an internal survey in 2011 to evaluate and improve customer satisfaction and the level of service. It included measuring service effectiveness and excellence, knowledge of key products, branch image and access.
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## Customer Privacy

Number of complaints regarding customer privacy and losses of customer data	The Bank provides an opportunity to our customers to lodge their complaints directly with the Personal Assistant to the General Manager/ Chief Executive Officer. Complaints are handled quickly and confidentially. The number of complaints reduced from 76 in 2010 to 70 in 2011.
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## Compliance

Monetary value of significant fines	No fines were imposed on the Bank during the year for breach of provisions on product responsibility.
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Ongoing training for Bank staff on service excellence has helped us enormously to meet customer expectations, including aspects on customer privacy and data protection.

### (iv) Encouraging Eco-friendly Projects

The Bank provides loans to those seeking to purchase equipment to reduce harmful emissions, reduce waste, improve energy efficiency and resource utilisation, as well as measures that would substantially improve the health and safety of workplaces. The loans also cover investments relating to the purchase of equipment for the monitoring of pollution.

### (v) Enhancing Customer Reach

Strategy	Objectives	Achievements
Opening new branches and convenience centres, relocation of branches and convenience centres	Expanding banking channels whilst filling the gaps in financial intermediation in remote and rural areas; facilitating customer investments in those areas	New branches opened: 4 (two each in the Northern and Eastern Provinces) Branches relocated: 7 Convenience centres: 7 opened, 3 relocated
Expansion and replacement of ATM installations	Hassle free 24-hour banking	Eight ATMs installed newly: Northern Province 2 North Central Province 1 Eastern Province 2 Southern Province 1 Western Province 1 North Western Province 1

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Strategy	Objectives	Achievements
Improvement of technology-based channels	Meeting customer needs to suit their lifestyles; Security for wire transfers effected using Internet	Faster access with the ongoing development of technology, time effective banking solutions
Restructuring the regional set up	Work process development and establishing efficacy	Saving of resources for optimal value addition with a close link to the region's specific needs
Training and development of staff	Eliminate any gaps in terms of capacity or expertise in a rapidly changing and competitive environment	Meeting customer expectations; Well-equipped human capital to face any challenge
Branch and regional based marketing	Reaching the isolated retail clientele and fostering banking in a flexible manner	Successfully established platforms for progressive development of community and investment activity in the country



Kilinochchi Branch Opening



Beliatta Branch Shifting on 20th August 2011

### Innovating New Products and Features

Initiative	Description and Objective	Targets and Achievements
Revamping Housing Loans	To provide a better and faster service	Number and net value of housing loans granted in 2011. 361 and 432 Mn. (Net)
Re Branding <i>Tikiri</i>	Financial literacy	Growth over the previous year - 8.3%
<i>Thagi Pita Thagi</i> Promotion	Add value to existing depositors, certain borrowers and card holders while attracting new depositors to the scheme	Growth of deposit base - 5.7 Bn. in 68 days
Leasing Campaign	Offer flexible terms to suit the borrowers capacity	Growth in leasing base - 3.3 Bn. and 79%
Cards Promotions	Value addition	Growth of YOY cards volumes - 18%

# Sustainability Report

## ● Providing Recognition and Support right through Customer's Life Cycle

(i) As the *Bank with a Heart* we have tailored several innovative products to assist and delight our customers right through various milestones in their lives. The schemes and support granted during the year are given below:

Milestone	Support Granted
Welcoming a newborn baby	512 claims, Rs. 3.48 Mn.
Providing financial assistance for surgery	994 claims, Rs. 17.41 Mn.
Celebrating a customer's marriage	200 claims, Rs. 1.38 Mn.
Encouraging home ownership and home improvement, with 'express lane' loan approvals in just 4 days	361 loans, Rs. 432 Mn. (Net)
Supporting senior citizens through enhanced interest rates on deposits, and even celebrating their 60th Birthday	734 birthdays, Rs 0.98 million
Making life easy with Seylan cards	Growth in business volumes - 18%

(ii) Our gratitude to the senior citizens and their hard work to our motherland

During the year, bank offered number of financial benefits to the Senior Citizens those who have served the country for years and look forward to invest their hard saved earning during their working life to get the maximum benefit to enjoy the retirement.

- It is with great pride that we announced for the Senior Citizens over 65 years, who invested in Fixed Deposits and wish to draw the interest monthly, a 2% enhanced interest over the normal rates during the period **17th August to 15th November 2011**.
- Senior Citizens over 55 years investing their money in Fixed Deposits and draw the interest monthly are entitled to an

enhanced interest rate of 1% above the Bank's normal interest rate, irrespective of the period of investment.

- Seylan Bank extends its helping hand to Senior Citizens who invest in 4 or 5 year Fixed Deposits. They are rewarded with free vouchers in the first year of investment, to the value of 0.1% of the deposit, to pay Utility Bills by which contributing to meet their high cost of living expenses.
- These unique privileges could be availed of by Senior Citizens from our island-wide network, 133 banking outlets during the weekdays including extended banking hours and weekends till 12 noon.

(iii) We recognise having a shelter for everyone

With house building and home making being of core value in the hearts of a significant portion of the Sri Lankan population, Seylan Bank took an ideal opportunity presented to them to promote their product '*Seylan Siri Nivasa*', redefining the concept of housing loans, with a unique array of features, exquisitely designed for the purposes of purchasing a block of land, constructing a house, renovating, extending or completing an existing house or condominium apartment or even for the purpose of redeeming an existing housing loan. The loan allows the applicant the facility of undertaking home improvement requirements such as improving the interior décor in addition to, lighting and upgrading the furniture, purchasing electrical appliances, installing pantry cupboards and even landscaping.

- The hassle free loan scheme is made available to a wide range of the Sri Lankan population consisting of salaried employees, professionals, businessman, Sri Lankans employed abroad parent with son or daughter over 18 years of age.
- The most unique feature of the facility is to grant the loan **within 4 working days** of receiving the application (at the Seylan Siri Nivasa Centre, #2, Deal Place, Colombo 3).
- The loan amount could be availed from a minimum amount of Rs. 100,000 based on the applicant's repayment capacity and value of security offered, and to be repaid over a maximum period of 25 years.

Year	Outstanding as at	
	2011	2010
No. of Housing loans	<b>5,730</b>	5,369
Housing loans (Net)	<b>8.7 Bn.</b>	8.3 Bn.

Further, we encouraged opportunities around the country that are relating to housing and construction industries such as carpentry, masonry, and other related activities which create indirect employment and contribute to the improvement of living standards.

(iv) We make the customer's life easy

Seylan Bank was one of the pioneers to introduce credit card use in Sri Lanka. Bank has now embarked on its next phase of growth through a sustained stream of value addition to its card holders through a Number of discounts schemes promoting a range of benefits to card holders. List of value additions and are detailed in the management discussion.

# Sustainability Report

(v) We support for the education  
*Our Scholar Loans Scheme provides the financial support to*

Students who want to do their higher education locally and abroad. We also plan to partner with leading education institutes and professional bodies who conducts MBA/Degree/Diploma Examinations (Local/Abroad).

## ● Promoting SMEs, Entrepreneurship and Wealth Creation

The Small and Medium Enterprise (SME) sector provides the backbone to the rural economy. Given our special focus on the rural and underserved sectors of the economy, it is no surprise that Seylan Bank continues to make a significant contribution in assisting micro, small and medium scale enterprises in the country. Many of the micro and small enterprises that we have nurtured have now blossomed into larger enterprises, contributing to rural wealth creation.

SME Portfolio	Out standing as at		
	2011	2010	Increase
Number of Clients	<b>15,303</b>	14,484	5.7%
Loan Portfolio, Rs. Mn.	<b>26,966</b>	20,801	29.6%

## ● Supporting Financial Literacy

The Bank maintains 83 student savings centres to impart financial literacy among students throughout the country. In addition to these centres that are set up in schools, the Bank also provides support for the development of infrastructure and other requirements of the school. Investments made during the year are listed below:

Project	Investment Rs. Mn.
Infrastructure development of schools	0.34
Support for activities in schools and other educational institutions	0.75
Other education-related investments for children	8.80
<b>Total</b>	<b>9.89</b>

Similarly the objective of promoting a savings culture among students has been significantly met with our *Tikiri* saving product. The savings culture so developed contributes towards personal growth, self assurance, capability and positivism amongst students from an early age.

'Kids Banking Day' is another event organised by the Bank to enhance the financial literacy of children. It is conducted at regional level throughout the country.

Parents too participate in the event, and they get to understand the relevance. During the year Bank conducted 47 such programmes as detailed below.

Region	Locations of Kids Banking Day Events
Western	Horana, Soysapura, Grandpass, Boralesgamuwa, Meegoda, Cinnamon Gardens, Malabe, Nugegoda, Pettah, Homagama, Panadura, Kiribathgoda, Maradagahamulla, First City Office, Negombo, Dehiwela, Mirigama, Kottawa, Attidiya, Katunayake, Nittambuwa, Kalubowila, Matugama, Maharagama, Kalutara, Mount Lavinia, Old Moor Street, Kochchikade
Central	Kandy (including World Children's Day), Hatton, Bogawanthalawa, Nuwara Eliya, Nawalapitiya
Southern	Hambantota, Galle, Koggala
Sabaragamuwa	Mawanella, Kegalle
Eastern	Kattankudy, Trincomalee
Northern	Kilinochchi
North Western	Katuneriya
Uva	Bandarawela, Badulla
North Central	Polonnaruwa, Kekirawa



*Seylan's Kids Banking day on World Children's Day*



*Kids and Parents celebrating 'Kids Banking Day' at Kilinochchi*

# Sustainability Report

## Other Programmes for Children

- World Children's Day celebrations with Derana TV. More than 10,000 kids participated in this event, which included a lucky draw with several prizes.
- Children's Month Lucky Draw was aligned with the World Children's Day. Each branch selected 10 lucky prize winners.
- Kids Carnival organised for the *Tikiri Plus* account holders in the Kandy Region.
- Sponsoring the Nanjing Acrobatic Troupe, a Chinese Circus that ran for one month. Special discounts were offered for school children.
- Sponsoring the Prince of Wales College Rugby Carnival in which more than 20 schools in the Moratuwa area participated. The main objective was to promote the game among the under privileged schools in the area.
- Bangkok Dream World Tour for 25 *Tikiri Plus* customers and their parents, a fully paid 3-day trip to Bangkok.



Seylan Heart for Education at the Pilot Village - Devamulla

## Key Performance Indicators of the Customer Responsibility

Purpose wise Service	Balances as at year end		
	2011 Rs. Mn.	2010 Rs. Mn.	2009 Rs. Mn.
Housing	<b>8,755</b>	8,323	8,426
SME	<b>26,966</b>	20,801	20,966
Retail and personal loans	<b>44,060</b>	36,289	31,160
Staff Loans	<b>5,047</b>	5,152	4,543
Permanent workforce	<b>3,150</b>	3,622	3,733
No. of business outlets	<b>133</b>	122	117
No. of ATMs access	<b>133</b>	125	118

Our economic responsibility and commitment as a whole generates range of indirect benefits such as employment in various sectors, poverty alleviation, contribution for the country's GDP, upliftment of the living standards etc. which can be quantified for the reporting purpose.



## Empowering and Inspiring Our Seylan Team

### Our Policy and Our Approach

*Employee engagement has been a key driver of the Bank's performance and achievement of goals. Engagement across the organisation is a continuous process, with personal goals aligned to the overall business goals, resulting in mutually beneficial objectives.*

The Bank adopts several routes to empower and inspire its team. They include:

- Maintaining sound labour practices and a decent workplace
- Ensuring occupational health and safety
- Encouraging diversity and equal opportunity
- Respecting human rights and labour relations
- Providing opportunities for furthering professional and personal development
- Building Seylan Family

A key component is our commitment to continuous improvement and a results orientation. We encourage our team members to enhance their skills, map out their careers and grow both personally and professionally. The Bank is an equal opportunity employer.

The Bank designs its human resources policies based on strategic business needs. Our training and career development programmes have enabled us to retain the best of talent, and build a strong team to support business expansion plans.

Team Profile	2011	2010	2009
No. of staff	<b>3,150</b>	3,622	3,733
Percentage of women	<b>38.4</b>	42.1	44.0
Percentage of graduates and professionals	<b>16</b>	19	20
Average age (years)	<b>32</b>	35	34
Average service period (years)	<b>11.5</b>	13.5	12.0
Percentage of employees covered by Collective Agreement	<b>67</b>	-	-
Turnover index	<b>194</b>	127	145
Gross salary, Rs. Bn.	<b>1.84</b>	1.86	1.93

# Sustainability Report

## ● Maintaining Sound Labour Practices and a Decent Workplace

### (i) Staffing

Our total staff strength reduced from 3,622 to 3,150 during the year, following the implementation of a Voluntary Retirement Scheme (VRS), attrition and a general freeze on recruitment. An analysis of the composition of our staff is given below:

	2011		2010	
	No.	%	No.	%
<b>Team by Type of Service</b>				
Full Time	3,150	100.0	3,622	100.0
Part Time	-	-	-	-
<b>Team by Type of Contract</b>				
Permanent	3,072	97.5	3,543	97.8
Contract	48	1.5	51	1.4
Trainees	30	1.0	28	0.8
<b>Total</b>	<b>3,150</b>		<b>3,622</b>	

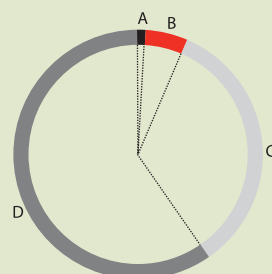
### Staff by Employee Grade

	2011		2010	
	No.	%	No.	%
<b>Corporate</b>				
Management	35	1.1	40	1.1
Middle Management	174	5.5	211	2.4
<b>Operational</b>				
Management	1,057	33.6	1,114	34.0
Other Staff	1,884	59.8	2,257	62.5
<b>Total</b>	<b>3,150</b>	<b>100.0</b>	<b>3,622</b>	<b>100.0</b>

### New Appointments

	2011		2010	
	No.	%	No.	%
<b>Corporate</b>				
Management	3	5.4	4	5.5
Middle Management	-	-	-	-
<b>Operational</b>				
Management	11	19.6	12	16.7
Other	21	75.0	56	77.8
<b>Total</b>	<b>35</b>	<b>100.0</b>	<b>72</b>	<b>100.0</b>

### ■ Distribution of Employees by Grade



	%
● A - Corporate Management	1.1
● B - Middle Management	5.5
● C - Operational Management	33.6
● D - Other Staff	59.8

Our workforce is mainly concentrated in the Western Province (69%), given the higher number of branches, business volume and the head office being located in Colombo.

**(ii) Staff Turnover and VRS**

During the year the Bank implemented a Voluntary Retirement Scheme (VRS) as a strategic decision to improve resource utilisation and bring the cost structure more in line with the industry. A total of 298 employees representing 8.2% of the initial workforce availed of the VRS as detailed below (one from corporate management, 72 from middle management and 225 from other grades).

Staff left under the VRS	No.	% of VRS Leavers
Western Province	225	75.5
Central Province	20	6.7
Southern Province	18	6.0
Eastern Province	3	1.0
North Western Province	10	3.4
North Central Province	6	2.0
Uva Province	5	1.8
Sabaragamuwa Province	11	3.6
Northern Province	–	–
<b>Total</b>	<b>298</b>	<b>100</b>

In addition to the VRS, a total of 194 employees, representing 5.36% of the initial workforce, left the Bank through resignations and retirements during the year. Details analysed by age groups are given below:

Turnover excluding VRS Age Group	2011				2010			
	Male	Female	Total	% of Workforce	Male	Female	Total	% of Workforce
Below 20	–	–	–	–	–	–	–	–
21 to 30	57	28	85	2.35	39	24	63	1.69
31 to 40	65	26	91	2.51	43	9	52	1.39
41 to 50	9	5	14	0.39	9	2	11	0.29
Above 50	3	1	4	0.11	1	–	1	0.03
<b>Total Turnover</b>	<b>134</b>	<b>60</b>	<b>194</b>	<b>5.36</b>	<b>92</b>	<b>35</b>	<b>127</b>	<b>3.40</b>

**(iii) Staff Remuneration and Benefits**

Full time employees of the Bank are subject to an annual performance appraisal, which is used as a basis for remuneration. They are also entitled to the following benefits:

- Annual bonus
- Holiday allowances
- Medical and insurance benefits
- Special concessionary loans schemes for housing, vehicles and others
- Holiday bungalow facilities
- Allowances to cover risk, difficult service stations, etc
- Reimbursement of membership fees for professional qualifications

# Sustainability Report

Staff Benefits	2011 Rs. '000	2010 Rs. '000	2009 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Staff Salaries</b>					
Basic Salary	<b>1,840,563</b>	1,864,989	1,934,286	1,972,391	1,570,027
EPF 12%	<b>220,863</b>	223,591	229,342	235,049	192,302
ETF 3%	<b>55,253</b>	55,997	57,306	58,719	48,101
<b>Total</b>	<b>2,116,679</b>	2,144,577	2,220,934	2,266,159	1,810,430
<b>Other Benefits</b>					
Holiday Pay	<b>70,013</b>	72,815	76,600	70,618	60,542
Medical	<b>55,675</b>	58,462	56,713	58,109	60,566
Bonus	<b>293,224</b>	210,752	62,842	313,642	263,958
Insurance	<b>78,094</b>	64,026	37,951	66,785	48,390
Training	<b>6,579</b>	5,449	5,511	12,957	20,171
Welfare	<b>50,729</b>	58,729	64,454	44,843	40,112
Other Allowances/Benefits	<b>400,125</b>	303,879	(139,750)	572,601	912,590
<b>VRS Cost</b>					
	<b>698,650</b>				
	<b>1,653,089</b>	774,112	164,321	1,139,555	1,406,329
<b>Total Benefits (Excluding VRS)</b>	<b>3,071,118</b>	2,918,689	2,385,255	3,405,714	3,216,759
Total No. of Staff	<b>3,150</b>	3,622	3,733	3,923	3,871
Average Benefits per Employee (Excluding VRS) Rs. ('000)	<b>975</b>	806	639	868	831

## (iv) Entry Level Wages and Collective Bargaining

During the year the Bank entered into a Collective Agreement with the Ceylon Bank Employees Union (CBEU). Although the Agreement *inter alia* establishes staff benefits and increments at stated intervals the wage policy of the Bank was based on the Collective Bargaining Agreement in the year under review. Remuneration levels are based on periodic market surveys carried

out by the Bank, and take into consideration the range of benefits offered in the industry.

Measures such as continuous dialogue between and among employee unions, corporate peers and labour authorities allow the Bank to keep abreast of current trends and policies pertaining to wage practices in the banking industry. It will be noted that there is no regulation in place under the Shop and Office Employees' Act indicating the minimum wage applicable to employees covered under such Act.

## • Ensuring Occupational Health and Safety

Creating a safe and healthy work environment is strictly addressed despite lack of a formalised policy in respect of occupational health and safety. Aspects addressed include providing a hazard free environment, maintaining a business continuity plan, employing a dedicated controller (intelligence and security), and ensuring clean housekeeping practices.

### (i) Illness, Injuries and Lost Days

The total number of work related injuries and diseases, and the number of days lost as a result are all nil as shown in the table below. The Bank does not have formalised programmes on prevention of diseases. However, all new entrants are subject to a full medical screening covering all important aspects.

Performance on Occupational Health and Safety	2011	2010	2009
Staff covered by the health plan	100%	100%	100%
Average medical claim per employee, Rs.	20,000	16,000	18,000
Occupational injury	-	-	-
No. of occupational diseases	-	-	-
Lost days rate	-	-	-
Investment on uniforms, safety shoes etc, Rs. Mn.	6.5	5.4	6.4

## • Encouraging Diversity and Equal Opportunity

Seylan Bank is an equal opportunity employer, paying a uniform remuneration, for men and women for work of equal values. Women account for 38% of our staff.

### (i) Composition of Governance Bodies by Gender and Age Group

Name of Governance Body	Total No.	Gender		Age Group		
		Males	Females	Under 30	30-50	Over 50
Board of Directors	10	10	-	-	2	8
Board Audit Committee	3	3	-	-	-	3
Board Integrated Risk Management Committee	3	3	-	-	-	3
Board Nomination Committee	5	5	-	-	1	4
Board Sustainability Committee	5	5	-	-	3	2
Board HR and Remuneration Committee	4	4	-	-	1	3
Asset Liability Committee	10	9	1	-	2	8
Employees' Provident Funds Committee	7	6	1	-	3	4
Management Committee	15	14	1	-	3	12
Procurement Committee	5	3	2	-	4	1
Sustainability Management Committee	12	9	3	1	8	3

# Sustainability Report

## (ii) Distribution of Staff by Province and Gender

Province	No. of Branches	No. of Employees	Male		Female	
			No.	%	No.	%
Western	49	2,174	1,278	59	896	41
Central	8	192	110	57	82	43
Eastern	7	129	93	72	36	28
Sabaragamuwa	8	154	105	68	49	32
Southern	7	142	88	62	54	38
North Western	5	108	71	66	37	34
North Central	5	101	85	84	16	16
Northern	7	92	72	78	20	22
Uva	3	58	39	67	19	33
<b>Total</b>	<b>99</b>	<b>3,150</b>	<b>1,941</b>	<b>62</b>	<b>1,209</b>	<b>38</b>

## (iii) Distribution of Staff by Employee Category and Gender

Employee Grade	2011			2010		Total
	Male	Female	Total	Male	Female	
Corporate Management	<b>30</b>	<b>5</b>	<b>35</b>	24	8	32
Middle Management	<b>127</b>	<b>47</b>	<b>174</b>	152	59	211
Operational Management	<b>576</b>	<b>481</b>	<b>1,057</b>	589	525	1,114
Other Staff	<b>1,208</b>	<b>676</b>	<b>1,884</b>	1,425	840	2,265
<b>Total</b>	<b>1,941</b>	<b>1,209</b>	<b>3,150</b>	2,190	1,432	3,622

## (iv) Basic Salary Analysed by Gender

The Bank does not have different salary scales for men and women. As noted previously, remuneration is determined through a transparent performance evaluation programme. The table below captures the basic annual salary during the year under review analysed by employee category and gender.

Employee Category	Total Basic Salary Rs. Mn.		Total No.		Average Basic Salary Rs. Mn.		Salary Ratio M/F
	Male	Female	Male	Female	Male	Female	
Corporate Management	114	16	30	5	3.80	3.20	1.19 : 1
Middle Management	201	71	127	47	1.58	1.51	1.05 : 1
Operational Management	371	323	576	481	0.64	0.67	0.96 : 1
Others	499	245	1208	676	0.41	0.36	0.87 : 1

## (v) Encouraging Diversity by Ethnic Groups

Ethnicity	2011			2010		
	Male	Female	Total	Male	Female	Total
Sinhalese	1,751	1,092	2,843	1,977	1,283	3,260
Tamil	131	91	222	146	103	249
Moor	36	12	48	48	17	65
Burger	12	12	24	16	18	34
Others	11	2	13	11	3	14
<b>Total</b>	<b>1,941</b>	<b>1,209</b>	<b>3,150</b>	<b>2,198</b>	<b>1,424</b>	<b>3,622</b>

## (vi) Diversity by Age and Experience

The average age of the Bank team is 32 years, while the average service period is about 12 years. These indicate a desired balance between experience, potential for development and level of stability. Details are given in the tables below:

Age Group	DGMs and AGMs	Middle Management	Operational Management	Others	Total by Age Group
Below 20 years	–	–	–	7	7
21 to 30 years	–	2	13	1,088	1,103
31 to 40 years	4	35	779	610	1,428
41 to 50 years	9	106	238	165	518
Above 50	22	31	27	14	94
<b>Total by Grade</b>	<b>35</b>	<b>174</b>	<b>1,057</b>	<b>1,884</b>	<b>3,150</b>

Period of Service in the Bank	DGMs and AGMs	Middle Management	Operational Management	Others	Total by Service Period
Below 4 years	12	5	41	469	527
5 to 8 years	0	9	58	849	916
9 to 12 years	3	5	88	186	282
13 to 16 years	2	19	465	276	762
17 to 20 years	3	81	375	93	552
More than 20 years	15	55	30	11	111
<b>Total by Grade</b>	<b>35</b>	<b>174</b>	<b>1,057</b>	<b>1,884</b>	<b>3,150</b>

# Sustainability Report

## Respecting Human Rights and Labour Relations

### Our Policy and Our Approach

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

The Bank's employment practices enshrine human rights values and practices on aspects such as compulsory labour, abiding by stipulations on working age and working hours, setting exemplary standards of health and safety in the workplace, prohibiting discrimination.

In particular, there were no reported cases of discrimination during the year. The Bank has a zero tolerance towards child labour, and as a matter of strict policy does not employ any person under the age of 18 years.

#### (i) Employees Covered by Collective Bargaining Agreements

The Bank entered into a Collective Agreement during the year on employee benefits for the coming years.

The Agreement covers 67% of employees (The collective agreement is with Ceylon Bankers Union Membership).

#### (ii) Notice Regarding Operational Changes

Operational changes are made after comprehensive discussions with relevant parties and representatives. When there are such changes all staff members are informed through an internal circular which is also posted on the Bank's intranet. Where applicable, further training and awareness creation sessions are conducted to educate those affected.

#### (iii) Security Practices

The Bank has a laid down procedure on the security practices to be adopted concerning human rights. These practices are communicated to the all levels of security officers outsourced by the Bank. Periodic tests and awareness programmes are conducted and checked by the Bank's Controller, Intelligence and Security to ensure compliance.

Performance on Human Rights and Labour Practices	2011	2010
Total number of staff	<b>3,150</b>	3,622
Union membership	<b>2,822</b>	3,230
Membership % (2 unions & certain employees are in both unions)	<b>89</b>	89.4
No. of Pending Human Rights Cases against the Bank	<b>Nil</b>	Nil



## ● Providing Opportunities for Professional and Personal Development

The Bank nurtures a culture of learning, one that is built on a firm foundation of knowledge, skills and attitude. The Bank's Training Plan mirrors the vision, mission objectives and the overall strategic intent for the Bank. Thus, the Training Plan for the year is in direct alignment with the long-term objectives of the Bank, and training and development is used as an effective tool to create high levels of functional capability

and emotional balance among staff. It is thus regarded as an investment that derives long-term benefits to both the employee and the Bank.

The Bank's training needs are largely based on information gathered from performance appraisals, questionnaires and recommendations from heads of departments. The Annual Training Needs Schedule provides the basis for continuous development of the workforce in terms of technical, managerial and specialised areas of knowledge and skills development.

### (i) Type of Training Modules and Total Hours Devoted to Training

Name of Training Module	No. of Programmes	Total Hours Devoted to Training Personnel
General Banking Practices	67	536
Professional Developments	27	216
Communication and Negotiation Skills	5	40
Marketing and Marketing Communications	14	112
HR Management and Staff Development	14	112
Compliance and Specialised Areas	19	152
General and Personal Development	23	184
<b>Total</b>	<b>169</b>	<b>1,352</b>

(1352 / 8 = 169 days / 260 = .4630 means 65% of the year devoted for Training)

Skill management and lifelong learning towards continued employability and managing employees in career endings.

# Sustainability Report

## (ii) Regional Training and Development

The Bank's Skills Development Centre (SDC), as an in-house unit, caters to lifelong learning towards continued employability, which in turn also helps staff in managing career endings. The SDC conducted the following regional training and development programmes during the year:

Programme	Centre	No. of Participants	Province
Training on Customer Service (for Avant Garde Security Services)	Kandy	50	Central
	Anuradhapura	52	North Central
	Matara	37	Southern
	Badulla	39	Uva
Recovery Monitoring	Vavuniya	31	Northern
	Matara	37	Southern
	Bandarawela	13	Uva
	Nuwara Eliya	15	Central
	Polonnaruwa	27	North Central
Cross Selling	Kandy	73	Central
	Dambulla	56	Central
	Matara	51	Southern
	Bandarawela	32	Uva
Customer Service with a Smile	Nawalapitiya	21	Central
Credit and Operations	Kurunegala	39	North Western
	Vavuniya	21	Northern
	Polonnaruwa	27	North Central

## (iii) Key Performance Indicators - Training and Development

	2011	2010	
<b>No. of Programmes</b>			
Internal	169	132	
External	110	102	
Foreign	6	7	
<b>No. of Participants</b>			
Internal	5,139	6,718	
External	415	304	
Foreign	6	8	
<b>Strengthening the Team with Promotion and Qualifications</b>			
No. of promotions granted during the year (Refer Note below)	755	255	
	Male	Female	Total
	511	244	755

## ● Building Seylan Family

We continuously connect with staff and celebrate their achievements and talents as one family. The Vesak Bakthi Gee and Carol Service are events that are much awaited by employees. The participation of families of employees and retired employees demonstrate the extent of bonding that permeates throughout the Seylan Family.



*An achievement of united Seylan Family - Wisdom Ultimate Quiz Challenge - 2011*

Some of the significant achievements of the Seylan Family during the year are noted below:

### *Professional*

- 37 members completed the Banking Diploma, and one received the Fellowship.

### *Sports*

- Winners of the National Netball Championship 2011
- Winners of the Mercantile Netball Tournament 2011

- Winners of the Mercantile A Division Cricket Tournament 2011
- Winners of the World Masters Women's Badminton Championship 2011

### *Quiz*

- Champions of the Global Commerce Excellence Quiz for the Governor's Challenge Trophy - 2011, organised by the Central Bank of Sri Lanka, Colombo Shippers Academy, Export Development Board and Sri Lanka Ports Authority.
- Champions of the Inter-Bank Trade Quiz - 2011, organised by the Trade Finance Association of Bankers of Sri Lanka.
- Best Team from financial institutions in the Wisdom Ultimate Quiz Challenge - 2011, organised by The Management Club.
- Joint 2nd runner-up of 20th Inter Bank Quiz - 2011, organised by the Clearing Association of Bankers and Institute of Financial Studies - Colombo Centre.

## Team Support towards Other Stakeholders

	2011	2010
No. of staff	<b>3,150</b>	3,622
Revenue per staff Rs. Mn.	<b>6.16</b>	5.53
Assets per staff Rs. Mn.	<b>52.65</b>	41.32
Deposits per staff Rs. Mn.	<b>38.27</b>	30.35
Profit per staff Rs. '000	<b>318</b>	339

# Sustainability Report

## Connecting with Our Communities

### Our Policy and Our Approach

*As a bank we will continue to integrate all business practices with the needs of the local communities and develop a deeper relationship that goes beyond the banking.*

Seylan Bank has a long history of integrating its business practices with the local communities. As will be seen in the paragraphs that follow, the emphasis is not mere short-lived philanthropy, but a deeper community involvement with long-term commitments that go beyond provision of financial services.

- Supporting Micro Entrepreneurs
- Fostering Health and Well-being

- Investing in Education
- Piloting an Integrated Approach to Village Development

### • Supporting Micro Entrepreneurs

The Seylan Micro Finance scheme targets the 'unbankable' segments of society - the entrepreneurs who lack tangible assets needed to collateralise traditional bank loans. These loans typically financed animal husbandry, post-harvest processing of agricultural produce, cultivation of fruits and vegetables, rice milling, farm machinery, construction equipment, machinery for small apparel and footwear industries, retail business and more.

Total microfinance loans granted during the year amounted to Rs. 646 Mn., with agriculture and related activities leading at nearly 76% followed by transportation at 25% of the total, as detailed below:

Sector	Amount granted by region, Rs. Mn.									Total
	Northern	North Central	North Western	Central	Sabaragamuwa	Uva	Eastern	Southern	Western	
Agriculture	10	152	1	5	18	15	18	130	94	443
Transport	25			8		9	75	45	2	164
Education	11				5		1	2	3	22
Fisheries	3									3
Health					12		2			14
<b>Total</b>	<b>49</b>	<b>152</b>	<b>1</b>	<b>13</b>	<b>35</b>	<b>24</b>	<b>96</b>	<b>177</b>	<b>99</b>	<b>646</b>

## ● Fostering Health and Well-Being

The Bank invested a total of Rs 1.5 Mn. on a variety of healthcare projects that would benefit the community at large, as detailed below:

Project	Investment Rs. Mn.
National Health Development Fund	0.10
CT Scan Project at Lady Ridgeway Hospital	1.00
Medical treatment for an individual made through <i>Siriliya</i> Fund	0.25
Walk for Cancer - The Sri Lanka Cancer Society	0.10
Cancer Care Association	0.05
<b>Total</b>	<b>1.50</b>

## ● Investing in Education

During the year the Bank supported the following education-related pursuits through sponsorships and grants.

Project	Investment Rs. Mn.
<i>Nana Guna Thilina</i> Book Project to provide e-books for needy children in remote villages	1.00
Sponsorships for schools for various educational and other events which would improve the education, sports and other extra curricular activities	0.71
All Island School Games 2011 of the Department of Education	0.20
<b>Total</b>	<b>1.91</b>

## ● Piloting an Integrated Village Development

Bank commenced development of the pilot village in the year 2011 integrating the concepts of all our community development activities. It will move forward to 2012 with the expansion of number of villages.



Health Camp conducted at the Pilot Village - Devamulla

## Working with Our Suppliers

### Our Policy and Our Approach

*The Bank's suppliers and service providers are selected through a transparent procurement procedure that is based on fair competition.*

While centralised procurement has its advantages, we encourage business with locally based suppliers and service providers from the vicinity of our branches as far as possible without compromising on quality and price. The Bank does not discriminate against small scale suppliers.

- Adopting transparent procurement policies and practices and seeking long-term relationships
- Giving preference to locally based suppliers

# Sustainability Report

## ● Procurement Practices and Seeking long-term Relationships

To ensure transparency and ethical practices, procurement is handled through a number of procurement committees. Tender procedures are followed and price negotiations are conducted by designated teams and committees depending on the contract value and subject. Supplier information is treated with confidentiality.

The Bank recognises its responsibility to carry out its procurement activities in an environmentally and socially responsible manner. Hence, we encourage suppliers to minimise negative environmental and social effects associated with the products and services they provide.

## ● Giving Preference to Locally Based Suppliers

Stationery, which is our main 'raw material', is purchased from local suppliers. Services outsourced from the vicinity include repairs, maintenance and janitorial services. A large proportion of our suppliers are small and medium scale enterprises, and we encourage them to grow through long-term relationships with the Bank.

## ● Procurement from Local Suppliers by Branches (Rs. Mn.)

Description	2011	2010
Repairs and Maintenance	23.1	7.1
Janitorial Services	38.0	26.6
Supply of Foliage	2.3	2.2
Subsidised Lunch for Staff	50.7	45.3
Tea and Coffee for Staff	15.1	16.8

From an internal perspective, we encourage staff to review their consumption of goods and services in order to reduce waste, and consider recycling and reuse in a bid to operate according to sustainable business principles.

## Protecting the Environment for Future Generations

### Environmental Policy and Our Approach

*It is a policy of the Bank to minimise both the direct and indirect negative impacts on our environment as a result of our business activities, whilst at the same time doing everything we can to protect and replenish the natural resources around us.*

- Promoting effective and efficient use of resources within the Bank
- Monitoring environmental and social safeguards on projects financed
- Creating environmental consciousness amongst the general public

## ● Promoting Effective and Efficient Use of Resources within the Bank

### (i) Material Use

Stationery is our main 'raw material' input, which is used for day-to-day operations. We have in place a process to minimise the use of paper by migrating to IT-based solutions. However, when paper has to be used, we encourage reuse and recycling (Refer table on environmental responsibility indicators).

### (ii) Energy Conservation and Efficiency

The Bank is energy conscious, and continuously seeks ways of minimising waste without compromising on the quality of life. Measures taken include use of energy efficient light bulbs, prudent use of central air-conditioning, and cultivating a habit of 'switching off' amongst staff when leaving the premises. The Bank's Sustainability Wardens also play an important role in educating staff on being environmentally conscious.

Electricity Consumption, (Units) (kwh)	2011	2010
Head Office	<b>2,839,070</b>	3,239,430
Branches	<b>6,348,410</b>	6,122,877
Total	<b>9,187,480</b>	9,362,307

### (iii) Water

As a financial institution the Bank's consumption of water is for domestic use. Consumption is metered and monitored. Total water consumption, procured from

local suppliers, decreased by 19% from 90,346,000 litres in 2010 to 72,907,000 litres in 2011 due to the awareness programmes and various other initiatives taken.

Water Consumption, litres ('000)	2011	2010
Total, Externally Sourced	<b>72,907</b>	90,346
Consumption per Average No. of Employees	<b>23.15</b>	24.94

## ● Monitoring Environmental and Social Safeguards on Projects Financed

### Indirect Impacts

The Bank reviews all loan applications from clients for environmental and social impacts before sanction for compliance with applicable safeguard measures, including those of the Central Environmental Authority of Sri Lanka. Further during the year, we have funded for our following projects that support/mitigate harmful impact to the environment.

Sector	Amount Funded Rs. Mn.
Water and Paper Recycling	3.00
Energy Savings/Energy Savings Products	0.35

## ● Creating Environmental Consciousness amongst the General Public

### (i) Awareness Creation

Energy saved due to conservation and efficiency improvements

# Sustainability Report

Bank makes various initiatives to save energy as such

- (a) Air-conditioning facilities both head office and branches are limited to the office hours from 8.30 a.m. to 5.00 p.m.
- (b) Two lifts are switched off prior to 7.30 a.m. in the morning and 6.30 p.m. in

the evening one lift is operated at Head office on Saturday Sunday and Holidays.

- (c) Energy saving bulbs are used in the Bank.
- (d) Staffs is educated to switch off the lights when they leave the premises and shut down the PCs and other equipment.

## Environment Responsibility Indicators

	2011	2010
<b>Save Electricity, Water and Reduce Emission</b>		
Electricity Consumption Units	<b>9,187,480</b>	9,362,307
Electricity Consumption - Units per employee	<b>2,917</b>	2,584
Water Consumption Litres ('000)	<b>72,907</b>	90,346
Water Consumption Ltr. per Employee	<b>23.15</b>	24.94
<b>Paper Consumption - Save Trees, Resources and Reduce Emission</b>		
No. of Paper Purchased - A 4 Pkts	<b>18,527</b>	21,341
Weight of Photocopy Paper Purchased - Kgs	<b>222,324</b>	256,092
No. of Photocopy Papers Consumed per Business Outlet - Kgs	<b>1,671</b>	2,099
Waste Paper Disposed for Recycling - Kgs	<b>72,382</b>	57,860
Recycling of Disposed Papers have Saved - Tree	<b>1,230</b>	983
Water Litres	<b>2,175,546</b>	1,838,790
Electricity - Kwh	<b>289,528</b>	231,440
Oil - Litres	<b>251,783</b>	101,544
<b>Business Travels, Energy Consumption and Emission Controls</b>		
Petrol Consumption in Litres	<b>37,066</b>	45,929
Diesel Litre Consumption in Litres	<b>32,720</b>	47,237
Lubricant Oil in Litres	<b>1,050</b>	900

## Future Outlook

As set out in the Bank's Strategic Plan 2012- 2015, the key areas of engagement for the future are summarised below.

Focus	Action
Investors	<p>Review cost structure and improve organisational productivity - Appoint a manager in-charge to review our cost, and ensure our effective utilisation of resources.</p> <p>Align business strategies with national goals more closely - Employ an economic integrated manager and interns to do research and implementation partnering with our research institutes.</p>



Focus	Action
	Expand banking services with automated channels - Improve automated channels. Expand lending to the SME and agriculture sectors Strengthen risk management - Improve our agriculture sector lending.
Customers	Conduct customer survey - Introduce our product management with a better focus on each products. Add more access points to enhance reach Improve technology based channels Diversify and further develop product range - Centralised back office functions.
Employees	Continue with career development and training with special focus on needs Further develop the performance appraisal system to better align reward with performance Review human resource policies
Community	Complete the pilot village development project at Devamulla and review lessons learnt Invest in promoting education by assisting schools with due monitoring and evaluation Invest in healthcare projects with due monitoring and evaluation Continue with community awareness programmes on sustainable living
Suppliers	Streamline the procurement process and simplify the inventory module
Environment	Implement a competition among Branches to promote efficient utilisation of energy and resources Initiate action to quantify the Bank's carbon footprint Introduce the cost efficient strategies for effective utilisation of resources, including use of paper - Energy management and awareness programmes.

### Standard Disclosures and Report Application Level

This Sustainability Report is prepared in accordance with the Global Reporting Initiative (GRI) - (G3) indicator protocols. Seylan Bank self-declares a B+ Level rating against the G3 application level and obtained an independent limited assurance report as set out on pages 222 and 223 as a first step towards positive assurance of our sustainability processes and reporting.

		C	C+	B	B+	A	A+
Mandatory	Self Declared				✔		
	Third Party Checked						
Optional	GRI Checked						



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## **Independent Limited Assurance Report to Seylan Bank PLC On the Sustainability Report for the year ended 31 December 2011**

### **Introduction**

We were engaged by the Board of Directors of Seylan Bank PLC to provide limited assurance on the Sustainability Report for the year ended December 31, 2011 of Seylan Bank PLC ('the Report') as set out on pages 174 to 231 of the Annual Report.

### **Managements' responsibility and the criteria applied**

Management is responsible for the preparation and presentation of the Report in accordance with the GRI Sustainability Reporting Guidelines as described in the Report, and the information and assertions contained within it; for determining the Seylan Bank PLC objectives in respect of sustainable development performance and reporting, including the identification of stakeholders and material issues; and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived.

### **Our responsibilities and compliance with SLSAE 3000**

Our responsibility is to carry out a limited assurance engagement and to express a

conclusion based on the work performed.

We conducted our engagement in accordance with Sri Lankan Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the Institute of Chartered Accountants of Sri Lanka.

That Standard requires that we comply with applicable ethical requirements, including independence requirements, and plan and perform the engagement to obtain limited assurance about whether the Report is free from material misstatement.

### **Summary of work performed**

A limited assurance engagement on a sustainability report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the sustainability report, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included:

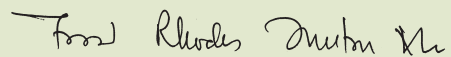
- Inquiries of management to gain an understanding of Seylan Bank PLC processes for determining the material issues for Seylan Bank PLC key stakeholder groups.

- Interviews with senior management and relevant staff at group level and selected business unit level concerning sustainability strategy and policies for material issues, and the implementation of these across the business.
- Interviews with relevant staff at corporate and business unit level responsible for providing the information in the Report.
- Inquiries about the design and implementation of the systems and methods used to collect and process the information reported, including the aggregation of data into information as presented in the Report.
- Comparing the information presented in the Report to corresponding information in the relevant underlying sources to determine whether all the relevant information contained in such underlying sources has been included in the Report.
- Reading the information presented in the Report to determine whether it is in line with our overall knowledge of, and experience with, the sustainability performance of Seylan Bank PLC.

The extent of evidence gathering procedures performed in a limited assurance engagement is less than that for a reasonable assurance engagement, and therefore a lower level of assurance is provided.

### Our conclusion

Based on the procedures performed, as described above, nothing has come to our attention that causes us to believe that the Sustainability Report of Seylan Bank PLC for the year ended 31 December 2011, is not presented fairly, in all material respects, in accordance with the GRI Sustainability guidelines.



Chartered Accountants  
Colombo  
8th February 2012

# Sustainability Report

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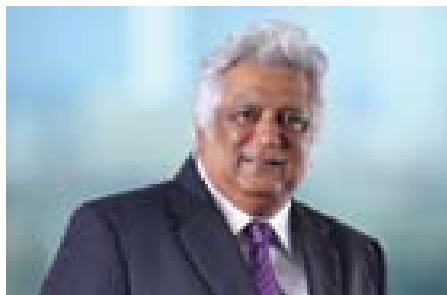
# Board of Directors



**Mr. Eastman Narangoda**  
*Chairman*



**Mr. Ramanathan Nadarajah**  
*Executive Director*



**Mr. Nihal Jayamanne - President's Counsel**  
*Senior Independent Director*



**Mr. Lalith Withana**  
*Independent Director*



**Rear Admiral Ananda Peiris**  
*Independent Director*



**Mr. Ajith Lasantha Devasurendra**  
*Non-Executive Director*



**Mr. Ishara Nanayakkara**  
*Non-Executive Director*



**Mr. Samantha P.S. Ranatunga**  
*Independent Director*



**Mr. A.M. Mohan De Alwis**  
*Non-Executive Director*



**Mr. Piyadasa Kudabalage**  
*Non-Executive Director*

# Profiles of the Board of Directors

## Mr. Eastman Narangoda

*Chairman*

*BA (Econ), FIB, FIMS (UK), FITD (SL), Dip. in Advanced Bank Management (Stockholm)*

Mr. Eastman Narangoda has vast experience in the Sri Lankan banking sector. He spearheaded the National Savings Bank as its General Manager/CEO for over five years. During his tenure, NSB was awarded AAA rating by Fitch Ratings for four consecutive years.

Mr. Narangoda is a former president of the Association of Professional Bankers of Sri Lanka and had held several key positions, as Vice-Chairman of Financial Ombudsman (Sri Lanka) Limited, directorships at NSB Fund Management Co., Asha Central Hospital Limited, Mercantile Leasing Limited and the Institute of Bankers. He was also appointed as the Commissioner of the Presidential Commission on Failed Finance Companies and had also been a past president of the Sri Lanka Institute of Training and Development. He is currently a Director of Wealth Trust Corporation (Pvt) Limited.

Mr. Narangoda was appointed to the Board of Seylan Bank PLC on 30th December 2008 and is a member of its Board Credit Committee and the Board Sustainability Committee.

In May 2010, he was awarded the 'Most outstanding Sri Lankan Award 2010' in the category of Business Management by the International Association of Lions Club.

Seylan Bank PLC won several awards and accolades under his Chairmanship during the last two years, namely, the 'A' Brand rating by Brand Finance PLC UK, two Gold awards in the Annual Report competition - Vision Awards 2009 by League of American Communications Professionals, a Gold award, three Bronze awards and Honours award at the ARC Awards (U.S.A.) for Financial Report 2009, was adjudged the 'Best Turnaround Brand of the Year' at Brand Excellence 2010 by the Sri Lanka Institute of Marketing, 'Turnaround Brand of the Year' Gold award by the Chartered Institute of Management. The Bank was awarded two Honours awards and three Bronze awards once again at the ARC Awards (U.S.A.) for its Annual Report 2010. The Bank was ranked 14th in the Sri Lanka's Leading Brands (2010) compiled by Brand

Finance which was presented by Media Services (LMD) and was amongst the top 20 Corporates of Sri Lanka listed by the Business Today magazine in 2010 as well as in 2011.

## Mr. Ramanathan Nadarajah

*Executive Director*

*BSc (Hons), MBA, FCIB (London)*

Mr. Ramanathan Nadarajah brings with him 43 years of banking experience in both state and private sector banks. He served as Managing Director/General Manager/CEO of Pan Asia Bank for six years and previously served at the Bank of Ceylon in various capacities including as a Deputy General Manager. He was the inaugural President of the Primary Dealers Association and has been a past president of the Association of Professional Bankers of Sri Lanka. At present he also functions as the Chairman of the Bank's subsidiary, Seylan Developments PLC and as a Director of The Finance Company PLC.

Mr. Nadarajah was appointed to the Board of Seylan Bank PLC on 8th January 2009 and is a member of three of its Board Sub Committees namely, the Credit Committee, Sustainability Committee and the Marketing and Product Development Committee.

## Mr. Nihal Jayamanne - President's Counsel

*Senior Independent Director*

Mr. Nihal Jayamanne PC is an eminent lawyer and holds key offices in the fields of law, including as Member of the Advisory Council of Jurists of the Asia Pacific Forum for the Advancement of Human Rights, Chairman - Law College Foundation and Member of the Board of Trustees of the Judicial Infrastructure Maintenance Trust. He was also the President of the Bar Association of Sri Lanka, Vice-President of SAARCLAW and a Member of the Law Commission of Sri Lanka and the National Police Commission of Sri Lanka.

Mr. Jayamanne PC serves on the Boards of Sri Lankan Airlines Limited and Sri Lankan Catering (Pvt) Limited. He is also a former commissioner of the Telecommunication Regulatory Commission of Sri

Lanka and a former Member of the Council of Legal Education.

Mr. Jayamanne was appointed to the Board of Seylan Bank PLC on 30th December 2008. Mr. Jayamanne is the Chairman of the Board HR & Remuneration Committee and also serves as a member of the Board Nomination Committee and the Board Audit Committee.

### **Mr. Lalith Withana**

*Independent Director*  
MBA, BA (Hons), FCMA FCA

Mr. Lalith Withana counts over 20 years in management positions within the corporate sector of which more than 12 years had been at senior levels in banking, trade and manufacturing, with experience at organisations such as Brandix, Messrs Ernst & Young, Amro Bank, IBM and Carson Cumberbatch PLC.

He currently functions as a freelance consultant. He had served as a Consultant to Brandix Asia Limited, Vice-President of Brandix Lanka Limited, CEO of Brandix Casualware Limited and Brandix Lightsew Limited and CEO - Procurement of Brandix Apparels Limited. He had also served on the Boards of Bank of Ceylon, Dankotuwa Porcelain PLC, Merchant Bank of Sri Lanka and Ceylease Financial Services Limited. Mr. Withana had also been a Commissioner of the Telecommunication Regulatory Commission.

Mr. Withana was appointed to the Board of Seylan Bank PLC on 30th December 2008 and is the Chairman of its Board Audit Committee and is a member of its Board Integrated Risk Management, Board HR & Remuneration and Board Nomination Committees.

### **Rear Admiral Ananda Peiris**

*Independent Director*  
RSP & Bar, VSV, USP, ndc, psc

Rear Admiral Ananda Peiris is a decorated officer of the Sri Lanka Navy counting a service record of over 34 years during which period he had undergone extensive training in the Indian Navy, Bangladeshi Navy, Royal Navy and US Navy. His naval experience includes serving as the Area Commander - Eastern Naval Command, Western Naval Command and Southern Naval Command. He was also twice

appointed the Deputy Area Commander of Northern Naval Command and Squadron Commander Fast Attack Craft and has taken part in almost all major operations in the North and East. He had also been the Director - Naval Administration & Welfare, Director - Naval Personnel & Training and Director General (Services), Sri Lanka Navy.

Rear Admiral Ananda Peiris retired from the regular naval service in January 2009 and has since been mobilised to the regular naval reserve. Since, February 2010, he serves as Director General of the Sri Lanka Civil Defence Force.

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

Rear Admiral Peiris was appointed to the Board of Seylan Bank PLC with effect from 8th January 2009. He is the Chairman of its Board Nomination Committee and also serves as a member of the Board HR & Remuneration Committee and the Board Credit Committee.

### **Mr. Ajith Lasantha Devasurendra**

*Non-Executive Director*

Mr. Ajith Devasurendra possesses over 30 years' experience in the financial sector both in Sri Lanka and overseas. Mr. Devasurendra was instrumental in pioneering the money broking and Government Securities market in Sri Lanka. He holds the honour of being appointed as the first President of the Sri Lanka Money Brokers Association. He had also been a president of the Sri Lanka Primary Dealers Association.

Mr. Devasurendra has served as a Consultant on Fixed Income Securities Market to PricewaterhouseCoopers (Bombay, India) on a USAID project of the Reserve Bank of India and Securities & Exchange Commission of India. He was also appointed to serve on the 'Expert Group on Stimulus Package for Banking, Finance and Leasing Industry by the Central Bank of Sri Lanka. He is a Member of the

# Profiles of the Board of Directors

Financial System Stability Consultative Committee (FSSCC) appointed by the Central Bank of Sri Lanka.

Mr. Devasurendra is the Deputy Chairman of Brown & Company PLC, Managing Director/CEO of Taprobane Holdings Limited and Director of Taprobane Fund Management Limited. He also holds directorships on the Boards of several other Companies in the Browns Group and is also a Director of The Finance Co. PLC. Mr. Devasurendra had also functioned as an Executive Director of Browns Investments PLC from November 2010 to December 2011.

Mr. Devasurendra was appointed as a Director of Seylan Bank PLC on 24th November 2009 and is the Chairman of its Board Integrated Risk Management Committee. He is also a member of the Board Nomination Committee, Board Credit Committee, Board Sustainability Committee and the Board Marketing & Product Development Committee.

## Mr. Ishara Nanayakkara

*Non-Executive Director*

*Diploma in Business Accounting & Finance (Aus)*

Mr. Ishara Nanayakkara is an astute businessman who holds directorships in many corporates and conglomerates in Sri Lanka. He ventured into the arena of financial services with the strategic investment in the LOLC Group and was appointed to the Board of Lanka ORIX Leasing Company PLC in 2002.

Mr. Nanayakkara holds a Diploma in Business Accounting from Australia. He serves as the Deputy Chairman of LOLC and many of its subsidiaries and associate companies, including Commercial Leasing Company Limited. His business philosophy based on sustainable development has made LOLC to enter into many new business ventures with high potential for growth in all three spheres economic, social and environment.

He is a Director of Asia Siyaka Commodities (Pvt) Limited, a leading tea broking company in the country. Mr. Nanayakkara is also a Director of Brown & Co. PLC, which has a leading market position in trade, leisure, manufacturing, consumer appliances and agriculture equipment.

With the exposure in the SME sector and going further into the Micro sector, he is a Director of the companies he spearheads - LOLC Micro Credit Company Limited, the only private sector microfinance institution with foreign equity in the country and PRASAC, the largest microfinance Company in Cambodia. His passion for sustainable investment is reflected through his involvement in renewable energy, forestry and plantations.

Mr. Nanayakkara is also focused on the immense opportunities presented by the leisure sector. With the recent acquisition of some of the leading hotels in the Southern Coast by the LOLC Group, Mr. Nanayakkara served as the Chairman of the Conffi Group Hotels which comprises of Eden Resort Spa, Riverina Hotel and Club Palm Garden Hotel.

His recent entry into the construction industry through Sierra Constructions (Pvt) Limited, is a fine proof for his perpetual interest on the growth sectors of the Sri Lankan economy.

Mr. Ishara Nanayakkara was appointed to the Board of Seylan Bank PLC on 24th November 2009. He is a member of two of its Board Sub committees, namely the Credit Committee and is the Chairman of the Board Sustainability Committee.

## Mr. Samantha P.S. Ranatunga

*Independent Director*

*MBA University of Coventry (Birmingham), BSc (Hons) (University of Delhi)*

Mr. Samantha Ranatunga who has over 20 years' experience in the field of marketing and managing FMCG business, is the Managing Director/CEO of CIC Holdings PLC. He joined the Board of CIC Holdings PLC in May 2002 and was appointed Managing Director/CEO in April 2009.

Mr. Ranatunga holds a degree from the University of Delhi and a Masters in Business Administration from the University of Coventry, Birmingham, UK.

He is a Non-Executive Director in many of the unlisted companies in the CIC Group including Akzo Nobel Lanka Paints (Pvt) Limited and Perfunova



International Limited, India. He is the President of the Sri Lanka Africa Middle East Business Council of the Ceylon Chamber of Commerce and the Vice-President of the Sri Lanka Maldivian Business Council. He is also the Deputy Vice-Chairman of the Ceylon Chamber of Commerce. He has led the Sri Lankan Chamber of Commerce delegations to many countries. Mr. Ranatunga is also a Committee Member of the Mercantile Services Provident Society representing the Ceylon Chamber of Commerce by virtue of his committee membership in the Ceylon Chamber of Commerce.

Mr. Samantha Ranatunga was appointed to the Board of Seylan Bank PLC on 12th January 2010. He chairs the Board Marketing & Product Development Committee. He is a member of the Board HR & Remuneration Committee, Board Nomination Committee and the Board Sustainability Committee.

### **Mr. A.M. Mohan De Alwis**

*Non-Executive Director*  
*BCom, MBA, CMA*

Mr. Mohan De Alwis, the Managing Director and Chief Executive Officer of Sri Lanka Insurance Corporation Limited and Management Services Rakshana Lanka (Pvt) Limited has wide and diversified managerial experience in leading corporate sector institutions both in Sri Lanka and overseas including Coopers & Lybrand, Hayleys PLC, Star Garments Limited and Smart Shirts Limited. He was the Vice-Chairman of the Free Trade Zone Manufacturers' Association, Katunayake, and also served as a Management Consultant in Sri Lanka.

Mr. De Alwis holds a Bachelor of Commerce degree, an MBA and is a Certified Management Accountant (Australia).

He is also the Chairman of Ceylon Asset Management Co. Limited and a Director of Lanka Hospitals Corporation PLC, Sri Lanka Insurance Corporation (Pvt) Limited, E-Channeling PLC, Ceybank Asset Management Limited, SLIC Resorts & Spas (Pvt) Limited, Helanco Hotels & Spa (Pvt) Limited and Executive Director of Litro Gas Lanka Limited and Litro Gas Terminal Lanka (Pvt) Limited.

Mr. De Alwis was appointed to the Board of Seylan Bank PLC on 20th August 2010 and is the Chairman of the Board Credit Committee. He is also a member of the Board Integrated Risk Management Committee and the Board Marketing & Product Development Committee.

### **Mr. Piyadasa Kudabalage**

*Non-Executive Director*  
*BCom (Hons) (University of Kelaniya), FCA, FCMA, FCPM*

Mr. Piyadasa Kudabalage who has well over 25 years' experience in the mercantile sector, is a Chartered Accountant by profession. Mr. Kudabalage is an Executive Director of Sri Lanka Insurance Corporation Limited. He holds a BCom (Hons) Degree from the University of Kelaniya and is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka, the Institute of Certified Management Accountants of Sri Lanka and the Institute of Certified Professional Managers.

Mr. Kudabalage is the Managing Director/Chief Executive Officer of Litro Gas Lanka Limited and Litro Gas Terminal Lanka (Pvt) Limited, Canwill Holdings (Pvt) Limited, Sinolanka Hotels & Spa (Pvt) Limited, Taprobane Hotels & Spa (Pvt) Limited and Helanco Hotels & Spa (Pvt) Limited. He is the Chairman of E-Chanelling PLC and also serves on the Boards of Ceylon Asset Management Co. Limited, Colombo Dockyard PLC, SLIC Resorts & Spas (Pvt) Limited, Sri Lanka Insurance Corporation (Pvt) Limited (Maldives), Hotelroomnet Limited, ECL Soft (Pvt) Limited. He is a Senior Partner of Messrs P Kudabalage & Company, Chartered Accountants.

Mr. Kudabalage has held several senior positions in Kahawatta Plantations Limited, Janatha Estate Development Board and Jay Cey Group of Companies and has also held a directorship in Malwatte Valley Plantation Limited.

Mr. Piyadasa Kudabalage was appointed to the Board of Seylan Bank PLC on 20th August 2010 and is a member of the Board Audit Committee.

# Senior Management Team



- |  |  |
|--|--|
| 1. <b>Mr. Kapila Ariyaratne</b> - General Manager/Chief Executive Officer  | 10. <b>Mr. S. Palihawadana</b> - Chief Dealer  |
| 2. <b>Mr. Sunil De Silva</b> - Senior Deputy General Manager - Recoveries  | 11. <b>Ms. Shalini Perera</b> - Deputy General Manager - Corporate & Off-Shore Banking |
| 3. <b>Mr. Tissa Nanayakkara</b> - Senior Deputy General Manager - Retail Banking   | 12. <b>Mr. Chithral De Silva</b> - Deputy General Manager - Recoveries II              |
| 4. <b>Mr. Sarath Dias Bandaranayake</b> - Senior Deputy General Manager - Branches   | 13. <b>Mr. Damith Vitharanage</b> - Deputy General Manager - Audit & Inspection        |
| 5. <b>Mr. Samuel Jebaratnam</b> - Senior Deputy General Manager - Human Resources, Administration and Information Technology | 14. <b>Mr. Aruna Ranasinghe</b> - Deputy General Manager - International               |
| 6. <b>Mr. Kithsiri Perera</b> - Deputy General Manager - Recoveries I  | 15. <b>Mr. Tilan Wijesekera</b> - Deputy General Manager - Marketing                   |
| 7. <b>Mr. K.D.W. Rohana</b> - Deputy General Manager - Branch Credit   | 16. <b>Mr. Ramesh Jayasekara</b> - Chief Financial Officer                             |
| 8. <b>Dr. P. Niranjan</b> - Deputy General Manager - Zone II   | 17. <b>Mr. Delvin Pereira</b> - Deputy General Manager - Zone I                        |
| 9. <b>Mr. Ranjith Fonseka</b> - Deputy General Manager - Alternate Banking Channels  | 18. <b>Mr. M.K. Muthukumar</b> - Head of Legal   |
|  | 19. <b>Mr. Christie Nanayakkara</b> - Chief Risk Officer                               |



## Consultants



20. **Mr. Hiran Amarasinghe** - Assistant General Manager - Treasury Back Office
21. **Ms. Rohini Weerakkody** - Assistant General Manager - Head of Operations
22. **Mr. T.J. Pathirage** - Assistant General Manager - Operational Risk Management
23. **Mr. Kamal Deshapriya** - Assistant General Manager - Marketing
24. **Mr. M.K. Prematilleke** - Assistant General Manager - Recoveries
25. **Ms. Yasanthi Udurawane** - Assistant General Manager - Consumer Finance Unit
26. **Mr. Shanaka Perera** - Treasury/Senior Dealer
27. **Mr. Wasantha Karunaratne** - Assistant General Manager - Supplies
28. **Mr. Kapila Rathnayaka** - Assistant General Manager - Premises Maintenance

29. **Mr. G. Widanapathirana** - Assistant General Manager - Human Resources
30. **Mr. Gerald Wanigaratne** - Assistant General Manager - Information Technology
31. **Ms. Champika Dodanwela** - Assistant General Manager - Finance
32. **Mr. A.W. Sarath Kumarasiri** - Assistant General Manager - International

### Consultants

33. **Dr. R.B. Ekanayake** - Consultant Information Technology
34. **Mr. Derek John Kelly** - Consultant - Risk Management
35. **Mr. S. Wettasinghe** - Consultant Seylan Siri Nivasa Unit

**Ms. Deeshani Gooneratne** - (Not in picture) (On no pay leave)



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## Financial Calendar - 2011

Financial Statements	Released to the Colombo Stock Exchange (CSE) on	Published in the newspapers on
<b>Interim (Unaudited) Financial Statements</b>		
4th Quarter/Year ended 31st December 2010	25th February 2011	
1st Quarter/Three months ended 31st March 2011	28th April 2011	30th April 2011
2nd Quarter/Six months ended 30th June 2011	27th July 2011	29th July 2011
3rd Quarter/Nine months ended 30th September 2011	24th October 2011	27th October 2011
<b>Audited Financial Statements - Year ended 31st December 2010 and Annual Report - 2010</b>	Issued to the CSE on 4th March 2011 Circulated to the Shareholders - March 2011 Circulated to the Debenture holders - April 2011	
<b>24th Annual General Meeting:</b>	Held on 30th March 2011	
<b>First and Final Preference Dividend for the year ended 31st December 2010 paid on:</b>	30th March 2011	
<b>First and Final Ordinary Dividend for the year ended 31st December 2010 paid on:</b>	8th April 2011	

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## Proposed Financial Calendar - 2012

<b>Unaudited Financial Statements</b> 4th Quarter/Year ended 31st December 2011 - Released to the CSE	13th February 2012
<b>Audited Financial Statements - Year ended 31st December 2011 and Annual Report - 2011 - To be released to the CSE and circulated to the Shareholders/Debenture holders (Including Notice of Annual General Meeting to the Shareholders)</b>	March 2012
<b>25th Annual General Meeting (AGM)</b> will be held on	28th March 2012
<b>First and Final Ordinary Dividend</b> payable for the year ended 31st December 2011 (subject to approval of the Shareholders at the AGM)	9th April 2012
<b>Interim (Unaudited) Financial Statements</b> for the first three quarters of 2012 - Will be released/published within 45 days from the end of each quarter and in respect of the Final Quarter/Year ended 31st December 2012 within 2 months from the said date.	

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# Report of the Board of Directors on the State of Affairs of the Company for the Year 2011

The Directors of Seylan Bank PLC ('the Bank') have pleasure in presenting their Report on the state of affairs of the Bank ('Report', 'Report of the Directors' or 'Report of the Board of Directors') together with the Audited Financial Statements of the Bank and the Consolidated Financial Statements of the Group for the financial year ended 31st December 2011 and the Auditors' Report on those Financial Statements.

The Financial Statements and the disclosures made herein conform to the requirements of the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 (as amended) and the Directions issued by the Monetary Board under the Banking Act. The Report also includes relevant disclosures required to be made under the Banking Act Directions, Listing Rules of the Colombo Stock Exchange and is guided by the Accounting Practices and Corporate Governance Practices.

The Audited Financial Statements were reviewed and approved by the Board of Directors on 8th February 2012.

## SEYLAN BANK PLC

Seylan Bank PLC ('the Bank') is a public limited liability company incorporated in Sri Lanka on 28th August 1987 under the Companies Act No. 17 of 1982. The Bank was re-registered as required under the provisions of the Companies Act No. 07 of 2007 on 30th May 2007. The Bank was listed on the Colombo Stock Exchange in January 1989. The ordinary shares (both voting and non-voting) and the majority of the unsecured subordinated redeemable debentures of the Bank are listed on the Colombo Stock Exchange.

## VISION & MISSION AND CORPORATE CONDUCT

The Bank conducts its business at a high level of ethical standard in achieving its vision.

The Bank's vision and corporate values were reviewed and approved in December 2011 with the development and approval of the new 4-year Strategic Plan. Please refer page 114 in this Annual Report for the Bank's Vision and Mission Statements.

## PRINCIPAL ACTIVITIES

The principal activities of the Bank are commercial banking and provision of related financial services which include accepting of deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, travel-related services, corporate and retail credit, pawn broking, project financing, lease financing, rural credit, credit card facilities, telebanking facilities, SMS and internet banking including internet payment gateway and dealing in Government Securities, etc.

There were no significant changes in the nature of the principal activities of the Bank and Group during the financial year under review.

## GROUP COMPANY - SEYLAN DEVELOPMENTS PLC

Seylan Developments PLC is the only subsidiary of Seylan Bank PLC as at 31st December 2011. It is a public limited liability company carrying on property development/management activities. The Bank has a 51.83 % holding in Seylan Developments PLC.

# Report of the Board of Directors on the State of Affairs of the Company for the Year 2011

## BRANCH NETWORK

As at the end of the year 2011, the Bank had a network of 99 branches, 34 extension offices, and 83 student savings centres. This included four new branches opened during the year, in Chavakachcheri, Mullaitivu, Chenkaladi and Kalmunai and seven extension offices at Kantalai, Free Trade Zone (FTZ), Kamburupitiya, Pottuvil, Padaviya, Udappuwa and Kalavanchikudi. The former Free Trade Zone (FTZ) branch was relocated and was renamed as Katunayake branch with effect from 28th March 2011 and an extension office was established at the former FTZ branch premises.

## REVIEW OF YEAR 2011'S PERFORMANCE AND FUTURE DEVELOPMENT PLANS

The Chairman's Message, the Chief Executive Officer's Review and the Management Discussion and Analysis provide an overall assessment and review of the Bank's operations and financial performance during the year 2011 and they also speak about the future development plans of the Bank.

## FINANCIAL STATEMENTS

The Audited Financial Statements of the Bank and the Group for the financial year ended 31st December 2011 duly certified by the Chief Financial Officer and the General Manager/Chief Executive Officer and signed by two Directors in terms of Sections 151, 152 and 168 (I) (b) of the Companies Act No. 07 of 2007 as published in this Annual Report form an integral part of this Report. Refer pages 264 to 362.

## DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of the Financial Statements of the Bank to reflect a true and fair view of its state of affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Companies Act No. 7 of 2007, the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 (as amended), the Listing Rules of the Colombo Stock Exchange and Banking Act Direction No. 11 of 2007 (as amended) and the Directions and Guidelines thereto.

The Statement of Directors' Responsibility for Financial Reporting which appear on pages 261 and 262 of this Annual Report and form an integral part of this Report of the Directors.

## AUDITORS' REPORT

The Auditors of the Company Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants have carried out the audit of the Consolidated Financial Statements for the financial year ended 31st December 2011 and their Report on the Financial Statements appear on pages 264 and 265 of this Annual Report.

## SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Financial Statements are given on pages 271 to 292 in this Annual Report. There have been no changes in the accounting policies adopted by the Bank during the year.

The impact of the new Accounting Standards (based on IFRS) are given in pages 291 and 292 under Note 3.5.17.



## FINANCIAL RESULTS

### Income

The income of the Bank and income of the Group as at the end of 2011 were as follows. An analysis of the income is given in the Notes to the Financial Statements as indicate below:

	2011		2010	
	Bank Rs. Bn.	Group Rs. Bn.	Bank Rs. Bn.	Group Rs. Bn.
Gross Income (Note 4)	<b>19.404</b>	<b>19.543</b>	20.032	20.181
Operating Income	<b>10.978</b>	<b>11.128</b>	11.434	11.453

### PROFIT AND APPROPRIATIONS

A summary of the Consolidated Financial Results of the operations of the Group during the year ended 31st December 2011 is given below:

	2011 Rs. '000	2010 Rs. '000
Profit/(Loss) before Taxation	<b>1,560,047</b>	1,954,498
Less: Taxation	<b>571,308</b>	789,071
Profit/(Loss) after Taxation	<b>988,739</b>	1,165,427
Attributable to Minority Interest	<b>(17,059)</b>	(41,806)
Net Profit Attributable to Shareholders	<b>1,005,798</b>	1,207,233
Retained Profit brought forward after Dividends	<b>4,506,380</b>	3,652,868
Profit Available for Appropriation	<b>5,512,178</b>	4,860,101
Adjustments/Transfer to Reserve Fund	<b>(50,133)</b>	(61,449)
Other Transfers/Adjustments	<b>(291,958)</b>	(38,712)
Balance Carried Forward	<b>5,170,087</b>	4,759,940

### TAXATION

Provision for taxation has been computed as indicated in Note 13 to the Financial Statements.

### CAPITAL EXPENDITURE

The total capital expenditure incurred on the acquisition of Property, Plant & Equipment of the Bank and the Group during the year was as follows, details of which are given in the Notes 29, 30 and 31 to the Financial Statements. Capital Expenditure approved and contracted for after the year ended 31st December 2011 is also given in Note 43 to the Financial Statements.

BANK		GROUP	
2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>411,305</b>	189,668	<b>412,773</b>	190,226

### PROPERTY, PLANT & EQUIPMENT

The details of the Property, Plant & Equipment are given in Notes 29, 30 and 31 to the Financial Statements.

# Report of the Board of Directors on the State of Affairs of the Company for the Year 2011

## FREEHOLD PROPERTIES

The net book value of freehold properties owned by the Bank and the Group as at the end of the financial year are given below:

BANK		GROUP	
2011	2010	2011	2010
Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>1,440,322</b>	1,465,217	<b>2,092,064</b>	2,133,226

The freehold land and buildings of the Bank were valued by professionally qualified independent valuers/ panel of Chartered Valuers/Licensed Surveyors during 2010 and brought into the Financial Statements. Details of freehold properties owned by the Bank are given in Note 29.3 to the Financial Statements.

## DONATIONS

During the year, the Bank made donations amounting to Rs. 3,340,000/- (Donations made in 2010 amounted to Rs. 2,281,360/-).

## RESERVES

Total reserves (including Statutory Reserve Fund) as at the end of the financial year, details of which are given in Notes 39 and 40 to the Financial Statements is as follows:

BANK		GROUP	
2011	2010	2011	2010
Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>7,280,172</b>	<b>6,529,205</b>	<b>7,688,213</b>	6,933,875

## STATED CAPITAL

The stated capital of the Bank as at 31st December 2011 was Rs. 10,259,353,609/- which comprised of:

173,333,333	Ordinary (voting) shares
3,390,100	Redeemable, non-cumulative, non-convertible and non-voting preference shares
164,746,666	Ordinary (non-voting) shares and share premium of Rs. 837,319,324/-

The Stated Capital of the Bank increased from Rs. 5,567,820,324/- to Rs. 10,259,353,609/- consequent to the Rights Issue of ordinary shares during the year, particulars of which are given below. A sum of Rs. 4,691,533,285/- was raised during the year by way of the Rights Issue.

## RIGHTS ISSUE OF ORDINARY VOTING SHARES AND ORDINARY (NON-VOTING) SHARES

Pursuant to the approval obtained at the Extraordinary General Meeting of the Bank held on 9th May 2011, the Bank proceeded with a Rights Issue of both ordinary voting and ordinary (non-voting) shares particulars of which are given below. The Issue was fully-subscribed and allotted on 16th June 2011:

- (a) 43,333,333 ordinary voting shares to the registered holders of ordinary voting shares as at end of trading on 9th May 2011 in the ratio of one (01) share for every three (03) shares held at an issue price of Rs. 75/- per ordinary voting share, and

(b) 41,186,666 ordinary (non-voting) shares to the registered holders of ordinary (non-voting) shares as at end of trading on 9th May 2011 in the ratio of one (01) share for every three (03) shares held at an issue price of Rs. 35/- per ordinary (non-voting) share.

## SHAREHOLDINGS

As at 31st December 2011, the number of registered shareholders of the Bank included 11,064 ordinary voting shareholders, 11,210 ordinary (non-voting) shareholders and 962 redeemable, non-cumulative, non-convertible and non-voting preference shareholders of the Bank.

An analysis of the distribution, percentages of public holding and twenty largest ordinary voting and ordinary (non-voting) shareholders of the Bank is provided in this Annual Report on pages 369 to 371.

## DEBT CAPITAL

As at 31st December 2011, the Bank had issued debentures (both quoted and unquoted) to the value of Rs. 2,651,650,000/- (2010 - Rs. 3,996,365,000/-).

Particulars of the quoted debentures as at 31st December 2011 are given on page 372 of this Annual Report.

## REDEMPTION OF DEBENTURES

The Bank's 12,573,150 unsecured subordinated redeemable debentures of Rs. 100/- each issued in 2006 matured on 12th July 2011 and were being redeemed since.

The Bank redeemed 874,000 unsecured subordinated redeemable debentures of Rs. 100/- each issued under a private placement in 2006, during the months of November and December 2011.

## INVESTORS' INFORMATION

Information including earnings, profitability, dividend, net assets and market value per share is given under Financial Highlights of this Annual Report. Information pertaining to share prices and debenture prices is given in this Annual Report on pages 371 and 372.

## EQUITABLE TREATMENT OF SHAREHOLDERS

The Bank has at all times ensured the equitable treatment of its shareholders.

## DIRECTORATE

Names of the Directors who held office as at 31st December 2011 are given below. There was no change to the Directorate of the Bank in 2011.

<u>Name of Director</u>	<u>Status as at 31st December 2011</u>
Mr. E. Narangoda (Chairman)	Executive*
Mr. R. Nadarajah	Executive
Mr. N.M. Jayamanne PC	Independent Non-Executive
Mr. P.L.P. Withana	Independent Non-Executive
Rear Admiral B.A.J.G. Peiris	Independent Non-Executive

\* Chairman, Mr. E. Narangoda functions in a non-executive capacity with effect from 1st January 2012.

# Report of the Board of Directors on the State of Affairs of the Company for the Year 2011

<u>Name of Director</u>	<u>Status as at 31st December 2011</u>
Mr. A.L. Devasurendra	Non-Executive
Mr. I.C. Nanayakkara	Non-Executive
Mr. S.P.S. Ranatunga	Independent Non-Executive**
Mr. A.M.M. De Alwis	Non-Executive
Mr. P. Kudabalage	Non-Executive

\*\* Mr. S.P.S. Ranatunga was deemed and confirmed as an Independent Non-Executive Director with effect from 28th December 2011.

The profiles of the Board of Directors are provided on pages 234 to 237.

All Non-Executive Directors have submitted signed declarations confirming their independent/non-independent status in compliance with Rules 7.10.2 and 7.10.4 of the Colombo Stock Exchange Rules of Corporate Governance.

Signed Affidavits and Declarations in terms of Section 42 of the Banking Act (as amended) have also been submitted by the Directors confirming their 'fit and proper' status to hold office as Directors of the Bank.

## RECOMMENDATIONS FOR RE-ELECTION OF DIRECTORS

### Messrs E. Narangoda, Nihal Jayamanne PC and A.L. Devasurendra

In terms of Article 82 of the Articles of Association, Mr. E. Narangoda, Mr. Nihal Jayamanne PC and Mr. A.L. Devasurendra retire by rotation at the Annual General Meeting of the Bank and being eligible have offered themselves for re-election. The proposed re-elections have been duly considered and recommended by the Board Nomination Committee as well as the Board of Directors.

### Mr. R. Nadarajah

At a meeting of the Board Nomination Committee, it was decided that Executive Director, Mr. R. Nadarajah who was lastly elected by the shareholders at the Annual General Meeting held on 29th June 2009 should for sake of good governance be proposed for re-election at the forthcoming Annual General Meeting of the Bank. Accordingly, the Committee as well as the Board of Directors recommended his re-election at the forthcoming Annual General Meeting of the Bank.

## DIRECTORS' ATTENDANCE AT MEETINGS

A schedule on Directors' attendance at Board meetings and the Board Sub-committees is appended to the Corporate Governance Report on page 159.

## BOARD SUB-COMMITTEES

The following Board Sub-committees were functional as at 31st December 2011. The Board Credit Committee and the Board Sustainability Committee were reconstituted during the year in compliance with the Direction relating to Board Sub-committees under the Banking Act Directions on Corporate Governance No. 11 of 2007.

**Board Audit Committee**

Members:

Mr. P.L.P. Withana (Chairman)  
 Mr. N.M. Jayamanne PC  
 Mr. P. Kudabalage

**Board Integrated Risk Management Committee**

Members:

Mr. A.L. Devasurendra (Chairman)  
 Mr. P.L.P. Withana  
 Mr. A.M.M. De Alwis

**Board HR & Remuneration Committee**

Members:

Mr. N.M. Jayamanne PC (Chairman)  
 Mr. P.L.P. Withana  
 Rear Admiral B.A.J.G. Peiris  
 Mr. S.P.S. Ranatunga

**Board Nomination Committee**

Members :

Rear Admiral B.A.J.G. Peiris (Chairman)  
 Mr. N.M. Jayamanne PC  
 Mr. A.L. Devasurendra  
 Mr. S.P.S. Ranatunga  
 Mr. P.L.P. Withana

**Board Credit Committee**

Members:

Mr. A.M.M. De Alwis (Chairman)\*  
*\*(Appointed to the Committee w.e.f. 28th February 2011 and Appointed as Chairman w.e.f. 29th June 2011)*  
 Mr. E. Narangoda  
 Mr. R. Nadarajah  
 Mr. A.L. Devasurendra  
 Mr. I.C. Nanayakkara  
 Rear Admiral B.A.J.G. Peiris\*\*  
*\*\*[Appointed w.e.f. 28th February 2011]*

**Board Sustainability Committee**

Members:

Mr. I.C. Nanayakkara (Chairman)\*  
*\*(Appointed as Chairman w.e.f. 29th June 2011)*  
 Mr. E. Narangoda  
 Mr. R. Nadarajah  
 Mr. A.L. Devasurendra  
 Mr. Samantha Ranatunga\*  
*\*(Appointed w.e.f. 29th June 2011)*

**Board Marketing & Product Development Committee**

Members:

Mr. S.P.S. Ranatunga (Chairman)  
 Mr. R. Nadarajah  
 Mr. A.L. Devasurendra  
 Mr. A.M.M. De Alwis

Reports of the Board Audit Committee, Board Integrated Risk Management Committee, Board HR & Remuneration Committee, Board Nomination Committee and write-ups on the other Sub-committees, viz., Credit, Sustainability and Marketing & Product Development are set out on pages 160 to 173 and form an integral part of this Report of the Board of Directors.

**DIRECTORS – SEYLAN DEVELOPMENTS PLC**

The Directors of the subsidiary, Seylan Developments PLC as at 31st December 2011 were Messrs R. Nadarajah (Chairman), S. Palihawadana, H.L. Gunasekara, K.B. Rathnayake, P. Saravanapavan and Dr. P.M. Gunasekera.

**DIRECTORS' INTEREST REGISTER**

The Directors have declared their interests in contracts to the Board of Directors in accordance with Section 192 (2) of the Companies Act No. 07 of 2007 and had refrained from voting on matters in which they were materially interested. The declarations are tabled at the Board meeting that ensue the declarations. All such disclosures made have been duly recorded in the Directors' Interest Register.

Related party transactions arising out of the disclosures made are given in the Note 45 to the Audited Financial Statements and also as an appendix to this Report of the Board of Directors. A list of directorships held by the Directors in public listed (quoted) companies as at 31st December 2011 is also given in the annexure.

# Report of the Board of Directors on the State of Affairs of the Company for the Year 2011

## DIRECTORS' INTEREST IN SHARES AND DEBENTURES OF THE BANK

Directors' holdings in Shares and Debentures of the Bank as at 31st December are given below:

Director	2011	2010	Shares/Debentures
Mr. E. Narangoda	<b>45,733</b>	34,300	Ordinary Voting
	<b>32,000</b>	14,000	Ordinary Non-Voting
Mr. R. Nadarajah	<b>13,333</b>	10,000	Ordinary Voting
	<b>15,000</b>	15,000	Debentures 2007/2012 - Issue 2
Mr. N.M. Jayamanne PC	<b>5,500</b>	3,000	Ordinary Voting
Mr. P.L.P. Withana	<b>23,363</b>	23,363	Ordinary Voting
Rear Admiral B.A.J.G. Peiris	<b>Nil</b>	Nil	
Mr. A.L. Devasurendra	<b>Nil</b>	Nil	
Mr. I.C. Nanayakkara	<b>Nil</b>	Nil	
Mr. S.P.S. Ranatunga	<b>Nil</b>	Nil	
Mr. A.M.M. De Alwis	<b>Nil</b>	Nil	
Mr. P. Kudabalage	<b>Nil</b>	Nil	

The following Directors subscribed to the Rights Issue in June 2011 and the following quantities of shares were allotted:

Mr. E. Narangoda - 11,433 Ordinary Voting Shares and 8,000 Ordinary (Non-Voting) Shares.

Mr. R. Nadarajah - 3,333 Ordinary Voting Shares.

Mr. N.M. Jayamanne PC - 2,500 Ordinary Voting Shares.

Total percentage Shareholdings of Directors as at end of the financial year are:

	2011 %	2010 %
Ordinary Voting Shares	<b>0.05</b>	0.05
Ordinary (Non-Voting) Shares	<b>0.02</b>	0.01

Directors' Interest in the Preference Shares of the Bank:

The Directors did not hold any redeemable, non-cumulative, non-convertible and non-voting preference shares in their names both at the beginning and at end of the year under review.

No change occurred in the Directors' Interest in shares and debentures after 31st December 2011 and before the date of this Report of the Board of Directors.

## DIRECTORS' REMUNERATION

Details of Directors' emoluments paid during the year in respect of the Bank and the Group for the year ended 31st December 2011 are given in Note 9 to the Financial Statements in this Annual Report in terms of Section 168 (1) (f) of the Companies Act No. 07 of 2007.

## INSURANCE AND INDEMNITY

Pursuant to a decision taken by the Board (as authorised by the Articles of Association of the Bank), an insurance policy has been obtained to cover Directors' liability.

## **CORPORATE GOVERNANCE**

The Board of Directors has pledged their commitment towards maintaining an effective corporate governance framework and practices within the Bank to enhance business prosperity and corporate accountability. The Bank has put systems and procedures in place to ensure that they are adequately and practically conformed with.

The extent of compliance with the Directions, Rules and best practice guidelines are described in the Corporate Governance Report appearing on pages 110 to 162.

The External Certification of the Bank's compliance with the Central Bank Code of Corporate Governance performed in line with agreed upon procedures set out in Sri Lanka Related Services Practice Statement (SLRSPS 4750) was provided by the Bank's External Auditors, Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants.

## **RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROLS**

### **Risk Management**

The Board has ensured the implementation of a sound risk management framework. The Board Integrated Risk Management Committee reviews on a regular basis the risk exposures of the Bank. A detailed Risk Management Report is given on pages 68 to 104.

### **System of Internal Control**

The Board of Directors has put in place an effective system of internal controls so as to safeguard the Bank's assets and ensure continuity of its operations and also to ensure as far as practicable the accuracy and reliability of records. The Board from time to time reviews through the Audit Committee, the adequacy and integrity of the internal control systems covering not only financial controls but also controls relating to operations compliance and risk management. The Board's statement on internal control appearing on pages 107 to 109 of this Annual Report provides an overview of the Bank's efforts in ensuring and maintaining the effectiveness of its internal control system in accordance with the guidance issued to Directors of Banks on the Directors' Statement on Internal Control by The Institute of Chartered Accountants of Sri Lanka in December 2010.

In accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Control, External Auditor's Independent Assurance Report on the Bank's internal control mechanism has been received from the Bank's External Auditor's, Messrs KPMG Ford, Rhodes, Thornton & Co., and the said report is published on pages 105 and 106 of this Annual Report.

## **COMPLIANCE WITH LAWS AND REGULATIONS**

The Bank has not engaged in any activities contravening any laws and regulations currently in force. Key management personnel designated in the Bank for ensuring compliance with various laws and regulations confirm compliance which is reported to the Board on a monthly basis by the Compliance Officer.

## **OUTSTANDING LITIGATION**

In the opinion of the Directors and External Legal Counsels retained by the Bank, pending litigations against the Bank are disclosed in Note 42 to the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

# Report of the Board of Directors on the State of Affairs of the Company for the Year 2011

## ENVIRONMENTAL PROTECTION

The Bank has not engaged in any activity that is harmful or hazardous to the environment. Measures taken by the Bank on environmental protection are detailed in the Sustainability Report published on pages 174 to 231.

## STATUTORY PAYMENTS

The Directors are satisfied that to the best of their knowledge and belief, all statutory payments due to the Government and to the employees of the Bank and its subsidiary have been made.

## POST-BALANCE SHEET EVENTS

### Redemption of Preference Shares

At the Extraordinary General Meeting of the Bank held on 9th May 2011, the shareholders approved the resolutions pertaining to the amendment of the terms of issue of the non-redeemable, non-cumulative, non-convertible and non-voting preference shares (Preference Shares) of the Bank to enable the Bank to redeem the preference shares at a reasonable price on a date as the Board of Directors of the Bank shall determine and also approved the amendment to Article No. 5 (ii) of the Articles of Association of the Bank in consequence thereof.

In pursuance of the amended Article No. 5 (ii), the Board of Directors resolved to redeem the entirety of the 3,390,100 preference shares at a consideration of Rs. 12.50 per share which price was based on an independent valuation of the Preference Shares carried out by Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants. The Bank obtained a Certificate of Solvency from the Auditors and the approval of the Monetary Board of the Central Bank of Sri Lanka for the consequent reduction of capital. The Board of Directors has since decided to redeem the preference shares on 13th February 2012.

### Recommendation of Ordinary Dividend and Solvency Certification

The Directors recommended the payment of a First and Final Ordinary Dividend of Rs. 1.00 per share to the ordinary voting and ordinary (non-voting) shareholders for the year ended 31st December 2011, payable on 9th April 2012. The Bank paid a First and Final Ordinary Dividend of Rs. 1.00 per share for the year 2010 on 8th April 2011.

The Directors are satisfied that the Bank would meet the solvency test in terms of the provisions of the Companies Act No. 07 of 2007 immediately after the proposed dividend which will be paid in April 2012. The Board has obtained a Statement of Solvency from the External Auditors in relation to the proposed dividend payment.

No events have occurred other than those described above which would require adjustments to or disclosure in the Financial Statements. Please also refer Note 44 to the Financial Statements.

## HUMAN RESOURCES

The Board has always believed that the organisation's performance and profitability are linked to effective management of people. The Bank has therefore, continued to attract, retain and develop/train its workforce to ensure the presence of a well-trained and motivated staff to achieve the overall strategies and objectives of the Bank.



The Board HR and Remuneration Committee reviews all significant human resource and remuneration policies of the Bank and a Report of this Committee is published in this Annual Report.

As at end of the financial year, the total number of employees on the payroll of the Bank including contractual staff was 3,150 as compared to 3,622 as at the beginning of the year 2011. A total of 298 staff retired under the voluntary retirement scheme in June 2011.

## EMPLOYEES' SHARE OWNING SCHEME

The Bank has in place several employee share owning trusts which have acquired shares of the Bank from time to time at the market prices prevailing at that time. The details of the facilities granted by the Bank to the trusts for the purchase of such shares are provided in Note 21.8 to the Financial Statements. The Bank does not hold any shares in the trusts. The trusts are not consolidated with the Bank. The Bank intends to liquidate the trusts upon conclusion of the litigations referred to in Note 42 to the Financial Statements.

## GOING CONCERN

The Directors are satisfied that having considered the financial position, operating conditions, regulatory and other factors and such other matters required to be addressed in the Corporate Governance Code, that the Bank has adequate resources to continue its operations in the foreseeable future. The Financial Statements of the Bank have accordingly been prepared on a going concern basis.

## AUDITORS

The Bank's Auditors during the period under review were Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants.

Audit Fees and Consolidated Audit Fees payable/paid are as follows:

	2011 Rs. '000	2010 Rs. '000
<b>Audit Fees</b>		
Audit Service Fees for the Year under Review	<b>6,851</b>	5,462
Audit Related Fees	<b>1,775</b>	2,174
Non-audit Fees	<b>440</b>	332
<b>Consolidated Audit Fees</b>		
Audit Service Fees	<b>7,476</b>	6,185
Audit Related Fees	<b>1,775</b>	2,174
Non-audit Fees	<b>440</b>	796

Based on the declaration made by Messrs KPMG Ford, Rhodes, Thornton & Co. and as far as the Directors are aware, the Auditors do not have any relationship with or interest in the Company or its subsidiary other than disclosed in the aforesaid paragraphs.

The retiring Auditors, Messrs KPMG Ford, Rhodes, Thornton & Co., have expressed their willingness to continue in office and a resolution to reappoint them as Auditors and authorising the Directors to fix their remuneration will be proposed at the Annual General Meeting.

# Report of the Board of Directors on the State of Affairs of the Company for the Year 2011

## INDEPENDENCE OF THE AUDITORS

Based on an assessment carried out by the Board Audit Sub-committee upon adoption of a policy for the engagement of Auditors, the Board is of the opinion that the External Auditors, Messrs KPMG Ford, Rhodes, Thornton & Co. is deemed to be independent for all intents and purposes considering the following factors:

- No partner from the firm is on the Board of Seylan Bank or on the Board of any subsidiary company.
- The audit and non-audit fees are negotiated and are not above industry norms.
- The firm had the necessary skills to competently carry out the non-audit related assignments entrusted to them.
- The Auditors do not receive fees from other assignments except as stated above.
- Partner and Audit-team rotation requirement was complied with.
- KPMG is a firm of high repute and it complies with their own international guidelines.

## NOTICE OF ANNUAL GENERAL MEETING

Notice of Meeting relating to the Twenty-Fifth Annual General Meeting of the Bank scheduled to be held on 28th March 2012 at 10.30 a.m. at the Cinnamon Lakeside, Colombo 2 is included on page 384 of this Annual Report.

For and on behalf of the

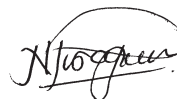
**Board of Directors of Seylan Bank PLC**



**E. Narangoda**  
*Chairman*



**R. Nadarajah**  
*Executive Director*



**Mrs. N.N. Najumudeen**  
*Company Secretary*

8th February 2012

# Annexure to the Report of the Board of Directors on the State of Affairs of the Company

The Bank carries out transactions in the ordinary course of business at commercial rates with entities in which a Director of the Bank is the Chairman or a Director of such entities. The transactions with entities where a Director of the Bank either has control or exercises significant influence arising as a result of common directorships and through substantial shareholdings have been classified as related party transactions. The entities in which the Directors of the Bank hold directorships and substantial shareholdings and the transactions with such entities are disclosed below:

## DIRECTORSHIP/OFFICER/TRUSTEE IN OTHER ENTITIES

### Mr. E. Narangoda (Chairman)

Entity	Position Held	Substantial Shareholding % (if any)
Wealth Trust Corporation (Pvt) Limited	Director	-
Seyfest (Pvt) Limited *	Chairman	-
Seybest (Pvt) Limited *	Chairman	-
Seyshop (Pvt) Limited *	Chairman	-
Sesot (Pvt) Limited *	Chairman	-
Sotse (Pvt) Limited *	Chairman	-
Esots (Pvt) Limited*	Chairman	-
Seylan Bank Employees' Gratuity Trust Fund	Trustee	-

### Mr. R. Nadarajah (Executive Director)

Entity	Position Held	Substantial Shareholding % (if any)
Seylan Developments PLC **	Chairman	-
The Finance Co. PLC **	Director	-
Seyfest (Pvt) Limited *	Director	-
Seybest (Pvt) Limited *	Director	-
Seyshop (Pvt) Limited *	Director	-
Sesot (Pvt) Limited *	Director	-
Sotse (Pvt) Limited *	Director	-
Esots (Pvt) Limited *	Director	-
Seylan Bank Employees' Gratuity Trust Fund	Trustee	-

### Mr. N.M. Jayamanne PC (Independent Non-Executive Director)

Entity	Position Held	Substantial Shareholding % (if any)
Advisory Commission on Company Law	Chairman	-
Law College Foundation	Chairman	-
Law Commission of Sri Lanka	Chairman	-
Sri Lankan Airlines Limited	Director	-
Sri Lankan Catering (Pvt) Limited	Director	-
Advisory Council of Jurists of the Asia Pacific Forum for the Advancement of Human Rights	Member	-
Board of Trustees of the Judicial Infrastructure Maintenance Trust	Member	-
Seylan Bank Employees' Gratuity Trust Fund	Trustee	-

\* Employee Share Ownership Trust Companies of the Bank.

\*\* Listed Public Companies.

# Annexure to the Report of the Board of Directors on the State of Affairs of the Company

## Mr. P.L.P. Withana (*Independent Non-Executive Director*)

Entity	Position Held	Substantial Shareholding % (if any)
Lanka Fashions Solution (Pvt) Limited	Director	-

## Rear Admiral B.A.J.G. Peiris (*Independent Non-Executive Director*)

Entity	Position Held	Substantial Shareholding % (if any)
Seylan Bank Employees' Gratuity Trust Fund	Trustee	-

## Mr. A.L. Devasurendra (*Non-Executive Director*)

Entity	Position Held	Substantial Shareholding % (if any)
Brown & Company PLC **	Deputy Chairman	-
Taprobane Holdings Limited	Managing Director	-
Associated Battery Manufacturers (Cey) Limited	Director	-
Diriya Investments (Pvt) Limited	Director	50%
Taprobane Fund Management Limited	Director	-
Royal Fernwood Porcelain Limited	Director	-
Sierra Constructions Limited	Director	-
The Finance Co. PLC **	Director	-
Ceylon Hotel Holdings (Pvt) Limited (Former Name: Curlew (Pvt) Limited)	Director	-
Taprobane Leisure (Pvt) Limited	Shareholder	33.33%

## Mr. I.C. Nanayakkara (*Non-Executive Director*)

Entity	Position Held	Substantial Shareholding % (if any)
Lanka ORIX Finance Company Limited	Deputy Chairman	-
Lanka ORIX Leasing Company PLC **/**	Deputy Chairman	12.60%
Commercial Leasing Company Limited	Deputy Chairman	-
Agrisil Holdings Limited	Director	-
Agstar Fertilizers Limited	Director	-
Brown & Company PLC **	Director	-
Diriya Investments (Pvt) Limited	Director	-
LOLC Micro Credit Limited	Director	-
PRASAC Micro Finance Institute	Director	-
Sierra Constructions Limited	Director	-
Asia Siyaka Commodities (Pvt) Limited	Director	-
Colombo Land Exchange	Shareholder	25.00%
Medford Investments (Pvt) Limited	Shareholder	25.00%
Taprobane Holdings Limited	Shareholder	35.66%

\*\* Listed Public Companies.

\*\*\* Lanka ORIX Leasing Company PLC is the 100% holding company of LOLC Investments Limited which held 9.55% of the voting capital of the Bank.

**Mr. S.P.S. Ranatunga (Independent Non-Executive Director)**

Entity	Position Held	Substantial Shareholding % (if any)
CIC Holdings PLC [Former Name: Chemical Industries (Colombo) PLC] **	Managing Director/CEO	-
Akzo Nobel Paints Lanka (Pvt) Limited	Director	-
ChemaneX PLC **	Director	-
CIC Agribusiness (Pvt) Limited	Director	-
CIC Bio Security Breeder Farms Limited	Director	-
CIC Feeds (Pvt) Limited	Director	-
CIC Poultry Farms Limited	Director	-
CIC Vetcare (Pvt) Limited	Director	-
CISCO Speciality Packaging (Pvt) Limited	Director	-
Kelani Valley Canneries Limited	Director	-
CIC Mahaweli Livestock & Dairies Limited	Director	-
CIC Environmental Management Liquid (Pvt) Limited	Director	-
Perfunova International Limited, India	Director	-
Crop Management Services (Pvt) Limited	Director	-
Ceylinco Pharmaceuticals Limited	Director	-
Ceylon Chamber of Commerce	Deputy Vice-President	-
Mercantile Services Provident Society	Member	-

**Mr. A.M.M. De Alwis (Non-Executive Director)**

Entity	Position Held	Substantial Shareholding % (if any)
Ceylon Asset Management Company Limited	Chairman	-
Management Services Rakshana Lanka (Pvt) Limited	Managing Director/CEO	-
Sri Lanka Insurance Corporation Limited	Managing Director/CEO	-
Sri Lanka Insurance Corporation Resorts & Spas (Pvt) Limited	Managing Director/CEO	-
Litro Gas Lanka Limited	Executive Director	-
Litro Gas Terminal Lanka (Pvt) Limited	Executive Director	-
The Lanka Hospital Corporation PLC (Lanka Hospitals) **	Director	-
E-Channeling PLC **	Director	-
Sri Lanka Insurance Corporation (Pvt) Limited (Maldives)	Director	-
Ceybank Asset Management (Pvt) Limited	Director	-
Canwill Holdings (Pvt) Limited	Director	-
Sinolanka Hotels & Spas (Pvt) Limited	Director	-
Taprobane Hotels & Spas (Pvt) Limited	Director	-
Helanco Hotels & Spa (Pvt) Limited	Director	-

\*\* Listed Public Companies.

# Annexure to the Report of the Board of Directors on the State of Affairs of the Company

## Mr. P. Kudabalage (*Non-Executive Director*)

Entity	Position Held	Substantial Shareholding % (if any)
E-Channelling PLC **	Chairman	-
Litro Gas Lanka Limited	Managing Director/CEO	-
Litro Gas Lanka Terminal (Pvt) Limited	Managing Director/CEO	-
Canwill Holding (Pvt) Limited	Managing Director/CEO	-
Sinolanka Hotels & Spa (Pvt) Limited	Managing Director/CEO	-
Helanco Hotels & Spa (Pvt) Limited	Managing Director/CEO	-
Taprobane Hotels & Spa (Pvt) Limited	Managing Director/CEO	-
Sri Lanka Insurance Corporation Limited	Executive Director	-
Ceylon Asset Management Co. Limited	Director	-
Sri Lanka Insurance Resorts and Spas (Pvt) Limited	Director	-
Sri Lanka Insurance Corporation (Pvt) Limited (Maldives)	Director	-
Colombo Dockyard PLC **	Director	-
E.C.L. Soft (Pvt) Limited	Director	-
Hotelroomnet Limited	Director	-
P. Kudabalage & Co.	Senior Partner	-

\*\* Listed Public Companies.

## TRANSACTIONS OF THE BANK WITH THE ENTITIES REFERRED TO ABOVE

Entity/Directors' Interest	Transactions as at 31.12.2011 (Lending/Trading)
<b>Seylan Developments PLC</b> (Subsidiary of Seylan Bank PLC)	Interest Income - Rs. 22.911 Mn.
Mr. R. Nadarajah, <i>Chairman</i>	Fee Income - Rs. 0.050 Mn. Rent Advance - Rs. 15.687 Mn. Rent/Work order - Rs. 99.202 Mn. Interest payable/paid - Rs. 7.777 Mn.
<b>Sotse (Pvt) Limited</b>	Term Loan - Limit - Rs. 38.55 Mn., Outstanding - Rs. 29.154 Mn.
Mr. E. Narangoda, <i>Chairman</i>	Security - Loan Agreement Form for Rs. 38.8 Mn.
Mr. R. Nadarajah, <i>Director</i>	Others - Interest Received Rs. 1.369 Mn.
<b>Seyshop (Pvt) Limited</b>	Term Loan - Limit - Rs. 54.375 Mn., Outstanding - Rs. 29.661 Mn.
Mr. E. Narangoda, <i>Chairman</i>	Security - Loan Agreement Form for Rs. 55.1 Mn.
Mr. R. Nadarajah, <i>Director</i>	Others - Interest Received Rs. 1.391 Mn.
<b>Seybest (Pvt) Limited</b>	Term Loan - Limit - Rs. 54.51 Mn., Outstanding - Rs. 29.29 Mn.
Mr. E. Narangoda, <i>Chairman</i>	Security - Loan Agreement Form for Rs. 55.1 Mn.
Mr. R. Nadarajah, <i>Director</i>	Others - Interest Received Rs. 1.379 Mn.
<b>Esots (Pvt) Limited</b>	Term Loan - Limit - Rs. 53.86 Mn., Outstanding - Rs. 29.789 Mn.
Mr. E. Narangoda, <i>Chairman</i>	Security - Loan Agreement Form for Rs. 54.6 Mn.
Mr. R. Nadarajah, <i>Director</i>	Others - Interest Received Rs. 1.401 Mn.

Entity/Directors' Interest	Transactions as at 31.12.2011 (Lending/Trading)
<b>Seylan Bank Employees' Gratuity Trust Fund</b> Mr. E. Narangoda, <i>Trustee</i> Mr. R. Nadarajah, <i>Trustee</i> Rear Admiral B.A.J.G. Peiris, <i>Trustee</i> Mr. N.M. Jayamanne PC, <i>Trustee</i>	Funds Transferred by Seylan Bank PLC - Rs. 84.65 Mn. Interest paid - Rs. 69.332 Mn.
<b>Agstar Fertilizers (Pvt) Limited</b> Mr. I.C. Nanayakkara, <i>Director</i>	Letter of Credit-Sight - Limit - Rs. 500 Mn., Outstanding - Nil Letter of Credit-Usance - Limit - (Rs. 500 Mn.), Outstanding - Nil Revolving Import Loan - Limit - (Rs. 500 Mn.), Outstanding - Nil Securities - Concurrent Paripassu Mortgage for Rs. 500 Mn. over Stocks and Book Debts, General Security Agreement, Series of Loan and Facility Agreement Form
<b>Brown &amp; Company PLC</b> (Held 13.87% equity capital of the Bank) Mr. A.L. Devasurendra, <i>Deputy Chairman</i> Mr. I.C. Nanayakkara, <i>Director</i>	Paid for Repairs/Purchases - Office Machines - Rs. 0.967 Mn. Generators - Rs. 24.147 Mn.
<b>Ceylon Hotel Holdings (Pvt) Limited</b> [Former Name Curlew (Pvt) Limited] Mr. A.L. Devasurendra, <i>Director</i>	Temporary Overdraft - Limit - Rs. 100 Mn., Outstanding - Rs. 101.015 Mn. Security - Assignment over Ceylon Hotel Corporation shares worth of Rs. 345 Mn. Others - Interest received Rs. 2.179 Mn.
<b>CIC Agribusiness (Pvt) Limited</b> Mr. S.P.S. Ranatunga, <i>Director</i>	Overdraft - Limit - Rs. 100 Mn., Outstanding - Rs. 5.847 Mn. Letter of Credit - Limit - Rs.800 Mn., Outstanding - Rs. 115.952 Mn. Import Loan - Limit - (Rs. 400 Mn.), Outstanding - Rs. 265 Mn. Security - Negative Pledge Others - Interest Income received/receivable Rs. 9.06 Mn.
<b>E-Chanelling PLC</b> Mr. P. Kudabalage, <i>Chairman</i> Mr. A.M.M. De Alwis, <i>Director</i>	Commission Received - Rs. 0.09 Mn.
<b>Lanka ORIX Leasing Co. PLC</b> (LOLC Investments Limited which is a 100% subsidiary of this company held 9.55 % equity capital of the Bank) Mr. I.C. Nanayakkara, <i>Deputy Chairman</i>	Overdraft - Limit - Rs. 10 Mn., Outstanding - Rs. 2.167 Mn. Treasury Loan - Limit - Rs. 135 Mn., Outstanding - Rs. 135 Mn. Short-Term Loan - Limit - Rs. 600 Mn., Outstanding - Rs. 600 Mn. Lease - Limit - Rs. 180 Mn., Outstanding - Rs. 0.552 Mn. Security - Special Power of Attorney/Assignment over lease receivable for Rs. 745 Mn. over lease portfolio of Rs. 1.49 Bn. and Absolute ownership over motor vehicles for Rs. 11 Mn. (for the outstanding) Interest received - Rs. 82.846 Mn.

# Annexure to the Report of the Board of Directors on the State of Affairs of the Company

Entity/Directors' Interest	Transactions as at 31.12.2011 (Lending/Trading)
<b>Lanka ORIX Finance Co. Limited</b> Mr. I.C. Nanayakkara, <i>Deputy Chairman</i>	Overdraft - Limit - Rs. 15 Mn., Outstanding - Nil Security - Special power of Attorney/Assignment over lease receivables for Rs. 15 Mn. over lease portfolio of Rs. 30 Mn.
<b>Sri Lankan Air Lines Limited</b> Mr. N.M. Jayamanne PC, <i>Director</i>	Bangkok Dream World Tour for <i>Tikiri</i> Plus Customers - Rs. 6.055 Mn.
<b>Sri Lanka Insurance Corporation Limited</b> (held 15% equity capital of the Bank) Mr. A.M.M. De Alwis, <i>Managing Director</i> Mr. P. Kudabalage, <i>Executive Director</i>	Insurance Premium - Rs. 65.821 Mn.
<b>Sierra Constructions Limited</b> Mr. A.L. Devasurendra, <i>Director</i>  Mr. I.C. Nanayakkara, <i>Director</i>	Temporary Overdraft Outstanding - Rs. 12.182 Mn. Letter of Credit - sight/Revolving Import Loan - Limit - Rs. 50 Mn., Outstanding - Nil Bill Discounting - Limit - Rs. 150 Mn., Outstanding - Nil Guarantee Limit - Rs. 300 Mn., Outstanding - Rs. 152.23 Mn. Securities - Lien over Rupee Fixed Deposits for Rs. 52.8 Mn., Joint & Several Guarantee of Directors for Rs. 465 Mn. and Mortgage over Stocks for Rs. 50 Mn. (equipment/not stock in trade) Others - Interest received and other income - Rs. 5.522 Mn.
<b>Taprobane Holdings Limited</b> Mr. A.L. Devasurendra, <i>Managing Director</i> Mr. I.C. Nanayakkara, <i>Substantial Shareholder</i>	Margin Trading - Limit - Rs. 100 Mn., Outstanding - Rs. 53.345 Mn. Securities - Assignment over quoted shares worth Rs. 411.866 Mn. Others - Interest received Rs. 5.571 Mn.
<b>The Finance Co. PLC</b> Mr. R. Nadarajah, <i>Director</i> Mr. A.L. Devasurendra, <i>Director</i>	Overdraft - Limit - Rs. 110.95 Mn., Outstanding - Rs. 0.642 Mn. Piyasa Velenda Niwasa - Limit Rs. 42.5 Mn., Outstanding - Rs. 22.439 Mn. Term Loan Limit - Rs. 29.75 Mn., Outstanding - Rs. 15.538 Mn. Term Loan Limit - Rs. 69.6 Mn., Outstanding - Rs. 44.753 Mn. Term Loan Limit - Rs. 250 Mn., Outstanding - Rs. 62.285 Mn. Leases - Limit - Rs. 17.766 Mn., Outstanding - Rs. 3.614 Mn. Securities - Mortgage Bonds including six Primary Mortgage Bonds totaling to Rs. 448.95 Mn. and absolute ownership over vehicle Others - Commission Received Rs. 0.078 Mn. Interest Received - Rs. 80.255 Mn.



# Statement of Directors' Responsibility for Financial Reporting

## STATEMENT OF RESPONSIBILITY

The Statement of Responsibility of the Directors of Seylan Bank PLC ('Bank') in relation to the Financial Statements of the Bank and the Consolidated Financial Statements of the Group is set out in this Report in terms of the provisions of the Companies Act No. 07 of 2007.

The Directors are responsible for ensuring that the Bank maintains proper books of account of all its transactions so as -

- (i) to enable the financial position of the Company to be determined with reasonable accuracy at any time;
- (ii) to enable the Directors to prepare Financial Statements in accordance with the Act; and
- (iii) to enable the Financial Statements of the Company to be readily and properly audited.

## CONFIRMATION OF DIRECTORS' RESPONSIBILITY

The Directors confirm that to the best of their knowledge

- that the Financial Statements prepared and published on pages 264 to 362 of this Annual Report in terms of Sections 150 (1), 151 (1), 152 (1) and 153 (1) of the Companies Act, give a true and fair view of the state of affairs of the Bank and the Group and the profit or loss for the year ended 31st December 2011.
- that the Financial Statements for the year ended 31st December 2011 presented in this Annual Report are consistent with the underlying books of account of the Bank and are in conformity with the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act No. 30 of 1988 (as amended), the Listing Rules of the Colombo Stock Exchange, Central Bank Directives and the Code of Best Practice on Corporate Governance 2010 issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL).
- that in preparing the Financial Statements for the year ended 31st December 2011, appropriate accounting policies have been selected and applied on a consistent basis with material departures, if any, disclosed in the Financial Statements together with the rationale for same.
- that proper books of account have been maintained and have also taken reasonable steps to ensure the accuracy and reliability of accounting records.

The Directors further confirm that

- The financial reporting system is also reviewed by the Board through the management accounts submitted at Board meetings and by the Board Audit Committee. The Bank's Interim and Audited Financial Statements are also reviewed by the Board Audit Committee and the Board prior to their release.
- The Financial Statements of the Bank and the Group have been certified by the Bank's Chief Financial Officer and the Chief Executive Officer, the persons responsible for the preparation of the Financial Statements and signed by two Directors of the Bank on 8th February 2012.

## EXTERNAL AUDITORS' REVIEWS AND OPINIONS

The Bank's Auditors, Messrs KPMG Ford, Rhodes, Thornton & Co. carry out reviews and sample checks on the effectiveness of the systems of internal control, as they consider appropriate and necessary in providing their opinion on the Financial Statements. Messrs KPMG Ford, Rhodes, Thornton & Co. have examined the

# Statement of Directors' Responsibility for Financial Reporting

Financial Statements made available together with all other financial records, Minutes of Meetings and related information and have expressed their opinion which appears on pages 264 and 265 of this Annual Report.

## INTERNAL CONTROL MECHANISM OVER FINANCIAL REPORTING

The Board is also responsible for maintaining a sound system of internal control to safeguard shareholders' investments and the Bank's assets and ensure continuity of operations. To this end, the Board has identified principal risks and implemented a system to continually assess such risks and established an appropriate control environment for ensuring proper monitoring of effectiveness of internal controls and correction of deficiencies.

The Board's Statement on the effectiveness of Bank's internal control mechanism over financial reporting, prepared in accordance with the Guidelines issued by The Institute of Chartered Accountants of Sri Lanka (ICASL) and in compliance with Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007 (as amended) is published on pages 107 to 109 and the Bank's Independent Auditors' Report on our assessment of the Bank's internal controls over financial reporting is published on pages 105 and 106 of this Annual Report.

## SOLVENCY

The Board of Directors confirm that they have authorised the distribution of the proposed dividend after having satisfied that the Bank would meet the solvency test in terms of the provisions of the Companies Act No. 07 of 2007, immediately after the dividend payment. The board has obtained a statement of solvency from the External Auditors in relation to the proposed dividend payment.

The Directors confirm that to the best of their knowledge and belief, all statutory payments due and payable to all statutory and regulatory authorities as at the Balance Sheet date, have been paid by the Bank and its subsidiaries or, where relevant, provided for.

## GOING CONCERN

The Directors further confirm that having considered the financial position, operating conditions, regulatory and other factors and such other matters required to be addressed in the Corporate Governance Code, the Bank has adequate resources to continue its operations in the foreseeable future. The Financial Statements of the Bank have accordingly been prepared on a going concern basis.

The Directors are of the view that they have discharged their obligations as set out in this statement.

By order of the Board of Directors  
of **SEYLAN BANK PLC**,



**Mrs. N.N. Najumudeen**  
*Company Secretary*

8th February 2012

# Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The Financial Statements of Seylan Bank PLC and the Group are prepared in compliance with the requirements of the Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka, the requirements of the Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto, the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

The Accounting Policies are consistently applied by the Group. The significant accounting policies and estimates that involve a high degree of judgment and complexity were discussed with the Bank's External Auditors and Audit Committee. Comparative information has been reclassified wherever necessary to comply with the current presentation.

The Board of Directors and the Management of the Bank accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to the Financial Statements were made on a prudent and reasonable basis, in order that the Financial Statements reflect in true and fair manner, the form and substance of transactions and reasonably present the Company's state of affairs. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal controls and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements of the Group were audited by Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants, and their report is given on pages 264 and 265 of this Annual Report. The Audit Committee of the Bank meets periodically with the Internal Auditors and the External Auditors to review the manner in which these auditors are performing their responsibilities and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

The Audit Committee pre-approves the audit and non-audit services provided by Messrs KPMG Ford, Rhodes, Thornton & Co. in order to ensure that the provision of such services does not impair Messrs KPMG Ford, Rhodes, Thornton & Co's independence.

We confirm that the Bank and its subsidiary have complied with all applicable laws and regulations and guidelines and there are no material litigations against the Group other than those disclosed in Note 42 to the Financial Statements in this Annual Report.



**Kapila Ariyaratne**

*General Manager/Chief Executive Officer*



**Ramesh Jayasekara**

*Chief Financial Officer*

8th February 2012

# Independent Auditors' Report



**KPMG Ford, Rhodes, Thornton & Co.**  
 (Chartered Accountants)  
 32A, Sir Mohamed Macan Markar Mawatha,  
 P. O. Box 186,  
 Colombo 00300,  
 Sri Lanka.

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## TO THE SHAREHOLDERS OF SEYLAN BANK PLC

### Report on the Financial Statements

We have audited the accompanying financial statements of Seylan Bank PLC (the "Company"), the consolidated financial statements of the Company and its subsidiary (the "Group") as at 31st December, 2011, which comprise the balance sheet as at 31st December, 2011, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 266 to 362 of this Annual Report.

### Management's Responsibility for the Financial Statements

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

### Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

### Opinion - Company

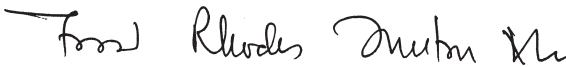
In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31st December, 2011 and the financial statements give a true and fair view of the Company's state of affairs as at 31st December, 2011 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards and specific directions/exemptions received from the Central Bank of Sri Lanka that were used in applying the said Accounting Standards.

### Opinion - Group

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at 31st December, 2011 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards and specific directions/exemptions received from the Central Bank of Sri Lanka that were used in applying the said Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

### Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Sections 153(2) to 153(7) of the Companies Act No. 07 of 2007 and present the information required by the Banking Act, No 30 of 1988.



CHARTERED ACCOUNTANTS

8th February 2012

Colombo, Sri Lanka.

# Income Statement

For the Year ended 31st December	Note	BANK			GROUP		
		2011	2010	Change	2011	2010	Change
		Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
<b>Income</b>	4	<b>19,404,302</b>	20,032,477	(3.14)	<b>19,542,623</b>	20,181,334	(3.16)
Interest Income	5	<b>16,129,579</b>	16,596,094	(2.81)	<b>16,107,643</b>	16,696,073	(3.52)
Less: Interest Expenses	6	<b>8,349,238</b>	8,529,007	(2.11)	<b>8,333,024</b>	8,652,577	(3.69)
<b>Net Interest Income</b>		<b>7,780,341</b>	8,067,087	(3.55)	<b>7,774,619</b>	8,043,496	(3.34)
Foreign Exchange Profit		<b>624,216</b>	403,066	54.87	<b>624,216</b>	403,066	54.87
Net Fee and Commission Income	7	<b>1,434,722</b>	1,357,092	5.72	<b>1,430,791</b>	1,351,423	5.87
Other Income	8	<b>1,138,296</b>	1,606,271	(29.13)	<b>1,298,604</b>	1,655,277	(21.55)
<b>Operating Income</b>		<b>10,977,575</b>	11,433,516	(3.99)	<b>11,128,230</b>	11,453,262	(2.84)
<b>Less: Operating Expenses</b>	9						
Personnel Expenses	10	<b>3,071,077</b>	2,918,689	5.22	<b>3,097,355</b>	2,936,221	5.49
Cost on Voluntary Retirement Scheme	10.1	<b>698,650</b>	-	-	<b>698,650</b>	-	-
Premises, Equipment & Establishment Expenses		<b>1,654,051</b>	1,616,885	2.30	<b>1,631,772</b>	1,596,494	2.21
Provision for Loan Losses	11	<b>649,236</b>	1,581,842	(58.96)	<b>649,236</b>	1,581,842	(58.96)
Diminution/(Appreciation) in Value of Investments	12	<b>316,031</b>	(79,909)	(495.49)	<b>316,031</b>	(55,059)	(673.99)
Other Overhead Expenses		<b>3,016,123</b>	3,398,375	(11.25)	<b>3,175,139</b>	3,439,266	(7.68)
		<b>9,405,168</b>	9,435,882	(0.33)	<b>9,568,183</b>	9,498,764	0.73
<b>Profit from Operations before Taxation</b>		<b>1,572,407</b>	1,997,634	(21.29)	<b>1,560,047</b>	1,954,498	(20.18)
Less: Income Tax Expense	13	<b>569,755</b>	768,653	(25.88)	<b>571,308</b>	789,071	(27.60)
<b>Profit for the Year</b>		<b>1,002,652</b>	1,228,981	(18.42)	<b>988,739</b>	1,165,427	(15.16)
<b>Attributable to -</b>							
Equity Holders of the Bank		<b>1,002,652</b>	1,228,981	(18.42)	<b>1,005,798</b>	1,207,233	(16.69)
Minority Interest		-	-	-	<b>(17,059)</b>	(41,806)	(59.19)
<b>Net Profit for the Year</b>		<b>1,002,652</b>	1,228,981	(18.42)	<b>988,739</b>	1,165,427	(15.16)
<b>Basic Earnings per Share in Rupees (2010 Restated)</b>	14	<b>3.28</b>	4.60	(28.70)	<b>3.29</b>	4.52	(27.21)
<b>Dividend per Share (Rs.) - Gross</b>	44	<b>1.00</b>	1.00		<b>1.00</b>	1.00	
<b>- Net</b>		<b>0.90</b>	0.90		<b>0.90</b>	0.90	

Notes on pages 271 to 362 form an integral part of these Financial Statements.

# Balance Sheet

As at 31st December	Note	BANK		GROUP	
		2011 Rs. '000	2010 (Reclassified) Rs. '000	2011 Rs. '000	2010 (Reclassified) Rs. '000
<b>Assets</b>					
Cash & Cash Equivalents	16	4,550,203	4,698,406	4,550,764	4,699,962
Balance with the Central Bank of Sri Lanka	17	7,070,728	5,453,833	7,070,728	5,453,833
Commercial Papers		-	215,000	-	215,000
Securities Purchased under Resale Agreements		3,305,358	1,266,271	3,305,358	1,266,271
Dealing Securities	18	5,156,438	16,330,618	5,156,438	16,330,618
Investment Securities	19	28,609,888	21,749,282	28,610,156	21,751,676
Bills of Exchange	20	990,786	1,393,678	990,786	1,393,678
Loans and Advances	21	100,336,449	85,622,174	100,336,449	85,622,174
Lease Rentals Receivable within One Year	22	2,149,703	1,428,806	2,149,703	1,428,806
Lease Rentals Receivable later than One Year and not later than Five Years	23	5,170,504	2,513,665	5,170,504	2,513,665
Lease Rentals Receivable after Five Years	24	2,645	822	2,645	822
Investments in Subsidiary Companies	25	793,254	358,916	-	-
Group Balances Receivable	26	15,688	461,843	-	-
Investment Properties	27	237,629	488,713	1,182,505	1,452,598
Current Taxation		-	42,026	6,116	45,015
Deferred Taxation	28	211,844	269,562	211,675	269,562
Property, Plant & Equipment	29	2,371,254	2,463,923	3,047,972	3,169,290
Leasehold Rights	30	39,909	40,836	625,290	634,095
Intangible Assets	31	404,299	505,736	404,299	505,736
Other Assets	32	4,460,717	4,373,414	4,536,312	4,610,439
<b>Total Assets</b>		<b>165,877,296</b>	<b>149,677,524</b>	<b>167,357,700</b>	<b>151,363,240</b>
<b>Liabilities</b>					
Deposits	33	120,538,896	109,891,338	120,538,896	109,891,338
Borrowings	34	7,296,521	4,386,685	7,296,521	4,810,244
Securities Sold under Repurchase Agreements		9,370,371	9,429,348	9,370,371	9,429,348
Group Balances Payable	35	99,841	8,255	-	-
Debentures	36	2,651,650	3,996,365	2,651,650	3,996,365
Current Tax Liabilities		47,054	-	47,054	-
Other Liabilities	37	8,333,438	9,868,508	8,410,346	9,979,218
<b>Total Liabilities</b>		<b>148,337,771</b>	<b>137,580,499</b>	<b>148,314,838</b>	<b>138,106,513</b>
<b>Equity</b>					
Stated Capital	38	10,259,353	5,567,820	10,259,353	5,567,820
Statutory Reserve Fund	39	618,501	568,368	618,501	568,368
Reserves	40	6,661,671	5,960,837	7,069,712	6,365,507
<b>Total Equity Attributable to Equity Holders of the Bank</b>		<b>17,539,525</b>	<b>12,097,025</b>	<b>17,947,566</b>	<b>12,501,695</b>
<b>Minority Interest</b>		<b>-</b>	<b>-</b>	<b>1,095,296</b>	<b>755,032</b>
<b>Total Equity</b>		<b>17,539,525</b>	<b>12,097,025</b>	<b>19,042,862</b>	<b>13,256,727</b>
<b>Total Liabilities &amp; Equity</b>		<b>165,877,296</b>	<b>149,677,524</b>	<b>167,357,700</b>	<b>151,363,240</b>
<b>Commitments &amp; Contingencies</b>	41	<b>36,247,216</b>	<b>30,197,078</b>	<b>36,258,435</b>	<b>30,264,078</b>
<b>Net Assets Value per Share (Rs.)</b>		<b>51.78</b>	<b>47.58</b>	<b>52.99</b>	<b>49.17</b>

Notes on pages 271 to 362 form an integral part of these Financial Statements.

The Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

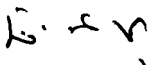


**Ramesh Jayasekara**  
Chief Financial Officer



**Kapila Ariyaratne**  
General Manager/Chief Executive Officer

Approved and signed for and on behalf of the Board.



**Eastman Narangoda**  
Chairman



**R. Nadarajah**  
Executive Director

# Statement of Changes in Equity

For the Year ended 31st December - **Bank**

	Stated Capital		Statutory	Special Risk Reserve	Retained Profits	Revaluation Reserve	Other Reserves	Total
	Share Capital	Share Premium	Reserve Fund					
	Rs. '000	Rs. '000	Rs. '000					
<b>Balance as at 01.01.2010</b>	<b>4,730,501</b>	<b>837,319</b>	<b>506,919</b>	<b>-</b>	<b>3,919,187</b>	<b>125,238</b>	<b>451,808</b>	<b>10,570,972</b>
Net Profit Attributable to the Shareholders of the Bank	-	-	-	-	1,228,981	-	-	1,228,981
Dividends - Note 15	-	-	-	-	(130,340)	-	-	(130,340)
Amalgamation of Seylan Bank Asset Management Limited	-	-	-	47,731	44,796	-	-	92,527
Revaluation Surplus/(Impairment) of Property	-	-	-	-	-	332,757	-	332,757
Transfers from/to Retained Profits	-	-	61,449	32,038	(93,487)	-	-	-
Transferred from/(to) Deferred Tax	-	-	-	-	-	2,128	-	2,128
<b>Balance as at 31.12.2010</b>	<b>4,730,501</b>	<b>837,319</b>	<b>568,368</b>	<b>79,769</b>	<b>4,969,137</b>	<b>460,123</b>	<b>451,808</b>	<b>12,097,025</b>
<b>Balance as at 01.01.2011</b>	<b>4,730,501</b>	<b>837,319</b>	<b>568,368</b>	<b>79,769</b>	<b>4,969,137</b>	<b>460,123</b>	<b>451,808</b>	<b>12,097,025</b>
Issue of Ordinary Voting/Non-Voting Shares	4,691,533	-	-	-	-	-	-	4,691,533
Net Profit Attributable to the Shareholders of the Bank	-	-	-	-	1,002,652	-	-	1,002,652
Dividends - Note 15	-	-	-	-	(253,560)	-	-	(253,560)
Revaluation Surplus/(Impairment) of Property	-	-	-	-	-	-	-	-
Transfers from/to Retained Profits	-	-	50,133	18,972	(342,091)	-	272,986	-
Transferred from/(to) Deferred Tax	-	-	-	-	-	1,875	-	1,875
<b>Balance as at 31.12.2011</b>	<b>9,422,034</b>	<b>837,319</b>	<b>618,501</b>	<b>98,741</b>	<b>5,376,138</b>	<b>461,998</b>	<b>724,794</b>	<b>17,539,525</b>

\* Statutory Reserve Fund represents the statutory requirement in terms of the Section 20 (1) and (2) of the Banking Act No. 30 of 1988 (5% of net profit after tax).

\*\* According to the Circular Ref. No. 08/24/002/0005/003 issued by the Central Bank of Sri Lanka, Primary Dealer Unit is required to appropriate 25% of the profit after tax for the year towards the Special Risk Reserve Fund.

\*\*\* Share premium consists of the premium booked prior to issuance of New Companies Act No. 07 of 2007.

For the Year ended 31st December - **Group**

	Stated Capital		Statutory	Special Risk Reserve	Retained Profits	Revaluation Reserve	Other Reserves	Total	Minority Interest	Total Equity
	Share Capital	Share Premium	Reserve Fund							
	Rs. '000	Rs. '000	Rs. '000							
<b>Balance as at 01.01.2010</b>	<b>4,730,501</b>	<b>837,319</b>	<b>506,919</b>	<b>42,595</b>	<b>3,783,208</b>	<b>483,892</b>	<b>707,021</b>	<b>11,091,455</b>	<b>796,838</b>	<b>11,888,293</b>
Net Profit Attributable to the Shareholders/Minority	-	-	-	-	1,207,233	-	-	1,207,233	(41,806)	1,165,427
Dividends - Note 15	-	-	-	-	(130,340)	-	-	(130,340)	-	(130,340)
Transfers from/to Retained Profits	-	-	61,449	32,038	(93,487)	-	-	-	-	-
Amalgamation of Seylan Bank Asset Management Limited	-	-	-	5,136	(6,674)	-	-	(1,538)	-	(1,538)
Revaluation Surplus/(Impairment) of Property	-	-	-	-	-	332,757	-	332,757	-	332,757
Transferred from/(to) Deferred Tax	-	-	-	-	-	2,128	-	2,128	-	2,128
<b>Balance as at 31.12.2010</b>	<b>4,730,501</b>	<b>837,319</b>	<b>568,368</b>	<b>79,769</b>	<b>4,759,940</b>	<b>818,777</b>	<b>707,021</b>	<b>12,501,695</b>	<b>755,032</b>	<b>13,256,727</b>
<b>Balance as at 01.01.2011</b>	<b>4,730,501</b>	<b>837,319</b>	<b>568,368</b>	<b>79,769</b>	<b>4,759,940</b>	<b>818,777</b>	<b>707,021</b>	<b>12,501,695</b>	<b>755,032</b>	<b>13,256,727</b>
Issue of Ordinary Voting/Non-Voting Shares	4,691,533	-	-	-	-	-	-	4,691,533	379,468	5,071,001
Net Profit Attributable to the Shareholders/Minority	-	-	-	-	1,005,798	-	-	1,005,798	(17,059)	988,739
Dividends - Note 15	-	-	-	-	(253,560)	-	-	(253,560)	-	(253,560)
Transfers from/to Retained Profits	-	-	50,133	18,972	(342,091)	-	272,986	-	-	-
Revaluation Surplus/(Impairment) of Property	-	-	-	-	-	313	-	313	290	603
Transferred from/(to) Deferred Tax	-	-	-	-	-	1,787	-	1,787	(81)	1,706
Other Transfers	-	-	-	-	-	-	-	-	(22,354)	(22,354)
<b>Balance as at 31.12.2011</b>	<b>9,422,034</b>	<b>837,319</b>	<b>618,501</b>	<b>98,741</b>	<b>5,170,087</b>	<b>820,877</b>	<b>980,007</b>	<b>17,947,566</b>	<b>1,095,296</b>	<b>19,042,862</b>

\* Statutory Reserve Fund represents the statutory requirement in terms of the Section 20 (1) and (2) of the Banking Act No. 30 of 1988 (5% of net profit after tax).

\*\* According to the Circular Ref. No. 08/24/002/0005/003 issued by the Central Bank of Sri Lanka, Primary Dealer Unit is required to appropriate 25% of the profit after tax for the year towards the Special Risk Reserve Fund.

\*\*\* Share premium consists of the premium booked prior to issuance of New Companies Act No. 07 of 2007.

Notes on pages 271 to 362 form an integral part of these Financial Statements.



# Cash Flow Statement

For the Year ended 31st December

	BANK		GROUP	
	2011	2010	2011	2010
	Rs. '000	(Reclassified) Rs. '000	Rs. '000	(Reclassified) Rs. '000
<b>Cash Flows from Operating Activities</b>				
Interest Receipts	15,671,743	16,250,784	15,649,807	16,350,763
Fees and Commission Receipts	1,512,211	1,427,046	1,646,007	1,472,980
Interest Payments	(8,077,466)	(8,784,762)	(8,061,252)	(8,908,332)
Exchange Income	624,216	403,066	624,216	403,066
Receipts from Other Operating Activities	959,118	1,095,507	959,118	1,095,507
Cash Payments to Employees and Suppliers	(6,889,373)	(6,140,700)	(6,918,791)	(6,139,070)
Payments on Other Operating Activities	(77,489)	(69,954)	(81,369)	(75,495)
<b>Operating Profit before Changes in</b>				
<b>Operating Assets &amp; Liabilities [Note (a)]</b>	<b>3,722,960</b>	<b>4,180,987</b>	<b>3,817,736</b>	<b>4,199,419</b>
<b>(Increase)/Decrease in Operating Assets:</b>				
Funds (Advanced to)/Repaid by Customers	(17,802,437)	(14,407,690)	(18,340,178)	(14,746,768)
Deposits Held for Regulatory or Monetary Control Purposes	(1,616,895)	(369,604)	(1,616,895)	(369,473)
<b>Increase/(Decrease) in Operating Liabilities:</b>				
Deposits from/(Withdrawals by) Customers	10,310,393	4,862,585	10,310,393	4,862,585
Negotiable Certificates of Deposit	337,165	212,854	337,165	212,854
<b>Cash (Used in)/Generated from Operations</b>	<b>(5,048,814)</b>	<b>(5,520,868)</b>	<b>(5,491,779)</b>	<b>(5,841,383)</b>
Income Tax Paid	(120,000)	(120,000)	(120,713)	(126,699)
Contribution Paid into Staff Retirement Benefit Plan	(84,651)	(108,965)	(84,651)	(108,965)
<b>Net Cash (Used in)/Generated from Operating Activities</b>	<b>(5,253,465)</b>	<b>(5,749,833)</b>	<b>(5,697,143)</b>	<b>(6,077,047)</b>
<b>Cash Flows from Investing Activities</b>				
Investment in Subsidiary Company Shares	(434,338)	-	-	-
Dividends Received	15,911	6,503	15,911	6,503
Treasury Bills/Bonds & Securities Purchased under				
Resale Agreements Maturing after 03 Months	4,014,352	(1,713,027)	4,014,352	(1,732,538)
Purchase of Dealing Securities	(681,244)	(1,277,362)	(681,244)	(1,277,362)
Proceeds from Sale of Dealing Securities	463,445	1,298,841	463,445	1,297,049
Purchase of Non-Dealing Securities	(50,065)	(485,740)	(50,093)	(485,740)
Proceeds from Sale of Non-Dealing Securities	215,182	250,462	217,807	251,053
Purchase of Property, Plant & Equipment,				
Leasehold Rights and Intangible Assets	(411,305)	(189,668)	(412,773)	(190,226)
Proceeds from Sale of Property, Plant & Equipment,				
Leasehold Rights and Intangible Assets	24,533	71,305	28,900	78,104
Proceeds from Sale of Investment Property	242,300	-	242,300	-
Purchase of Investment Property	-	-	(1,086)	(89)
<b>Net Cash (Used in)/Generated from Investing Activities</b>	<b>3,398,771</b>	<b>(2,038,686)</b>	<b>3,837,519</b>	<b>(2,053,246)</b>
<b>Cash Flows from Financing Activities</b>				
Proceeds from Issue of Debentures	-	465,000	-	465,000
Repayments on Redemption of Debentures	(1,344,715)	(699,000)	(1,344,715)	(699,000)
Proceeds from Issue of New Shares	4,691,533	-	4,691,533	-
Securities Sold under Repurchase Agreements	(58,977)	4,866,882	(58,977)	5,254,471
Net Increase/(Decrease) in Other Borrowings	1,292,040	2,477,885	1,302,511	2,356,627
Dividends Paid	(252,423)	(130,610)	(252,423)	(130,610)
Share/Debenture Issue Expenses	(14,578)	(6,223)	(21,114)	(6,223)
<b>Net Cash (Used in)/Generated from Financing Activities</b>	<b>4,312,880</b>	<b>6,973,934</b>	<b>4,316,815</b>	<b>7,240,265</b>
Net Increase/(Decrease) in Cash & Cash Equivalents	2,458,186	(814,585)	2,457,191	(890,028)
Cash & Cash Equivalents at beginning of the Period	6,939,953	7,754,538	6,941,509	7,831,537
<b>Cash &amp; Cash Equivalents at end of the Period</b>	<b>9,398,139</b>	<b>6,939,953</b>	<b>9,398,700</b>	<b>6,941,509</b>
<b>Reconciliation of Cash &amp; Cash Equivalents</b>				
Cash & Cash Equivalents - [Note 16]	4,550,203	4,698,406	4,550,764	4,699,962
Treasury Bills/Bonds Maturing within 03 Months	1,542,578	975,882	1,542,578	975,882
Securities Purchased under Resale Agreements	3,305,358	1,265,665	3,305,358	1,265,665
	<b>9,398,139</b>	<b>6,939,953</b>	<b>9,398,700</b>	<b>6,941,509</b>

# Cash Flow Statement

For the Year ended 31st December	BANK		GROUP	
	2011	2010	2011	2010
	Rs. '000	(Reclassified) Rs. '000	Rs. '000	(Reclassified) Rs. '000
<b>Note (a) Reconciliation of Operating Profit</b>				
Profit before Taxation	1,572,407	1,997,634	1,560,047	1,954,498
Dividend Income	(15,911)	(6,503)	(15,911)	(6,503)
(Profit)/Loss on Sale of Investment Securities	(76)	(89,388)	(547)	(87,587)
(Profit)/Loss on Sale of Property, Plant & Equipment	(18,625)	(39,070)	(22,261)	(43,815)
(Profit)/Loss on Sale of Investment Properties	(7,335)	-	(7,335)	-
Depreciation - Freehold Property, Plant & Equipment	392,798	458,766	422,787	495,129
Depreciation - Leasehold Property, Plant & Equipment	1,408	1,992	9,286	9,870
Depreciation - Investment Property	-	-	20,095	20,068
Amortisation - Intangible Assets	206,224	289,056	206,224	289,056
Provision for Loan Losses	649,236	1,581,842	649,236	1,581,842
Increase/(Decrease) in Accrual for VAT on Financial Services	(102,069)	90,719	(102,069)	90,719
Provision for Staff Retirement Benefit	69,067	28,135	73,157	10,315
Impairment Loss - Provision/(Reversal)	971,601	844,615	1,063,697	844,615
(Profit)/Loss on Sale of Dealing Securities	(137,231)	(375,803)	(137,231)	(375,803)
Provision for Doubtful Receivables	-	-	827	11,241
Diminution/(Appreciation) in Value of Investments	316,031	(79,909)	316,031	(55,059)
Issue Expenses on Debentures/Shares	14,578	6,223	21,114	6,223
Notional Tax	(282,248)	(441,466)	(282,248)	(441,466)
Negative Goodwill on Consolidation	-	-	(22,354)	-
(Increase)/Decrease in Interest Receivable	(175,588)	96,156	(175,588)	96,156
Leave Encashment Provision	(10,165)	(33,145)	(10,165)	(33,145)
Increase/(Decrease) in Interest Payable & Accrued Expenses	278,858	(148,867)	250,944	(166,935)
	<b>3,722,960</b>	<b>4,180,987</b>	<b>3,817,736</b>	<b>4,199,419</b>

Notes on pages 271 to 362 form an integral part of these Financial Statements.

# Notes to the Consolidated Financial Statements

## 1. REPORTING ENTITY

Seylan Bank PLC ('Bank') is a public quoted company incorporated on 28th August 1987 and domiciled in Sri Lanka. The registered office of the Bank is situated at No. 90, Galle Road, Colombo 03. The Consolidated Financial Statements of the Bank as at and for the year ended 31st December 2011 comprise the Bank and its subsidiary (together referred as the 'Group' and individually as "Group entities"). The shares of the Bank have a primary listing on the Colombo Stock Exchange.

The staff strength of the Bank as at 31st December 2011 is 3,150 (2010 - 3,622).

### 1.1 Principal Activities

The principal activities of the Bank are banking and related activities such as accepting deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, travel related services, corporate and retail credit, project financing, lease financing, rural credit, issuing of local and international credit cards, telebanking facilities, Internet banking, dealing in Government Securities, etc.

The subsidiary, Seylan Developments PLC, is in the business of development, administration and maintenance of property.

## 2. BASIS OF PREPARATION

### 2.1 Statement of Compliance

The Balance Sheet, Income Statement, Statement of Changes in Equity and Cash Flow Statement have been prepared in accordance with the Sri Lanka Accounting Standards as issued by The Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of the Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 and amendments thereto.

### 2.2 Approval of Financial Statements by Directors

The Financial Statements were authorised for issue by the Board of Directors on 8th February 2012.

### 2.3 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following;

- Land and buildings are measured at cost at the time of acquisition and subsequently at revalued amounts, less accumulated depreciation and impairment losses.
- Dealing securities are measured at market value.

### 2.4 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees, which is the Bank's functional currency. Except as otherwise indicated, financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand.

# Notes to the Consolidated Financial Statements

## 2.5 Use of Estimates and Judgments

The preparation of Financial Statements in conformity with SLASs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements are described in the following notes:

- Notes 18 and 19 - Classification of Dealing (Trading) and Investment Securities
- Note 19 - Assessment of Impairment of Investment Securities
- Note 21.2 - Analysis of Provision for Loan Losses
- Note 27 - Investment Property
- Note 28 - Deferred Taxation
- Note 37.1 - Measurement of Defined Benefit Obligations

## 2.6 Materiality and Aggregation

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

## 3. CONSISTENCY OF ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements and have been applied consistently by Group entities where applicable and deviations if any, have been disclosed accordingly.

### 3.1 Basis of Consolidation

#### 3.1.1 Subsidiaries

Subsidiaries are entities that are controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights, which presently are exercisable, are taken into account. The Financial Statements of the subsidiaries are included in the Consolidated Financial Statements from the date that control effectively commences until the date that control effectively ceases. The minority interests are presented in the Consolidated Balance Sheet within Equity, separately from the equity attributable to the equity holders of the Bank. The Group Financial Statements comprise a consolidation of the Financial Statements of the Bank and its subsidiary incorporated in Sri Lanka, Seylan Developments PLC (51.83%).

The total profit/loss of the subsidiaries is included in the Consolidated Income Statement, and the proportion of the profit or loss after taxation applicable to outside shareholders is shown under the heading 'Minority Interest'. All assets and liabilities of the Bank and its subsidiaries are included in the Group Balance Sheet. The interest of the outside shareholders in the net assets of the Group is stated separately in the Consolidated Balance Sheet within Equity under the heading 'Minority Interest'.

### **3.1.2 Transactions Eliminated on Consolidation**

#### ***(a) Intra-Group Transactions***

Intra-group balances and transactions and any unrealised gains arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

#### ***(b) Profit and Loss***

In arriving at the profit attributable to the shareholders of Seylan Bank PLC, the total profits or losses of the subsidiaries are included in the Consolidated Income Statement after eliminating intra-group transactions and the portion of the profit or loss after taxation applicable to non-group shareholders.

#### ***(c) Assets and Liabilities***

All assets and liabilities of the Bank and its subsidiary is included in the Consolidated Balance Sheet. The proportionate interest of the non-group shareholders in the net assets employed is stated separately in the Consolidated Balance Sheet under the heading 'Minority Interest'.

#### ***(d) Non-Uniform Accounting Policies***

The impact of non-uniform accounting policies adopted by subsidiaries has been adjusted in the consolidated accounts. The details of the adjustments are disclosed in Note 50.

## **3.2 Foreign Currency Translation**

Transactions in foreign currencies in Domestic Banking Unit are translated to Sri Lankan Rupees at the middle rate of exchange ruling at the date of the transaction. Monetary items denominated in foreign currencies at the Balance Sheet date are translated to Sri Lankan Rupees at the middle rate of exchange ruling at that date. Foreign exchange differences arising on the settlement or reporting of the Bank's monetary items at rates different from those which were initially recorded are dealt in the Income Statement.

Non-monetary assets and liabilities denominated in foreign currency that are stated at historic cost at the Balance Sheet date are translated to Sri Lankan Rupees at the foreign exchange rates ruling at that date.

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

Foreign Currency Banking Unit (FCBU) balances have been converted at closing rate for all monetary items and historic rate for non-monetary items. Income Statement of the FCBU has been converted at the monthly average rate. Differences arising from conversion are recognised in the Income Statement.

# Notes to the Consolidated Financial Statements

## 3.3 Assets and Basis of their Valuation

### 3.3.1 Statutory Deposit with Central Banks

The Monetary Law Act requires that all commercial banks operating in Sri Lanka maintain reserves against all deposit liabilities denominated in Sri Lankan Rupees. The details of reserve requirements are given in Note 17.

### 3.3.2 Government of Sri Lanka Treasury Bills and Bonds

#### 3.3.2.1 Investment in Treasury Bills and Bonds held for Dealing

The Bank has adopted a policy of marking to market its 'Trading Portfolio' of Government Securities in line with the directions made by the Monetary Board of the Central Bank of Sri Lanka under Section 46 (1) of the Banking Act No. 30 of 1988 amended by the Banking (Amendment) Act No. 33 of 1995 and Act No. 2 of 2005.

#### 3.3.2.2 Securities Purchased Under Resale Agreements (Reverse Repurchase Transactions)

These are loans collateralised by the purchase of Treasury Bills and/or Guaranteed Commercial Papers from the counterparty to whom the loans are granted. The sale by the counterparty is subject to a commitment by the Bank to sell back the underlying debt securities to the borrower at a predetermined price. These loans are stated in the Balance Sheet at cost.

### 3.3.3 Advances to Customers

Advances to customers are stated in the Balance Sheet net of provisions for possible loan losses and also net of interest which is not accrued to revenue. Bank's policy is to discontinue accruing interest on non-performing loans and advances after 12 months.

### 3.3.4 Provision for Loan Losses

#### 3.3.4.1 Specific Provision for Loan Losses and Leases

In accordance with the Direction issued by the Central Bank of Sri Lanka on 08th May 2008, Direction No. 3 of 2008 'Classification of Loans and Advances, Income Recognition and Provisioning' specific provisions on NPA (as a minimum) are made as follows.

Category of NPA Credit Quality	Minimum Specific Provision Requirement (Net of Security)
Substandard:	
Credit Cards	25%
Other Advances	20%
Doubtful	50%
Loss	100%

The provision made relates to all categories of loans and advances including pawning and leasing identified as substandard, doubtful and loss.

Where necessary, specific provisions have been made over and above the minimum percentages stipulated above, on a case by case basis.

In addition to the specific provisions for possible loan losses made on the basis of a continuous review of all loans and advances to customers in accordance with the Sri Lanka Accounting Standard 23 - 'Revenue

Recognition and Disclosures in the Financial Statements of Banks' and the Directions issued by the Central Bank of Sri Lanka, the Bank evaluates the need for additional provisions for loans and advances, based upon management's best estimate of recoverability. In estimating the recoverability, the management makes judgments about the borrower's financial situation, the workout strategy and the net realisable value of any underlying collateral.

### **3.3.4.2 General Provision**

The general provisions cover loan losses inherent in portfolios with similar credit risk characteristics (eg.: portfolio of loans, advances and lease receivables) when there is objective evidence to suggest that they contain impaired loans, but the individual impaired loans cannot yet be identified. In assessing the need for general provision for loan losses, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required provisions, assumptions are made to define the way inherent losses are determined, based on historical experience.

The amount of potential losses not specifically identified but which experience indicates are present in the portfolio of loans, advances and lease receivables are recognised as a general provision in profit or loss.

In addition, the Direction issued by the Monetary Board of the Central Bank of Sri Lanka, in terms of Section 46 of the Banking Act No. 30 of 1988, as amended, in 'Requirements to Maintain a General Provision for Advances' requires all licensed commercial banks to maintain a general provision as a percentage of the total on Balance Sheet performing loans and advances and on Balance Sheet overdue loans and advances, net of interest in suspense and credit facilities secured by cash deposits, gold or Government Securities with the same bank.

Commencing from 01st January 2012, the above requirement changes from 1% to 0.5% as referred in Banking Act Direction No. 3 of 2010, amendments to Direction on classification of loans and advances, income recognition and provisioning for licensed commercial banks in Sri Lanka.

For this purpose, the Bank has reduced the existing general provision requirement of 1% to 0.5% at a rate of 0.1% per quarter during the five quarters commencing 01st October 2010 as required by the above Direction.

### **3.3.5 Investments**

#### **3.3.5.1 Investments in Subsidiaries**

Investments in subsidiaries are stated at cost in the Bank's Financial Statements in accordance with the Sri Lanka Accounting Standard 26 on 'Consolidated Financial Statements and Accounting for Investments in Subsidiaries'.

#### **3.3.5.2 Dealing Securities**

These are marketable securities acquired and held with the intention of resale over a short period of time. Such securities are recorded at market values; adjustments for changes in market values are accounted for in Profit or Loss. In classifying securities as 'Dealing' (Trading), the Bank has determined that it meets the description for such classification.

#### **3.3.5.3 Investment Securities**

These are acquired and held for yield or capital growth in the medium/long-term. Such securities are recorded at cost. Changes in market values of these securities are not taken into account, unless there is considered to be a permanent diminution in value. In classifying securities as 'Investment', the Bank has

# Notes to the Consolidated Financial Statements

determined that it has both the positive intention and ability to hold the securities until their maturity date. Unquoted long-term investments are stated at cost.

### **3.3.5.4 Investment Properties**

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes.

Investment property is recognised if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured.

An investment property is measured initially at its cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure. The cost of a self-constructed investment property is its cost at the date when the construction or development is completed. The Bank applies the cost model for investment properties in accordance with Sri Lanka Accounting Standard 40 - 'Investment Property' (Revised 2005). Accordingly, land classified as investment properties are stated at cost and buildings classified as investment properties are stated at cost, less any accumulated depreciation and any accumulated impairment losses. Fair values of these properties are disclosed in Note 27 to the Financial Statements. Seylan Developments PLC, the subsidiary of the Bank, applies the fair value model in accordance with the above standard. Accordingly, investment properties are stated at fair value and an external independent valuation company having an appropriate recognised professional qualification values the portfolio every three-year period. Any gain or loss arising from a change in fair value is recognised in profit or loss. Adjustment for non-uniform accounting policy is reported in Note 50.

Investment properties are derecognised when disposed of, or permanently withdrawn from use because no future economic benefits are expected.

When an item of Property, Plant & Equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value are recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognised in profit or loss immediately.

If an investment property becomes owner-occupied, it is reclassified as Property, Plant & Equipment and its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

When the Company begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured, based on fair value model, and is not reclassified as Property, Plant & Equipment during the redevelopment.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Company holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value. Lease payments are accounted for as described in accounting policy 3.5.11 below.

Any property leased out to parent or subsidiary is considered as owner-occupied from the perspective of the Group and adjustments are made for consolidated purposes and changes are disclosed in Notes 29 and 30 to the Financial Statements.



### **3.3.5.5 Other Investments**

Where the Bank's interest in equity is less than 20% and/or in companies where the Bank does not exercise significant influence and/or control over the financial and operating policies, any such long-term investments are valued at cost.

### **3.3.6 Property, Plant & Equipment**

Property, Plant & Equipment are tangible items that are held for servicing, or for administrative purposes and are expected to be used during more than one period.

#### ***Recognition and Measurement***

Items of Property & Equipment are measured at cost or revaluation, less accumulated depreciation and accumulated impairment losses except for land and building. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of Property or Equipment have different useful lives, they are accounted for as separate items (Major components) of Property and Equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognised net within other income in profit or loss.

#### ***Cost Model***

The Bank applies cost model to Property, Plant & Equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

#### ***Revaluation Model***

The Bank applies the revaluation model for the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and buildings of the Bank are revalued every five years on a roll over basis to ensure that the carrying amounts do not differ materially from the fair values at the Balance Sheet date. On revaluation of an asset, any increase in the carrying amount is credited directly to equity, under revaluation reserve or used to reverse a previous revaluation decrease relating to the same asset, which was debited to the Income Statement. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Income Statement or debited directly to equity under revaluation reserve to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

# Notes to the Consolidated Financial Statements

## **Subsequent Costs**

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 to the Bank and its cost can be reliably measured. The carrying amount of the replaced part is derecognised. The costs of day-to-day servicing of Property, Plant & Equipment are recognised in profit or loss as incurred.

## **Derecognition**

The carrying amount of an item of Property, Plant & Equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of Property, Plant & Equipment is included in Income Statement when the item is derecognised. When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

## **Depreciation**

Depreciation is recognised in profit or loss on straight-line basis over the estimated useful lives of each part of an item of Property & Equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

	Life Period (Years)	Rate (%)
Freehold Building	40	2.5
Motor Vehicles	5	20
Computer Equipment	6	16.67
Office Equipment, Furniture & Fittings	3-10	10-33 ⅓

The rate of depreciation of freehold buildings was revised with effect from 01st January 1999 (from 4% to 2.5%). Freehold buildings purchased prior to 01st January 1999 have been depreciated over the remaining useful life, based on the revised depreciation rates. Freehold buildings purchased after 01st January 1999 have been depreciated, based on revised rates.

Depreciation methods, useful lives and residual values are reassessed at each financial year end and adjusted appropriately.

Leasehold building has been depreciated over the useful economic life as the lease period is greater than the useful life of the asset.

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

## **Seylan Developments PLC**

Property, Plant & Equipment are recorded at cost of purchase or valuation together with any incidental expenses thereon. The assets are stated at cost or valuation, less accumulated depreciation which is provided for on the basis specified below.

Depreciation of common types of assets within the Group is in line with the Group policy disclosed above. Freehold land is not depreciated. Leasehold land and buildings are depreciated over the remaining unexpired lease period. The depreciation of other assets that are unique to Seylan Developments PLC is provided on the straight-line method at varying rates per annum, based on their useful lives as follows:

	Useful Life (years)	Depreciation Rate(%)
Furniture & Fittings	10	10
Equipment	05	20
Interior Décor	02	50
Motor Cars	05	20
Motorcycles	04	25
Tools	03	33 1/3
Cutlery & Crockery	02	50

### 3.3.7 Intangible Assets

#### 3.3.7.1 Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. The Group measures goodwill as the fair value of consideration transferred less the net amount of identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, the gain is recognised immediately in other income. The Group has elected to the above method for changes in ownership interest in an existing subsidiary as well.

#### 3.3.7.2 Software

Software acquired is stated at cost, less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is as follows:

Component	Useful Life (years)
Seylan Bank PLC	6
Seylan Developments PLC	5

### 3.3.8 Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation.

### 3.3.9 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard 20 - 'Borrowing Costs'. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed.

# Notes to the Consolidated Financial Statements

## 3.3.10 Leased Assets - Lessee

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to the initial recognition, the asset is accounted for in accordance with SLAS 19 - 'Leases'.

Other leases are operating leases and, except for investment property, the leased assets are not recognised in the Group Balance Sheet.

## 3.3.11 Impairment

### 3.3.11.1 Financial Assets

The Bank assesses at each Balance Sheet date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the Balance Sheet date ('a loss event'), and that loss event or events have had an impact on the estimated realisable value of the asset.

The Bank assesses whether objective evidence of impairment exists for financial assets that are significant (except for loans and advance explained in Note 3.3.4). For loans and advances, impairment loss is measured individually and collectively as explained in Note 21.5.

When a loan is uncollectible, it is written off against the related provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off are included under 'Other Income' in the Income Statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the impairment provision account. The amount of the reversal is recognised in the Income Statement.

### 3.3.11.2 Non-Financial Assets

The carrying values of Property, Plant & Equipment and Investment Properties are reviewed for impairment annually or when events or changes in circumstances indicate that the carrying value may not be recoverable. If such indications exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment losses are recognised in the Income Statement, unless it reverses a previous revaluation surplus for the same asset.

Assets with an indefinite useful life are not subject to amortisation and are tested on an annual basis for impairment and additionally whenever an indication of impairment exists. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount of an asset is the higher of its fair value, less cost to sell or its value in use. Any decrease in the carrying value is recognised as an expense in the Income Statement in the reporting period in which the impairment loss occurs.

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which that asset belongs. Management judgment is applied to establish cash-generating units. Each of these cash-generating units is represented by an individual primary reporting segment, or a subdivision of a primary segment.

In respect of assets, impairment losses recognised in prior periods are assessed at each Balance Sheet date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **3.3.12 Inventory**

Inventory mainly consists of stationery and gold. Bank's policy for the accounting of inventory is as follows:

Stationery: At weighted average cost method

Gold Stock: Market value at the year-end

### **3.3.13 Cash and Cash Equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central Bank and highly liquid financial assets with maturities of three months or less from the acquisition date and are used in the management of short-term commitments.

Cash and cash equivalents are carried at cost in the Balance Sheet.

## **3.4 Liabilities and Provisions**

### **3.4.1 Deposits from Customers**

Deposits include non-interest bearing deposits, saving deposits, term deposits, deposits redeemable at call and certificates of deposit. They are brought to account at the gross value of the outstanding balance. Interest paid is recognised through profit or loss.

### **3.4.2 Dividends Payable**

Provision for final dividends is recognised at the time the dividend recommended and declared by the Board of Directors is approved by the shareholders. Interim dividends payable is recognised when the Board approves such dividend in accordance with the Companies Act No. 07 of 2007.

### **3.4.3 Borrowings**

Borrowings include refinance borrowings, call money borrowings, Vostro account balances and borrowings from financial institutions. They are accounted at the gross value of the outstanding balance.

### **3.4.4 Securities Sold under Repurchase Agreement ('REPOs')**

This relates to Treasury Bills and Bonds sold subject to a commitment to repurchase them at a predetermined price. Such Treasury Bills and Bonds remain on the Balance Sheet and the liability is recorded in respect of the consideration received. The liability is disclosed as borrowing under repurchase agreement. These Treasury Bills and Bonds are not marked to market as the corresponding liability is also not marked to market.

# Notes to the Consolidated Financial Statements

## 3.4.5 Bills Payable and Other Liabilities

Bills payable and other liabilities include all financial liabilities, interest, fees, expenses payable and securities purchased but not delivered. These liabilities are recorded at the cash value to be realised when settled.

## 3.4.6 Employee Benefits

### 3.4.6.1 Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank operates an approved Gratuity Fund to facilitate the payments for permanent staff of the Bank. The Bank's obligation in respect of defined benefit gratuity plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that benefit to determine its present value, then deducting the fair value of any plan assets. The discount rate is the yield at the reporting date on Government Bonds that have maturity dates approximating to the terms of the Bank's obligations. The calculation is performed by a qualified actuary using the Projected Unit Credit Method which is the method recommended by Sri Lanka Accounting Standard 16 (Revised 2006) - 'Employee Benefits' (SLAS 16).

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the Income Statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in Income Statement.

Monthly provision is made by the Bank for the Gratuity Fund, based on a percentage of the basic salary of employees. The percentage of contributions is determined by the same actuary and retirement benefits are provided to all permanent staff. The Bank carries out an actuarial valuation of the Gratuity Fund in December each year to ascertain the full liability of the Fund. The valuation method used by the actuary to value the Fund is the 'Projected Unit Credit Method', the method recommended by SLAS 16. The demographic assumptions underlying the valuation are retirement age (55 years), early withdrawals from service and retirement on medical grounds, death before and after retirement, etc.

However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

### **Changes to Gratuity Policy**

Board of Directors of the Bank at its meeting held on 24th March 2009 decided to change the previous policy of gratuity payments of paying one month's salary (last drawn) to resigned staff members who have completed ten years of service in the Bank with effect from 5th March 2009.

The policy of paying half a month salary (last drawn) to resigned staff members who have completed five years of service (not completed ten years of service) in the Bank remains unchanged.

Subsidiary has also adopted the Revised SLAS 16 from 1st January 2008 and has made provisions based on the above method.

Defined benefit obligations are funded by the Bank to a separate Gratuity Trust Fund, which is an approved investment for tax purposes. The Bank makes annual contributions to the fund not exceeding a total sum equivalent to the half a month salary of each employee as depicted in the last month of the accounting year together with an additional 25% of the total thereof.

### **3.4.6.2 Termination Benefits**

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

### **3.4.6.3 Defined Contribution Plans**

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to defined contribution plans are recognised as expense in profit or loss as and when they are due.

#### *3.4.6.3 (a) Employees' Provident Fund*

The Bank and employees contribute 12% and 8% respectively, on the salary of each employee to the approved Private Provident Fund. [Refer Note 10]

#### *3.4.6.3 (b) Employees' Trust Fund*

The Bank contributes 3% of the salary of each employee to the Employees' Trust Fund (ETF). The total amount recognised as an expense to the Bank for contribution to ETF is disclosed in the Notes to Financial Statements. [Refer Note 10]

### **3.4.6.4 Short-Term Benefits**

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term compensated absences if the Bank has a present legal or constructive obligation to pay as a result of past services provided by the employees and the obligation can be estimated reliably. Leave encashment provision has been computed for the annual leave entitlement up to a maximum of 90 working days that could be carried forward up to the date of retirement by the staff member.

### **3.4.6.5 Provisions**

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

# Notes to the Consolidated Financial Statements

## **3.4.6.6 Commitments and Contingencies**

All discernible risks are accounted for in determining the amount of all known liabilities. The Bank's share of any contingencies and capital commitments of a subsidiary for which the Bank is also liable severally or otherwise are also included with appropriate disclosures.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Balance Sheet, but are disclosed, unless they are remote.

## **3.4.6.7 Events after the Balance Sheet Date**

All material and important events which occur after the Balance Sheet date have been considered and disclosed in Note 44 or adjusted as applicable.

## **3.5 Income Statement**

### **3.5.1 Revenue Recognition**

Interest Income: Interest receivable is recognised on an accrual basis. Interest ceases to be taken into revenue when the recovery of interest or principal is in arrears for 90 days. Thereafter, interest on advances is accounted for on a cash basis.

Interest on non-performing debts is credited to the 'Interest in Suspense' account which is netted in the Balance Sheet against the relevant balance.

### **3.5.2 Interest Income**

Interest receivable is recognised on an accrual basis. Interest from loans and advances ceases to be accrued when they are classified as non-performing as explained in Note 21.5. Interest on non-performing loans and advances is accounted for on a cash basis. Interest on non-performing loans and advances is credited to the 'Interest in Suspense Account' which is netted in the Balance Sheet against the relevant loans and advances. Interest income from investments is recognised on an accrual basis.

### **3.5.3 Dividend Income**

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

### **3.5.4 Accounting for Finance Lease Income**

Assets leased to customers who transfer substantially all the risks and rewards associated with ownership other than the legal title are classified as finance leases. Amounts receivable under finance leases are included under 'Lease Rental Receivable'. Leasing balances are stated in the Balance Sheet after deduction of initial rentals received.

The excess of aggregate rentals receivable over the cost of the leased assets constitutes the total unearned income. The unearned income is taken into revenue over the term of the lease, commencing from the month in which the lease is executed in proportion to the remaining receivable balance of the lease.



### **3.5.5 Income Tax Expense**

Income tax expense comprises of current and deferred tax. Income tax expense is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

#### **3.5.5.1 Current Taxation**

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the Balance Sheet date, and any adjustment to tax payable in respect of previous years.

Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006, and the amendments thereto at the rates specified in Note 13.

#### **3.5.5.2 Deferred Taxation**

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- Temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Additional taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### **3.5.6 Economic Service Charge (ESC)**

ESC is payable on the liable turnover at specified rates. As per the provision of the Economic Service Charge Act No. 13 of 2006 and subsequent amendments thereto, ESC is deductible from the income tax liability. Any unclaimed payment can be carried forward and set off against the income tax payable as per the relevant provision in the Act.

### **3.5.7 Withholding Tax on Dividends**

Dividend distributed out of taxable profit of the 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 in the Consolidated Financial Statements as a consolidation adjustment. Withholding taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

# Notes to the Consolidated Financial Statements

## 3.5.8 VAT on Financial Services

The value base for value added tax for the Bank is the adjusted accounting profit before tax and emoluments of employees. The adjustment to the accounting profit before tax is for economic depreciation computed on prescribed rates instead of the rates adopted in the Financial Statements. The rate of VAT on financial services changed from 20% to 12% with effect from 1st January 2011 as it was announced by the '*fiscal proposal*' for the year 2011.

## 3.5.9 Fee and Commission Income

All fee and commission income have been recorded when a trade takes place.

## 3.5.10 Profit or Loss on sale of Property, Plant & Equipment/Investments

Gains or losses of a revenue nature on the disposal of Property Plant & Equipment and share portfolio are accounted for in profit or loss.

## 3.5.11 Lease Payments

Lease payments made under operating leases are recognised in profit or loss of each period during the lease term.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

## 3.5.12 Interest Expenses

Interest payable is recognised on an accrual basis. Other expenses have been recognised in the accounts as they are incurred in the period to which they relate.

## 3.5.13 Earnings Per Share

The Bank presents Basic Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit after taxation, minority interest and preference dividends by the weighted average number of ordinary shares in issue (both voting and non-voting) during the year ended 31st December. Weighted average number of ordinary shares has been calculated as per SLAS 34 considering the theoretical ex-rights value per share and the adjustment factor applicable for Rights Issue.

## 3.5.14 Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and returns different from those of other business segments. For the purposes of segment reporting disclosures, the information is presented in respect of the Group's business segments, which is based on the Group's management and internal reporting structure. The Group comprises the following major business segments - Banking, Consumer Financing (Leasing), Treasury and Property/Investments.

Inter-segment pricing is determined on an arm's length basis.

Measurement of segment assets, liabilities, segment revenue and results is based on the accounting policies set out above. Segment revenue results, assets and liabilities include items directly attributable to segments as well as those that can be allocated on a reasonable basis.

Disclosure by geographical region is not provided for as the Group's activities are located in Sri Lanka and the economic environment in which the Group operates is not subject to risk and return that are significantly different on a geographical basis.

### **3.5.15 Cash Flow**

The cash flow has been prepared using the Direct Method of preparing cash flows in accordance with the Sri Lanka Accounting Standard 9 - 'Cash Flow Statements'.

For the purpose of the Cash Flow Statement, cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central Bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their value, and are used by the Bank in the management of its short-term commitments.

### **3.5.16 Financial Risk Management**

#### ***(a) Introduction and Overview***

Bank has implemented a risk management framework in order to identify, measure, mitigate and control the various risk falling within market credit and operational risk.

The Bank has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

#### ***(b) Risk Management Framework***

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability (ALCO), Risk Management Committees, which are responsible for developing and monitoring risk management policies in their specified areas. All Board Committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the risk management policies and procedures.

# Notes to the Consolidated Financial Statements

## **(c) Credit Risk**

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the loans and advances to customers and other banks and investment debt securities.

### *(c i) Past due but not impaired loans and investment debt securities*

Past due but not impaired loans and investment debt securities are those for which contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed.

### *(c ii) Loans with renegotiated terms*

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions, that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

### *(c iii) Write-off policy*

The Bank writes off a loan or investment debt security balance, and any related allowances for impairment losses, when Bank Credit determines that the loan or security is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's/ issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

## **(d) Liquidity Risk**

Central Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained.

All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

### *Exposure to liquidity risk*

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, net liquid assets are considered as including cash and cash equivalents.

Liquidity Management	2011 Domestic Banking Unit	2010 Domestic Banking Unit	2011 Foreign Currency Banking Unit	2010 Foreign Currency Banking Unit
As at 31st December	<b>21.51%</b>	25.07%	<b>25.48%</b>	29.39%
Highest	<b>27.15%</b>	31.60%	<b>31.31%</b>	31.12%
Lowest	<b>21.35%</b>	25.07%	<b>23.09%</b>	24.52%
Average	<b>24.02%</b>	28.46%	<b>26.88%</b>	26.93%

**(e) Market Risk**

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the trading portfolios for risk management purposes. Overall authority for market risk is vested in ALCO.

Market risk is the risk arising from fluctuations in the market price/value of tradable assets such as foreign exchange, fixed income securities and shares that are held for trading purposes where the Bank holds either long positions or short positions of such assets.

The two risk components of the market risk most applicable to the Bank are foreign exchange risk and interest rate risk.

*(e i) The Foreign Exchange Risk* arises from the foreign exchange positions maintained by the Bank where either the foreign currency denominated assets exceed such liabilities (long positions) or the foreign currency denominated liabilities exceed the assets (short positions). Such long or short positions could also be created through the sale or purchase transactions both in spot and forward markets as well as through swap transactions. The Bank is conservative and prudent in its management of foreign exchange exposures and has set out limits on its transactions and exposures including dealer limits, portfolio limits, daylight limits, overnight limits, long position limits, short position limits, counterparty limits, etc.

*(e ii) Interest Rate Risk* arises from the movement of interest rates affecting the value of tradable fixed income securities as well as the interest rate re-pricing gaps of the interest rate sensitive assets and liabilities. The Bank evaluates the risk level of the tradable fixed income securities portfolio by assessing the sensitivity of the market value towards a change of interest rates by one hundred basis points, which is one percentage point. The size and duration of the trading portfolio is capped, based on the potential risk exposure as well as the Board approved limits placed on absolute values. Banks also typically have mismatches in the re-pricing periods of assets and liabilities and an approach of minimising the gaps and limiting long-term fixed rates is followed by the Bank.

Seylan as a policy does not carry a significant exposure to the equity market whilst of course being an active investor within applicable prudential limits.

The different types of market risks and the Balance Sheet structure with a long-term focus are monitored by the Asset and Liability Management Committee (ALCO).

**(f) Operational Risk**

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc. The Bank manages most elements of the operational risk through sound internal control systems and well defined processes both technology driven and with human intervention.

The areas of risk include process risks where faulty processes or errors in the processes could trigger losses. Continuous review of the systems and the processes either on a regular review basis or pursuant to observed loss events and incidents addresses potential weaknesses of the processes.

# Notes to the Consolidated Financial Statements

In implementation of new products that invariably rely on technology as well as human involvement, a risk review is an essential aspect that needs both the marketing objectives as well as the Risk Management requirements. The Bank strives to subject such new product introductions to adequate review.

The Bank also maintains its policies with regard to access control and data protection and necessary safeguards are constantly introduced and upgraded to ensure the integrity of the information and the data bases. Preventive measures such as firewalls and virus guards among other steps are put in place.

## **(g) Capital Management**

Capital Adequacy is a measure of a commercial bank's ability to withstand the associated risks of its business. Regulators find it necessary that every bank holds adequate capital to absorb unexpected losses as a going concern, while they price their products and services to take care of expected risks. Capital Adequacy Ratio (CAR) was measured on the basis of credit and market risk under the Basel I accord and under Basel II, it takes into account the credit, market and operations risks. Keeping with the international standards of Basel Committee on Banking Regulations and Supervisory Practices, Sri Lanka has been following Basel II CAR calculation from January 2008 after conducting parallel calculations in 2007.

### *(g i) Available Capital*

Basel I and Basel II accords recognise three capital elements, namely, Tier I, Tier II and Tier III capital. Tier I capital includes paid up ordinary share capital, paid up non-cumulative, non-redeemable preference shares, share premium, statutory reserve fund, published retained earnings, general and other reserves, less goodwill.

Tier II capital includes 50% of asset revaluation reserves (created by revaluation carried out in every seven years) general provision for advances, hybrid debt/equity instruments and approved subordinated term debts. Tier II capital cannot exceed Tier I capital and subordinated debt cannot exceed 50% of the Tier I capital.

Tier III capital will consist only of short-term debt instrument and will be used for calculation of market risk only. Tier III is subject to a maximum of 250% of Tier I capital after meeting the credit and operational risk.

Equity investments in unconsolidated banking and financial subsidiaries and investments in capital of other banks/financial associates are deducted from capital in arriving at the capital base. The Bank is required to maintain a minimum total risk-weighted capital ratio of 10% in respect of Domestic Banking Unit (DBU) and Foreign Currency Banking Unit (FCBU) operations.

<b>Capital Adequacy Details - 31st December</b>	<b>Bank</b>		<b>Group</b>	
	<b>2011 Rs. Mn.</b>	<b>2010 Rs. Mn.</b>	<b>2011 Rs. Mn.</b>	<b>2010 Rs. Mn.</b>
Total Tier I Capital	<b>16,625</b>	11,554	<b>17,365</b>	11,936
Total Tier I & II Capital	<b>17,232</b>	13,180	<b>18,011</b>	13,601
Total Risk-Weighted Assets	<b>110,814</b>	109,192	<b>112,628</b>	111,133
Off-Balance Sheet Exposure	<b>5,914</b>	4,934	<b>5,914</b>	5,001
Capital Adequacy Ratios				
Tier I	<b>15.00%</b>	10.58%	<b>15.42%</b>	10.74%
Tier I & II	<b>15.55%</b>	12.07%	<b>15.99%</b>	12.24%

### 3.5.17 New Accounting Standards Issued but not Effective as at Balance Sheet Date

The Institute of Chartered Accountants of Sri Lanka (ICASL) has issued a new volume of Sri Lanka Accounting Standards - 2011, applicable for financial periods beginning on or after 1st January 2012. These new Accounting Standards are prefixed both SLFRS and LKAS, which correspond to the relevant IFRS and IAS. These new Standards will be applicable to the Bank from 1st January 2012. The Bank carried out a detailed impact analysis based on the 31st December 2010 account balances. Using these same assumption and methodology the Bank has quantified the potential impact from significant areas of the said Standards.

Disclosure requirements arising from SLAS 10.30 and 10.31 have been exempted by the ICASL, however, the Bank has endeavoured to present the key impact areas, in order to inform the users of these financial statements. The disclosures below are based on a preliminary assessment and internal thresholds established to make the required judgments, as at date.

#### *Financial Instruments*

The new LKAS 39 requires all derivative financial instruments to be recorded at fair value on the Balance Sheet. The fair value of derivative financial instruments recognised on the Balance Sheet on transition as at 1st January 2012 will be a net liability of approximately Rs. 6.37 Mn. The additional net liability of approximately Rs. 0.24 Mn. arising on transition resulted in a corresponding net decrease to equity.

As required by LKAS 39, 'Impairment of Financial Assets' are to be determined using the incurred loss model based on objective evidence of impairment. Impairment loss is the difference between the carrying amount and the estimated future cash flows discounted at original EIR. In quantifying this impact, individually significant loans will be tested for impairment separately while loans that are not individually significant are collectively assessed for impairment (Portfolio-based impairment) based on credit risk characteristics. The net impact of this process will result in a charge of approximately Rs. 2,455.89 Mn. on transition as at 1st January 2012, net of one significant restricted advance, which is disclosed separately.

In addition-

- The Restructuring of advances to one significant customer required the preference shares and debentures to be discounted using original effective interest rate since the obligor remains the same. Impairment loss determined of approximately Rs. 225 Mn. will be adjusted with retained earnings.
- Equity securities not held for trading are to be classified as Available for Sale and are to be measured at their fair value with the changes in fair value being taken to equity. However, equity securities that are not quoted in an active market and whose fair value cannot be reliably measured can be measured at cost. This would result in approximately Rs. 419.42 Mn. decrease in net assets and retained earnings.
- Staff deposits measured at contractual rates of interest, on initial recognition are to be accounted for at their fair value and subsequently will be measured at amortised cost using effective interest rate method. The difference between fair value and transaction price of approximately Rs. 4.73 Mn. at transition date will be amortised over the term of the deposit.

# Notes to the Consolidated Financial Statements

- Non-staff deposits are measured (subsequent to initial recognition) at the amortised cost using effective interest rate method. Due to this adjustment retained earnings will be increased by approximately Rs. 181.54 Mn.

The adjustments described above, on adoption of LKAS 32 and LKAS 39, will result in an overall reduction in total equity as at 1st January 2012 is approximately Rs. 2,923.74 Mn. The Bank has not quantified other differences that may arise due to the adoption of all other LKAS which come into effect on 1st January 2012. However, based on an overview of the changes the Bank does not consider any significant impact would arise from such changes.

### **3.5.18 Comparative Information**

The comparative information is reclassified wherever necessary to conform with the current year's presentation in order to provide a better presentation. The details of restatements are disclosed in Note 49 to the Consolidated Financial Statements.

### **3.5.19 Directors' Responsibility Statement**

The Board of Directors of the Bank is responsible for the preparation and presentation of these Financial Statements. Please refer pages 261 and 262 for the Statement of the Directors' Responsibility for Financial Reporting.



	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>4. INCOME</b>				
Interest Income (Note 5)	16,129,579	16,596,094	16,107,643	16,696,073
Foreign Exchange Profit	624,216	403,066	624,216	403,066
Fee and Commission Income (Note 7.1)	1,512,211	1,427,046	1,512,160	1,426,918
Other Income (Note 8)	1,138,296	1,606,271	1,298,604	1,655,277
	<b>19,404,302</b>	<b>20,032,477</b>	<b>19,542,623</b>	<b>20,181,334</b>

Income of the Company resulted mainly from the business of banking and related activities.

## 5. INTEREST INCOME

Customer Advances	12,325,270	11,483,183	12,302,359	11,467,723
Treasury Bills, Bonds & Placements with Other Banks	3,695,880	5,047,605	3,696,631	5,163,013
Debentures	98,834	28,765	98,834	28,765
Other Instruments	9,595	36,541	9,819	36,572
	<b>16,129,579</b>	<b>16,596,094</b>	<b>16,107,643</b>	<b>16,696,073</b>

According to the Section 137 of the Inland Revenue Act No. 10 of 2006, any person who derives income from the secondary market transactions in Government Securities is entitled to a notional tax credit in relation to the tax payable by such person. Notional tax credit would be determined by grossing up of the income from the secondary market transactions to an amount equal to 1/9 of same and credit to be afforded for a like sum. Accordingly, Bank has accounted for Rs. 282,247,960/- as notional tax credit for the year 2011 (Rs. 441,466,527/- for 2010).

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>6. INTEREST EXPENSES</b>				
Customer Deposits	6,880,654	7,257,825	6,879,736	7,257,811
Borrowings	186,076	77,677	177,640	147,371
Refinance	61,094	70,261	61,094	70,261
Treasury Bills Repurchased	679,346	476,522	672,486	530,412
Debentures	542,068	646,722	542,068	646,722
	<b>8,349,238</b>	<b>8,529,007</b>	<b>8,333,024</b>	<b>8,652,577</b>

## 7. NET FEE & COMMISSION INCOME

### 7.1 Fee & Commission Income

Fee Income	609,077	603,806	609,026	603,769
Commission Income	903,134	823,240	903,134	823,149
	<b>1,512,211</b>	<b>1,427,046</b>	<b>1,512,160</b>	<b>1,426,918</b>

### 7.2 Fee & Commission Expenses

Commission Expenses	77,489	69,954	81,369	75,495
	<b>77,489</b>	<b>69,954</b>	<b>81,369</b>	<b>75,495</b>
<b>Net Fee &amp; Commission Income</b>	<b>1,434,722</b>	<b>1,357,092</b>	<b>1,430,791</b>	<b>1,351,423</b>

# Notes to the Consolidated Financial Statements

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>8. OTHER INCOME</b>				
Dividend Income from Dealing Securities - Quoted	12,510	3,800	12,510	3,800
Dividend Income from Dealing Securities - Unquoted	-	349	-	349
Dividend Income from Investment Securities - Quoted	557	637	557	637
Dividend Income from Investment Securities - Unquoted	2,844	1,717	2,844	1,717
Profit/(Loss) on Sale of Property, Plant & Equipment	18,625	39,070	22,261	43,815
Profit/(Loss) on Sale of Investment Properties	7,335	-	7,335	-
Profit/(Loss) on Sale of Investment Securities	76	89,388	547	87,587
Profit/(Loss) on Sale of Dealing Securities	137,231	375,803	137,231	375,803
Negative Goodwill on Consolidation	-	-	22,354	-
Bad Debts Written Back and Recovered	959,118	1,095,507	959,118	1,095,507
Others	-	-	133,847	46,062
	<b>1,138,296</b>	<b>1,606,271</b>	<b>1,298,604</b>	<b>1,655,277</b>

	BANK		GROUP	
	2011 Rs. '000	2010 (Reclassified) Rs. '000	2011 Rs. '000	2010 (Reclassified) Rs. '000
<b>9. OPERATING EXPENSES</b>				
Operating Expenses include the following:				
Directors' Emoluments	17,499	15,650	18,099	24,639
Auditors' Remuneration - Audit Fees & Expenses	6,851	5,462	7,476	6,185
- Audit-Related Fee & Expenses	1,775	2,174	1,775	2,174
- Non-Audit Services	440	332	440	796
Depreciation - Freehold Property, Plant & Equipment (Note 29)	392,798	458,766	422,787	495,129
Depreciation - Leasehold Property, Plant & Equipment (Note 30)	1,408	1,992	9,286	9,870
Depreciation - Investment Property (Note 27)	-	-	20,095	20,068
Amortisation of Intangible Assets (Note 31)	206,224	289,056	206,224	289,056
Donations	3,340	2,281	3,340	2,281
Expenses on Litigation	83,405	93,031	83,494	93,031
Issue Expenses on Debentures/Shares	14,578	6,223	21,114	6,223
Value Added Tax on Financial Services	447,477	857,240	447,477	868,136
Impairment Loss - Provision/(Reversal)	971,601	844,615	1,063,697	844,615
Provision for Doubtful Receivables	-	-	827	11,241

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>10. PERSONNEL EXPENSES</b>				
Personnel Expenses include the following:				
Salaries and Wages	<b>1,840,563</b>	1,864,989	<b>1,852,845</b>	1,887,472
Contribution to Employees' Provident Fund	<b>220,863</b>	223,591	<b>222,344</b>	226,563
Contribution to Employees' Trust Fund	<b>55,253</b>	55,997	<b>55,623</b>	56,719
Provision for Staff Retirement Benefit (Note 37.1.7)	<b>69,067</b>	28,135	<b>73,157</b>	10,315
Other	<b>885,331</b>	745,977	<b>893,386</b>	755,152
	<b>3,071,077</b>	2,918,689	<b>3,097,355</b>	2,936,221

### 10.1 Cost of Voluntary Retirement Scheme (VRS)

The Management announced a Voluntary Retirement Scheme in March 2011 and 298 employees in different grades were offered early retirement benefits under this scheme effective on 30th June 2011 and its full cost of Rs. 698.650 Mn. has been fully charged to Income Statement during 2011.

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>11. PROVISION FOR LOAN LOSSES</b>				
Provision for Bad & Doubtful Debts - Specific (Note 21.3)	<b>827,401</b>	1,509,512	<b>827,401</b>	1,509,512
Provision/(Reversal) for Bad & Doubtful Debts - General (Note 21.3)	<b>(188,416)</b>	61,479	<b>(188,416)</b>	61,479
Direct Write Off	<b>10,251</b>	10,851	<b>10,251</b>	10,851
	<b>649,236</b>	1,581,842	<b>649,236</b>	1,581,842

### 12. DIMINUTION/(APPRECIATION) IN VALUE OF INVESTMENTS

Diminution/(Appreciation) Provision as at 01st January	<b>(86,270)</b>	(6,361)	<b>(29,941)</b>	146,208
Diminution/(Appreciation) Provision as at 31st December (Notes 18 & 19)	<b>229,761</b>	(86,270)	<b>286,090</b>	(29,941)
Less: Adjustment on Deconsolidation/Amalgamation	-	-	-	(121,090)
Diminution/(Appreciation) in Value of Investments	<b>316,031</b>	(79,909)	<b>316,031</b>	(55,059)

### 13. INCOME TAX EXPENSE

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>13.1 Charge to Taxation is as follows:</b>				
Taxation Based on Profits for the Year (Note 13.2)	<b>600,800</b>	869,573	<b>602,353</b>	889,294
Charge/(Reversal) from Deferred Tax (Note 28)	<b>59,593</b>	174,776	<b>59,593</b>	175,424
(Over)/Under Provision of Taxes in Previous Years	<b>(90,638)</b>	(275,696)	<b>(90,638)</b>	(275,647)
	<b>569,755</b>	768,653	<b>571,308</b>	789,071

# Notes to the Consolidated Financial Statements

(i) Income tax on profits has been computed at the rate of 28% on the taxable income arising from Banking activities.

(ii) The Group companies have computed taxation based on the applicable rates for such companies.

## 13.2 Reconciliation of Accounting Profit and Taxable Income

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Profit Before Tax	1,572,407	1,997,634	1,560,047	1,954,498
Less: Profit from Leasing Business	6,141	152,265	6,141	152,265
<b>Profit on Banking Activities</b>	<b>1,566,266</b>	<b>1,845,369</b>	<b>1,553,906</b>	<b>1,802,233</b>
Add: Disallowable Expenses	2,496,623	3,146,040	2,675,744	3,258,421
Less: Allowable Expenses	1,631,276	2,157,564	1,850,876	2,255,687
Exempt/Allowable Income	285,897	580,393	285,897	580,537
Add: Tax Losses from Subsidiary	-	-	52,839	84,513
<b>Business Income</b>	<b>2,145,716</b>	<b>2,253,452</b>	<b>2,145,716</b>	<b>2,308,943</b>
<b>Income from Other Sources</b>	<b>-</b>	<b>-</b>	<b>8,528</b>	<b>33</b>
<b>Statutory Income</b>	<b>2,145,716</b>	<b>2,253,452</b>	<b>2,154,244</b>	<b>2,308,976</b>
Less: Tax Loss Set-Off	-	-	2,985	11
<b>Assessable Income</b>	<b>2,145,716</b>	<b>2,253,452</b>	<b>2,151,259</b>	<b>2,308,965</b>
Taxable Income from Banking Activities	2,145,716	2,253,452	2,151,259	2,308,965
Taxable Income from Leasing Business	-	203,270	-	203,270
<b>Total Taxable Income</b>	<b>2,145,716</b>	<b>2,456,722</b>	<b>2,151,259</b>	<b>2,512,235</b>

	BANK				GROUP			
	2011		2010		2011		2010	
	Taxable Income Rs. '000	Tax Expense Rs. '000	Taxable Income Rs. '000	Tax Expense Rs. '000	Taxable Income Rs. '000	Tax Expense Rs. '000	Taxable Income Rs. '000	Tax Expense Rs. '000
Bank - Domestic Banking Unit and On-Shore Profits	2,139,716	599,120	2,435,855	852,549	2,145,259	600,673	2,491,368	871,979
Off-Shore Profits	6,000	1,680	20,867	4,173	6,000	1,680	20,867	4,173
Social Responsibility Levy (SRL)	-	-	-	12,851	-	-	-	13,142
	<b>2,145,716</b>	<b>600,800</b>	<b>2,456,722</b>	<b>869,573</b>	<b>2,151,259</b>	<b>602,353</b>	<b>2,512,235</b>	<b>889,294</b>

Up to 2010 Domestic Banking Operations and On-Shore Profits of FCBU was taxed at the rate of 35% and Off-Shore Profits of FCBU was taxed at the rate of 20%. From 2011 onwards all Banking Operations are taxed at the rate of 28% and Social Responsibility Levy was abolished.

## 13.3 Tax Losses Brought Forward

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Tax Losses Brought Forward	-	-	777,827	693,325
Tax Losses Incurred during the Year	522,903*	-	575,742	84,513
Tax Losses Utilized during the Year	-	-	2,985	11
<b>Tax Losses Carried Forward</b>	<b>522,903</b>	<b>-</b>	<b>1,350,584</b>	<b>777,827</b>

\* Tax losses of the Bank pertaining to Leasing Business

### 13.4 Reconciliation of Effective Tax Rate

	2011			
	Bank		Group	
	%	Rs. '000	%	Rs. '000
<b>Profit before Income Tax</b>		<b>1,572,407</b>		<b>1,560,047</b>
Less: Profit from Leasing Business		6,141		6,141
<b>Profit on Banking Activities</b>		<b>1,566,266</b>		<b>1,553,906</b>
Income Tax Using the Domestic Tax Rate	28	438,554	28	435,094
Disallowable Expenses	44	699,054	48	749,208
Allowable Expenses	(29)	(456,757)	(33)	(518,245)
Exempt/Allowable Income	(5)	(80,051)	(5)	(80,051)
Tax Losses from Subsidiary	-	-	1	14,795
Income from Other Sources	-	-	-	2,388
Tax Losses Set Off	-	-	-	(836)
Other Temporary Differences	4	59,593	4	59,593
Over-Provided in Prior Years	(6)	(90,638)	(6)	(90,638)
Total Income Tax Expenses (Note 13.1)	36	569,755	37	571,308

### 14. BASIC EARNINGS PER SHARE

Basic Earnings per Share has been calculated by dividing profit after taxation, minority interest and preference dividends by the weighted average number of ordinary shares in issue (both voting and non-voting) during the year ended 31st December.

Weighted Average Number of Shares has been calculated as per SLAS 34 considering the theoretical ex-rights value per share and the adjustment factor applicable for Rights Issue. Comparatives have been restated accordingly.

	BANK		GROUP	
	2011	2010 (Restated)	2011	2010 (Restated)
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Net Profit Attributable to Shareholders of the Bank	<b>1,002,652</b>	1,228,981	<b>1,005,798</b>	1,207,233
Preference Dividends (Note 15.2)	-	(3,560)	-	(3,560)
Net Profit after Preference Dividends	<b>1,002,652</b>	1,225,421	<b>1,005,798</b>	1,203,673
Weighted Average Number of Ordinary Shares ('000)	<b>305,377</b>	266,174	<b>305,377</b>	266,174
Basic Earnings per Share (Rs.)	<b>3.28</b>	4.60	<b>3.29</b>	4.52

# Notes to the Consolidated Financial Statements

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>15. DIVIDENDS</b>				
Ordinary Share Dividends (15.1)	253,560	126,780	253,560	126,780
Preference Share Dividends (15.2)	-	3,560	-	3,560
	<b>253,560</b>	<b>130,340</b>	<b>253,560</b>	<b>130,340</b>

## 15.1 Ordinary Share Dividends

<b>Net Dividend</b>	<b>228,204</b>	114,102	<b>228,204</b>	114,102
Tax Deducted at Source	25,356	12,678	25,356	12,678
<b>Gross Dividend (Note 44)</b>	<b>253,560</b>	126,780	<b>253,560</b>	126,780

## 15.2 Preference Share Dividends

<b>Net Dividend</b>	-	3,560	-	3,560
Tax Deducted at Source	-	-	-	-
<b>Gross Dividend</b>	-	3,560	-	3,560

## 16. CASH AND CASH EQUIVALENTS

Cash in Hand - Local Currency	4,056,410	3,561,087	4,056,445	3,561,125
Cash in Hand - Foreign Currency	53,390	181,902	53,390	181,902
Cash at Bank	-	-	526	1,518
Balances with Local Banks	-	23,885	-	23,885
Balances with Foreign Banks	440,403	931,532	440,403	931,532
Placements with Banks and Finance Companies (16.1)	-	-	-	-
	<b>4,550,203</b>	<b>4,698,406</b>	<b>4,550,764</b>	<b>4,699,962</b>

## 16.1 Placements with Banks and Finance Companies

Fixed Deposit with Finance Companies	-	-	5,943	5,943
Provision for Doubtful Receivable	-	-	(5,943)	(5,943)
	-	-	-	-

## 17. BALANCE WITH THE CENTRAL BANK OF SRI LANKA

Cash balance is required to be maintained with the Central Bank of Sri Lanka according to statutory requirements. At present, the minimum cash reserve requirement is 8% of the rupee deposit liabilities for 2011. The Statutory Reserve Rate was increased from 7% to 8% with effect from 29th April 2011.

	BANK/GROUP	
	2011 Rs. '000	2010 Rs. '000
Average Deposit Liabilities for the Last Week of December	111,143,742	102,371,365
Statutory Reserve Requirement	8,891,499	7,165,996
Less: Average Sri Lanka Currency Notes and Coins held over and above 2% of Average Deposit Liabilities, but not exceeding 4%	1,619,951	1,708,414
<b>Total Reserve Required to be held with Central Bank</b>	<b>7,271,548</b>	5,457,582
Average Balance held by the Bank for the Last Week of the Year	7,271,584	5,453,929
CBSL Balance as at 31st December	7,070,728	5,453,833

	2011		2010	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
Seylan Bank PLC (Note 18.1)	5,468,690	5,156,438	16,185,949	16,330,618
Seylan Developments PLC	-	-	-	-
<b>Total Dealing Securities - Group</b>	<b>5,468,690</b>	<b>5,156,438</b>	<b>16,185,949</b>	<b>16,330,618</b>

	2011				2010		
	No. of Ordinary Shares	Cost Rs. '000	% of Total Cost	Market Value Rs. '000	No. of Ordinary Shares	Cost (Reclassified) Rs. '000	Market Value (Reclassified) Rs. '000
<b>18.1 Seylan Bank PLC</b>							
<b>18.1.1 Quoted Shares</b>							
<b>Hotels &amp; Travel</b>							
Galadari Hotels Lanka PLC	1,208,000	40,924		35,636	3,000,000	101,710	109,500
Eden Hotel Lanka PLC	100,000	6,645		3,800	100,000	6,645	5,760
John Keells Hotels PLC	7,500,000	146,153		100,500	7,500,000	146,153	150,000
The Lighthouse Hotel PLC	308,000	19,435		16,478	308,000	19,435	19,404
The Fortress Resorts PLC	200,000	6,247		4,600	500,000	11,626	10,300
Hotel Services (Ceylon) PLC	2,350,000	69,689		48,175	2,350,000	69,689	61,100
		289,093	28.94	209,189		355,258	356,064

#### Banks, Finance & Insurance

Commercial Bank of Ceylon PLC	596,000	75,984		59,600	-	-	-
People's Leasing Company PLC	610,800	10,994		9,712	-	-	-
Nations Trust Bank PLC	7,200	413		410	-	-	-
Nation Lanka Finance PLC	600,000	17,396		9,480	2,700	41	47
The Finance Company PLC	-	-		-	110,160	6,197	4,285
Janashakthi Insurance Company PLC	1,000,000	19,568		15,200	-	-	-
Merchant Bank of Sri Lanka PLC	100,000	4,367		4,000	100,000	4,367	4,560
SMB Leasing PLC - Non-Voting	50,871,565	45,784		35,610	92,369,666	83,133	92,370
SMB Leasing PLC - Voting	-	-		-	34,361,382	27,489	65,287
SMB Leasing PLC - Share Warrants	-	-		-	43,607,888	21,796	31,255
Citizens Development Business Finance PLC	-	-		-	175,000	7,000	9,170
Singer Finance (Lanka) PLC	100,000	4,910		2,700	14,000	210	210
Vallibel Finance PLC	-	-		-	1,000,000	12,000	9,000
The Housing Development Finance Corporation Bank of Sri Lanka	-	-		-	5,300	3,099	2,915
		179,416	17.96	136,712		165,332	219,099

# Notes to the Consolidated Financial Statements

	2011			2010			
	No. of Ordinary Shares	Cost	% of Total Cost	Market Value	No. of Ordinary Shares	Cost	Market Value
		Rs. '000		Rs. '000	(Reclassified) Rs. '000	(Reclassified) Rs. '000	(Reclassified) Rs. '000
<b>Diversified Holdings</b>							
Hayleys PLC	-	-	-	-	100,000	32,670	34,500
CT Holdings PLC	191,200	42,640		34,225	-	-	-
Aitken Spence PLC	250,000	45,159		31,250	-	-	-
Richard Peiris & Company PLC	7,000,000	82,584		63,000	1,500,000	14,269	15,900
Browns Investment PLC	1,171,500	5,858		4,920	-	-	-
Sunshine Holding PLC	53,500	2,675		1,552	-	-	-
Vallibel One PLC	13,200	330		315	-	-	-
Softlogic Holding PLC	236,000	6,844		4,272	-	-	-
Hemas Holdings PLC	300,000	13,615		10,020	100,000	4,020	4,440
		199,705	19.99	149,554		50,959	54,840
<b>Beverage, Food &amp; Tobacco</b>							
Renuka Agri Foods PLC	-	-	-	-	650,000	4,322	4,420
Coco Lanka PLC	-	-	-	-	87,800	4,910	5,672
		-	-	-	-	9,232	10,092
<b>Investment Trusts</b>							
Renuka Holdings PLC	69,600	4,206	0.42	3,793	76,900	4,556	4,768
<b>Land &amp; Property</b>							
Overseas Reality (Ceylon) PLC	312,500	5,380	0.54	4,406	112,500	1,826	1,721
<b>Manufacturing</b>							
Swiss Tek (Ceylon) PLC	10,019	217		190	-	-	-
Textured Jersey Lanka PLC	328,400	4,926		3,350	-	-	-
Blue Diamonds Jewellery Worldwide PLC	643	2		5	643	2	2
Hayleys - MGT Knitting Mills PLC	168,500	6,671		4,802	168,500	6,671	5,392
Ceylon Grain Elevators PLC	-	-		-	56,800	3,550	4,203
Sierra Cables PLC	9,087,600	42,214		39,077	10,000,000	46,453	43,000
Parquet (Ceylon) PLC	-	-		-	27,100	856	583
Royal Ceramics Lanka PLC	125,000	20,125		17,500	-	-	-
Lanka Tiles PLC	-	-		-	100,000	10,177	13,470
		74,155	7.42	64,924		67,709	66,650
<b>Healthcare</b>							
Nawaloka Hospitals PLC	4,000,000	17,165	1.72	15,600	4,000,000	17,165	14,400
<b>Chemicals &amp; Pharmaceuticals</b>							
Haycarb PLC	10,000	1,911	0.19	1,550	10,000	1,911	1,685



	2011			2010			
	No. of Ordinary Shares	Cost	% of Total Cost	Market Value	No. of Ordinary Shares	Cost	Market Value
		Rs. '000		Rs. '000	(Reclassified) Rs. '000	(Reclassified) Rs. '000	(Reclassified) Rs. '000
<b>Telecommunication</b>							
Dialog Axiata PLC	17,459,100	167,752		137,927	14,703,100	144,095	174,967
Sri Lanka Telecom PLC	115,000	5,507		5,566	250,000	11,973	12,000
		173,259	17.35	143,493		156,068	186,967
<b>Power &amp; Energy</b>							
Vallibel Power Erathna PLC	2,760,000	28,968		21,803	-	-	-
Hemas Power PLC	250,000	10,707		6,750	-	-	-
Laugh Gas PLC	300,000	14,940		11,370	-	-	-
		54,615	5.47	39,923	-	-	-
<b>Total Quoted Shares - Bank</b>		<b>998,905</b>	<b>100.00</b>	<b>769,144</b>		<b>830,016</b>	<b>916,286</b>
Marked to Market Valuation Gain/(Loss) from Quoted Shares (Note 12)		(229,761)				86,270	

	2011		2010	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
<b>18.1.2 Government of Sri Lanka Treasury Bills</b>				
Discounted Value	1,821,976	1,812,274	1,846,682	1,847,707
Marked to Market Valuation Gain/(Loss) from Treasury Bills*	(9,702)	-	1,025	-

### 18.1.3 Government of Sri Lanka Treasury Bonds

Face Value Rs. '000	Year of Maturity	Discounted Value Rs. '000		
144,220	2012	143,288		
356,041	2013	352,684		
287,653	2014	283,106		
1,085,000	2015	1,151,018		
308,000	2016	285,406		
450,000	2018	432,307		
<b>Total Treasury Bonds - Bank</b>		<b>2,647,809</b>	<b>2,575,020</b>	
Marked to Market Valuation Gain/(Loss) from Treasury Bonds*		(72,789)	-	
<b>Total Dealing Securities - Bank (Notes 18.1.1, 18.1.2 &amp; 18.1.3)</b>		<b>5,468,690</b>	<b>5,156,438</b>	
				13,509,251 13,566,625
				57,374 -
				16,185,949 16,330,618

\* Marked to market valuation gain/(loss) from Treasury Bills and Bonds is included in interest income - Treasury Bills, Bonds and placements with other banks (Note 5).

# Notes to the Consolidated Financial Statements

	2011		2010	
	Cost	Market Value	Cost	Market Value
	Rs. '000	Rs. '000	(Reclassified) Rs. '000	(Reclassified) Rs. '000
<b>19. INVESTMENT SECURITIES</b>				
Seylan Bank PLC (Note 19.1)	28,609,888	28,793,445	21,749,282	22,084,698
Seylan Developments PLC (Note 19.2)	268	899	2,394	3,275
<b>Total Investment Securities - Group</b>	<b>28,610,156</b>	<b>28,794,344</b>	<b>21,751,676</b>	<b>22,087,973</b>

## 19.1 Seylan Bank PLC

### Quoted Shares

	2011			2010		
	No. of Ordinary Shares	Cost Rs. '000	Market Value Rs. '000	No. of Ordinary Shares	Cost Rs. '000	Market Value Rs. '000
	<b>19.1.1 Quoted Shares</b>					
Visa Inc.	13,328	61,422	140,331	13,328	61,422	104,121
The Finance Company PLC	4,607,760	135,007	186,614	-	-	-
<b>Total Quoted Shares - Bank</b>	<b>196,429</b>	<b>196,429</b>	<b>326,945</b>	<b>61,422</b>	<b>61,422</b>	<b>104,121</b>

### Unquoted Shares

	2011			2010		
	No. of Ordinary Shares	Cost Rs. '000	Directors' Valuation Rs. '000	No. of Ordinary Shares	Cost Rs. '000	Directors' Valuation Rs. '000
	<b>19.1.2 Unquoted Shares</b>					
Credit Information Bureau of Sri Lanka*	2,900	290	9,598	2,900	290	6,790
Transnational Lanka Records Solutions (Pvt) Limited*	1,000,000	10,000	19,078	1,000,000	10,000	16,780
Lanka Clear (Pvt) Limited*	1,000,000	10,000	43,593	1,000,000	10,000	38,720
Lanka Financial Services Bureau Limited*	225,000	2,250	3,312	225,000	2,250	2,948
Grameen Micro Credit Company Limited** (15% Cumulative/ Redeemable/Convertible/ Preference Shares)	100,000,000	1,000,000	-	100,000,000	1,000,000	519,944
Less - Provision for impairment Grameen Micro Credit Company Limited***	-	(1,000,000)	-	-	(480,056)	-
<b>Total Unquoted Shares - Bank</b>		<b>22,540</b>	<b>75,581</b>		<b>542,484</b>	<b>585,182</b>

\* The valuation is based on net assets per share basis as per the Audited Financial Statements of these companies as at following dates:

Credit Information Bureau of Sri Lanka - 31st December 2010

Transnational Lanka Records Solutions (Pvt) Limited - 30th June 2011

Lanka Clear (Pvt) Limited - 31st March 2011

Lanka Financial Services Bureau Limited - 31st March 2011

\*\* The Bank has restructured its loan portfolio to Grameen Micro Credit Company Limited (Rs. 2.725 Bn.) by obtaining approval from the Monetary Board and converted Rs. 1 Bn. of the outstanding loan to 15% Cumulative/Redeemable/Convertible/Preference Shares. Further, Bank has converted the balance of Rs. 1.725 Bn. to Secured Debentures at an Interest Rate of Treasury Bills + 10% per annum which will mature from 2012 to 2019. (Refer Note 19.1.7)

\*\*\* Board of Directors decided to impair the total investment in Grameen Micro Credit Company Limited and the Bank has provided Rs. 1,883.225 Mn. for the investment after discounting for the Securities available (Note 19.1.2 and 19.1.7).

Subsequently, the Central Bank of Sri Lanka has directed to convert the investments in Grameen Micro Credit Company Limited to Rs. 665 Mn. debentures (redeemable from 2020 to 2040) and the balance Rs. 2,060 Mn. together with interest due amounting to Rs. 272 Mn. to 233,200,000 non voting shares of Rs. 10/- each. This proposal is under discussion and no final agreement has been reached.

	2011		2010	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
<b>19.1.3 Government of Sri Lanka Treasury Bills</b>				
Face Value Rs. '000				
Year of Maturity				
Discounted Value Rs. '000				
	-	-	143,392	143,411
<b>Total Treasury Bills - Bank</b>	<b>-</b>	<b>-</b>	<b>143,392</b>	<b>143,411</b>

#### 19.1.4 Government of Sri Lanka Treasury Bonds

Face Value Rs. '000	Year of Maturity	Discounted Value Rs. '000		
3,271,575	2012	3,242,412		
1,996,000	2013	2,066,494		
3,865,000	2014	3,772,627		
10,020,000	2015	10,288,154		
2,850,000	2016	2,574,276		
2,550,000	2018	2,356,412		
200,000	2020	164,605		
		<b>24,464,980</b>	<b>24,464,980</b>	
				17,026,300
				17,276,300
CWE Bond	2016	<b>250,000</b>	<b>250,000</b>	250,000
<b>Total Bonds - Bank</b>		<b>24,714,980</b>	<b>24,714,980</b>	17,276,300
				17,526,300

#### 19.1.5 Foreign Currency Bonds

Face Value USD. '000	Year of Maturity	Discounted Value USD. '000		
3,000	2012	3,000		
9,000	2014	9,000		
5,000	2015	5,000		
5,000	2016	5,000		
		22,000	<b>2,504,700</b>	<b>2,504,700</b>
				2,220,000
				2,220,000
<b>Total Foreign Currency Bonds - Bank</b>			<b>2,504,700</b>	<b>2,504,700</b>
				2,220,000
<b>Total Bonds - Bank</b>			<b>27,219,680</b>	<b>27,219,680</b>
				19,496,300
				19,746,300

# Notes to the Consolidated Financial Statements

	2011		2010	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
<b>19.1.6 Quoted Debentures</b>				
SMB Leasing PLC (187,240 Debentures of Rs. 100/- each)	18,724	18,724	18,724	-
Less - Provision for Impairment	-	-	(18,724)	-
<b>Total Quoted Debentures - Bank</b>	<b>18,724</b>	<b>18,724</b>	-	-

	Cost	Directors'	Cost	Directors'
	Rs. '000	Valuation Rs. '000	(Reclassified) Rs. '000	(Reclassified) Rs. '000
<b>19.1.7 Unquoted Debentures</b>				
Grameen Micro Credit Company Limited (1,725 Debentures of Rs. 1,000,000/-each)	1,725,000	616,775*	1,725,000	1,019,944
People's Leasing Company Limited (500,000 Debentures of Rs. 100/-each)	50,000	50,000	50,000	50,000
Urban Development Authority (4,357,400 Debentures of Rs. 100/-each)	435,740	435,740	435,740	435,740
Bank of Ceylon (500,000 Debentures of Rs. 100/-each)	50,000	50,000	-	-
O/A Grameen Micro Credit Company Limited Provision for Impairment (Note 19.1.2 ***)	(883,225)	-	(480,056)	-
Transfer from Interest in Suspense**	(225,000)	-	(225,000)	-
<b>Total Unquoted Debentures - Bank</b>	<b>1,152,515</b>	<b>1,152,515</b>	<b>1,505,684</b>	<b>1,505,684</b>
<b>Total Debentures - Bank</b>	<b>1,171,239</b>	<b>1,171,239</b>	<b>1,505,684</b>	<b>1,505,684</b>

\* Secured against the mortgaged properties

\*\* Interest in suspense on Grameen Loans before restructuring

<b>Total Investment Securities - Bank (Notes 19.1.1, 19.1.2, 19.1.3, 19.1.4, 19.1.5, 19.1.6 &amp; 19.1.7)</b>	<b>28,609,888</b>	<b>28,793,445</b>	<b>21,749,282</b>	<b>22,084,698</b>
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## INVESTMENT SECURITIES HELD BY SUBSIDIARIES

### 19.2 Seylan Developments PLC

	2011			2010		
	No. of Ordinary Shares	Cost Rs. '000	Market Value Rs. '000	No. of Ordinary Shares	Cost Rs. '000	Market Value Rs. '000
<b>19.2.1 Quoted Shares</b>						
Nation Lanka Finance PLC	8,288	80	132	200,000	2,000	2,900
C.T. Land Developments PLC	100	1	3	100	1	2
Ceylinco Housing & Real Estate PLC	250	2	4	250	2	7
The Colombo Fort Land & Building Company PLC	100	1	25	100	1	3
Overseas Realty Ceylon PLC	100	-	1	100	-	2
Kelsey Developments PLC	100	1	2	100	1	1
Property Development PLC	100	2	5	100	2	3
Colombo Land & Development Company PLC	1,250	-	69	1,250	-	8
East West Properties PLC	200	1	5	200	1	2
Equity One PLC	100	1	5	100	1	2
On'ally Holdings PLC	100	1	9	100	1	4
York Arcade Holdings PLC	100	-	2	100	-	1
Blue Diamonds Jewellery Worldwide PLC	78,600	178	637	170,000	383	340
<b>Total Quoted Shares</b>		<b>268</b>	<b>899</b>		<b>2,393</b>	<b>3,275</b>

# Notes to the Consolidated Financial Statements

	2011			2010		
	No. of Ordinary Shares	Cost Rs. '000	Market Value Rs. '000	No. of Ordinary Shares	Cost Rs. '000	Market Value Rs. '000
<b>19.2.2 Unquoted Shares</b>						
Ceylinco Venture Capital Investment Limited	95,000	950	-	95,000	950	-
Ceylinco Sports Complex	220,000	2,200	-	220,000	2,200	-
Ceycom Global Communication Limited	40,500	405	-	40,500	405	-
Asian Finance Company Limited	75,000	750	-	75,000	750	-
MBSL Savings Bank Limited	25,000	250	-	25,000	250	-
Ceylinco - Cisco Security Corporation (Pvt) Limited	10,000	-	-	10,000	-	-
Ceylinco International Property Developers (Pvt) Limited	50,000	500	-	50,000	500	-
Ceyenergy Electronic Co. (Pvt) Limited	15,000	150	-	15,000	150	-
Certis Lanka Home Nursing & Swift Care (Pvt) Limited	75,000	750	-	75,000	750	-
Independent Financial News & Views (Pvt) Limited	4,900	49	-	4,900	49	-
Ceylinco International Realty (Pvt) Limited	200,000	2,000	-	200,000	2,000	-
e.Ceylinco. Com (Pvt) Limited	60,000	600	-	60,000	600	-
International Consultancy & Corporate Services (Pvt) Limited	5,000	50	-	5,000	50	-
Ceylinco PLC Technology (Pvt) Limited	177,500	1,775	-	177,500	1,775	-
Standard Credit Lanka Limited	4,000,000	40,000	-	4,000,000	40,000	-
Associated Property Developers PLC	-	-	-	100	1	-
The Sitar (Pvt) Limited	60,000	600	-	60,000	600	-
Ceylinco Seraka Investments Limited	510,000	5,100	-	510,000	5,100	-
Ceylinco Cisco Ranaviru Services (Pvt) Limited	10,000	100	-	10,000	100	-
Certis Lanka Secure Logistics (Pvt) Limited	10,000	100	-	10,000	100	-
Diminution in Value (Note 12)		(56,329)			(56,329)	
<b>Total Unquoted Shares</b>		-			1	-
<b>Total Investment Securities - Seylan Developments PLC (Note 19.2.1 &amp; 19.2.2)</b>		268	899		2,394	3,275
<b>Total Investment Securities - Group (Note 19.1 &amp; 19.2)</b>		28,610,156	28,794,344		21,751,676	22,087,973

### 19.3 Assets Pledged as Security

Out of the Treasury Bills and Bonds classified as Investment Securities the following amount has been pledged as security for repurchase agreements:

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Treasury Bills and Bonds	<b>7,179,309</b>	6,256,152	<b>7,179,309</b>	6,256,152
Sri Lanka Development Bond (USD 500,000)*	<b>55,500</b>	55,500	<b>55,500</b>	55,500

\* The Bank has pledged a Sri Lanka Development Bond amounting to USD 500,000 with Bank of Ceylon as security for a guarantee obtained on behalf of Seylan Credit Card Centre.

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>20. BILLS OF EXCHANGE</b>				
Export Bills	<b>597,967</b>	800,637	<b>597,967</b>	800,637
Import Bills	<b>258,238</b>	505,557	<b>258,238</b>	505,557
Local Bills	<b>144,707</b>	109,430	<b>144,707</b>	109,430
	<b>1,000,912</b>	1,415,624	<b>1,000,912</b>	1,415,624
Less: Loan Loss Provision (Note 21.1)	<b>(10,126)</b>	(21,946)	<b>(10,126)</b>	(21,946)
	<b>990,786</b>	1,393,678	<b>990,786</b>	1,393,678

### 21. LOANS AND ADVANCES

#### Sri Lanka Rupee Loans and Advances

Overdrafts	<b>26,398,115</b>	23,494,117	<b>26,398,115</b>	23,494,117
Trust Receipt Loans/Revolving Import Loans (RIL)	<b>7,612,009</b>	4,896,895	<b>7,612,009</b>	4,896,895
Staff Loans	<b>5,047,716</b>	5,152,669	<b>5,047,716</b>	5,152,669
Housing Loans	<b>8,755,498</b>	8,323,123	<b>8,755,498</b>	8,323,123
Pawning Advances	<b>11,987,613</b>	8,113,661	<b>11,987,613</b>	8,113,661
Refinance Loans	<b>744,687</b>	946,777	<b>744,687</b>	946,777
Other Loans	<b>43,951,787</b>	38,750,946	<b>43,951,787</b>	38,750,946
	<b>104,497,425</b>	89,678,188	<b>104,497,425</b>	89,678,188

#### Foreign Currency Loans and Advances

Overdrafts	<b>540,633</b>	518,957	<b>540,633</b>	518,957
Trust Receipt Loans/Revolving Import Loans (RIL)	<b>240,142</b>	158,421	<b>240,142</b>	158,421
Other Loans	<b>4,561,464</b>	6,091,486	<b>4,561,464</b>	6,091,486
	<b>5,342,239</b>	6,768,864	<b>5,342,239</b>	6,768,864
<b>Total Loans &amp; Advances - Gross</b>	<b>109,839,664</b>	96,447,052	<b>109,839,664</b>	96,447,052
Less: Loan Loss Provision (Note 21.1)	<b>(4,817,003)</b>	(6,034,555)	<b>(4,817,003)</b>	(6,034,555)
Interest in Suspense (Note 21.1)	<b>(4,686,212)</b>	(4,790,323)	<b>(4,686,212)</b>	(4,790,323)
<b>Total Loans &amp; Advances - Net</b>	<b>100,336,449</b>	85,622,174	<b>100,336,449</b>	85,622,174

# Notes to the Consolidated Financial Statements

## 21.1 Analysis of Provision for Loan Losses and Interest in Suspense

	BANK				GROUP			
	2011		2010		2011		2010	
	Loan Loss Provision Rs. '000	Interest in Suspense Rs. '000	Loan Loss Provision Rs. '000	Interest in Suspense Rs. '000	Loan Loss Provision Rs. '000	Interest in Suspense Rs. '000	Loan Loss Provision Rs. '000	Interest in Suspense Rs. '000
Bills of Exchange (Note 20)	10,126	-	21,946	-	10,126	-	21,946	-
Loans and Advances (Note 21)	4,817,003	4,686,212	6,034,555	4,790,323	4,817,003	4,686,212	6,034,555	4,790,323
Lease Rental Receivable (Note 22)	212,532	43,458	230,978	48,909	212,532	43,458	230,978	48,909
	<b>5,039,661</b>	<b>4,729,670</b>	<b>6,287,479</b>	<b>4,839,232</b>	<b>5,039,661</b>	<b>4,729,670</b>	<b>6,287,479</b>	<b>4,839,232</b>

## 21.2 Analysis of Provision for Loan Losses

	BANK				GROUP			
	2011		2010		2011		2010	
	Loan Loss Provision Specific Rs. '000	Loan Loss Provision General Rs. '000	Loan Loss Provision Specific Rs. '000	Loan Loss Provision General Rs. '000	Loan Loss Provision Specific Rs. '000	Loan Loss Provision General Rs. '000	Loan Loss Provision Specific Rs. '000	Loan Loss Provision General Rs. '000
Bills of Exchange	5,180	4,946	12,267	9,679	5,180	4,946	12,267	9,679
Loans and Advances	4,476,321	340,682	5,508,722	525,833	4,476,321	340,682	5,508,722	525,833
Lease Rental Receivable	175,921	36,611	195,835	35,143	175,921	36,611	195,835	35,143
	<b>4,657,422</b>	<b>382,239</b>	<b>5,716,824</b>	<b>570,655</b>	<b>4,657,422</b>	<b>382,239</b>	<b>5,716,824</b>	<b>570,655</b>
Loan Loss Provision - Specific	4,657,422		5,716,824		4,657,422		5,716,824	
Loan Loss Provision - General	382,239		570,655		382,239		570,655	
<b>Total Loan Loss Provision - (Note 21.1)</b>	<b>5,039,661</b>		<b>6,287,479</b>		<b>5,039,661</b>		<b>6,287,479</b>	

## 21.3 Movement in Loan Loss Provision

	BANK				GROUP			
	2011		2010		2011		2010	
	Specific Rs. '000	General Rs. '000	Specific Rs. '000	General Rs. '000	Specific Rs. '000	General Rs. '000	Specific Rs. '000	General Rs. '000
Balance Brought Forward	5,716,824	570,655	5,956,832	509,176	5,716,824	570,655	5,956,832	509,176
Additional Provision/ (Reversal) Made	827,401	(188,416)	1,509,512	61,479	827,401	(188,416)	1,509,512	61,479
Fully Provided Loans Written Off	(1,038,972)	-	(681,393)	-	(1,038,972)	-	(681,393)	-
Recoveries Made During the Year	(879,138)	-	(1,024,823)	-	(879,138)	-	(1,024,823)	-
Exchange Rate Variance on Foreign Currency Provisions	31,307	-	(43,304)	-	31,307	-	(43,304)	-
	<b>4,657,422</b>	<b>382,239</b>	<b>5,716,824</b>	<b>570,655</b>	<b>4,657,422</b>	<b>382,239</b>	<b>5,716,824</b>	<b>570,655</b>



## 21.4 Movement in Interest in Suspense

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Balance Brought Forward	<b>4,839,232</b>	5,658,891	<b>4,839,232</b>	5,658,891
Interest Suspended During the Year	<b>2,340,734</b>	2,135,062	<b>2,340,734</b>	2,135,062
Interest Recovered During the Year	<b>(1,283,856)</b>	(1,266,686)	<b>(1,283,856)</b>	(1,266,686)
Reversal of Interest for Write Off/Write Down	<b>(1,172,927)</b>	(1,681,923)	<b>(1,172,927)</b>	(1,681,923)
Exchange Rate Variance on Foreign Currency Provisions	<b>6,487</b>	(6,112)	<b>6,487</b>	(6,112)
	<b>4,729,670</b>	4,839,232	<b>4,729,670</b>	4,839,232

## 21.5 Basis for Provisioning

As given in Note 21.2 General provision is made as per the Central Bank of Sri Lanka Guidelines on performing loans and advances except for credit facilities secured by Cash Deposits, Gold and Government Securities. The cumulative general provision of Seylan Bank as at 31.12.2011 is Rs. 382.24 Mn. (2010 - Rs. 570.65 Mn.) and meets the regulatory requirement. The general provision is 0.34% (2010 - 0.58%) of loans and advances net of interest in suspense as at the Balance Sheet date.

### 21.5.1 Non-Performing Lending Portfolio

Loans, advances and leases are classified as non-performing as given in Note 21.6.1. The criteria used for the classification of lending portfolio of the Bank as non-performing is set out below. This is in accordance with the Direction issued by the Central Bank of Sri Lanka on 8th May 2008, on 'Classification of Loans and Advances, Income Recognition and Provisioning'.

#### Categorisation of Non-Performing Lending Portfolio

Type of Facility	Determinant	Overdue/Special Mention	Substandard	Doubtful	Loss
Overdrafts	Exceeds the sanctioned limit for a continuous period of	90 days or more but less than 180 days	180 days or more but less than 360 days	360 days or more but less than 540 days	540 days or more
Credit facilities repayable in monthly instalments	Principal and/or interest due and unpaid	3 instalments or more but less than 6 instalments	6 instalments or more but less than 12 instalments	12 instalments or more but less than 18 instalments	18 instalments or more
Other credit facilities	Payments are in arrears from the due date	90 days or more but less than 180 days	180 days or more but less than 360 days	360 days or more but less than 540 days	540 days or more
Credit Cards	Minimum payments are in arrears from the due date	90 days or more but less than 120 days	120 days or more but less than 180 days	180 days or more but less than 240 days	240 days or more

# Notes to the Consolidated Financial Statements

Provisions for loan losses are made on the basis of continuous review of all advances to the customers in accordance with the Sri Lanka Accounting Standard 23 - 'Revenue Recognition and Disclosure in the Financial Statements of Banks', and the Direction issued by the Central Bank of Sri Lanka, which has been disclosed in the Financial Statements of the Bank after considering the values of the collateral, obtained against the respective non-performing loans and advances.

Valuation of collateral is performed based on the Direction issued by the Central Bank of Sri Lanka as explained in Note 21.5.2.

## 21.5.2 Valuation of Securities for Provisioning Purpose

As per the amendment to the Direction issued by the Central Bank of Sri Lanka on 15th August 2003 (Effective from 1st January 2004), under Section 46 of the Banking Act No. 30 of 1988, as amended by Banking (Amendment) Act No. 33 of 1995, the initial and progressive discount that need to be applied to the forced sale value of immovable properties held as collateral, are as follows:

Category	% of Forced Sale Value of Immovable Property that can be Considered as the Value of Security (%)
At the Time of 1st Provisioning	75
1 - 2 Years in the Loss Category	60
2 - 3 Years in the Loss Category	50
3 - 4 Years in the Loss Category	40
Over 4 Years in the Loss Category	At the Discretion of the Management

As per Banking Act Direction No. 6 (1) (i) 2009 the Bank classifies all credit facilities extended to a borrower as NPL, when one or more credit facilities has/have been classified as NPL in terms of Direction 3 (5) and if the aggregate amount outstanding of such NPL exceeds 30% of the total credit facilities extended to such borrower commencing from 01st January 2011.

### ***Provision for Loans and Advances - Ceylinco Group Exposure***

In view of the special circumstances under which the Bank was reconstituted by the Direction of the Central Bank of Sri Lanka, the Monetary Board has granted an exemption for a period of 3 years from 31st December 2010 to Seylan Bank PLC, from the requirement to apply progressive discount on the forced sale value of immovable property, in terms of the Banking Act Direction No. 03 of 2008 on 'Classification of Loans and Advances, Income Recognition and Provisioning' when computing the provisioning to be made as at 31st December 2011, for non-performing facilities of Golden Key Credit Card Company and Ceylinco Homes International.

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>21.6 Non-Performing Advances</b>				
<b>Disclosures - Net of Interest in Suspense</b>				
<b>Non-Performing Advances</b>				
Bills of Exchange	11,652	340,128	11,652	340,128
Loans and Advances	15,919,703	20,190,762	15,919,703	20,190,762
Lease Rentals Receivable	262,088	323,937	262,088	323,937
<b>Total</b>	<b>16,193,443</b>	<b>20,854,827</b>	<b>16,193,443</b>	<b>20,854,827</b>

**21.6.1 Non-Performing Assets included in the Bills of Exchange, Loans and Advances and Lease Rentals Receivable on which Interest is not being Accrued are as follows:**

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Total Non-Performing Advances Net of IIS (Excluding Former BCCI Advances)	16,193,443	20,854,710	16,193,443	20,854,710
Former BCCI Advances	-	117	-	117
	<b>16,193,443</b>	<b>20,854,827</b>	<b>16,193,443</b>	<b>20,854,827</b>

	BANK		2010		Change %
	2011 Advances Rs. '000	%*	Advances Rs. '000	%*	
Total Gross Loans and Advances including Bills of Exchange, Lease Rentals Receivable and Group Balance Receivable	118,419,418		102,468,983		15.57
Interest in Suspense (Note 21.1)	(4,729,670)		(4,839,232)		(2.26)
Total Loans and Advances including Bills of Exchange, Lease Rentals Receivable and Group Balance Receivable (Net of Interest in Suspense)	113,689,748		97,629,751		16.45
Non-Performing Advances (Gross)	20,923,113	17.67	25,694,059	25.07	(18.57)
Non-Performing Advances (Net of Interest in Suspense)	16,193,443	14.24	20,854,827	21.36	(22.35)
Less: Provision for Bad & Doubtful Debts (Note 21.1)	(5,039,661)		(6,287,479)		(19.85)
<b>Net Non-Performing Advances</b>	<b>11,153,782</b>	<b>9.81</b>	<b>14,567,348</b>	<b>14.92</b>	<b>(23.43)</b>

\* As a percentage of total loans and advances as at 31st December.

Net non-performing advances is covered by tangible securities valued at approximately Rs. 11,561.406 Mn.

# Notes to the Consolidated Financial Statements

**21.6.2** As per the Direction issued by the Central Bank of Sri Lanka on 31st December 2004, the Non-Performing Ratio Net of Interest in Suspense after inclusion of Investment Properties is as follows:

	2011 %	2010 %
Non-Performing Ratio before Adjusting Investment Properties	<b>14.24</b>	21.36
Non-Performing Ratio after Adjusting Investment Properties	<b>14.41</b>	21.75

## 21.7.1 Collateral-Wise Analysis of Gross Non-Performing Portfolio

The Bank holds collateral against its lending portfolio in the form of mortgage interest over property, other registered securities and assets. Estimation of fair value/realisable value is based on the value of collateral assessed at the time of lending and generally are not updated except when a loan is individually assessed as non-performing.

	2011 Rs. '000	2010 Rs. '000
Secured by Immovable Assets	<b>9,106,474</b>	11,855,579
Secured by Movable Assets	<b>350,461</b>	370,390
Secured by Cash/Shares	<b>84,283</b>	466,624
Secured by Pledged Articles	<b>57,821</b>	4,166
Other Securities	<b>139,052</b>	109,664
Clean	<b>11,185,022</b>	12,887,636
	<b>20,923,113</b>	25,694,059

## 21.7.2 Foreclosed Properties

Loans & Advances	<b>2,187,411</b>	1,672,512
	<b>2,187,411</b>	1,672,512

## 21.8 Balance Outstanding on Advances Granted to Employee Share Owning Trust Companies

	Amount Outstanding 2011 Rs. '000	Amount Outstanding 2010 Rs. '000
Seybest (Pvt) Limited	<b>29,290</b>	30,321
Sotse (Pvt) Limited	<b>29,154</b>	29,892
Esot (Pvt) Limited	<b>29,789</b>	30,978
Seyshop (Pvt) Limited	<b>29,661</b>	30,360
	<b>117,894</b>	121,551

## 21.9 Concentration of Credit Risk

Sector-wise analysis of credit portfolio given below, reflects the exposure to credit risk in the various sectors of the economy.

	BANK				GROUP			
	2011 Rs. '000	%	2010 Rs. '000	%	2011 Rs. '000	%	2010 Rs. '000	%
Food, Beverages and Tobacco	751,989	0.68	738,563	0.77	751,989	0.68	738,563	0.77
Agriculture, Agro Business & Fisheries	3,938,898	3.59	5,697,329	5.91	3,938,898	3.59	5,697,329	5.91
Textiles and Wearing Apparel	1,094,748	0.99	1,635,893	1.70	1,094,748	0.99	1,635,893	1.70
Wood & Paper Products	908,843	0.83	733,893	0.76	908,843	0.83	733,893	0.76
Rubber & Leather Products	286,334	0.26	383,473	0.40	286,334	0.26	383,473	0.40
Metals, Chemicals & Engineering	645,829	0.59	648,714	0.67	645,829	0.59	648,714	0.67
Hotels	1,209,546	1.10	834,100	0.86	1,209,546	1.10	834,100	0.86
Services	6,035,788	5.50	4,115,470	4.27	6,035,788	5.50	4,115,470	4.27
Others	94,967,689	86.46	81,659,617	84.66	94,967,689	86.46	81,659,617	84.66
<b>Gross Loans &amp; Advances</b>	<b>109,839,664</b>	<b>100.00</b>	<b>96,447,052</b>	<b>100.00</b>	<b>109,839,664</b>	<b>100.00</b>	<b>96,447,052</b>	<b>100.00</b>
Loans & Advances	109,839,664		96,447,052		109,839,664		96,447,052	
Lease Rentals Receivable	7,578,842		4,223,180		7,578,842		4,223,180	
Bills of Exchange	1,000,912		1,415,624		1,000,912		1,415,624	
Inter-Company Loans	-		383,127		-		-	
<b>Gross Loans &amp; Advances Including Lease Receivables &amp; Bills of Exchange</b>	<b>118,419,418</b>		<b>102,468,983</b>		<b>118,419,418</b>		<b>102,085,856</b>	

### 'Others' Category Comprises the following Advances:

Exports	5,726,226	6.03	7,768,333	9.51	5,726,226	6.03	7,768,333	9.51
Imports	6,765,564	7.12	7,379,605	9.04	6,765,564	7.12	7,379,605	9.04
Trading	12,998,057	13.69	12,095,134	14.81	12,998,057	13.69	12,095,134	14.81
Financial Services	12,841,052	13.52	6,661,041	8.16	12,841,052	13.52	6,661,041	8.16
Housing	11,250,475	11.85	13,397,670	16.40	11,250,475	11.85	13,397,670	16.40
Consumption	15,894,372	16.74	11,924,359	14.60	15,894,372	16.74	11,924,359	14.60
Miscellaneous	29,491,943	31.05	22,433,475	27.48	29,491,943	31.05	22,433,475	27.48
	<b>94,967,689</b>	<b>100.00</b>	<b>81,659,617</b>	<b>100.00</b>	<b>94,967,689</b>	<b>100.00</b>	<b>81,659,617</b>	<b>100.00</b>

### Total Lending to Agriculture Sector

Total direct and indirect lending to agricultural sector exceeds 10% of the portfolio and has been categorised under different segments.

# Notes to the Consolidated Financial Statements

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>22. LEASE RENTALS RECEIVABLE WITHIN ONE YEAR</b>				
From the Balance Sheet date	<b>3,367,369</b>	2,313,471	<b>3,367,369</b>	2,313,471
Less: Unearned Income	<b>(961,676)</b>	(604,778)	<b>(961,676)</b>	(604,778)
	<b>2,405,693</b>	1,708,693	<b>2,405,693</b>	1,708,693
Less: Loan Loss Provision (Note 21.1)	<b>(212,532)</b>	(230,978)	<b>(212,532)</b>	(230,978)
Interest in Suspense (Note 21.1)	<b>(43,458)</b>	(48,909)	<b>(43,458)</b>	(48,909)
	<b>2,149,703</b>	1,428,806	<b>2,149,703</b>	1,428,806

## 23. LEASE RENTALS RECEIVABLE LATER THAN ONE YEAR AND NOT LATER THAN FIVE YEARS

From the Balance Sheet Date (Note 23.1)	<b>6,176,963</b>	3,032,315	<b>6,176,963</b>	3,032,315
Less: Unearned Income	<b>(1,006,459)</b>	(518,650)	<b>(1,006,459)</b>	(518,650)
	<b>5,170,504</b>	2,513,665	<b>5,170,504</b>	2,513,665
<b>23.1</b> Lease Rentals Receivable	<b>6,262,885</b>	3,120,618	<b>6,262,885</b>	3,120,618
Less: Deposit of Rentals	<b>(85,922)</b>	(88,303)	<b>(85,922)</b>	(88,303)
	<b>6,176,963</b>	3,032,315	<b>6,176,963</b>	3,032,315

## 24. LEASE RENTALS RECEIVABLE LATER THAN FIVE YEARS

From the Balance Sheet Date (Note 24.1)	<b>2,784</b>	822	<b>2,784</b>	822
Less: Unearned Income	<b>(139)</b>	-	<b>(139)</b>	-
	<b>2,645</b>	822	<b>2,645</b>	822
<b>24.1</b> Lease Rentals Receivable	<b>2,784</b>	822	<b>2,784</b>	822
Less: Deposits of Rentals	-	-	-	-
	<b>2,784</b>	822	<b>2,784</b>	822

## 25. INVESTMENTS IN SUBSIDIARIES - BANK

Principal Activity	Number of Shares as at 31.12.2011	Holding %	Cost as at 31.12.2011 Rs. '000	Market Value as at 31.12.2011 Rs. '000	Number of Shares as at 31.12.2010	Holding %	Cost as at 31.12.2010 Rs. '000	Market Value as at 31.12.2010 Rs. '000	
<b>Quoted - Ordinary Shares</b>									
Seylan Developments PLC	Property Development/ Management	<b>76,688,880</b>	<b>51.83</b>	<b>793,254</b>	<b>943,273</b>	37,203,584	50.29	358,916	625,020
				<b>793,254</b>	<b>943,273</b>			358,916	625,020

Seylan Developments PLC made a Rights Issue during the year and Bank purchased 39,485,296 Shares of the Rights Issued at a cost of Rs. 434.338 Mn.

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>26. GROUP BALANCES RECEIVABLE</b>				
<b>Name of Company</b>				
Seylan Developments PLC	15,688	461,843	-	-
<b>Total</b>	<b>15,688</b>	<b>461,843</b>	<b>-</b>	<b>-</b>

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>27. INVESTMENT PROPERTIES</b>				
<b>Cost</b>				
Balance as at 01st January	520,812	520,812	1,748,228	1,748,139
Add: Additions During the Year	-	-	1,086	89
Less: Disposals During the Year	(267,064)	-	(267,064)	-
<b>Cost as at 31st December (Note 27.1 &amp; 27.2)</b>	<b>253,748</b>	<b>520,812</b>	<b>1,482,250</b>	<b>1,748,228</b>
<b>Less - Provision for Impairment (Note 27.1)</b>	<b>(16,119)</b>	<b>(32,099)</b>	<b>(150,914)</b>	<b>(166,894)</b>
<b>Cost Less Impairment as at 31st December</b>	<b>237,629</b>	<b>488,713</b>	<b>1,331,336</b>	<b>1,581,334</b>
<b>Accumulated Depreciation</b>				
Balance as at 01st January	-	-	128,736	108,668
Charge for the Year	-	-	20,095	20,068
<b>Balance as at 31st December</b>	<b>-</b>	<b>-</b>	<b>148,831</b>	<b>128,736</b>
<b>Carrying Value as at 31st December</b>	<b>237,629</b>	<b>488,713</b>	<b>1,182,505</b>	<b>1,452,598</b>

Bank has accounted its investment properties at cost and revalued these properties periodically on a systematic basis for disclosure purposes.

### 27.1 Investment Properties (Bank) - 2011

Address	BANK		Cost Rs. '000	Market Value Rs. '000
	Extent	Date of Valuation		
Kahapola, Piliyandala	20A 1R 39.5P	04.01.2012	114,429	140,000*
97, Station Road, Kandana	1A 1R 9.84P	06.01.2012	139,319	123,200**
			<b>253,748</b>	

\* Bank has made the arrangement to dispose the property and received an advance payment of Rs. 14 Mn.

\*\* The impairment provision of Rs. 16.1 Mn. has been accounted during the year.

The property located at Kahapola, Piliyandala is valued by Mr. J.M.J. Fernando, professionally qualified valuer and the assumptions of the valuation are:

- Close proximity to Piliyandala town and Katubedda Campus
- Easy access to Galle Road

The property at Kandana has been valued by Mr. J.M.J. Fernando, professionally qualified valuer and the value is determined by notionally dividing the land with an allowance for internal roads, assuming:

- The close proximity to two export processing zones and airport
- Easy accessibility to Colombo, Kandy and Negombo roads

# Notes to the Consolidated Financial Statements

## 27.2 Investment Properties (Group) - 2011

Address	Extent	Date of Valuation	GROUP	
			Cost/ Valuation Rs. '000	Market Value Rs. '000
Kahapola, Piliyandala	20A 1R 39.5P	04.01.2012	114,429	140,000
97, Station Road, Kandana	1A 1R 9.84P	06.01.2012	139,319	123,200
Seylan Towers - West Tower*				
90, Galle Road, Colombo 3	111,191 Sq.Ft	29.12.2009	1,023,967	1,502,061
257, Union Place, Colombo 2**	0A 1R 12.27P	28.12.2008	204,535	250,255
			<b>1,482,250</b>	

\* The rent income from the Seylan Towers-West Tower for the year 2011 is Rs. 55.7 Mn. (2010 Rs. 53.4 Mn.).

\* The Seylan Towers (West Tower) was valued by A.Y Daniel & Son, Incorporated Valuer and having recent experience in the location and category of the investment property being valued. He has used capitalisation method in valuation, assuming,

- The prospect of ascending land values and expected improvements in economic conditions.
- Depreciation and obsolescence.
- The steep and continuing construction cost escalation.
- The acceptance and proliferation of the phenomenon of high rise buildings.
- The difference in the value impacting phenomena of Capital cost and Capital value.
- The corpus being in full occupation with stabilisation.
- The ranking norms of maintenance and repair.
- The steep slump in the national interest rates.

\*\* The Property at No. 257, Union Place was valued by Mr. G.J. Sumanasena, Incorporated Valuer and having recent experience in the location and category of the investment property being valued. He has used open market method in valuation.

The open market value is intended to mean the best price at which an interest in a property might reasonably be expected to be sold in the Private Treaty as the date of valuation, assuming,

- The property is prime and most suitable for high rise development
- Located in a prime commercial area.

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>28. DEFERRED TAXATION</b>				
Balance Brought Forward	<b>269,562</b>	442,711	<b>269,562</b>	442,858
(Charge)/Reversal for the Year (Note 13)	<b>(59,593)</b>	(174,776)	<b>(59,593)</b>	(175,424)
Transfer from Seylan Asset Management Limited	-	(501)	-	-
Transfer from Revaluation Reserve (Note 40.2)	<b>1,875</b>	2,128	<b>1,787</b>	2,128
Transfer to Minority Interest	-	-	<b>(81)</b>	-
Balance Carried Forward (Note 28.1 & 28.2)	<b>211,844</b>	269,562	<b>211,675</b>	269,562



	2011 - BANK		2010 - BANK	
	Temporary Difference Rs. '000	Tax Rs. '000	Temporary Difference Rs. '000	Tax Rs. '000
<b>28.1 Analysis of Deferred Assets and Liabilities</b>				
<b>Deferred Tax - Liability</b>				
Property, Plant & Equipment	996,434	279,001	1,030,744	360,760
Lease Rentals	1,103,000	308,840	590,651	206,728
Revaluation Gain B/F	32,863	9,202	32,863	11,502
	<b>2,132,297</b>	<b>597,043</b>	<b>1,654,258</b>	<b>578,990</b>
<b>Deferred Tax - Assets</b>				
Defined Benefit Obligation*	-	-	888	311
Unclaimed Bad Debt Provision - Specific	2,174,281	608,799	2,174,377	761,032
Bad Debt Provision - General**	54,546	15,273	112,020	39,207
Tax Losses from Leasing Business	522,903	146,413	-	-
Impact on Devaluation	131,069	36,699	131,069	45,874
Gain on Revaluation	6,080	1,703	6,080	2,128
	<b>2,888,879</b>	<b>808,887</b>	<b>2,424,434</b>	<b>848,552</b>
<b>Net Deferred Tax Assets/Liabilities - (Note 28.1.1)</b>	<b>756,582</b>	<b>211,844</b>	<b>770,176</b>	<b>269,562</b>

	2011 - BANK				2010 - BANK			
	Balance as at 1st January Rs. '000	Recognised in Profit or Loss Rs. '000	Recognised in Reserves Rs. '000	Balance as at 31st December Rs. '000	Balance as at 1st January Rs. '000	Recognised in Profit or Loss Rs. '000	Recognised in Reserves Rs. '000	Balance as at 31st December Rs. '000
<b>28.1.1 Movement in Temporary Differences</b>								
<b>Deferred Tax - Liability</b>								
Property, Plant & Equipment	1,030,744	(34,310)	-	996,434	1,060,002	(29,258)	-	1,030,744
Lease Rentals	590,651	512,349	-	1,103,000	242,702	347,949	-	590,651
Revaluation Gain B/F	32,863	-	-	32,863	32,863	-	-	32,863
	<b>1,654,258</b>	<b>478,039</b>	<b>-</b>	<b>2,132,297</b>	<b>1,335,567</b>	<b>318,691</b>	<b>-</b>	<b>1,654,258</b>
<b>Deferred Tax - Assets</b>								
Defined Benefit Obligation*	888	(888)	-	-	-	888	-	888
Unclaimed Bad Debt Provision - Specific	2,174,377	(96)	-	2,174,281	2,451,368	(276,991)	-	2,174,377
Bad Debt Provision - General**	112,020	(57,474)	-	54,546	149,087	(37,067)	-	112,020
Tax Losses from Leasing Business	-	522,903	-	522,903	-	-	-	-
Impact on Devaluation	131,069	-	-	131,069	-	131,069	-	131,069
Gain on Revaluation	6,080	-	-	6,080	-	-	6,080	6,080
	<b>2,424,434</b>	<b>464,445</b>	<b>-</b>	<b>2,888,879</b>	<b>2,600,455</b>	<b>(182,101)</b>	<b>6,080</b>	<b>2,424,434</b>
<b>Net Deferred Tax Assets/Liabilities</b>	<b>770,176</b>	<b>(13,594)</b>	<b>-</b>	<b>756,582</b>	<b>1,264,888</b>	<b>(500,792)</b>	<b>6,080</b>	<b>770,176</b>

# Notes to the Consolidated Financial Statements

	2011 - GROUP		2010 - GROUP	
	Temporary Difference	Tax	Temporary Difference	Tax
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>28.2 Analysis of Deferred Assets and Liabilities</b>				
<b>Deferred Tax - Liability</b>				
Property, Plant & Equipment	996,434	279,001	1,030,744	360,760
Lease Rentals	1,103,000	308,840	590,651	206,728
Revaluation Gain B/F	33,466	9,371	32,863	11,502
	<b>2,132,900</b>	<b>597,212</b>	<b>1,654,258</b>	<b>578,990</b>

## Deferred Tax - Assets

Defined Benefit Obligation*	-	-	888	311
Unclaimed Bad Debt Provision - Specific	2,174,281	608,799	2,174,377	761,032
Bad Debt Provision - General**	54,546	15,273	112,020	39,207
Tax Losses from Leasing Business	522,903	146,413	-	-
Impact on Devaluation	131,069	36,699	131,069	45,874
Gain on Revaluation	6,080	1,703	6,080	2,128
	<b>2,888,879</b>	<b>808,887</b>	<b>2,424,434</b>	<b>848,552</b>
<b>Net Deferred Tax Assets/Liabilities (Note 28.2.1)</b>	<b>755,979</b>	<b>211,675</b>	<b>770,176</b>	<b>269,562</b>

	2011 - GROUP				2010 - GROUP			
	Balance as at 1st January Rs. '000	Recognised in Profit or Loss Rs. '000	Recognised in Reserves Rs. '000	Balance as at 31st December Rs. '000	Balance as at 1st January Rs. '000	Recognised in Profit or Loss Rs. '000	Recognised in Reserves Rs. '000	Balance as at 31st December Rs. '000

## 28.2.1 Movement in Temporary Differences

### Deferred Tax - Liability

Property, Plant & Equipment	1,030,744	(34,310)	-	996,434	1,062,455	(31,711)	-	1,030,744
Lease Rentals	590,651	512,349	-	1,103,000	242,702	347,949	-	590,651
Revaluation Gain B/F	32,863	-	603	33,466	32,863	-	-	32,863
	<b>1,654,258</b>	<b>478,039</b>	<b>603</b>	<b>2,132,900</b>	<b>1,338,020</b>	<b>316,238</b>	<b>-</b>	<b>1,654,258</b>

### Deferred Tax - Assets

Defined Benefit Obligation*	888	(888)	-	-	2,874	(1,986)	-	888
Unclaimed Bad Debt Provision - Specific	2,174,377	(96)	-	2,174,281	2,451,368	(276,991)	-	2,174,377
Bad Debt Provision - General**	112,020	(57,474)	-	54,546	149,087	(37,067)	-	112,020
Tax Losses from Leasing Business	-	522,903	-	522,903	-	-	-	-
Impact on Devaluation	131,069	-	-	131,069	-	131,069	-	131,069
Gain on Revaluation	6,080	-	-	6,080	-	-	6,080	6,080
	<b>2,424,434</b>	<b>464,445</b>	<b>-</b>	<b>2,888,879</b>	<b>2,603,329</b>	<b>(184,975)</b>	<b>6,080</b>	<b>2,424,434</b>
<b>Net Tax Assets/Liabilities</b>	<b>770,176</b>	<b>(13,594)</b>	<b>(603)</b>	<b>755,979</b>	<b>1,265,309</b>	<b>(501,213)</b>	<b>6,080</b>	<b>770,176</b>

**\* Defined Benefit Obligation (Gratuity Provision)**

The Bank has a separate Gratuity Trust Fund which was approved by the Commissioner General of Inland Revenue. As per the approval, Bank could transfer Gratuity Provision of 62.5% of the last month's salary of the year and deduct from the tax computation. Therefore, temporary differences have not arisen.

**\*\* General Provision**

Recognition of deferred tax assets arising from General Provision at Balance Sheet date was limited to non-performing ratio of the temporary difference. In management's view the Bank's NPA Ratio as at Balance Sheet date is an indicator of deferred tax assets which could be recovered in the future periods.

The Bank has recognised deferred tax assets on the General Provision of Rs. 54,545,624/- (Amount not recognised - Rs. 327,694,208/-).

**Seylan Developments PLC**

No provision has been made in respect of deferred taxation as the Company has incurred tax losses and the temporary differences are not expected to reverse due to the effect of tax losses and it is not probable that future taxable profits will be available against which the Company can utilise the benefits therefrom. The amount of taxable temporary differences and the resultant tax effects are as follows:

	2011 Rs. '000	2010 Rs. '000
<b>Unrecognised Deferred Tax Assets</b>		
Tax Losses Carried Forward	<b>827,681</b>	777,827
Total Taxable Temporary Difference	<b>827,681</b>	777,827
Unrecognised Deferred Tax Assets	<b>231,751</b>	272,239
<b>Unrecognised Deferred Tax Liability</b>		
Property, Plant & Equipment and Investment Property	<b>(433,164)</b>	(362,290)
Total Taxable Temporary Difference	<b>(433,164)</b>	(362,290)
Unrecognised Deferred Tax Liability	<b>(121,286)</b>	(126,801)
Unrecognised Deferred Tax Assets	<b>110,465</b>	145,438

# Notes to the Consolidated Financial Statements

## 29. PROPERTY, PLANT & EQUIPMENT

Bank	Freehold Land	Freehold Building	Computer Equipment
	Rs. '000	Rs. '000	Rs. '000
<b>Cost/Valuation</b>			
Balance as at 01st January (Reclassified)	621,591	843,626	2,820,793
Additions & Improvements	-	-	68,165
Surplus/(Impairment) on Revaluation	-	-	-
Disposals	-	-	(17,889)
Transfers to Leasehold Rights (Note 30)/Other Transfers	-	-	772
<b>As at 31st December</b>	<b>621,591</b>	<b>843,626</b>	<b>2,871,841</b>
<b>Accumulated Depreciation</b>			
Balance as at 01st January (Reclassified)	-	-	2,321,189
Charge for the Year	-	24,895	182,025
Revaluation Adjustment on Accumulated Depreciation	-	-	-
Disposals	-	-	(17,650)
Transfers to Leasehold Rights (Note 30)/Other Transfers	-	-	-
<b>As at 31st December</b>	<b>-</b>	<b>24,895</b>	<b>2,485,564</b>
<b>Carrying Amount as at 31.12.2011</b>	<b>621,591</b>	<b>818,731</b>	<b>386,277</b>
Carrying Amount as at 31.12.2010 (Reclassified)	621,591	843,626	499,604

Software and Software-related assets have been reclassified as Intangible Assets from 2011 and comparative figures have been presented accordingly (Note 31).

Group	Freehold Land	Freehold Building	Computer Equipment
	Rs. '000	Rs. '000	Rs. '000
<b>Cost/Valuation</b>			
Balance as at 01st January (Reclassified)	621,591	1,546,797	2,833,383
Additions & Improvements	-	1,342	68,188
Surplus/(Impairment) on Revaluation	-	-	(8,787)
Disposals	-	-	(17,889)
Transfers to Leasehold Rights (Note 30)	-	-	772
<b>As at 31st December</b>	<b>621,591</b>	<b>1,548,139</b>	<b>2,875,667</b>
<b>Accumulated Depreciation</b>			
Balance as at 01st January (Reclassified)	-	35,162	2,333,188
Charge for the Year	-	42,504	182,426
Revaluation Adjustment on Accumulated Depreciation	-	-	(8,898)
Disposals	-	-	(17,650)
Transfers to Leasehold Rights (Note 30)	-	-	-
Adjustment due to Amalgamation/ Deconsolidation	-	-	-
<b>As at 31st December</b>	<b>-</b>	<b>77,666</b>	<b>2,489,066</b>
<b>Carrying Amount as at 31.12.2011</b>	<b>621,591</b>	<b>1,470,473</b>	<b>386,601</b>
Carrying Amount as at 31.12.2010 (Reclassified)	621,591	1,511,635	500,195

Software and Software-related assets have been reclassified as Intangible Assets from 2011 and comparative figures have been presented accordingly (Note 31).

Investment property rented to Seylan Bank PLC by its subsidiary is classified as Property, Plant & Equipment under Group Financial Statements.

Machinery & Equipment	Furniture & Fittings	Motor Vehicles	Leased Assets	Capital Work-in-Progress	31.12.2011 Total	31.12.2010 Total (Reclassified)
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
1,239,199	1,002,536	310,998	55,963	13,339	<b>6,908,045</b>	6,832,571
91,124	110,073	29,884	-	7,272	<b>306,518</b>	185,002
-	-	-	-	-	-	78,121
(26,664)	(13,954)	(32,080)	(440)	(1,249)	<b>(92,276)</b>	(227,712)
1,338	7,708	-	-	(11,719)	<b>(1,901)</b>	40,063
<b>1,304,997</b>	<b>1,106,363</b>	<b>308,802</b>	<b>55,523</b>	<b>7,643</b>	<b>7,120,386</b>	<b>6,908,045</b>
1,014,638	824,601	227,739	55,955	-	<b>4,444,122</b>	4,298,663
78,646	64,282	42,943	7	-	<b>392,798</b>	458,766
-	-	-	-	-	-	(143,786)
(26,607)	(13,794)	(27,878)	(439)	-	<b>(86,368)</b>	(195,477)
-	(1,420)	-	-	-	<b>(1,420)</b>	25,956
<b>1,066,677</b>	<b>873,669</b>	<b>242,804</b>	<b>55,523</b>	<b>-</b>	<b>4,749,132</b>	<b>4,444,122</b>
<b>238,320</b>	<b>232,694</b>	<b>65,998</b>	<b>-</b>	<b>7,643</b>	<b>2,371,254</b>	
224,561	177,935	83,259	8	13,339		2,463,923

Machinery & Equipment	Furniture & Fittings	Motor Vehicles	Leased Assets	Capital Work-in-Progress	31.12.2011 Total	31.12.2010 Total (Reclassified)
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
1,298,438	1,012,805	313,433	59,821	13,339	<b>7,699,607</b>	7,674,171
91,227	110,073	29,884	-	7,272	<b>307,986</b>	185,560
(803)	(7,841)	-	-	-	<b>(17,431)</b>	78,121
(26,664)	(13,954)	(34,508)	(3,767)	(1,249)	<b>(98,031)</b>	(238,245)
1,338	7,708	-	-	(11,719)	<b>(1,901)</b>	-
<b>1,363,536</b>	<b>1,108,791</b>	<b>308,809</b>	<b>56,054</b>	<b>7,643</b>	<b>7,890,230</b>	<b>7,699,607</b>
1,040,207	832,829	230,147	58,784	-	<b>4,530,317</b>	4,381,057
89,723	64,865	42,924	345	-	<b>422,787</b>	495,129
(803)	(8,333)	-	-	-	<b>(18,034)</b>	(143,786)
(26,607)	(13,794)	(30,266)	(3,075)	-	<b>(91,392)</b>	(203,621)
-	(1,420)	-	-	-	<b>(1,420)</b>	-
					-	1,538
<b>1,102,520</b>	<b>874,147</b>	<b>242,805</b>	<b>56,054</b>	<b>-</b>	<b>4,842,258</b>	<b>4,530,317</b>
<b>261,016</b>	<b>234,644</b>	<b>66,004</b>	<b>-</b>	<b>7,643</b>	<b>3,047,972</b>	
258,231	179,976	83,286	1,037	13,339		3,169,290

# Notes to the Consolidated Financial Statements

## 29.1 Fully-Depreciated Assets

The initial cost of fully-depreciated Plant, Machinery & Equipment and Furniture as at 31st December 2011 which are still in use as at Balance Sheet date:

	BANK 2011 Rs. '000	GROUP 2011 Rs. '000
Buildings	-	-
Computer Equipment	1,733,610	1,734,372
Office Machines and Equipment	756,849	756,849
Fixtures, Fittings and Furniture	662,251	662,251
Motor Vehicles	122,610	122,610
Leased Assets	55,523	56,054
	<b>3,330,843</b>	<b>3,332,136</b>

The Bank is currently in the process of assessing useful economic life of Computer Equipment to consider whether the estimated useful life needs to be re-assessed to be in line with the Sri Lanka Accounting Standards (Revised).

## 29.2 Temporarily Idle Plant and Equipment

No assets have been identified as temporarily idle plant & equipment as at 31st December 2011 and 31st December 2010.

## 29.3 Freehold/Leasehold Land & Buildings - Bank

Address	Extent	Cost/ Valuation Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value as at 31.12.2011 Rs. '000
<b>Freehold</b>				
<b>Mt. Lavinia</b>				
198, Galle Road, Ratmalana	36.30P	90,000	414	<b>89,586</b>
<b>Badulla</b>				
10, Cocowatte Road, Badulla	1R 5.50P	66,000	789	<b>65,211</b>
<b>Kochchikade</b>				
66, Chilaw Road, Kochchikade	8.0P	20,000	300	<b>19,700</b>
<b>Avissawella</b>				
71, Ratnapura Road, Avissawella	18.92P	24,000	150	<b>23,850</b>
<b>Grandpass</b>				
401, Sirimavo Bandaranaike Mawatha, Colombo 14	1R 6.0P	66,850	296	<b>66,554</b>
<b>Hingurakgoda</b>				
13 and 14, Airport Road, Hingurakgoda	15.84P	12,900	239	<b>12,661</b>
<b>Bandarawela</b>				
240, Badulla Road, Bandarawela	27.01P	45,000	605	<b>44,395</b>
<b>Sarikkamulla</b>				
97, Old Galle Road, Sarikkamulla	12.10 P	14,000	187	<b>13,813</b>
<b>Tissamaharama</b>				
547, Debarawewa, Tissamaharama	1R 1.50P	15,000	178	<b>14,822</b>
<b>Raddolugama</b>				
171, National Housing Scheme, Raddolugama	12.08P	12,500	296	<b>12,204</b>

Address	Extent	Cost/ Valuation Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value as at 31.12.2011 Rs. '000
<b>Nuwara Eliya</b>				
61, Haddon Hill Road, Nuwara Eliya	1R 36P	50,000	526	<b>49,474</b>
<b>Maradagahamula</b>				
150, Divulapitiya Road, Maradagahamula	35.0P	12,500	183	<b>12,317</b>
<b>Anuradhapura</b>				
23-A1, Anuradhapura	1R 3.65P	38,000	134	<b>37,866</b>
<b>Embilipitiya</b>				
53 & 53/1, New Town Road, Embilipitiya	22.1P	30,000	321	<b>29,679</b>
<b>Nugegoda</b>				
211, High Level Road, Nugegoda	14.0P	68,000	800	<b>67,200</b>
<b>Nawalapitiya</b>				
77/1, 79, Dolosbage Road, Nawalapitiya	10.63P	10,000	46	<b>9,954</b>
<b>Ratnapura</b>				
6, Goods Shed Road, Ratnapura	6.13P	16,000	355	<b>15,645</b>
<b>Embilipitiya</b>				
Pettigala Road, Embilipitiya	2R 22.04P	28,100	35	<b>28,065</b>
<b>Siri Nivasa</b>				
2, Deal Place, Colombo 3	19.0P	121,800	239	<b>121,561</b>
<b>Gampola</b>				
44, Kandy Road, Gampola	13.5P	39,000	317	<b>38,683</b>
<b>Negombo</b>				
115, Rajapaksa Broadway, Negombo	29.15P	72,000	395	<b>71,605</b>
<b>Head Office</b>				
90, Galle Road, Colombo 3 (Level - 1, 2, 13, 14)	38,656 Square Feet	613,567	18,090	<b>595,477</b>
<b>Total Freehold Land &amp; Buildings - Bank</b>		1,465,217	24,895	<b>1,440,322</b>
Total Freehold Buildings - Seylan Developments PLC (Seylan Towers - East Tower)		704,513	52,771	<b>651,742</b>
<b>Total Freehold Land &amp; Buildings - Group</b>		2,169,730	77,666	<b>2,092,064</b>
<b>Leasehold Properties - (Note 30)</b>				
<b>Nuwara Eliya</b>				
48 & 48/1, Park Road, Nuwara Eliya	20.28P	42,183	2,731	<b>39,452</b>
<b>Koggala</b>				
9, FTZ, Koggala	20.0P	1,901	1,444	<b>457</b>
<b>Total Leasehold Land &amp; Buildings - Bank</b>		44,084	4,175	<b>39,909</b>
<b>Seylan Tower Land</b>				
90, Galle Road, Colombo 3		640,549	55,168	<b>585,381</b>
<b>Total Leasehold Land - Seylan Developments PLC</b>		640,549	55,168	<b>585,381</b>
<b>Total Leasehold Land &amp; Buildings - Group</b>		684,633	59,343	<b>625,290</b>
<b>Total Land &amp; Buildings - Group</b>		2,854,363	137,009	<b>2,717,354</b>

# Notes to the Consolidated Financial Statements

	Cost/Valuation Rs. '000	Depreciation Rs. '000	Net Book Value Rs. '000
<b>29.4 Summary of Freehold/Leasehold Properties</b>			
Freehold Land	621,591	-	621,591
Freehold Building	843,626	24,895	818,731
	<b>1,465,217</b>	<b>24,895</b>	<b>1,440,322</b>
Leasehold Land	22,603	1,089	21,514
Leasehold Building	21,481	3,086	18,395
	44,084	4,175	39,909
<b>Total - Bank</b>	<b>1,509,301</b>	<b>29,070</b>	<b>1,480,231</b>
Freehold Building - Seylan Developments PLC	704,513	52,771	651,742
Leasehold Land - Seylan Developments PLC	640,549	55,168	585,381
<b>Total Land &amp; Buildings - Group</b>	<b>2,854,363</b>	<b>137,009</b>	<b>2,717,354</b>

## 29.5 Revaluation - Land & Buildings

The Bank's entire land & buildings were revalued in year 2010 by a qualified valuer. Valuation was made on the basis of open market value and the revaluation surplus or deficit was transferred to the Revaluation Reserve/Income Statements respectively. If land & buildings were stated at historical cost, the amounts would have been as follows:

	BANK					
	2011			2010		
	Land Rs. '000	Building Rs. '000	Total Rs. '000	Land Rs. '000	Building Rs. '000	Total Rs. '000
<b>Properties Revalued</b>						
<b>Cost</b>						
Freehold	426,632	960,464	1,387,096	426,632	960,464	1,387,096
Leasehold	-	43,545	43,545	-	43,545	43,545
<b>Accumulated Depreciation</b>						
Freehold	-	(167,799)	(167,799)	-	(143,787)	(143,787)
Leasehold	-	(4,790)	(4,790)	-	(3,710)	(3,710)
<b>Carrying Value</b>	<b>426,632</b>	<b>831,420</b>	<b>1,258,052</b>	<b>426,632</b>	<b>856,512</b>	<b>1,283,144</b>
<b>Properties Not Revalued</b>						
<b>Cost</b>						
Freehold	-	-	-	-	-	-
Leasehold	22,603	1,901	24,504	22,603	-	22,603
<b>Accumulated Depreciation</b>						
Freehold	-	-	-	-	-	-
Leasehold	(1,089)	(1,443)	(2,532)	(1,347)	-	(1,347)
<b>Carrying Value</b>	<b>21,514</b>	<b>458</b>	<b>21,972</b>	<b>21,256</b>	<b>-</b>	<b>21,256</b>
<b>Total Carrying Value</b>	<b>448,146</b>	<b>831,878</b>	<b>1,280,024</b>	<b>447,888</b>	<b>856,512</b>	<b>1,304,400</b>



	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>30. LEASEHOLD RIGHTS</b>				
<b>Cost/Valuation</b>				
Balance as at 01st January	42,183	66,148	682,732	706,697
Additions for the Year	-	-	-	-
Surplus/(Impairment) on Revaluation	-	(23,965)	-	(23,965)
Transfer from/(to) Property, Plant & Equipment	1,901	-	1,901	-
<b>As at 31st December</b>	<b>44,084</b>	<b>42,183</b>	<b>684,633</b>	<b>682,732</b>
<b>Accumulated Depreciation</b>				
Balance as at 01st January	1,347	3,065	48,637	42,477
Charge for the Year	1,408	1,992	9,286	9,870
Revaluation Adjustment on Accumulated Depreciation	-	(3,710)	-	(3,710)
Transfer from/(to) Property, Plant & Equipment	1,420	-	1,420	-
<b>As at 31st December</b>	<b>4,175</b>	<b>1,347</b>	<b>59,343</b>	<b>48,637</b>
<b>Carrying Amount as at 31st December</b>	<b>39,909</b>	<b>40,836</b>	<b>625,290</b>	<b>634,095</b>

**Bank** - Leasehold Rights consist of the property situated at Park Road, Nuwara Eliya acquired in the year 2001, and the building situated in Free Trade Zone, Koggala acquired in 2011.

Seylan Developments PLC entered into a 99-year Operating Lease with the view to set up/conduct and operate a business for the construction of an office and apartment complex in the year 1992.

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>31. INTANGIBLE ASSETS</b>				
<b>Software &amp; Software Related</b>				
<b>Cost</b>				
Balance as at 01st January	1,922,966	1,918,300	1,922,966	1,918,300
Additions for the Year	104,787	4,666	104,787	4,666
Write-Offs during the Year	34,750	-	34,750	-
<b>As at 31st December</b>	<b>1,993,003</b>	<b>1,922,966</b>	<b>1,993,003</b>	<b>1,922,966</b>
<b>Accumulated Amortisation</b>				
Balance as at 01st January	1,417,230	1,128,174	1,417,230	1,128,174
Amortisation for the Year	206,224	289,056	206,224	289,056
Write-Offs during the Year	34,750	-	34,750	-
<b>As at 31st December</b>	<b>1,588,704</b>	<b>1,417,230</b>	<b>1,588,704</b>	<b>1,417,230</b>
<b>Carrying Amount as at 31st December</b>	<b>404,299</b>	<b>505,736</b>	<b>404,299</b>	<b>505,736</b>

Software and Software related assets have been reclassified as Intangible Assets from year 2011. The comparative figures are also reclassified accordingly.

# Notes to the Consolidated Financial Statements

	BANK		GROUP	
	2011 Rs. '000	2010 (Reclassified) Rs. '000	2011 Rs. '000	2010 (Reclassified) Rs. '000
<b>32. OTHER ASSETS</b>				
Deposits and Prepayments	496,695	477,049	512,897	492,016
Interest Receivable	1,368,471	1,192,883	1,368,471	1,192,883
Clearing House Balance	1,382,436	1,792,811	1,365,168	1,782,850
Inventories	290,997	236,527	290,997	236,527
Investment in Projects (Note 32.1)	-	-	-	210,652
Sundry Debtors	168,872	137,203	168,872	137,203
Other Receivables	336,728	54,071	336,728	54,071
Due from Trust Companies	124,396	124,273	124,396	124,273
Others	292,122	358,597	368,783	379,964
	<b>4,460,717</b>	<b>4,373,414</b>	<b>4,536,312</b>	<b>4,610,439</b>

## 32.1 Investment in Projects

Ja-Ela Commercial Complex	-	-	-	70,351
Moratuwa Housing Project	-	-	-	140,301
	-	-	-	210,652

**32.1.1** The amount outstanding under investments in projects as at 31st December 2010 has been written off/transferred to other assets/liabilities during the year as detailed below:

	Rs. '000
Impaired during the Year - Ja-Ela Commercial Complex	70,351
Impaired during the Year - Moratuwa Housing Project	21,745
Transferred to Land Sales Stocks (Other Assets - Others)	42,713
Set off against Project Current Account (Other Liabilities - Others)	43,230
Land transfers to owners (Net of Additions)	32,613
	210,652

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>33. DEPOSITS</b>				
<b>Local Currency Deposits</b>				
Demand Deposits	9,764,010	9,442,613	9,764,010	9,442,613
Savings Deposits	35,522,134	33,197,056	35,522,134	33,197,056
Time Deposits	62,682,625	54,919,329	62,682,625	54,919,329
Certificates of Deposit	3,606,977	3,269,812	3,606,977	3,269,812
	<b>111,575,746</b>	<b>100,828,810</b>	<b>111,575,746</b>	<b>100,828,810</b>
<b>Foreign Currency Deposits</b>				
Demand Deposits	876,339	969,404	876,339	969,404
Savings Deposits	2,980,874	2,958,744	2,980,874	2,958,744
Time Deposits	5,105,937	5,134,380	5,105,937	5,134,380
	<b>8,963,150</b>	<b>9,062,528</b>	<b>8,963,150</b>	<b>9,062,528</b>
<b>Total Deposits</b>	<b>120,538,896</b>	<b>109,891,338</b>	<b>120,538,896</b>	<b>109,891,338</b>

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>33.1 Maturity</b>				
Due within One Year	109,034,128	95,036,998	109,034,128	95,036,998
Due after One Year	11,504,768	14,854,340	11,504,768	14,854,340
	<b>120,538,896</b>	109,891,338	<b>120,538,896</b>	109,891,338

**33.2 Deposits From**

Non - Bank Customers	118,742,811	108,318,812	118,742,811	108,318,812
Banks	237,816	348,816	237,816	348,816
Finance Companies	1,558,269	1,223,710	1,558,269	1,223,710
	<b>120,538,896</b>	109,891,338	<b>120,538,896</b>	109,891,338

**34. BORROWINGS**

Call Money Borrowings	5,835,601	2,095,680	5,835,601	2,095,680
Refinance Borrowings	920,916	1,141,304	920,916	1,141,304
Borrowings from Local Banks	-	-	-	275,759
Borrowings from Foreign Banks	540,004	1,149,701	540,004	1,149,701
Other Borrowings	-	-	-	147,800
	<b>7,296,521</b>	4,386,685	<b>7,296,521</b>	4,810,244

**34.1 Maturity**

Due within One Year	6,416,375	3,297,280	6,416,375	3,720,839
1-5 Years	661,638	576,309	661,638	576,309
After Five Years	218,508	513,096	218,508	513,096
	<b>7,296,521</b>	4,386,685	<b>7,296,521</b>	4,810,244

**35. GROUP BALANCES PAYABLE**

Seylan Developments PLC	99,841	8,255	-	-
	<b>99,841</b>	8,255	-	-

**36. SUBORDINATED DEBENTURES****Debentures**

Year of Issue	Year of Redemption	Private/Public Issue							BANK	GROUP
			Fixed Rate Annually	Fixed Rate Quarterly	Fixed Rate Monthly	Fixed Rate at Maturity	Floating Rate Annually	Floating Rate Quarterly	Outstanding as at 31.12.2011 Rs. '000	Outstanding as at 31.12.2011 Rs. '000
2006	2012	Private Issue	-	-	-	18.50%	-	-	74,850	74,850
2007	2012	Public Issue - I	16.75%	-	15.75%	-	14.00%	-	749,400	749,400
2007	2012	Public Issue - II	18.00%	-	17.00%	-	10.05%	9.62%	559,285	559,285
2007	2012	Private Issue	19.50%	-	-	-	-	-	100,000	100,000
2008	2013	Private Issue	20.00%	-	18.50%	22.50%	-	-	72,550	72,550
2008	2013	Public Issue	21.50%	-	20.50%	-	10.05%	9.62%	630,565	630,565
2010	2015	Private Issue	-	11.00%	-	-	-	9.38%	465,000	465,000
									<b>2,651,650</b>	<b>2,651,650</b>

# Notes to the Consolidated Financial Statements

## 36.1 Movement in Debentures

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>As at Beginning of the Year</b>	<b>3,996,365</b>	4,230,365	<b>3,996,365</b>	4,230,365
Issues During the Year	-	465,000	-	465,000
Redemptions During the Year	<b>(1,344,715)</b>	(699,000)	<b>(1,344,715)</b>	(699,000)
<b>As at End of the Year</b>	<b>2,651,650</b>	3,996,365	<b>2,651,650</b>	3,996,365

## 36.2 Debenture Category

	Colombo Stock Exchange Listing	Interest Payable Frequency	BANK		Maturity Date/Period	Value as at 31.12.2011 Rs. '000	Value as at 31.12.2010 Rs. '000
			Allotment Date/Period				
<b>Fixed Rate Debentures</b>							
2006/2011 - 13.50% p.a.	Listed	Annually	13.07.2006		12.07.2011	-	462,080
2006/2011 - 13.00% p.a.	Listed	Monthly	13.07.2006		12.07.2011	-	764,640
2006/2011 - 15.00% p.a.	Not listed	Annually	24.11.2006 - 29.12.2006	23.11.2011 - 28.12.2011		-	51,900
2006/2011 - 14.00% p.a.	Not listed	Monthly	27.11.2006 - 29.12.2006	26.11.2011 - 28.12.2011		-	34,500
2006/2012 - 18.50% p.a.*	Not listed	At Maturity	27.11.2006 - 29.12.2006	26.11.2012 - 28.12.2012		<b>74,850</b>	74,850
2007/2012 - 16.75% p.a.	Listed	Annually	30.05.2007		29.05.2012	<b>427,545</b>	427,545
2007/2012 - 15.75% p.a.	Listed	Monthly	30.05.2007		29.05.2012	<b>291,620</b>	291,620
2007/2012 - 18.00% p.a.	Listed	Annually	10.12.2007		09.12.2012	<b>296,240</b>	296,240
2007/2012 - 17.00% p.a.	Listed	Monthly	10.12.2007		09.12.2012	<b>208,955</b>	208,955
2007/2012 - 19.50% p.a.	Not listed	Annually	27.09.2007		26.09.2012	<b>100,000</b>	100,000
2008/2013 - 20.00% p.a.	Not listed	Annually	12.09.2008 - 31.10.2008	11.09.2013 - 30.10.2013		<b>23,800</b>	23,800
2008/2013 - 18.50% p.a.	Not listed	Monthly	22.09.2008 - 31.10.2008	21.09.2013 - 30.10.2013		<b>18,800</b>	18,800
2008/2013 - 21.50% p.a.	Listed	Annually	12.01.2009		11.01.2014	<b>231,610</b>	231,610
2008/2013 - 20.50% p.a.	Listed	Monthly	12.01.2009		11.01.2014	<b>395,445</b>	395,445
2008/2013 - 22.50% p.a.	Not listed	At Maturity	01.09.2008 - 31.10.2008	31.08.2013 - 30.10.2013		<b>29,950</b>	29,950
2010/2015 - 11.00% p.a.	Not listed	Quarterly	07.12.2010 - 29.12.2010	06.12.2015 - 28.12.2015		<b>245,000</b>	245,000
						<b>2,343,815</b>	3,656,935

\* Zero coupon debenture offered at a discount on par value with the investment doubled at maturity of the debentures which will be six years from the date of allotment (investment is doubled after the exclusion of the withholding tax element of 10%. Therefore the investor receives double the amount invested after payment of withholding tax).

## Floating Rate Debentures

2006/2011 - Note 01	Listed	Annually	13.07.2006		12.07.2011	-	30,595
2006/2011 - Note 02	Not listed	Annually	18.12.2006		17.12.2011	-	1,000
2007/2012 - Note 03	Listed	Annually	30.05.2007		29.05.2012	<b>30,235</b>	30,235
2007/2012 - Note 04	Listed	Annually	10.12.2007		09.12.2012	<b>10,755</b>	10,755
2007/2012 - Note 05	Listed	Quarterly	10.12.2007		09.12.2012	<b>43,335</b>	43,335
2008/2013 - Note 06	Listed	Annually	12.01.2009		11.01.2014	<b>120</b>	120
2008/2013 - Note 07	Listed	Quarterly	12.01.2009		11.01.2014	<b>3,390</b>	3,390
2010/2015 - Note 08	Not listed	Quarterly	07.12.2010 - 29.12.2010	06.12.2015 - 28.12.2015		<b>220,000</b>	220,000
						<b>307,835</b>	339,430
<b>Total Debentures</b>						<b>2,651,650</b>	3,996,365

**Note**

1. Two percentage points (2%) above the simple average of the one year weighted average Treasury Bill Rate (after tax on interest) at the primary auctions during the month of May each year applicable for the succeeding year until redemption with a floor of 11% p.a. and a cap of 15% p.a. payable annually.
2. Two and half percentage points (2½%) above the one year weighted average Treasury Bill Rate (after tax on interest) as published by Central Bank of Sri Lanka, initially decided during the month of October 2006 and applicable for the ensuing year calculated from the respective dates of allotment and thereafter determined in a similar manner based on the primary auctions during the month of October each year applicable for the succeeding year until redemption with a floor (minimum interest rate) of 11% p.a. and a cap (maximum interest rate) of 17% p.a.: payable annually on par value. Tenor of the debentures – five years.
3. Two percentage points (2%) above the simple average of the one year weighted average Treasury Bill Rate (after tax on interest) at the primary auctions during the month of March each year applicable for the succeeding year until redemption with a floor of 14% p.a. and a cap of 19% p.a. payable annually.
4. One (1) year net Treasury Bill Rate plus 2 ½% payable annually on par value (simple average of the one year weighted average Treasury Bill Rate during the month immediately preceding the commencement of the respective years).
5. 3 months net Treasury Bill Rate plus 2 ½% payable quarterly on par value (simple average of the 3 months weighted average Treasury Bill Rate during the month immediately preceding the commencement of the respective quarters).
6. One (1) year net Treasury Bill Rate plus 2½% payable annually on par value (simple average of the one year weighted average Treasury Bill Rate during the month preceding the commencement of the respective years).
7. 3 months net Treasury Bill Rate plus 2½% payable quarterly on par value (simple average of the 3 months weighted average Treasury Bill Rate during the month preceding the commencement of the respective quarters).
8. AWPLR (Five-year floating rate) - ('AWPLR' means the simple average of the Average Weighted Prime Lending Rate published by the Central Bank of Sri Lanka for the 12-week period immediately preceding each Interest Determination Date).

# Notes to the Consolidated Financial Statements

	BANK		GROUP	
	2011 Rs. '000	2010 (Reclassified) Rs. '000	2011 Rs. '000	2010 (Reclassified) Rs. '000
<b>37. OTHER LIABILITIES</b>				
Accrued Expenses and Interest Payable	4,413,687	4,134,829	4,434,418	4,183,474
Margin Accounts	734,230	820,571	734,230	820,571
Deposit Funding Accounts	1,383,296	1,786,834	1,383,296	1,786,834
Dividend Payable	23,535	22,398	29,528	23,044
Provision for Defined Benefit Obligations (Net) (Note 37.1)	(60,092)	(44,508)	(60,318)	(48,824)
Sundry Creditors	303,386	340,570	303,386	340,570
Value Added Tax and Other Statutory Payables	120,888	255,724	120,888	255,724
Cheques & Drafts Payable	567,459	536,201	567,459	536,201
Others	847,049	2,015,889	897,459	2,081,624
	<b>8,333,438</b>	<b>9,868,508</b>	<b>8,410,346</b>	<b>9,979,218</b>

## 37.1 Defined Benefit Obligations

The Bank pays half a month's salary (last drawn) for each completed year of service as gratuity for employees who have worked for more than 5 years at the time of retirement/resignation.

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>37.1.1 The Amount Recognised in the Balance Sheet</b>				
Present Value of Defined Benefit Obligations (Note 37.1.3)	834,075	708,494	844,177	717,844
Fair Value of Plan Assets (Note 37.1.4)	(704,537)	(713,180)	(714,865)	(726,846)
Unrecognised Actuarial Gain or (Loss) (Note 37.1.5)	(189,630)	(43,367)	(189,630)	(43,367)
Unrecognised Past Service Gain Non-Vested (Note 37.1.6)	-	3,545	-	3,545
<b>Provision for Defined Benefit Obligations</b>	<b>(60,092)</b>	<b>(44,508)</b>	<b>(60,318)</b>	<b>(48,824)</b>

## 37.1.2 Plan Assets Consist the Following

	BANK	GROUP
	2011 Rs. '000	2010 Rs. '000
Balance with Banks	40,378	31,859
Investment in Treasury Bills and Bonds	664,159	681,321
	<b>704,537</b>	<b>713,180</b>

Plan Assets are held by an approved external gratuity fund.

## 37.1.3 Movement in the Present Value of Defined Benefit Obligations

	BANK	GROUP
	2011 Rs. '000	2010 Rs. '000
Liability for Defined Benefit Obligations as at 1st January	708,494	663,119
Current Service Cost	62,551	54,853
Interest Cost	74,392	72,943
Unrecognised Actuarial (Gains)/Losses	188,232	(4,714)
Payments Made (Including Benefits Paid by the Plan)	(199,594)	(77,707)
Adjustment on Deconsolidation/Amalgamation	-	-
<b>Liability for Defined Benefit Obligations as at 31st December</b>	<b>834,075</b>	<b>708,494</b>

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>37.1.4 Movement in Plan Assets</b>				
Fair Value of Plan Assets as at 1st January	713,180	595,920	726,846	611,977
Expected Return on Plan Assets	64,331	93,540	65,394	94,568
Contribution Paid into Plan	84,651	108,965	84,651	108,967
Benefits Paid by the Plan	(199,594)	(77,707)	(202,831)	(85,725)
Unrecognised Actuarial Gain/(Loss) on Plan Assets	41,969	(7,538)	40,805	(2,941)
<b>Fair Value of Plan Assets at 31st December</b>	<b>704,537</b>	<b>713,180</b>	<b>714,865</b>	<b>726,846</b>

**37.1.5 Unrecognised Actuarial (Gain) or Loss**

Balance as at 1st January	43,367	37,966	43,367	37,966
Actuarial (Gain)/Loss for Year - Obligation	188,232	(4,714)	188,232	(20,336)
Actuarial (Gain)/Loss for Year - Plan Assets	(41,969)	7,538	(41,969)	7,538
Actuarial Gain/(Loss) Immediately Recognised	-	2,577	-	18,199
<b>Balance as at 31st December</b>	<b>189,630</b>	<b>43,367</b>	<b>189,630</b>	<b>43,367</b>

**37.1.6 Unrecognised Past Service Cost  
Non-Vested Benefits**

Balance as at 1st January	3,545	7,089	3,545	7,089
Amount Recognised in the Income Statement	(3,545)	(3,544)	(3,545)	(3,544)
<b>Balance as at 31st December</b>	<b>-</b>	<b>3,545</b>	<b>-</b>	<b>3,545</b>

\* The Past Service Cost on Non-Vested Benefits is recognised on a straight-line basis over 3 years.

**37.1.7 Amount Recognised in the Income Statement**

Current Service Cost	62,551	54,853	63,512	55,838
Interest Cost	74,392	72,943	75,141	76,160
Expected Return on Plan Assets	(64,331)	(93,540)	(65,394)	(94,568)
Actuarial (Gain)/Loss Immediately Recognised	-	(2,577)	3,443	(23,571)
Past Service Cost/(Gain) Non-Vested Benefits	(3,545)	(3,544)	(3,545)	(3,544)
Provision for Staff Retirement Benefit (Note 10)	69,067	28,135	73,157	10,315

	BANK	
	2011	2010
<b>37.1.8 Actuarial Assumptions - Bank</b>		
Normal Retirement Age	55 years	55 years
Rate of Discount	10.0%	10.5%
Salary Increase	3%, 15% (including 5% increment) and thereafter 5%, 5%, 15% (including 5% increment) per annum Next increment due on 1st January 2012)	7%, 8%, 8% and thereafter 7.5% per annum. (Next increment due on 1st January 2011)

# Notes to the Consolidated Financial Statements

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>38. STATED CAPITAL</b>				
Ordinary Shares - Voting (Note 38.1)	<b>6,711,000</b>	3,461,000	<b>6,711,000</b>	3,461,000
Ordinary Shares - Non-Voting (Note 38.2)	<b>2,677,133</b>	1,235,600	<b>2,677,133</b>	1,235,600
Preference Shares - Redeemable, Non-Cumulative, Non-Convertible and Non-Voting (Note 38.3)	<b>33,901</b>	33,901	<b>33,901</b>	33,901
Share Premium (Note 38.4)	<b>837,319</b>	837,319	<b>837,319</b>	837,319
	<b>10,259,353</b>	5,567,820	<b>10,259,353</b>	5,567,820
<b>38.1 Ordinary Shares - Voting</b>				
Balance as at January	<b>3,461,000</b>	3,461,000	<b>3,461,000</b>	3,461,000
Issued during the Year - 43,333,333 Ordinary Shares of Rs. 75/- each	<b>3,250,000</b>	-	<b>3,250,000</b>	-
<b>173,333,333 Ordinary Shares - Voting (43,560,000 shares of Rs. 10/- each, 86,440,000 shares of Rs. 35/- each and 43,333,333 shares of 75/- each)</b>	<b>6,711,000</b>	3,461,000	<b>6,711,000</b>	3,461,000
<b>38.2 Ordinary Shares - Non-Voting</b>				
Balance as at January	<b>1,235,600</b>	1,235,600	<b>1,235,600</b>	1,235,600
Issued during the Year - 41,186,666 Ordinary Shares of Rs. 35/- each	<b>1,441,533</b>	-	<b>1,441,533</b>	-
<b>164,746,666 Ordinary Shares - Non-Voting (123,560,000 shares of Rs. 10/- each and 41,186,666 shares of Rs. 35/- each)</b>	<b>2,677,133</b>	1,235,600	<b>2,677,133</b>	1,235,600
<b>38.3 Preference Shares</b>				
Balance as at January - 3,390,100 Preference Shares of Rs. 10/- each	<b>33,901</b>	33,901	<b>33,901</b>	33,901
<b>3,390,100 Preference Shares</b>	<b>33,901</b>	33,901	<b>33,901</b>	33,901
<b>38.4 Movement in Share Premium</b>				
Balance as at 01st January	<b>837,319</b>	837,319	<b>837,319</b>	837,319
<b>Balance as at 31st December</b>	<b>837,319</b>	837,319	<b>837,319</b>	837,319

The Seylan Bank PLC made a Rights Issue (Ordinary Voting and Non-Voting Shares) in June 2011 and a sum of Rs. 4,691,533,285 was raised.

Board of Directors has decided to redeem the entirety of 3,390,100 number of Preference Shares at Rs. 12.50 per share on 13.02.2012.



	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>39. STATUTORY RESERVE FUND</b>				
Balance as at 01st January	568,368	506,919	568,368	506,919
Add: Transferred during the Year **	50,133	61,449	50,133	61,449
Adjustment on Deconsolidation	-	-	-	-
<b>Balance as at 31st December</b>	<b>618,501</b>	<b>568,368</b>	<b>618,501</b>	<b>568,368</b>

\*\* 5% of Net Profit after Tax.

Statutory Reserve Fund represents the statutory requirement in terms of the Section 20 (1) and (2) of the Banking Act No. 30 of 1988.

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>40. RESERVES</b>				
Capital Reserve (Note 40.1)	418,021	418,021	673,234	418,021
Revaluation Reserve (Note 40.2)	461,998	460,123	820,877	818,777
General Reserve (Note 40.3)	33,787	33,787	33,787	33,787
Capital Redemption Reserve Fund (Note 40.4)	-	-	-	255,213
Special Risk Reserve (Note 40.5)	98,741	79,769	98,741	79,769
Investment Fund Reserve (Note 40.6)	272,986	-	272,986	-
Retained Profits	5,376,138	4,969,137	5,170,087	4,759,940
	<b>6,661,671</b>	<b>5,960,837</b>	<b>7,069,712</b>	<b>6,365,507</b>

#### 40.1 Movement in Capital Reserve

Balance as at 01st January	418,021	418,021	418,021	418,021
Add: Transferred from Capital Redemption Reserve Fund	-	-	255,213	-
<b>Balance as at 31st December</b>	<b>418,021</b>	<b>418,021</b>	<b>673,234</b>	<b>418,021</b>

**Bank** - Consists of the Debenture Redemption Reserve Fund of Rs. 400 Mn. transferred to Capital Reserve in 2004. Debenture Redemption Reserve Fund was created for the redemption of five-year Debentures amounting to Rs. 400 Mn. issued in November 1999. Balance consisting of Rs. 18 Mn. transferred to Capital Reserve in 1991.

**Seylan Developments PLC** - Capital Redemption Reserve Fund which was created at the time of redeeming the Preference Shares of Seylan Developments PLC was transferred to Capital Reserve in year 2011.

# Notes to the Consolidated Financial Statements

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>40.2 Movement in Revaluation Reserve</b>				
Balance as at 01st January	460,123	125,238	818,777	483,892
Transferred to/from Revaluation Reserve	-	332,757	313	332,757
Transferred from/(to) Deferred Tax (Refer Note 28)	1,875	2,128	1,787	2,128
<b>Balance as at 31st December</b>	<b>461,998</b>	<b>460,123</b>	<b>820,877</b>	<b>818,777</b>

In addition to the Bank's Revaluation Reserve, Group includes the surplus on revaluation of fixed assets of Seylan Developments PLC.

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>40.3 Movement in General Reserve</b>				
Balance as at 01st January	33,787	33,787	33,787	33,787
<b>Balance as at 31st December</b>	<b>33,787</b>	<b>33,787</b>	<b>33,787</b>	<b>33,787</b>

Consist of Rs. 25 Mn. transferred in 1995 to General Reserve, Rs. 2.7 Mn. transferred from Bad Debts Reserve and Rs. 6 Mn. transferred from Contingency Reserve in 2002 to General Reserve.

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>40.4 Movement in Capital Redemption Reserve Fund</b>				
Balance as at 01st January	-	-	255,213	255,213
Less: Transferred to Capital Reserve	-	-	(255,213)	-
<b>Balance as at 31st December</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>255,213</b>

Capital Redemption Reserve Fund was created at the time of redeeming the preference shares of Seylan Developments PLC and same was transferred to Capital Reserve in 2011.

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>40.5 Movement in Special Risk Reserve</b>				
Balance as at 01st January	79,769	-	79,769	42,595
Add: Transferred during the Year	18,972	32,038	18,972	37,174
Less : Adjustment due to Amalgamation of Seylan Bank Asset Management	-	47,731	-	-
<b>Balance as at 31st December</b>	<b>98,741</b>	<b>79,769</b>	<b>98,741</b>	<b>79,769</b>

According to the Circular Ref. No. 08/24/002/005/003 issued by the Central Bank of Sri Lanka, Primary Dealer Unit is required to appropriate 25% of the net profit after tax for the year towards the Special Risk Reserve Fund.

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>40.6 Movement in Investment Fund Reserve</b>				
Balance as at 01st January	-	-	-	-
Add: Transferred during the Year	<b>272,986</b>	-	<b>272,986</b>	-
<b>Balance as at 31st December</b>	<b>272,986</b>	-	<b>272,986</b>	-

As per the Value Added Tax (Amendment) Act No. 09 of 2011 and Inland Revenue Amendment Act No. 22 of 2011, Bank transfers 8% on Value Addition attributable to Financial Services and 5% of taxable profits, from retained profits to **Investment Fund Reserve** with effect from 01st January 2011.

#### Transfers during the Year

8% on the Value Addition Attributable to Financial Services	<b>217,160</b>
5% of Taxable Profits	<b>55,826</b>
	<b>272,986</b>

The respective funds have been invested in Long-Term Government Securities with a maturity period more than 7 years in full.

Details of Government Securities are as follows:

	Maturity Value (Rs.)	Date of Maturity	Rate of Interest
Treasury Bond	200,000,000	01.08.2020	6.20%
Treasury Bond	150,000,000	15.08.2018	7.50%

## 41. COMMITMENTS AND CONTINGENCIES

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

	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>41.1 Commitments</b>				
Undrawn Credit Lines	<b>14,675,341</b>	11,966,858	<b>14,675,341</b>	11,966,858
Capital Commitments (Note 43.1)	<b>23,985</b>	21,892	<b>35,204</b>	21,892
	<b>14,699,326</b>	11,988,750	<b>14,710,545</b>	11,988,750
<b>41.2 Contingencies</b>				
Acceptances	<b>4,440,085</b>	4,066,223	<b>4,440,085</b>	4,066,223
Stand by Letters of Credit	<b>359,770</b>	25,565	<b>359,770</b>	25,565
Guarantees	<b>7,629,741</b>	8,262,274	<b>7,629,741</b>	8,329,274
Documentary Credit	<b>6,039,245</b>	3,952,136	<b>6,039,245</b>	3,952,136
Bills for Collection	<b>3,152,133</b>	1,919,301	<b>3,152,133</b>	1,919,301
Forward Exchange Contracts (Net)	<b>(73,084)</b>	(17,171)	<b>(73,084)</b>	(17,171)
	<b>21,547,890</b>	18,208,328	<b>21,547,890</b>	18,275,328
<b>Total Commitments &amp; Contingencies</b>	<b>36,247,216</b>	30,197,078	<b>36,258,435</b>	30,264,078

# Notes to the Consolidated Financial Statements

## 42. LITIGATION AND CLAIMS

### 42.1 Cases Against the Bank

In the normal course of business, the Bank is involved in various types of litigation with borrowers or others who have asserted or threatened claims/counter claims against the Bank, including the following:

#### 1. Civil Cases

- (i) CA(Rev)1788/04 - Claim against the Bank with regard to a draft deposit to BCCI Bank at the time of Seylan Bank taking over the operations of BCCI Bank. (Draft value USD 500,000/-).
- (ii) CHC 157/2001(1), (SC01/2010) - Case filed by Lanka Milk Foods, with regard to dishonouring a Guarantee issued by BCCI Bank before taking over by Seylan Bank (Guarantee value USD 72,730.23 and USD 56,732.25 ).
- (iii) SC CHC 20/2007 - 02 plaintiffs had filed H.C. (Civil) 137/99 (1) adding the Bank as a defendant praying judgment for a sum of Rs. 11,535,525/- .(equivalent to USD 161,381.15) – Judgment was delivered on 22.02.07, in favour of the Bank. The plaintiff made the above appeal to Supreme Court.
- (iv) DC Colombo 15958/M – Case filed claiming Rs. 200,000/- as damages from the Bank for wrongful honouring of a guarantee. The judgment given in favour of the plaintiff for Rs. 100,000/- with legal interest. The Bank has filed an appeal against the judgment and to be listed.
- (v) CHC 14/98(1) – Case filed for dishonouring cheques and a letter of credit. Claim Rs. 111.0 Mn. Judgment given in favour of the plaintiff but both parties have filed appeals against the said judgment and not yet listed.
- (vi) DC Mt. Lavinia 234/claim - Case was filed claiming damages for wrongful seizure (claim Rs. 2 Mn.)
- (vii) DC Ratnapura 23391/MR – Case was filed by the customer for wrongful take over of machinery which is not mortgaged to the Bank. (claim Rs. 23.0 Mn.)
- (viii) CHC 232/2002, CHC 320/2002, CHC 243/2002 - These claims are instituted with regard to sale of shares of Blue Diamond Jewellery Worldwide (BDJWWL) held as security for the facility of Gold Lada.
- (ix) 00367/DMR/09 - Damages claimed by the customer claiming MLN Branch has wrongfully refused to issue Dollars for travel purposes. Case transferred to CHC (559/10/MR and the case is fixed for filing affidavit evidence).
- (x) CHC Colombo 359/09 MR - Case filed by the customer against the Bank stating that the Bank charged default interest on the default facilities, while keeping FDs (Ceylinco Investment Co.) of Rs. 8.0 Mn. as securities for the said facilities.
- (xi) DC Colombo DMR/1605/11 - The plaintiff claims that as per the lease agreement the Bank did not vacate the premises on the due date causing him damages and loss of revenue (claim Rs. 2.4 Mn.).
- (xii) HC (Civil) 159/06 - Case filed by the customer for wrongful take over of machinery which is not mortgaged to the Bank (claim Rs. 23.0 Mn.).
- (xiii) DC Ratnapura 12734/M - Bank has filed a case against the borrower claiming for Rs. 226,687.95 and at the answer borrower cross claimed from the Bank for Rs. 2.5 Mn. as damages on the ground that the Bank has wrongfully handled the relevant accounts. Case is at the trial stage.

**2. In addition to the above the following civil cases are pending against the Bank.**

Case	Nature/Description
CHC 638/09/MR (DC Colombo 6033/SPL)	Counter claim made by the defendant for the case filed by the Bank.
DC Colombo 04768/09DMR	Claiming damages Rs. 10.0 Mn. from the Bank for negligence prosecution and wrongful act. Transferred to Commercial High Court and CHC 744/2010/MR .
36780/MR	Against the fraudulent withdrawal of Rs. 280,000/- made by the 3rd party.
DC Negombo 2798/P	Claiming the title of the mortgaged property by a third party.
DC Matara 20512/P	Claiming the title of the mortgaged property by a third party.
DC Colombo DMR 09088/10	Accusing the Bank for negligence resulting a cheque fraud (claim Rs 5.0 Mn.).
DC Horana 1792/P	Obtain a partition decree against the mortgaged property.
HC (Civil) 379/2011/MR	Sarana International (Pvt) Limited property was acquired by the Bank in 2009. They claim that the Bank as a party of the Ceylinco Group has contributed money in settlement of the loan and due to non-payment by the Bank, the loan went into arrears. Claim Rs. 992,547.65 and interest from October 2008.
CHC 157/2009/MR	Fraudulent encashment of a cheque of Rs. 9.5 Mn. by third party from BOC account.
SC (APP) 85A/2009	Hatton National Bank has filed to nullify Seylan Bank Mortgage Bond executed by Lanka Tractors.
DC Kalutara 6070/P	Obtain a partition decree against the mortgaged property to the Bank.
HC (Civil) 166/05 (1)	Claiming a refund from the sales proceeds of the property.

**3. Labour Tribunal Cases**

1. Labour Department inquiry No. IR/1055/2009 CA Writ 891/2009 - Retired employees of Seylan Bank PLC vs Seylan Bank PLC. Labour Commissioner ordered to pay gratuity at the rate of one month salary of each year of the service for the employees who completed 10 years service. Bank has filed a writ/settlement application in Court of Appeal. Argument or settlement postponed to 26.01.2012. Again date refixed for support and argument on 15.03.2012.
2. LT application before the Labour Tribunal by ex-employees. Case Nos. LT 1/32/2010, LT 1/33/2010, LT 1/34/2010, LT 1/35/2010, LT 1/36/2010, LT 1/37/2010, LT 1/38/2010, LT 01/39/2010, LT 01/40/2010, LT 01/41/2010, LT 01/42/2010, LT 01/43/2010, LT 01/44/2010, LT 02/109/2010, LT/08/505/2010, LT/13/78/2010, LT/13/79/2010, LT/13/80/2010, LT/13/81/2010, LT/13/82/2010.

# Notes to the Consolidated Financial Statements

3. There have been 6 cases DTR 003/2010, DTR 004/2010, DTR 006/2010, DTR 007/2010, DTR 008/2010 and DTR 009/2010 filed by former employees of Seylan Bank PLC against the Bank, share owning trust companies Sotse (Private) Limited, Seyshop (Private) Limited, Seyfest (Private) Limited, Esots (Private) Limited, Seybest (Private) Limited and Sesot (Private) Limited of the Bank and other defendants in the District Court of Colombo. The cases relate to the respective trust properties owned by these trust companies. Plaintiffs had obtained enjoining orders restraining the Bank from receiving the proceeds of the sale of the respective trust properties and restraining the trustees from selling their shares of Seylan Bank PLC. Plaintiffs also sought interim injunctions to the same effect to be effective till the conclusion of this case. The Bank filed objections to the grant of interim injunctions and the order of the District Court of Colombo (as to whether the interim injunctions will be issued or not) is due on 17th February 2012. The Seylan Bank Employees' Union has also applied to be added as a party to these cases. The Bank objected to such intervention. Consequently the District Court upheld the objections of the Bank and dismissed the application for intervention. Thereupon Seylan Bank Employees' Union filed six appeals WP/HCCA/COL 131/2011 to WP/HCCA/COL 136/2011 before the Colombo Civil Appeal High Court against the said orders of dismissal. These appeals are to be heard before the Colombo Civil Appeal High Court on 27th February 2012.

Based on the available information and current status of the above cases, the Bank is not in a position to quantify the potential financial impact if any, as at the Balance Sheet date. Further, based on legal advice the Bank does not expect the outcome of any action to have a material effect on the financial position of the Bank.

There are no pending litigations against Seylan Developments PLC.

## 42.2 Tax Assessments Against the Bank

1. Assessment No. VATFS/BFSU/2009/130 for VAT on Financial Services for 2007, Commissioner General of Inland Revenue issued the determination with an additional liability of Rs. 118,733,184/-. Bank made a notification to the Tax Appeals Commission indicating the disagreement on the assessment and currently awaiting their response.
2. Assessment No. VATFS/BFSU/2010/263 for VAT on Financial Services for 2008, amounts to Rs. 174,148,569/-. Bank is not in agreement with the settlement option at the unit level and the Bank requested to refer the matter for Commissioner General Hearing. The Appeal Branch has communicated that they have referred the same to the CGIR.
3. Assessment No. 6129284, for income tax year of assessment 2007/08, amounts to Rs. 316,456,174/- and penalty of Rs. 113,539,923/-. Bank made the Appeal and the Hearing of CGIR was held. Bank awaits Commissioner General's Determination.

### 43. CAPITAL COMMITMENTS

Capital expenditure approved by the Board of Directors for which provision has not been made in these accounts amounted to approximately:

	BANK		GROUP	
	2011 Rs. Mn.	2010 Rs. Mn.	2011 Rs. Mn.	2010 Rs. Mn.
<b>43.1</b> Approved and Contracted for	<b>23.985</b>	21.892	<b>35.204</b>	21.892
<b>43.2</b> Approved but not Contracted for	<b>3.555</b>	-	<b>3.555</b>	-

### 44. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

- The Board of Directors of the Bank recommends a final ordinary dividend of Rs. 1.00 per share for the year 2011 and to be approved at the Annual General Meeting.
- The Board of Directors has resolved to redeem the entirety of the 3,390,100 preference shares of the Bank at a consideration of Rs. 12.50 per share on 13th February 2012. This amounts to a reduction of Rs. 33,901,000/- from the stated capital of the Company.
- No circumstances have arisen since the Balance Sheet date which would require adjustments to or disclosure in the Financial Statements other than those disclosed above.

### 45. RELATED PARTY TRANSACTIONS

**45.1** According to Sri Lanka Accounting Standard 30 (Revised 2005) Related Party Disclosures, key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Board of Directors, General Manager/Chief Executive Officer (GM/CEO), key employees of the Bank holding Directorships in subsidiary companies and their immediate family members have been classified as key management personnel (KMP) of the Bank.

Immediate family members are defined as spouse or dependent. Dependent is defined as any one who depends on the respective Director for more than 50% of his/her financial needs.

As the Bank is the Ultimate Parent of its subsidiary mentioned in Note 46 and the Board of Directors of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group, the Directors of the Bank and their immediate family members have been identified as the KMP of the Group.

Therefore, officers who are only Directors of the subsidiary and not of the Bank have also been classified as KMP of that respective subsidiary only.

# Notes to the Consolidated Financial Statements

## 45.2 Transactions with Key Management Personnel (KMP) for Credit Facilities

	Facilities	Limit Rs. Mn.	2011 Outstanding Rs. Mn.	Security	2010 Outstanding Rs. Mn.
Mr. K.P. Ariyaratne	Overdraft	0.500	-	Lien over Repo	-
	Housing Loan - I	2.500	<b>2.476</b>	} Mortgage over Property	-
	Housing Loan - II	3.500	<b>3.466</b>		
Mr. S. Palihawadana	Overdraft	0.015	-	Demand Promissory Note and Overdraft Agreement Form	0.015
	Employee Provident Fund Loan	3.910	<b>3.910</b>	Assignment over Employee Provided Fund balance	3.910
	Housing Loan - I	1.582	<b>0.420</b>	} Mortgage over Property	0.636
	Housing Loan - II	1.500	<b>0.678</b>		0.887
	Housing Loan - III	0.500	<b>0.218</b>		0.290
	Piyasa Housing Loan	2.375	<b>0.116</b>		0.151
	Mr. C. Kotigala**	Housing Loan - I	2.475	<b>1.478</b>	} Mortgage over Property
Housing Loan - II		1.000	<b>0.482</b>	0.569	
Housing Loan - III		0.500	<b>0.199</b>	0.279	
Housing Loan - IV		1.345	<b>0.889</b>	1.033	
Employees' Provident Fund Loan		-	-		7.139
	Overdraft	-	-		0.053
	Leasing	1.444	<b>0.617</b>	Absolute ownership over vehicle	-

\*\* Mr. C. Kotigala ceased to hold office on 23rd August 2011.

## 45.3. Deposits by Key Management Personnel

		2011 Rs. Mn.	2010 Rs. Mn.
Mr. E. Narangoda	Total	<b>0.453</b>	1.708
Mr. R. Nadarajah	Total	<b>0.791</b>	0.851
Mr. A.L. Devasurendra	Total	<b>0.513</b>	-
Mr. A.M.M. De Alwis	Total	<b>0.003</b>	-
Mr. N.M. Jayamanne PC	Total	<b>0.807</b>	-
Rear Admiral B.A.J.G. Peiris	Total	<b>0.003</b>	-
Mrs. R.N.A. De Silva	Total	<b>0.136</b>	-
Mrs. M.R.N.P. De Alwis	Total	<b>0.041</b>	-
Mr. P. Kudabalage	Total	<b>0.097</b>	-
Ms. T.D. Ariyaratne	Total	<b>0.249</b>	-
Mr. R.D. Ariyaratne	Total	<b>0.089</b>	-
Mr. K.P. Ariyaratne	Total	<b>0.238</b>	-
Mr. S. Palihawadana	Total	<b>3.606</b>	0.497
Mr. K. Rathnayaka	Total	<b>0.130</b>	0.171
Mr. C. Kotigala**	Total	<b>0.462</b>	0.082

\*\* Mr. C. Kotigala ceased to hold office on 23rd August 2011.



#### 45.4 Other Instruments by Key Management Personnel

		2011 Rs. Mn.	2010 Rs. Mn.
Mr. E. Narangoda	Treasury Bill	<b>4.585</b>	-
	Treasury Bond	-	5.279
Mrs. G.H.C.S. Narangoda	Treasury Bond	-	2.047
Mr. R. Nadarajah	Repo	<b>3.338</b>	-
	Treasury Bill	-	4.044
	Debentures	<b>1.500</b>	1.500
Mr. A.L. Devasurendra	Treasury Bond	<b>1.000</b>	1.000
Mr. S. Palihawadana	Repo	<b>0.702</b>	0.382
	Treasury Bill	<b>1.530</b>	0.590
	Treasury Bond	<b>7.282</b>	3.545
	Debentures	<b>4.500</b>	4.500
Mrs. R.S. Palihawadana	Treasury Bill	<b>0.116</b>	-

#### 45.5 Accommodation Granted to KMP for Credit Cards

Name of Key Management Personnel	2011 Credit Card Limit Rs. '000	2011 Outstanding Rs. '000	2010 Outstanding Rs. '000
Mr. E. Narangoda	500	2	-
Mr. R. Nadarajah	500	21	1
Mr. N.M. Jayamanne PC	500	434	4
Mr. P.L.P. Withana	-	-	-
Rear Admiral B.A.J.G. Peiris	500	-	55
Mr. A.L. Devasurendra	500	-	-
Mr. I.C. Nanayakkara	500	1	-
Mr. S.P.S. Ranatunga	500	-	242
Mr. A.M.M. De Alwis	-	-	-
Mr. P. Kudabalage	-	-	-
Mr. K.P. Ariyaratne	500	23	-
		<b>(Credit Balance)</b>	-
Mr. R.M.K.K.B. Rathnayaka	350	-	16
Mr. S. Palihawadana	500	66	42
Mr. C. Kotigala**	500	19	179

\*\* Mr. C. Kotigala ceased to hold office on 23rd August 2011.

#### 45.6 Compensation to Key Management Personnel

	2011 Rs. Mn.	2010 Rs. Mn.
Short-Term Employee Benefits	<b>42.379</b>	46.674
Post-Employment Benefits	<b>39.754</b>	7.695

In addition to their salaries Bank also provides non-cash benefits to the Directors and Executive Officers and contributes to a post-employment defined benefit plan on their behalf. Directors emoluments are disclosed in Note 9 to the Financial Statements.

**45.7** All the other interests of each Director, direct or indirect in financial and other arrangements are disclosed under Note 46 - Other Related Party Transactions.

# Notes to the Consolidated Financial Statements

## 46. OTHER RELATED PARTY TRANSACTIONS

The Bank had the following financial dealings during the year 2011 with companies which are considered, related parties and unless otherwise stated, transactions were carried out in the ordinary course of business at commercial rates with companies mentioned below. The parties given below are considered related parties mainly due to significant influence arising as a result of common directorships and through shareholdings. These companies, names of the Directors and the nature of transactions entered into are listed below:

Party/Parties Accommodated	Name of Director/ Key Management Personnel Relationship	Deposit		Nature of Accommodation
Rs. Mn.				
<b>(a) Direct Subsidiaries of the Bank</b>				
Seylan Developments PLC	Mr. R. Nadarajah - Chairman			
	Mr. S. Palihawadana Director	Demand Deposit	18.293	Guarantee
		Fixed Deposit	75.000	
			<u>93.293</u>	
	Mr. K. Rathnayaka Executive Director/Acting GM			
	Mr. M.P.V.R. De Silva Director			
	(Resigned on 01.04.2011) Mr. C. Kotigala - Director (Resigned on 23.08.2011)			
2010 Comparatives			7.717	
<b>(b) Trust Companies and Funds Set Up under the Bank</b>				
** Following Directors/key employees of the Bank are also trustees/ Directors of the Trust Companies and Funds setup under the Bank				
Seylan Bank Employees' Gratuity Trust Fund	Mr. E. Narangoda - <i>Trustee</i>	Fixed Deposit	25.000	
	Mr. R. Nadarajah - <i>Trustee</i>	Demand Deposit	15.245	Investment in Treasury Bond amounting to face value Rs. 643.892 Mn.
			<u>40.245</u>	Funds transferred by Seylan Bank PLC amounting to Rs. 84.65 Mn.
	Rear Admiral B.A.J.G. Peiris - <i>Trustee</i>			
	Mr. N.M. Jayamanne P.C. - <i>Trustee</i>			
	Mr. K. P. Ariyaratne - <i>Trustee</i>			
	Mr. T. Nanayakkara - <i>Trustee</i>			
	Mr. S.A.R. Dias Bandaranayake - <i>Trustee</i>			
	Mr. S.J. Jebaratnam - <i>Trustee</i>			
	Mr. M.P.V.R. De Silva - <i>Trustee</i> (Resigned on 13.06.2011)			
	Mr. C. Kotigala - <i>Trustee</i> (Resigned on 13.06.2011)			
	Mr. A. M. Pasqual - <i>Trustee</i> (Resigned on 13.06.2011)			
	Mrs. L. Seneviratne - <i>Trustee</i> (Resigned on 13.06.2011)			
2010 Comparatives			31.726	



# Notes to the Consolidated Financial Statements

Party/Parties Accommodated	Name of Director/ Key Management Personnel Relationship	Deposit	Rs. Mn.	Nature of Accommodation
Seylan Bank Employees' Provident Fund	Mr. K.P. Ariyaratne - <i>Trustee</i>	Savings Account	1,890.513	Investment in Seylan Bank PLC Debenture amounted to Rs. 124.00 Mn.
	Mr. S. Palihawadana - <i>Trustee</i>		1,890.513	Investment in Treasury Bond amounting to face value Rs. 2,023.79 Mn.
	Mr. G. Widanapathirana - <i>Secretary</i>			
	Mr. Sarath Kumarasiri - <i>Trustee</i>			
	Ms. Rohini Weerakody - <i>Trustee</i>			
	Mr. Mangala Karunaratne - <i>Trustee</i>			
	Mr. C. Perera - <i>Trustee</i>			
2010 Comparatives			1,951.041	
Sesot (Pvt) Limited	Mr. E. Narangoda - <i>Chairman</i>	Demand Deposit	3.678	No. of Voting Shares - 2,244,800
	Mr. R. Nadarajah - <i>Director</i>		3.678	Rs. 51.854 Mn. Payable to Seylan Bank PLC
	Mr. K.P. Ariyaratne - <i>Director</i>			
	Mr. S.J. Jebaratnam - <i>Director</i>			
	Mrs. V.A. Paranagama - <i>Director</i>			
	Mr. M.P.V.R. De Silva <i>Director (Resigned on 07.04.2011)</i>			
	Mr. C. Kotigala <i>Director (Resigned on 07.04.2011)</i>			
Mr. A.M. Pasqual <i>Director (Resigned on 28.04.2011)</i>				
2010 Comparatives			1.043	
Seyfest (Pvt) Limited	Mr. E. Narangoda - <i>Chairman</i>			
	Mr. R. Nadarajah - <i>Director</i>	Demand Deposit	3.504	No. of Voting Shares - 2,972,596
	Mr. K.P. Ariyaratne - <i>Director</i>		3.504	Rs. 23.0 Mn. Payable to Seylan Bank PLC
	Mr. S.J. Jebaratnam - <i>Director</i>			
	Mrs. V.A. Paranagama - <i>Director</i>			
	Mr. M.P.V.R. De Silva <i>Director (Resigned on 07.04.2011)</i>			
	Mr. C. Kotigala <i>Director (Resigned on 07.04.2011)</i>			
Mr. A.M. Pasqual <i>Director (Resigned on 28.04.2011)</i>				
2010 Comparatives			0.939	
Sotse (Pvt) Limited	Mr. E. Narangoda - <i>Chairman</i>			Term Loan
	Mr. R. Nadarajah - <i>Director</i>			(Rate of Interest - 9.52%)
	Mr. K.P. Ariyaratne - <i>Director</i>			
	Mr. S.J. Jebaratnam - <i>Director</i>			Loan Agreement Form for Rs. 38.8 Mn.
	Mrs. V.A. Paranagama - <i>Director</i>			No. of Voting Shares - 962,331
	Mr. M.P.V.R. De Silva <i>Director (Resigned on 07.04.2011)</i>			Rs. 8.011 Mn. Payable to Seylan Bank PLC
Mr. C. Kotigala - <i>Director (Resigned on 07.04.2011)</i>				
Mr. A.M. Pasqual - <i>Director (Resigned on 28.04.2011)</i>				
2010 Comparatives				

Aggregate Amount of Accommodation Outstanding as at 31.12.2011					Services Obtained/Other Transactions			
Limit	Funded	Non-Funded	Cumulative Interest in Suspense Provision	Cumulative Bad & Doubtful Debt Provision	Accommodation Outstanding (funded - net) as a % of Regulatory Capital	Nature of Service	Amount Payable/Receivable	Amount Paid/Received
Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.			Rs. Mn.	Rs. Mn.
						Interest Payable/Paid (Debentures)	2.378	36.887
						Interest Payable/Paid (Government Securities)	41.368	258.527
							<u>43.746</u>	<u>295.414</u>
						Net	(9.268)	(37.656)
						Net Dividend Paid		<u>2.020</u>
								<u>2.020</u>
						Net		(1.010)
						Net Dividend Paid		<u>2.675</u>
								<u>2.675</u>
						Net		(1.338)
38.550	29.154			5.978	0.134%	Net Dividend Paid		<u>0.866</u>
<u>38.550</u>	<u>29.154</u>			<u>5.978</u>				<u>0.866</u>
						Interest Received		<u>1.369</u>
								<u>1.369</u>
38.550	29.892			5.978	0.181%	Net		<u>0.767</u>

# Notes to the Consolidated Financial Statements

Party/Parties Accommodated	Name of Director/ Key Management Personnel Relationship	Deposit	Nature of Accommodation
Rs. Mn.			
Seyshop (Pvt) Limited	Mr. E. Narangoda - <i>Chairman</i>		Term Loan
	Mr. R. Nadarajah - <i>Director</i>		(Rate of Interest - 9.52%)
	Mr. K.P. Ariyaratne - <i>Director</i>		
	Mr. S.J. Jebaratnam - <i>Director</i>		
	Mrs. V.A. Paranagama - <i>Director</i>		Loan Agreement Form for Rs. 55.1 Mn.
	Mr. M.P.V.R. De Silva <i>Director (Resigned on 07.04.2011)</i>		No. of Voting Shares - 2,132,900
	Mr. C. Kotigala <i>Director (Resigned on 07.04.2011)</i>		Rs. 14.180 Mn. Payable to Seylan Bank PLC
	Mr. A.M . Pasqual <i>Director (Resigned on 28.04.2011)</i>		
<b>2010 Comparatives</b>			
Seybest (Pvt) Limited	Mr. E. Narangoda - <i>Chairman</i>		Term Loan
	Mr. R. Nadarajah - <i>Director</i>		(Rate of Interest - 9.52%)
	Mr. K.P. Ariyaratne - <i>Director</i>		Loan Agreement Form for Rs. 55.1 Mn.
	Mr. S.J. Jebaratnam - <i>Director</i>		No. of Voting Shares - 2,132,900
	Mrs. V.A. Paranagama <i>Director</i>		Rs. 14.180 Mn. Payable to Seylan Bank PLC
	Mr. M.P.V.R. De Silva <i>Director (Resigned on 07.04.2011)</i>		
	Mr. C. Kotigala <i>Director (Resigned on 07.04.2011)</i>		
	Mr. A.M . Pasqual <i>Director (Resigned on 28.04.2011)</i>		
<b>2010 Comparatives</b>			
Esots (Pvt) Limited	Mr. E. Narangoda - <i>Chairman</i>		Term Loan
	Mr. R. Nadarajah - <i>Director</i>		(Rate of Interest - 9.52%)
	Mr. K.P. Ariyaratne - <i>Director</i>		Loan Agreement Form for Rs. 54.6 Mn.
	Mr. S.J. Jebaratnam - <i>Director</i>		No. of Voting Shares - 2,115,857
	Mrs. V.A. Paranagama <i>Director</i>		Rs. 13.171 Mn. Payable to Seylan Bank PLC
	Mr. M.P.V.R. De Silva <i>Director (Resigned on 07.04.2011)</i>		
	Mr. C. Kotigala <i>Director (Resigned on 07.04.2011)</i>		
	Mr. A.M . Pasqual <i>Director (Resigned on 28.04.2011)</i>		
<b>2010 Comparatives</b>			

Aggregate Amount of Accommodation Outstanding as at 31.12.2011					Services Obtained/Other Transactions			
Limit	Funded	Non-Funded	Cumulative Interest in Suspense Provision	Cumulative Bad & Doubtful Debt Provision	Accommodation Outstanding (funded - net) as a % of Regulatory Capital	Nature of Service	Amount Payable/Receivable	Amount Paid/Received
Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.			Rs. Mn.	Rs. Mn.
54.375	29.661			6.072		Net Dividend Paid		1.920
54.375	29.661			6.072	0.137%			1.920
						Interest Received		1.391
								1.391
54.375	30.360			6.072	0.184%	Net		0.262
54.510	29.290			6.064		Net Dividend Paid		1.920
54.510	29.290			6.064	0.135%			1.920
						Interest Received		1.379
								1.379
54.510	30.321			6.064	0.184%	Net		0.260
53.860	29.789			6.196	0.137%	Net Dividend Paid		1.904
53.860	29.789			6.196				1.904
						Interest Received		1.401
								1.401
53.860	30.978			6.196	0.188%	Net		0.294

# Notes to the Consolidated Financial Statements

Party/Parties Accommodated	Name of Director/ Key Management Personnel Relationship	Deposit	Rs. Mn.	Nature of Accommodation	
<b>(c) Common Directorship Entities</b>					
The Finance Co. PLC	Mr. R. Nadarajah <i>Director</i>			Overdraft (Rate of Interest 14.00%)	
				Piyasa Velende Niwasa (Rate of Interest 14.00%)	
			Fixed Deposit	200.817	Term Loan (Rate of Interest 14.00%)
			Demand Deposit	36.178	Term Loan (Rate of Interest 14.00%)
			Call Deposit	115.934	Term Loan (Rate of Interest 14.00%)
				352.929	Leases (Rate of Interest 14.00%)
					Primary Mortgage Bond Rs. 42.5 Mn.
					Primary Mortgage Bond Rs. 50.0 Mn.
					Primary Mortgage Bond Rs. 68.2 Mn.
					Primary Mortgage Bond Rs. 56.2 Mn.
				Primary Mortgage Bond Rs. 20.2 Mn.	
				Primary Mortgage Bond Rs. 90.0 Mn.	
				Absolute Ownership Over Vehicle	
				Property Mortgage for Rs. 121.85 Mn.	
				No. of Non-Voting Shares 16,200	
				No. of Debentures 50,000 (Rs. 5 Mn.)	
CIC Feeds (Pvt) Limited	Mr. S.P.S. Ranatunga <i>Director</i>	Demand Deposit	1.809		
			1.809		
CIC Poultry Farms Limited	Mr. S.P.S. Ranatunga <i>Director</i>	Demand Deposit	2.030		
			2.030		
CIC Agri Business (Pvt) Ltd.	Mr. S.P.S. Ranatunga <i>Director</i>	Demand Deposit	0.029	Overdraft (Rate of Interest - 10.5%)	
			0.029	Letter of Credit - Usance (Rate of Interest - 0.1% per Quarter)	
				Short-Term Loan/Revolving Import Loan (Rate of Interest - 10.5%) Within which	
				Negative pledge	
2010 Comparatives			0.029		



Aggregate Amount of Accommodation Outstanding as at 31.12.2011					Services Obtained/Other Transactions			
Limit	Funded	Non-Funded	Cumulative Interest in Suspense Provision	Cumulative Bad & Doubtful Debt Provision	Accommodation Outstanding (funded - net) as a % of Regulatory Capital	Nature of Service	Amount Payable/Receivable	Amount Paid/Received
Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.			Rs. Mn.	Rs. Mn.
110.950	0.642					Interest Paid		1.611
42.500	22.439				0.866%			1.611
29.750	15.538					Interest Received		80.255
69.600	44.753					Commission Received		0.078
250.000	62.285							80.333
17.766	3.614							
520.566	149.271							
100.000	5.847							
800.000		115.952			1.572%	Interest Income Receivable/Received	0.315	8.745
(400.000)	265.000						0.315	8.745
900.000	270.847	115.952						
900.000	2.686	630.000			0.020%			

# Notes to the Consolidated Financial Statements

Party/Parties Accommodated	Name of Director/ Key Management Personnel Relationship	Deposit	Rs. Mn.	Nature of Accommodation
<b>(d) Shareholder Entities and Their Group and Owner-Related Entities</b>				
Brown & Co. PLC	Mr. A.L. Devasurendra <i>Deputy Chairman</i>	Demand Deposit	3.072	
			3.072	
	Mr. I.C. Nanayakkara <i>Director</i>			No. of Ordinary Voting Shares - 24,049,888 (13.87%)
2010 Comparatives			2.112	
LOLC Investments Limited				No. of Ordinary Voting Shares - 16,555,954 (9.55%)
SriLankan Airlines Limited	Mr. N.M. Jayamanne PC <i>Director</i>			
Sri Lanka Insurance Corporation Limited	Mr. A.M.M. De Alwis <i>Managing Director/CEO</i>	Fixed Deposit	500.000	No. of Ordinary Voting Shares - 25,999,999 (15%)
	Mr. P. Kudabalage <i>Executive Director</i>	Demand Deposit	0.141	No. of Ordinary (Non-voting) Shares - 350,000
			500.141	
2010 Comparatives			500.000	
Agstar Fertilizers (Pvt) Limited	Mr. I.C. Nanayakkara <i>Director</i>	Demand Deposit	1.300	Letter of Credit - Sight
			1.300	Letter of Credit - Usance
				Rate of Interest - 0.3% - up to 3 months 0.375% above 3 months
				Revolving Import Loan
				AWPLR+2% p.a.
				Concurrent Paripassu Mortgage for Rs. 500.00 Mn. over Stocks and Book Debts
				General Security Agreement
				Series of Loan
				Facility Agreement Form
2010 Comparatives			1.543	
E-Chanelling PLC	Mr. P. Kudabalage <i>Chairman</i>	Demand Deposit	1.376	
			1.376	
	Mr. A.M.M. De Alwis <i>Director</i>			
2010 Comparatives			0.598	

**Aggregate Amount of Accommodation  
Outstanding as at 31.12.2011**
**Services Obtained/Other Transactions**

Limit	Funded	Non-Funded	Cumulative Interest in Suspense Provision	Cumulative Bad & Doubtful Debt Provision	Accommodation Outstanding (funded - net) as a % of Regulatory Capital	Nature of Service	Amount Payable/Receivable	Amount Paid/Received
Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.			Rs. Mn.	Rs. Mn.

						Interest Paid		0.063
--	--	--	--	--	--	---------------	--	-------

						Paid for repairs and office machines purchased		0.967
--	--	--	--	--	--	--	--	-------

						Generators		24.147
--	--	--	--	--	--	------------	--	--------

								<u>25.177</u>
--	--	--	--	--	--	--	--	---------------

						Net		<u>(28.513)</u>
--	--	--	--	--	--	-----	--	-----------------

						Bangkok Dream World Tour - Tikiri Plus Customers		6.055
								<u>6.055</u>

						Insurance Premium		65.821
--	--	--	--	--	--	-------------------	--	--------

						Interest Payable	142.439	
							<u>142.439</u>	<u>65.821</u>

						Net	(58.500)	<u>(22.497)</u>
--	--	--	--	--	--	-----	----------	-----------------

500.000	-							
---------	---	--	--	--	--	--	--	--

(500.000)*	-							
------------	---	--	--	--	--	--	--	--

(500.000)*	-							
------------	---	--	--	--	--	--	--	--

<u>500.000</u>	<u>-</u>							
----------------	----------	--	--	--	--	--	--	--

\*within which

6.000	0.958							
-------	-------	--	--	--	--	--	--	--

						0.007%		
--	--	--	--	--	--	--------	--	--

						Commission Received		0.090
--	--	--	--	--	--	---------------------	--	-------

								<u>0.090</u>
--	--	--	--	--	--	--	--	--------------

						Net		<u>0.033</u>
--	--	--	--	--	--	-----	--	--------------

# Notes to the Consolidated Financial Statements

Party/Parties Accommodated	Name of Director/ Key Management Personnel Relationship	Deposit	Rs. Mn.	Nature of Accommodation
Lanka ORIX Leasing Company PLC	Mr. I.C. Nanayakkara <i>Deputy Chairman</i>	Demand Deposit	0.077	
			<u>0.077</u>	Overdraft (Rate of Interest - 13%)
				Treasury Loan (Rate of Interest - 13%)
				Short-Term Loan (Rate of Interest - 13%)
				Lease (Rate of Interest- 19%)
				Special Power of Attorney/Assignment over lease receivable for Rs. 745.0 Mn. over lease portfolio of Rs. 1.49 Bn. Absolute ownership over motor vehicles for Rs. 11.00 Mn. (for the outstanding)
				No. of non-voting Shares - 28,493,289
				No. of Ordinary voting Shares - 88
2010 Comparatives			240.884	
Lanka ORIX Finance Company Limited	Mr. I.C. Nanayakkara <i>Deputy Chairman</i>	Demand Deposit	5.149	Overdraft (Rate of Interest - 13%)
			<u>5.149</u>	Special power of attorney/Assignment over lease receivables for Rs. 15.00 Mn. over lease portfolio of Rs. 30 Mn.
2010 Comparatives			-	
Sierra Constructions Limited	Mr. A.L. Devasurendra <i>Director</i>	Fixed Deposit	52.849	Temporary Overdraft (Rate of Interest - 29%)
	Mr. I.C. Nanayakkara <i>Director</i>	Demand Deposit	8.693	Letter of Credit-sight/Revolving Import Loan (Rate of Interest - 0.3% per quarter)
			<u>61.542</u>	Bill Discounting (Rate of Interest -16.5%)
				Guarantee (Rate of Interest - 1.5%)
				Lien over RFDS for Rs. 52.8 Mn. Joint & Several Guarantee of Directors for Rs. 465.0 Mn. Mortgage over Stocks for Rs. 50.0 Mn. (equipment/not stock in trade)
2010 Comparatives			37.025	
Taprobane Holdings Limited	Mr. A.L. Devasurendra <i>Managing Director</i>	Demand Deposit	0.107	Margin Trading (Rate of Interest -15%)
	Mr. I.C. Nanayakkara - <i>Shareholder</i>		<u>0.107</u>	Assignment over Quoted Shares worth Rs. 411.866 Mn. No. of Ordinary (Non-voting) Shares 12,666
2010 Comparatives			0.161	
Ceylon Hotel Holdings (Pvt) Limited [former Curlew (Pvt) Limited]	Mr. A.L. Devasurendra <i>Director</i>			Temporary Overdraft (Rate of Interest -13.5%)
				Assignment over Ceylon Hotel Corporation Shares worth of Rs. 345 Mn.



# Notes to the Consolidated Financial Statements

Party/Parties Accommodated	Name of Director/ Key Management Personnel Relationship	Deposit	Rs. Mn.	Nature of Accommodation
Commercial Leasing Company Limited	Mr. I.C. Nanayakkara <i>Deputy Chairman</i>	Demand Deposit	0.665	
			0.665	No. of Ordinary (Non-Voting) Shares 72,400
Taprobane Fund Management (Pvt) Limited	Mr. A.L. Devasurendra <i>Director</i>	Demand Deposit	0.022	
			0.022	
2010 Comparatives			0.025	
Medford Investment (Pvt) Limited	Mr. I.C. Nanayakkara <i>Shareholder</i>	Demand Deposit	1.021	
			1.021	
Royal Fernwood Porcelain Limited	Mr. A.L. Devasurendra <i>Director</i>	Demand Deposit	1.482	
			1.482	
2010 Comparatives			0.048	
Crop Management Services (Pvt) Limited	Mr.S.P.S. Ranatunga <i>Director</i>	Demand Deposit	0.075	
			0.075	
Diriya Investments (Pvt) Limited	Mr. A.L. Devasurendra <i>Director/Shareholder</i>	Demand Deposit	0.023	
	Mr. I.C. Nanayakkara <i>Shareholder</i>		0.023	
2010 Comparatives			2.122	
Ceylon Asset Management Co. Limited	Mr. A.M.M. De Alwis <i>Chairman</i>	Demand Deposit	0.031	
	Mr. P. Kudabalage <i>Director</i>		0.031	
2010 Comparatives			0.020	
Colombo Land Exchange Limited	Mr. I. C. Nanayakkara <i>Shareholder</i>	Demand Deposit	2.517	
			2.517	

\* Group Accommodation as a % of Regulatory Capital

	2011 %	2010 %
LOLC Group	<b>4.281</b>	10.763
CIC Group	<b>1.572</b>	0.020



# Notes to the Consolidated Financial Statements

## 47. MATURITY ANALYSIS

### Bank

**47.1** An analysis of the total assets employed as at 31st December 2011, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More Than 5 Years Rs. '000	Total as at 31.12.2011 Rs. '000
<b>Interest Earning Assets</b>						
Bills of Exchange	984,447	6,339	-	-	-	<b>990,786</b>
Loans and Advances	40,646,856	28,975,244	16,205,808	7,122,416	7,386,125	<b>100,336,449</b>
Lease Receivable	753,554	1,396,149	3,683,893	1,486,611	2,645	<b>7,322,852</b>
Balances with Banks	440,403	-	-	-	-	<b>440,403</b>
Treasury Bills/Bonds	1,542,578	4,172,555	8,070,434	14,867,983	2,953,424	<b>31,606,974</b>
Investments in Debentures	-	44,694	193,020	590,277	343,248	<b>1,171,239</b>
Securities Purchased Under Resale Agreement	3,305,358	-	-	-	-	<b>3,305,358</b>
Group Balance Receivable	-	-	-	-	-	<b>-</b>
	<b>47,673,196</b>	<b>34,594,981</b>	<b>28,153,155</b>	<b>24,067,287</b>	<b>10,685,442</b>	<b>145,174,061</b>
<b>Non-Interest Earning Assets</b>						
Cash in Hand	4,109,800	-	-	-	-	<b>4,109,800</b>
Balances with CBSL	7,070,728	-	-	-	-	<b>7,070,728</b>
Investments in Shares	769,144	-	-	-	1,012,223	<b>1,781,367</b>
Investment Property	-	237,629	-	-	-	<b>237,629</b>
Group Balances Receivable	15,688	-	-	-	-	<b>15,688</b>
Property, Plant & Equipment/ Leasehold Rights/ Intangible Assets	-	2,815,462	-	-	-	<b>2,815,462</b>
Deferred Tax Assets	211,844	-	-	-	-	<b>211,844</b>
Other Assets	4,460,717	-	-	-	-	<b>4,460,717</b>
	<b>16,637,921</b>	<b>3,053,091</b>	<b>-</b>	<b>-</b>	<b>1,012,223</b>	<b>20,703,235</b>
<b>Total Assets</b>	<b>64,311,117</b>	<b>37,648,072</b>	<b>28,153,155</b>	<b>24,067,287</b>	<b>11,697,665</b>	<b>165,877,296</b>



**47.2** An analysis of the total liabilities as at 31st December 2011, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More Than 5 Years Rs. '000	<b>Total as at 31.12.2011 Rs. '000</b>
<b>Interest Bearing Liabilities</b>						
Deposits	47,286,924	51,106,855	5,105,686	2,230,240	4,168,842	<b>109,898,547</b>
Securities Sold Under						
Repurchase Agreements	8,760,843	609,528	-	-	-	<b>9,370,371</b>
Borrowings	5,237,105	1,179,270	91,183	570,455	218,508	<b>7,296,521</b>
Debentures	-	1,483,535	703,115	465,000	-	<b>2,651,650</b>
Group Balances Payable	80,630	-	-	-	-	<b>80,630</b>
	61,365,502	54,379,188	5,899,984	3,265,695	4,387,350	<b>129,297,719</b>
<b>Non-Interest Bearing Liabilities</b>						
Deposits	10,640,349	-	-	-	-	<b>10,640,349</b>
Other Liabilities	8,309,903	-	-	-	-	<b>8,309,903</b>
Tax Payable	47,054	-	-	-	-	<b>47,054</b>
Dividend Payable	23,535	-	-	-	-	<b>23,535</b>
Group Balances Payable	19,211	-	-	-	-	<b>19,211</b>
Equity	33,901	-	-	-	17,505,624	<b>17,539,525</b>
	19,073,953	-	-	-	17,505,624	<b>36,579,577</b>
<b>Total Liabilities</b>	<b>80,439,455</b>	<b>54,379,188</b>	<b>5,899,984</b>	<b>3,265,695</b>	<b>21,892,974</b>	<b>165,877,296</b>

# Notes to the Consolidated Financial Statements

## Group

**47.3** An analysis of the total assets employed as at 31st December 2011, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More Than 5 Years Rs. '000	<b>Total as at 31.12.2011 Rs. '000</b>
<b>Interest Earning Assets</b>						
Bills of Exchange	984,447	6,339	-	-	-	<b>990,786</b>
Loans and Advances	40,646,856	28,975,244	16,205,808	7,122,416	7,386,125	<b>100,336,449</b>
Lease Receivable	753,554	1,396,149	3,683,893	1,486,611	2,645	<b>7,322,852</b>
Balances with Banks	440,403	526	-	-	-	<b>440,929</b>
Treasury Bills/Bonds	1,542,578	4,172,555	8,070,434	14,867,983	2,953,424	<b>31,606,974</b>
Investments in Debentures	-	44,694	193,020	590,277	343,248	<b>1,171,239</b>
Securities Purchased Under Resale Agreement	3,305,358	-	-	-	-	<b>3,305,358</b>
Group Balances Receivable	-	-	-	-	-	<b>-</b>
	<b>47,673,196</b>	<b>34,595,507</b>	<b>28,153,155</b>	<b>24,067,287</b>	<b>10,685,442</b>	<b>145,174,587</b>
<b>Non-Interest Earning Assets</b>						
Cash in Hand	4,109,835	-	-	-	-	<b>4,109,835</b>
Balances with CBSL	7,070,728	-	-	-	-	<b>7,070,728</b>
Investments in Shares	769,144	-	-	-	219,237	<b>988,381</b>
Investment Property	-	237,629	-	-	944,876	<b>1,182,505</b>
Group Balances Receivable	-	-	-	-	-	<b>-</b>
Property, Plant & Equipment/ Leasehold Rights/ Intangible Assets	-	4,077,561	-	-	-	<b>4,077,561</b>
Income Taxation	6,116	-	-	-	-	<b>6,116</b>
Deferred Tax Assets	211,675	-	-	-	-	<b>211,675</b>
Other Assets	4,482,526	23,392	4,906	-	25,488	<b>4,536,312</b>
	<b>16,650,024</b>	<b>4,338,582</b>	<b>4,906</b>	<b>-</b>	<b>1,189,601</b>	<b>22,183,113</b>
<b>Total Assets</b>	<b>64,323,220</b>	<b>38,934,089</b>	<b>28,158,061</b>	<b>24,067,287</b>	<b>11,875,043</b>	<b>167,357,700</b>

**47.4** An analysis of the total liabilities as at 31st December 2011, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More Than 5 Years Rs. '000	<b>Total as at 31.12.2011 Rs. '000</b>
<b>Interest Bearing Liabilities</b>						
Deposits	47,286,924	51,106,855	5,105,686	2,230,240	4,168,842	<b>109,898,547</b>
Securities Sold Under Repurchase Agreements	8,760,843	609,528	-	-	-	<b>9,370,371</b>
Borrowings	5,237,105	1,179,270	91,183	570,455	218,508	<b>7,296,521</b>
Debentures	-	1,483,535	703,115	465,000	-	<b>2,651,650</b>
Group Balances Payable	-	-	-	-	-	<b>-</b>
	61,284,872	54,379,188	5,899,984	3,265,695	4,387,350	<b>129,217,089</b>
<b>Non-Interest Bearing Liabilities</b>						
Deposits	10,640,349	-	-	-	-	<b>10,640,349</b>
Other Liabilities	8,309,903	43,082	-	27,833	-	<b>8,380,818</b>
Tax Payable	47,054	-	-	-	-	<b>47,054</b>
Dividend Payable	29,528	-	-	-	-	<b>29,528</b>
Group Balances Payable	-	-	-	-	-	<b>-</b>
Equity	33,901	-	-	-	17,913,665	<b>17,947,566</b>
Minority Interest	-	-	-	-	1,095,296	<b>1,095,296</b>
	19,060,735	43,082	-	27,833	19,008,961	<b>38,140,611</b>
<b>Total Liabilities</b>	<b>80,345,607</b>	<b>54,422,270</b>	<b>5,899,984</b>	<b>3,293,528</b>	<b>23,396,311</b>	<b>167,357,700</b>

# Notes to the Consolidated Financial Statements

## 48. SEGMENT REPORTING

### 48.1 Group

Segment information is presented in respect of the Group's business segments. The primary format, business segments are based on the Group's management and internal reporting structure.

#### Business Segments

The Group comprises the following main business segments:

**Banking:** Loans and Advances (including Leases and Bills) deposits and other transactions and balances with corporate and retail customers.

**Consumer Financing (Leasing):** Margin Trading, Insurance and Leasing for corporate and retail customers.

**Treasury:** Undertakes the Group's funding and centralised risk management activities through borrowings, issue of debt securities, use of derivatives for risk management purpose and investing in liquid assets such as short-term placements and corporate and Government Debt Securities.

**Property/Investment:** The property investment income, expenses, assets and liabilities.

	Banking		Consumer Financing		Treasury		Property/Investments		Total	
	2011 Rs. '000	2010 (Reclassified) Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 (Reclassified) Rs. '000
<b>External Revenue</b>										
Interest Income	12,165,410	13,240,609	434,825	177,242	3,380,685	2,825,425	8,751	33	15,989,671	16,243,309
Foreign Exchange Profit	314,992	141,655	-	-	301,123	267,116	-	-	616,115	408,771
Fee & Commission Income	1,506,178	1,411,786	15,224	7,656	5,217	68,855	-	(5,454)	1,526,619	1,482,843
Dividend Income and Other Income	878,352	980,875	14,417	11,759	149,741	392,569	237,156	153,993	1,279,666	1,539,196
Total Revenue from External Customers	14,864,932	15,774,925	464,466	196,657	3,836,766	3,553,965	245,907	148,572	19,412,071	19,674,119
Inter Segment Revenue	1,880,998	2,550,319	(270,390)	(193,557)	(1,610,608)	(2,356,762)	-	-	-	-
Total Segment Revenue	16,745,930	18,325,244	194,076	3,100	2,226,158	1,197,203	245,907	148,572	19,412,071	19,674,119
Depreciation Charge for the Year	252,297	238,947	615	591	2,289	13,810	57,962	6,456	313,163	259,804
<b>Reportable Segment Profit Before Income Tax</b>										
	2,692,083	2,565,138	456,589	167,090	1,990,285	1,875,118	19,432	(30,069)	5,158,389	4,577,277

#### OTHER INFORMATION

<b>Reportable Segment Assets</b>										
Reportable Segment Assets	135,785,057	128,725,472	504,098	234,570	18,611,534	12,582,340	5,091,945	4,890,920	159,992,634	146,433,302
Segment Amortisations	(2,283,635)	(1,923,419)	(7,483)	(6,494)	(54,912)	(125,776)	(297,125)	(25,608)	(2,643,155)	(2,081,297)
<b>Total Assets</b>	<b>133,501,422</b>	<b>126,802,053</b>	<b>496,615</b>	<b>228,076</b>	<b>18,556,622</b>	<b>12,456,564</b>	<b>4,794,820</b>	<b>4,865,312</b>	<b>157,349,479</b>	<b>144,352,005</b>
<b>Reportable Segment Liabilities</b>										
Reportable Segment Liabilities	133,501,422	126,802,053	496,615	228,076	18,206,622	12,087,840	3,150,428	4,034,727	155,355,087	143,152,696
<b>Total Liabilities</b>	<b>133,501,422</b>	<b>126,802,053</b>	<b>496,615</b>	<b>228,076</b>	<b>18,206,622</b>	<b>12,087,840</b>	<b>3,150,428</b>	<b>4,034,727</b>	<b>155,355,087</b>	<b>143,152,696</b>

	2011 Rs. '000	2010 (Reclassified) Rs. '000
<b>48.2 Reconciliation of Reportable Segment Revenue, Profit or Loss and Assets and Liabilities</b>		
<b>Total Segment Revenue</b>		
Total Revenue for Reportable Segments	<b>19,412,071</b>	19,674,119
Unallocated Amounts/Elimination of Intersegment Revenue	<b>130,552</b>	507,215
	<b>19,542,623</b>	20,181,334
<b>Reportable Segment Profit before Income Tax</b>		
Total Profit for Reportable Segments	<b>5,158,389</b>	4,577,277
Unallocated Amounts	<b>(3,598,342)</b>	(2,622,779)
	<b>1,560,047</b>	1,954,498
<b>Reportable Segment Total Assets</b>		
Total Assets for Reportable Segments	<b>157,349,479</b>	144,352,005
Other Unallocated Amounts	<b>10,008,221</b>	7,011,235
Consolidated Total Assets	<b>167,357,700</b>	151,363,240
<b>Reportable Segment Total Liabilities</b>		
Total Liabilities for Reportable Segments	<b>155,355,087</b>	143,152,696
Other Unallocated Amounts	<b>12,002,613</b>	8,210,544
Consolidated Total Liabilities	<b>167,357,700</b>	151,363,240

## 49. COMPARATIVE INFORMATION

### 49.1 Basic Earnings per Share

	Note	BANK		GROUP	
		As Disclosed in 2010	Restated in 2011	As Disclosed in 2010	Restated in 2011
Weighted Average Number of Shares ('000)	14	253,560	<b>266,174</b>	253,560	266,174
Basic Earnings per Share (Rs.)		4.83	<b>4.60</b>	4.75	4.52

### 49.2 Investment Securities/Other Liabilities

	Note	BANK		Adjustment Rs. '000
		As Disclosed in 2010 Rs. '000	Reclassified in 2011 Rs. '000	
Investment Securities	19.1.7	21,974,282	<b>21,749,282</b>	(225,000)
Other Liabilities - Others	37	2,240,889	<b>2,015,889</b>	(225,000)

Interest in Suspense on Grameen Debentures (interest in suspense on Grameen Loans before restructuring) amounting to Rs. 225 Mn. has been netted off against the Investment. This was classified under Other Liabilities in 2010.

# Notes to the Consolidated Financial Statements

## 49.3 Intangible Assets

Software and software-related assets which were classified under Computer Equipment in 2010 (Note 29) have been reclassified as Intangible Assets from year 2011. The comparative figures are also reclassified accordingly (Note 31).

## 49.4 Other Assets

Note	BANK			
	As Disclosed in 2010 Rs. '000	Reclassified in 2011 Rs. '000	Adjustment Rs. '000	
<b>Other Assets</b>				
Sundry Debtors	32	137,365	137,203	(162)
Due from Trust Companies	32	46,054	124,273	78,219
Others	32	436,654	358,597	(78,057)

Balances due from Trust Companies have been reclassified. Reclassification was made within the category of Other Assets.

## 50. NON-UNIFORM ACCOUNTING POLICIES

The impact of non-uniform accounting policies adopted by subsidiary company has been adjusted in the Consolidated Financial Statements as set out below:

### 50.1 Adjustment Due to Different Accounting Policies of the Parent and the Group Entity Seylan Developments PLC (SD)

Seylan Bank PLC accounts Investment Properties at cost, whereas Seylan Developments PLC accounts Investment Properties at fair value.

Seylan Towers (East Towers) owned by SD is rented out to Seylan Bank PLC and occupied by the Bank.

Therefore the Land and Building does not qualify as investment property in the Consolidated Accounts.

The land is treated as Lease Hold Rights and the building as a Property in the Consolidated Financial Statements and have been depreciated accordingly (SLAS 40).

	Total Rs. '000	Group Impact Rs. '000	Minority Impact Rs. '000
<b>Reversal of Revaluation Gains on Investment Properties</b>			
Reversal of Revaluation Gains Adjusted to Statement of Changes in Equity	(66,831)	(34,639)	(32,192)
	(66,831)	(34,639)	(32,192)
<b>Charging of Depreciation</b>			
Depreciation Charge Adjusted to Consolidated Income Statement of 2011	(55,698)	(28,439)	(27,259)
	(55,698)	(28,439)	(27,259)
<b>Total Adjustments Made</b>	(122,529)	(63,078)	(59,451)

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# Ten Years at a Glance

Year Ended 31st December	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
	(Rs. '000)	(Reclassified) Rs. '000	(Restated) Rs. '000	(Reclassified) Rs. '000	(Reclassified) Rs. '000	(Restated) Rs. '000	Rs. '000	(Restated) Rs. '000	(Restated) Rs. '000	Rs. '000
<b>Trading Results</b>										
<b>Gross Income</b>	<b>19,404,302</b>	20,032,477	23,154,529	25,246,209	21,079,885	17,183,481	13,090,715	10,072,376	9,973,644	8,988,278
Profit before Income Tax	1,572,407	1,997,634	892,572	155,241	1,439,069	1,606,882	1,061,033	478,291	705,953	677,989
Taxation	569,755	768,653	349,271	-	515,880	718,814	373,200	69,648	114,539	10,021
<b>Profit after Taxation</b>	<b>1,002,652</b>	1,228,981	543,301	155,241	923,189	888,068	687,833	408,643	591,414	667,968
Dividends Proposed (Ordinary)	Rs. 1.00 per Share	Rs. 1.00 per Share	Rs. 0.50 per Share	-	Rs. 1.50 per Share	Rs. 1.50 per Share	20%	16%	15%	15%
<b>Balance Sheet</b>										
<b>ASSETS</b>										
Cash & Short-Term Funds	7,855,561	5,964,677	7,635,665	6,176,265	26,824,927	21,833,056	17,322,763	12,080,206	15,669,097	11,673,027
Statutory Deposit with Central Bank of Sri Lanka	7,070,728	5,453,833	5,084,229	6,857,039	7,915,660	6,913,224	5,908,292	5,050,665	3,951,940	3,866,450
Investments (Including Investment Properties)	34,003,955	38,783,613	30,286,878	26,019,989	1,370,762	333,960	333,755	649,117	1,076,728	1,201,947
Bills of Exchange	990,786	1,393,678	1,322,364	1,471,831	1,967,091	1,827,824	2,154,916	2,210,842	1,745,701	1,652,786
Loans, Advances & Leases	107,659,301	89,565,467	78,965,441	102,682,294	95,684,286	91,431,102	79,314,465	60,613,807	49,903,047	42,998,354
	157,580,331	141,161,268	132,294,577	143,207,418	133,762,726	122,339,166	105,034,191	80,604,637	72,346,513	61,392,564
Investment in Subsidiary	793,254	358,916	860,166	948,529	1,093,407	1,048,559	1,029,656	1,095,231	1,435,231	1,444,275
Other Assets (Including Income Taxation)	4,688,249	5,146,845	5,222,510	5,752,780	4,954,206	3,783,353	4,648,548	3,698,682	4,285,255	2,961,309
Property, Plant & Equipment, Leasehold Rights & Intangible Assets	2,815,462	3,010,495	3,387,117	4,137,518	3,690,014	3,135,030	2,896,049	2,785,092	1,984,070	1,980,472
	165,877,296	149,677,524	132,764,370	154,046,245	143,500,353	130,306,108	113,608,444	88,183,642	80,051,069	67,778,620
<b>LIABILITIES</b>										
Deposits from Customers	120,538,896	109,891,338	104,815,899	107,938,801	111,299,612	100,078,809	85,833,954	68,301,154	59,362,955	52,431,165
Borrowings & Debentures	19,318,542	17,812,398	9,164,909	26,308,876	14,775,780	13,167,204	13,037,404	6,648,055	8,606,998	6,355,156
Other Liabilities	8,456,798	9,854,365	8,189,922	12,762,164	9,901,004	9,860,078	9,998,624	9,296,381	7,838,625	6,106,586
Taxation		-	-	-	472,306	817,297	105,420	(187,856)	(145,304)	(46,339)
Dividends	23,535	22,398	22,668	16,393	15,416	14,442	6,763	21,716	22,396	85,006
	148,337,771	137,580,499	122,193,398	147,026,234	136,464,118	123,937,830	108,982,165	84,079,450	75,685,670	64,931,574
<b>EQUITY</b>										
Stated Capital										
- Share Capital	9,422,034	4,730,501	4,730,501	1,705,101	1,705,101	1,705,101	869,501	869,501	869,501	469,501
- Share Premium	837,319	837,319	837,319	837,319	837,319	837,319	674,922	696,235	713,399	183,167
Reserve Fund	618,501	568,368	506,919	479,754	468,250	422,091	377,688	343,296	303,146	289,158
Reserves	6,661,671	5,960,837	4,496,233	3,997,837	4,025,565	3,403,767	2,704,168	2,195,160	2,479,353	1,905,220
	17,539,525	12,097,025	10,570,972	7,020,011	7,036,235	6,368,278	4,626,279	4,104,192	4,365,399	2,847,046
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>165,877,296</b>	149,677,524	132,764,370	154,046,245	143,500,353	130,306,108	113,608,444	88,183,642	80,051,069	67,778,620
Commitments & Contingencies	36,247,216	30,197,078	22,262,562	26,874,375	24,335,965	22,924,450	22,942,795	20,983,027	17,743,062	13,206,586



# Summary of Performance Indicators

Measure	2011	2010 (Reclassified)	2009 (Restated)	2008 (Reclassified)	2007 (Reclassified)
<b>SIZE</b>					
Assets Growth	% <b>10.82</b>	12.74	(13.82)	7.35	10.13
Contingencies/(Total Assets + Contingencies)	% <b>11.50</b>	10.85	9.27	10.35	11.33
Interest Earning Assets/Total Assets	% <b>87.52</b>	85.92	85.72	85.20	85.26
Cash & Reserves/Total Assets	% <b>7.01</b>	6.78	7.36	8.03	7.50
Risk-Weighted Assets Growth	% <b>1.49</b>	10.62	(12.08)	23.00	5.37
<b>PROFITABILITY</b>					
Return on Average Assets	% <b>0.64</b>	0.87	0.38	0.10	0.67
Return on Average Equity	% <b>6.78</b>	10.88	6.20	2.22	13.84
Net Profit/(Total Assets + Commitments & Contingencies)	% <b>0.50</b>	0.68	0.35	0.09	0.55
Net Interest Margin (NII/Avg. Int. Earn. Assets)	% <b>5.68</b>	6.66	5.89	5.67	5.77
Net Interest Income/Total Income	% <b>40.10</b>	40.27	31.16	28.48	32.18
Cost to Income Ratio *	% <b>73.40</b>	68.69	67.82	75.79	66.31
Average Interest Yield	% <b>11.78</b>	13.69	16.90	17.00	15.14
Average Interest Cost	% <b>6.77</b>	7.68	11.72	11.98	10.14
Interest Rate Spread	% <b>5.01</b>	6.01	5.18	5.02	5.00
Interest Yield on Average Customer Advances ***	% <b>12.35</b>	13.41	16.09	17.74	16.15
Interest Cost on Average Customer Deposits ***	% <b>5.97</b>	6.76	10.44	11.33	8.71
Spread on Customer Deposits & Advances ***	% <b>6.38</b>	6.65	5.65	6.41	7.44
Dividend Payout **	% <b>33.72</b>	20.92	24.48	-	27.72
Growth Rate of Equity	% <b>45.12</b>	14.48	50.83	[0.23]	10.54
Earnings per Share - 2010 Restated	Rs. <b>3.28</b>	4.60	2.83	0.90	5.50
Ordinary Dividends per Share **	Rs. <b>1.00</b>	1.00	0.50	-	1.50
<b>ASSET QUALITY</b>					
Loss Provisions	Rs. Mn. <b>5,040</b>	6,287	6,466	6,560	4,972
Provision Recoveries	Rs. Mn. <b>879</b>	1,025	598	588	720
Provisions/(Loans + Bills + Leases)	% <b>4.26</b>	6.16	7.00	5.74	4.69
NPL with Interest in Suspense	Rs. Mn. <b>20,923</b>	25,694	31,150	19,428	16,345
NPL with Interest in Suspense/Gross Loans	% <b>17.67</b>	25.07	33.61	16.93	15.39
Interest in Suspense on Advances	Rs. Mn. <b>4,730</b>	4,839	5,659	3,523	3,302
NPL Excluding Interest in Suspense	Rs. Mn. <b>16,193</b>	20,855	25,491	15,906	13,043
NPL Excluding Interest in Suspense/Gross Loans Excluding Interest in Suspense	% <b>14.24</b>	21.36	29.29	14.30	12.68
Interest in Suspense/Gross Loans	% <b>3.99</b>	4.72	6.11	3.07	3.11
Net Assets Value per Share	Rs. <b>51.78</b>	47.58	41.56	41.80	41.90
<b>CAPITAL ADEQUACY</b>					
Leverage on Shareholders' Funds	Times <b>8.46</b>	11.37	11.56	20.94	19.45
Leverage on Capital Funds (Including Debentures)	Times <b>7.22</b>	8.30	7.97	12.16	10.46
Percentage Earnings Retained	% <b>66.28</b>	79.08	75.52	100.00	72.28
Equity/Deposits, Borrowings & Securities Sold Under Repurchase Agreements	% <b>12.76</b>	9.75	9.60	5.39	5.81
Equity/Total Assets	% <b>10.55</b>	8.06	7.94	4.54	4.88
Equity/(Loans + Bills + Leases)	% <b>16.11</b>	13.26	13.12	6.71	7.17
<b>LIQUIDITY &amp; FUNDING</b>					
(Loans + Bills + Leases)/Deposits, Borrowings and Securities Sold Under Repurchase Agreements	% <b>79.19</b>	73.53	73.15	80.39	80.98
Customer Deposits/Deposits, Borrowings, Securities Sold Under Repurchase Agreements and Debentures	% <b>86.19</b>	86.05	91.96	80.40	88.28
Liquid Assets/Total Assets	% <b>28.50</b>	31.66	31.63	24.70	24.21
Liquid Assets/Deposits, Borrowings and Securities Sold Under Repurchase Agreements	% <b>34.45</b>	38.31	38.26	29.37	28.81
Net Lending or (Borrowings) in Call Money Market	Rs. Mn. <b>(5,836)</b>	[2,096]	[1,331]	[4,449]	[4,430]
<b>OTHER DATA</b>					
Number of Banking Centres	<b>133</b>	122	117	114	114
Number of Staff Members	<b>3,150</b>	3,622	3,733	3,923	3,871
Profits per Staff Member	Rs. '000 <b>318</b>	339	146	40	238
Number of Ordinary Shares - Voting	'000 <b>173,333</b>	130,000	130,000	43,560	43,560
- Non-Voting	'000 <b>164,747</b>	123,560	123,560	123,560	123,560
Share Prices as at 31st December - Voting	Rs. <b>67.60</b>	97.80	37.00	28.50	32.00
- Non-Voting	Rs. <b>30.80</b>	49.00	16.00	6.00	8.00

\* Cost to Income Ratio for 2011 has been calculated excluding the cost on Voluntary Retirement Scheme.

\*\* Dividends for year 2011 are accounted for as per the Accounting Standard - SLAS 12 (Revised).

\*\*\* Comparatives are restated.

# Income Statement in US Dollars

For the year ended 31st December	BANK		GROUP	
	2011 US\$ '000	2010 US\$ '000	2011 US\$ '000	2010 US\$ '000
<b>Income</b>	<b>170,437</b>	180,473	<b>171,652</b>	181,814
Interest Income	141,674	149,514	141,481	150,415
Less: Interest Expenses	73,335	76,838	73,193	77,951
<b>Net Interest Income</b>	<b>68,339</b>	72,676	<b>68,288</b>	72,464
Foreign Exchange Profit	5,483	3,631	5,483	3,631
Net Fee and Commission Income	12,602	12,226	12,567	12,175
Other Income	9,998	14,472	11,407	14,913
<b>Operating Income</b>	<b>96,422</b>	103,005	<b>97,745</b>	103,183
<b>Less: Operating Expenses</b>				
Personnel Expenses	26,975	26,294	27,206	26,452
Cost on Voluntary Retirement Scheme	6,137	-	6,137	-
Premises, Equipment and Establishment Expenses	14,528	14,567	14,333	14,383
Provision for Loan Losses	5,703	14,251	5,703	14,251
Diminution/(Appreciation) in Value of Investments	2,776	(720)	2,776	(496)
Other Overhead Expenses	26,492	30,616	27,888	30,984
	<b>82,611</b>	85,008	<b>84,043</b>	85,574
<b>Profit from Operations before Taxation</b>	<b>13,811</b>	17,997	<b>13,702</b>	17,609
Less: Income Tax Expense	5,004	6,925	5,017	7,109
<b>Profit for the Year</b>	<b>8,807</b>	11,072	<b>8,685</b>	10,500
<b>Attributable to</b>				
Equity Holders of the Bank	8,807	11,072	8,835	10,877
Minority Interest	-	-	(150)	(377)
<b>Net Profit for the Year</b>	<b>8,807</b>	11,072	<b>8,685</b>	10,500
<b>Basic Earnings per Share (US\$) (2010 Restated)</b>	<b>0.029</b>	0.042	<b>0.029</b>	0.041

Exchange rate of US\$ 1 was Rs. 113.85 as at 31st December 2011 (Rs. 111.00 as at 31st December 2010).

The Income Statement given on this page is solely for the convenience of the Shareholders, Bankers, Investors, Customers and Other Users of Financial Statements and does not form a part of the Audited Financial Statements.

# Balance Sheet in US Dollars

As at 31st December	BANK		GROUP	
	2011	2010	2011	2010
	US\$ '000	(Reclassified) US\$ '000	US\$ '000	(Reclassified) US\$ '000
<b>Assets</b>				
Cash and Cash Equivalents	39,967	42,328	39,972	42,342
Balance with Central Bank of Sri Lanka	62,106	49,134	62,106	49,134
Commercial Papers	-	1,937	-	1,937
Securities Purchased under Resale Agreements	29,033	11,408	29,033	11,408
Dealing Securities	45,292	147,123	45,292	147,123
Investment Securities	251,295	195,939	251,297	195,961
Bills of Exchange	8,703	12,556	8,703	12,556
Loans and Advances	881,304	771,371	881,304	771,371
Lease Rentals Receivable within One Year	18,882	12,872	18,882	12,872
Lease Rentals Receivable later than One Year and Not later than Five Years	45,415	22,646	45,415	22,646
Lease Rentals Receivable after Five Years	23	7	23	7
Investments in Subsidiary Companies	6,968	3,233	-	-
Group Balances Receivable	138	4,161	-	-
Investment Properties	2,087	4,403	10,387	13,086
Current Taxation	-	379	54	406
Deferred Taxation	1,861	2,428	1,859	2,428
Property, Plant & Equipment	20,827	22,198	26,772	28,552
Leasehold Rights	351	368	5,492	5,713
Intangible Assets	3,551	4,556	3,551	4,556
Other Assets	39,178	39,399	39,843	41,535
<b>Total Assets</b>	<b>1,456,981</b>	<b>1,348,446</b>	<b>1,469,985</b>	<b>1,363,633</b>
<b>Liabilities</b>				
Deposits	1,058,752	990,012	1,058,752	990,012
Borrowings	64,089	39,520	64,089	43,336
Securities Sold under Repurchase Agreements	82,305	84,949	82,305	84,949
Group Balances Payable	877	74	-	-
Debentures	23,291	36,003	23,291	36,003
Current Tax Liabilities	413	-	413	-
Other Liabilities	73,196	88,906	73,872	89,903
<b>Total Liabilities</b>	<b>1,302,923</b>	<b>1,239,464</b>	<b>1,302,722</b>	<b>1,244,203</b>
<b>Equity</b>				
Stated Capital	90,113	50,161	90,113	50,161
Statutory Reserve Fund	5,433	5,120	5,433	5,120
Reserves	58,512	53,701	62,096	57,347
<b>Total Equity Attributable to Equity Holders of the Bank</b>	<b>154,058</b>	<b>108,982</b>	<b>157,642</b>	<b>112,628</b>
Minority Interest	-	-	9,621	6,802
<b>Total Equity</b>	<b>154,058</b>	<b>108,982</b>	<b>167,263</b>	<b>119,430</b>
<b>Total Liabilities and Equity</b>	<b>1,456,981</b>	<b>1,348,446</b>	<b>1,469,985</b>	<b>1,363,633</b>
<b>Commitments and Contingencies</b>	<b>318,377</b>	<b>272,046</b>	<b>318,475</b>	<b>272,649</b>
<b>Net Assets Value per Share (US\$)</b>	<b>0.45</b>	<b>0.43</b>	<b>0.47</b>	<b>0.44</b>

Exchange rate of US\$ 1 was Rs. 113.85 as at 31st December 2011 (Rs. 111.00 as at 31st December 2010).

The Balance Sheet given on this page is solely for the convenience of the Shareholders, Bankers, Investors, Customers and Other Users of Financial Statements and does not form a part of the Audited Financial Statements.

# Quarterly Performance - 2011 Compared to 2010

	2011				Total 2011 Rs. '000	2010				Total 2010 Rs. '000
	1st Quarter Rs. '000	2nd Quarter Rs. '000	3rd Quarter Rs. '000	4th Quarter Rs. '000		1st Quarter Rs. '000	2nd Quarter Rs. '000	3rd Quarter Rs. '000	4th Quarter Rs. '000	
<b>Summary of the Income Statements</b>										
<b>Bank</b>										
Net Interest Income	1,878,390	1,825,953	2,043,927	2,032,071	<b>7,780,341</b>	1,728,287	2,056,775	2,397,617	1,884,408	<b>8,067,087</b>
Non-Interest Income	576,589	594,457	527,253	617,306	<b>2,315,605</b>	447,867	478,343	642,751	774,237	<b>2,343,198</b>
Operating Expenses	(1,787,379)	(1,607,715)	(1,889,931)	(1,562,114)	<b>(6,847,139)</b>	(1,707,472)	(1,804,887)	(1,850,157)	(1,799,094)	<b>(7,161,610)</b>
Loan Loss Provision Net	63,730	(126,584)	62,945	309,791	<b>309,882</b>	(214,384)	(167,719)	(177,715)	73,483	<b>(486,335)</b>
<b>Profit from Ordinary Activities before Diminution/Impairment</b>										
731,330	686,111	744,194	1,397,054	<b>3,558,689</b>	254,298	562,512	1,012,496	933,034	2,762,340	
Appreciation/(Decline) in Value of Investments										
(96,284)	(100,356)	(46,977)	(72,414)	<b>(316,031)</b>	6,118	44,753	52,330	(23,292)	<b>79,909</b>	
Impairment (Loss)/Reversal on Investments & Property										
(240,029)	(272,621)	(230,777)	(228,174)	<b>(971,601)</b>	31,343	(89,355)	(467,778)	(318,825)	<b>(844,615)</b>	
Extraordinary Cost (VRS Cost)										
-	(700,000)	1,350	-	<b>(698,650)</b>	-	-	-	-	-	
<b>Profit before Taxation</b>	395,017	(386,866)	467,790	1,096,466	<b>1,572,407</b>	291,759	517,910	597,048	590,917	<b>1,997,634</b>
Income Tax Expense	(138,670)	40,066	(74,410)	(396,741)	<b>(569,755)</b>	(105,788)	(193,357)	(262,500)	(207,008)	<b>(768,653)</b>
<b>Profit after Taxation</b>	256,347	(346,800)	393,380	699,725	<b>1,002,652</b>	185,971	324,553	334,548	383,909	<b>1,228,981</b>
<b>Group</b>										
Net Interest Income	1,851,715	1,803,284	2,036,464	2,083,156	<b>7,774,619</b>	1,760,791	2,021,162	2,361,169	1,900,374	<b>8,043,496</b>
Non-Interest Income	597,114	695,115	550,334	633,299	<b>2,475,862</b>	527,023	488,226	656,004	720,823	<b>2,392,076</b>
Operating Expenses	(1,795,764)	(1,622,495)	(1,898,520)	(1,605,159)	<b>(6,921,938)</b>	(1,736,653)	(1,804,487)	(1,870,483)	(1,793,560)	<b>(7,205,183)</b>
Loan Loss Provision Net	63,730	(126,584)	62,945	309,791	<b>309,882</b>	(214,384)	(167,719)	(177,715)	73,483	<b>(486,335)</b>
<b>Profit from Ordinary Activities before Diminution/Impairment</b>										
716,795	749,320	751,223	1,421,087	<b>3,638,425</b>	336,777	537,182	968,975	901,120	<b>2,744,054</b>	
Appreciation/(Decline) in Value of Investments										
(96,284)	(100,356)	(46,977)	(72,414)	<b>(316,031)</b>	(59,369)	44,753	52,330	17,345	<b>55,059</b>	
Impairment (Loss)/Reversal on Investments & Property										
(240,029)	(272,621)	(230,777)	(320,270)	<b>(1,063,697)</b>	31,343	(89,355)	(467,778)	(318,825)	<b>(844,615)</b>	
Extraordinary Cost (VRS Cost)										
-	(700,000)	1,350	-	<b>(698,650)</b>	-	-	-	-	-	
<b>Profit before Taxation</b>	380,482	(323,657)	474,819	1,028,403	<b>1,560,047</b>	308,751	492,580	553,527	599,640	<b>1,954,498</b>
Income Tax Expense	(138,670)	40,066	(75,396)	(397,308)	<b>(571,308)</b>	(124,478)	(193,357)	(262,500)	(208,736)	<b>(789,071)</b>
<b>Profit after Taxation</b>	241,812	(283,591)	399,423	631,095	<b>988,739</b>	184,273	299,223	291,027	390,904	<b>1,165,427</b>
Minority Interest	(7,225)	20,309	2,911	(33,054)	<b>(17,059)</b>	(11,253)	(12,590)	(21,635)	3,672	<b>(41,806)</b>
Net Profit attributable to Shareholders of the Bank										
249,037	(303,900)	396,512	664,149	<b>1,005,798</b>	195,526	311,813	312,662	387,232	<b>1,207,233</b>	
<b>Profit for the Year</b>	241,812	(283,591)	399,423	631,095	<b>988,739</b>	184,273	299,223	291,027	390,904	<b>1,165,427</b>
<b>2011</b>										
	31st Mar.	30th Jun.	30th Sep.	31st Dec.		<b>2010</b>				
	Rs. '000	Rs. '000	Rs. '000	Rs. '000		31st Mar.	30th Jun.	30th Sep.	31st Dec.	
						Rs. '000	Rs. '000	Rs. '000	Rs. '000	(Reclassified)
<b>Summary of the Balance Sheets</b>										
<b>Bank</b>										
Net Loans & Advances	92,596,071	96,037,540	100,982,889	<b>108,650,087</b>	78,475,377	79,224,662	85,366,929	<b>90,959,145</b>		
Investments	40,574,359	38,734,862	37,044,882	<b>34,559,580</b>	35,301,671	40,036,407	40,313,565	<b>38,653,816</b>		
Other Assets	21,981,615	24,616,753	21,912,007	<b>22,667,629</b>	21,492,357	21,685,299	21,198,361	<b>20,064,563</b>		
<b>Total On-Balance Sheet Assets</b>	155,152,045	159,389,155	159,939,778	<b>165,877,296</b>	135,269,405	140,946,368	146,878,855	<b>149,677,524</b>		
Deposits (With Margin)	115,896,436	116,177,910	116,736,855	<b>121,273,126</b>	105,841,700	106,983,529	108,597,669	<b>110,711,909</b>		
Other Liabilities	26,976,411	26,766,700	26,364,998	<b>27,064,645</b>	18,659,260	22,904,095	26,887,894	<b>26,868,590</b>		
Equity	12,279,198	16,444,545	16,837,925	<b>17,539,525</b>	10,768,445	11,058,744	11,393,292	<b>12,097,025</b>		
<b>Total On-Balance Sheet Liabilities &amp; Equity</b>	155,152,045	159,389,155	159,939,778	<b>165,877,296</b>	135,269,405	140,946,368	146,878,855	<b>149,677,524</b>		
<b>Group</b>										
Net Loans & Advances	92,596,071	96,037,540	100,982,889	<b>108,650,087</b>	78,475,785	79,224,662	85,366,929	<b>90,959,145</b>		
Investments	40,218,703	37,941,877	36,251,897	<b>33,766,594</b>	37,850,665	39,704,934	40,313,724	<b>38,297,294</b>		
Other Assets	23,036,784	27,052,335	24,307,673	<b>24,941,019</b>	23,564,065	23,925,332	23,053,575	<b>22,106,801</b>		
<b>Total On-Balance Sheet Assets</b>	155,851,558	161,031,752	161,542,459	<b>167,357,700</b>	139,890,515	142,854,928	148,734,228	<b>151,363,240</b>		
Deposits (With Margin)	115,896,436	116,177,910	116,736,855	<b>121,273,126</b>	105,841,700	106,983,529	108,597,669	<b>110,711,909</b>		
Other Liabilities	26,530,757	26,843,806	26,395,542	<b>27,041,712</b>	21,952,463	23,604,539	27,578,672	<b>27,394,604</b>		
Equity	13,424,365	18,010,036	18,410,062	<b>19,042,862</b>	12,096,352	12,266,860	12,557,887	<b>13,256,727</b>		
<b>Total On-Balance Sheet Liabilities &amp; Equity</b>	155,851,558	161,031,752	161,542,459	<b>167,357,700</b>	139,890,515	142,854,928	148,734,228	<b>151,363,240</b>		

# Investor Information

## TWENTY LARGEST SHAREHOLDERS AS AT 31ST DECEMBER 2011

Ordinary Voting Shares	2011		Comparative Holdings of the Top 20 Holders in 2010	
	No. of Shares	%	No. of Shares	%
1. Sri Lanka Insurance Corporation Limited	25,999,999	15.00	19,500,000	15.00
2. Brown & Company PLC A/C No. 1	24,049,888	13.87	12,416,966	9.55
3. National Development Bank PLC/Dr. T. Senthilvel	17,333,333	10.0	-	-
4. LOLC Investments Limited	16,555,954	9.55	12,416,966	9.55
5. Employees' Provident Fund	14,323,435	8.26	6,542,700	5.03
6. Bank of Ceylon No. 1 Account	13,000,000	7.50	13,000,000	10.00
7. Dr. W.U.N. Gamage	10,335,200	5.96	-	-
8. Miss M.D. Bollagala	4,505,623	2.60	-	-
9. Mr. D.S.K. Amarasekara	3,604,700	2.08	-	-
10. Seyfest (Private) Limited	2,972,596	1.71	2,977,996	2.30
11. Sesot (Private) Limited	2,244,800	1.29	2,252,900	1.73
12. Seybest (Private) Limited	2,132,900	1.23	2,132,900	1.64
13. Seyshop (Private) Limited	2,132,900	1.23	2,132,900	1.64
14. Esots (Private) Limited	2,115,857	1.22	2,115,857	1.63
15. Ceylinco Limited	1,680,896	0.97	1,680,896	1.29
16. Mr. K.R.B. Fernando	1,000,000	0.58	1,000,000	0.77
17. Sotse (Private) Limited	962,331	0.56	962,331	0.74
18. Commercial Bank of Ceylon PLC/ Devi Holdings (Private) Limited	600,000	0.35	-	-
19. Dr. J.L.B. Kotelawala	529,525	0.31	529,525	0.41
20. Mr. L.W. Abeywickrama	477,500	0.28	477,500	0.37
<b>Total Shares held by the top 20 Holders</b>	<b>146,557,437</b>	<b>84.55</b>	-	-
<b>Balance Shares held by other 11,044 Ordinary Voting Shareholders</b>	<b>26,775,896</b>	<b>15.45</b>	-	-
<b>Total Ordinary Voting Shares</b>	<b>173,333,333</b>		<b>130,000,000</b>	
<b>Total Ordinary Voting Shareholders</b>	<b>11,064</b>		<b>11,565</b>	

# Investor Information

Ordinary Non-Voting Shares	2011		Comparative Holdings of the Top 20 Holders in 2010	
	No. of Shares	%	No. of Shares	%
1. Lanka ORIX Leasing Company PLC	28,493,289	17.30	4,980,900	4.03
2. Employees' Provident Fund	15,335,034	9.31	6,370,600	5.16
3. Browns Investments PLC	7,542,275	4.58	-	-
4. Mr. E. Thavagnanasooriyam & Mr. E. Thavagnanasundaram	2,789,866	1.69	2,073,700	1.68
5. Associated Electrical Corporation Limited	2,428,766	1.47	-	-
6. Pershing LLC S/A Averbach Grauson & Co.	2,202,933	1.34	1,652,200	1.34
7. Merrill J. Fernando & Sons (Private) Limited	1,830,000	1.11	1,830,000	1.48
8. Mr. N. Balasingam	1,738,803	1.06	968,400	0.78
9. Miss M.D. Bollagala	1,637,000	0.99	-	-
10. Mr. E. Thavagnanasundaram	1,558,600	0.95	1,583,600	1.28
11. Mr. A.K. Kumarasena	1,550,000	0.94	-	-
12. National Savings Bank	1,496,666	0.91	1,122,500	0.91
13. Almar Trading Company (Private) Limited	1,418,200	0.86	1,009,800	0.82
14. Mrs. L.E.M. Yaseen	1,340,000	0.81	1,471,900	1.19
15. Mr. E. Thavagnanasooriyam	1,323,800	0.80	1,461,100	1.18
16. Acuity Partners (Private) Limited/Mr. E. Thavagnanasooriyam/Mr. E. Thavagnanasundaram	1,173,600	0.71	-	-
17. Mr. A. Singh	1,156,000	0.70	867,000	0.70
18. Mr. N. Ganarajah	1,140,666	0.69	500,000	0.40
19. Phoenix Ventures Limited	1,129,866	0.69	397,400	0.32
20. Dr. S. Yaddehige	1,016,200	0.62	-	-
<b>Total Shares held by the top 20 Holders</b>	<b>78,301,564</b>	<b>47.53</b>	-	-
<b>Balance Shares held by other 11,190 ordinary Non-Voting Shareholders</b>	<b>86,445,102</b>	<b>52.47</b>	-	-
<b>Total Ordinary Non-Voting Shares</b>	<b>164,746,666</b>		123,560,000	
<b>Total Ordinary Non-Voting Shareholders</b>	<b>11,210</b>		11,637	

## Shareholdings of Directors as at 31st December 2011

Directors' shareholdings as at 31st December 2011 are given on page 250 of the Report of the Board of Directors.

## Shareholding of the Chief Executive Officer

Mr. K.P. Ariyaratne (*Appointed w.e.f. 3rd March 2011*)

As at 31.12.2011

As at 31.12.2010

20,800 Ordinary Voting Shares

Not applicable

37 Ordinary Voting Shares (*Joint holding*)

115,400 Ordinary Non-Voting Shares

**ORDINARY SHARES (QUOTED)**

	Voting (SEYB-N)		Non-Voting (SEYB-X)	
	2011	2010	2011	2010
No. of Shares Issued	<b>173,333,333</b>	130,000,000	<b>164,746,666</b>	123,560,000
Dividend - Proposed (Rs. per share)		1.00		1.00
<b>Share prices</b>				
Highest	Rs. <b>100.00</b>	125.00	<b>51.90</b>	64.90
Lowest	Rs. <b>59.50</b>	36.50	<b>27.10</b>	16.25
Last Traded	Rs. <b>67.60</b>	97.80	<b>30.80</b>	49.00
Percentage of Public Holding (%)	<b>51.51</b>	45.84	<b>82.61</b>	99.99

**ANALYSIS OF THE DISTRIBUTION OF SHAREHOLDERS AS AT 31ST DECEMBER 2011**

Range of Shareholding	Ordinary (Voting) Shares			Ordinary (Non-Voting) Shares		
	No. of Shareholders	No. of Shares	Percentage (%) of Shareholding	No. of Shareholders	No. of Shares	Percentage (%) of Shareholding
1 - 1,000	8,290	2,469,922	1.43	5,701	2,731,696	1.66
1,001 - 10,000	2,365	7,573,485	4.37	4,280	15,595,509	9.46
10,001 - 100,000	355	9,759,509	5.63	1,050	30,493,261	18.51
100,001 - 1,000,000	39	10,542,336	6.08	159	37,624,636	22.84
1,000,001 & Above	15	142,988,081	82.49	20	78,301,564	47.53
<b>Total</b>	<b>11,064</b>	<b>173,333,333</b>	<b>100.00</b>	<b>11,210</b>	<b>164,746,666</b>	<b>100.00</b>

**Resident/Non-Resident**

Resident	10,944	171,980,745	99.22	11,093	153,971,647	93.46
Non-Resident	120	1,352,588	0.78	117	10,775,019	6.54

**Individuals/Institutions**

Individuals	10,697	40,579,221	23.41	10,727	77,719,598	47.18
Companies/Institutions	367	132,754,112	76.59	483	87,027,068	52.82

# Investor Information

## DEBENTURES (QUOTED)

### Debentures 2006/2011 (Redeemed on 12th July 2011)

(Listed on CSE in July 2006)

(SEYB D86, D87 and D88)	Monthly Interest (13%)		Annual Interest (13.50%)		Floating Rate of Interest	
	2011	2010	2011	2010	2011	2010
No. of Debentures Issued	<b>7,646,400</b>		<b>4,620,800</b>		<b>305,950</b>	
Debenture Prices:						
Highest (Rs.)	<b>100.00</b>	95.00	Not traded from	100.00	Not traded from	Not
Lowest (Rs.)	<b>94.50</b>	95.00	01.01.2011 to	100.00	01.01.2011 to	traded
Last Traded (Rs.)	<b>94.50</b>	95.00	12.07.2011	100.00	12.07.2011	in 2010

### Debentures 2007/2012 – Issue 1

(Listed on CSE in June 2007)

(SEYB D118, D119 and D120)	Monthly Interest (15.75%)		Annual Interest (16.75%)		Floating Rate of Interest	
	2011	2010	2011	2010	2011	2010
No. of Debentures Issued	<b>2,916,200</b>		<b>4,275,450</b>		<b>302,350</b>	
Debenture Prices:						
Highest (Rs.)	<b>104.86</b>	100.00	<b>100.20</b>	90.00	Not traded in 2010 and 2011	
Lowest (Rs.)	<b>94.09</b>	100.00	<b>97.99</b>	90.00		
Last Traded (Rs.)	<b>94.09</b>	100.00	<b>100.00</b>	90.00		

### Debentures 2007/2012 – Issue 2

(Listed on CSE in January 2008)

(SEYB D127, D128, D129 and D130)	Monthly Interest (17.00%)		Annual Interest (18.00%)		Floating Rate of Interest Payable Quarterly		Floating Rate of Interest Payable Annually	
	2011	2010	2011	2010	2011	2010	2011	2010
No. of Debentures Issued	<b>2,089,550</b>		<b>2,962,400</b>		<b>433,350</b>		<b>107,550</b>	
Debenture Prices:								
Highest (Rs.)	<b>100.00</b>	100.00	<b>109.78</b>	85.00	Not traded in 2010 and 2011		Not traded in 2010 and 2011	
Lowest (Rs.)	<b>95.00</b>	100.00	<b>100.00</b>	85.00				
Last Traded (Rs.)	<b>95.00</b>	100.00	<b>100.00</b>	85.00				

### Debentures 2008/2013

(Listed on CSE in January 2009)

(SEYB D141, D142, D143 and D144)	Monthly Interest (20.50%)		Annual Interest (21.50%)		Floating Rate of Interest Payable Quarterly		Floating Rate of Interest Payable Annually	
	2011	2010	2011	2010	2011	2010	2011	2010
No. of Debentures issued	<b>3,954,450</b>		<b>2,316,100</b>		<b>1,200</b>		<b>33,900</b>	
Debenture Prices:								
Highest (Rs.)	<b>121.76</b>	78.75	<b>100.00</b>	Not	<b>98.00</b>	Not	Not traded in 2010 and 2011	
Lowest (Rs.)	<b>95.00</b>	78.75	<b>99.99</b>	traded	<b>89.34</b>	traded		
Last Traded (Rs.)	<b>95.00</b>	78.75	<b>100.00</b>	in 2010	<b>98.00</b>	in 2010		



	2011	2010 (Reclassified)
<b>Interest Rate of Comparable Government Security</b>	<b>9.05%</b>	10.18%
<b>Debt/Equity Ratio</b>	<b>0.15</b>	0.33
<b>Interest Cover</b>	<b>3.90</b>	4.09
<b>Quick Asset Ratio</b>	<b>0.76</b>	0.59

#### Interest Yield as at Date of Last Trade

##### 2006/2011 Issue

Annual Interest * / (22.12.2010)	*	13.50%
Monthly Interest (16.05.2011)/(18.10.2010)	<b>14.61%</b>	14.53%
Floating Interest - Annual *	*	*

##### 2007/2012 Issue I

Annual Interest (18.07.2011)/(22.12.2010)	<b>16.75%</b>	18.61%
Monthly Interest (19.12.2011)/(14.12.2010)	<b>18.00%</b>	16.94%
Floating Interest - Annual *	*	*

##### 2007/2012 Issue II

Annual Interest (10.08.2011)/(29.11.2010)	<b>18.00%</b>	21.18%
Monthly Interest (02.06.2011)/(28.12.2010)	<b>19.36%</b>	18.39%
Floating Interest - Quarterly *	*	*
Floating Interest - Annual *	*	*

##### 2008/2013 Issue

Annual Interest (14.02.2011)/ *	<b>21.50%</b>	*
Monthly Interest (02.06.2011)/(25.11.2010)	<b>23.73%</b>	28.62%
Floating Interest - Quarterly (13.05.2011)/ *	<b>10.18%</b>	*
Floating Interest - Annual *	*	*

#### Yield to Maturity of Trade Done on

##### 2006/2011 Issue

Annual Interest * / (22.12.2010)	*	12.74%
Monthly Interest (16.05.2011)/(18.10.2010)	<b>50.28%</b>	20.48%
Floating Interest - Annual *	*	*

##### 2007/2012 Issue I

Annual Interest (18.07.2011)/(22.12.2010)	<b>16.38%</b>	25.47%
Monthly Interest (19.12.2011)/(14.12.2010)	<b>30.38%</b>	15.74%
Floating Interest - Annual *	*	*

##### 2007/2012 Issue II

Annual Interest (10.08.2011)/(29.11.2010)	<b>17.70%</b>	28.87%
Monthly Interest (02.06.2011)/(28.12.2010)	<b>20.93%</b>	16.99%
Floating Interest - Quarterly *	*	*
Floating Interest - Annual *	*	*

##### 2008/2013 Issue

Annual Interest (14.02.2011)/ *	<b>21.41%</b>	*
Monthly Interest (02.06.2011)/(25.11.2010)	<b>23.09%</b>	31.38%
Floating Interest - Quarterly (13.05.2011)/ *	<b>10.49%</b>	*
Floating Interest - Annual *	*	*

\* No trading during the period.

# Branch Network

## Ambalangoda

No. 24 A, Galle Road, Ambalangoda  
Branch: 091-2258010/091-2258710  
Manager: 091-2256154  
Fax: 091-2258011  
Email: amb@seylan.lk

## Ampara

No. 129, D.S. Senanayake Street,  
Ampara  
Branch: 063-2224897/063-2224898  
Manager: 063-2224899  
Fax: 063-2224897/9  
Email: amp@seylan.lk

## Anuradhapura

No. 250, Maithripala Senanayake  
Mawatha, Anuradhapura  
Branch: 025-2224649  
Manager: 025-4580940  
Fax: 025-2223116  
Email: anp@seylan.lk

## Attidiya

No. 214, Main Road, Attidiya, Dehiwela  
Branch: 011-2729696  
Manager: 011-4203565  
Fax: 011-2722967  
Email: atd@seylan.lk

## Avissawella

No. 71, Ratnapura Road, Avissawella  
Branch: 036-2222007/036-2232265  
Manager: 036-5673333  
Fax: 036-2222009  
Email: awl@seylan.lk

## Badulla

No. 10, Cocowatta Road, Badulla  
Branch: 055-2222073/055-2223414/  
055-2223773  
Manager: 055-4499524  
Fax: 055-2222884  
Email: bdl@seylan.lk

## Balangoda

No. 123, Barns Ratwatte Mawatha,  
Balangoda  
Branch: 045-2288577  
Manager: 045-2287007  
Fax: 045-2287344  
Email: bal@seylan.lk

## Bandaragama

No. 17A, Horana Road, Bandaragama  
Branch: 038-2290706/038-2290460  
Manager: 038-4290263  
Fax: 038-2291125  
Email: bdg@seylan.lk

## Bandarawela

No. 240, Badulla Road, Bandarawela  
Branch: 057-2223144  
Manager: 057-2231085  
Fax: 057-2222964  
Email: bdw@seylan.lk

## Batticaloa

No. 06, Lloyds Avenue, Batticaloa  
Branch: 065-2224419/065-2226395  
Manager: 065-2224587  
Fax: 065-2224353  
Email: bcl@seylan.lk

## Beliatta

No. 73, Tangalle Road, Beliatta  
Branch: 047-2243441/047-2243619  
Manager: 047-2251478  
Fax: 047-2243461  
Email: blt@seylan.lk

## Bogawanthalawa

No. 79, Main Street, Bogawanthalawa  
Branch: 052-2267576/052-2267578  
Manager: 052-3538295  
Fax: 052-2267578  
Email: bgw@seylan.lk

## Boralesgamuwa

No. 24, Kesbewa Road,  
Boralesgamuwa  
Branch: 011-2509824/011-2517548/  
011-2517549  
Manager: 011-5525054  
Fax: 011-2509526  
Email: bor@seylan.lk

## Borella

No. 1119, Maradana Road, Borella  
Branch: 011-2681191/011-2678190/  
011-2681192  
Manager: 011-2678189  
Fax: 011-2681194  
Email: bla@seylan.lk

## Ceylinco House

No. 69, Janadhpathi Mawatha,  
Colombo 01  
Branch: 011-2445840/011-2445841/  
011-2445842  
Manager: 011-4714655  
Fax: 011-2447990  
Email: csb@seylan.lk

## Chavakachchri

No. 179,181,183,185, Kandy Road,  
Chavakachchri  
Branch: 021-2270525/021-2270526  
Fax: 021-2270527  
Email: cha@seylan.lk

## Chenkalady

Main Street, Chenkalady  
Branch: 065-3063525/065-3063526  
Fax: 065-2241511  
Email: cnk@seylan.lk

## Chilaw

No. 46, Kurunegala Road, Chilaw  
Branch: 032-2222121/032-4860554  
Manager: 032-4860550  
Fax: 032-2223279  
Email: chw@seylan.lk

## Cinnamon Gardens

No. 4, Baptist Chapel Road,  
Colombo 07  
Branch: 011-2695214/011-2694966/  
011-4718348  
Manager: 011-2683726  
Fax: 011-2683725/011-552997  
Email: cgd@seylan.lk

## Colombo South

No. 30, Galle Road, Wellawatte,  
Colombo 06  
Branch: 011-2593405/011-2593407  
Manager: 011-4510030  
Fax: 011-2593406  
Email: cls@seylan.lk

## Dam Street (STB)

No. 203, Dam Street, Colombo 11  
Branch: 011-4718344/011-4718345  
Fax: 011-2347138  
Email: dst@seylan.lk

## Dehiattakandiya

No. 83/84, Main Street,  
Dehiattakandiya  
Branch: 027-2250034/027-2250268  
Manager: 027-2250269  
Fax: 027-2250268  
Email: dky@seylan.lk

## Dehiwela

No. 166D, Galle Road, Dehiwela  
Branch: 011-2738843/011-2726395/  
011-4201756  
Manager: 011-4201757  
Fax: 011-2739128  
Email: deh@seylan.lk

## Embilipitiya

New Town Road, Embilipitiya  
Branch: 047-2230340/047-2230341  
Manager: 047-4379635  
Fax: 047-2230342  
Email: emb@seylan.lk

**First City Office**

No. 33, Sir Baron Jayathilake  
Mawatha, Colombo 01  
Branch: 011-4725000  
Manager: 011-4716365  
Fax: 011-2439834  
Email: fco@seylan.lk

**Galle**

No. 34, 1st Cross Street,  
Talbot Town, Galle  
Branch: 091-2223514/091-2234542/  
091-2232242  
Manager: 091-5454647  
Fax: 091-2234642/091-2223799  
Email: gle@seylan.lk

**Gampaha**

No. 1J, Baudhaloka Mawatha,  
Gampaha  
Branch: 033-2226511/033-2222618  
Manager: 033-2230717  
Fax: 033-2222934  
Email: gam@seylan.lk

**Gampola**

No. 44, Kandy Road, Gampola  
Branch: 081-2352741/081-2352742/  
081-2354242  
Manager: 081-4485435  
Fax: 081-2352740  
Email: gmp@seylan.lk

**Ganemulla**

No. 4/2, Kirindiwita Road, Ganemulla  
Branch: 033-2260738  
Manager: 033-2260230  
Fax: 033-2260737  
Email: gnm@seylan.lk

**Grandpass**

No. 401, Prince of Wales Avenue,  
Colombo 14  
Branch: 011-2331726/011-2331727/  
011-4610175  
Manager: 011-2451061  
Fax: 011-2440117  
Email: gnp@seylan.lk

**Hambantota**

No. 57A, Tissa Road, Hambantota  
Branch: 047-2220507  
Manager: 047-2220518  
Fax: 047-2220519  
Email: hbt@seylan.lk

**Hatton**

No. 42, Dunbar Road, Hatton  
Branch: 051-2222347  
Manager: 051-2222234  
Fax: 051-2222682  
Email: htn@seylan.lk

**Havelock Town**

No. 164, 166, Havelock Road,  
Colombo 05  
Branch: 011-2596550/011-4514649/  
011-2554674  
Manager: 011-2597497  
Fax: 011-2597498  
Email: hvl@seylan.lk

**Hingurakgoda**

No. 13, 14, Airport Road,  
Hingurakgoda  
Branch: 027-2246242  
Manager: 027-2246087  
Fax: 027-2246043  
Email: hng@seylan.lk

**Homagama**

No. 94, High Level Road, Homagama  
Branch: 011-2894846/011-2855065/  
011-44425021  
Manager: 011-4442022  
Fax: 011-2855066  
Email: hmg@seylan.lk

**Horana**

No. 160/1/1, Ratnapura Road, Horana  
Branch: 034-2261176/034-2262963/  
034-4285853  
Manager: 034-2261018  
Fax: 034-2263518  
Email: hor@seylan.lk

**Ja-Ela**

No. 165/1, Colombo Road, Ja-Ela  
Branch: 011-4030556  
Manager: 011-5858171  
Fax: 011-2237416  
Email: jla@seylan.lk

**Jaffna**

No. 560-562, Hospital Road, Jaffna  
Branch: 021-2223047/021-2223755  
Manager: 021-2228224  
Fax: 021-2223047/021-2223755  
Email: jfn@seylan.lk

**Kadawatha**

No. 28B, Ganemulla Road, Kadawatha  
Branch: 011-2925594/011-2925595/  
011-2925914  
Manager: 011-4816821  
Fax: 011-2925596  
Email: kdw@seylan.lk

**Kalmunai**

No. 159, Batticaloa Road, Kalmunai  
Branch: 067-2225842  
Manager: 067-2225841  
Fax: 067-2225843  
Email: kmn@seylan.lk

**Kalubowila**

No. 32, S. De S. Jayasinghe Mawatha,  
Kalubowila, Dehiwela  
Branch: 011-4201550/011-5557567  
Manager: 011-4202648  
Fax: 011-2822870  
Email: kal@seylan.lk

**Kalutara**

No. 338, Main Street, Kalutara  
Branch: 034-2225035/034-2225036  
Manager: 034-5081841  
Fax: 034-2223033  
Email: klt@seylan.lk

**Kandy**

No. 65, Kings Street, Kandy  
Branch: 081-2232767/081-2233833-4/  
081-2233763  
Manager: 081-2233484  
Fax: 081-2232322/081-2234805  
Email: kdy@seylan.lk

**Kattankudy**

No. 230, Main Street, Kattankudy  
Branch: 065-2247456  
Manager: 065-2246625  
Fax: 065-2246696  
Email: kky@seylan.lk

**Katunayake**

No. 32, Dhammaloka Mawatha,  
Averiyawatte, Katunayake  
Branch: 011-2252566/ 011-4831911  
Manager: 011-2251462  
Fax: 011-2252567  
Email: knk@seylan.lk

**Katuneriya**

No. 99/1, Chilaw Road, Katuneriya  
Branch: 031-2255209/031-2257765  
Manager: 031-2257764  
Fax: 031-2253149  
Email: ktn@seylan.lk

**Kegalle**

No. 143, Colombo Road, Kegalle  
Branch: 035-2222007/035-2223538  
Manager: 035-2222100  
Fax: 035-2222006  
Email: keg@seylan.lk

**Kekirawa**

No. 6, Yakalla Road, Kekirawa  
Branch: 025-2264590-1  
Manager: 025-2263215  
Fax: 025-2264592  
Email: kkw@seylan.lk

**Kilinochchi**

No. 77, 79, Kandy Road, Kilinochchi  
Branch: 021-2285310  
Manager: 021-2285310  
Fax: 021-2285311  
Email: kln@seylan.lk

# Branch Network

## Kiribathgoda

No. 173, Kandy Road, Kiribathgoda  
Branch: 011-2910581/011-2912378/  
011-2908113  
Manager: 011-2936902  
Fax: 011-2912379  
Email: kbg@seylan.lk

## Kochchikade

No. 66, Chilaw Road, Kochchikade  
Branch: 031-2277661  
Manager: 031-2277580  
Fax: 031-2277341  
Email: kch@seylan.lk

## Koggala

No. 9, Export Processing Zone,  
Koggala, Habaraduwa  
Branch: 091-2283389/091-2283390  
Fax: 091-2283390  
Email: kgg@seylan.lk

## Kollupitiya

No. 428, R.A. De Mel Mawatha,  
Colombo 03  
Branch: 011-2576911-3/  
011-5665172/011-2564080/4  
Manager: 011-2576910  
Fax: 011-2576914/011-2577913  
Email: kpy@seylan.lk

## Kottawa

No. 34, Nawsiri Building,  
High Level Road, Kottawa  
Branch: 011-2842682-3/011-2846720  
Manager: 011-4304784  
Fax: 011-2851292  
Email: kot@seylan.lk

## Kuliyapitiya

No. 137, Hettipola Road, Kuliyapitiya  
Branch: 037-2281450/037-2281510  
Manager: 037-4696450  
Fax: 037-2281451  
Email: kul@seylan.lk

## Kurunegala

No. 54, Colombo Road, Kurunegala  
Branch: 037-2223581-2  
Manager: 037-2224276  
Fax: 037-2224277-8  
Email: kgl@seylan.lk

## Maharagama

No. 134B, High Level Road,  
Maharagama  
Branch: 011-2841997-8/011-2850648  
Manager: 011-2841999  
Fax: 011-2850649  
Email: mhg@seylan.lk

## Malabe

No. 11, Athurugiriya Road, Malabe  
Branch: 011-2561415/011-2560403/  
011-4547400  
Manager: 011-2560515  
Fax: 011-2561414  
Email: mlb@seylan.lk

## Manampitiya

Main Street, Manampitiya  
Branch: 027-2224455  
Manager: 027-3279171  
Fax: 027-2224455  
Email: mnp@seylan.lk

## Mannar

No. 54, Main Street, Word No. 5,  
Mannar  
Branch: 023-2223241/023-2223242  
Fax: 023-2223243  
Email: mnr@seylan.lk

## Maradagahamula

No. 150, Divulapitiya Road,  
Maradagahamula  
Branch: 031-2246377  
Manager: 031-2246096  
Fax: 031-2246378  
Email: mdg@seylan.lk

## Maradana

No. 250, Sri Sangaraja Mawatha,  
Colombo 10  
Branch: 011-2473281  
Manager: 011-2473773  
Fax: 011-2473280  
Email: mdn@seylan.lk

## Matale

No. 166-168, Main Street, Matale  
Branch: 066-2223241-2/  
066-2232936/066-52232934  
Manager: 066-4460123  
Fax: 066-2232935  
Email: mtl@seylan.lk

## Matara

No. 45, Dharmapala Road, Matara  
Branch: 041-2221181/041-2222393/  
041-2227167  
Manager: 041-2221182  
Fax: 041-2223064  
Email: mtb@seylan.lk

## Mathugama

No. 6, St. Mary's Church Premises,  
Aluthgama Road, Mathugama  
Branch: 034-2247544-5  
Manager: 034-4931350  
Fax: 034-2247091  
Email: mtg@seylan.lk

## Mawanella

No. 21, Court Road, Mawanella  
Branch: 035-2246007/035-2247899  
Manager: 035-2246988  
Fax: 035-2246989  
Email: mwn@seylan.lk

## Meegoda

Meegoda Economic Centre Complex,  
Old Road, Meegoda  
Branch: 011-2830820  
Manager: 011-2830817  
Fax: 011-2830820  
Email: meg@seylan.lk

## Millennium

No. 90, Galle Road, Colombo 03  
Branch: 011-2456145  
Manager: 011-2456135  
Fax: 011-2452506  
Email: mln2@seylan.lk

## Mirigama

No. 70/1, Giriulla Road, Mirigama  
Branch: 033-2273001  
Manager: 033-2273002  
Fax: 033-2273000  
Email: mrg@seylan.lk

## Moratuwa

No. 433, Galle Road, Rawathawatta,  
Moratuwa  
Branch: 011-2656902-3/  
011-2655555/011-4011244  
Fax: 011-2656901  
Email: mor@seylan.lk

## Mount Lavinia

No. 198, Galle Road, Ratmalana  
Branch: 011-2731266-7/011-2723272  
Manager: 011-4213194  
Fax: 011-2723271  
Email: mlv@seylan.lk

## Mullaitivu

P.W.D. Road, Mullaitivu  
Branch: 021-2290065/021-2290066  
Fax: 021-2290067  
Email: mtu2@seylan.lk

## Nawala

No. 48/A, Narahenpita Road, Nawala  
Branch: 011-2806727/011-4547855  
Manager: 011-2807329  
Fax: 011-2805779  
Email: nwl@seylan.lk

## Nawalapitiya

No. 2, Baily Road, Nawalapitiya.  
Branch: 054-2222056-7  
Manager: 054-2222018  
Fax: 054-2223832  
Email: nlp@seylan.lk

## Negombo

No. 141, Rajapaksha Broadway,  
Negombo  
Branch: 031-2224334-6/031-2224302  
Manager: 031-2233054  
Fax: 031-2224335  
Email: neg@seylan.lk

## Nelliaddy

No. 149, Point Pedro Road, Nelliaddy  
Branch: 021-3205962-3  
Manager: 021-3205961  
Fax: 021-2264966  
Email: nel@seylan.lk

**Nittambuwa**

No. 195/1, Colombo Road,  
Nittambuwa  
Branch: 033-2295270-1  
Manager: 033-2295272  
Fax: 033-2296650  
Email: nit@seylan.lk

**Nugegoda**

No. 211, High Level Road, Nugegoda  
Branch: 011-2811180-1  
Manager: 011-2809955  
Fax: 011-2811182/4300310  
Email: nug@seylan.lk

**Nuwara Eliya**

No. 48, Park Road, Nuwara Eliya  
Branch: 052-2223026/052-2223593  
Manager: 052-2223438  
Fax: 052-2223002  
Email: nly@seylan.lk

**Old Moor Street**

No. 315-317, Old Moor Street,  
Colombo 12  
Branch: 011-5358885/011-5354658  
Manager: 011-2421483  
Fax: 011-2331774  
Email: oms@seylan.lk

**Panadura**

No. 401, Galle Road, Panadura  
Branch: 038-2233172-3  
Manager: 038-2238355  
Fax: 038-2235304  
Email: pnd@seylan.lk

**Pelmadulla**

No. 17, Galwatta Road, Pelmadulla  
Branch: 045-2275037  
Manager: 045-2275625  
Fax: 045-2275527  
Email: pel@seylan.lk

**Pettah**

No. 96, Main Street, Colombo 11  
Branch: 011-2337823-5/  
011-4718341/011-4716455  
Manager: 011-2441471  
Fax: 011-2337826/011-2384493  
Email: pet@seylan.lk

**Polonnaruwa**

Lake View Building, Polonnaruwa  
Branch: 027-2223168/9  
Manager: 027-2224590  
Fax: 027-2223168/9  
Email: pol@seylan.lk

**Puttalam**

No. 56, Kangani Kulam Street,  
Puttalam  
Branch: 032-2265194/032-2265580  
Manager: 032-2266215  
Fax: 032-2265469  
Email: ptl@seylan.lk

**Raddolugama**

No. 171, National Housing Scheme,  
Raddolugama  
Branch: 011-2292778  
Manager: 011-2292252  
Fax: 011-2292372  
Email: rdl@seylan.lk

**Ratnapura**

No. 6, Goodshed Road, Ratnapura  
Branch: 045-2225801-2/  
045-2223730/045-2223111  
Manager: 045-5671220  
Fax: 045-2222111  
Email: rnp@seylan.lk

**Ruwanwella**

No. 52, Main Street, Ruwanwella  
Branch: 036-2267445-6/036-2268047  
Manager: 036-2268623  
Fax: 036-2267447  
Email: rwn@seylan.lk

**Sarikkamulla**

No. 97, Galle Road, Sarikkamulla,  
Panadura  
Branch: 038-4282844/038-4282855  
Manager: 038-2235265  
Fax: 038-2233082  
Email: skl@seylan.lk

**Soysapura**

No. 164/2, Soysapura, Moratuwa  
Branch: 011-2622756/011-26239393  
Manager: 011-5524673  
Fax: 011-2612003  
Email: sys@seylan.lk

**Thalawakelle**

No. 10, Kotmale Road, Thalawakelle  
Branch: 052-2258635/052-2258638  
Fax: 052-2258639  
Email: tlk@seylan.lk

**Tissamaharama**

No. 547, Debarawewa,  
Tissamaharama  
Branch: 047-2237161/047-2237459  
Manager: 047-2237162  
Fax: 047-2237163  
Email: tsa@seylan.lk

**Trincomalee**

No. 289, Central Road, Trincomalee  
Branch: 026-2227701-2/026-2227965  
Manager: 026-2227704  
Fax: 026-2227702  
Email: tco@seylan.lk

**Vavuniya**

No. 45, 2nd Cross Street, Vavuniya  
Branch: 024-2222633-4  
Manager: 024-2220077  
Fax: 024-2222933  
Email: vny@seylan.lk

**Warakapola**

No. 192, Main Street, Warakapola  
Branch: 035-2267628-9  
Manager: 035-2267100  
Fax: 035-2267123  
Email: wkp@seylan.lk

**Wattala**

No. 276, Negombo Road, Wattala  
Branch: 011-2981548/011-2946266  
Manager: 011-4814717  
Fax: 011-2931603  
Email: wtl@seylan.lk

**Welimada**

No. 107, Nuwara Eliya Road,  
Welimada  
Branch: 057-2245617/057-2245395/  
057-2244628  
Fax: 057-2245350  
Email: wlm@seylan.lk

**Weliveriya**

No. 477/20/15, Edwin Estate,  
Main Street, Weliveriya  
Branch: 033-2255021/033-2255291  
Manager: 033-2257710  
Fax: 033-2255355  
Email: wlv@seylan.lk

**Yakkala**

No. 104, Kandy Road, Yakkala  
Branch: 033-2222492/033-2226378/  
033-2233526  
Manager: 033-2227014  
Fax: 033-2233527  
Email: ykl@seylan.lk

**Extension Office****Baduraliya**

No. 92, Ratnapura Road, Baduraliya  
Branch: 034-2246716  
Manager: 034-2246716  
Fax: 034-2246733  
Email: bdr@seylan.lk

**Beruwala**

No. 82, Galle Road, Beruwala  
Branch: 034-2279887  
Fax: 034-2279888  
Email: brw@seylan.lk

**Chankanai**

Mallakam Junction, Main Road,  
Chankanai  
Branch: 021-3205965  
Fax: 021-2250025  
Email: ckn@seylan.lk

**Dambulla**

No. 601, Anuradhapura Road,  
Dambulla  
Branch: 066-2283023  
Manager: 066-2283023  
Fax: 066-2283023  
Email: dbl@seylan.lk

# Branch Network

## Free Trade Zone

Unit No. 3, Plaza Complex, KIPZ,  
Katunayake  
Branch: 011-2251699/011-2259880  
Fax: 011-2251699  
Email: ftz@seylan.lk

## Hasalaka

No. 95/96, Co-operative Building,  
Kandy Road, Hasalaka  
Branch: 055-2258324  
Fax: 055-2258324  
Email: hsk@seylan.lk

## Ingiriya

No. 23, Central Building,  
Padukka Road, Ingiriya  
Branch: 034-2269754  
Fax: 034-2269900  
Email: ing@seylan.lk

## Kalavanchikudi

No. 225, Main Street, Kalavanchikudi  
Branch: 065-2251536  
Fax: 065-2251535

## Kamburupitiya

No. 5, Akuressa Road, Kamburupitiya  
Branch: 041-2292555  
Fax: 041-2293555  
Email: kmb@seylan.lk

## Kantale

No. 189, Agrabodhi Mawatha, Kantale  
Branch: 026-2234478  
Fax: 026-2234479  
Email: kan@seylan.lk

## Kataragama

No. 1, New Town, Kataragama  
Branch: 047-5677165/047-2236248  
Fax: 047-2236247  
Email: ktr@seylan.lk

## Katugastota

No. 444/C, Katugastota Road, Kandy  
Branch: 081-2212870  
Fax: 081-2212871  
Email: ktu@seylan.lk

## Kirindiwela

No. 17, Gampaha Road, Kirindiwela  
Branch: 033-2269709  
Fax: 033-2269709  
Email: krn@seylan.lk

## Kirulapone

No. 280B, High Level Road,  
Colombo 06  
Branch: 011-2829054  
Fax: 011-2768432  
Email: krp@seylan.lk

## Kotagala

No. 190, Wootan Bazaar, Kotagala  
Branch: 051-2244062  
Fax: 051-2244044  
Email: ktg@seylan.lk

## Kotahena

No. 310/2, George R. De Silva Mw.,  
Colombo 13  
Branch: 011-4712460  
Fax: 011-2399660  
Email: kth@seylan.lk

## Gothatuwa

No. 31, Gothatuwa New Town, Angoda  
Branch: 011-2418883  
Fax: 011-2567661  
Email: ktw@seylan.lk

## Kotiyakumbura

No. 5, Main Street, Kotiyakumbura  
Branch: 035-2289035  
Fax: 035-2289067  
Email: ktk@seylan.lk

## Manipay

No. 103, Jaffna Road, Manipay  
Branch: 021-2255526  
Fax: 021-2255527  
Email: mpy@seylan.lk

## Maswela

No. 53, Mawela, Maswela  
Branch: 081-4927683  
Fax: 081-4927683  
Email: msw@seylan.lk

## Mawathagama

No. 56, Kurunegala Road,  
Mawathagama  
Branch: 037-2298666  
Fax: 037-2298666  
Email: mwg@seylan.lk

## Minuwangoda

No. 40, Cargills Building,  
Colombo Road, Minuwangoda  
Branch: 011-2299004  
Fax: 011-2299005  
Email: mng@seylan.lk

## Padaviya

Vidushi Building, Bandaranayaka  
Junction, Padaviya  
Branch: 025-2253016  
Fax: 025-2253016  
Email: pdv@seylan.lk

## Pallekelle

B01, Pallekelle  
Branch: 081-2423958  
Fax: 081-2324135  
Email: plk@seylan.lk

## Piliyandala

No. 7, Old Road, Piliyandala  
Branch: 011-2604982  
Manager: 011-2604982  
Fax: 011-2604983  
Email: ply@seylan.lk

## Pottuvil

Main Street, Pottuvil  
Branch: 063-2248515  
Fax: 063-2248516  
Email: pvl@seylan.lk

## Ranpokunagama

No. 1, Maduwegedara, Nittambuwa  
Branch: 033-2282241/033-2282242  
Fax: 033-2282241  
Email: rpok@seylan.lk

## Sammanthurai

No. 113, Hijra Junction, 1st Street,  
Sammanthurai  
Branch: 067-2261284  
Fax: 067-2261285  
Email: smt@seylan.lk

## Siyambalanduwa

Ampara Junction, Siyambalanduwa  
Branch: 055-3600039  
Fax: 055-3600038  
Email: syb@seylan.lk

## Udappuwa

Division No. 06, Main Street,  
Udappuwa  
Branch: 032-2258830  
Email: udp@seylan.lk

## Veyangoda

No. 95, Negombo Road,  
Veyangoda  
Branch: 033-2295050-1  
Fax: 033-2295051  
Email: vng@seylan.lk

## Wijerama

No. 525, High Level Road,  
Gangodawila, Nugegoda  
Branch: 011-4301878  
Manager: 011-2803154  
Fax: 011-4301878  
Email: wjr@seylan.lk

## Yatiantota

No. 51/1/2, Ginigathhena Road,  
Yatiantota  
Branch: 036-2271480  
Fax: 036-2271481  
Email: ytn@seylan.lk

## Siri Nivasa Housing Unit

No. 02, Deal Place A, Colombo 3  
Tel: 4514601  
Fax: 4514602  
Email: pys@seylan.lk

# Geographical Analysis

## Deposits and Advances

As at 31st December 2011

Province	No. of Branches	Deposits		Advances*	
		Rs. Mn.	%	Rs. Mn.	%
Western	49	82,110	68.1	78,468	72.2
Southern	7	6,267	5.2	3,909	3.6
Uva	3	2,281	1.9	1,271	1.2
North-Central	5	2,913	2.4	2,225	2.0
North-Western	5	5,486	4.6	3,369	3.1
Eastern	7	3,697	3.1	3,182	2.9
Northern	7	2,660	2.2	5,336	4.9
Sabaragamuwa	8	7,133	5.9	5,832	5.4
Central	8	7,992	6.6	5,058	4.7
<b>Total</b>	<b>99</b>	<b>120,539</b>	<b>100.0</b>	<b>108,650</b>	<b>100.0</b>

\* Loans and advances net of loan loss provision and interest in suspense.

## Commitments and Contingencies

As at 31st December 2011

Province	No. of Branches	Acceptances	Stand by Letters of Credit	Guarantees	Documentary Credit	Bills for Collection	Forward Exchange Contracts (Net)	Total
		Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
Western	49	4,186	356	5,088	5,700	3,100	(73)	18,357
Southern	7	9	4	401	40	8	-	462
Uva	3	-	-	224	6	1	-	231
North-Central	5	-	-	386	6	-	-	392
North-Western	5	42	-	351	51	33	-	477
Eastern	7	-	-	298	9	1	-	308
Northern	7	1	-	195	7	-	-	203
Sabaragamuwa	8	105	-	305	107	3	-	520
Central	8	97	-	382	113	6	-	598
<b>Contingencies</b>		<b>4,440</b>	<b>360</b>	<b>7,630</b>	<b>6,039</b>	<b>3,152</b>	<b>(73)</b>	<b>21,548</b>
<b>Commitments - undrawn credit lines and capital commitments</b>								<b>14,699</b>
<b>Total</b>	<b>99</b>	<b>4,440</b>	<b>360</b>	<b>7,630</b>	<b>6,039</b>	<b>3,152</b>	<b>(73)</b>	<b>36,247</b>

# Glossary

## Acceptances

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

## Accrual Basis

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

## Amortisation

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

## Bills for Collection

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

## Capital Adequacy Ratios

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

## Commitments

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

## Contingencies

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

## Contingent Liabilities

Conditions or situations at the Balance Sheet date, the financial effect of which are to be determined by the future events which may or may not occur.

## Cost / Income Ratio

Operating expenses excluding Loan Loss Provision as a percentage of net income.

## Dealing Securities

Marketable securities that are acquired and held with the intention of reselling them in the short term.

## Deferred Taxation

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

## Derivatives

Financial contracts whose values are derived from the values of underline assets.

## Dividend Cover

The number of times a company's dividend to ordinary shareholders could be paid out of its net profits after tax in the same period.

## Dividend Yield

That is the dividend expressed as a percentage of the share value.

## Documentary Credits

A document from one banker to another, authorising the payment of a specified sum to the person named in the documents on certain specified conditions.

## Earnings per Ordinary Share (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

## Economic Value Added (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

## Effective Tax Rate

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

## Equity

Total of shareholders' funds; share capital + statutory reserves + other reserves.

## Equity Growth Rate

The percentage increase in total equity over the year under review.

## 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.

## Forward Exchange Contract

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

## General Provisions

These are provisions made on loans and advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

## Gross Dividend

The portion of profits distributed to the shareholders including the tax withheld.

## Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

## Impairment

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

## Interest Cover

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

## Interest Earning Assets

Assets, which earn interest - the total of Advances, Bills, Leases, Government Bills and Bonds, Call Money and Placements with other institutions.

## Interest in Suspense

Interest suspended on non-performing loans and advances.

## Interest Margin

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

## Interest Spread

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

## Investment Securities

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

## Joint Control

Joint control is the contractually agreed sharing of the control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

## Key Management Personnel

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

## Letter of Credit (LC)

Written undertakings by a bank on behalf of its customer (typically an importer) authorising a third party (e.g., an exporter) to draw drafts on the bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.



**Liquid Assets**

Assets that are held in cash or in a form that can be converted to cash readily, such as Deposits with other banks, Bills of Exchange and Treasury Bills.

**Loan Losses and Provisions**

Amounts set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

**Market Risk**

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

**Net Assets Value per Ordinary Share**

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

**Net Interest Income (NII)**

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

**Non-Performing Loans (NPLs)**

A loan or an advance placed on cash basis (i.e., interest income is only recognised when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectability of principal or interest.

**Non-Performing Advances Cover (NPA Cover)**

Cumulative loan provision as a percentage of total Non-Performing Advances (net of Interest in Suspense).

**NPL Ratio**

Total Non-Performing Loans and advances (net of interest in suspense) divided by total loans and advances portfolio (net of interest in suspense).

**Off-Balance Sheet Transaction**

Transactions that are not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

**Operational Risk**

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

**Price Earnings Ratio (PE Ratio)**

Market price of a share divided by earnings per share.

**Profit Handout**

Dividends as a percentage of profit after tax.

**Provision Cover**

Provisions for loan losses expressed as a percentage of net non-performing loans and advances before discounting for provisions on non-performing loans and advances.

**Provision for Bad and Doubtful Debts**

Provisions made for possible loan losses, according to the period of non-performance and the exposure over the collateral.

**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, directly or indirectly.

**Return on Average Assets (ROA)**

Profit after tax divided by the average assets.

**REPOs**

Repurchase agreements; the securities sold to creditors (who lend money for funding purposes); with the intension of buying them back at a set price.

**Repurchase Agreement**

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

**Return on Average Equity (ROE)**

Net profit for the year, less preference share dividends, if any, expressed as a percentage of average ordinary shareholders' equity.

**Return on Shareholders' Funds**

An accounting ratio, expressing the profit for the financial year as a percentage of average shareholders' funds.

**Risk Weighted Assets**

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

**Revenue Reserves**

Reserves set aside for future distribution and investment.

**Securities Purchased Under Resale Agreement (Reverse REPO)**

A reverse REPO or resale agreement is the opposite of the REPO transaction. In a reverse REPO one party buys a security with an agreement to sell it back to the same party on a future date.

**Segmental Analysis**

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

**Share Premium**

Amount paid by a shareholder, over and above the par value of a share.

**Shareholders' Funds**

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

**Single Borrower Limit (SBL)**

30% of Tier II capital.

**Statutory Reserve Funds**

Capital reserve created as per the provisions of Banking Act No. 30 of 1988.

**Subsidiary**

An entity, including an unincorporated entity such as a partnership, which is controlled by another entity (known as the Parent).

**Tier I Capital**

Consist of the sum total of paid-up ordinary shares, non-cumulative, non-redeemable preference shares, share premium, statutory reserve fund, published retained profits, general and other reserves, less goodwill.

**Tier II Capital**

Consists of the sum total of revaluation reserves, general provisions, hybrid capital instruments and approved subordinated debentures.

**Total Capital**

Total capital is the sum of Tier I capital and Tier II capital.

**Value Added**

Value of wealth created by providing banking and other related services less the cost of providing such services.

# Corporate Information

## NAME OF COMPANY

Seylan Bank PLC

## LEGAL FORM

A public limited liability company incorporated in Sri Lanka on 28th August 1987 under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007 on 30th May 2007. Commenced business operations as a licensed commercial bank regulated under the Banking Act No. 30 of 1988 (as amended) on 24th March 1988. Company was listed in the Colombo Stock Exchange in January 1989.

## COMPANY REGISTRATION NUMBER

PQ 9

## COLOMBO STOCK EXCHANGE LISTING

The Ordinary Shares and the Unsecured Subordinated (Five Year) Redeemable Debentures (issued in May 2007, December 2007 and December 2008) are listed on the Colombo Stock Exchange.

## ACCOUNTING YEAR END

31st December

## REGISTERED OFFICE AND HEAD OFFICE

Seylan Towers,  
No. 90, Galle Road, Colombo 03,  
Sri Lanka  
Tel : (94)-(11)-2456789  
(94)-(11)-4-701000  
Fax : (94)-(11)-2456456  
Swift: SEYBLK LX  
Email: info@seylan.lk  
Website: www.eseylan.com

## BOARD OF DIRECTORS

**Mr. Eastman Narangoda**  
*Chairman*

**Mr. Ramanathan Nadarajah**  
*Executive Director*

**Mr. Nihal M. Jayamanne PC**  
*Senior Independent Director*

**Mr. P. Lalith P. Withana**  
*Independent Director*

**Rear Admiral  
B. Ananda J.G. Peiris**  
*Independent Director*

**Mr. Ajith L. Devasurendra**  
*Non-Executive Director*

**Mr. Ishara C. Nanayakkara**  
*Non-Executive Director*

**Mr. Samantha P.S. Ranatunga**  
*Independent Director*

**Mr. A.M. Mohan de Alwis**  
*Non-Executive Director*

**Mr. Piyadasa Kudabalage**  
*Non-Executive Director*

## COMPANY SECRETARY

(Mrs.) N.N. Najumudeen  
*ACIS (UK)*

## AUDITORS

Messrs KPMG Ford, Rhodes,  
Thornton & Co.  
*Chartered Accountants*

## CREDIT RATING

The Bank has been assigned A- (lka) national credit rating by Fitch Ratings Lanka Limited.

## SUBSIDIARY

Seylan Developments PLC  
Level 15, Seylan Towers  
No. 90, Galle Road,  
Colombo 03.

## For any clarifications on this Report, please contact:

The Corporate Planning and Research Division,  
Seylan Bank PLC,  
Seylan Towers,  
No. 90, Galle Road,  
Colombo 03.  
Email : cpr@seylan.lk  
Tel : (94)-(11)-2456381  
(94)-(11)-2456398

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# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Twenty-Fifth Annual General Meeting of Seylan Bank PLC will be held on 28th March 2012 at 'Kings Court', Cinnamon Lakeside, No. 115, Sir Chittampalam A. Gardiner Mawatha, Colombo 2 at 10.30 a.m. for the following purposes:

## ROUTINE BUSINESS

1. To receive and consider the Report of the Board of Directors on the State of Affairs of the Company and the Audited Financial Statements for the year ended 31st December 2011 together with the Report of the Auditors thereon.
2. To declare a first and final ordinary dividend of Rs. 1.00 per share as recommended by the Directors.
3. To re-elect Chairman/Director, Mr. E. Narangoda, who retires by rotation at the Annual General Meeting in terms of Article 82 of the Articles of Association of the Company.
4. To re-elect Director, Mr. N.M. Jayamanne PC, who retires by rotation at the Annual General Meeting in terms of Article 82 of the Articles of Association of the Company.
5. To re-elect Director, Mr. A.L. Devasurendra, who retires by rotation at the Annual General Meeting in terms of Article 82 of the Articles of Association of the Company.
6. To re-elect Executive Director, Mr. R. Nadarajah, who was last re-elected as a Director on 29th June 2009.
7. To re-appoint M/s KPMG Ford Rhodes Thornton & Co, Chartered Accountants as the Auditors of the Company for the ensuing year and to authorise the Directors to determine their remuneration.
8. To authorise the Board of Directors to determine donations for 2012.
9. To consider any other business of which due notice has been given.

By Order of the Board,



**(Mrs.) N.N. Najumudeen**

Company Secretary

Colombo

24th February 2012

## Notes

- (a) A shareholder entitled to attend or attend and vote is entitled to appoint a proxy to attend/vote instead of him/her. A proxy holder need not be a member of the Company. A Form of Proxy is enclosed for this purpose.
- (b) The completed Form of Proxy should be deposited at the Office of the Company Secretary at Level 13, Seylan Towers, No. 90, Galle Road, Colombo 03 not less than 48 hours before the time appointed for the holding of the Annual General Meeting. Only registered proxy holders will be permitted to attend the Annual General Meeting.
- (c) Shareholders/proxy holders are requested to bring with them their National Identity Cards or any other form of valid identification when attending the Annual General Meeting.

# පෙරවදන

## සභාපතිතුමාගේ ලිපිය

### ජාතික ආර්ථිකය

බටහිර ආර්ථික ගෝලයේ රටවල් වල පැවති අවුල් වියවුල් හා පසුබෑම මත දකුණු ආසියානු කලාපයේ රටවල් අත්පත් කර ගත් නිතකර ශක්තිමත් ආර්ථික කාර්ය සාධනය ශ්‍රී ලංකාවේ ආර්ථිකය තුලින් ද විදහා පායි. ලෝකයේ ඉතාමත්ම වේගයෙන් වර්ධනය වන්නා වූ ආර්ථිකයක් ලෙස ශ්‍රී ලංකාව සිය දළ දේශීය නිෂ්පාදිතයේ වර්ධන අනුපාතය 8%කට ඉහළ මට්ටමින් පවත්වා ගත්තේය. මෙය ශ්‍රී ලංකාව විසින් එහි මූල්‍ය සහ fiscal ප්‍රතිපත්තීන් සාර්ථකව ක්‍රියාත්මක කල බවට සාක්ෂියකි. ශ්‍රී ලංකාවට සාමකාමී පරිසරයක් ඇතිකර ගැනීමට හැකි වීම ආර්ථික වර්ධනය සඳහා නිදහස හා අවකාශය සැපයූ අතර එය දිවයින පුරා, විශේෂයෙන්ම උතුරු සහ නැගෙනහිර ප්‍රදේශවල, ආර්ථික කටයුතු සහ ව්‍යවසාය ක්ෂණිකව පණ ගැන්වීමට හේතු විය. වර්ධන සඳහා ඉඩ ප්‍රස්තා ඇති අංශ අතුරින් සංචාරක, කෘෂි, ධීවර සහ ඉදිකිරීම් යන ක්ෂේත්‍ර ප්‍රමුඛස්ථානයක් ගනී.

බැංකුවටද මේ සඳහා දායක වෙමින් ජාතියේ සහ එහි ජනතාවගේ සෞභාග්‍ය සමඟ වර්ධනය වීමට අවශ්‍ය කරන මනා පසුබිමක් දැන් උදා වී ඇත.

### දිගින් දිගටම අඛණ්ඩව පවත්වාගෙනයන කාර්ය සාධනය සමඟ ඉදිරියටම

2011 දී කාර්ය සාධනය හා ජයග්‍රහණ සලකා බලන කල මෙතෙක් පැවති සාර්ථකම වසරක් ලෙස සඳහන් කල හැක. කෙසේ වුව ද මෙම ප්‍රතිඵල සහ ඒවා අත් කරගත් පසුබිම සැබැවින්ම අගයීමට ලක් කිරීමට නම් අපට 2009 සිට 2011 දක්වා කාල වකවානුවේ කාර්ය සාධනය දෙස ආපසු හැරී බැලීමට සිදු වන බව මාගේ විශ්වාසයයි.

2008 වසර අවසාන වන විට බැංකුව බිඳ වැටීමට ආසන්න තත්වයක පැවතිනි. එම අවස්ථාවේ බැංකුවේ ගමන් මඟ ආපසු හරවා එය නිස මඟට ගැනීමේ කාර්ය භාරය පවරමින් නව අධ්‍යක්ෂ මණ්ඩලයක් පත් කෙරුණු අතර එහි සභාපති වරයා ලෙස කටයුතු කිරීමේ භාග්‍යය මට ලැබුණි. මෙම කාර්ය භාරය විශිෂ්ඨ ලෙස අත්පත් කරගත් ආකාරය "සිද්ධි අධ්‍යයනයන්" නම් වූ 2009 වාර්ෂික වාර්තාවේ සවිස්තරව දක්වා තිබුණි. රජයේ මූල්‍ය ආධාර නොමැතිව මහජනතාවගේ සහ කොටස් ගිණිසන්ගේ විශ්වාසය නැවතත් ගොඩ නගාගෙන බැංකුව යථා තත්වයකට පත් කිරීමට නැවත හැකි වීම ශ්‍රී ලංකා ඉතිහාසයේ මෙතෙක් අත් නොදුටු අසම සම තත්වයකි.

2010 දී නිවැරදි වර්ධනයක් කරා ගමන් කිරීමට පිලියෙල කල උපාය මාර්ගික සැලසුම් සහ තීරණාත්මක ක්‍රියා මාර්ග බැංකුවට ධනාත්මක වර්ධනයක් කරා යාමට උපකාරී විය. 2009 බදුවලට පසු ලාභය 126% කින් ඉක්මවා යමින් රු. බිලියන 1.2 ක ලාභයක් 2010 දී වාර්තා කිරීමට අපට හැකි විය. වඩාත්ම වැදගත් වනුයේ බැංකුව වෙත ඇල්මක් දක්වන පාර්ශවයන් බැංකුව කෙරෙහි පවතින විශ්වාසය නැවත යථා තත්වයට පත් කිරීමට හැකි වීමයි.

2011 දී සෛලාන් බැංකුව රු. බිලියන එකක බදු වලට පසු ලාභයක් වාර්තා කළේය. මෙම ප්‍රතිඵල රු. මිලියන 699 වැය වූ ස්වේච්ඡාවෙන් විශ්‍රාම යාමේ යෝජනා ක්‍රමයේ බලපෑම ඉවත් කොට බලන කල බද්දට පසු ලාභය රු. බිලියන 2.2 ක් විය හැකිව තිබූ අතර එය පසුගිය වසරේ

වාර්තා කරගත් ජයග්‍රහණ සමඟ මැනවින් සැසඳෙන අතර එය බැංකුවේ නව වාර්තාවක්ද විය හැකිව තිබිණි.

### වර්ධනය සඳහා ශක්තිමත් පදනමක් දැමීම

වර්ධනය සඳහා අධිකාලම ශක්තිමත් කිරීමටත් ඉදිරි වර්ෂ තුලදී අඛණ්ඩව පවත්වාගත හැකි වර්ධනයක් ඉලක්කගත කිරීම සඳහාත් සමාලෝචනයට භාජනය වන වර්ෂය තුලදී බැංකුව වැදගත් ක්‍රියා මාර්ග රාශියක් ගන්නා ලදී. ඉහල කළමනාකරණය සඳහා නව සාමාන්‍යාධිකාරීවරයකු, ප්‍රධාන මූල්‍ය නිලධාරීවරයකු සහ අවධානම් කළමනාකරණය සහ නීති අංශ සඳහා ජ්‍යෙෂ්ඨ උපදේශකයින් ද පත් කරන ලදී. මෙම ක්‍රියාවලීන් තුලින් අනෙකුත් අංශ අතර ව්‍යාපාර යහපාලනය සහ අවධානම් කළමනාකරණ අංශ අපි වඩාත් ශක්තිමත් කළෙමු.

බැංකුවේ ස්වේච්ඡාවෙන් විශ්‍රාම යාමේ යෝජනා ක්‍රමය ඉතා සුහදශීලී පසුබිමක් තුල ක්‍රියාත්මක කොට අවසන් කෙරුණි. මෙය විශ්‍රාමකයින්ගේ අපේක්ෂා වන්ද අඛණ්ඩව සේවයේ රැඳී සිටින සේවකයින්ගේ අවශ්‍යතාවයන්ද සපුරා ලීමට හැකියාව ලබාදුන් අතර එය අභාගනය සඳහා බැංකුව ප්‍රතිව්‍යුහගත කිරීමේ ක්‍රියාදාමය ද කඩිනම් කළේය.

අපගේ වත්කම් සමුදාය විධිමත් කිරීමත් අක්‍රීය ණය අනුපාතය 2010 දී පැවති 25.07% සිට 2011 දී 17.67% දක්වා අඩු කිරීමත් සැලකිය යුතු ජයග්‍රහණයන්ය.

නවද බැංකුව වසර 2012 සිට 2015 දක්වා කාල පරිච්ඡේදය සඳහා නව උපාය මාර්ගික සැලසුමක් ක්‍රියාත්මක කළේය.

වසර තුලදී වඩාත්ම අපව දිරිමත් කල කරුණු අතරින් එකක් වනුයේ කොටස් ගිණිසන් විසින් බැංකුව කෙරෙහි පවතින කැපවීම හා පක්ෂ පාතිත්වය පෙන්නුම් කිරීමයි.

සමාලෝචනයට භාජනය වන වර්ෂය තුලදී ගිණිකම් නිකුතුවකට දායක වෙමින් ඔවුන් බැංකුවේ කටයුතු පවත්වාගෙන යන ආකාරය පිළිබඳ ඔවුන්ගේ විශ්වාසය හා පැහැදීම නැවතත් ස්ථීර කල අතර බැංකුවේ අපේක්ෂිත ඉදිරි වර්ධනය සඳහා අවශ්‍ය අරමුදල් සම්පාදනය කර දුනි.

අවසන් වශයෙන් ශ්‍රී ලංකා රජයටත් ශ්‍රී ලංකා මහ බැංකුවේ අධිපතිතුමාටත් බැංකු කටයුතු අධ්‍යක්ෂණ දෙපාර්තමේන්තුවටත් අපගේ කොටස් ගිණිසන්ටත් බැංකුවේ සෑම සේවකයෙකුටත් සහ අඛණ්ඩව අප හා ගනුදෙනු කරන පාරිභෝගිකයන්ටත් මාගේ ස්තූතිය පිරිනමමි. ඔබ මෙතෙක් සෛලාන් බැංකුව කෙරෙහි තැබූ විශ්වාසය පලද වී නොමැත. සැබැවින්ම එම විශ්වාසය අන් සියලු දේටම වඩා ඉහලින් ආරක්ෂා කිරීමට බැංකුව බැඳී සිටී.

අධ්‍යක්ෂ මණ්ඩලයේ සහෝදර අධ්‍යක්ෂවරුන් හට ඔවුන්ගේ කැපවීමත් වටිනා දායකත්වයත් සඳහා මගේ හෘදයාංගම ස්තූතිය පිරිනමමි.

අප සෑම දෙනා බැංකුවේ, ශ්‍රී ලාංකික ජාතියේ සහ එහි ජනතාවගේ සෞභාග්‍යය සඳහා ඉදිරියටම යන ගමනක එක්ව ගමන් කරන දේශාධිකයින් යැයි මම සිතමි.



**රසිරිමත් නාරංගොඩ**  
සභාපති

## ஒரு நம்பிக்கைப் பிரேரணை

### தலைவரின் கடிதம்

#### தேசிய பொருளாதாரம்

இலங்கையின் பொருளாதார செயலாற்றுகை, தென்னாசிய பிராந்தியத்தின் பொருளாதார செயலாற்றுகையின் ஆரோக்கியமான உறுதிப்பாட்டினை பிரதிபலித்துக் காட்டுகின்றது. மேலைய உலக நாடுகளில் நிலவி வரும் குழப்ப நிலைமைகள் மற்றும் பின்னடைவுகள் என்பவற்றுக்கு மத்தியில் தென்னாசிய பிராந்தியத்தில் ஒரு வளர்ச்சி நிலை பதிவு செய்யப்பட்டுள்ளது. இலங்கையின் மொத்த உள்நாட்டு உற்பத்தி 8% க்கு மேல் பராமரிக்கப்பட்டு வந்திருப்பதுடன், அது இலங்கையின் பொருளாதாரத்தை உலகில் மிக வேகமாக வளர்ச்சியடைந்து வரும் ஒரு பொருளாதாரமாக ஆக்கியுள்ளது. இது நாட்டின் நாணய மற்றும் அரசிறை கொள்கைகளின் வெற்றிகரமான அமுலாக்கலுக்கான ஒரு சான்றாக உள்ளது.

இலங்கையில் சமாதானம் மலர்ந்திருப்பதானது வளர்ச்சிக்குத் தேவையான சுதந்திரத்தையும், வேகத்தையும் எடுத்து வந்திருக்கின்றது. இது நாடு முழுவதிலும், குறிப்பாக வடக்கு கிழக்கு பிரதேசங்களில் பொருளாதார நடவடிக்கைகளையும், தொழில்முயற்சிகளையும் முடுக்கிவிட்டுள்ளது. சுற்றுலா, விவசாயம், கடற்றொழில் மற்றும் கட்டட நிர்மாணம் ஆகிய பிரதான துறைகள் வாய்ப்புக்களையும், வளர்ச்சியையும் கொண்டவையாக காணப்படுகின்றன.

இந்தத் துறைகள் தேசத்துடனும், அதன் மக்களுடனும் இணைந்த விதத்தில் சுபீட்சப் பாதையில் காலடி எடுத்து வைப்பதற்கு பங்களிப்புச் செய்து வரும் வங்கியின் வளமான துறைகளாக இருந்து வருகின்றன.

#### ஒரே சீரான செயலாற்றுகைக்கு ஊடாக நாங்கள் 'வடக்கை நோக்கி' செல்கிறோம்

வங்கியை பொறுத்தவரையில், 2011 ஆம் ஆண்டு செயலாற்றுகை மற்றும் சாதனைகள் என்பவற்றின் அடிப்படையில் மிகச் சிறந்த வருடங்களில் ஒன்றாக இருந்து வருகின்றது. எவ்வாறிருப்பினும், அத்தகைய பெறுபெறுகளுக்கு உண்மையில் மதிப்பளிப்பதற்கும், அவற்றை உரிய பின்புலத்தில் வைத்து நோக்குவதற்கும் 2009-2011 காலப் பிரிவு தொடர்பான எமது செயலாற்றுகையை நாங்கள் மீண்டும் திரும்பிப் பார்க்க வேண்டியிருக்கின்றது என நான் நம்புகின்றேன்.

2008 ஆம் ஆண்டின் முடிவில் போது வங்கி வீழ்ச்சியின் விளிம்பில் நின்றிருந்தது. வங்கியை மீட்டெடுத்து, அதன் இலாப நிலைகளில் ஒரு தலைகீழ் மாற்றத்தை எடுத்து வருவதற்கான ஆணைப்பத்திரத்துடன் ஒரு புதிய பணிப்பாளர் சபை நியமனம் செய்யப்பட்டது. அச்சபையின் தலைமைப் பொறுப்பை ஏற்கும் வாய்ப்பு

எனக்குக் கிடைத்தது. இச்சாதனை எவ்வாறு நிகழ்த்தப்பட்டது என்பது குறித்த அபாரமான கதை 'சம்பவக் கற்கை' என்ற தலைப்பிலான 2009ஆம் ஆண்டுக்கான எமது ஆண்டறிக்கையில் விரிவாக எடுத்து விளக்கப்பட்டிருந்தது. அரசாங்கத்தின் எவ்விதமான மீட்பு உதவிகளுமின்றி 'நல்ல ஆரோக்கிய நிலைக்கு திரும்புவதற்கான' எமது ஆற்றல் மற்றும் பொது மக்களினதும், பங்குதாரர்களினதும் நம்பிக்கையை மீள்பெற்றுக் கொள்ளக் கூடிய ஆற்றல் ஈடிணையற்றதாகும். மேலும், அது இலங்கையில் முன்னெப்பொழுதும் நிகழ்ந்திராததாகவும் உள்ளது.

2010 ஆம் ஆண்டில் உயர் அளவிலான உபாய ரீதியான திட்டமிடல் மற்றும் நிர்ணயகரமான செயற்பாடுகள் என்பவற்றின் விளைவாக சாதகமான ஏறுமுகமான போக்கொன்றை பராமரித்து வரக்கூடிய வாய்ப்பு வங்கிக்கு கிடைத்தது. 2010 ஆம் வருடத்தின் முடிவில் நாம் ரூ. 1.2 பில்லியனை வரிக்குப் பின்னரான இலாபமாக பெற்றிருந்தோம். இது வங்கியை பொறுத்தவரையில் ஒரு சாதனையாக இருந்து வந்ததுடன், 2009 ஆம் வருடத்திற்கான பெறுபெறுகளை 126% ஆல் மிகைத்திருந்தது. மிக முக்கியமாக வங்கியின் மீது அக்கறைதாரர்களின் நம்பிக்கையை புதுப்பிப்பதில் நாங்கள் கணிசமான அளவிலான முன்னேற்றத்தை எட்டியிருந்தோம்.

2011 ஆம் ஆண்டில் செலான் வங்கி ரூ. 1.0 பில்லியனை வரிக்குப் பின்னரான இலாபமாக ஈட்டியிருந்தது. வங்கி செயற்படுத்திய சுய விருப்பில் ஓய்வு பெறும் திட்டமொன்றுக்கு ரூ. 699 மில்லியன் அளவில் உயரிய செலவொன்று ஏற்பட்டிருந்த பின்னணியிலேயே இந்த இலாப அளவை நாங்கள் நோக்க வேண்டியிருக்கின்றது. இந்தத் திட்டத்தின் தாக்கம் இல்லாதிருந்தால், வரிக்கு முன்னரான இலாபம் ரூ. 2.2 பில்லியனாக இருந்திருக்கும். முன்னைய வருடத்தின் சாதனை மட்டத்துடன் ஒப்பிடும் பொழுது, இது பெருமளவுக்கு சாதகமானதாக தென்பட்டிருக்கும். அத்தோடு வங்கியை பொறுத்தவரையில் அது இதுவரை காலமும் நிகழ்த்தப்படாத ஒரு புதிய 'சாதனையாகவும்' இருந்திருக்கும்

#### வளர்ச்சிக்கான தடமான அத்திவாரமொன்றை இருதல்

மீளாய்வுக்குட்படுத்தப்படும் இவ்வருடத்தின் போது 'வளர்ச்சிக்கான எமது அத்திவாரத்தை' பலப்படுத்தும் நோக்கிலும், அடுத்து வரும் வருடங்களில் நிலையான அபிவிருத்தியை இலக்காகக் கொண்டும் வங்கி மிக முக்கியமான சில முன்முயற்சிகளை மேற்கொண்டது.

உயர் பதவிகளுக்கு ஆட்சேர்ப்புக்கள் மேற்கொள்ளப்பட்டதுடன், ஒரு புதிய பொது முகாமையாளரும், புதிய தலைமை நிதி அதிகாரியும் நியமனம் செய்யப்பட்டார்கள். இடர் முகாமைத்துவம் மற்றும் சட்டம் ஆகிய பிரிவுகளுக்கு சிரேஷ்ட ஆலோசகர்களும் ஆட்சேர்ப்பு செய்யப்பட்டார்கள். இந்தச் செயன்முறையின் போது ஏனைய துறைகளுடன் இணைந்த விதத்தில், எமது தொகுதி ஆளுகை மற்றும் இடர் முகாமைத்துவம் ஆகிய பிரிவுகளை நாங்கள் பலப்படுத்தியிருக்கின்றோம்.

வங்கியின் சுயவிருப்பு ஓய்வுத் திட்டம் ஒரு நல்லணக்க குழுவில் பூர்த்தி செய்யப்பட்டது. இது ஓய்வு பெறுபவர்களின் அபிலாஷைகளை நிறைவு செய்து வைக்கக் கூடிய வாய்ப்பையும், அதேபோல சேவையில் இருப்பவர்களின் அபிலாஷைகளை நிறைவு செய்யக் கூடிய வாய்ப்பையும் எமக்கு வழங்கியது. அதே வேளையில், இத்திட்டம் எதிர்காலத்திற்கான மீளமைப்பினையும் துரிதப்படுத்தியுள்ளது.

மிக முக்கியமாக எமது சொத்து தொகுப்பினை நாங்கள் சுத்திகரித்திருப்பதுடன், 2010 இல் 25.07% ஆக இருந்து வந்த செயற்படாத கடன் விகிதத்தை (NPL Ratio) 2011 இல் 17.67% ஆக குறைத்துக் கொண்டுள்ளோம்.

மேலும், வங்கி 2012 - 2015 காலப் பிரிவு தொடர்பாக ஒரு புதிய உபாய ரீதியான திட்டத்தையும் அமுல் செய்துள்ளது.

இவ்வருடத்தின் போது சாதித்துக் கொள்ளப்பட்டிருக்கும் மிகவும் நம்பிக்கையூட்டும் அபிவிருத்திகளில் ஒன்று வங்கிக்கு ஆதரவு தெரிவிக்கும் விதத்தில் பங்குதாரர்கள் காட்டியிருக்கும் அர்ப்பணிப்பு மற்றும் விசுவாசம் என்பனவாகும். மீளாய்வுக்குட்படுத்தப்படும் இவ்வருடத்தின் போது மேற்கொள்ளப்பட்ட ஒரு பங்கு வெளியீட்டுக்கு ஆதரவளிப்பதன் மூலம் அவர்கள் வங்கியின் எதிர்கால வளர்ச்சி மற்றும் அபிவிருத்தி என்பவற்றுக்கான மூலதனத்தை உட்பாய்ச்சியிருக்கும் அதே வேளையில், வங்கியின் விவகாரங்கள் நடத்திச் செல்லப்படும் விதம் மற்றும் முகாமைத்துவம் என்பன தொடர்பான தமது நம்பிக்கையையும், விசுவாசத்தையும் மீள உறுதிப்படுத்தியுள்ளார்கள்.

முடிவாக இலங்கை அரசாங்கம், இலங்கை மத்திய வங்கியின் ஆளுனர், இலங்கை மத்தியின் வங்கி கடன் கண்காணிப்பு திணைக்களம், எமது பங்குதாரர்கள், வங்கியின் ஊழியர்கள், எம்மீது விசுவாசம் வைத்து, தொடர்ந்து எம்முடன் இருந்து வரும் வாடிக்கையாளர்கள் ஆகிய அனைத்து தரப்பினர்களுக்கும் எனது நன்றியை தெரிவித்துக் கொள்கின்றேன். செலான் வங்கியின் மீது நீங்கள் வைத்திருக்கும் நம்பிக்கை மற்றும் விசுவாசம் என்பன ஒரு போதும் வீண் போக மாட்டாது.

உண்மையிலேயே இது நாங்கள் அனைத்துக்கும் மேலாக போற்றிப் பாதுகாக்க வேண்டியிருக்கும் ஒரு புனிதமான நம்பிக்கையாக இருந்து வருகின்றது என வங்கி கருதுகின்றது.

பணிப்பாளர் சபையின் எனது சகாக்களுக்கு அவர்களுடைய அர்ப்பணிப்பு மற்றும் பெறுமதிமிக்க பங்களிப்பு என்பவற்றுக்கென மனமுவந்த நன்றிகளை தெரிவித்துக் கொள்கிறேன்.

வங்கியினதும், தேசத்தினதும், தேச மக்களினதும் வளவாழ்வை நோக்கிய 'வடக்கை நோக்கிய' பயணத்தில் நாங்கள் அனைவரும் சக பயணிகளாக இருந்து வருகின்றோம் என நான் கருதுகிறேன்.

சுலீம் நாரங்கொட  
தலைவர்

2012 பெப்ரவரி 8





# Form of Proxy

I/We\* .....  
of .....being a shareholder/s of Seylan Bank PLC  
hereby appoint Mr./Mrs./Miss\*.....  
(N.I.C. No. ....) of ..... or  
failing him/her\*

- Mr. Eastman Narangoda of Rajagiriya, whom failing,
- Mr. Ramanathan Nadarajah of Colombo 07, whom failing,
- Mr. Nihal Michael Jayamanne PC of Colombo 08, whom failing,
- Mr. Punsisi Lalith Patuwatha Withana of Battaramulla, whom failing,
- Rear Admiral Baminahennadige Ananda Jayalal Gurukula Peiris of Pannipitiya, whom failing,
- Mr. Ajith Lasantha Devasurendra of Colombo 05, whom failing,
- Mr. Ishara Chinthaka Nanayakkara of Rajagiriya, whom failing,
- Mr. Samantha Pradeep Samarawickrama Ranatunga of Colombo 05, whom failing,
- Mr. Adambarage Modantha Mohan De Alwis of Thalawathugoda, whom failing,
- Mr. Piyadasa Kudabalage of Nugegoda

as my/our\* proxy to represent me/us\* and to vote on my/our\* behalf at the Annual General Meeting of the Company to be held on 28th March 2012 and at any adjournment thereof. I/We\* the undersigned hereby authorise my/our proxy to vote for me/us\* and on my/our\* behalf in accordance with the preferences indicated below:

	(**)	For	Against
1. To receive and consider the Report of the Board of Directors on the State of Affairs of the Company and the Audited Financial Statements for the year ended 31st December 2011, together with the Report of the Auditors thereon.		<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a first and final ordinary dividend of Rs. 1.00 per share as recommended by the Directors.		<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Chairman/Director, Mr. E. Narangoda, who retires by rotation in terms of Article 82 of the Articles of Association of the Company.		<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Director, Mr. N.M. Jayamanne PC, who retires by rotation in terms of Article 82 of the Articles of Association of the Company.		<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Director, Mr. A.L. Devasurendra as a Director, who retires by rotation in terms of Article 82 of the Articles of Association of the Company.		<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect Executive Director, Mr. R. Nadarajah, who was last re-elected as a Director on 29th June 2009.		<input type="checkbox"/>	<input type="checkbox"/>
7. To re-appoint M/s KPMG Ford Rhodes Thornton & Co, Chartered Accountants as the Auditors of the Company for the ensuing year and authorise the Directors to determine their remuneration.		<input type="checkbox"/>	<input type="checkbox"/>
8. To authorise the Board of Directors to determine donations for 2012.		<input type="checkbox"/>	<input type="checkbox"/>

(\* Please delete the inappropriate words)  
(\*\* Please mark your preference with "X")

Signed this ..... day of .....2012

.....  
Signature/s of Shareholder/s  
Shareholder/s' N.I.C./Co. Reg. No.

Notes and Instructions as to the completion of the Form of Proxy are noted on the reverse hereof.

# Form of Proxy

## INSTRUCTIONS FOR THE COMPLETION OF FORM OF PROXY

1. In terms of Article 63 of the Articles of Association of the Company -

This instrument appointing a proxy shall be in writing and

- (a) in the case of an individual be under the hand of the appointer or his attorney, or
- (b) if such appointer is a company or corporation either under its common seal or under the hand of an officer or attorney authorised in that behalf in accordance with its Articles of Association or Constitution.

In terms of Article 69, a company or corporation being a member of the Company may appoint any of its officers or any other person to be its representative or proxy at any meeting or meetings of the Company and any person so appointed shall be entitled to be present and vote and exercise all other powers in regard to any such meeting on behalf of the company or corporation which he represents as if he was a member holding the shares of such company or corporation.

(The Company may, but shall not be bound to require evidence of the authority of any such attorney or representative officer.)

2. The full name and address of the shareholder should be filled in legibly on the Form of Proxy together with the National Identity Card Number/Passport Number/Company Registration Number (as applicable).

2.1 Please indicate with an "X" in the space provided as to how your proxy is to vote on each Resolution. If no indication is given, the proxy shall exercise his/her discretion and vote as he/she thinks fit.

3. The completed Form of Proxy should be deposited at the Office of the Company Secretary at Level 13, Seylan Towers, No. 90, Galle Road, Colombo 03 not later than 48 hours before the time appointed for the holding of the meeting.
4. If the Form of Proxy has been signed by an attorney, a notarially certified copy of the Power of Attorney should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
5. If there is any doubt as to how the vote is to be exercised, by reason of the manner in which the Form of Proxy has been completed, no vote will be recorded by the Form of Proxy.

# Investor Feedback Form

We welcome your comments and queries. In order to respond to your queries, please complete the following form and return to –

The Company Secretary  
Seylan Bank PLC  
Seylan Towers  
No. 90, Galle Road  
Colombo 03

or e-mail to: [csy@seylan.lk](mailto:csy@seylan.lk)

Name (Mr./Mrs./Ms./Other) : .....

Permanent Mailing Address : .....  
.....

Contact Number – Tel. : .....

Fax : .....

E-mail : .....

Occupation : .....

Official Address : .....  
.....

Queries/Comments

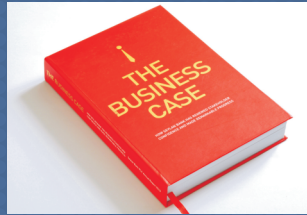
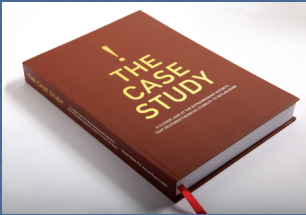
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This year's Seylan Bank Annual Report too is in effect a sequel to our 2009 report, The Case Study. Subtitled "A closer look at the extraordinary efforts that restored financial stability to Seylan Bank", our 2009 report was a uniquely candid examination of the crisis that overtook the Bank in late 2008 and the subsequent efforts of the new Board to rebuild a healthy, sustainable business.

The Case Study was extremely well received by organisations around the globe that recognise best practices in financial reporting. It won two Golds at the annual Vision Awards of the League of American Communications Professionals (LACP), competing with 4,000 entries from 28 countries. The report also won a Gold and three Bronzes at the New York-based ARC Awards, the world's largest Annual Report Competition. In addition, it won a Bronze at the Annual Report Awards Competition conducted by The Institute of Chartered Accountants of Sri Lanka proving its accuracy, completeness, compliance and outstanding presentation. Our 2010 report was also well received winning six awards at LACP and ARC.

Even more gratifying than this international acclaim was the reception accorded to our report within Sri Lanka. The Case Study was praised in the media and the number of people requesting copies was so high that the Bank could not keep up with demand. Indeed, it was the overwhelmingly positive response from stakeholders that attested to the report's true impact. In its pages they read not just the Bank's story, but also their own as the loyal supporters whose confidence and trust ensured that there was even a story to tell. We're proud to once again dedicate this year's report to them.

This 2011 Report on the theme "North Bound" elaborates the Bank's progress since crisis and substantiates the fact that the Bank is moving in the right direction with important Bank specific indicators. Undoubtedly, the information presented as an interesting read on what was done and the way forward also establishes expectations of a dazzling future for the Bank in the minds of its loyal supporters.

